

INNOCAN PHARMA CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2023

UNAUDITED

INNOCAN PHARMA CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
Unaudited condensed interim consolidated statements of financial position	2-3
Unaudited condensed interim consolidated statements of comprehensive loss	4
Unaudited condensed interim consolidated statements of changes in shareholders' equity	5
Unaudited condensed interim consolidated statements of cash flows	6
Notes to the unaudited condensed interim consolidated financial statements	7-22

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

	<u>Note</u>	<u>September 30, 2023</u>	<u>December 31, 2022</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		4,024	4,947
Trade accounts receivable		21	15
Other accounts receivable	3	1,004	785
Inventory		<u>1,683</u>	<u>1,131</u>
Total current assets		<u>6,732</u>	<u>6,878</u>
NON-CURRENT ASSETS:			
Property, plant and equipment, net		84	58
Right-of-use asset, net		<u>50</u>	<u>40</u>
Total non-current assets		<u>134</u>	<u>98</u>
TOTAL ASSETS		<u>6,866</u>	<u>6,976</u>

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

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

	<u>Note</u>	<u>September 30, 2023</u>	<u>December 31, 2022</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		333	95
Other accounts payable		346	332
Warrants	8	<u>1,672</u>	<u>304</u>
Total current liabilities		<u>2,351</u>	<u>731</u>
NON-CURRENT LIABILITIES:			
Long term lease liability		<u>16</u>	<u>20</u>
Total non-current liabilities		<u>16</u>	<u>20</u>
SHAREHOLDERS' EQUITY:			
Share capital	4	-	-
Additional paid in capital		36,494	34,768
Accumulated deficit		<u>(32,191)</u>	<u>(28,374)</u>
Equity attributable to owners of the parent		<u>4,303</u>	<u>6,394</u>
Non-controlling interest	1.4	<u>196</u>	<u>(169)</u>
Total shareholders' equity		<u>4,499</u>	<u>6,225</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>6,866</u>	<u>6,976</u>



Nelson Halpern
Chief Financial
Officer



Iris Bincovich
Chief Executive
Officer



Peter Bloch
Audit Committee
Chair

November 29, 2023

Date of approval of the
Financial statements

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED
STATEMENTS OF COMPREHENSIVE LOSS
(US Dollars in thousands, except for share and per share amounts)

		Three months period ended September 30,		Nine months period ended September 30,	
	Note	2023	2022	2023	2022
Revenues		4,083	749	8,764	1,424
Cost of revenues		419	*34	1,075	*418
Gross profit		3,664	715	7,689	1,006
Selling , marketing and distribution expenses	5	3,358	*866	6,961	*2,334
Research and development expenses	6	431	232	1,292	1,169
General and administrative expenses	7	1,081	*677	2,345	*2,360
Operating loss		1,206	1,060	2,909	4,857
Finance income	8	-	1,101	10	2,589
Finance expenses	9	621	203	553	451
Loss before income taxes		1,827	162	3,452	2,719
Income taxes		-	-	-	-
Total comprehensive loss		1,827	162	3,452	2,719
Total comprehensive loss (income) for the year attributed to:					
Owners of the parent		2,027	168	3,817	2,557
Non-controlling interest	1.4	(200)	(6)	(365)	162
Net Loss		1,827	162	3,452	2,719
Basic and diluted loss per share		<u>\$ (0.007)</u>	<u>\$ (0.001)</u>	<u>\$ (0.014)</u>	<u>\$ (0.011)</u>
Weighted average number of common shares		<u>258,283,224</u>	<u>249,109,480</u>	<u>253,650,001</u>	<u>248,717,123</u>

*Reclassified

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

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

	Owners of the parent			Non-	
	Share	Additional	Accumulated	controlling	Total
	capital	paid in capital	deficit	interest	
Balance at January 1, 2023	<u>-</u>	<u>34,768</u>	<u>(28,374)</u>	<u>(169)</u>	<u>6,225</u>
Changes during the period:					
Issuance of ordinary shares, net	-	971	-	-	971
Share based compensation	-	755	-	-	755
Total comprehensive loss	-	-	(3,817)	365	(3,452)
Balance at September 30, 2023	<u>-</u>	<u>(36,494)</u>	<u>(32,191)</u>	<u>196</u>	<u>4,499</u>

	Owners of the parent			Non-	
	Share	Additional	Accumulated	controlling	Total
	capital	paid in capital	deficit	interest	
Balance at January 1, 2022	<u>-</u>	<u>33,665</u>	<u>(24,610)</u>	<u>(44)</u>	<u>9,011</u>
Changes during the period:					
Exercise of warrants and options	-	136	-	-	136
Share based compensation	-	833	-	-	833
Total comprehensive loss	-	-	(2,557)	(162)	(2,719)
Balance at September 30, 2022	<u>-</u>	<u>34,634</u>	<u>(27,167)</u>	<u>(206)</u>	<u>7,261</u>

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

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

	Nine months period ended September 30, 2023	Nine months period ended September 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	(3,452)	(2,719)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	25	22
Share based compensation	755	833
Change in fair value of a warrants	523	(2,576)
Interest charged on lease liabilities	2	1
Increase in trade accounts receivable	(6)	(59)
Decrease (increase) in other accounts receivable	(185)	184
Increase in inventory	(552)	(459)
Increase in trade accounts payable	238	86
Increase (decrease) in other accounts payable	5	(57)
Financial expenses, net	54	41
Net cash used in operating activities	(2,593)	(4,703)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(37)	(15)
Restricted deposit	(31)	-
Deposit for new lease agreement	(7)	-
Net cash used in investing activities	(75)	(15)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of ordinary shares, net	971	-
Issuance of warrants	845	-
Exercise of warrants and options	-	136
Principal paid on lease liabilities	(17)	(9)
Net cash provided by financing activities	1,799	127
Effects of exchange rate changes on cash and cash equivalents	(54)	(41)
Net decrease in cash and cash equivalents	(923)	(4,632)
Cash and cash equivalents at the beginning of the period	4,947	11,048
Cash and cash equivalents at the end of the period	4,024	6,416

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

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

NOTE 1 - GENERAL:

1. InnoCan Pharma Corporation (the "Company") was incorporated as a corporation in Canada and commenced its operations in May 2018. The Company's registered office is in Calgary, Canada.
2. The Company is a publicly listed company on the Canadian Securities Exchange (the "CSE") trading under the symbol INNO and is the parent company of Innocan Pharma Ltd. ("InnoCan") that was incorporated in Israel in October 2017 and commenced its operations in November 2017. InnoCan is a pharmaceutical company which specializes in integrating cannabinoids with existing proven drugs to enhance their capabilities by harnessing the cannabinoids healing properties and interaction with the human body's endocannabinoid system. InnoCan is at a pre-clinical stage and is expected to conduct activities mainly in the US, Canadian and European markets. In October 2019, InnoCan announced its plans to enter the CBD beauty market and to manufacture cannabidiol (CBD) cosmetic products. Innocan commenced selling its cannabidiol (CBD) cosmetic products in December 2020. Innocan is currently selling its cannabidiol (CBD) cosmetic products in the US and European markets.
3. On May 5, 2021, Innocan Pharma UK Ltd. ("Innocan UK") was established, as a management and financial services supplier of Innocan in the European market, regarding the sales of its topical products. Innocan holds 100% of Innocan UK's shares. The Company consolidates Innocan UK in the financial statements commencing on the date of establishment.
4. On May 26, 2021, Innocan entered into a founder's agreement with Brandzon Co Ltd ("Brandzon"), to establish a joint company, B.I. Sky Global Ltd. ("Sky Global") which engages in development, manufacture and marketing of cosmetic products. Innocan holds 60% of Sky Global's shares, while Brandzon holds the remaining 40% of Sky Global's shares. Sky Global was incorporated in Israel on June 6, 2021, Innocan consolidates Sky Global in the financial statements commencing on that date of establishment.
5. The Company, Innocan, Innocan UK and Sky Global are referred in the financial statements as the Group.

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

NOTE 1 - GENERAL (CONT.):

6. Going concern

Since inception, the Group has generated revenues, despite that, the Group expects to continue to finance itself through raising adequate funds in the foreseeable future. During the nine and three months period ended September 30, 2023, the Group incurred a net loss of \$3,452 and \$1,827 thousand accordingly, negative cash flow from operations of \$2,593 thousand for the nine months period ended September 30, 2023 and generated \$32,191 thousand of accumulated deficit since inception. The Group currently has insufficient cash to fund its operations for the next 12 months. These material uncertainties may cast significant doubt upon the Group's ability to continue as a going concern. In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the twelve months period following September 30, 2023.

-The Group is currently implementing various financing strategies, including the following:

- The Group is actively monitoring cash forecasts and managing performance against its forecasts.

- The Group has identified various cost-reduction initiatives

- The Group has a plan in place to issue additional shares under a non-brokered private placement to raise additional proceeds.

The Group believes that based on the financial strength of its existing shareholder base, and previous success in raising capital, any shortfall in its operating plan may be met through one or more of the above strategies.

7. On December 5, 2022, Innocan entered a third amendment (the "Third Amendment") to the research and license agreement with Yisum Research Development Company of the Hebrew University of Jerusalem Ltd. ("Yisum"). As part of the Third Amendment, Innocan agreed to finance additional research with the aim of meeting the FDA guidance on Liposome drug-products in a total amount of approximately \$278 thousand, over a period of 3 months (November 2022-January 2023). Innocan paid during December 2022 the full amount of \$278 thousand.

On February 20, 2023, Innocan entered a Fourth amendment (the "Fourth Amendment") to the research and license agreement with Yisum. As part of the Fourth Amendment, Innocan agreed to finance additional research with the aim of meeting the FDA guidance on Liposome drug-products in a total amount of approximately \$293 thousand, over a period of 3 months (February 2023-April 2023).

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

NOTE 1 - GENERAL (CONT.):

On September 13, 2023 Innocan entered a Fifth amendment (the "Fifth Amendment") for additional amount of approximately \$183 thousand over a period of 3 months (July 2023- September 2023).

The total expense due to research activity by Yisum incurred during nine and three months period ended September 30, 2023 amounted to \$569 and \$183 thousand accordingly. Yisum grants to the company an exclusive, worldwide, royalty-bearing license, under Yisum's rights to make, use, offer to sell, sell and import products in the field of this research. There is an ongoing negotiation with Yisum regarding the examination of the next step.

8. On December 6, 2021, Innocan entered into a license and research agreement with Ramot at Tel Aviv University Ltd ("Ramot") (the "Ramot License & Research Agreement"). As part of the Ramot License & Research Agreement, Innocan agreed to finance additional research in a total amount of approximately \$1.18 million, over a period of 21 months, in four installments. Until September 30, 2022, Innocan paid the first installment, in total amount of \$270 thousand and a license fee in amount of \$20 thousand.

On April 3, 2023, Innocan entered a second amendment (the "Ramot Second Amendment") to the License and Research Funding Agreement with Ramot. According to the Ramot Second Amendment, it was agreed to terminate the research. In light of the termination of the research:

- The second instalment (\$309 thousand), third instalment (\$270 thousand) and fourth instalment (\$328 thousand) are no longer due.
- Ramot is no longer required to perform the remainder of the Research.

Ramot grants to the Company an exclusive, worldwide, royalty-bearing license, under Ramot's rights to make, use, offer to sell, sell and import products in the field of this research.

9. On February 16, 2023 the Company closed a non-brokered private placement (the "February 2023 Private Placement") of 1,982,000 units of the Company (the "February 2023 Private Placement Units") at a price of CAD 0.25 per unit for aggregate gross proceeds of CAD 496 thousand (approximately \$368 thousand). (See also note 10.2).

10. On August 3, 2023 the Company closed a non-brokered private placement (the "August 2023 Private Placement") of 8,409,735 units of the Company (the "August 2023 Private Placement Units") at a price of CAD 0.23 per unit for aggregate gross proceeds of CAD 1,934 thousand (approximately \$ 1,459 thousand). (See also note 10.3).

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

Basis of preparation

These interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the December 31, 2022 annual financial statements. These interim consolidated financial statements were authorized for issue by the board of directors on November 29, 2023.

Significant accounting policies

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2022 annual financial statements, except for the following amendments which apply for the first time in 2023. However, not all impacted the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

The following new standards and amendments are effective for the period beginning 1 January, 2023:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Change in Accounting Estimates and Errors); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes).

Impact of accounting standards to be applied in future periods

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective for periods beginning subsequent to December 31, 2023 (the date on which the Group's next annual financial statements will be prepared up to) that the Group has decided not to adopt early. The Group does not believe these standards and interpretations will have a material impact on the financial statements once adopted.

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

NOTE 3 – OTHER ACCOUNTS RECEIVABLE:

	September 30, 2023	December 31, 2022
	USD in thousands	
Prepaid expenses	406	453
Amazon receivables	231	47
Tax authorities	188	145
Restricted deposits	144	104
Others	35	36
Total	<u>1,004</u>	<u>785</u>

NOTE 4 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of September 30, 2023	
	Authorized	Issued and outstanding
Common shares without nominal par value	<u>Unlimited</u>	<u>262,453,787</u>
	Number of shares as of December 31, 2022	
	Authorized	Issued and outstanding
Common shares without nominal par value	<u>Unlimited</u>	<u>249,728,111</u>

Changes in the number of issued Common Shares from December 31, 2022 to September 30, 2023 are as follows:

	Number of Common Shares
Balance as at December 31, 2022	<u>249,728,111</u>
Exercise of options (See also footnote 1 hereunder)	333,941
Issuance of shares – February 2023 Private Placement (See also footnote 2 hereunder)	1,982,000
Issuance of shares – August 2023 Private Placement (See also footnote 3 hereunder)	8,409,735
Issuance of shares- service provider (See also footnote 4 hereunder)	<u>2,000,000</u>
Closing balance at June 30, 2023	<u>262,453,787</u>

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

NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

1. During the nine months period ended September 30, 2023, a total of 333,941 options were exercised into common shares as a cashless exercise, calculated according to the terms of the options.
2. On February 16, 2023 the Company closed a non-brokered private placement offering of 1,982,000 units of the Company (the "February 2023 Private Placement Units") at a price of CAD 0.25 per Unit for aggregate gross proceeds of CAD 496 thousands (approximately \$372 thousand) (see also note 1(9)).
3. On August 3, 2023 the Company closed a non-brokered private placement offering of 8,409,735 August 2023 Units at a price of CAD 0.23 per August 2023 Unit for aggregate gross proceeds of CAD 1,934 thousands (approximately \$1,459 thousand) (see also note 1(10)).
4. On August 21, 2023 the Company issued 2,000,000 common shares to a service provider. The fair value of granted common shares was CAD 460 thousand (approximately \$341 thousand).

Share based compensation

During the nine months period ended September 30, 2023, the Company granted the following options:

<u>Grantee</u>	<u>Date of grant</u>	<u>Exercise price (CAD)</u>	<u>Number of options</u>	<u>Expiry date</u>
Research and development consultant ⁽¹⁾	February 14, 2023	0.28	150,000	February 14, 2026
Business development consultant ⁽¹⁾	February 14, 2023	0.28	138,740	February 14, 2026
Employees of the Company ⁽²⁾	February 14, 2023	0.28	150,000	February 14, 2028
Employees of the Company ⁽³⁾	August 11, 2023	0.23	5,000,000	August 11, 2028
Business development consultant ⁽⁴⁾	August 11, 2023	0.23	118,576	August 11, 2028
Research and development consultant ⁽⁵⁾	September 13, 2023	0.35	300,000	September 13, 2025

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

NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

- (1) Each of the options is exercisable for one common share of the Company. Options shall be vested immediately at granting. The options will be exercisable by the Consultant at any time during a period of three (3) years from the date of grant. The fair value of the options was obtained using the Black Scholes (1973) on the date of the grant based on certain unobservable inputs, including:
 - The expected volatility of the existing business is 74%
 - The dividend growth rate is 0%
- (2) Each of the options is exercisable for one common share of the Company. Options shall be vested immediately at granting. The options will be exercisable at any time during a period of five (5) years from the date of grant as long as the employment agreement is valid and for a period of 3 months from the date of grant. The fair value of the options was obtained using the Black Scholes (1973) on the date of the grant based on certain unobservable inputs, including:
 - The expected volatility of the existing business is 74%
 - The dividend growth rate is 0%
- (3) Each of the options is exercisable for one common share of the Company. Options shall be vested 25% upon the date of grant, 25% shall vest in 8 months from the date of grant, 25% shall vest 16 months from the date of grant and 25% shall vest 24 months from the date of grant. The options will be exercisable at any time during a period of five (5) years from the date of grant as long as the employment agreement is valid and for a period of 3 months from the date of grant. The fair value of the options was obtained using the Black Scholes (1973) on the date of the grant based on certain unobservable inputs, including:
 - The expected volatility of the existing business is 70%
 - The dividend growth rate is 0%
- (4) Each of the options is exercisable for one common share of the Company. Options shall be vested immediately at granting. The options will be exercisable at any time during a period of five (5) years from the date of grant as long as the employment agreement is valid and for a period of 3 months from the date of grant. The fair value of the options was obtained using the Black Scholes (1973) on the date of the grant based on certain unobservable inputs, including:
 - The expected volatility of the existing business is 70%
 - The dividend growth rate is 0%

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

NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

(5) Each of the options is exercisable for one common share of the Company. 60,000 options shall be vested immediately at granting, additional 60,000 every 6 months for the coming 2 years and as long as consultant is part of the advisory committee. The options will be exercisable at any time during a period of three (3) years from the date of grant. The fair value of the options was obtained using the Black Scholes (1973) on the date of the grant based on certain unobservable inputs, including:

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

In the nine and three months period ended September 30, 2023, the Company recorded share-based compensation expenses of \$755 and \$561 thousand accordingly, which is included in selling and marketing expenses, research and development expenses or general and administrative expenses, based on the grantee.

	Nine months period ended September 30, 2023	
	Number of options	Weighted average exercise price (CAD)
Options outstanding at beginning of period	24,284,708	0.33
Granted – exercise price CAD 0.28	438,740	0.28
Granted – exercise price CAD 0.23	5,118,576	0.23
Granted – exercise price CAD 0.35	300,000	0.35
Exercised – exercise price CAD 0.18	(872,458)	0.18
Exercised – exercise price CAD 0.16	(125,000)	0.16
Expired – exercise price CAD 0.35	(300,000)	0.35
Expired – exercise price CAD 0.41	(36,000)	0.41
Expired – exercise price CAD 0.59	(700,000)	0.59
Options outstanding at end of period	28,108,566	0.33
Exercisable options	23,080,574	0.34

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

NOTE 4 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation (cont.)

	Year ended December 31, 2022	
	Number of options	Weighted average exercise price (CAD)
Options to employees and service providers outstanding at beginning of period	23,578,708	0.33
Granted – exercise price CAD 0.77	300,000	0.77
Granted – exercise price CAD 0.59	1,200,000	0.59
Exercised – exercise price CAD 0.18	(1,380,000)	0.18
Granted – exercise price CAD 0.48	300,000	0.48
Exercised – exercise price CAD 0.22	(150,000)	0.22
Granted – exercise price CAD 0.3	536,000	0.3
Expired – exercise price CAD 0.74	(100,000)	0.74
Options outstanding at end of period	24,284,708	0.35
Exercisable options	21,139,718	0.33

NOTE 5 - SELLING, MARKETING AND DISTRIBUTION EXPENSES :

	Three months period ended September 30,		Nine months period ended September 30,	
	2023	2022	2023	2022
	(USD in thousands)			
Amazon advertising expenses	2,910	*529	6,081	*973
Service providers	319	178	564	806
Salary and related expenses	83	106	224	330
Share based compensation	42	43	75	151
Others	4	10	17	74
	<u>3,358</u>	<u>866</u>	<u>6,961</u>	<u>2,334</u>

*Reclassified

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

NOTE 6 - RESEARCH AND DEVELOPMENT EXPENSES:

	Three months period ended September 30,		Nine months period ended September 30,	
	2023	2022	2023	2022
	(USD in thousands)			
Research expenses – Yissum & Ramot	183	-	569	408
Research expenses – Service providers	86	46	309	249
Salary and related expenses	69	83	231	214
Share based compensation	36	27	80	181
Others	57	76	103	117
	<u>431</u>	<u>232</u>	<u>1,292</u>	<u>1,169</u>

NOTE 7 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Three months period ended September 30,		Nine months period ended September 30,	
	2023	2022	2023	2022
	(USD in thousands)			
Share based compensation	484	89	600	501
Professional services	277	*219	709	*693
Salary and related expenses	151	137	418	390
Legal fees	67	62	198	222
Insurance expenses	33	48	112	144
Others	69	122	308	410
	<u>1,081</u>	<u>677</u>	<u>2,345</u>	<u>2,360</u>

*Reclassified

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

NOTE 8 – FINANCE INCOME:

	Three months period ended September 30,		Nine months period ended September 30,	
	2023	2022	2023	2022
	(USD in thousands)			
Changes in fair value of warrants	-	1,094	-	2,576
Others	-	7	10	13
	<u>-</u>	<u>1,101</u>	<u>10</u>	<u>2,589</u>

NOTE 9 – FINANCE EXPENSES:

	Three months period ended September 30,		Nine months period ended September 30,	
	2023	2022	2023	2022
	(USD in thousands)			
Changes in fair value of warrants	602	-	523	-
Changes in currency exchange	16	203	28	451
Other	3	-	2	-
	<u>621</u>	<u>203</u>	<u>553</u>	<u>451</u>

NOTE 10- FINANCIAL INSTRUMENTS:

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

1. October 2021 Unit Warrants

In connection with a private placement, that closed on October 13, 2021, the Company issued 9,679,000 Unit Warrants to investors. Each October 2021 Unit Warrant entitles the holder thereof to acquire one common share at an exercise price of CAD 1.10 for a period of 60 months following October 13, 2021.

The warrants are transferable but are not to be listed or quoted on any stock exchange or market. The Company recorded the October 2021 Unit Warrants as a derivative financial liability which represents the fair value of the warrants on the transaction date due to the fact that they do not meet the criteria for a fixed number of equity instruments in exchange for a fixed amount of cash since the exercise price is stated in

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

NOTE 10 - WARRANTS (CONT.):

CAD while the Company's functional currency is the USD. The derivative financial liability is re-measured at each reporting date, with changes in fair value recognized in finance expense (income), net. The derivative financial liability since inception amounted to \$ 3,427 thousand. In September 30, 2023 it amounted to \$ 420 thousands. The amount was recorded according to its fair value according to valuation performed by management with the assistance of an independent third party appraisal.

2. February 2023 Unit Warrants

In connection with a private placement (see also note 1(9)), closed on February 16, 2023, the Company issued 1,982,000 warrants to investors. Each February 2023 Unit consists of one-half of one (1) Class A common share purchase warrant (each whole Class A common share purchase warrant, a "February 2023 Class A Warrant"); and one-half of one (1) Class B common share purchase warrant (each whole Class B common share purchase warrant, a "February 2023 Class B Warrant") (collectively each whole February 2023 Class A Warrant and each whole February 2023 Class B Warrant, a "February 2023 Warrant"). Each February 2023 Class A Warrant will entitle the holder thereof to purchase one Common Share at a price of CAD 0.31 for a period of two (2) years from the date of issuance. Each February 2023 Class B Warrant will entitle the holder thereof to purchase one Common Share at a price of CAD 0.44 for a period of three (3) years from the date of issuance. Following the date of issuance of the February 2023 Warrants, if the daily volume weighted average trading price of the Common Shares on the Canadian Securities Exchange for any period of 20 consecutive trading days equals or exceeds CAD 0.62 in the case of a February 2023 Class A Warrant or CAD 1.32 in the case of a February 2023 Class B Warrant, the Company may, upon providing written notice to the holders of the February 2023 Warrants (the "Acceleration Notice"), accelerate the expiry date of the February 2023 Warrants to the date that is 30 days following the date of the Acceleration Notice. The Company recorded the February 2023 Unit Warrants as a derivative financial liability which represents the fair value of the warrants on the transaction date due to the fact that they do not meet the criteria for a fixed number of equity instruments in exchange for a fixed amount of cash since the exercise price is stated in CAD while the Company's functional currency is the USD. The derivative financial liability is re-measured at each reporting date, with changes in fair value recognized in finance expense (income), net. The derivative financial liability as of the date of issuance amounted to \$154 thousand. On September 30, 2023 it amounted to \$167 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.

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

NOTE 10 - WARRANTS (CONT.):

3. August 2023 Unit Warrants

In connection with a private placement (see also note 1(10)), closed on August 3, 2023, the Company issued 8,409,735 units to investors. Each August 2023 Unit consists of: (i) one (1) common share in the capital of the Company (each a “Common Share”); (ii) one-half of one (1) Class A common share purchase warrant (each whole Class A common share purchase warrant, a “August 2023 Class A Warrant”); and (iii) one-half of one (1) Class B common share purchase warrant (each whole Class B common share purchase warrant, a “August 2023 Class B Warrant”) (collectively each whole August 2023 Class A Warrant and each whole August 2023 Class B Warrant, a “August 2023 Warrant”). Each August 2023 Class A Warrant will entitle the holder thereof to purchase one Common Share at a price of CAD 0.29 for a period of three (3) years from the date of issuance. Each August 2023 Class B Warrant will entitle the holder thereof to purchase one Common Share at a price of CAD 0.40 for a period of five (5) years from the date of issuance. The Company recorded the August 2023 Unit Warrants as a derivative financial liability which represents the fair value of the warrants on the transaction date due to the fact that they do not meet the criteria for a fixed number of equity instruments in exchange for a fixed amount of cash since the exercise price is stated in CAD while the Company's functional currency is the USD. The derivative financial liability is re-measured at each reporting date, with changes in fair value recognized in finance expense (income), net. The derivative financial liability as of the date of issuance amounted to \$692 thousand. On September 30, 2023 it amounted to \$1,086 thousand. The amount was recorded according to its fair value according to valuation performed by management with the assistance of an independent third-party appraisal.

The fair value measurement of the warrants as of September 30, 2023 in the table below was measured using:

1. For the non-forced exercise warrants the Black-Scholes model.
2. Forced exercised warrants was estimated using a binomial lattice, under the assumption that once the price per share, exceeds the defined forced exercise threshold, the warrants get exercised immediately.

The key inputs that were used in measuring the fair value of the warrants were: risk free interest rate – 4.25%, expected volatility - 70%, year and Expected dividend yield - 0.

The fair value measurement of the warrants as of December 31, 2022 in the table below was measured using the Black-Scholes model. The key inputs that were used in measuring the fair value of the warrants were: risk free interest rate – 3.411%, expected volatility - 76%, year and Expected dividend yield - 0.

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

NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

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

	Fair value measurements using input type			
	September 30, 2023			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative financial liability (warrants)	-	(1,672)	-	(1,672)

	December 31, 2022			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Derivative financial liability (warrants)	-	(304)	-	(304)

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

	Fair Value of warrants
	US Dollars in thousands
Balance at January 1, 2022	3,078
Changes during 2022:	
<u>Changes in FV</u>	
October 2021 Unit Warrants	(2,774)
Balance at December 31, 2022	304
Changes during 2023:	
<u>Additions</u>	
February 2023 Unit Warrants	153
August 2023 Unit Warrants	692
<u>Changes in FV</u>	
October 2021 Unit Warrants	115
February 2023 Unit Warrants	14
August 2023 Unit Warrants	394
Balance at September 30, 2023	1,672

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

NOTE 10 - FINANCIAL INSTRUMENTS (CONT.):

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

The nine months period ended September 30, 2023		
	Number of warrants	Weighted average exercise price (CAD)
Warrants outstanding at beginning of period	400,793	0.25
Expired – exercise price CAD 0.25	(400,793)	0.25
Warrants outstanding at end of period	-	-

Year ended December 31, 2022		
	Number of warrants	Weighted average exercise price (CAD)
Warrants outstanding at beginning of period	438,099	0.23
Exercised – exercise price CAD 0.18	(68,949)	0.18
Expired – exercise price CAD 0.18	(26,315)	0.18
Granted – exercise price CAD 0.25	68,949	0.25
Exercised – exercise price CAD 0.25	(10,991)	0.25
Warrants outstanding at end of period	400,793	0.25
Exercisable warrants	400,793	0.25

NOTE 11 - SUBSEQUENT EVENTS:

- On October 12, 2023 the Company closed the first of two tranches (the “First Tranche”) of its private placement offering (the “Offering”) of units of the Company (the “October 2023 Units”), pursuant to which the Company issued 1,420,200 October 2023 Units at a price of CAD 0.30 per October 2023 Unit (the “Offering Price”) for aggregate gross proceeds of CAD 426,060 (approximately \$311 thousand). Each October 2023 Unit is comprised of one common share of the Company (a “Common Share”) and one purchase warrant of the Company (a “October 2023 Warrant”). Each October 2023 Warrant shall

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

entitle the holder thereof to purchase one Common Share at an exercise price of CAD 0.36 for a period of 36 months from the closing of the First Tranche. The Offering was led by Research Capital Corporation as sole agent and sole bookrunner (the “Agent”). In addition, the Company issued to the

NOTE 11 - SUBSEQUENT EVENTS (CONT.):

Agent 113,616 non-transferable broker warrants (the “Broker Warrants”) and CAD 34,084 (approximately \$24 thousand) in cash. Each Broker Warrant entitles the holder thereof to purchase one October 2023 Unit at an exercise price equal to the Offering Price for a period of 36 months following the closing date of the First Tranche.

On October 20, 2023 the Company closed the second and final tranche (the “Second Tranche”) of its Offering of October 2023 Units, pursuant to which the Company issued 4,005,408 October 2023 Units at the Offering Price for aggregate gross proceeds of CAD 1,201,622 (approximately \$877 thousand). In total, the Company issued an aggregate of 5,425,608 October 2023 Units under the Offering for aggregate gross proceeds of CAD 1,627,682 (approximately \$1,188 thousand). In connection with the Second Tranche, the Agent received an additional cash fee equal to \$18,330. In addition, the Company issued to the Agent, 61,100 non-transferable broker warrants (the “Broker Warrants”). Each Broker Warrant entitles the holder thereof to purchase one October 2023 Unit at an exercise price equal to the Offering Price for a period of 36 months following the closing date of the Second Tranche. The Company also paid the Agent a corporate finance advisory fee consisting of 122,500 Units, CAD 27,700 (approximately \$20 thousand) in cash and 92,330 Broker Warrants.

2. After the Balance sheet date, on October 7, 2023, an attack was launched against Israel, which thrust Israel into a state of war (hereinafter: “The state of war”). The Group is continuing with its operations both in Israel and globally, as of the date of issuance of the condensed interim consolidated financial statements the Company, the state of war had no substantial impact on its operations or business results, the Group continue to assess the effects of the state of war on its consolidated financial statements.
3. On November 6, 2023 the Company approved the issuance of an aggregate of 250,000 options to purchase common shares in the capital of the Company (the “Options”) to a consultant, under the Company’s stock option plan. The Options are exercisable for a price of CAD 0.32 per common share immediately upon grant. The Options expire after five years from the date of issuance.