

INNOCAN PHARMA CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2024

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>2024</u>	<u>December 31,</u> <u>2023</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		4,595	3,885
Trade accounts receivable		16	17
Other accounts receivable	3	1,699	1,155
Inventories, net		<u>2,602</u>	<u>1,747</u>
Total current assets		<u>8,912</u>	<u>6,804</u>
NON-CURRENT ASSETS:			
Property, plant and equipment, net		90	92
Right-of-use asset, net		<u>38</u>	<u>44</u>
Total non-current assets		<u>128</u>	<u>136</u>
 		 <u> </u>	 <u> </u>
TOTAL ASSETS		<u>9,040</u>	<u>6,940</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, 2024</u>	<u>December 31, 2023</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		477	112
Other accounts payable		1,109	485
Warrants	10	<u>2,740</u>	<u>1,946</u>
Total current liabilities		<u>4,326</u>	<u>2,543</u>
NON-CURRENT LIABILITIES:			
Long term lease liability		<u>7</u>	<u>11</u>
Total non-current liabilities		<u>7</u>	<u>11</u>
SHAREHOLDERS' EQUITY:			
	4		
Share capital		-	-
Additional paid in capital		38,952	37,177
Accumulated deficit		<u>(34,841)</u>	<u>(33,074)</u>
Equity attributable to owners of the parent		<u>4,111</u>	<u>4,103</u>
Non-controlling interest		596	283
Total shareholders' equity		4,707	4,386
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>9,040</u></u>	<u><u>6,940</u></u>

<i>(s) "Nelson Halpern"</i>	<i>(s) "Iris Bincovich"</i>	<i>(s) "Peter Bloch"</i>	May 27, 2024
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 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)

	<u>Note</u>	Three months period ended	
		March 31,	
		<u>2024</u>	<u>2023</u>
Revenues		6,768	1,560
Cost of revenues		767	190
Gross profit		<u>6,001</u>	<u>1,370</u>
Selling, marketing and distribution expenses	5	5,314	1,314
Research and development expenses	6	424	604
General and administrative expenses	7	1,475	718
Operating loss		<u>1,212</u>	<u>1,266</u>
Financial income	8	(42)	(82)
Financial expense	9	50	44
Loss before income taxes		1,220	1,228
Tax expenses		234	-
Total comprehensive loss		<u>1,454</u>	<u>1,228</u>
Total comprehensive loss for the period			
attributed to:			
Owners of the parent		1,767	1,270
Non-controlling interest		(313)	(42)
		<u>1,454</u>	<u>1,228</u>
Basic and diluted loss per share		\$ (0.005)	\$ (0.005)
Weighted average number of common shares		<u>269,817,878</u>	<u>250,746,188</u>

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(US Dollars in thousands)

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Non- controlling interest</u>	<u>Total</u>
Balance at January 1, 2024	-	37,177	(33,074)	283	4,386
Changes during the period:					
Issuance of ordinary shares, net	-	619	-	-	619
Share based compensation	-	1,156	-	-	1,156
Total comprehensive profit (loss) for the period	-	-	(1,767)	313	(1,454)
Balance at March 31, 2024 (unaudited)	-	38,952	(34,841)	596	4,707

	<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 profit (loss) for the period	-	-	(1,270)	42	(1,228)
Balance at March 31, 2023 (unaudited)	-	35,110	(29,644)	(127)	5,339

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, 2024	Three months period ended March 31, 2023
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net comprehensive loss for the period	(1,454)	(1,228)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	10	7
Share based compensation	1,156	133
Change in fair value of a warrants	(42)	(72)
Interest charged on lease liabilities	-	1
Decrease in trade receivables	2	-
Increase in other accounts receivable	(544)	(87)
Increase in inventories, net	(855)	(150)
Increase in trade accounts payable	365	194
Increase (decrease) in other accounts payable	624	21
Financial expenses (income), net	(9)	19
Net cash used in operating activities	<u>(747)</u>	<u>(1,162)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(2)	(27)
Deposit for new lease agreement	-	(7)
Net cash used in investing activities	<u>(2)</u>	<u>(34)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of ordinary shares, net	619	209
Issuance of warrants	836	154
Exercise of warrants	-	-
Principal paid on lease liabilities	(5)	(6)
Net cash provided by financing activities	<u>1,450</u>	<u>357</u>
Effects of exchange rate changes on cash and cash equivalents	<u>9</u>	<u>(19)</u>
Net increase (decrease) in cash and cash equivalents	710	(858)
Cash and cash equivalents at the beginning of the period	<u>3,885</u>	<u>4,947</u>
Cash and cash equivalents at the end of the period	<u>4,595</u>	<u>4,089</u>

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

INNOCAN PHARMA CORPORATION
NOTES TO THE 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 and is expected to conduct activities mainly in the US, Canadian and European markets. Innocan also operates in the CBD beauty market and develop, manufacture and sells cannabidiol (CBD) cosmetic products mainly in the European market.

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.

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 cannabidiol (CBD) cosmetic 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. The Company, Innocan, Innocan UK and Sky Global are referred in the financial statements as the Group.

5. On October 7, 2023, an attack was launched against Israel by Hamas (a terror organization) which thrust Israel into a state of war (hereinafter: "The state of war") in Israel and in Gaza strip. The Group is continuing with its operations both in Israel and globally, as the state of war had no substantial impact on its operations or business results. The Group continues to assess the effects of the state of war on its financial statements and business.

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

NOTE 1 – GENERAL (CONT.):

6. Going concern

Since inception, the Group has generated revenues which increased during the three months period ended March 31, 2024, but despite this, the Group expects to continue to finance itself through raising adequate funds in the foreseeable future. During the three months period ended March 31, 2024, the Group had a net loss of \$1,454 thousand,

negative cash flow from operation of \$747 thousand and generated \$34,841 thousand of accumulated deficit since inception. These factors raise 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 three months period ended March 31, 2024.

The Company's plans to fund near term anticipated activities based on proceeds from capital fund raising and future revenues.

7. Between February 2023 to March, 2024, Innocan entered the fourth, fifth, sixth and seventh amendments (the "Fourth Amendment", "Fifth Amendment", "Sixth Amendment" and "Seventh Amendment", respectively) to the research and license agreement with Yissum. As part of the Fourth, Fifth, Sixth and Seventh Amendments, Innocan agreed to finance additional research with the aim of meeting the FDA guidance on Liposome drug-products in a total amount of approximately \$1,014 thousand, by March 2024. The total expense due to research activity by Yissum incurred during the three months period ended March 31, 2024, amounted to \$87 thousand. Yissum grants to Innocan 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. There is an ongoing negotiation with Yissum regarding the examination of the next step.
8. On March 14, 2024, the Company closed a non-brokered private placement offering of units of the Company (the "Units") for aggregate gross proceeds of CAD 1,989 thousand (approximately 1,475 thousand) (the "Offering"). Each Unit is comprised of one common share of the Company (a "Common Share") and one common share purchase warrant of the Company (a "Warrant"). Each Warrant will entitle the holder thereof to purchase one Common Share at an exercise price of CAD 0.32 for a period of four (4) years from the date of issuance. (See also notes 4(1) and 10).

INNOCAN PHARMA CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 1 – GENERAL (CONT.):

9. On March 14, 2024, the Company granted an aggregate of 7,140,483 restricted share units (each, an “RSU”) to directors and officers. Each RSU entitles the recipient to receive one common share of the Company on vesting. A total of 3,807,150 RSUs vest on March 14, 2024 and 3,333,333 RSUs vest as follows: (i) one-third on March 14, 2024; (ii) one-third on September 14, 2024; and (iii) one-third on March 14, 2025. The RSUs and the underlying Common Shares are subject to a statutory hold period of four months and one day expiring on July 15, 2024. (See also note 4(2)).

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, 2023, annual financial statements. These interim consolidated financial statements were authorized for issue by the board of directors on May 27, 2024.

Accounting policies

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2023 annual financial statements, except for the following amendments which apply for the first time in 2024. 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 January 1, 2024:

- Supplier Finance Arrangements (Amendments to IAS 7 & IFRS 7);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1); and
- Non-current Liabilities with Covenants (Amendments to IAS 1).

INNOCAN PHARMA CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Accounting policies (Cont.)

Supplier Finance Arrangements (Amendments to IAS 7 & IFRS 7)

On May 25, 2023, the IASB issued Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The amendments also provide guidance on characteristics of supplier finance arrangements. The amendments provide a transition relief whereby an entity is not required to provide the disclosures, otherwise required by the amendments, for any interim period presented within the annual reporting period in which the entity first applies those amendments.

The Group carried out an assessment of its contracts and operations and concluded that these amendments have had no effect on the interim condensed consolidated financial statements, regardless of the transition relief provided.

Classification of Liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1)

The IASB issued amendments to IAS 1 in January 2020 Classification of Liabilities as Current or Non-current and subsequently, in October 2022 Non-current Liabilities with Covenants. The amendments clarify the following:

- An entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period.
- If an entity's right to defer settlement of a liability is subject to covenants, such covenants affect whether that right exists at the end of the reporting period only if the entity is required to comply with the covenant on or before the end of the reporting period.
- The classification of a liability as current or non-current is unaffected by the likelihood that the entity will exercise its right to defer settlement.
- In case of a liability that can be settled, at the option of the counterparty, by the transfer of the entity's own equity instruments, such settlement terms do not affect the classification of the liability as current or non-current only if the option is classified as an equity instrument.

These amendments have no effect on the measurement of any items in the financial statements of the Group.

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

NOTE 3 – OTHER ACCOUNTS RECEIVABLE:

	March 31,	December 31,
	2024	2023
	USD in thousands	
Prepaid expenses	656	340
Amazon receivables	434	232
Tax authorities	408	417
Restricted deposits	137	138
Others	64	28
Total	<u>1,699</u>	<u>1,155</u>

INNOCAN PHARMA CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 4 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of March 31, 2024	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	280,661,437

	Number of shares as of December 31, 2023	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	268,001,895

Changes in the number of issued Common Shares from December 31, 2023 to March 31, 2024 are as follows:

	Number of Common Shares
Balance as at December 31, 2023	268,001,895
Issuance of shares – March 2024 Private Placement (See also footnote 1 hereunder)	7,952,840
Issuance of restricted share units – March 2024 (See also footnote 2 hereunder)	4,706,702
Closing balance at March 31, 2024	280,661,437

INNOCAN PHARMA CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

1. On March 14, 2024, the Company closed a non-brokered private placement offering of units of the Company (the "Units") for aggregate gross proceeds of CAD 1,989 thousand (approximately 1,475 thousand) (the "Offering"). Each Unit is comprised of one common share of the Company (a "Common Share") and one common share purchase warrant of the Company (a "Warrant"). Each Warrant will entitle the holder thereof to purchase one Common Share at an exercise price of CAD 0.32 for a period of four (4) years from the date of issuance. (See also note 10).

2. On March 14, 2024, the Company granted an aggregate of 7,140,483 restricted share units (each, an "RSU") to directors and officers. Each RSU entitles the recipient to receive one common share of the Company on vesting. A total of 3,807,150 RSUs vest on March 14, 2024 and 3,333,333 RSUs vest as follows: (i) one-third on March 14, 2024; (ii) one-third on September 14, 2024; and (iii) one-third on March 14, 2025. The RSUs and the underlying Common Shares are subject to a statutory hold period of four months and one day expiring on July 15, 2024.

Share based compensation

During the three months period ended March 31, 2024, the following restricted share units:

<u>Grantee</u>	<u>Date of grant</u>	<u>Number of shares</u>
Directors and Officers of the Company ⁽¹⁾	March 14, 2024	7,140,483

(1) Each RSU entitles the recipient to receive one common share of the Company (a "Common Share") on vesting. A total of 3,807,150 RSUs vest on March 14, 2024 and 3,333,333 RSUs vest as follows: (i) one-third on March 14, 2024; (ii) one-third on September 14, 2024; and (iii) one-third on March 14, 2025. The RSUs and the underlying Common Shares are subject to a statutory hold period of four months and one day expiring on July 15, 2024. The fair value of the options was obtained using the Black Scholes (1973) on the date of the grant based on certain unobservable inputs, including:

- The expected volatility of the existing business is 70%
- The dividend growth rate is 0%

In the three months period ended March 31, 2024, the Company recorded share-based compensation expenses of \$1,119 thousand, which is included in selling and marketing expenses, research and development expenses or general and administrative expenses, based on the grantee.

INNOCAN PHARMA CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 4 – SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.):

	Three months period ended March 31, 2024	
	Number of options	Weighted average exercise price (CAD)
Options outstanding at beginning of period	26,778,566	0.33
Expired – exercise price CAD 0.18	(1,750,000)	0.18
Expired – exercise price CAD 0.16	(410,000)	0.16
Expired – exercise price CAD 0.35	(720,000)	0.35
Expired – exercise price CAD 0.35	(150,000)	0.35
Expired – exercise price CAD 0.41	(150,000)	0.41
Expired – exercise price CAD 0.36	(500,000)	0.36
Expired – exercise price CAD 0.41	(500,000)	0.41
Expired – exercise price CAD 0.59	(550,000)	0.59
Expired – exercise price CAD 0.83	(250,000)	0.83
Expired – exercise price CAD 0.74	(50,000)	0.74
Expired – exercise price CAD 0.77	(300,000)	0.77
Expired – exercise price CAD 0.59	(250,000)	0.59
Expired – exercise price CAD 0.3	(500,000)	0.3
Options outstanding at end of period	<u>20,698,566</u>	<u>0.31</u>
Exercisable options	<u>16,539,906</u>	<u>0.33</u>

	Year ended December 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
Granted – exercise price CAD 0.23	5,118,576	0.23
Granted – exercise price CAD 0.35	300,000	0.35
Granted – exercise price CAD 0.32	250,000	0.32
Exercised – exercise price CAD 0.18	(872,458)	0.18
Exercised – exercise price CAD 0.16	(125,000)	0.16
Expired – exercise price CAD 0.16	(300,000)	0.16
Expired – exercise price CAD 0.28	(150,000)	0.28
Expired – exercise price CAD 0.35	(950,000)	0.35
Expired – exercise price CAD 0.41	(116,000)	0.41
Expired – exercise price CAD 0.59	(950,000)	0.59
Expired – exercise price CAD 0.74	(150,000)	0.74
Options outstanding at end of period	<u>26,778,566</u>	<u>0.33</u>
Exercisable options	<u>22,105,240</u>	<u>0.34</u>

INNOCAN PHARMA CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 5 – SELLING, MARKETING AND DISTRIBUTION EXPENSES:

	Three months period ended March 31, 2024	Three months period ended March 31, 2023
	USD in thousands	
Amazon platform commissions and fulfillment costs	4,730	1,057
Share based compensation	261	24
Service providers	155	146
Salary and related expenses	62	82
Others	106	5
	5,314	1,314

NOTE 6 – RESEARCH AND DEVELOPMENT EXPENSES:

	Three months period ended March 31, 2024	Three months period ended March 31, 2023
	USD in thousands	
Share based compensation	107	32
Research expenses – Yisum & Ramot	87	288
Salary and related expenses	55	93
Research expenses by service providers	15	162
Others	160	29
	424	604

INNOCAN PHARMA CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 7 – GENERAL AND ADMINISTRATIVE EXPENSES:

	Three months period ended March 31, 2024	Three months period ended March 31, 2023
	USD in thousands	
Share based compensation	788	77
Professional services	279	185
Salary and related expenses	160	143
Legal fees	90	139
Issuance expenses	16	12
Others	142	162
	<u>1,475</u>	<u>718</u>

NOTE 8 – FINANCIAL INCOME:

	Three months period ended March 31, 2024	Three months period ended March 31, 2023
	USD in thousands	
Changes in fair value of warrants	42	72
Others	-	10
	<u>42</u>	<u>82</u>

NOTE 9 – FINANCIAL EXPENSES:

	Three months period ended March 31, 2024	Three months period ended March 31, 2023
	USD in thousands	
Currency exchange differences	45	43
Others	5	1
	<u>50</u>	<u>44</u>

INNOCAN PHARMA CORPORATION
NOTES TO THE 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. On March 31, 2024 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.

INNOCAN PHARMA CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

2. February 2023 Unit Warrants

In connection with a private placement, 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 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. On March 31, 2024 it amounted to \$124 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.

3. August 2023 Unit Warrants

In connection with the private placement, closed on August 3, 2023, the Company issued 8,409,735 units to investors. Each August 2023 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”) (collectively each whole August 2023 Class A Warrant and each whole August 2023 Class B Warrant, a “August 2023 Warrant”). Each August 2023 Class A Warrant will entitle the holder thereof to

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NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

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. The Company recorded the August 2023 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 issuance date amounted to \$692 thousand. On March 31, 2024 it amounted to \$899 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.

4. October 2023 Unit Warrants

In connection with October 12, 2023, and October 20, 2023 Offerings, the Company issued 5,425,108 warrants (the "October 2023 Unit Warrants") to investors. Each October Unit Warrant entitled the holder therefore to acquire one common share at an exercise price of CAD 0.36 for a period of 36 months from the date of the closing. The Company recorded the August 2023 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 issuance date amounted to \$538 thousand. On March 31, 2024 it amounted to \$487 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.

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NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

5. March 2024 Unit Warrants

In connection with the private placement (see also note 1(8)), closed on March 14, 2024, the Company issued 7,952,840 units to investors. Each March 2024 Unit entitles the holder thereof to acquire one common share at an exercise price of CAD 0.32 for a period of four years following March 15, 2024.

The Company recorded the March 2024 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 issuance date amounted to \$836 thousand. On March 31, 2024 it amounted to \$959 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, 2024 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 – 3.6%, expected volatility - 70%, year and Expected dividend yield - 0.

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NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

	Fair value measurements using input type			
	March 31, 2024			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative financial liability (warrants)	-	(2,740)	-	(2,740)

The fair value measurement of the warrants as of December 31, 2023 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 – 3.2144%, expected volatility - 70%, and expected dividend yield – 0.

	December 31, 2023			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
	Derivative financial liability (warrants)	-	(1,946)	-

The derivative financial liabilities as at March 31, 2024 and December 31, 2023 are as follows:

	Fair Value of warrants US Dollars in thousands
Balance at January 1, 2023	304
Changes during 2023:	
<u>Changes in FV</u>	258
February 2023 Unit Warrants	154
August 2023 Unit Warrants	692
October 2023 Unit Warrants -First tranche	131
October 2023 Unit Warrants -Second tranche	407
Balance at December 31, 2023	1,946
Changes during 2024:	
<u>Additions</u>	
March 2023 Unit Warrants	836
<u>Changes in FV</u>	
October 2021 Unit Warrants	(61)
February 2023 Unit Warrants	(15)
August 2023 Unit Warrants	(55)
October 2023 Unit Warrants	(34)
March 2024 Unit Warrants	123
Balance at March 31, 2024	2,740

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

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NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

Warrants treated under IFRS 2 as at March 31, 2024 and December 31, 2023 are as follows:

	The three months period ended March 31, 2024	
	Number of warrants	Weighted average exercise price (CAD)
Warrants outstanding at beginning of period	389,546	0.319
Warrants outstanding at end of period	389,546	0.319
Exercisable warrants	389,546	0.319

	Year ended December 31, 2023	
	Number of warrants	Weighted average exercise price (CAD)
Warrants outstanding at beginning of period	400,793	0.25
Expired – exercise price CAD 0.25	(400,793)	0.25
Granted – exercise price CAD 0.30	267,046	0.30
Granted – exercise price CAD 0.36	122,500	0.36
Warrants outstanding at end of period	389,546	0.319
Exercisable warrants	389,546	0.319

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NOTE 11 - OPERATING SEGMENTS:

The Group has two main divisions:

1. Online sales (non CBD) - B.I. Sky Global Ltd. operations, which engages with the development of beauty microbrands for online platforms such as Amazon, and other e-commerce retail sales.
2. Other operations - the development of several drug delivery platforms, combining cannabinoids with other pharmaceutical ingredients as well as the development and sale of CBD-integrated topical products.

Commencing 2023, management has concluded that beauty online sales segment should be reported separately, as operations volume has increased significantly, and it is closely monitored by management as a potential growth business segment.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the Company's board of directors and its management team.

Summarized financial information by segment, based on the Group's internal financial reporting system utilized by the Group's CEO follows:

For three months period ended March 31, 2024:

	Online sales	Other operations	Total
Segment revenue	6,756	12	6,768
Segment operating profit (loss)	1,024	(2,236)	(1,212)
Financial expense, net			8
Loss before income taxes			(1,220)

For three months period ended March 31, 2023:

	Online sales	Other operations	Total
Segment revenue	1,537	23	1,560
Segment operating loss	(1,370)	104	(1,266)
Financial income, net			(38)
Loss before income taxes			(1,228)

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NOTE 12 - SUBSEQUENT EVENTS:

On April 22, 2024, Innocan announced that it has reached a key milestone and submitted its letter of application for a Pre-IND meeting, the first phase in the FDA approval process in the United States for Innocan's Liposome-Cannabidiol (LPT-CBD) injectable treatment of chronic pain.

Innocan's Pre-IND Meeting Request Letter to the FDA is a first step in seeking approval of its LPT-CBD therapy for use in humans. At the Pre-IND meeting, the objective will be to obtain guidance from the FDA on the preclinical and clinical development plan, enabling the initiation of an Investigational New Drug (IND) program in the United States.