

**INNOCAN PHARMA CORPORATION**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF JUNE 30, 2023**

**UNAUDITED**

**INNOCAN PHARMA CORPORATION**

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

	Note	June 30, 2023	December 31, 2022
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		3,373	4,947
Trade accounts receivable		16	15
Other accounts receivable	3	954	785
Inventory		1,417	1,131
<b>Total current assets</b>		<b>5,760</b>	<b>6,878</b>
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment, net		88	58
Right-of-use asset, net		54	40
<b>Total non-current assets</b>		<b>142</b>	<b>98</b>
<b>TOTAL ASSETS</b>		<b>5,902</b>	<b>6,976</b>

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

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

	<u>Note</u>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade accounts payable		177	95
Other accounts payable		318	332
Warrants	10	<u>378</u>	<u>304</u>
<b>Total current liabilities</b>		<u>873</u>	<u>731</u>
<b>NON-CURRENT LIABILITIES:</b>			
Long term lease liability		<u>26</u>	<u>20</u>
<b>Total non-current liabilities</b>		<u>26</u>	<u>20</u>
<b>SHAREHOLDERS' EQUITY:</b>			
	4		
Share capital		-	-
Additional share capital		35,171	34,768
Accumulated deficit	1.3	<u>(30,164)</u>	<u>(28,374)</u>
<b>Equity attributable to owners of the parent</b>		<u>5,007</u>	<u>6,394</u>
Non-controlling interest		<u>(4)</u>	<u>(169)</u>
<b>Total shareholders' equity</b>		<u>5,003</u>	<u>6,225</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u><u>5,902</u></u>	<u><u>6,976</u></u>

<i>(s) "Nelson Halpern"</i>	<i>(s) "Iris Bincovich"</i>	<i>(s) "Peter Bloch"</i>	August 24, 2023
Nelson Halpern Chief Financial Officer	Iris Bincovich Chief Executive Officer	Peter Bloch Audit Committee Chair	Date of approval of the Financial statements

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

**INNOCAN PHARMA CORPORATION**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED**  
**STATEMENTS OF COMPREHENSIVE LOSS**  
(US Dollars in thousands)

	Note	Three months period ended June 30,		Six months period ended June 30,	
		2023	2022	2023	2022
Revenues		3,121	415	4,681	675
Cost of revenues		465	*201	656	*383
<b>Gross profit</b>		2,656	214	4,025	292
Selling, marketing and distribution expenses	5	2,290	*922	3,603	*1,468
Research and development expenses	6	257	460	861	937
General and administrative expenses	7	545	*809	1,264	*1,683
<b>Operating loss</b>		436	1,977	1,703	3,796
Finance income	8	(41)	(503)	(92)	(1,488)
Finance expenses	9	1	353	14	248
<b>Loss before income taxes</b>		396	1,827	1,625	2,556
Income taxes		-	-	-	-
<b>Total comprehensive loss</b>		396	1,827	1,625	2,556
Total comprehensive loss for the period attributed to:					
Owners of the parent		520	1,736	1,790	2,387
Non-controlling interest	1.4	(124)	91	(165)	169
		396	1,827	1,625	2,556
Basic and diluted loss per share		\$ 0.002	\$ 0.007	\$ 0.007	\$ 0.010
Weighted average number of common shares		251,875,369	248,523,471	251,316,571	248,519,010

\*Reclassification

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

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

	Owners of the parent			Non- controlling interest	Total
	Share capital	Additional paid in capital	Accumulated deficit		
<b>Balance at January 1, 2023</b>	-	34,768	(28,374)	(169)	6,225
<b>Changes during the period:</b>					
Issuance of ordinary shares, net	-	209	-	-	209
Share based compensation	-	194	-	-	194
Total comprehensive loss for the period	-		(1,790)	165	(1,625)
<b>Balance at June 30, 2023</b>	-	35,171	(30,164)	(4)	5,003

	Owners of the parent			Non- controlling interest	Total
	Share capital	Additional paid in capital	Accumulated deficit		
<b>Balance at January 1, 2022</b>	-	33,665	(24,610)	(44)	9,011
<b>Changes during the period:</b>					
Exercise of warrants and options	-	25	-	-	25
Share based compensation	-	672	-	-	672
Total comprehensive loss for the period	-	-	(2,387)	(169)	(2,556)
<b>Balance at June 30, 2022</b>	-	34,362	(26,997)	(213)	7,152

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

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

	<b>Six months period ended June 30, 2023</b>	<b>Six months period ended June 30, 2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss for the period	(1,625)	(2,556)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	16	18
Share based compensation	194	672
Change in fair value of a warrants	(80)	(1,481)
Interest charged on lease liabilities	1	1
Increase in trade accounts receivable	(1)	(30)
Decrease (increase) in other accounts receivable	(169)	83
Increase in inventory	(286)	(241)
Increase in trade accounts payable	82	195
Increase (decrease) in other accounts payable	(14)	17
Financial expenses, net	7	(22)
<b>Net cash used in operating activities</b>	<b>(1,875)</b>	<b>(3,344)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(36)	(12)
Deposit for new lease agreement	(7)	-
<b>Net cash used in investing activities</b>	<b>(43)</b>	<b>(12)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of ordinary shares, net	209	-
Issuance of warrants	154	-
Exercise of warrants and options	-	25
Principal paid on lease liabilities	(12)	(13)
<b>Net cash provided by financing activities</b>	<b>351</b>	<b>12</b>
<b>Effects of exchange rate changes on cash and cash equivalents</b>	<b>(7)</b>	<b>22</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,574)</b>	<b>(3,322)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>4,947</b>	<b>11,048</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>3,373</b>	<b>7,726</b>

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

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

**NOTE 1 - GENERAL:**

1. Innocan Pharma Corporation (the "Company") was incorporated as a corporation in Canada and commenced its operations in May 2018. The Company's registered office is in Calgary, Canada.
2. The Company is a publicly listed company on the Canadian Securities Exchange (the "CSE") trading under the symbol INNO and is the parent company of Innocan Pharma Ltd. ("Innocan") 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**  
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**(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 six and three months period ended June 30, 2023, the Group incurred a net loss of \$1,625 and \$397 thousand accordingly, negative cash flow from operations of \$1,875 thousand for the six months period ended June 30, 2023 and generated \$30,164 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 June 30, 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 six and three months period ended June 30, 2023 amounted to \$386 and \$98 thousand accordingly.

**INNOCAN PHARMA CORPORATION**  
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**NOTE 1 – GENERAL (CONT.):**

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.

On April 3, 2023, Innocan entered a second amendment (the "Ramot Second Amendment") to the License and Research Funding Agreement with Ramot. According to the Ramot 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.

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 \$368 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**  
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**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 August 24, 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 impacted 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**  
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**NOTE 3 - OTHER ACCOUNTS RECEIVABLE:**

	<b>June 30, 2023</b>	<b>December 31, 2022</b>
	<b>USD in thousands</b>	
Prepaid expenses	417	453
Tax authorities	197	145
Restricted deposits	102	104
Amazon receivables	208	47
Others	30	36
<b>Total</b>	<u>954</u>	<u>785</u>

**NOTE 4 - SHAREHOLDERS' EQUITY:**

Composition:

	<b>Number of shares as of June 30, 2023</b>	
	<b>Authorized</b>	<b>Issued and outstanding</b>
Common shares without nominal par value	<u>Unlimited</u>	<u>252,044,052</u>
	<b>Number of shares as of December 31, 2022</b>	
	<b>Authorized</b>	<b>Issued and outstanding</b>
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 June 30, 2023 are as follows:

	<b>Number of Common Shares</b>
Balance as at December 31, 2022	<u>249,728,111</u>
Exercise of options (See also footnote 1 hereunder)	<u>333,941</u>
Issuance of shares – February 2023 Private Placement (See also footnote 2 hereunder)	<u>1,982,000</u>
Closing balance at June 30, 2023	<u>252,044,052</u>

1. During the six months period ended June 30, 2023, a total of 333,941 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**  
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**(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 the Company (the “February 2023 Private Placement 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 six months period ended June 30, 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 <sup>(1)</sup>	February 14, 2023	0.28	150,000	February 14, 2026
Employees of the Company <sup>(2)</sup>	February 14, 2023	0.28	150,000	February 14, 2028
Business development consultant <sup>(2)</sup>	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**  
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**(US Dollars)**

**NOTE 4 – SHAREHOLDERS' EQUITY (CONT.):**

**Share based compensation (cont.):**

In the six and three months period ended June 30, 2023, the Company recorded share-based compensation expenses of \$ 194 and \$61 thousand accordingly, which is included in selling and marketing expenses, research and development expenses or general and administrative expenses, based on the grantee.

	<b>Six months period ended June 30, 2023</b>	
	<b>Number of options</b>	<b>Weighted average exercise price (CAD)</b>
Options outstanding at beginning of period	24,284,708	0.35
Granted – exercise price CAD 0.28	438,740	0.28
Exercised – exercise price CAD 0.18	(872,458)	0.18
Exercised – exercise price CAD 0.16	(125,000)	0.16
Expired – exercise price CAD 0.35	(300,000)	0.35
Expired – exercise price CAD 0.59	(500,000)	0.59
Options outstanding at end of period	22,925,990	0.35
Exercisable options	21,326,340	0.34

	<b>year ended December 31, 2022</b>	
	<b>Number of options</b>	<b>Weighted average exercise price (CAD)</b>
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**  
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**(US Dollars)**

**NOTE 5 – SELLING, MARKETING AND DISTRIBUTION EXPENSES:**

	Three months period ended June 30,		Six months period ended June 30,	
	2023	2022	2023	2022
	(USD in thousands)			
Amazon advertising expenses	2,113	*327	3,171	*444
Service providers	100	433	246	629
Salary and related expenses	60	88	141	224
Share based compensation	10	40	34	108
Others	7	34	11	63
	<u>2,290</u>	<u>922</u>	<u>3,603</u>	<u>1,468</u>

\*Reclassification

**NOTE 6 - RESEARCH AND DEVELOPMENT EXPENSES:**

	Three months period ended June 30,		Six months period ended June 30,	
	2023	2022	2023	2022
	(USD in thousands)			
Research expenses – Yissum & Ramot	98	222	386	408
Research expenses – Service providers	61	74	227	203
Share based compensation	12	64	44	153
Salary and related expenses	69	75	162	133
Others	17	25	42	40
	<u>257</u>	<u>460</u>	<u>861</u>	<u>937</u>

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

**NOTE 7 - GENERAL AND ADMINISTRATIVE EXPENSES:**

	Three months period ended June 30,		Six months period ended June 30,	
	2023	2022	2023	2022
	(USD in thousands)			
Professional services	228	*239	432	*475
Share based compensation	39	109	116	411
Salary and related expenses	124	147	268	253
Legal fees	66	87	131	159
Issuance expenses	-	-	12	-
Others	88	227	305	385
	<u>545</u>	<u>809</u>	<u>1,264</u>	<u>1,683</u>

\*Reclassification

**NOTE 8 – FINANCE INCOME:**

	Three months period ended June 30,		Six months period ended June 30,	
	2023	2022	2023	2022
	(USD in thousands)			
Changes in fair value of warrants	7	492	80	1,481
Changes in currency exchange	31	-	-	-
Others	3	11	12	7
	<u>41</u>	<u>503</u>	<u>92</u>	<u>1,488</u>

**NOTE 9 – FINANCE EXPENSES:**

	Three months period ended June 30,		Six months period ended June 30,	
	2023	2022	2023	2022
	(USD in thousands)			
Changes in currency exchange	-	353	12	247
Changes in fair value of warrants	-	-	-	-
Others	1	-	2	1
	<u>1</u>	<u>353</u>	<u>14</u>	<u>248</u>



**INNOCAN PHARMA CORPORATION**  
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**NOTE 10 – FINANCIAL INSTRUMENTS:**

The Group 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, that closed on October 13, 2021, the Company issued 9,679,000 Unit 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 since inception amounted to \$ 3,427 thousand. In June 30, 2023 it amounted to \$ 271 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 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

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**NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):**

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 June 30, 2023 it amounted to \$107 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 June 30, 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 – 3.678%, expected volatility - 70%, year and Expected dividend yield - 0.

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 – 3.411%, expected volatility - 76%, year and Expected dividend yield - 0.

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

	<b>Fair value measurements using input type</b>			
	<b>June 30, 2023</b>			
	<b>US Dollars in thousands</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Derivative financial liability (warrants)	-	(378)	-	(378)
	<b>December 31, 2022</b>			
	<b>US Dollars in thousands</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Derivative financial liability (warrants)	-	(304)	-	(304)

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**NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):**

The derivative financial liabilities as at June 30, 2023 and December 31, 2022 are as follows:

	<b>Fair Value of warrants</b>
	<b>US Dollars in thousands</b>
Balance at January 1, 2022	3,078
<b>Changes during 2022:</b>	
<u>Changes in FV</u>	
October 2021 Unit Warrants	(2,774)
<b>Balance at December 31, 2022</b>	304
<b>Changes during 2023:</b>	
<u>Additions</u>	
February 2023 Unit Warrants	154
<u>Changes in FV</u>	
October 2021 Unit Warrants	(33)
February 2023 Unit Warrants	(47)
<b>Balance at June 30, 2023</b>	378

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

Warrants treated under IFRS 2 as at June 30, 2023 and December 31, 2022 are as follows:

	<b>The six months period ended June 30, 2023</b>	
	<b>Number of warrants</b>	<b>Weighted average exercise price (CAD)</b>
Warrants outstanding at beginning of period	400,793	0.25
Expired – exercise price CAD 0.25	(400,793)	0.25
Warrants outstanding at end of period	-	-

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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:**

1. On August 3, 2023 the Company closed a non-brokered private placement offering of 8,409,735 units of the Company (the “August 2023 Unit”) at a price of CAD 0.23 per August 2023 Unit for aggregate gross proceeds of CAD 1,934,239 (approximately \$1,451 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 “August 2023 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 “August 2023 Class B Warrant”). Each August 2023 Class A Warrant will entitle the holder thereof to purchase one Common Share at a price of CAD 0.29 for a period of three (3) years from the date of issuance. Each August 2023 Class B Warrant will entitle the holder thereof to purchase one Common Share at a price of CAD 0.40 for a period of five (5) years from the date of issuance.
2. On August 11, 2023 the Company approved the issuance of an aggregate of 5,118,576 options to purchase common shares in the capital of the Company (the “Options”) to certain employees, directors and a consultant, under the Company’s stock option plan. The Options are exercisable for a price of CAD 0.23 per common share for a period of two years, depending on the optionee. The Options expire after five years from the date of issuance.
3. In addition, On August 11, 2023 the Company approved the issuance of 2,000,000 common shares in consideration of another consulting agreement.