

INNOCAN PHARMA CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2022

UNAUDITED

INNOCAN PHARMA CORPORATION

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

	Note	March 31, 2022	December 31, 2021
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		9,547	11,048
Trade accounts receivable		12	-
Other accounts receivable	3	1,078	963
Inventory		558	510
Total current assets		11,195	12,521
NON-CURRENT ASSETS:			
Property, plant and equipment, net		48	39
Right-of-use asset, net		41	15
Total non-current assets		89	54
 TOTAL ASSETS		 11,284	 12,575

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, 2022	December 31, 2021
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		154	53
Other accounts payable		283	433
Warrants	10	2,089	3,078
Total current liabilities		2,526	3,564
NON-CURRENT LIABILITIES:			
Long term lease liability		14	-
Total non-current liabilities		14	-
SHAREHOLDERS' EQUITY:			
Share capital	4	-	-
Additional share capital		34,127	33,665
Accumulated deficit	1.3	(25,261)	(24,610)
Equity attributable to owners of the parent		8,866	9,055
Non-controlling interest		(122)	(44)
Total shareholders' equity		8,744	9,011
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		11,284	12,575

"Nelson Halpern"
Nelson Halpern
Chief Financial
Officer

"Iris Bincovich"
Iris Bincovich
Chief Executive
Officer

"Yoram Drucker"
Yoram Drucker
Audit Committee
Chair

May 26, 2022
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)

	<u>Note</u>	<u>Three months period ended</u> <u>March 31,</u>	
		<u>2022</u>	<u>2021</u>
Revenues		260	37
Cost of revenues		175	13
Gross profit		<u>85</u>	<u>24</u>
Selling and marketing expenses	5	546	823
Research and development expenses	6	477	502
General and administrative expenses	7	881	1,199
Operating loss		<u>1,819</u>	<u>2,500</u>
Financial income	8	(1,095)	-
Financial expense	9	5	2,316
Loss before income taxes		729	4,816
Tax expenses		-	-
Total comprehensive loss		<u>729</u>	<u>4,816</u>
Total comprehensive loss for the period			
attributed to:			
Owners of the parent		651	4,816
Non-controlling interest		78	-
		<u>729</u>	<u>4,816</u>
Basic and diluted loss per share		\$ (0.003)	\$ (0.024)
Weighted average number of common shares		<u>248,504,123</u>	<u>202,634,148</u>

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)

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Non- controlling interest</u>	<u>Total</u>
Balance at January 1, 2022	-	33,665	(24,610)	(44)	9,011
Changes during the period:					
Exercise of warrants	-	3	-	-	3
Share based compensation	-	459	-	-	459
Total comprehensive loss for the period	-	-	(651)	(78)	(729)
Balance at March 31, 2022 (unaudited)	-	34,127	(25,261)	(122)	8,744

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2021	-	10,956	(14,563)	(3,607)
Changes during the period:				
Exercise of warrants	-	8,490	-	8,490
Share based compensation	-	1,086	-	1,086
Total comprehensive loss for the period	-	-	(4,816)	(4,816)
Balance at March 31, 2021 (unaudited)	-	20,532	(19,379)	1,153

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, 2022	Three months period ended March 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net comprehensive loss for the period	(729)	(4,816)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	13	10
Share based compensation	459	1,086
Change in fair value of a warrants	(989)	2,150
Interest charged on lease liabilities	1	1
Decrease (increase) in trade receivables	(12)	2
Decrease (increase) in other accounts receivable	(115)	105
Increase in inventory	(48)	(116)
Increase (decrease) in trade accounts payable	101	(379)
Increase (decrease) in other accounts payable	(159)	59
Financial expenses, net	(100)	4
Net cash used in operating activities	(1,578)	(1,894)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(11)	-
Net cash used in investing activities	(11)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash received in respect of December 2020 private placement	-	1,017
Exercise of warrants	3	2,960
Principal paid on lease liabilities	(15)	(10)
Net cash provided (used) by financing activities	(12)	3,967
Effects of exchange rate changes on cash and cash equivalents	100	(14)
Net Increase (decrease) in cash and cash equivalents	(1,501)	2,059
Cash and cash equivalents at the beginning of the period	11,048	2,338
Cash and cash equivalents at the end of the period	9,547	4,397

APPENDIX A – NON-CASH ACTIVITIES:

Exercise of warrants	-	5,218
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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") 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. 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 commenced selling its cannabidiol (CBD) cosmetic products in December 2020. Innocan is currently selling its cannabidiol (CBD) cosmetic products in the US and European markets.
3. On May 5, 2021, Innocan Pharma UK Ltd. ("Innocan UK") was established, as a management and financial services supplier of Innocan in the European market, regarding the sales of its topical products. Innocan holds 100% of Innocan UK's shares. As of March 31, 2022, Innocan UK had not commenced operation.
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 engages in development, manufacture and marketing of cosmetic products. Innocan holds 60% of Sky Global's shares, while Brandzon holds the remaining 40% of Sky Global's shares. Sky Global was incorporated in Israel on June 6, 2021, Innocan consolidates Sky Global in the financial statements commencing on that date. The Company, Innocan and Sky Global are referred in the financial statements as the Group.
5. Going concern
Since inception, the Group has not generated material revenue and expects to continue to finance itself through raising adequate funds in the foreseeable future. The Group incurred a net loss of USD 729 thousand for the three months period ended March 31, 2022 and generated USD 25,261 thousand of accumulated deficit since inception. These events and conditions, indicate that a material uncertainty

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 1 - GENERAL (CONT):

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 January 12, 2022, Innocan entered a second amendment (the "Second Amendment") to the research and license agreement with Yissum Research Development Company of the Hebrew University of Jerusalem Ltd. ("Yissum"), entered on January 21, 2020. As part of the Second Amendment, Innocan agreed to finance additional research in a total amount of approximately USD 100 thousand, over a period of 6 months, in two installments. During the three months period ended March 31, 2022, Innocan paid the first installment, in total amount of approximately USD 50 thousand. The total expense incurred during the three months period ended March 31, 2022 amounted to approximately USD 50 thousand.
7. On December 6, 2021, Innocan entered into a license and research agreement with Ramot at Tel Aviv University Ltd ("Ramot") (the "Ramot License & Research Agreement"). As part of the Ramot License & Research Agreement, InnoCan agreed to finance additional research in a total amount of approximately USD 1.18 million, over a period of 21 months, in four installments. Until March 31, 2022, Innocan paid the first installment, in total amount of USD 270 thousand and a license fee in amount of USD 20 thousand. The total research expense incurred during the three months period ended March 31, 2022 amounted to USD 135 thousand. As of March 31, 2022, Innocan is obligated to pay the second installment during 2022, for an additional amount of USD 309 thousand. The payment of the third and fourth installments is dependent on the progress of the research.

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 2021 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 2021 annual financial statements. Other new and amended standards and

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

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, 2022 (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 – OTHER ACCOUNTS RECEIVABLE:

	March 31, 2022	December 31, 2021
	USD in thousands	
Prepaid expenses	817	715
Tax authorities	111	135
Restricted deposits	101	79
Others	49	34
Total	<u>1,078</u>	<u>963</u>

NOTE 4 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of March 31, 2022	
	Authorized	Issued and outstanding
Common shares without nominal par value	<u>Unlimited</u>	<u>248,513,145</u>
	Number of shares as of December 31, 2021	
	Authorized	Issued and outstanding
Common shares without nominal par value	<u>Unlimited</u>	<u>248,496,145</u>

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

Changes in the number of issued Common Shares from December 31, 2021 to March 31, 2022 are as follows:

	Number of Common Shares
Balance as at December 31, 2021	248,496,145
Exercise of agent warrants	17,000
Closing balance at March 31, 2022	248,513,145

1. During the three months period ended March 31, 2022, a total of 17,000 agent warrants were exercised to common shares (see also Note 10), in consideration for approximately USD 3 thousand.

Share based compensation

During the three months period ended March 31, 2022, the Company granted the following options:

<u>Grantee</u>	<u>Date of grant</u>	<u>Exercise price (CAD)</u>	<u>Number of options</u>	<u>Expiry date</u>
Business development consultant ⁽¹⁾	January 31, 2022	0.77	300,000	January 31, 2025
Employees of the Company ⁽²⁾	March 8, 2022	0.59	200,000	March 8, 2027
Branding and business development consultants ⁽³⁾	March 8, 2022	0.59	750,000	March 8, 2025
Business development consultant ⁽⁴⁾	March 14, 2022	0.59	250,000	March 14, 2025

(1) Each of the options is exercisable for one common share of the Company. 60,000 of the options vest immediately, and additional 60,000 options vest every six months. 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 70%
- The dividend growth rate is 0%

(2) Each of the options is exercisable for one common share of the Company. The Option shall be vested in first instalment of 8,337 options and additional 11 equal instalments of 8,333 option every quarter

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

NOTE 4 – SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

during 3 years starting from 1 April 2022. 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 70%
- The dividend growth rate is 0%

(3) Each of the options is exercisable for one common share of the Company. All of the options vest immediately. 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 70%
- The dividend growth rate is 0%

(4) Each of the options is exercisable for one common share of the Company. The Options shall be vested in first instalment of 50,000 options and additional four equal instalments of 50,000 options every quarter during 16 months starting from 1 April 2022. 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 70%
- The dividend growth rate is 0%

In the three months period ended March 31, 2022, the Company recorded share based compensation expenses of USD 459 thousand, 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, 2022	
	Number of options	Weighted average exercise price (CAD)
Options outstanding at beginning of period	23,578,708	0.33
Granted – exercise price CAD 0.77	300,000	0.77
Granted – exercise price CAD 0.59	1,200,000	0.59
Expired – exercise price CAD 0.74	(100,000)	0.74
Options outstanding at end of period	24,978,708	0.34
Exercisable options	20,641,708	0.29

	The year ended December 31, 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
Granted – exercise price CAD 0.58	300,000	0.58
Granted – exercise price CAD 0.59	4,150,000	0.59
Granted – exercise price CAD 0.74	650,000	0.74
Granted – exercise price CAD 0.83	500,000	0.83
Expired – exercise price CAD 0.16	(100,000)	0.16
Exercised – exercise price CAD 0.14	(100,000)	0.14
Exercised – exercise price CAD 0.18	(100,000)	0.18
Options outstanding at end of period	23,578,708	0.33
Exercisable options	18,871,208	0.27

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

NOTE 5 – SELLING AND MARKETING EXPENSES:

	Three months period ended March 31, 2022	Three months period ended March 31, 2021
	USD in thousands	
Service providers	196	451
Salary and related expenses	136	117
Amazon fees	117	-
Share based compensation	68	215
Others	<u>29</u>	<u>40</u>
	<u>546</u>	<u>823</u>

NOTE 6 – RESEARCH AND DEVELOPMENT EXPENSES:

	Three months period ended March 31, 2022	Three months period ended March 31, 2021
	USD in thousands	
Research expenses – Yissum & Ramot	186	315
Research expenses – Service providers	129	65
Share based compensation	89	32
Salary and related expenses	58	42
Others	<u>15</u>	<u>48</u>
	<u>477</u>	<u>502</u>

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

NOTE 7 – GENERAL AND ADMINISTRATIVE EXPENSES:

	Three months period ended March 31, 2022	Three months period ended March 31, 2021
	USD in thousands	
Share based compensation	302	839
Professional services	243	124
Salary and related expenses	106	101
Legal fees	72	37
Others	158	98
	<u>881</u>	<u>1,199</u>

NOTE 8 – FINANCE INCOME:

	Three months period ended March 31, 2022	Three months period ended March 31, 2021
	USD in thousands	
Changes in fair value of warrants	989	-
Currency exchange income	106	-
	<u>1,095</u>	<u>-</u>

NOTE 9 – FINANCE EXPENSES:

	Three months period ended March 31, 2022	Three months period ended March 31, 2021
	USD in thousands	
Changes in fair value of warrants	-	2,149
Currency exchange expenses	-	163

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

Others	5	4
	5	2,316

NOTE 10 - FINANCIAL INSTRUMENTS:

The Company 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.

October 2021 Unit Warrants

In connection with a private placement, closed on October 13, 2021, the Company issued 9,679,000 warrants to investors. Each October 2021 Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 1.10 for a period of 60 months following October 13, 2021.

The warrants are transferable but are not to be listed or quoted on any stock exchange or market. The Company recorded the October 2021 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 USD 3,427 thousand. In March 31, 2022 it amounted to USD 2,089 thousands. The amount was recorded according to its fair value according to valuation performed by management with the assistance of an independent third party appraisal.

The following table compares the carrying amounts and fair values of the Company's financial assets and financial liabilities:

	As at March 31, 2022		As at December 31, 2021	
	US Dollars in thousands		US Dollars in thousands	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Derivative financial liability (warrants)	(2,089)	(2,089)	(3,078)	(3,078)
Total	(2,089)	(2,089)	(3,078)	(3,078)

The fair value measurement of the warrants as of March 31, 2022 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 – 2.38%, expected volatility - 70%, year and Expected dividend yield - 0.

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(US Dollars)

The fair value measurement of the warrants as of December 31, 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 – 0.76%, expected volatility - 72%, year and Expected dividend yield - 0.

NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

	Fair value measurements using input type			
	March 31, 2022			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative financial liability (warrants)	-	(2,089)	-	(2,089)

	December 31, 2021			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative financial liability (warrants)	-	(3,078)	-	(3,078)

The derivative financial liabilities as at March 31, 2022 and December 31, 2021 are as follows:

	Fair Value of warrants
	US Dollars in thousands
Balance at January 1, 2021	6,992
Changes during 2021:	
<u>Additions</u>	
October 2021 Unit Warrants	3,427
<u>Changes in FV</u>	
Tamar InnoVest A and B Warrants	1,552
September 2019 Unit Warrants	18
June 2020 Unit Warrants	(156)
December 2020 Unit Warrants	1,242
October 2021 Unit Warrants	(349)
<u>Exercise</u>	
Tamar InnoVest A and B Warrants	(3,600)
September 2019 Unit Warrants	(240)
June 2020 Unit Warrants	(4,000)
October 2021 Unit Warrants	(1,808)
Balance at December 31, 2021	3,078

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(US Dollars)

Changes during 2022:

Changes in FV

October 2021 Unit Warrants	(989)
Balance at March 31, 2022	2,089

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

NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

Warrants treated under IFRS 2 as at March 31, 2022 and December 31, 2021 are as follows:

	The three months period ended March 31, 2022	
	Number of warrants	Weighted average exercise price (CAD)
Warrants outstanding at beginning of period	438,099	0.23
Granted – exercise price CAD 0.25	10,500	0.25
Exercised – exercise price CAD 0.25	(6,500)	0.25
Exercised – exercise price CAD 0.18	(10,500)	0.18
Warrants outstanding at end of period	431,599	0.24
Exercisable warrants	431,599	0.24
	The year ended December 31, 2021	
	Number of warrants	Weighted average exercise price (CAD)
Warrants outstanding at beginning of period	4,094,435	0.21
Granted – exercise price CAD 0.25	1,637,838	0.25
Exercised – exercise price CAD 0.18	(2,220,649)	0.18
Exercised – exercise price CAD 0.25	(3,073,525)	0.25
Warrants outstanding at end of period	438,099	0.23
Exercisable warrants	438,099	0.23

NOTE 11 - SUBSEQUENT EVENTS:

On May 16, 2022, the Company filed a short form base shelf prospectus in Canada, for the offering for sale from time to time, during a 25-month period commencing on the filing date, of up to USD 100 million, in

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(US Dollars)

Common Shares, warrants (exercisable into Common Shares) and units (comprising of one or more of the above-mentioned securities).