

INNOCAN PHARMA CORPORATION

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023**

UNAUDITED

INNOCAN PHARMA CORPORATION

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

	<u>Note</u>	<u>March 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		4,089	4,947
Trade accounts receivable		15	15
Other accounts receivable	3	872	785
Inventory		<u>1,281</u>	<u>1,131</u>
Total current assets		<u>6,257</u>	<u>6,878</u>
NON-CURRENT ASSETS:			
Property, plant and equipment, net		81	58
Right-of-use asset, net		<u>60</u>	<u>40</u>
Total non-current assets		<u>141</u>	<u>98</u>
 		<u>_____</u>	<u>_____</u>
TOTAL ASSETS		<u>6,398</u>	<u>6,976</u>

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED
STATEMENTS OF FINANCIAL POSITION

(US Dollars in thousands)

	<u>Note</u>	<u>March 31, 2023</u>	<u>December 31, 2022</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		289	95
Other accounts payable		358	332
Warrants	10	<u>386</u>	<u>304</u>
Total current liabilities		<u>1,033</u>	<u>731</u>
NON-CURRENT LIABILITIES:			
Long term lease liability		<u>26</u>	<u>20</u>
Total non-current liabilities		<u>26</u>	<u>20</u>
SHAREHOLDERS' EQUITY:			
Share capital	4	-	-
Additional share capital		35,110	34,768
Accumulated deficit	1.3	<u>(29,644)</u>	<u>(28,374)</u>
Equity attributable to owners of the parent		<u>5,466</u>	<u>6,394</u>
Non-controlling interest		(127)	(169)
Total shareholders' equity		5,339	6,225
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>6,398</u></u>	<u><u>6,976</u></u>

"Nelson Halpern"

Nelson Halpern
Chief Financial
Officer

"Iris Bincovich"

Iris Bincovich
Chief Executive
Officer

"Peter Bloch"

Peter Bloch
Audit Committee
Chair

May 30, 2023

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 for share and per share amounts)

		Three months period ended	
		March 31,	
	<u>Note</u>	<u>2023</u>	<u>2022</u>
Revenues		1,560	260
Cost of revenues		190	*182
Gross profit		<u>1,370</u>	<u>78</u>
Selling, marketing and distribution expenses	5	1,314	546
Research and development expenses	6	604	477
General and administrative expenses	7	718	*874
Operating loss		<u>1,266</u>	<u>1,819</u>
Financial income	8	(82)	(1,095)
Financial expense	9	44	5
Loss before income taxes		<u>1,228</u>	<u>729</u>
Tax expenses		-	-
Total comprehensive loss		<u>1,228</u>	<u>729</u>
Total comprehensive loss for the period			
attributed to:			
Owners of the parent		1,270	651
Non-controlling interest		(42)	78
		<u>1,228</u>	<u>729</u>
Basic and diluted loss per share		<u>\$ (0.005)</u>	<u>\$ (0.003)</u>
Weighted average number of common shares		<u>250,746,188</u>	<u>248,504,123</u>

* Reclassification

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, 2023	-	34,768	(28,374)	(169)	6,225
Changes during the period:					
Issuance of ordinary shares, net	-	209	-	-	209
Share based compensation	-	133	-	-	133
Total comprehensive loss for the period	-	-	(1,270)	42	(1,228)
Balance at March 31, 2023 (unaudited)	-	35,110	(29,644)	(127)	5,339

	<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

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, 2023	Three months period ended March 31, 2022
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net comprehensive loss for the period	(1,228)	(729)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	7	13
Share based compensation	133	459
Change in fair value of a warrants	(72)	(989)
Interest charged on lease liabilities	1	1
Increase in trade receivables	-	(12)
Increase in other accounts receivable	(87)	(115)
Increase in inventory	(150)	(48)
Increase in trade accounts payable	194	101
Increase (decrease) in other accounts payable	21	(159)
Financial expenses, net	19	(100)
Net cash used in operating activities	<u>(1,162)</u>	<u>(1,578)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(27)	(11)
Deposit for new lease agreement	(7)	-
Net cash used in investing activities	<u>(34)</u>	<u>(11)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of ordinary shares, net	209	-
Issuance of warrants	154	-
Exercise of warrants	-	3
Principal paid on lease liabilities	(6)	(15)
Net cash provided (used) by financing activities	<u>357</u>	<u>(12)</u>
Effects of exchange rate changes on cash and cash equivalents	<u>(19)</u>	<u>100</u>
Net decrease in cash and cash equivalents	(858)	(1,501)
Cash and cash equivalents at the beginning of the period	<u>4,947</u>	<u>11,048</u>
Cash and cash equivalents at the end of the period	<u>4,089</u>	<u>9,547</u>

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. 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.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 1 – GENERAL (CONT.):

6. Going concern

Since inception, the Group has generated revenues, despite that, the Group expects to continue to finance itself through raising adequate funds in the foreseeable future. During the three months period ended March 31, 2023, the Group incurred a net loss of \$1,228 thousand, negative cash flow from operations of \$1,162 thousand and generated \$29,644 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 months period following March 31, 2023.

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 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.

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 \$293 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.

The total expense due to research activity by Yissum incurred during the three months period ended March 31, 2023 amounted to \$288 thousand. There is an ongoing negotiation with Yissum regarding the

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 1 – GENERAL (CONT.):

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.

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. As of March 31, 2023, the second installment, for an additional amount of \$309 thousand, was postponed to May 2023. After the cutoff date, the commitment according to the agreement was terminated (also see note 11).

9. On February 16, 2023 the Company closed a non-brokered private placement (the "February 2023 Private Placement") of 1,982,000 units of the Company (the "February 2023 Private Placement Units") at a price of CAD 0.25 per Unit for aggregate gross proceeds of CAD 496 thousand (approximately \$372 thousand). 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 (see also note 10).

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Basis of preparation

These interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the December 31, 2022 annual financial statements. These interim consolidated financial statements were authorized for issue by the board of directors on May 30, 2023.

Significant accounting policies

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2022 annual financial statements, except for the following amendments which apply for the first time in 2023. However, not all are 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.

The following new standards and amendments are effective for the period beginning 1 January 2023:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Change in Accounting Estimates and Errors); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes).

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, 2023 (the date on which the Group's next annual financial statements will be prepared up to) that the Group has decided not to adopt early. The Group does not believe these standards and interpretations will have a material impact on the financial statements once adopted.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 3 – OTHER ACCOUNTS RECEIVABLE:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
	<u>USD in thousands</u>	
Prepaid expenses	462	453
Tax authorities	128	145
Restricted deposits	103	104
Amazon receivables	147	47
Others	32	36
Total	<u>872</u>	<u>785</u>

NOTE 4 - SHAREHOLDERS' EQUITY:

Composition:

	<u>Number of shares as of March 31, 2023</u>	
	<u>Authorized</u>	<u>Issued and outstanding</u>
Common shares without nominal par value	<u>Unlimited</u>	<u>251,788,858</u>

	<u>Number of shares as of December 31, 2022</u>	
	<u>Authorized</u>	<u>Issued and outstanding</u>
Common shares without nominal par value	<u>Unlimited</u>	<u>249,728,111</u>

Changes in the number of issued Common Shares from December 31, 2022 to March 31, 2023 are as follows:

	<u>Number of Common Shares</u>
Balance as at December 31, 2022	<u>249,728,111</u>
Exercise of options (See also footnote 1 hereunder)	<u>78,747</u>
Issuance of shares – February 2023 Private	
Placement (See also footnote 2 hereunder)	<u>1,982,000</u>
Closing balance at March 31, 2023	<u>251,788,858</u>

1. During the three months period ended March 31, 2023, a total of 78,747 options were exercised into common shares as a cashless exercise, calculated according to the terms of the options.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

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 \$372 thousand) (see also note 1(9)).

Share based compensation

During the three months period ended March 31, 2023, 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>
Research and development consultant ⁽¹⁾	February 14, 2023	0.28	150,000	February 14, 2026
Employees of the Company ⁽²⁾	February 14, 2023	0.28	150,000	February 14, 2028
Business development consultant ⁽²⁾	February 14, 2023	0.28	138,740	February 14, 2026

(1) Each of the options is exercisable for one common share of the Company. Options shall be vested immediately at granting. The options will be exercisable by the Consultant at any time during a period of three (3) years from the date of grant. 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 74%
- The dividend growth rate is 0%

(2) Each of the options is exercisable for one common share of the Company. Options shall be vested immediately at granting. The options will be exercisable at any time during a period of five (5) years from the date of grant as long as the employment agreement is valid and for a period of 3 months from the date of grant. 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 74%
- The dividend growth rate is 0%

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 4 – SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.):

In the three months period ended March 31, 2023, the Company recorded share-based compensation expenses of \$133 thousand, which is included in selling and marketing expenses, research and development expenses or general and administrative expenses, based on the grantee.

	Three months period ended March 31, 2023	
	Number of options	Weighted average exercise price (CAD)
Options outstanding at beginning of period	24,284,708	0.33
Granted – exercise price CAD 0.28	438,740	0.28
Exercised – exercise price CAD 0.18	(66,667)	0.18
Exercised – exercise price CAD 0.16	(100,000)	0.16
Expired – exercise price CAD 0.35	(150,000)	0.35
Expired – exercise price CAD 0.59	(250,000)	0.59
Options outstanding at end of period	24,156,781	0.35
Exercisable options	21,736,461	0.33
	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

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 5 – SELLING, MARKETING AND DISTRIBUTION EXPENSES:

	Three months period ended March 31, 2023	Three months period ended March 31, 2022
USD in thousands		
Amazon platform commissions and fulfillment costs	1,057	117
Service providers	146	196
Salary and related expenses	82	136
Share based compensation	24	68
Others	5	29
	<u>1,314</u>	<u>546</u>

NOTE 6 – RESEARCH AND DEVELOPMENT EXPENSES:

	Three months period ended March 31, 2023	Three months period ended March 31, 2022
USD in thousands		
Research expenses – Yissum & Ramot	288	186
Research expenses – Service providers	162	129
Salary and related expenses	93	58
Share based compensation	32	89
Others	29	15
	<u>604</u>	<u>477</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, 2023	Three months period ended March 31, 2022
	USD in thousands	
Professional services	185	*236
Salary and related expenses	143	106
Legal fees	139	72
Share based compensation	77	302
Issuance expenses	12	-
Others	162	158
	718	874

* Reclassification

NOTE 8 – FINANCE INCOME:

	Three months period ended March 31, 2023	Three months period ended March 31, 2022
	USD in thousands	
Changes in fair value of warrants	72	989
Currency exchange income	-	106
Others	10	-
	82	1,095

NOTE 9 – FINANCE EXPENSES:

	Three months period ended March 31, 2023	Three months period ended March 31, 2022
	USD in thousands	
Currency exchange expenses	43	-
Others	1	5
	44	5

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

NOTE 10 - FINANCIAL INSTRUMENTS:

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 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 \$ 3,427 thousand. In March 31, 2023 it amounted to \$ 283 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.

2. February 2023 Unit Warrants

In connection with a private placement (see also note 1(9)), closed on February 16, 2023, the Company issued 1,982,000 warrants to investors. Each Unit consists of one-half of one (1) Class A common share purchase warrant (each whole Class A common share purchase warrant, a "Class A Warrant"); and 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

INNOCAN PHARMA CORPORATION
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FINANCIAL STATEMENTS

(US Dollars)

NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

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. The derivative financial liability as of inception amounted to \$154 thousand. In March 31, 2023 it amounted to \$103 thousand. 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 March 31, 2023 in the table below was measured using:

1. For the non-forced exercise warrants the Black-Scholes model .
2. Forced exercised warrants was estimated using a binomial lattice, under the assumption that once the price per share, exceeds the defined forced exercise threshold, the warrants get exercised immediately.

The key inputs that were used in measuring the fair value of the warrants were: risk free interest rate – 3.0278%, expected volatility - 72%, year and Expected dividend yield - 0.

	Fair value measurements using input type			
	March 31, 2023			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative financial liability (warrants)	-	(386)	-	(386)

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.

	December 31, 2022			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative financial liability (warrants)	-	(304)	-	(304)

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

The derivative financial liabilities as at March 31, 2023 and December 31, 2022 are as follows:

	Fair Value of warrants
	US Dollars in thousands
Balance at January 1, 2022	3,078
Changes during 2022:	
<u>Changes in FV</u>	
October 2021 Unit Warrants	(2,774)
Balance at December 31, 2022	304
 Changes during 2023:	
<u>Additions</u>	
February 2023 Unit Warrants	154
<u>Changes in FV</u>	
October 2021 Unit Warrants	(21)
February 2023 Unit Warrants	(51)
Balance at March 31, 2023	386

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

Warrants treated under IFRS 2 as at March 31, 2023 and December 31, 2022 are as follows:

	The three months period ended March 31, 2023	
	Number of warrants	Weighted average exercise price (CAD)
Warrants outstanding at beginning of period	400,793	0.25
Warrants outstanding at end of period	400,793	0.25
Exercisable warrants	400,793	0.25

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

	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

NOTE 11 - SUBSEQUENT EVENTS:

On April 3, 2023, Innocan entered a second amendment (the "Second Amendment") to the License and Research Funding Agreement with Ramot. According to the Second Amendment, it was agreed to terminate the research. In light of the termination of the research:

- The second instalment (\$309 thousand), third instalment (\$270 thousand) and fourth instalment (\$328 thousand) are no longer due.
- Ramot is no longer required to perform the remainder 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.