# INNOCAN PHARMA CORPORATION

## CONSOLIDATED FINANCIAL STATEMENTS

## AS OF DECEMBER 31, 2022

# INNOCAN PHARMA CORPORATION

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# INDEPENDENT AUDITOR'S REPORT

## TO THE SHAREHOLDERS OF INNOCAN PHARMA CORPORATION

**Opinion**

We have audited the consolidated financial statements of Innocan Pharma Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the two years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021 and its financial performance and its cash flows for the two years then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material Uncertainty Related to Going Concern**

We draw attention to Note 1(6) in the consolidated financial statements, which indicates that the Company incurred a net loss of $3,889 thousand during the year ended December 31, 2022. As stated in Note 1(6), these events and conditions, along with other matters as set forth in Note 1(6), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.


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|---|---|---|---|---|---|---|---|---|
| 03-6386868 | 02-6546200 | 04-8680600 | 077-7784100 | 073-7145300 | 077-5054906 | 077-7784180 | 08-9744111 | 04-6555888 |

**Main office:** Beit Amot BDO, 48 Menachem Begin Road, Tel Aviv, 6618001 **Email:** bdo@bdo,co.il **Website:** www.bdo.co.il

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Fair value of derivative liability

*Refer to Note 2 – Significant accounting policies and Note 8 – warrants.*

Warrants are measured at fair value since they do not meet the criteria for a fixed number of equity instruments in exchange for a fixed amount of cash, as the exercise price is stated in Canadian dollar while the Company's functional currency is US Dollar. A corresponding derivative liability is re-measured at each reporting date, and changes in fair value are recognized as finance income (expense), net.

As at December 31, 2022, the Company recorded a derivative liability of $304 thousand and recognized a financial income from change in fair value amounted to $2,774 thousand for the year then ended.

We considered this as a key audit matter due to the significant judgment involved in measuring the derivatives fair value and the use of external specialists by management.

### How was the key audit matter was addressed in the audit

Our approach to addressing the matter involved the following procedures, among others:

- We obtained an understanding of management's process and tested the design and implementation of certain related controls.
- We tested the completeness and accuracy of the data used by the management and specialists.
- Using our valuation specialists, we challenged management's key assumptions and estimates used to determine the derivative liability fair value.

## Other Information

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

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

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Tel-Aviv, Israel

March 30, 2023

Ziv Haft
Certified Public Accountants (Isr.)
BDO Member Firm

## INNOCAN PHARMA CORPORATION

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (US Dollar in thousands)

| | Note | December 31, 2022 | December 31, 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents | 4 | 4,947 | 11,048 |
| Trade accounts receivables | | 15 | - |
| Other accounts receivable | 5 | 785 | 963 |
| Inventories | 6 | 1,131 | 510 |
| **Total current assets** | | 6,878 | 12,521 |
| **NON-CURRENT ASSETS:** | | | |
| Property, plant and equipment, net | | 58 | 39 |
| Right-of-use asset, net | | 40 | 15 |
| **Total non-current assets** | | 98 | 54 |
| **TOTAL ASSETS** | | 6,976 | 12,575 |

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

## INNOCAN PHARMA CORPORATION

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**(US Dollar in thousands)**

| | Note | December 31, 2022 | December 31, 2021 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **CURRENT LIABILITIES:** | | | |
| Trade accounts payable | | 95 | 53 |
| Other accounts payable | 7 | 332 | 433 |
| Warrants | 8 | 304 | 3,078 |
| **Total current liabilities** | | 731 | 3,564 |
| **NON-CURRENT LIABILITIES:** | | | |
| Long term lease liability | | 20 | - |
| **Total non-current liabilities** | | 20 | - |
| **SHAREHOLDERS' EQUITY:** | 9 | | |
| Share capital | | - | - |
| Additional share capital | | 34,768 | 33,665 |
| Accumulated deficit | | (28,374) | (24,610) |
| **Equity attributable to owners of the parent** | | 6,394 | 9,055 |
| Non-controlling interest | | (169) | (44) |
| **Total shareholders' equity** | | 6,225 | 9,011 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 6,976 | 12,575 |

| Mr. Nelson Halpern<br>Chief Financial Officer | Iris Bincovich<br>Chief Executive Officer | Yoram Drucker<br>Audit Committee Chair | March 30, 2023<br>Date of approval of the Financial statements |
|---|---|---|---|

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

# INNOCAN PHARMA CORPORATION

## CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

**(US Dollar in thousands, except for share and per share amounts)**

| | Note | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|---|
| Revenues | 10 | 2,559 | 196 |
| Cost of revenues | | 452 | 75 |
| **Gross profit** | | 2,107 | 121 |
| Selling, marketing and distribution expenses | 11 | 3,492 | 2,495 |
| Research and development expenses | 12 | 1,526 | 1,399 |
| General and administrative expenses | 13 | 3,355 | 3,707 |
| **Operating loss** | | 6,266 | 7,480 |
| Financial income | 14 | (2,795) | - |
| Financial expense | 15 | 417 | 2,611 |
| Financial expense (income), net | | (2,378) | 2,611 |
| **Loss before income taxes** | | 3,888 | 10,091 |
| Tax expenses | 16 | 1 | - |
| **Total comprehensive loss** | | 3,889 | 10,091 |
| **Total comprehensive loss for the year attributed to:** | | | |
| Owners of the parent | | 3,764 | 10,047 |
| Non-controlling interest | | 125 | 44 |
| | | 3,889 | 10,091 |
| Basic and diluted loss per share | 19 | $(0.016) | $ (0.05) |
| Weighted average number of common shares | | 248,953,220 | 224,541,780 |

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

## INNOCAN PHARMA CORPORATION

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

**(US Dollar in thousands)**

| | Owners of the parent | | | | |
|---|---|---|---|---|---|
| | **Ordinary share capital** | **Additional paid in capital** | **Accumulated deficit** | **Non-controlling interest** | **Total** |
| **Balance at December 31, 2020** | - | 10,956 | (14,563) | - | (3,607) |
| **Changes during 2021:** | | | | | |
| Issuance of common shares, net | - | 2,897 | - | - | 2,897 |
| Exercise of warrants and options | - | 17,649 | - | - | 17,649 |
| Share based compensation | - | 2,163 | - | - | 2,163 |
| Total comprehensive loss for the period | - | - | (10,047) | (44) | (10,091) |
| **Balance at December 31, 2021** | - | 33,665 | (24,610) | (44) | 9,011 |
| **Changes during 2022:** | | | | | |
| Exercise of warrants and options | - | 136 | - | - | 136 |
| Share based compensation | - | 967 | - | - | 967 |
| Total comprehensive loss for the period | - | - | (3,764) | (125) | (3,889) |
| **Balance at December 31, 2022** | - | 34,768 | (28,374) | (169) | 6,225 |

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

## INNOCAN PHARMA CORPORATION

### CONSOLIDATED STATEMENT OF CASH FLOWS

**(US Dollar in thousands)**

| | year ended December 31, 2022 | year ended December 31, 2021 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net comprehensive loss for the period | (3,889) | (10,091) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 35 | 43 |
| Share based compensation | 967 | 2,163 |
| Change in fair value of a warrants | (2,774) | 2,308 |
| Interest charged on lease liabilities | 2 | 1 |
| Decrease (increase) in trade accounts receivables | (15) | 2 |
| Decrease (increase) in other accounts receivable | 178 | (467) |
| Increase in inventories | (621) | (79) |
| Increase (decrease) in trade accounts payable | 42 | (474) |
| Increase (decrease) in other accounts payable | (115) | 49 |
| Financial expenses, net | 123 | (84) |
| **Net cash used in operating activities** | (6,067) | (6,629) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchase of property, plant and equipment | (26) | (41) |
| Deposit for new lease agreement | (5) | - |
| Change in restricted deposits | - | (7) |
| **Net cash used in investing activities** | (31) | (48) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Issuance of common shares, net | - | 2,897 |
| Issuance of warrants | - | 3,426 |
| Cash received on behalf of December 2020 private placement | - | 1,017 |
| Exercise of warrants and options | 136 | 8,001 |
| Principal paid on lease liabilities | (11) | (38) |
| **Net cash provided by financing activities** | 125 | 15,303 |
| **Effects of exchange rate changes on cash and cash equivalents** | (128) | 84 |
| **Net** increase (**decrease) in cash and cash equivalents** | (6,101) | 8,710 |
| **Cash and cash equivalents at the beginning of the period** | 11,048 | 2,338 |
| **Cash and cash equivalents at the end of the period** | 4,947 | 11,048 |
| **APPENDIX A – NON-CASH ACTIVITIES:** | | |
| Conversion of warrants to equity | - | 9,648 |

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

## NOTE 1 - GENERAL:

1. Innocan Pharma Corporation (the "Company") was incorporated as a corporation in Canada and commenced its 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 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 commenced selling its cannabidiol (CBD) cosmetic products in December 2020. Innocan is selling its products mainly 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. The Company consolidates Innocan UK in the financial statements commencing on the date of establishment.

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. The Company consolidates Sky Global in the financial statements commencing on the date of establishment.

5. The Company, Innocan, Innocan UK and Sky Global are referred in the financial statements as the Group.

6. <u>Going concern</u>

   Since inception, the Group has generated revenues that increased during the year ended December 31, 2022, but despite this, the Group expects to continue to finance itself through raising adequate funds in the foreseeable future. During the year ended December 31, 2022, the Group had a net loss of $3,889 thousand,

**NOTE 1 - GENERAL (CONT.):**

6. Going concern (Cont.)

negative cash flow from operation of $6,067 thousand, and generated $28,374 thousand of accumulated deficit since inception. The Group currently has insufficient

cash to fund its operations for the next 12 months. These material uncertainties may cast significant doubt upon the Group's ability to continue as a going concern. In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the twelve-month period following December 31, 2022.

The Group is currently implementing various financing strategies, including the following:

- The Group is actively monitoring cash forecasts and managing performance against its forecasts.
- The Group has identified various cost-reduction initiatives
- The Group has a plan in place to issue additional shares under a non-brokered private placement to raise additional proceeds.

The Group believes that based on the financial strength of its existing shareholder base, and previous success in raising capital, any shortfall in its operating plan may be met through one or more of the above strategies.

7. 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 (the "Yissum Research and License Agreement"). As part of the Second Amendment, Innocan agreed to finance additional research in a total amount of approximately $100 thousand, over a period of 6 months, in two installments. During the year 2022, Innocan paid the total amount of approximately $100 thousand. In addition, during the year 2022, Innocan paid an amount of $75 thousand to Yissum, for the first milestone of the Yissum Research and License Agreement, for achieving preclinical proof of concept in animals.

On December 5, 2022, Innocan entered a third amendment (the "Third Amendment") to the research and license agreement with Yissum. As part of the Third Amendment, Innocan agreed to finance additional research with the aim of meeting the FDA guidance on Liposome drug-products in a total amount of approximately $278 thousand, over a period of 3 months (November 2022-January 2023). Innocan paid during December 2022 the full amount of $278 thousand.

The total expense due to research activity by Yissum incurred during the year 2022 amounted to $360 thousand. There is an ongoing negotiation with Yissum regarding the examination of the next step. Yissum grants to the company an exclusive, worldwide, royalty-bearing license, under Yissum's rights to make, use, offer to sell, sell and import products in the field of this research.

**NOTE 1 - GENERAL (CONT.):**

8. 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 $1.18 million, over a period of 21 months, in four installments. Until September 30, 2022, Innocan paid the first installment, in total amount of $270 thousand and a license fee in amount of $20 thousand. The total research expense incurred during the year 2022 amounted to $232 thousand. As of December 31, 2022, the second installment, for an additional amount of $309 thousand, was postponed to 2023. The payment of the third and fourth installments is dependent on the progress of the research.

   Ramot grants to the company an exclusive, worldwide, royalty-bearing license, under Ramot's rights to make, use, offer to sell, sell and import products in the field of this research.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:**

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

**Basis of preparation**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention. The Group has elected to present the statement of comprehensive loss using the function of expense method. These consolidated financial statement were authorized by the board of directors on March 30, 2023.

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

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

**Principal of consolidation**

The consolidated financial statements include the accounts of Innocan Pharma Corporation and its subsidiaries Innocan Pharma Ltd, B.I. Sky Global Ltd. and Innocan Pharma UK Ltd.. All intercompany balances and transactions have been eliminated upon consolidation.

**Cash and cash equivalents**

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

**Inventories**

Inventories are recognized at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The Group measures cost of raw materials on First In First Out ("FIFO") basis and finished goods according to costs based on direct costs of materials and labor.

**Revenue recognition**

Revenue is recognized by the Group in accordance with IFRS 15, "Revenue from Contracts with Customers". Through application of this standard, the Group recognizes revenue to depict the transfer of promised goods to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

In order to recognize revenue under IFRS 15, the Group applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to the customer;
- Allocate the transaction price to the performance obligation(s) in the contract;
- Recognize revenue when or as the Company satisfies the performance obligation(s).

The Group derives its revenue from the sale of cannabidiol (CBD) cosmetic products and other cosmetic products. The Group sells its products directly to consumers through online retail channels. For these arrangements, the Group considers customer order confirmations to be a contract with the customer. Customer confirmations are executed at the time an order is placed through third-party online channels. The Group only recognizes revenue

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

**Revenue recognition (cont.)**

when collection is reasonably assured and products are shipped to the customers. The Group does not offer trade or volume discounts.

For product sales, the Group has elected to treat shipping and handling as fulfillment activities, and not a separate performance obligation. Accordingly, the Group recognizes revenue for its single performance obligation related to product sales at the time control of the merchandise passes to the customer, which is generally at the time of shipment.

The Group evaluated principal versus agent considerations to determine whether it is appropriate to record platform fees paid to Amazon as an expense or as a reduction of revenue. Platform fees are recorded as sales and distribution expenses and are not recorded as a reduction of revenue because it owns and controls all the goods before they are transferred to the customer. The Group is subject to credit risk, establishes prices of its products, can determine who fulfills the goods to the customer (Amazon or the Company) and can limit quantities or stop selling the goods at any time. Based on these considerations, the Group is the principal in this arrangement.

**Selling, marketing and distribution expenses**

Selling, marketing and distribution expenses consist of online advertising costs, marketing and promotional costs, sales and e-commerce platform commissions, fulfillment costs by the Group or fulfillment by merchant (“FBM”), including shipping and handling, and warehouse costs (i.e. sales and distribution variable expenses). Further, sales and distribution expenses also include employees and service provider compensation and benefits and other related costs. Costs associated with the Group’s advertising and sales promotion are expensed as incurred.

**Share based compensation**

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

**Foreign currency**

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

**Foreign currency (cont.)**

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

**Fair value measurement**

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

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

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

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

Classification of financial instruments by fair value hierarchy

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

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

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

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

**Financial instruments**

1. Financial assets

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

   Amortized cost: These assets arise principally from the provision of goods to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue (excluding trade accounts receivables which are initially recognized at transaction costs) and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

2. Financial Liabilities

   The Group classifies its financial liabilities based on the purpose for which the liability was acquired. The Group's accounting policy is as follows:

   Fair value through profit or loss: The Group measures its warrant financial liabilities at fair value through profit or loss.

   Amortized cost: other accounts payable are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

3. De-recognition

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

4. Impairment of financial assets

   The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset as follows:

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

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

**Loss per share**

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

**New standards, interpretations and amendments adopted from January 1, 2022**

The following amendments are effective for the period beginning January 1, 2022:

*Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);*

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced during the testing phase of a manufacturing facility after it is being constructed but before start of commercial production). The proceeds from selling such samples, together with the costs of producing them, are now recognized in profit or loss.

These amendments had no impact on the year-end consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

*References to Conceptual Framework (Amendments to IFRS 3).*

In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

These amendments had no impact on the year-end consolidated financial statements of the Group as there were no business combinations in the period.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

**New standards, interpretations and amendments not yet effective**

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the period beginning January 1, 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The following amendments are effective for the period beginning January 1, 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

The Group is currently assessing the impact of these new accounting standards and amendments. The Group does not believe that the amendments to IAS 1 will have a material impact on the classification of its liabilities.
The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

**NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:**

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

**Share based compensation**

The Group has a share-based plan for its employees and service providers. The estimated fair value of share options is determined using the Black Scholes Merton model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates (see also Note 9).

## NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT.):

**Fair value valuation of warrants**

The Group measures the fair value of the warrants using the Black-Scholes model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the warrants (see also Note 8).

## NOTE 4 – CASH AND CASH EQUIVALENTS:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| | USD in thousands | |
| USD: | | |
| Banks | 2,124 | 621 |
| Foreign currency: | | |
| Banks | 1,314 | 8,464 |
| Deposits | 1,509 | 1,963 |
| **Total** | 4,947 | 11,048 |

## NOTE 5 - OTHER ACCOUNTS RECEIVABLE:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| | USD in thousands | |
| Prepaid expenses | 453 | 715 |
| Tax authorities | 145 | 135 |
| Restricted deposits | 104 | 79 |
| Amazon receivables | 47 | - |
| Others | 36 | 34 |
| **Total** | 785 | 963 |

**NOTE 6 - INVENTORIES:**

| | December 31, | |
|---|---|---|
| | 2022 | 2021 |
| | USD in thousands | |
| Finished goods | 907 | 322 |
| Packaging materials | 224 | 188 |
| | 1,131 | 510 |

**NOTE 7 - OTHER ACCOUNTS PAYABLE:**

| | December 31, | |
|---|---|---|
| | 2021 | 2020 |
| | USD in thousands | |
| Accrued expenses | 228 | 192 |
| Payroll and related liabilities | 90 | 240 |
| Short term lease liability | 14 | 1 |
| | 332 | 433 |

**NOTE 8 - WARRANTS:**

The Company accounts for warrants issued to investors under IFRS 9 and IAS 32. Warrants issued to service providers are accounted for under IFRS 2 and are treated as equity.

1. October 2021 Unit Warrants

In connection with the October 13, 2021 Private Placement (see also Note 9), 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 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 $3,427 thousand. In December 31, 2022 it amounted to $304 thousand.

(US Dollars)

**NOTE 8 – WARRANTS (CONT.):**

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 fair value measurement of the warrants as of December 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 – 3.4111%, expected volatility - 76%, and expected dividend yield – 0.

| | Fair value measurements using input type | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| As of December 31, 2022 | | | | |
| Derivative liability – warrants | - | (304) | - | (304) |

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%, and expected dividend yield - 0.

| | Fair value measurements using input type | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| As of December 31, 2021 | | | | |
| Derivative liability – warrants | - | (3,078) | - | (3,078) |

**NOTE 8 – WARRANTS (CONT.):**

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

| | **Fair Value of warrants** |
|---|---|
| | **US Dollars in thousands** |
| Balance at January 1, 2021 | 6,992 |
| **Changes during 2021:** | |
| Additions | |
| October 2021 Unit Warrants | 3,427 |
| Changes in FV | |
| 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) |
| Exercise | |
| Tamar InnoVest A and B Warrants | (3,600) |
| September 2019 Unit Warrants | (240) |
| June 2020 Unit Warrants | (4,000) |
| December 2020 Unit Warrants | (1,808) |
| Balance at December 31, 2021 | 3,078 |
| **Changes during 2022:** | |
| Changes in FV | |
| October 2021 Unit Warrants | (2,774) |
| Balance at December 31, 2022 | 304 |

* All amounts were recorded according to their fair value, according to management with the assistance of an independent third party appraisal.

**(US Dollars)**

**NOTE 8 – WARRANTS (CONT.):**

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

| | **year ended December 31, 2022** | |
|---|---|---|
| | **Number of warrants** | **Weighted average exercise price (CAD)** |
| Warrants outstanding at beginning of period | 438,099 | 0.23 |
| Exercised – exercise price CAD 0.18 | (68,949) | 0.18 |
| Expired – exercise price CAD 0.18 | (26,315) | 0.18 |
| Granted – exercise price CAD 0.25 | 68,949 | 0.25 |
| Exercised – exercise price CAD 0.25 | (10,991) | 0.25 |
| Warrants outstanding at end of period | 400,793 | 0.25 |
| Exercisable warrants | 400,793 | 0.25 |

| | **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 |

(US Dollars)

## NOTE 9 - SHAREHOLDERS' EQUITY:

Composition:

| | Number of shares as of December 31, 2022 | |
|---|---|---|
| | Authorized | Issued and outstanding |
| Common shares without nominal par value | Unlimited | 249,728,111 |

| | Number of shares as of December 31, 2021 | |
|---|---|---|
| | Authorized | Issued and outstanding |
| Common shares without nominal par value | Unlimited | 248,496,145 |

**Movement in number of shares:**

| | Number of shares |
|---|---|
| Balance as at January 1, 2021 | 188,321,292 |
| Issuance of shares – service providers (See also footnote 1 hereunder) | 1,700,000 |
| Exercise of warrants and agent warrants (See also footnote 2 hereunder) | 48,595,853 |
| Exercise of options (See also footnote 3 hereunder) | 200,000 |
| Issuance of shares – October 2021 Private Placement (See also footnote 4 hereunder) | 9,679,000 |
| Closing balance at December 31, 2021 | 248,496,145 |
| Exercise of warrants and agent warrants (See also footnote 5 hereunder) | 79,940 |
| Exercise of options (See also footnote 6 hereunder) | 1,152,026 |
| Closing balance at December 31, 2022 | 249,728,111 |

1. On January 19, 2021, the Company issued 1,700,000 common shares to a service provider, for consulting services, in connection with the development and operation of the Company. The fair value of granted common shares was CAD 612 thousand (approximately $486 thousand).
2. During 2021, a total of 48,595,853 warrants and agent warrants were exercised to common shares, in consideration for approximately $7,976 thousand.
3. During 2021, a total of 200,000 options were exercised to common shares, in consideration for approximately $25 thousand.
4. On October 13, 2021, the Company completed a non-brokered private placement (the "October 2021 Private Placement"), pursuant to which the Company issued 9,679,000 units of the Company (the "October 2021

**(US Dollars)**

**NOTE 9 - SHAREHOLDERS' EQUITY (CONT.):**

Private Placement Units") at a price of CAD 0.85 per unit for gross proceeds of CAD 8,227 thousand (approximately $6,613 thousand). Each October 2021 Private Placement Unit is comprised of one common share and one common share purchase warrant ("October 2021 Unit Warrant"). Each October 2021 Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 1.10 until October 13, 2026 (see also Note 8).

5. During 2022, a total of 79,940 agent warrants were exercised to common shares, in consideration for approximately $15 thousand.
6. During 2022, a total of 1,152,026 options were exercised to common shares, in consideration for approximately $121 thousand. Out of the options excised, 680,000 options were a cashless exercise, calculated according to the terms of the Options.

**Share based compensation**

| Grantee | Date of grant | Exercise price (CAD) | Number of options | Expiry date |
|---|---|---|---|---|
| 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 |
| Employees of the Company (5) | August 8, 2022 | 0.48 | 200,000 | August 8, 2027 |
| Employees of the Company (6) | August 8, 2022 | 0.48 | 100,000 | August 8, 2027 |
| Employees of the Company (7) | November 6,2022 | 0.3 | 36,000 | November 6, 2027 |
| Business development consultant(8) | November 6,2022 | 0.3 | 500,000 | November 6, 2027 |

**NOTE 9 - SHAREHOLDERS' EQUITY (CONT.):**

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

(2) Each of the options are exercisable for one common share of the Company. The Options, for each of the two employees, shall vest in quarterly instalments, the first instalment being 8,337 options and with an additional eleven equal instalments of 8,333 options for the following 3 years commencing 1 April 2022. The fair value of the options 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 70%
- The dividend growth rate is 0%

(3) Each of the options are 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) Model 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 are exercisable for one common share of the Company. The Options shall vest in quarterly instalments, the first instalment being 50,000 options and with an additional four equal instalments of 50,000 options for the following 16 months commencing 1 April 2022. The fair value of the options 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 70%
- The dividend growth rate is 0%

(5) Each of the options are exercisable for one common share of the Company. The Options shall vest in 12 equal instalments of 16,667 option every quarter during three (3) years starting from 1 October 2022. The fair value of the options was obtained using the Black Scholes (1973) Model on the date of the grant based on certain unobservable inputs, including:

**NOTE 9 - SHAREHOLDERS' EQUITY (CONT.):**

- The expected volatility of the existing business is 73%
- The dividend growth rate is 0%

(6) Each of the options are exercisable for one common share of the Company. The Options shall vest in quarterly instalments, the first instalment being 8,337 options and with an additional eleven equal instalments of 8,333 options for the following 3 years commencing 1 October 2022. The fair value of the options 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 73%

The dividend growth rate is 0%

(7) Each of the options are exercisable for one common share of the Company. The options shall be granted immediately and vested in first instalment of 3,000 options and additional 11 equal instalments of 3,000 option every quarter during three (3) years starting from 1 April 2022, and only as long as this employment agreement is valid and in forth. The options will be exercisable by the Employee at any time during a period of five (5) years from the Effective Date (the "Option Expiration Date").

- The expected volatility of the existing business is 76%
- The dividend growth rate is 0%

(8) Each of the options are exercisable for one common share of the Company. The options shall be granted immediately and shall be vested during two years, according to the following schedule: 100,000 - upon executing this agreement, effective immediately, and 100,000 - each 6 months during the next two years, as long as Advisor is serving on the company's SAB. The options will be exercisable by the Advisory Board Member at any time during a period of three (3) years from the Effective Date (the "Option Expiration Date").

- The expected volatility of the existing business is 76%
- The dividend growth rate is 0%

During the year ended December 31, 2022 and 2021, the Group recorded share-based compensation expense of $967 thousand and $2,163 thousand, respectively, which is included in selling and marketing expenses, research and development expenses, or general and administrative expenses, based on the grantee.

**(US Dollars)**

**NOTE 9 - SHAREHOLDERS' EQUITY (CONT.):**

**Share based compensation (cont.)**

| | year ended December 31, 2022 | |
|---|---|---|
| | **Number of options** | **Weighted average exercise price (CAD)** |
| Options to employees and service providers 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 |
| Exercised – exercise price CAD 0.18 | (1,380,000) | 0.18 |
| Granted – exercise price CAD 0.48 | 300,000 | 0.48 |
| Exercised – exercise price CAD 0.22 | (150,000) | 0.22 |
| Granted – exercise price CAD 0.3 | 536,000 | 0.3 |
| Expired – exercise price CAD 0.74 | (100,000) | 0.74 |
| Options outstanding at end of period | 24,284,708 | 0.35 |
| Exercisable options | 21,139,718 | 0.33 |

| | year ended December 31, 2021 | |
|---|---|---|
| | **Number of options** | **Weighted average exercise price (CAD)** |
| Options to employees and service providers 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 |

## NOTE 10 - REVENUES

### Geographical analysis of revenue

| | Year ended December 31, 2022 | | 2021 | |
|---|---|---|---|---|
| | USD in thousands | | | |
| | % | | % | |
| United States | 95% | 2,417 | 17% | 34 |
| UK | 3% | 83 | - | - |
| France | - | - | 31% | 61 |
| Poland | - | - | 31% | 60 |
| Rest of the world | 2% | 59 | 21% | 41 |
| | 100% | 2,559 | 100% | 196 |

## NOTE 11 – SELLING, MARKETING AND DISTRIBUTION EXPENSES:

| | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|
| | USD in thousands | |
| Amazon platform commissions and fulfillment costs | 1,827 | - |
| Marketing service providers | 956 | 1,244 |
| Salary and related expenses | 405 | 600 |
| Share based compensation | 223 | 490 |
| Others | 81 | 161 |
| | 3,492 | 2,495 |

## NOTE 12 - RESEARCH AND DEVELOPMENT EXPENSES:

| | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|
| | USD in thousands | |
| Research expenses by Yissum and Ramot | 598 | 724 |
| Service providers | 353 | 190 |
| Salary and related expenses | 303 | 183 |
| Share based compensation | 120 | 109 |
| License fees | - | 55 |
| Others | 152 | 138 |
| | 1,526 | 1,399 |

## NOTE 13 - GENERAL AND ADMINISTRATIVE EXPENSES:

| | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|
| | USD in thousands | |
| Professional services | 731 | 457 |
| Share based compensation | 624 | 1,565 |
| Salary and related expenses | 569 | 531 |
| Legal fees | 428 | 259 |
| Insurance | 208 | 172 |
| Office Rent & maintenance | 198 | 84 |
| Accounting Services | 126 | 122 |
| Directors fee | 28 | 35 |
| Issuance expenses | - | 302 |
| Others | 443 | 180 |
| | 3,355 | 3,707 |

## NOTE 14 – FINANCE INCOME:

| | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|
| | USD in thousands | |
| Changes in fair value of warrants | 2,774 | - |
| Others | 21 | |
| | 2,795 | - |

## NOTE 15 – FINANCE EXPENSES:

| | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|
| | USD in thousands | |
| Currency exchange expenses | 415 | 290 |
| Changes in fair value of warrants | - | 2,308 |
| Others | 2 | 13 |
| | 417 | 2,611 |

## NOTE 16 - TAXES ON INCOME:

**A. Tax rate applicable to income in Canada**

Canadian federal and provincial statutory tax rate was 23% in 2022 and 23% in 2021. As of the year 2022, the Federal corporation notice of assessment reports NIL taxes.

**B. Tax rate applicable to income in Israel**

Israeli corporate tax rates are 23% in 2022 and 2021.

Innocan and Sky Global has not received any final tax assessment since inception.

**C. Net operating losses carry forwards**

As of December 31, 2022, the Group has estimated carry forward tax losses of approximately $18,874 thousand, which may be carried forward and offset against taxable income for an indefinite period in the future, except for carry-forward losses reported in Canada which expire 20 years from the year which they were incurred. The Group did not recognize deferred tax assets relating to carry forward losses in the financial statements because their utilization in the foreseeable future is not probable.

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

| | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|
| | USD in thousands | |
| Loss before income tax | (3,889) | (10,091) |
| Theoretical tax at applicable statutory tax rate (23%) | (894) | (2,321) |
| Deferred tax asset that cannot be recognized due to uncertainty | 894 | 2,321 |
| Income tax expenses | - | - |

## NOTE 17 - RELATED PARTIES:

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

**Key management personnel compensation**

Key management personnel compensation and directors fee comprised the following:

| Transaction - expense | Year ended December 31, 2022 (USD in thousands) | Year ended December 31, 2021 (USD in thousands) |
|---|---|---|
| Salary and related expenses | 613 | 827 |
| Share based compensation | 262 | 615 |
| Services fees | 246 | - |

**NOTE 17 - RELATED PARTIES (CONT.):**

**Assets related to related party**

| Name | Nature of transaction | December 31, 2022 (USD in thousands) | December 31, 2021 (USD in thousands) |
|---|---|---|---|
| Other accounts receivable | Current assets | 5 | 10 |

**Liabilities to related party**

| Name | Nature of transaction | December 31, 2022 (USD in thousands) | December 31, 2021 (USD in thousands) |
|---|---|---|---|
| Other accounts payable | Short term employee benefits | 47 | 240 |

**NOTE 18 - COMMITMENTS AND CONTINGENT LIABILITIES:**

1. As of the approval date of the reports, there were no claims that were outstanding against the Group.
2. As part of the Ramot License & Research Agreement (see also note 1.8), Innocan has also agreed to pay Ramot royalties of 3.5% on future sales of products sold under the Ramot License & Research Agreement.
3. As part of the Research & License Agreement (see also note 1.7), 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 $35 thousand.

**NOTE 19 - LOSS PER SHARE:**

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

| | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|
| Loss for the year attributed to shareholders (USD in thousand) | (3,889) | (10,091) |
| Weighted average number of ordinary shares | 248,953,220 | 224,541,780 |
| Basic and diluted loss per share | $(0.016) | $ (0.045) |

## NOTE 20 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

The Group is exposed to a variety of financial risks, which results from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's financial performance and position. The Group's financial instruments are its cash, other accounts receivable, warrants, lease liability and trade and other accounts payable. The main purpose of these financial instruments is to raise finance for the Group's operation. The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Group's financial instruments are mainly credit risk and currency risk. The risk management policies employed by the Group to manage these risks are discussed below.

### Credit risk

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| | (USD in thousands) | |
| Cash and cash equivalents | 4,947 | 11,048 |
| Trade accounts receivables | 15 | - |
| Other accounts receivable | 104 | 79 |
| Total | 5,065 | 11,127 |

### Currency risk

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

## NOTE 20 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

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

| | December 31, 2022 | | |
|---|---|---|---|
| | Assets | Liabilities | Total |
| | (USD in thousands) | | |
| NIS | 593 | (298) | 295 |
| CAD | 2,169 | (355) | 1,814 |
| others | 150 | (1) | 149 |

| | December 31, 2021 | | |
|---|---|---|---|
| | Assets | Liabilities | Total |
| | (USD in thousands) | | |
| NIS | 278 | (390) | (112) |
| CAD | 10,017 | (3,122) | 6,895 |
| Others | 194 | - | 194 |

**Sensitivity analysis**

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

| | December 31, 2022 (USD in thousands) |
|---|---|
| Linked to NIS | 29 |
| Linked to CAD | 181 |
| Linked to others | 15 |

**NOTE 20 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):**

| | December 31, 2021 (USD in thousands) |
|---|---|
| Linked to NIS | (11) |
| Linked to CAD | 690 |
| Linked to others | 19 |

**Liquidity risks**

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

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| | (USD in thousands) | |
| Trade accounts payable | 95 | 336 |
| Other accounts payable | 332 | 433 |
| Total | 427 | 769 |

**Capital management**

The Group considers its capital to be comprised of shareholders' equity. The Group's objectives in managing its capital are to maintain its ability to continue as a going concern and to further develop its business. To effectively manage the Group's capital requirements, the Group has a planning and budgeting process in place to meet its strategic goals. In order to facilitate the management of its capital requirements, the Group prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. Management reviews the capital structure on a regular basis to ensure the above objectives are met. There have been no changes to the Group's approach to capital management during the year ended December 31, 2022. There are no externally imposed restrictions on the Group's capital.

**NOTE 21 - SUBSEQUENT EVENTS:**

1. On February 14, 2023, the Company approved the issuance of an aggregate of 438,740 options to purchase common shares in the capital of the Company (the “Options”) to certain employees and consultants, under the Company’s stock option plan. The Options are exercisable for a price of $0.28 per common share for a period of between two and four years, depending on the optionee. The Options expire after between three and five years from the date of issuance.
2. On February 16, 2023 the Company closed a non-brokered private placement offering of 1,982,000 units of Innocan (the “Units”) at a price of CAD 0.25 per Unit for aggregate gross proceeds of CAD 496 thousands (approximately USD 372 thousand) (the “Offering”). Each Unit consists of: (i) one (1) common share in the capital of the Company (each a “Common Share”); (ii) one-half of one (1) Class A common share purchase warrant (each whole Class A common share purchase warrant, a “Class A Warrant”); and (iii) one-half of one (1) Class B common share purchase warrant (each whole Class B common share purchase warrant, a “Class B Warrant”) (collectively each whole Class A Warrant and each whole Class B Warrant, a “Warrant”). Each Class A Warrant will entitle the holder thereof to purchase one Common Share at a price of CAD 0.31 for a period of two (2) years from the date of issuance. Each Class B Warrant will entitle the holder thereof to purchase one Common Share at a price of CAD 0.44 for a period of three (3) years from the date of issuance. Following the date of issuance of the Warrants, if the daily volume weighted average trading price of the Common Shares on the Canadian Securities Exchange for any period of 20 consecutive trading days equals or exceeds CAD 0.62 in the case of a Class A Warrant or CAD 1.32 in the case of a Class B Warrant, the Company may, upon providing written notice to the holders of the Warrants (the “Acceleration Notice”), accelerate the expiry date of the Warrants to the date that is 30 days following the date of the Acceleration Notice. The Company recorded the Unit Warrants as a derivative financial liability which represents the fair value of the warrants on the transaction date due to the fact that they do not meet the criteria for a fixed number of equity instruments in exchange for a fixed amount of cash since the exercise price is stated in CAD while the Company's functional currency is the USD. The derivative financial liability is re-measured at each reporting date, with changes in fair value recognized in finance expense (income), net.
3. On February 20, 2023, Innocan entered a Fourth amendment (the "Fourth Amendment") to the research and license agreement with Yissum. As part of the Fourth Amendment, Innocan agreed to finance additional research with the aim of meeting the FDA guidance on Liposome drug-products in a total amount of approximately $287 thousand, over a period of 3 months (February 2023-April 2023). There is an ongoing negotiation with Yissum regarding the examination of the next step.