

INNOCAN PHARMA CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2021

UNAUDITED

INNOCAN PHARMA CORPORATION

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

	Note	March 31, 2021	December 31, 2020
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		4,397	2,338
Trade receivables		-	2
Other accounts receivable	3	698	1,508
Inventory		546	430
Total current assets		5,641	4,278
NON-CURRENT ASSETS:			
Property, plant and equipment, net		4	5
Right-of-use asset, net		41	51
Total non-current assets		45	56
TOTAL ASSETS		5,686	4,334

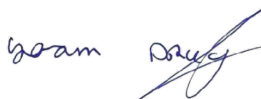
The accompanying notes are an integral part of the condensed financial statements.

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

	Note	March 31, 2021	December 31, 2020
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		148	527
Other accounts payable		471	421
Warrants	8	3,914	6,992
Total current liabilities		4,533	7,940
NON-CURRENT LIABILITIES:			
Long term lease liability		-	1
Total non-current liabilities		-	1
SHAREHOLDERS' EQUITY:			
Share capital	4	-	-
Additional share capital		20,532	10,956
Accumulated deficit	1.4	(19,379)	(14,563)
Total Shareholders' equity		1,153	(3,607)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,686	4,334



Iris Bincovich
Chief Executive Officer



Yoram Drucker
Audit Committee Chair

May 27, 2021

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 loss per share)

	<u>Note</u>	Three months period ended	
		March 31,	
		<u>2021</u>	<u>2020</u>
Revenues		37	-
Cost of revenues		<u>13</u>	<u>-</u>
Gross profit		24	-
Selling and marketing expenses	5	823	169
Research and development expenses	6	502	340
General and administrative expenses	7	<u>1,199</u>	<u>382</u>
Operating loss		<u>2,500</u>	<u>891</u>
Financial income		-	(622)
Financial expense		<u>2,316</u>	<u>67</u>
Loss before income taxes		4,816	336
Tax expenses		<u>-</u>	<u>-</u>
Total comprehensive loss		<u>4,816</u>	<u>336</u>
Basic and diluted loss per share		<u>\$ (0.024)</u>	<u>\$ (0.002)</u>
Weighted average number of common shares		<u>202,634,148</u>	<u>143,866,169</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, except for number of shares)

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2021	-	10,956	(14,563)	(3,607)
Changes during the period:				
Exercise of warrants	-	8,490	-	8,490
Share based compensation	-	1,086	-	1,086
Total comprehensive loss for the period	-	-	(4,816)	(4,816)
Balance at March 31, 2021 (unaudited)	-	20,532	(19,379)	1,153

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at January 1, 2020	-	6,023	(4,610)	1,413
Changes during the period:				
Additional amount investment - post IPO	-	4	-	4
Share based compensation	-	172	-	172
Total comprehensive loss for the period	-	-	(336)	(336)
Balance at March 31, 2020 (unaudited)	-	6,199	(4,946)	1,253

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, 2021	Three months period ended March 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net comprehensive loss for the period	(4,816)	(336)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	10	10
Share based compensation	1,086	172
Change in fair value of a warrants	2,150	(622)
Interest charged on lease liabilities	1	1
Decrease in trade receivables	2	-
Decrease (increase) in other accounts receivable	105	(93)
Increase in inventory	(116)	-
Decrease in trade accounts payable	(379)	-
Increase (decrease) in other accounts payable	59	(73)
Financial expenses, net	4	72
Net cash used in operating activities	(1,894)	(869)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional amount investment - post IPO	-	4
Cash received on behalf of December 2020 private placement	1,017	-
Exercise of warrants	2,960	-
Principal paid on lease liabilities	(10)	(9)
Net cash provided by (used in) financing activities	3,967	(5)
Effects of exchange rate changes on cash and cash equivalents	(14)	(72)
Net Increase (decrease) in cash and cash equivalents	2,059	(946)
Cash and cash equivalents at the beginning of the period	2,338	1,973
Cash and cash equivalents at the end of the period	4,397	1,027

APPENDIX A – NON-CASH ACTIVITIES:

Exercise of warrants	5,218	-
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The accompanying notes are an integral part of the condensed financial statements.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 1 - GENERAL:

1. InnoCan Pharma Corporation (the "Company") was incorporated as a corporation in Canada and commenced its operations in May 2018. The Company's registered office is in Calgary, Canada.

2. The Company is a publicly listed company on the Canadian Securities Exchange (the "CSE") trading under the symbol INNO and is the parent company of Innocan Pharma Ltd. ("Innocan") (together: the "Group") 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 is currently selling its cannabidiol (CBD) cosmetic products in the US and European markets.

3. The World Health Organization declared coronavirus and COVID-19 a global health emergency on January 30, 2020. Since then, the Group has experienced some disruption to its operations in the following aspects:
 - Disruption and delay in the supply of inventory from major suppliers;
 - Significant uncertainty concerning the ability of the Group to raise additional funds, either privately or in the public markets in the future.
 - Significant uncertainty concerning the demand for certain products as a consequence of social distancing requirements and recommendations and the closure of retail stores in many countries due to local governments mandating that shopping centers and other 'non-essential' businesses cease normal operations; and
 - Significant uncertainty concerning when government lockdowns will be lifted, social distancing requirements will be eased and the long-term effects of the pandemic on the demand for the Group products.

The significant events and transactions that have occurred in relation to the effects of the global pandemic on the Group condensed interim consolidated financial statements for the three months period ended March 31, 2021, are summarized as follows.

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

NOTE 1 - GENERAL (CONT):

The COVID-19 had no material effect on the Group's financial position, however the effects on its activity were as follow:

- A. Completed an offering and a private placement during 2020, to ensure it has sufficient funds for its activity
- B. Shift in focus from retail sales to online sales
- C. Developed a strategic alliance to develop an online sales platform

4. Going concern

Since inception, the Group has not generated revenue and expects to continue to finance itself through raising adequate funds in the foreseeable future. The Group incurred a net loss of \$4,816 thousand for the three months period ended March 31, 2021 and generated \$19,379 thousand of accumulated deficit since inception. These events and conditions, along with other matters as described in note 1.3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

- 5. On September 3, 2018, the Company's shareholders approved a share exchange agreement (the "Share Exchange Transaction") between the Company and Innocan, according to which the Company will purchase by way of the issuance of common shares at a ratio of 735 common shares of the Company for each share of Innocan, to the shareholders of Innocan. Following the Share Exchange Transaction on September 25, 2019, the Company completed the initial public offering (the "IPO") of 6,111,112 units of the Company at a price of CAD 0.18 per unit. Each unit consists of one common share of the Company and one-half of one common share purchase warrant (each whole common share purchase warrant, a "2019 Unit Warrant"). Each 2019 Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 0.30 for a period of 24 months following September 25, 2019. If in the period following the closing of the IPO until the end of the 24 months follows, the closing price of the common shares of the Company, is equal to or greater than CAD 0.35 for any 20 consecutive trading days, the Company may, upon providing written notice to the holders of warrants, accelerate the expiry date of the warrants to the date which is 30 days following the date of such written notice. During the three months period ended March 31, 2021, the closing price of the common shares reached the target share price, and a notice of early exercise was issued by the Company. Subsequently, 2,925,056 2019 Unit Warrants were

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

NOTE 1 - GENERAL (CONT):

exercised, and 130,500 2019 Unit Warrants expired (see also Note 8). Concurrently with the closing of the transaction, the Company received gross proceeds of CAD 1,100 thousand (approximately \$829 thousands). The Company allocated the incremental costs that were directly attributable to issuing new shares to equity. The costs that were related to the stock market listing or are otherwise not incremental and directly attributable to issuing new shares, were recorded as an expense in the statement of comprehensive loss. Costs that were related to both share issuance and listing were allocated between those functions based on the number of shares.

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 2020 annual report.

Significant accounting policies

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2020 annual financial statements. Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not 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.

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, 2021 (the date on which the Group's next annual financial statements will be prepared up to) that the Group has decided not to adopt early. The Group does not believe these standards and interpretations will have a material impact on the financial statements once adopted.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 3 – OTHER ACCOUNTS RECEIVABLE:

	March 31, 2021	December 31, 2020
	USD in thousands	
December 2020 Private Placement receivables ⁽¹⁾	-	1,017
Cash in escrow for warrants exercised ⁽²⁾	312	-
Prepaid expenses	153	309
Tax authorities	135	74
Restricted deposits	64	72
Others	34	36
Total	698	1,508

- (1) Out of the total gross proceeds of CAD 2,367,804 (approximately USD 1,857 thousand), an amount of approximately USD 840 thousand was deposited at the company bank account as at December 31, 2020, and is included in cash and cash equivalents as at December 31, 2020. An additional amount of approximately USD 1,017 thousand was not deposited by December 31, 2020 due to the fact that by the balance sheet date it was in transit. During January 2021, this amount was received by the Company.
- (2) The Company receives funds resulting from warrants exercise several days following the exercise date of each warrant. From the exercise date and until the funds are received by the Company, the funds are held in escrow by the transfer agent. As of March 31, 2021, an amount of USD 312 thousand, resulting from warrants exercise, was held in escrow on behalf of the Company and deposited at the Company's bank account on April 1, 2021.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 4 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of March 31, 2021	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	216,675,891

	Number of shares as of December 31, 2020	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	188,321,292

Changes in the number of issued Common Shares from December 31, 2020 to March 31, 2021 are as follows:

	Number of Common Shares
Balance December 31, 2020	188,321,292
Warrants exercised	26,654,599
Shares issued – service provider	1,700,000
Balance March 31, 2021	216,675,891

1. During the three months period ended March 31, 2021, a total of 26,654,599 warrants and agent warrants were exercised to common shares (see also Note 8), in consideration for approximately \$ 2,960 thousand.
2. On January 19, 2021, the Company issued 1,700,000 common shares to a service provider, for services rendered. The fair value of granted common shares was CAD 612 thousand (approximately \$ 486 thousand).

Share based compensation

On January 5, 2021, the Company granted 2,220,000 options to a several employees and service providers of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.35 per share. 1,420,000 of the options are fully vested at grant, and expire 5 years following the grant date. 150,000 of the options are fully vested at grant, and expire 3 years following the grant date. 650,000 of the options vest in four installments of 162,500 options each quarter, starting from March 1, 2021, and will expire 3 years following the grant date.

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

NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

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 75%
- The dividend growth rate is 0%

On March 15, 2021, the Company granted 1,580,000 options to a several directors and service providers of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.41 per share. The options are fully vested at grant, and expire 5 years following the grant date.

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 75%
- The dividend growth rate is 0%

On March 22, 2021, the Company granted 500,000 options to a consultant of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.36 per share. 80,000 of the options vest immediately, and additional 70,000 options vest every six months. The options will expire 3 years following the grant date.

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 75%
- The dividend growth rate is 0%

In the three months period ended March 31, 2021, the Company recorded share based compensation expenses of \$600 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 UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(US Dollars)

NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

	Three months period ended March 31, 2021	
	Number of options	Weighted average exercise price (CAD)
Options outstanding at beginning of period	13,442,708	0.18
Granted – exercise price CAD 0.35	2,220,000	0.35
Granted – exercise price CAD 0.36	500,000	0.36
Granted – exercise price CAD 0.41	1,580,000	0.41
Options outstanding at end of period	17,742,708	0.22
Exercisable options	16,385,208	0.22

	The year ended December 31, 2020	
	Number of options	Weighted average exercise price (CAD)
Options outstanding at beginning of period	12,106,477	0.18
Granted - exercise price CAD 0.14	100,000	0.14
Granted - exercise price CAD 0.16	2,745,000	0.16
Granted - exercise price CAD 0.22	150,000	0.22
Expired – exercise price CAD 0.30	(100,000)	0.30
Expired - exercise price CAD 0.18	(1,558,769)	0.18
Options outstanding at end of period	13,442,708	0.18
Exercisable options	12,751,042	0.18

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 5 - SELLING AND MARKETING EXPENSES:

	Three months period ended March 31, 2021	Three months period ended March 31, 2020
USD in thousands		
Service providers	451	32
Share based compensation	215	48
Salary and related expenses	117	85
Others	40	4
	<u>823</u>	<u>169</u>

NOTE 6 - RESEARCH AND DEVELOPMENT EXPENSES:

	Three months period ended March 31, 2021	Three months period ended March 31, 2020
(USD in thousands)		
Research expenses	380	229
Salary and related expenses	42	73
Share based compensation	32	22
Others	48	16
	<u>502</u>	<u>340</u>

NOTE 7 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Three months period ended March 31, 2021	Three months period ended March 31, 2020
(USD in thousands)		
Share based compensation	839	102
Professional services	124	77
Salary and related expenses	101	73
Legal fees	37	37
Others	98	93
	<u>1,199</u>	<u>382</u>

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 8 - FINANCIAL INSTRUMENTS:

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

1. Tamar InnoVest A Warrants

During April 2019, the Company issued 13,981,916 warrants (after giving effect to the Share Exchange, see also Note 1.5) to Tamar InnoVest Limited (formerly Solsken Limited) (the "Tamar InnoVest A Warrants"). Each Tamar InnoVest A Warrant is exercisable at a price of USD 0.125 (based on a 1:735 share exchange agreement ratio between InnoCan and the Company). During August 2020, the Company and Tamar InnoVest Limited extended the Tamar InnoVest A Warrants expiry date from April 15, 2021 to April 15, 2023, subject to acceleration in certain cases. The Company recorded a derivative financial liability which represents the fair value of the Tamar InnoVest A Warrants. 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 \$181 thousand and to \$1,848 thousand as at December 31, 2020. The amount was recorded according to its fair value according to valuation performed by an independent third party appraiser with respect to the traded price share.

On January 24, 2021, the Company issued a notice of early exercise to the holders of Tamar InnoVest A Warrants, as a result of the warrants meeting its terms for early exercise. As a result of the notice of early exercises, all of the Tamar InnoVest A Warrants were exercised to shares. According to the terms of the warrants, Tamar InnoVest chose to exercise Tamar A warrants as a cashless exercise. As a result, for the 13,981,916 Tamar A Warrants, an amount of 9,264,480 common shares were issued to Tamar InnoVest.

2. Tamar InnoVest B Warrants

During April 2019, the Company also issued 2,000,000 warrants (after giving effect to the Share Exchange, see also Note 1.5) to Tamar InnoVest Limited (formerly Solsken Limited) (the "Tamar InnoVest B Warrants"). Each Tamar InnoVest B Warrant is exercisable at a price of USD 0.175 (based on a 1:735 share exchange agreement ratio between InnoCan and the Company). During August 2020, the Company and Tamar InnoVest Limited extended the Tamar InnoVest B Warrants expiry date from August 15, 2021 to August 15, 2023, subject to acceleration in certain cases. The Company recorded a derivative financial liability which represents the fair value of the Tamar InnoVest B Warrants. 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 \$17 thousand and to \$200 thousand as at December 31, 2020. The amount was recorded according to its fair value according to valuation performed by an independent third party appraiser with respect to the traded price share.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars)

NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

On January 26, 2021, the Company issued a notice of early exercise to the holders of Tamar InnoVest B Warrants, as a result of the warrants meeting its terms for early exercise. As a result of the notice of early exercises, all of the Tamar InnoVest B Warrants were exercised to shares. According to the terms of the warrants, Tamar InnoVest chose to exercise Tamar B warrants as a cashless exercise. As a result, for the 2,000,000 Tamar A Warrants, an amount of 1,056,800 common shares were issued to Tamar InnoVest.

3. September 2019 Unit Warrants

As part of the IPO, the Company issued 3,055,556 September 2019 Unit Warrants (see also Note 1.5). Each September 2019 Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 0.30 for a period of 24 months following September 25, 2019 subject to acceleration in certain cases. The warrants are transferable but are not be listed or quoted on any stock exchange or market. The Company recorded the September 2019 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 \$115 thousand and to \$222 thousand as at December 31, 2020. The amount was recorded according to its fair value according to valuation performed by an independent third party appraiser.

On February 18, 2021, the Company issued a notice of early exercise to September 2019 Unit Warrant holders, as a result of the warrants meeting its terms for early exercise, of the Company's share price CAD 0.35 for 20 consecutive trading days. During the three months period ended March 31, 2021, an amount of 2,925,056 2019 Unit Warrants were exercised, and 130,500 2019 Unit Warrants expired.

4. June 2020 Unit Warrants

During June 2020, the Company issued 28,423,943 warrants (the "June 2020 Unit Warrants") to investors, as part of an offering. Each June 2020 Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 0.25 for a period of 36 months following June 10, 2020, subject to acceleration in certain cases. By March 31, 2021, the Company did not reach the target share price. The warrants are transferable but are not be listed or quoted on any stock exchange or market. The Company recorded the June 2020 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

INNOCAN PHARMA CORPORATION
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(US Dollars)

NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

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 \$863 thousand and to \$3,178 thousand as at March 31, 2021. The amount was recorded according to its fair value according to valuation performed by an independent third party appraiser. During the three months period ended March 31, 2021, an amount of 11,132,244 warrants were exercised to common shares.

5. December 2020 Unit Warrants

During December 2020, the Company issued 5,147,400 warrants (the "December 2020 Unit Warrants") to investors, as part of a private placement. Each December 2020 Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 0.35 for a period of 36 months following December 30, 2020, subject to acceleration in certain cases. By March 31, 2021, the Company did not reach the target share price. The warrants are transferable but are not be listed or quoted on any stock exchange or market. The Company recorded the December 2020 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 \$509 thousand and to \$736 thousand as at March 31, 2021. The amount was recorded according to its fair value according to valuation performed by an independent third party appraiser.

The following table compares the carrying amounts and fair values of the Company's financial assets and financial liabilities as at March 31, 2021:

	<u>As at March 31, 2021</u>		<u>As at December 31, 2020</u>	
	<u>US Dollars in thousands</u>		<u>US Dollars in thousands</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial liabilities:				
Derivative financial liability (warrants)	(3,914)	(3,914)	(6,992)	(6,992)
Total	(3,914)	(3,914)	(6,992)	(6,992)

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NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

The fair value measurement of the warrants as of March 31, 2021 in the table below was measured using the Black-Scholes model. The key inputs that were used in measuring the fair value of the warrants were: risk free interest rate – 0.21%, expected volatility - 75%, year and Expected dividend yield - 0.

The fair value measurement of the warrants as of December 31, 2020 in the table below was measured using the Black-Scholes model. The key inputs that were used in measuring the fair value of the warrants were: risk free interest rate – 0.17%, expected volatility - 75%, year and Expected dividend yield - 0.

	Fair value measurements using input type			
	March 31, 2021			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative financial liability (warrants)	-	(3,914)	-	(3,914)
	December 31, 2020			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative financial liability (warrants)	-	(6,992)	-	(6,992)

Movement in number of warrants:

	Number of warrants
Balance at January 1, 2020	19,037,472
Changes during 2020:	
<u>Additions</u>	
Issuance of June 2020 Unit Warrants	28,423,943
Issuance of December 2020 Unit Warrants	5,147,400
<u>Exercise</u>	
June 2020 Unit Warrants	(2,086,000)
Closing balance at December 31, 2020	50,522,815
Changes during 2021:	
<u>Exercise</u>	
Tamar InnoVest A Warrants	(13,981,916)
Tamar InnoVest B Warrants	(2,000,000)

INNOCAN PHARMA CORPORATION
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NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

September 2019 Unit Warrants	(2,925,056)
June 2020 Unit Warrants	(11,132,244)
<u>Expirations</u>	
September 2019 Unit Warrants	(130,500)
Closing balance at March 31, 2021	20,353,099

The derivative financial liabilities as at March 31, 2021 and December 31, 2020 are as follows:

	Fair Value of warrants
	US Dollars in thousands
balance at January 1, 2020	661
Changes during 2020:	
<u>Additions</u>	
June 2020 Unit Warrants	863
December 2020 Unit Warrants	509
<u>Changes in FV</u>	
Tamar InnoVest A and B Warrants	1,512
September 2019 Unit Warrants	97
June 2020 Unit Warrants	3,583
December 2020 Unit Warrants	57
<u>Exercise</u>	
June 2020 Unit Warrants	(290)
balance at December 31, 2020	6,992
 Changes during 2021:	
<u>Changes in FV</u>	
Tamar InnoVest A and B Warrants	1,550
September 2019 Unit Warrants	28
June 2020 Unit Warrants	402
December 2020 Unit Warrants	170
<u>Exercise</u>	
Tamar InnoVest A and B Warrants	(3,601)
September 2019 Unit Warrants	(237)
June 2020 Unit Warrants	(1,380)
<u>Expirations</u>	
September 2019 Unit Warrants	(10)
balance at March 31, 2021	3,914

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

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NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

Warrants treated under IFRS 2 as at March 31, 2021 and December 31, 2020 are as follows:

	Number of warrants
Balance at January 1, 2020	611,111
Changes during 2020:	
<u>Additions</u>	
Issuance of June 2020 agent warrants	1,806,022
Issuance of June 2020 agent units	1,848,003
<u>Exercise</u>	
September 2019 agent warrants	(28,300)
June 2020 agent warrants	(27,500)
June 2020 agent units	(114,901)
Closing balance at December 31, 2020	4,094,435
 Changes during 2021:	
<u>Additions</u>	
Issuance of June 2020 agent warrants as a result from exercise of June 2020 agent units	609,987
<u>Exercise</u>	
September 2019 agent warrants	(582,811)
June 2020 agent warrants	(1,083,221)
June 2020 agent units	(609,987)
Closing balance at March 31, 2021	2,428,403

NOTE 9 - SUBSEQUENT EVENTS:

1. On April 7, 2021, the Company granted 500,000 options to a consultant of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.41 per share. 80,000 of the options vest immediately, and additional 70,000 options vest every six months. The options expire 3 years following the grant date.
2. On April 7, 2021, the Company granted 36,000 options to an employee of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.41 per share. The options will vest in 12 equal installments every quarter during three years starting from July 1, 2021. The options will expire 5 years following the grant date.