

INNOCAN PHARMA CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 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>June 30,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		5,189	3,885
Trade accounts receivable		18	17
Inventories		2,661	1,747
Other current assets	3	<u>726</u>	<u>1,155</u>
Total current assets		<u>8,594</u>	<u>6,804</u>
NON-CURRENT ASSETS:			
Property, plant and equipment, net		89	92
Right-of-use asset, net		<u>33</u>	<u>44</u>
Total non-current assets		<u>122</u>	<u>136</u>
TOTAL ASSETS		<u>8,716</u>	<u>6,940</u>

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, 2024</u>	<u>December 31, 2023</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		389	112
Other accounts payable		599	485
Warrants	10	<u>1,683</u>	<u>1,946</u>
Total current liabilities		<u>2,671</u>	<u>2,543</u>
NON-CURRENT LIABILITIES:			
Long term lease liability		<u>4</u>	<u>11</u>
Total non-current liabilities		<u>4</u>	<u>11</u>
SHAREHOLDERS' EQUITY:			
	4		
Share capital		-	-
Additional share capital		39,330	37,177
Accumulated deficit	1.3	<u>(34,504)</u>	<u>(33,074)</u>
Equity attributable to owners of the parent		<u>4,826</u>	<u>4,103</u>
Non-controlling interest		1,215	283
Total shareholders' equity		6,041	4,386
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>8,716</u>	<u>6,940</u>

<i>"Nelson Halpern"</i>	<i>"Iris Bincovich"</i>	<i>"Peter Bloch "</i>	August 12, 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 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,	
		2024	2023	2024	2023
Revenues		8,644	3,121	15,412	4,681
Cost of revenues		646	465	1,413	656
Gross profit		7,998	2,656	13,999	4,025
Selling, marketing and distribution expenses	5	6,101	2,290	11,415	3,603
Research and development expenses	6	425	257	849	861
General and administrative expenses	7	940	545	2,415	1,264
Operating profit (loss)		532	(436)	(680)	(1,703)
Finance income	8	1,057	41	1,099	92
Finance expenses	9	(155)	(1)	(205)	(14)
Financial income, net		902	40	894	78
Profit (loss) before tax expenses		1,434	(396)	214	(1,625)
Tax expenses		478	-	712	-
Total comprehensive loss (profit) for the period		956	(396)	(498)	(1,625)
Total comprehensive profit (loss) for the period attributed to:					
Owners of the parent		337	(520)	(1,430)	(1,790)
Non-controlling interest	1.4	619	124	932	165
		956	(396)	(498)	(1,625)
Earning (Loss) per share:					
Basic & Diluted		\$ 0.001	\$ (0.002)	\$ (0.005)	\$ (0.007)
Weighted average number of common shares:					
Basic & Diluted		280,661,437	251,875,369	275,269,612	251,316,571

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)

	<u>Owners of the parent</u>			Non- controlling interest	<u>Total</u>
	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>		
Balance as of January 1, 2024	-	37,177	(33,074)	283	4,386
Changes during the period:					
Issuance of ordinary shares, net	-	619	-	-	619
Share based compensation	-	1,534	-	-	1,534
Total comprehensive profit (loss) for the period	-	-	(1,430)	932	(498)
Balance as of June 30, 2024	-	39,330	(34,504)	1,215	6,041

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

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)

	Six months period ended June 30, 2024	Six months period ended June 30, 2023
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Total comprehensive loss for the period	(498)	(1,625)
Adjustments to reconcile comprehensive loss to net cash used in operating activities:		
Depreciation	20	16
Share based compensation	1,534	194
Change in fair value of a warrants	(1,099)	(80)
Increase in trade accounts receivable	(1)	-
Decrease (increase) in other current assets	428	(167)
Increase in inventories	(914)	(285)
Increase in trade accounts payable	277	80
Increase (decrease) in other accounts payable	117	(15)
Financial expenses, net	64	7
Net cash used in operating activities	(72)	(1,875)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(5)	(37)
Deposit for new lease agreement	-	(7)
Net cash used in investing activities	(5)	(43)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common shares, net	619	209
Issuance of warrants	836	154
Principal paid on lease liabilities	(10)	(12)
Net cash provided by financing activities	1,445	351
Effects of exchange rate changes on cash and cash equivalents	(64)	(7)
Net increase (decrease) in cash and cash equivalents	1,304	(1,574)
Cash and cash equivalents at the beginning of the period	3,885	4,947
Cash and cash equivalents at the end of the period	5,189	3,373

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 and is expected to conduct activities mainly in the US, Canadian and European markets. Innocan also operates in the cannabidiol (CBD) beauty market and develop, manufacture and sells 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 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. During 2022 and 2023, Innocan UK had no activities. On August 13, 2024, Innocan UK was dissolved.
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 UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(US Dollars)

NOTE 1 - GENERAL (CONT.):

6. Going concern

During the six months period ended June 30, 2024, the Group had a negative cash flow from operations of \$72 thousand. Additionally, the Group generated \$34,504 thousand of accumulated deficit since inception. Management plans to address these conditions by raising additional funds and by generating larger volumes of revenues. However, there is no assurance that such funding will be available to the Company or that it will be obtained on terms favorable to the Company or will provide the Company with sufficient funds to meet its objectives, or that the Company will successfully generate sufficient revenues to meet its objectives. Moreover, and while the Company's negative cash flows from operations decreased during the six months period ended June 30, 2024, the Company expects its negative cash flows from operations to significantly increase in the foreseeable future due to increase in R&D and R&D related expenses to be incurred as a result of commencement of clinical trials. These conditions raise substantial doubts about the Company's ability to continue as a going concern. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

7. Between February 2023 to June 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 \$1,278 thousand, by June 2024.

The total expense due to research activity by Yissum incurred during the six months period ended June 30, 2024, amounted to \$174 thousand.

8. On March 14, 2024, the Company closed a non-brokered private placement offering of units of the Company (the "March 2024 Units") at a price of CAD 0.25 per March 2024 Unit (approximately \$0.19) for aggregate gross proceeds of CAD 1,989 thousand (approximately \$1,475 thousand). Each March 2024 Unit is comprised of one common share of the Company and one warrant to purchase common shares of the Company (a "March 2024 Warrant"). Each March 14, 2024 Warrant will entitle the holder thereof to purchase one common share at an exercise price of CAD 0.32 (approximately \$0.24) for a period of four (4) years from the date of issuance. (See also notes 4(1) and 10).

INNOCAN PHARMA CORPORATION
NOTES TO 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 - MATERIAL ACCOUNTING POLICIES:

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

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 August 28, 2024.

Significant 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.

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements); and
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures).

The adoption of the Standards did not have a material impact on the consolidated financial statements of the Group.

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

NOTE 2 - MATERIAL ACCOUNTING POLICIES:

Accounting standards issued but not yet effective

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

- **IFRS 18 “Presentation and Disclosure in Financial Statements” (IFRS 18):**

On April 9, 2024, the IASB published IFRS 18, which replaces IAS 1 “Presentation of Financial Statements” (IAS 1). IFRS 18 aims to improve how information is communicated by entities in their financial statements.

IFRS 18 focuses on the following topics:

1. Statement of Profit or Loss structure - presentation of new defined subtotals and classification of income and expenses into specified categories.
2. Improvements to the aggregation and disaggregation of information in both the primary financial statements and the accompanying notes.
3. Disclosing information on management-defined performance measures (MPMs) which are non-GAAP measures in the notes to the financial statements.

The standard will be applied for annual reporting periods beginning on or after January 1, 2027 and will be applied retrospectively with specific transition requirements. Earlier application is permitted.

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

NOTE 2 - MATERIAL ACCOUNTING POLICIES:

Accounting standards issued but not yet effective (CONT)

- **Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” (regarding classification and measurement requirements of financial instruments and additional disclosure requirements):**

The main amendments to IFRS 9:

1. Introducing a derecognition option for derecognizing a financial liability that is settled via an electronic payment system before the settlement date.
2. Providing application guidance and illustrative examples on how an entity can assess whether the expected contractual cash flows of a financial asset reflect solely payments of principal and interest for the outstanding principal amount, for classifying the financial asset.
3. Clarifying that a financial asset has non-recourse features if an entity’s ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets.
4. Clarifying the characteristics of contractually linked instruments that distinguish them from other transactions.

The main amendments to IFRS 7:

1. Updated disclosures requirements for investments in equity instruments designated at FVTOCI.
2. Introducing additional disclosure requirements for financial instruments that include contractual terms that could change the timing or amount of contractual cash flows upon the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in risks and costs of a basic lending arrangements (such as the time value of money or credit risk).

The amendments are effective for annual reporting periods beginning on or after January 1, 2026, and will be applied retrospectively. Early application is permitted if all the amendments are applied simultaneously or if the amendments applied are related only to the classification of financial assets. An entity is not required to restate prior periods to reflect the application of the amendments, but it may restate prior periods if, and only if, it is possible to do so without the use of hindsight.

INNOCAN PHARMA CORPORATION
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NOTE 2 - MATERIAL ACCOUNTING POLICIES:

Accounting standards issued but not yet effective (CONT)

- **Annual improvements to IFRS Accounting Standards (Volume 11):**

The following amendments were published by the IASB in July 2024, as part of its annual improvements process:

1. Narrow-scope wording amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 10 “Consolidated Financial Statements” and IAS 7 “Statement of Cash Flows”.
2. Amendments to IFRS 9 “Financial Instruments”, which clarify that when a lessee has determined that a lease liability has been extinguished in accordance with IFRS 9, the lessee is required to apply IFRS 9:3.3.3 and recognize any resulting gain or loss in profit or loss. It also clarifies that a receivable should be measured at initial recognition at an amount determined by applying IFRS 15, which might differ from the transaction price.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026. Early application of the amendments is permitted, and if an entity applies the amendments early, it must disclose this fact.

The amendment to IFRS 9 regarding extinguished lease liabilities will be applied from the beginning of the annual reporting period in which the entity first applies that amendment.

The Group is currently assessing the impact of adopting the new standards and amendments, including the impact of amendments to additional IFRS standards impacted by the adoption of IFRS 18, on the consolidated financial statements.

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

NOTE 3 - OTHER CURRENT ASSETS:

	June 30, 2024	December 31, 2023
	USD in thousands	
Tax authorities	-	417
Prepaid expenses	206	340
Online platforms receivables	380	232
Restricted deposits	105	138
Others	35	28
Total	726	1,155

NOTE 4 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of June 30, 2024	
	Authorized	Issued and outstanding
Common shares without nominal par value	<u>Unlimited</u>	<u>280,661,437</u>
	Number of shares as of December 31, 2023	
	Authorized	Issued and outstanding
Common shares without nominal par value	<u>Unlimited</u>	<u>268,001,895</u>

Changes in the number of issued Common Shares from December 31, 2023, to June 30, 2024, are as follows:

	Number of Common Shares
Balance as of December 31, 2023	<u>268,001,895</u>
Issuance of shares – March 2024 Private Placement (See also footnote 1 hereunder)	<u>7,952,840</u>
Issuance of restricted share units – March 2024 (See also footnote 2 hereunder)	<u>4,706,702</u>
Closing balance of June 30, 2024	<u>280,661,437</u>

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

1. On March 14, 2024, the Company closed a non-brokered private placement offering of 7,952,840 units of the Company (the “March 2024 Units”) at a price of CAD 0.25 per March 2024 Unit (approximately \$0.19) for aggregate gross proceeds of CAD 1,989 thousand (approximately \$1,475 thousand). Each March 2024 Unit is comprised of one common share of the Company and one warrant to purchase common shares of the Company (a “March 2024 Warrant”). Each March 2024 Warrant will entitle the holder thereof to purchase one common share at an exercise price of CAD 0.32 (approximately \$0.24) 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 (“RSU”):

<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

Each RSU entitles the recipient to receive one common share of the Company (a “Common Share”) on vesting. The fair value of the RSUs was obtained using the share price of the Company on March 14, 2024, the date of grant. The share price of the Company on March 14, 2024, was 0.28 CAD.

During the six months period ended June 30, 2024, the Company recorded share-based compensation expenses for RSUs grants of \$1,322 thousand, which is included in selling and marketing expenses, research and development expenses or general and administrative expenses, based on the function of the grantee.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.):

During the three months period ended June 30, 2024, 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>
Employees of the Company ⁽¹⁾ Business development	May 30, 2024	0.28	780,000	May 30, 2029
Consultant ⁽²⁾	May 30, 2024	0.28	1,300,000	May 30, 2029

(1) Each of the options is exercisable for one common share of the Company. Options shall be vested as follows: (i) 1/3 (third) will vest immediately at grant; (ii) 1/3 will be vested within 6 months after grant (Nov 30, 2024); (iii) 1/3 will be vested within 12 months after grant (May 30, 2025). 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 termination.

The fair value of the options was obtained using the Black Scholes (1973) model on the date of the grant based on certain unobservable inputs, including:

- The expected volatility of the existing business is 74%
- The dividend yield rate is 0%
- The share price of the Company on May 30, 2024, was 0.295 CAD

(2) Each of the options is exercisable for one common share of the Company. 800,000 options shall be vested immediately at granting and 500,000 options shall be vested as follows: (i) 1/3 (third) will vest immediately at grant; (ii) 1/3 will be vested within 6 months after grant (Nov 30, 2024); (iii) 1/3 will be vested within 12 months after grant (May 30, 2025). The options will be exercisable by the Consultant at any time during a period of three (5) years from the date of grant. The fair value of the options was obtained using the Black Scholes (1973) model on the date of the grant based on certain unobservable inputs, including:

- The expected volatility of the existing business is 74%
- The dividend yield rate is 0%
- The share price of the Company on May 30, 2024, was 0.295 CAD

INNOCAN PHARMA CORPORATION
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NOTE 4 – SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.):

During the six months period ended June 30, 2024, the Company recorded share-based compensation expenses for options grants of \$ 212 thousand, which is included in selling and marketing expenses, research and development expenses or general and administrative expenses, based on the function of the grantee.

Activity in share options granted to employees and service providers is as follows:

	Six months period ended June 30, 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	(6,180,000)	0.37
Granted – exercise price CAD 0.28	2,080,000	0.28
Options outstanding at end of period	22,678,566	0.31
Exercisable options	19,094,572	0.32

NOTE 5 – SELLING, MARKETING AND DISTRIBUTION EXPENSES:

	Three months period ended June 30,		Six months period ended June 30,	
	2024	2023	2024	2023
	(USD in thousands)			
Online platforms fees	3,653	1,316	6,646	1,973
Advertising expenses	2,026	797	3,763	1,198
Marketing service providers	189	100	344	246
Salary and related expenses	61	60	123	141
Share based compensation	86	10	347	34
Others	86	7	192	11
	<u>6,101</u>	<u>2,290</u>	<u>11,415</u>	<u>3,603</u>

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 6 - RESEARCH AND DEVELOPMENT EXPENSES:

	Three months period ended June 30,		Six months period ended June 30,	
	2024	2023	2024	2023
	(USD in thousands)			
Research expenses	92	98	179	386
Service providers	202	61	362	227
Salary and related expenses	64	69	119	162
Share based compensation	35	12	142	44
Others	32	17	47	42
	<u>425</u>	<u>257</u>	<u>849</u>	<u>861</u>

NOTE 7 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Three months period ended June 30,		Six months period ended June 30,	
	2024	2023	2024	2023
	(USD in thousands)			
Professional services	269	228	548	432
Share based compensation	301	39	1,089	116
Salary and related expenses	170	124	330	268
Legal fees	87	66	177	131
Issuance expenses	-	-	16	12
Others	113	88	255	305
	<u>940</u>	<u>545</u>	<u>2,415</u>	<u>1,264</u>

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NOTE 8 – FINANCE INCOME:

	Three months period ended June 30,		Six months period ended June 30,	
	2024	2023	2024	2023
	<u>(USD in thousands)</u>			
Changes in fair value of warrants	(1,057)	7	(1,099)	80
Currency exchange income	-	31	-	-
Others	-	3	-	12
	<u>(1,057)</u>	<u>41</u>	<u>(1,099)</u>	<u>92</u>

NOTE 9 – FINANCE EXPENSES:

	Three months period ended June 30,		Six months period ended June 30,	
	2024	2023	2024	2023
	<u>(USD in thousands)</u>			
Currency exchange expenses	158	-	203	12
Others	(3)	1	2	2
	<u>155</u>	<u>1</u>	<u>205</u>	<u>14</u>

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NOTE 10 - WARRANTS:

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

1. October 2021 Unit Warrants

In connection with the October 13, 2021 private placement, 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 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 issuance date amounted to \$3,427 thousand. As of June 30, 2024, it amounted to \$ 114 thousands. The amount was recorded according to its fair value according to valuation performed by management with the assistance of an independent third-party appraiser.

2. February 2023 Unit Warrants

In connection with the private placement (see also note 1(8)), which closed on February 16, 2023, the Company issued 1,982,000 units to investors. Each February 2023 Unit consists of one (1) common share in the capital of the Company (each a "Common Share"); one-half of one (1) Class A warrant to purchase common shares (each whole Class A common share purchase warrant, a "February 2023 Class A Warrant"); and one-half of one (1) Class B warrant to purchase common shares (each whole Class B common share purchase warrant, a "February 2023 Class B Warrant") (collectively each whole February 2023 Class A Warrant and each whole February 2023 Class B Warrant, a "February 2023 Warrant"). Each February 2023 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 February 2023 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 February 2023 Warrants, if the daily volume weighted average trading price of the Common Shares on the CSE for any period of 20 consecutive trading days equals or exceeds CAD 0.62 in the case of a February 2023 Class A Warrant or CAD 1.32 in the case of a February 2023 Class B Warrant, the Company may, upon

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NOTE 10 - WARRANTS (CONT.):

2. February 2023 Unit Warrants (cont.)

providing written notice to the holders of the February 2023 Warrants (the “Acceleration Notice”), accelerate the expiry date of the February 2023 Warrants to the date that is 30 days following the date of the Acceleration Notice. The Company recorded the February 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 \$154 thousand. As of June 30, 2024 it amounted to \$59 thousand. The amount was recorded according to its fair value according to valuation performed by management with the assistance of an independent third-party appraiser.

3. August 2023 Unit Warrants

In connection with the private placement (see also note 1(9)), 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 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. As of June 30, 2024 it amounted to \$575 thousand. The amount was recorded according to its fair value according to valuation performed by management with the assistance of an independent third-party appraiser.

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NOTE 10 - WARRANTS (CONT.):

4. October 2023 Unit Warrants

In connection with October 12, 2023, and October 20, 2023, Offerings (see note 1(10)), 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. As of June 30, 2024 it amounted to \$292 thousand. The amount was recorded according to its fair value according to valuation performed by management with the assistance of an independent third-party appraiser.

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 June 30, 2024, it amounted to \$642 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, 2024, in the table below was measured using:

1. For the warrants containing no accelerated exercise provisions, the Black-Scholes model.
2. The warrants containing accelerated exercise provisions were estimated using a binomial lattice model, under the assumption that once the price per share, exceeds the defined threshold, the warrants become immediately exercisable.

The key inputs that were used in measuring the fair value of the warrants were: risk free interest rate – 3.53%, average expected volatility - 70%, year and Expected dividend yield – 0 and share price of the company as of June 30, 2024 0.245 CAD.

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NOTE 10 - WARRANTS (CONT.):

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

	Fair value measurements using input type			
	June 30, 2024			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative liability - warrants	-	(1,683)	-	(1,683)
	December 31, 2023			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative liability - warrants	-	(1,946)	-	(1,946)

The derivative financial liabilities as of June 30, 2024 and December 31, 2023 are as follows:

	Fair Value of warrants
	US Dollars in thousands
Balance as of December 31, 2023	1,946
Changes during 2024:	
<u>Additions</u>	
March 2023 Unit Warrants	836
<u>Changes in FV</u>	
October 2021 - March 2024 Unit Warrants	(1,099)
Balance as of June 30, 2024	1,683

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

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NOTE 10 - WARRANTS (CONT.):

Warrants accounted for under IFRS 2 are as follows:

	The six months period ended June 30, 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

NOTE 11 - OPERATING SEGMENTS:

The Group has two segments:

1. Online sales - Sky Global 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 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 segment 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 CEO.

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

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NOTE 11 - OPERATING SEGMENTS (cont.):

For three months period ended June 30, 2024:

	Online sales	Other operations	Total
Segment revenue	8,622	22	8,644
Segment operating (profit) loss	(2,068)	1,536	(532)
Financial income, net			(902)
Profit before tax expenses			(1,434)

For six months period ended June 30, 2024:

	Online sales	Other operations	Total
Segment revenue	15,378	34	15,412
Segment operating (profit) loss	(3,092)	3,772	680
Financial income, net			(894)
Profit before tax expenses			(214)

For three months period ended June 30, 2023:

	Online sales	Other operations	Total
Segment revenue	3,092	29	3,121
Segment operating (profit) loss	(315)	751	436
Financial income, net			(40)
Loss before income taxes			396

For six months period ended June 30, 2023:

	Online sales	Other operations	Total
Segment revenue	4,629	52	4,681
Segment operating (profit) loss	(419)	2,122	1,703
Financial income, net			(78)
Loss before income taxes			1,625