

INNOCAN PHARMA CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2021

UNAUDITED

INNOCAN PHARMA CORPORATION

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

	<u>Note</u>	<u>June 30, 2021</u>	<u>December 31, 2020</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		4,644	2,338
Trade receivables		-	2
Other accounts receivable	3	524	1,508
Inventory		<u>512</u>	<u>430</u>
Total current assets		<u>5,680</u>	<u>4,278</u>
 NON-CURRENT ASSETS:			
Property, plant and equipment, net		3	5
Right-of-use asset, net		<u>32</u>	<u>51</u>
Total non-current assets		<u>35</u>	<u>56</u>
 TOTAL ASSETS			
		<u>5,715</u>	<u>4,334</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, 2021</u>	<u>December 31, 2020</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		340	527
Other accounts payable		282	421
Warrants	8	<u>3,431</u>	<u>6,992</u>
Total current liabilities		<u>4,053</u>	<u>7,940</u>
NON-CURRENT LIABILITIES:			
Long term lease liability		<u>-</u>	<u>1</u>
Total non-current liabilities		<u>-</u>	<u>1</u>
SHAREHOLDERS' EQUITY:			
Share capital	4	-	-
Additional share capital		22,078	10,956
Accumulated deficit		<u>(20,416)</u>	<u>(14,563)</u>
Equity attributable to owners of the parent		<u>1,662</u>	<u>(3,607)</u>
Non-controlling interest	1.4	<u>-</u>	<u>-</u>
Total shareholders' equity		<u>1,662</u>	<u>(3,607)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>5,715</u></u>	<u><u>4,334</u></u>

"Iris Bincovich"

Iris Bincovich
Chief Executive Officer

"Yoram Drucker"

Yoram Drucker
Audit Committee Chair

August 26, 2021

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)

	Note	Three months period ended June 30,		Six months period ended June 30,	
		2021	2020	2021	2020
Revenues		89	-	126	-
Cost of revenues		33	-	46	-
Gross profit		56	-	80	-
Selling and marketing expenses	5	386	206	1,209	375
Research and development expenses	6	375	488	877	827
General and administrative expenses	7	378	720	1,577	1,102
Operating loss		1,083	1,414	3,583	2,304
Finance income		(146)	(2)	-	(294)
Finance expenses		100	353	2,270	90
Loss before income taxes		1,037	1,765	5,853	2,100
Income taxes		-	-	-	-
Total comprehensive loss		1,037	1,765	5,853	2,100
Total comprehensive loss for the year attributed to:					
Owners of the parent		1,037	1,765	5,853	2,100
Non-controlling interest	1.4	-	-	-	-
		1,037	1,765	5,853	2,100
Basic and diluted loss per share		\$ 0.005	\$ 0.012	\$ 0.028	\$ 0.014
Weighted average number of common shares		220,150,116	151,700,592	211,470,142	147,761,738

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

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

	Owners of the parent			Non- controlling interest	Total
	Share capital	Additional paid in capital	Accumulated deficit		
Balance at January 1, 2021	-	10,956	(14,563)	-	(3,607)
Changes during the period:					
Exercise of warrants and options	-	9,968	-		9,968
Share based compensation	-	1,154	-	-	1,154
Total comprehensive loss	-	-	(5,853)	-	(5,853)
Balance at June 30, 2021	-	22,078	(20,416)	-	1,662

	Owners of the parent			Non- controlling interest	Total
	Share capital	Additional paid in capital	Accumulated deficit		
Balance at January 1, 2020	-	6,023	(4,610)	-	1,413
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	-	-	(2,100)	-	(2,100)
Balance at June 30, 2020	-	8,576	(6,710)	-	1,866

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, 2021	Six months period ended June 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	(5,853)	(2,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	20	20
Share based compensation	1,154	346
Change in fair value of a warrants	2,247	(293)
Interest charged on lease liabilities	1	3
Decrease in trade receivables	2	-
Increase in other accounts receivable	(33)	(33)
Increase in inventory	(82)	-
Increase (decrease) in trade accounts payable	(187)	93
Increase (decrease) in other accounts payable	(121)	277
Financial expenses, net	(78)	56
Net cash used in operating activities	(2,930)	(1,631)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash received in respect of December 2020 private placement	1,017	-
Issuance of common shares and warrants	-	3,021
Exercise of warrants and options	4,160	15
Principal paid on lease liabilities	(19)	(19)
Net cash provided by financing activities	5,158	3,017
Effects of exchange rate changes on cash and cash equivalents	78	(56)
Net increase in cash and cash equivalents	2,306	1,330
Cash and cash equivalents at the beginning of the period	2,338	1,973
Cash and cash equivalents at the end of the period	4,644	3,303

APPENDIX A – NON-CASH ACTIVITIES:

Exercise of warrants	5,808	-
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The accompanying notes are an integral part of the financial statements.

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

NOTE 1 - GENERAL:

1. InnoCan Pharma Corporation (the "Company") 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 and 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. The World Health Organization declared coronavirus and COVID-19 a global health emergency on January 30, 2020. Since then, the Group has experienced some disruption to its operations in the following aspects:
 - Disruption and delay in the supply of inventory from major suppliers.
 - Significant uncertainty concerning the ability of the Group to raise additional funds, either privately or in the public markets in the future.
 - Significant uncertainty concerning the demand for certain products as a consequence of social distancing requirements and recommendations and the closure of retail stores in many countries due to local governments mandating that shopping centers and other 'non-essential' businesses cease normal operations; and
 - 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 products.
 -COVID-19 had no material effect on the Group's financial position.

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

4. On May 26, 2021 InnoCan entered into a founder's agreement with Brandzon Co Ltd ("Brandzon"), to establish a joint company, B.I. Sky Global Ltd ("SKY Global") which will develop, manufacture and market cosmetic products. InnoCan holds 60% of Sky Global's shares, while Brandzon holds the remaining 40% of Sky Global's shares. On June 6, 2021 Sky Global was incorporated in Israel. As of June 30, 2021, InnoCan provided loans to Sky Global in the amount of \$125 thousand, to be paid no later than 3 years from the grant of the loans. InnoCan consolidated SKY Global in the financial statements commencing June 6, 2021.

As of June 30, 2021, Sky Global had not commenced material operation.

5. Going concern

Since inception, the Group has generated an amount of revenue lower than its operational expenses and expects to continue to finance itself through raising adequate funds in the foreseeable future. The Group incurred a net loss of \$5,853 thousand for the six months period ended June 30, 2021 and generated \$20,416 thousand of accumulated deficit since inception. These events and conditions, along with other matters as described in Note 1.3, 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.

6. 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 consisted of one common share of the Company and one-half of one common share purchase warrant (each whole common share purchase warrant, a "2019 Unit Warrant"). Each 2019 Unit Warrant entitled 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 accelerate the expiry date of the warrants to the date which is 30 days following the date

INNOCAN PHARMA CORPORATION
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NOTE 1 - GENERAL (CONT.):

of such written notice. During the six months period ended June 30, 2021, the closing price of the common shares reached the target share price, and a notice of early exercise was issued by the Company. Subsequently, 2,925,056 2019 Unit Warrants were exercised, and 130,500 2019 Unit Warrants expired (see also Note 8). Concurrently with the closing of the transaction, the Company received gross proceeds of CAD 1,100 thousand (approximately \$829 thousand). The Company allocated the incremental costs that were directly attributable to issuing new shares to equity. 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.

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 2020 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 2020 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.

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.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 3 – OTHER ACCOUNTS RECEIVABLE:

	June 30, 2021	December 31, 2020
	USD in thousands	
December 2020 Private Placement receivables ⁽¹⁾	-	1,017
Prepaid expenses	361	309
Tax authorities	54	74
Restricted deposits	62	72
Others	47	36
Total	524	1,508

(1) Out of the total gross proceeds of CAD 2,367,804 (approximately \$ 1,857 thousand), an amount of approximately \$ 840 thousand was deposited at the Company's bank account as at December 31, 2020, and is included in cash and cash equivalents as at December 31, 2020. An additional amount of approximately \$ 1,017 thousand was not deposited by December 31, 2020 due to the fact that by the balance sheet date it was in transit. During January 2021, this amount was received by the Company.

NOTE 4 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of June 30, 2021	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	221,453,458
	Number of shares as of December 31, 2020	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	188,321,292

Changes in the number of issued Common Shares from December 31, 2020 to June 30, 2021 are as follows:

	Number of Common Shares
Balance December 31, 2020	188,321,292
Warrants exercised	31,332,166
Options exercised	100,000
Shares issued – service provider	1,700,000
Balance June 30, 2021	221,453,458

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

1. During the six months period ended June 30, 2021, a total of 31,332,166 warrants and agent warrants were exercised to common shares (see also Note 8), in consideration for approximately \$ 4,160 thousand.
2. On January 19, 2021, the Company issued 1,700,000 common shares to a service provider, for services rendered. The fair value of common shares granted was CAD 612 thousand (approximately \$ 486 thousand).
3. On April 28, 2021, a total of 100,000 options were exercised to common shares by a consultant, in consideration for approximately \$ 11 thousand.

Share based compensation

1. On January 5, 2021, the Company granted 2,220,000 options to several employees and service providers of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.35 per share. 1,420,000 of the options are fully vested at grant and expire 5 years following the grant date. 150,000 of the options are fully vested at grant, and expire 3 years following the grant date, 650,000 of the options vest in four installments of 162,500 options each quarter, starting from March 1, 2021, and expire 3 years following the grant date.
2. On March 15, 2021, the Company granted 1,580,000 options to several directors and service providers of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.41 per share. The options are fully vested at grant and expire 5 years following the grant date.
3. On March 22, 2021, the Company granted 500,000 options to a consultant of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.36 per share. 80,000 of the options vest immediately, and an additional 70,000 options vest every six months. The options will expire 3 years following the grant date.
4. On April 7, 2021, the Company granted 500,000 options to a consultant of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.41 per share. 80,000 of the options vested immediately, and an additional 70,000 options will vest every six months. The options expire 3 years following the grant date.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

5. On April 7, 2021, the Company granted 36,000 options to an employee of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.41 per share. The options will vest in 12 equal installments every quarter during the following three years starting from July 1, 2021. The options will expire 5 years following the grant date.

The fair value of all options from sections 1-5 above was obtained using the Black Scholes (1973) Model 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 months period ended June 30, 2021, the Company recorded share-based compensation expenses of \$ 1,154 thousand, which is included in selling and marketing expenses, research and development expenses, or general and administrative expenses, based on the grantee.

	Six months period ended June 30, 2021	
	Number of options	Weighted average exercise price (CAD)
Options outstanding at beginning of period	13,442,708	0.18
Granted – exercise price CAD 0.35	2,220,000	0.35
Granted – exercise price CAD 0.36	500,000	0.36
Granted – exercise price CAD 0.41	2,116,000	0.41
Exercised – exercise price CAD 0.14	(100,000)	0.14
Options outstanding at end of period	18,178,708	0.23
Exercisable options	16,373,542	0.22

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

NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

	The year ended December 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
Granted - exercise price CAD 0.16	2,745,000	0.16
Granted - exercise price CAD 0.22	150,000	0.22
Expired - exercise price CAD 0.30	(100,000)	0.30
Expired - exercise price CAD 0.18	(1,558,769)	0.18
Options outstanding at end of period	<u>13,442,708</u>	<u>0.18</u>
Exercisable options	<u>12,751,042</u>	<u>0.18</u>

NOTE 5 - SELLING AND MARKETING EXPENSES:

	Three months period ended June 30,		Six months period ended June 30,	
	2021	2020	2021	2020
	(USD in thousands)			
Service providers	186	24	636	56
Share based compensation	28	52	243	100
Salary and related expenses	126	130	243	214
Others	46	-	87	5
	<u>386</u>	<u>206</u>	<u>1,209</u>	<u>375</u>

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NOTE 6 - RESEARCH AND DEVELOPMENT EXPENSES:

	Three months period ended		Six months period ended	
	June 30,		June 30,	
	2021	2020	2021	2020
	(USD in thousands)			
Research expenses	318	409	698	640
Salary and related expenses	42	49	83	122
Share based compensation	-	15	32	36
Others	<u>15</u>	<u>15</u>	<u>64</u>	<u>29</u>
	<u>375</u>	<u>488</u>	<u>877</u>	<u>827</u>

NOTE 7 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Three months period ended		Six months period ended	
	June 30,		June 30,	
	2021	2020	2021	2020
	(USD in thousands)			
Share based compensation	40	108	878	210
Professional services and legal fees	142	76	304	190
Salary and related expenses	101	152	202	225
Insurance	43	16	83	26
Issuance expenses	-	321	-	321
Others	<u>52</u>	<u>47</u>	<u>110</u>	<u>130</u>
	<u>378</u>	<u>720</u>	<u>1,577</u>	<u>1,102</u>

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

NOTE 8 - FINANCIAL INSTRUMENTS:

The Group accounts for warrants issued to investors under IFRS 9. Warrants issued to service providers 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 1.5) 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). During August 2020, the Company and Tamar InnoVest Limited extended the Tamar InnoVest A Warrants expiry date from April 15, 2021 to April 15, 2023, subject to acceleration in certain cases. The Company recorded a derivative financial liability which represents the fair value of the Tamar InnoVest A 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 of inception amounted to \$181 thousand and to \$1,848 thousand as at December 31, 2020. 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.

On January 24, 2021, the Company issued a notice of early exercise to the holders of Tamar InnoVest A Warrants, as a result of the warrants meeting its terms for early exercise. As a result of the notice of early exercises, all of the Tamar InnoVest A Warrants were exercised to shares. According to the terms of the warrants, Tamar InnoVest chose to exercise Tamar A warrants as a cashless exercise. As a result, for the 13,981,916 Tamar A Warrants, an amount of 9,264,480 common shares were issued to Tamar InnoVest.

2. Tamar InnoVest B Warrants

During April 2019, the Company also issued 2,000,000 warrants (after giving effect to the Share Exchange, see also Note 1.5) 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). During August 2020, the Company and Tamar InnoVest Limited extended the Tamar InnoVest B Warrants expiry date from August 15, 2021 to August 15, 2023, subject to acceleration in certain cases. The Company recorded a derivative financial liability which represents the fair value of the Tamar InnoVest 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 of inception amounted to \$17 thousand and to \$200 thousand as at December 31, 2020. 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.

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NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

On January 26, 2021, the Company issued a notice of early exercise to the holders of Tamar InnoVest B Warrants, as a result of the warrants meeting its terms for early exercise. As a result of the notice of early exercises, all of the Tamar InnoVest B Warrants were exercised to shares. According to the terms of the warrants, Tamar InnoVest chose to exercise Tamar B warrants as a cashless exercise. As a result, for the 2,000,000 Tamar A Warrants, an amount of 1,056,800 common shares were issued to Tamar InnoVest.

3. September 2019 Unit Warrants

As part of the IPO, the Company issued 3,055,556 September 2019 Unit Warrants (see also Note 1.5). 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. The warrants are transferable but are not be listed or quoted on any stock exchange or market. The Company recorded the September 2019 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 of inception amounted to \$115 thousand and to \$222 thousand as at December 31, 2020. The amount was recorded according to its fair value according to valuation performed by an independent third party appraiser.

On February 18, 2021, the Company issued a notice of early exercise to September 2019 Unit Warrant holders, as a result of the warrants meeting its terms for early exercise, of the Company's share price CAD 0.35 for 20 consecutive trading days. As a result, 2,925,056 2019 Unit Warrants were exercised, and 130,500 2019 Unit Warrants expired.

4. June 2020 Unit Warrants

In June 2020, the Company issued 28,423,943 warrants (the "June 2020 Unit Warrants") to investors, as part of an offering. 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. By June 30, 2021, 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 June 2020 Unit Warrants as a derivative financial liability which represents the fair value of

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NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

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 of inception amounted to \$863 thousand and to \$2,655 thousand as at June 30, 2021. The amount was recorded according to its fair value according to valuation performed by an independent third party appraiser. During the six months period ended June 30, 2021, an amount of 13,891,911 warrants were exercised and the same number of common shares were issued.

5. December 2020 Unit Warrants

In December 2020, the Company issued 5,147,400 warrants (the "December 2020 Unit Warrants") to investors, as part of a private placement. Each December 2020 Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 0.35 for a period of 36 months following December 30, 2020, subject to acceleration in certain cases. By June 30, 2021, 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 December 2020 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 of inception amounted to \$509 thousand and to \$776 thousand as at June 30, 2021. The amount was recorded according to its fair value according to valuation performed by an independent third party appraiser.

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(US Dollars)

NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

The following table compares the carrying amounts and fair values of the Company's financial liabilities as at June 30, 2021:

	<u>As at June 30, 2021</u>		<u>As at December 31, 2020</u>	
	<u>US Dollars in thousands</u>		<u>US Dollars in thousands</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial liabilities:				
Derivative financial liability (warrants)	(3,431)	(3,431)	(6,992)	(6,992)
Total	(3,431)	(3,431)	(6,992)	(6,992)

The fair value measurement of the warrants as of June 30, 2021 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 – 0.21%, expected volatility - 75%, year and Expected dividend yield - 0.

The fair value measurement of the warrants as of December 31, 2020 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 – 0.17%, expected volatility - 75%, year and Expected dividend yield - 0.

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, 2021</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)	-	(3,431)	-	(3,431)
	<u>December 31, 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)	-	(6,992)	-	(6,992)

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NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

Movement in number of warrants:

	Number of warrants
Balance at January 1, 2020	19,037,472
Changes during 2020:	
<u>Additions</u>	
Issuance of June 2020 Unit Warrants	28,423,943
Issuance of December 2020 Unit Warrants	5,147,400
<u>Exercise</u>	
June 2020 Unit Warrants	(2,086,000)
Closing balance at December 31, 2020	50,522,815
Changes during 2021:	
<u>Exercise</u>	
Tamar InnoVest A Warrants	(13,981,916)
Tamar InnoVest B Warrants	(2,000,000)
September 2019 Unit Warrants	(2,925,056)
June 2020 Unit Warrants	(13,891,911)
<u>Expirations</u>	
September 2019 Unit Warrants	(130,500)
Closing balance at June 30, 2021	17,593,432

The derivative financial liabilities as at June 30, 2021 and December 31, 2020 are as follows:

	Fair Value of warrants
	US Dollars in thousands
Balance at January 1, 2020	661
Changes during 2020:	
<u>Additions</u>	
June 2020 Unit Warrants	863
December 2020 Unit Warrants	509
<u>Changes in FV</u>	
Tamar InnoVest A and B Warrants	1,512
September 2019 Unit Warrants	97
June 2020 Unit Warrants	3,583
December 2020 Unit Warrants	57
<u>Exercise</u>	
June 2020 Unit Warrants	(290)
Balance at December 31, 2020	6,992

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NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

Changes during 2021:

Changes in FV

Tamar InnoVest A and B Warrants	1,550
September 2019 Unit Warrants	28
June 2020 Unit Warrants	459
December 2020 Unit Warrants	210

Exercise

Tamar InnoVest A and B Warrants	(3,601)
September 2019 Unit Warrants	(237)
June 2020 Unit Warrants	(1,960)

Expirations

September 2019 Unit Warrants	(10)
Balance at June 30, 2021	3,431

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

Warrants treated under IFRS 2 as at June 30, 2021 and December 31, 2020 are as follows:

	Number of warrants
Balance at January 1, 2020	611,111
Changes during 2020:	
<u>Additions</u>	
Issuance of June 2020 agent warrants	1,806,022
Issuance of June 2020 agent units	1,848,003
<u>Exercise</u>	
September 2019 agent warrants	(28,300)
June 2020 agent warrants	(27,500)
June 2020 agent units	(114,901)
Closing balance at December 31, 2020	4,094,435
Changes during 2021:	
<u>Additions</u>	
Issuance of June 2020 agent warrants as a result from exercise of June 2020 agent units	1,624,736
<u>Exercise</u>	
September 2019 agent warrants	(582,811)
June 2020 agent warrants	(1,986,372)
June 2020 agent units	(1,624,736)
Closing balance at June 30, 2021	1,525,252

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NOTE 9 - SUBSEQUENT EVENTS:

1. On July 12, 2021, the Company granted 300,000 options to a consultant of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.58 per share. 60,000 of the options vest immediately, and additional 60,000 options vest every six months. The options expire 3 years following the grant date.
2. For the period July 11, 2021 to August 26, 2021, the Company received additional cash proceeds of approximately \$2.4 million, due to the exercise of warrants and the issuance of an additional 11,681,761 common shares of the Company.