

INNOCAN PHARMA CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021

INNOCAN PHARMA CORPORATION

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
INNOCAN PHARMA CORPORATION

Opinion

We have audited the consolidated financial statements of Innocan Pharma Corporation (the “Company”) and its subsidiaries (collectively the “Group”), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the two years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020 and its consolidated financial performance and its consolidated cash flows for the two years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1.5 in the consolidated financial statements, which indicated that the Group incurred a net loss of USD 10,091 thousand during the year ended December 31, 2021. As stated in Note 1.5, these events and conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a



material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Lior Shahar.

Tel-Aviv, Israel

March 29, 2022

BDO Ziv Haft
 Certified Public Accountants (Isr.)
 BDO Member Firm

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INNOCAN PHARMA CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(US Dollar in thousands)

	Note	December 31, 2021	December 31, 2020
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		11,048	2,338
Trade receivables		-	2
Other accounts receivable	4	963	1,508
Inventories	5	510	430
Total current assets		12,521	4,278
NON-CURRENT ASSETS:			
Property, plant and equipment, net		39	5
Right-of-use asset, net		15	51
Total non-current assets		54	56
 TOTAL ASSETS		 12,575	 4,334

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

INNOCAN PHARMA CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(US Dollar in thousands)

	<u>Note</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		53	527
Other accounts payable	6	433	421
Warrants	7	<u>3,078</u>	<u>6,992</u>
Total current liabilities		<u>3,564</u>	<u>7,940</u>
NON-CURRENT LIABILITIES:			
Long term lease liability		<u>-</u>	<u>1</u>
Total non-current liabilities		<u>-</u>	<u>1</u>
SHAREHOLDERS' EQUITY:			
	8		
Share capital		-	-
Additional share capital		33,665	10,956
Accumulated deficit		<u>(24,610)</u>	<u>(14,563)</u>
Equity attributable to owners of the parent		<u>9,055</u>	<u>(3,607)</u>
Non-controlling interest		<u>(44)</u>	<u>-</u>
Total shareholders' equity		<u>9,011</u>	<u>(3,607)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>12,575</u></u>	<u><u>4,334</u></u>

 <hr/> Nelson Halpern Chief Financial Officer	 <hr/> Iris Bincovich Chief Executive Officer	 <hr/> Yoram Drucker Audit Committee Chair	<hr/> March 29, 2022 Date of approval of the Financial statements
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The accompanying notes are an integral part of the consolidated financial statements.

INNOCAN PHARMA CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(US Dollar in thousands except loss per share)

	Note	Year ended December 31, 2021	Year ended December 31, 2020
Revenues	9	196	8
Cost of revenues		75	5
Gross profit		<u>121</u>	<u>3</u>
Selling and marketing expenses	10	2,495	914
Research and development expenses	11	1,399	1,744
General and administrative expenses	12	3,707	2,070
Operating loss		<u>7,480</u>	<u>4,725</u>
Financial income	13	-	(28)
Financial expense	14	2,611	5,256
Financial expense, net		<u>2,611</u>	<u>5,228</u>
Loss before income taxes		10,091	9,953
Tax expenses	15	-	-
Total comprehensive loss		<u>10,091</u>	<u>9,953</u>
Total comprehensive loss for the year attributed to:			
Owners of the parent		10,047	-
Non-controlling interest		44	-
		<u>10,091</u>	<u>9,953</u>
Basic and diluted loss per share	18	<u>\$ (0.05)</u>	<u>\$ (0.06)</u>
Weighted average number of common shares		<u>224,541,780</u>	<u>162,021,651</u>

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

INNOCAN PHARMA CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Owners of the parent				
	<u>Ordinary share capital</u>	<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Non- controlling interest</u>	<u>Total</u>
Balance at December 31, 2019	-	6,023	(4,610)	-	1,413
Changes during 2020:					
Issuance of common shares, net	-	3,677	-	-	3,677
Exercise of warrants	-	729	-	-	729
Share based compensation	-	527	-	-	527
Total comprehensive loss for the period	-	-	(9,953)	-	(9,953)
Balance at December 31, 2020	-	10,956	(14,563)	-	(3,607)
Changes during 2021:					
Issuance of common shares, net	-	2,897	-	-	2,897
Exercise of warrants and options	-	17,649	-	-	17,649
Share based compensation	-	2,163	-	-	2,163
Total comprehensive loss for the period	-	-	(10,047)	(44)	(10,091)
Balance at December 31, 2021	-	33,665	(24,610)	(44)	9,011

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

INNOCAN PHARMA CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(US Dollar in thousands)

	The year ended December 31, 2021	The year ended December 31, 2020
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net comprehensive loss for the period	(10,091)	(9,953)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	43	40
Share based compensation	2,163	527
Change in fair value of a warrants	2,308	5,249
Interest charged on lease liabilities	1	4
Decrease (increase) in trade receivables	2	(2)
Decrease (increase) in other accounts receivable	(467)	430
Increase in inventories	(79)	(430)
Increase (decrease) in trade accounts payable	(474)	500
Increase (decrease) in other accounts payable	49	(24)
Financial expenses, net	(84)	(28)
Net cash used in operating activities	<u>(6,629)</u>	<u>(3,687)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(41)	-
Change in restricted deposits	(7)	-
Net cash used in investing activities	<u>(48)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common shares, net	2,897	2,761
Issuance of warrants derivatives	3,426	863
Cash received on behalf of December 2020 private placement	1,017	-
Exercise of warrants and options	8,001	439
Principal paid on lease liabilities	(38)	(39)
Net cash provided by financing activities	<u>15,303</u>	<u>4,024</u>
Effects of exchange rate changes on cash and cash equivalents	84	28
Net Increase in cash and cash equivalents	8,710	365
Cash and cash equivalents at the beginning of the period	<u>2,338</u>	<u>1,973</u>
Cash and cash equivalents at the end of the period	<u>11,048</u>	<u>2,338</u>
APPENDIX A – NON-CASH ACTIVITIES:		
Conversion of warrants' derivatives to equity	9,648	290

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

INNOCAN PHARMA CORPORATION
NOTES TO THE 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. In October 2019, InnoCan announced its plans to enter the CBD beauty market and to manufacture cannabidiol (CBD) cosmetic products. InnoCan commenced selling its cannabidiol (CBD) cosmetic products in December 2020. InnoCan is selling its products mainly in the US and European markets.
3. 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, InnoCan consolidates Sky Global in the financial statements commencing on that date. The Company, InnoCan and Sky Global are referred in the financial statements as the Group.
4. The World Health Organization declared coronavirus and COVID-19 pandemic as 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

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

NOTE 1 - GENERAL (CONT.):

4. (Cont.)

- 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 COVID-19 pandemic had no material effect on the Group's financial position as of December 31, 2021.

5. Going concern

Since inception, the Group has not generated material revenues and expects to continue to finance itself through raising adequate funds in the foreseeable future. The Group incurred a net loss of USD 10,091 thousand for the year ended December 31, 2021, and generated USD 24,610 thousand of accumulated deficit since inception. These events and conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result if the Company will not be able to continue as a going concern.

6. On August 26, 2018, InnoCan entered into a research and option agreement (the "Option Agreement") with the Yissum Research Development Company of the Hebrew University of Jerusalem Ltd. ("Yissum"). The Option Agreement allowed InnoCan to receive the research results of Yissum (the "Research") and granted InnoCan an exclusive option to enter into an agreement to license, on a worldwide basis, the results of the Research (the "Option").

Under the Option Agreement, InnoCan paid an aggregate amount of USD 418 thousand to finance the research over a period of 18 months in exchange for the Option. All rights in the Research, including any patent applications in connection with the Research that may be filed, shall be owned by Yissum unless an employee of InnoCan is properly considered an inventor of any patent application so filed, in which event such patent application shall be owned jointly by Yissum and InnoCan. As of December 31, 2019, the research was completed and on January 21, 2020, InnoCan exercised the Option and entered into a research and license agreement (the "Yissum Research & License Agreement") with Yissum.

As part of the Yissum Research & License Agreement, InnoCan agreed to finance additional research in a total amount of approximately USD 1.4 million, over a period of 18 months, in six installments. During the year 2020, InnoCan paid the first two installments, and part of the third installment, in total amount of approximately USD 600 thousand. During the year 2021, InnoCan paid the remainder of the third installment

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

NOTE 1 - GENERAL (CONT.):

and the last three installments, in total amount of approximately USD 800 thousand. The total expense incurred during the year 2020 amounted to approximately USD 880 thousand, and the total expense incurred during the year 2021 amounted to USD 520 thousand.

The Yissum Research & License Agreement grants InnoCan an exclusive license to make commercial use, in order to develop, manufacture, market, distribute or sell, on a worldwide basis, the results of the Research, for a period of twenty years, unless terminated earlier. As part of the Research & License Agreement, InnoCan has also agreed to pay Yissum royalties of 3-5% on future sales of products sold under the Research & License Agreement and an annual license fee of USD 35 thousand.

During 2021 the Yissum Research & License Agreement concluded, and InnoCan and Yissum entered negotiations for a new research & license agreement, for the next phase of the research.

7. On April 17, 2020, InnoCan entered into a sponsored research agreement (the "Ramot Research Agreement") with Ramot at Tel Aviv University Ltd ("Ramot"). The Ramot Research Agreement allows InnoCan to receive the research results of Ramot in respect of the development of Cannabidiol loaded exosomes (the "CLX Research") and grants InnoCan an exclusive option to enter into an agreement to license, on a worldwide basis, the results of the CLX Research (the "Option"). Under the Ramot Research Agreement, InnoCan provided financing for the CLX Research in the amount of USD 446 thousand over a period of 18 months in exchange for the Option. InnoCan may exercise the Option at any time during the Research until the date that is thirty days from InnoCan's receipt of the final report in respect of the CLX Research by notifying Ramot in writing ("Option Exercise Notice").

During the years 2020-2021, InnoCan paid the full amount of USD 446 thousand to Ramot. The total expense incurred during the year 2021 amounted to approximately USD 166 thousand.

During August 2021 InnoCan notified Ramot it chose to exercise the Option, and on December 6, 2021, InnoCan entered into a license and research agreement with Ramot (the "Ramot License & Research Agreement"). As part of the Ramot License & Research Agreement, InnoCan agreed to finance additional research in a total amount of approximately USD 1.18 million, over a period of 21 months, in four installments. During the year 2021, InnoCan paid a part of the first installment, in total amount of USD 135 thousand and a license fee in amount of USD 20 thousand. The total research expense incurred during the year 2021 amounted to USD 38 thousand, with the remaining recorded as prepaid expenses. As of December 31, 2021, InnoCan is obligated to pay the remaining first and second installments during 2022, for an additional amount of USD 444 thousand. The payment of the third and fourth installment is dependent on the progress of the research.

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

NOTE 1 - GENERAL (CONT.):

7. (Cont.):

The Ramot License & Research Agreement grants InnoCan an exclusive license to make commercial use, in order to develop, manufacture, market, distribute or sell, on a worldwide basis, the results of the CLX Research, for a period of fifteen years, or for a longer period, according to the conditions of the Ramot License & Research Agreement. As part of the Ramot License & Research Agreement, InnoCan has also agreed to pay Ramot royalties of 3.5% on future sales of products sold under the Ramot License & Research Agreement and an upfront license fee of USD 20 thousand.

NOTE 2 - SIGNIFICANT 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 years presented, unless otherwise stated.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention. The Group has elected to present the statement of comprehensive loss using the function of expense method.

Use of estimates and assumptions in the preparation of the financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the year which they are identified. Actual results could differ from those estimates. See also Note 3.

Principal of consolidation

The consolidated financial statements include the accounts of InnoCan Pharma Corporation and its subsidiaries InnoCan Pharma Ltd. and B.I. Sky Global Ltd. All intercompany balances and transactions have been eliminated upon consolidation.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Cash and cash equivalents

Cash equivalents are considered by the Group to be highly-liquid investments, including, inter alia, short-term deposits with banks, the maturity of which do not exceed three months at the time of deposit and which are not restricted.

Inventories

Inventories are recognized at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The Group measures cost of raw materials on First In First Out ("FIFO") basis and finished goods according to costs based on direct costs of materials and labor.

Revenue recognition

Revenue is recognized by the Company in accordance with IFRS 15, "Revenue from Contracts with Customers". Through application of this standard, the Company recognizes revenue to depict the transfer of promised goods to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to the customer;
- Allocate the transaction price to the performance obligation(s) in the contract;
- Recognize revenue when or as the Company satisfies the performance obligation(s).

The Company revenue for the year ended December 31, 2021 is comprised of sales of its cannabidiol (CBD) cosmetic products. The Company only recognizes revenue when collection is reasonably assured and products were delivered to the customers. If collection is not considered reasonably assured, revenue is recognized only for the cosmetic products for which all amounts are collected. The Company does not offer trade or volume discounts.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Share based compensation

The Group measures the share-based expense and the cost of equity-settled transaction with employees by reference to the fair value of the equity instruments at the date at which they are granted. This approach is based on the Black Scholes (1973) and Merton (1974) models ("Black Scholes Merton", or "BSM"), which takes into account the terms and conditions upon which the instruments were granted.

Foreign currency

The financial statements are prepared in US Dollars which is the functional currency of the Group due to the fact that most of the Group's costs are dominated in USD. Transactions and balances in foreign currencies are converted into US Dollars in accordance with the principles set forth by International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates". Accordingly, transactions and balances have been converted as follows:

- Monetary assets and liabilities - at the rate of exchange applicable at the statements of financial position date.
- Exchange gains and losses from the aforementioned conversion are recognized in the statement of comprehensive loss.
- Expense items - at exchange rates applicable as of the date of recognition of those items.
- Non-monetary items are converted at the rate of exchange at the time of the transaction.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Fair value measurement (cont.)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Classification of financial instruments by fair value hierarchy

Assets and liabilities presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data (valuation techniques that use inputs that are not based on observable market data).

Financial instruments

1. Financial assets

The Group classifies its financial assets into the following category, based on the business model for managing the financial asset and its contractual cash flow characteristics. The Group's accounting policy for the relevant category is as follows:

Amortized cost: These assets arise principally from the provision of goods to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue (excluding trade receivables which are initially recognized at transaction costs) and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. Impairment provisions for trade receivables are recognized based on the simplified approach within IFRS 9 using a provision in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognized in the consolidated statement of comprehensive income. On confirmation that

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Financial instruments (cont.)

the trade receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

2. Financial Liabilities

The Group classifies its financial liabilities based on the purpose for which the liability was acquired. The Group's accounting policy is as follows:

Fair value through profit or loss: The Group measures its warrant financial liabilities at fair value through profit or loss.

Amortized cost: other accounts payable are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

3. De-recognition

- Financial assets - The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows.
- Financial Liabilities - The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

4. Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset as follows:

Financial assets carried at amortized cost: there is objective evidence of impairment of other accounts receivable if one or more events have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loss per share

Basic earnings or loss per share are calculated as net profit or loss attributed to the Group, divided by the weighted average number of outstanding ordinary shares, during the period.

INNOCAN PHARMA CORPORATION
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New standards, interpretations, and amendments 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.

The following amendments are effective for the period beginning 1 January 2022 :

- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41);
- References to Conceptual Framework (Amendments to IFRS 3).

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

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement).
- Definition of Accounting Estimates (Amendments to IAS 8); and

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that ‘settlement’ includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020 the effective date was deferred to annual reporting periods beginning on or after January 1, 2023.

The Group is currently assessing the impact of these new accounting standards and amendments. The Group will assess the impact of the final amendments to IAS 1 on classification of its liabilities once those are issued by the IASB. The Group does not believe that the amendments to IAS 1, in their present form, will have a significant impact on the classification of its liabilities. The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

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NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:

The areas requiring the use of estimates and critical judgments that may potentially have a significant impact on the Group's financial position are the share-based compensation expenses and the fair value valuation of warrants.

Share based compensation

The Group has a share-based plan for its employees and service providers. The estimated fair value of share options is determined using the Black Scholes Merton model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates (see also Note 8).

Fair value valuation of warrants

The Group measures the fair value of the warrants using the Black-Scholes model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the warrants (see also Note 7).

NOTE 4 - OTHER ACCOUNTS RECEIVABLE:

	December 31,	
	2021	2020
	<u>USD in thousands</u>	
Cash in transit	-	1,017
Prepaid expenses	715	309
Tax authorities	135	74
Restricted deposits	79	72
Others	34	36
Total	<u>963</u>	<u>1,508</u>

NOTE 5 - INVENTORIES:

	December 31,	
	2021	2020
	<u>USD in thousands</u>	
Finished goods	322	227
Packaging materials	188	203
	<u>510</u>	<u>430</u>

INNOCAN PHARMA CORPORATION
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NOTE 6 - OTHER ACCOUNTS PAYABLE:

	December 31,	
	2021	2020
	USD in thousands	
Accrued expenses	192	244
Payroll and related liabilities	240	140
Short term lease liability	1	37
	433	421

NOTE 7 - WARRANTS:

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) 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 USD 181 thousand. In December 31, 2020 it amounted to USD 1,848 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 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.

INNOCAN PHARMA CORPORATION
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NOTE 7 – WARRANTS (CONT.):

2. Tamar InnoVest B Warrants

During April 2019, the Company also issued 2,000,000 warrants (after giving effect to the Share Exchange,) 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 USD 17 thousand and to USD 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.

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 September 2019 Unit Warrants. 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 USD 115 thousand and to USD 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.

INNOCAN PHARMA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 – WARRANTS (CONT.):

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. As a result, 2,925,056 September 2019 Unit Warrants were exercised, and 130,500 September 2019 Unit Warrants expired.

4. June 2020 Unit Warrants

In 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 December 31, 2020, 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 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 USD 863 thousand. In December 31, 2020 it amounted to USD 4,156 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.

On July 11, 2021, the Company issued a notice of early exercise to the June 2020 Unit Warrant holders, as a result of the warrants meeting its terms for early exercise, of the Company's share price being CAD 0.50 for 20 consecutive trading days. During the year ended December 31, 2021, an amount of 24,907,943 warrants were exercised, and 1,430,000 June 2020 Unit Warrants expired.

5. December 2020 Unit Warrants

In 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.

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

INNOCAN PHARMA CORPORATION
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NOTE 7 – WARRANTS (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 USD 509 thousand. In December 31, 2020 it amounted to USD 566 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.

On October 1, 2021, the Company issued a notice of early exercise to the December 2020 Unit Warrant holders, as a result of the warrants meeting its terms for early exercise, of the Company's share price being CAD 0.70 for 30 consecutive trading days. As a result, during the year ended December 31, 2021, all of December 2020 Unit Warrants were exercised.

6. October 2021 Unit Warrants

In connection with the October 13, 2021 Private Placement (see also Note 8), 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 USD 3,427 thousand. In December 31, 2021 it amounted to USD 3,078 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.

The fair value measurement of the warrants as of December 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 – 0.76%, expected volatility - 72%, year and Expected dividend yield - 0.

	<u>Fair value measurements using input type</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2021				
Derivative liability – warrants	-	(3,078)	-	(3,078)

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NOTE 7 – WARRANTS (CONT.):

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

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
As of December 31, 2020				
Derivative liability – warrants	-	(6,992)	-	(6,992)

The derivative financial liabilities as at December 31, 2021 and 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

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NOTE 7 – WARRANTS (CONT.):

Changes during 2021:

Additions

October 2021 Unit Warrants	3,427
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Changes in FV

Tamar InnoVest A and B Warrants	1,552
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September 2019 Unit Warrants	18
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June 2020 Unit Warrants	(156)
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December 2020 Unit Warrants	1,242
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October 2021 Unit Warrants	(349)
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Exercise

Tamar InnoVest A and B Warrants	(3,600)
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September 2019 Unit Warrants	(240)
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June 2020 Unit Warrants	(4,000)
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December 2020 Unit Warrants	(1,808)
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Balance at December 31, 2021	3,078
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* All amounts were recorded according to their fair value, according to management with the assistance of an independent third party appraisal.

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NOTE 7 – WARRANTS (CONT.):

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

	The year ended December 31, 2021	
	Number of warrants	Weighted average exercise price (CAD)
Warrants outstanding at beginning of period	4,094,435	0.21
Granted – exercise price CAD 0.25	1,637,838	0.25
Exercised – exercise price CAD 0.18	(2,220,649)	0.18
Exercised – exercise price CAD 0.25	(3,073,525)	0.25
Warrants outstanding at end of period	438,099	0.23
Exercisable warrants	438,099	0.23

	The year ended December 31, 2020	
	Number of warrants	Weighted average exercise price (CAD)
Warrants outstanding at beginning of period	611,111	0.18
Granted - exercise price CAD 0.18	1,848,003	0.18
Granted – exercise price CAD 0.25	1,806,022	0.25
Exercised – exercise price CAD 0.18	(143,201)	0.18
Exercised – exercise price CAD 0.25	(27,500)	0.25
Warrants outstanding at end of period	4,094,435	0.21
Exercisable warrants	4,094,435	0.21

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NOTE 8 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of December 31, 2021	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	248,496,145

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

Movement in number of shares:

	Number of shares
Balance as at January 1, 2020	143,866,169
Issuance of shares – June 2020 offering (See also footnote 1 hereunder)	31,250,492
Issuance of shares – service providers (See also footnote 2 and footnote 3 hereunder)	435,570
Issuance of shares – December 2020 private placement (See also footnote 4 hereunder)	10,294,800
Exercise of warrants and agent warrants (See also footnote 5 hereunder)	2,474,261
Closing balance at December 31, 2020	188,321,292
Issuance of shares – service providers (See also footnote 6 hereunder)	1,700,000
Exercise of warrants and agent warrants (See also footnote 7 hereunder)	48,595,853
Exercise of options (See also footnote 8 hereunder)	200,000
Issuance of shares – October 2021 Private Placement (See also footnote 9 hereunder)	9,679,000
Closing balance at December 31, 2021	248,496,145

INNOCAN PHARMA CORPORATION
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NOTE 8 - SHAREHOLDERS' EQUITY (CONT.):

1. On June 10, 2020, as part of an offering, the Company issued 28,423,943 common shares. The Company issued to the agents and advisers that facilitated the Offering an additional 2,826,549 shares of the Company, 1,691,121 warrants and 1,848,003 options to purchase Units. Total issuance expenses incurred amounted to approximately CAD 1,901 thousand (approximately USD 1,409 thousand), that included cash payments and issuance of shares, warrants and options to purchases Units. Issuance expenses of approximately CAD 1,235 (approximately USD 916 thousand) were paid in cash.
2. On July 2, 2020, the Company issued 335,570 common shares to a legal service provider. The fair value of granted common shares was CAD 50 thousand (approximately USD 37 thousand).
3. On December 29, 2020, the Company issued 100,000 common shares to a marketing service provider. The fair value of granted common shares was CAD 30 thousand (approximately USD 23 thousand).
4. On December 30, 2020, as part of a private placement, the Company issued 10,294,800 common shares.
5. During 2020, a total of 2,474,261 warrants and agent warrants were exercised to common shares, in consideration for approximately USD 439 thousand.
6. On January 19, 2021, the Company issued 1,700,000 common shares to a service provider, for consulting services, in connection with the development and operation of the Company. The fair value of granted common shares was CAD 612 thousand (approximately USD 486 thousand).
7. During 2021, a total of 48,595,853 warrants and agent warrants were exercised to common shares, in consideration for approximately USD 7,976 thousand.
8. During 2021, a total of 200,000 options were exercised to common shares, in consideration for approximately USD 25 thousand.
9. On October 13, 2021, the Company completed a non-brokered private placement (the "October 2021 Private Placement"), pursuant to which the Company issued 9,679,000 units of the Company (the "October 2021 Private Placement Units") at a price of CAD 0.85 per unit for gross proceeds of CAD 8,227 thousand (approximately USD 6,613 thousand). Each October 2021 Private Placement Unit is comprised of one common share and one common share purchase warrant ("October 2021 Unit Warrant"). Each October 2021 Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 1.10 until October 13, 2026 (see also Note 7).

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NOTE 8 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation

1. On January 25, 2020, the Company granted 100,000 options to a business development service provider of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.14 per share. The options are fully vested at the grant date, and will expire 2 years following the grant date. The fair value of granted options was CAD 5 thousand (approximately USD 4 thousand).
2. On April 19, 2020, the Company granted 400,000 options to a director of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.16 per share. The options are fully vested at the grant date and will expire 5 years following the grant date. The fair value of granted options was CAD 31 thousand (approximately USD 22 thousand).
3. On June 11, 2020, the Company granted an aggregated amount of 1,520,000 options to several directors and research service providers of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.16 per share. The options are fully vested at the grant date and will expire 5 years following the grant date. The fair value of granted options was CAD 119 thousand (approximately USD 88 thousand).
4. On July 2, 2020, the Company granted an aggregated amount of 825,000 options to several directors, employees and a research consultant of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.16 per share. 725,000 options are fully vested at the grant date and will expire 5 years following the grant date. 100,000 options will vest in 12 equal installments of 8,333 options every quarter during three years from October 1, 2020. The fair value of granted options was CAD 74 thousand (approximately USD 55 thousand).
5. On August 27, 2020, the Company granted 150,000 options to a branding consultant of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.22 per share. A third of the options is vested at the grant date, an additional third of the options is vested three months from the grant date, and an additional third of the options will vest six months from the grant date. The options will expire 2 years following the vesting date of each installment. The fair value of granted options was CAD 7 thousand (approximately USD 6 thousand).

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NOTE 8 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

6. On July 2, 2020, the Company issued 335,570 common shares to a legal service provider. The fair value of granted common shares was CAD 50 thousand (approximately USD 37 thousand).
7. On December 29, 2020, the Company issued 100,000 common shares to a marketing service provider. The fair value of granted common shares was CAD 30 thousand (approximately USD 23 thousand).
8. On January 5, 2021, the Company granted 2,220,000 options to several employees and sales and marketing 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 will expire 5 years following grant date. 150,000 of the options are fully vested at grant date, and will expire 3 years following 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 grant date. The fair value of granted options was CAD 366 thousand (approximately USD 289 thousand) at grant date.
9. On March 15, 2021, the Company granted 1,580,000 options to several directors and a research 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 will expire 5 years following grant date. The fair value of granted options was CAD 386 thousand (approximately USD 310 thousand) at grant date.
10. On March 22, 2021, the Company granted 500,000 options to a dermatology consultant of the Company, who joined the Company's advisory board, each exercisable for one common share of the Company at an exercise price of CAD 0.36 per share. 80,000 of the options vested immediately, and an additional 70,000 options will vest every six months. The options will expire 3 years following grant date. The fair value of granted options was CAD 82 thousand (approximately USD 66 thousand) at grant date.
11. On April 7, 2021, the Company granted 500,000 options to a FDA regulatory consultant of the Company, who joined the Company's advisory board, each exercisable for one common share of the Company at an exercise price of CAD 0.41 per share. 80,000 of the options vested immediately, and an additional 70,000 options will vest every six months. The options will expire 3 years following grant date. The fair value of granted options was CAD 95 thousand (approximately USD 76 thousand) at grant date.

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NOTE 8 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

12. 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 the following three years starting from July 1, 2021. The options will expire 5 years following grant date. The fair value of granted options was CAD 9 thousand (approximately USD 7 thousand) at grant date.
13. On July 12, 2021, the Company granted 300,000 options to a financing strategy consultant of the Company, who joined the Company's advisory board, each exercisable for one common share of the Company at an exercise price of CAD 0.58 per share. 60,000 of the options vested immediately, and an additional 60,000 options will vest every six months. The options expire 3 years following grant date. The fair value of granted options was CAD 86 thousand (approximately USD 68 thousand) at grant date.
14. On September 2, 2021, the Company granted 4,150,000 options to several employees, directors and a FDA regulatory and financing strategy advisory board members, each exercisable for one common share of the Company at an exercise price of CAD 0.59 per share. 830,000 of the options vested immediately, and an additional 415,000 options will vest every three months. The options will expire 5 years following grant date. The fair value of granted options was CAD 1,420 thousand (approximately USD 1,127 thousand) at grant date.
15. On September 14, 2021, the Company granted 500,000 options to branding and business development consultants of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.83 per share. The options are fully vested at grant date and will expire 3 years following grant date. The fair value of granted options was CAD 286 thousand (approximately USD 225 thousand) at grant date.
16. On November 11, 2021, the Company granted 100,000 options to an employee of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.74 per share. The options will vest in 12 quarterly installments during 3 years and will expire 5 years following grant date. The fair value of granted options was CAD 46 thousand (approximately USD 37 thousand) at grant date.
17. On November 11, 2021, the Company granted 150,000 options to a business development consultant of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.74 per

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NOTE 8 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

share. 75,000 of the options 75,000 will vested immediately, and additional 75,000 will vest 3 months follow that. The options will expire 3 years following grant date. The fair value of granted options was CAD 57 thousand (approximately USD 45 thousand) at grant date.

18. On November 11, 2021, the Company granted 400,000 options to several research consultants of the Company and an advisory board member, each exercisable for one common share of the Company at an exercise price of CAD 0.74 per share. 20% of the options vested at grant date, and additional 20% of the options will vest each 6 months. The options will expire 3 years following grant date. The fair value of granted options was CAD 151 thousand (approximately USD 120 thousand) at grant date.

The fair value of all options from sections 1-18 above was valuated 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 of between 72%-75%
- The dividend growth rate is 0%

During the year ended December 31, 2021, the Group recorded share-based compensation expense of USD 2,163 thousand, which is included in selling and marketing expenses, research and development expenses, or general and administrative expenses, based on the grantee.

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NOTE 8 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

	The year ended December 31, 2021	
	Number of options	Weighted average exercise price (CAD)
Options to employees and service providers		
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	2,116,000	0.41
Granted – exercise price CAD 0.58	300,000	0.58
Granted – exercise price CAD 0.59	4,150,000	0.59
Granted – exercise price CAD 0.74	650,000	0.74
Granted – exercise price CAD 0.83	500,000	0.83
Expired – exercise price CAD 0.16	(100,000)	0.16
Exercised – exercise price CAD 0.14	(100,000)	0.14
Exercised – exercise price CAD 0.18	(100,000)	0.18
Options outstanding at end of period	<u>23,578,708</u>	<u>0.33</u>
Exercisable options	<u>18,871,208</u>	<u>0.27</u>
	The year ended December 31, 2020	
	Number of options	Weighted average exercise price (CAD)
Options to employees and service providers		
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	<u>13,442,708</u>	<u>0.18</u>
Exercisable options	<u>12,751,042</u>	<u>0.18</u>

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NOTE 9 - REVENUES

Geographical analysis of revenue

	Year ended December 31, 2021		2020	
	%	USD in thousands	%	USD in thousands
France	31%	61	-	-
Poland	31%	60	-	-
United States	17%	34	-	-
Rest of the world	21%	41	100%	8
	100%	196	100%	8

NOTE 10 - SELLING AND MARKETING EXPENSES:

	Year ended December 31, 2021	Year ended December 31, 2020
	USD in thousands	
Marketing service providers	1,244	238
Salary and related expenses	600	456
Share based compensation	490	121
Others	161	99
	2,495	914

NOTE 11 - RESEARCH AND DEVELOPMENT EXPENSES:

	Year ended December 31, 2021	Year ended December 31, 2020
	USD in thousands	
Research development expenses by Yissum and Ramot	724	1,252
Research development service providers	190	63
Salary and related expenses	183	188
Share based compensation	109	64
License fees	55	50
Others	138	127
	1,399	1,744

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NOTE 12 - GENERAL AND ADMINISTRATIVE EXPENSES:

	<u>Year ended December 31, 2021</u>	<u>Year ended December 31, 2020</u>
	<u>USD in thousands</u>	
Professional services	457	514
Salary and related expenses	531	376
Share based compensation	1,565	343
Issuance expenses	302	321
Legal fees	214	223
Others	638	293
	<u>3,707</u>	<u>2,070</u>

NOTE 13 – FINANCE INCOME:

	<u>Year ended December 31, 2021</u>	<u>Year ended December 31, 2020</u>
	<u>USD in thousands</u>	
Currency exchange expenses	-	(28)
	<u>-</u>	<u>(28)</u>

NOTE 14 – FINANCE EXPENSES:

	<u>Year ended December 31, 2021</u>	<u>Year ended December 31, 2020</u>
	<u>USD in thousands</u>	
Changes in fair value of warrants	2,308	5,248
Currency exchange expenses	290	-
Others	13	8
	<u>2,611</u>	<u>5,256</u>

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NOTE 15 - TAXES ON INCOME:

A. Tax rate applicable to income in Canada

Canadian federal and provincial statutory tax rate was 23% in 2021 and 24% in 2020. The Company has not received a final tax assessment since inception.

B. Tax rate applicable to income in Israel

Israeli corporate tax rates are 23% in 2021 and 2020.

InnoCan and Sky Global has not received any final tax assessment since inception.

C. Net operating losses carry forwards

As of December 31, 2021, the Group has estimated carry forward tax losses of approximately USD 11,185 thousand, which may be carried forward and offset against taxable income for an indefinite period in the future. The Group did not recognize deferred tax assets relating to carry forward losses in the financial statements because their utilization in the foreseeable future is not probable.

D. Reconciliation of statutory rate income tax to the Group's effective tax rate

	Year ended December 31, 2021	Year ended December 31, 2020
	USD in thousands	
Loss before income tax	(10,091)	(9,953)
Theoretical tax at applicable statutory tax rate (23%)	(2,321)	(2,389)
Deferred tax asset that cannot be recognized due to uncertainty	2,321	2,389
Income tax expenses	-	-

NOTE 16 - RELATED PARTIES:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's making of financial or operational decisions, or if both parties are controlled by the same third party. The Group has transactions with key management personnel and directors.

Key management personnel compensation

Key management personnel compensation and directors fee comprised the following:

	Year ended December 31, 2021 (USD in thousands)	Year ended December 31, 2020 (USD in thousands)
Salary and related expenses	827	638
Share based compensation	615	236

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NOTE 16 - RELATED PARTIES (CONT.):

Assets related to related party

<u>Name</u>	<u>Nature of transaction</u>	<u>December 31, 2021</u> <u>(USD in thousands)</u>	<u>December 31, 2020</u> <u>(USD in thousands)</u>
Other accounts receivable	Current assets	10	14

Liabilities to related party

<u>Name</u>	<u>Nature of transaction</u>	<u>December 31, 2021</u> <u>(USD in</u> <u>thousands)</u>	<u>December 31, 2020</u> <u>(USD in</u> <u>thousands)</u>
Other accounts payable	Short term employee benefits Tamar InnoVest A and B	240	140
Warrants	Warrants	-	2,048

NOTE 17 - COMMITMENTS AND CONTINGENT LIABILITIES:

1. As part of the Board of Directors ongoing regulatory compliance process, the Board of Directors continues to monitor legal and regulatory developments and their potential impact on the Group.
2. As of the approval date of the reports, there were no claims that were outstanding against the Group.
3. As part of the Ramot License & Research Agreement (see also note 1.7), InnoCan has also agreed to pay Ramot royalties of 3.5% on future sales of products sold under the Ramot License & Research Agreement.
4. As part of the Research & License Agreement (see also note 1.6), InnoCan has also agreed to pay Yisum royalties of 3-5% on future sales of products sold under the Research & License Agreement and an annual license fee of USD 35 thousand.

NOTE 18 - LOSS PER SHARE:

Loss per share has been calculated using the weighted average number of shares in issue during the relevant financial period, the weighted average number of equity shares in issue and loss for the period as follows:

	<u>Year ended</u> <u>December 31,</u> <u>2021</u>	<u>Year ended</u> <u>December 31,</u> <u>2020</u>
Loss for the year attributed to shareholders (USD in thousand)	(10,091)	(9,953)
Weighted average number of ordinary shares	<u>224,541,780</u>	<u>162,021,651</u>
Basic and diluted loss per share	<u>\$ (0.05)</u>	<u>\$ (0.06)</u>

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NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

The Group is exposed to a variety of financial risks, which results from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's financial performance and position. The Group's financial instruments are its cash, other accounts receivable, warrants, lease liability and trade and other accounts payable. The main purpose of these financial instruments is to raise finance for the Group's operation. The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Group's financial instruments are mainly credit risk and currency risk. The risk management policies employed by the Group to manage these risks are discussed below.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Group closely monitors the activities of its counterparties and controls the access to its intellectual property, which enables it to ensure the prompt collection of customer's balances. The Group's main financial assets are cash and cash equivalents and represent the Group's maximum exposure to credit risk in connection with its financial assets. Wherever possible and commercially practical the Group holds cash with major financial institutions in Israel.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	<u>(USD in thousands)</u>	
Cash and cash equivalents	11,048	2,338
Trade receivables	-	2
Other accounts receivable	79	72
Total	<u>11,127</u>	<u>2,411</u>

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the New Israeli Shekel ("NIS") and the Canadian Dollar ("CAD"). The Group's policy is not to enter into any currency hedging transactions.

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NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	December 31, 2021		
	Assets	Liabilities	Total
	(USD in thousands)		
NIS	278	(390)	(112)
CAD	10,017	(3,122)	6,895
others	194	-	194
	December 31, 2020		
	Assets	Liabilities	Total
	(USD in thousands)		
NIS	1,291	(260)	1,031
CAD	938	(7,005)	(6,067)
others	12	(29)	(17)

Sensitivity analysis

A 10% strengthening of the United States Dollar against the following currencies would have increased (decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	December 31, 2021
	(USD in thousands)
Linked to NIS	(11)
Linked to CAD	690
Linked to others	19

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NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

	December 31, 2020
	(USD in thousands)
Linked to NIS	103
Linked to CAD	(607)
Linked to others	(2)

Liquidity risks

Liquidity risk is the risk that arises when the maturity of assets and the maturity of liabilities do not match. An unmatched position potentially enhances profitability but can also increase the risk of loss. The Group has procedures with the object of minimizing such loss by maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	December 31, 2021	December 31, 2020
	(USD in thousands)	
Trade accounts payable	336	908
Other accounts payable	433	281
Total	769	1,189

Capital management

The Group considers its capital to be comprised of shareholders' equity. The Group's objectives in managing its capital are to maintain its ability to continue as a going concern and to further develop its business. To effectively manage the Group's capital requirements, the Group has a planning and budgeting process in place to meet its strategic goals. In order to facilitate the management of its capital requirements, the Group prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. Management reviews the capital structure on a regular basis to ensure the above objectives are met. There have been no changes to the Group's approach to capital management during the year ended December 31, 2021. There are no externally imposed restrictions on the Group's capital.

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NOTE 20 - SUBSEQUENT EVENTS:

1. On January 10, 2022, InnoCan signed an amendment (the "Amendment") to the Yissum Research & License Agreement. According to the Amendment, InnoCan will finance additional research for a period of six months, relating to liposomal CBD as an add-on antiepileptic drug, in the amount of approximately USD 100 thousand.
2. On January 31, 2022, the Company granted an amount of 300,000 options to a business development consultant of the Company, who joined the Company's advisory board, each exercisable for one common share of the Company at an exercise price of CAD 0.77 per share. The options will expire 3 years following grant date.
3. On March 8, 2022, the Company granted an amount of 200,000 options to employees and 750,000 options to branding and business development consultants of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.59 per share. The options granted to employees will expire 5 years following grant date, while the options granted to consultants will expire 3 years following grant date.
4. On March 14, 2022, the Company granted an amount of 250,000 options to a business development consultant of the Company, each exercisable for one common share of the Company at an exercise price of CAD 0.59 per share. The options will expire 3 years following grant date.