

INNOCAN PHARMA CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2025

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	7-27




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

	<u>Note</u>	<u>March 31, 2025</u>	<u>December 31, 2024</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		6,365	5,008
Inventories		2,954	3,317
Other current assets	3	<u>1,391</u>	<u>822</u>
Total current assets		<u>10,710</u>	<u>9,147</u>
NON-CURRENT ASSETS:			
Property and equipment, net		90	91
Right-of-use asset, net		<u>17</u>	<u>22</u>
Total non-current assets		<u>107</u>	<u>113</u>
TOTAL ASSETS		<u><u>10,817</u></u>	<u><u>9,260</u></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)

	Note	March 31, 2025	December 31, 2024
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		178	185
Other accounts payable	4	720	488
Warrants	11	1,729	1,565
Total current liabilities		<u>2,627</u>	<u>2,238</u>
NON-CURRENT LIABILITIES:			
Convertible debenture	1.14	1,302	-
Total non-current liabilities		<u>1,302</u>	<u>-</u>
SHAREHOLDERS' EQUITY:			
	5		
Additional paid in capital		40,170	40,075
Accumulated deficit	1.3	(35,490)	(34,908)
Equity attributable to owners of the parent		<u>4,680</u>	<u>5,167</u>
Non-controlling interest		2,208	1,855
Total shareholders' equity		6,888	7,022
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>10,817</u>	<u>9,260</u>

 Nelson Halpern Chief Financial Officer	 Iris Bincovich Chief Executive Officer	 Peter Bloch Audit Committee Chair	May 28, 2025 Date of approval of the Financial statements
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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)

		Three months period ended March 31,	
	Note	2025	2024
Revenues		7,796	6,768
Cost of revenues		681	767
Gross profit		7,115	6,001
Selling, marketing and distribution expenses	6	5,702	5,314
Research and development expenses	7	180	424
General and administrative expenses	8	744	1,475
Operating profit (loss)		489	(1,212)
Gain (Loss) from changes in fair value of warrants and convertible debenture		(466)	42
Finance income	9	13	-
Finance expenses	10	3	50
Financial income (expenses), net		10	(50)
Profit (loss) before tax expenses		33	(1,220)
Income tax expenses		262	234
Total comprehensive loss for the period		(229)	(1,454)
Total comprehensive profit (loss) for the period attributed to:			
Owners of the parent		(582)	(1,767)
Non-controlling interest	1.3	353	313
		(229)	(1,454)
Basic and diluted loss per share		\$ (0.002)	\$ (0.005)
Weighted average number of common shares outstanding		290,327,729	269,817,878

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

INNOCAN PHARMA CORPORATION
UNAUDITED CONDENSED INTERIM CONSOLIDATED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(US Dollars in thousands, except for number of shares)

	<u>Owners of the parent</u>			<u>Non-</u>	
	<u>Share</u>	<u>Additional</u>	<u>Accumulated</u>	<u>controlling</u>	<u>Total</u>
	<u>capital</u>	<u>paid in capital</u>	<u>deficit</u>	<u>interest</u>	
Balance as of January 1, 2025	<u>-</u>	<u>40,075</u>	<u>(34,908)</u>	<u>1,855</u>	<u>7,022</u>
Changes during the period:					
Share based compensation	-	95	-	-	95
Total comprehensive profit (loss)					
for the period	<u>-</u>	<u>-</u>	<u>(582)</u>	<u>353</u>	<u>(229)</u>
Balance as of March 31, 2025	<u>-</u>	<u>40,170</u>	<u>(35,490)</u>	<u>2,208</u>	<u>6,888</u>

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

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

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

	Three months period ended March 31, 2025	Three months period ended March 31, 2024
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Total comprehensive loss for the period	(229)	(1,454)
Adjustments to reconcile comprehensive loss to net cash used in operating activities:		
Depreciation	10	10
Share based compensation	95	1,156
Changes in fair value of warrants and convertible debenture	466	(42)
Decrease (increase) in inventories	364	(855)
Increase in other current assets	(570)	(542)
Increase (decrease) in trade accounts payable	(7)	365
Increase in other accounts payable	236	624
Financial expenses (income), net	3	(9)
Net cash provided (used) in operating activities	368	(747)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(5)	(2)
Changes in restricted deposit	1	-
Net cash used in investing activities	(4)	(2)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common shares, net	-	619
Issuance of warrants, net	360	836
Issuance of convertible debenture, net	640	-
Principal paid on lease liabilities	(4)	(5)
Net cash provided by financing activities	996	1,450
Effects of exchange rate changes on cash and cash equivalents	(3)	9
Net increase in cash and cash equivalents	1,357	710
Cash and cash equivalents at the beginning of the period	5,008	3,885
Cash and cash equivalents at the end of the period	6,365	4,595

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

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

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. (the "Innocan") that was incorporated in Israel in October 2017 and commenced its operations in November 2017. Innocan developed a Cannabidiol ("CBD")-loaded Liposome drug delivery Platform ("CBD-LPT") with exact dosing, prolonged and controlled release of synthetic CBD for non-opioid pain management. The CBD-LPT research is in the preclinical trial phase for chronic pain management. Innocan is at a pre-clinical stage and is expected to conduct activities mainly in the United States (US), Canadian and European (EU) markets. The Company also develops and markets self-care products to promote a healthier lifestyle.
3. On May 26, 2021, Innocan entered into a founder's agreement with Brandzon Co Ltd. (the "Brandzon") to establish a joint company, B.I. Sky Global Ltd. (the "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%. Sky Global was incorporated in Israel on June 6, 2021. The Company consolidates Sky Global in the financial statements commencing on the date of establishment.
4. On May 5, 2021, Innocan Pharma UK Ltd. (the "Innocan UK") was established as a management and financial services supplier of Innocan in the EU market regarding the sales of its CBD cosmetic products. Innocan holds 100% of Innocan UK's shares. The Company consolidates Innocan UK in the financial statements commencing on the date of establishment. During 2022 and 2023, Innocan UK had no activities. On August 13, 2024, Innocan UK was dissolved.
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 in thousands)

NOTE 1 - GENERAL (CONT.):

6. In October 2023, Hamas terrorists infiltrated Israel's southern border from the Gaza Strip and conducted a series of attacks on civilian and military targets. Hamas also launched extensive rocket attacks on Israeli population and industrial centers located along Israel's border with the Gaza Strip and in other areas within the State of Israel. These attacks resulted in extensive deaths, injuries and kidnapping of civilians and soldiers. Following the attack, Israel's security cabinet declared war against Hamas and a military campaign against these terrorist organizations commenced in parallel to their continued rocket and terror attacks.

In addition, since the commencement of these events, there have been continued hostilities along Israel's northern border with Lebanon (with the Hezbollah terror organization) and on other fronts from various extremist groups in the region, such as the Houthis in Yemen and various rebel militia groups in Syria and Iraq. Israel has carried out a number of targeted strikes on sites belonging to these terror organizations. In October 2024, Israel began limited ground operations against Hezbollah in Lebanon, and in November 2024, a ceasefire was brokered between Israel and Hezbollah. In addition, Iran recently launched direct attacks on Israel involving hundreds of drones and missiles and has threatened to continue to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza, Hezbollah in Lebanon, the Houthi movement in Yemen and various rebel militia groups in Syria and Iraq. Such clashes may escalate in the future into a greater regional conflict.

Since the war broke out on October 7, 2023, the Group's operations have not been adversely affected by this situation, and the Group has not experienced disruptions to its business operations. As such, the Group's product and business development activities remain on track. However, the intensity and duration of Israel's current war against Hamas is difficult to predict at this stage, as are such war's economic implications on the Group's business and operations and on Israel's economy in general. If the war extends for a long period of time or expands to other fronts, such as Lebanon, Syria and the West Bank, the Group's operations may be adversely affected.

The Group continues to assess the effects of the state of war on its financial statements and business.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 1 - GENERAL (CONT.):

7. Going concern

During the three-month period ended March 31, 2025, the Group incurred net loss of \$229 thousand. Additionally, the Group generated \$35,490 thousand of accumulated deficit since inception. Management plans to address these conditions by raising additional funds and by generating larger volumes of revenues. However, there is no assurance that such funding will be available to the Company or that it will be obtained on terms favorable to the Company or will provide the Company with sufficient funds to meet its objectives, or that the Company will successfully generate sufficient revenues to meet its objectives. Moreover, and while the Company's negative cash flows from operations decreased during the three months period ended March 31, 2025, the Company expects its negative cash flows from operations to significantly increase in the foreseeable future due to increase in R&D and R&D related expenses to be incurred as a result of commencement of clinical trials. These factors raise material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. These condensed interim consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

8. Between February 2023 to December 2024, Innocan entered the fourth, fifth, sixth, seventh and eighth amendments (the "Fourth Amendment", "Fifth Amendment", "Sixth Amendment", "Seventh Amendment" and "Eighth Amendment", respectively) to the research and license agreement with Yissum Research Development Company of the Hebrew University of Jerusalem Ltd. ("Yissum"). As part of the Fourth, Fifth, Sixth, Seventh and Eighth Amendments, Innocan agreed to finance additional research with the aim of meeting the U.S. Food and Drug Administration ("FDA") guidance on Liposome drug-products in a total amount of approximately \$1,231 thousand, by December 2024. There were no expenses due to research activity by Yissum incurred during the three months period ended March 31, 2025.
9. On March 14, 2024, the Company closed a non-brokered private placement offering of 7,952,840 units of the Company (the "March 2024 Units") at a price of CAD 0.25 per March 2024 Unit (approximately \$0.19) for aggregate gross proceeds of CAD 1,989 thousand (approximately \$1,475 thousand). Each March 2024 Unit is comprised of one common share and one warrant (a "March 2024 Warrant"). Each March 2024 Warrant entitles the holder thereof to purchase one common share at an exercise price of CAD 0.32 (approximately \$0.24) for a period of four (4) years from the date of issuance. The gross proceeds were first allocated to the derivative warrant liability in the amount of \$1,103 thousand with the residual balance of \$372 allocated to common shares (see also note 10).

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 1 - GENERAL (CONT.):

10. On March 14, 2024, the Company granted an aggregate of 7,140,483 restricted share units (each, an “RSU”) to directors and officers. Each RSU entitles the recipient to receive one common share on vesting. A total of 4,918,261 RSUs vested on March 14, 2024, and 2,222,222 RSUs vest as follows: (i) half on September 14, 2024; and (ii) half on March 14, 2025. The RSUs and the underlying common shares are subject to a statutory hold period of four months and one day expiring on July 15, 2024 (see also note 4(1)).
11. On May 30, 2024, the Company granted an aggregate of 140,000 RSUs to consultants which entitles the recipient to receive one common share on vesting. All such RSUs vested on September 30, 2024.
12. On August 29, 2024, the Company closed a non-brokered private placement offering of 5,025,725 units (the “August 2024 Units”) at a price of CAD 0.22 per August 2024 Unit (approximately \$0.16) for aggregate gross proceeds of CAD 1,106 thousand (approximately \$822 thousand). Each August 2024 Unit is comprised of one common share and one warrant (a “August 2024 Warrant”). Each August 2024 Warrant entitles the holder thereof to purchase one common share at an exercise price of CAD 0.32 (approximately \$0.24) for a period of four (4) years from the date of issuance. The gross proceeds were first allocated to the derivative warrant liability in the amount of \$517 thousand with the residual balance of \$305 allocated to common shares (see also note 10).
13. On December 31, 2024, the Company closed a non-brokered private placement offering of 3,177,223 units (the "December 2024 Units") at a price of CAD 0.20 per December 2024 Unit (approximately \$0.14) for aggregate gross proceeds of C\$635 thousand (approximately \$442 thousand). Each December 2024 Unit is comprised of one common share and one warrant (a "December 2024 Warrant"). Each December 2024 Warrant entitles the holder thereof to purchase one common share at an exercise price of C\$0.28 (approximately \$0.19) for a period of four (4) years from the date of issuance. The gross proceeds were first allocated to the derivative warrant liability in the amount of \$215 thousand with the residual balance of \$227 allocated to the common shares (see also note 8.7). The Company paid a finder a cash fee of CAD 13,500 and, in addition, issued to the finder 67,500 warrants ("Finder Warrants"). Each Finder Warrant entitles the finder to purchase one common share at an exercise price of C\$0.28 for a period of four (4) years from the date of issuance (see also note 10).

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 1 - GENERAL (CONT.):

14. On March 7, 2025, the Company closed a non-brokered private placement offering of a debenture unit (the “Debenture Unit”) to its largest shareholder, Tamar Innovest, for gross proceeds of \$1,000,000 (the “Offering”). The Debenture Unit consists of: (a) one secured convertible debenture of the Company in the principal amount of \$1,000,000 (the “Debenture”) and (b) 5,555,555 common share purchase warrants (each, a “Warrant”). The Debenture matures two years from the date of issuance (the “Maturity Date”), will bear interest at the rate of 10% per annum and is convertible into common shares of the Company prior to the Maturity Date at a price of CAD 0.21 (approximately \$0.15) per share (based on a foreign exchange rate on the day prior to the date of conversion). Each Warrant is exercisable into one common share of the Company at a price of CAD 0.26 (approximately \$0.18) for a period of four years from the date of issuance. The derivative warrant liability and the convertible debenture were accounted for as financial liabilities measured at fair value through profit or loss (see also note 10).

NOTE 2 - MATERIAL ACCOUNTING POLICIES:

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

Basis of preparation

These condensed 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, 2024 annual financial statements. These condensed interim consolidated financial statements were authorized for issue by the board of directors on May 28, 2025.

Significant accounting policies

The Group has applied the same accounting policies and methods of computation in its condensed interim consolidated financial statements as in its 2024 annual financial statements.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 2 - MATERIAL ACCOUNTING POLICIES:

Accounting standards issued but not yet effective

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

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

The main amendments to IFRS 9:

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

The main amendments to IFRS 7:

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

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

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 2 - MATERIAL ACCOUNTING POLICIES:

Accounting standards issued but not yet effective (CONT)

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

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

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

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

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

The Group is currently assessing the impact of adopting the new standards and amendments on the consolidated financial statements.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 3 - OTHER CURRENT ASSETS:

	March 31, 2025	December 31, 2024
Tax authorities	383	286
Prepaid expenses	70	67
Receivables from online retailer	701	250
Restricted deposits (*)	68	69
Others	168	150
Total	<u>1,390</u>	<u>822</u>

(*) Deposits held as collateral for credit lines, in accordance with bank requirements.

NOTE 4 - OTHER ACCOUNTS PAYABLE:

	March 31, 2025	December 31, 2024
	<u>USD in thousands</u>	
Accrued expenses	518	281
Payroll and related liabilities	195	197
Short term lease liability	<u>7</u>	<u>10</u>
	<u>720</u>	<u>488</u>

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 5 - SHAREHOLDERS' EQUITY:

Composition:

	Number of shares as of March 31, 2025	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	291,226,605

	Number of shares as of December 31, 2024	
	Authorized	Issued and outstanding
Common shares without nominal par value	Unlimited	290,115,494

Changes in the number of issued Common Shares from December 31, 2024, to March 31, 2025, are as follows:

	Number of Common Shares
Balance as of December 31, 2024	290,115,494
Vesting of restricted share units granted in March 2024 (1)	1,111,111
Closing balance of March 31, 2025	291,226,605

- (1) On March 14, 2024, the Company granted an aggregate of 7,140,483 restricted share units (each, an "RSU") to directors and officers. Each RSU entitles the recipient to receive one common share on vesting. A total of 4,918,261 RSUs vested on March 14, 2024, and 2,222,222 RSUs vest as follows: (i) half on September 14, 2024; and (ii) half on March 14, 2025. The RSUs and the underlying common shares are subject to a statutory hold period of four months and one day expiring on July 15, 2024.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 5 - SHAREHOLDERS' EQUITY (CONT.):

Share based compensation

During the three months period ended March 31, 2025, the Company recorded share-based compensation expenses for RSUs grants of \$68 thousand, which is included in selling and marketing expenses, research and development expenses or general and administrative expenses, based on the function of the grantee.

During the three months period ended March 31, 2025, the Company recorded share-based compensation expenses for options grants of \$27 thousand, which is included in selling and marketing expenses, research and development expenses or general and administrative expenses, based on the function of the grantee.

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

	Three months period ended March 31, 2025	
	Number of options	Weighted average exercise price (CAD)
Options outstanding at beginning of period	15,583,316	0.34
Expired – exercise price CAD 0.28-0.59	(600,000)	0.54
Options outstanding at end of period (*)	14,983,316	0.33
Exercisable options	13,167,487	0.34

(*) The weighted average remaining contractual life of the options outstanding at the end of the period is approximately 28 months.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 6 - SELLING, MARKETING AND DISTRIBUTION EXPENSES:

	Three months period ended March 31,	
	2025	2024
Online retailer services and advertising costs	5,585	4,730
Marketing service providers	13	155
Salary and related expenses	46	62
Share based compensation	4	261
Others	54	106
	<u>5,702</u>	<u>5,314</u>

NOTE 7 - RESEARCH AND DEVELOPMENT EXPENSES:

	Three months period ended March 31,	
	2025	2024
Research expenses (see note 1.8)	-	87
Service providers	72	15
Salary and related expenses	65	55
Share based compensation	19	107
Others	24	160
	<u>180</u>	<u>424</u>

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 8 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Three months period ended March 31,	
	2025	2024
Professional services	305	279
Share based compensation	61	788
Salary and related expenses	179	160
Legal fees	66	106
Others	133	142
	<u>744</u>	<u>1,475</u>

NOTE 9 – FINANCE INCOME:

	Three months period ended March 31,	
	2025	2024
Currency exchange income	<u>13</u>	<u>-</u>
	<u>13</u>	<u>-</u>

NOTE 10 – FINANCE EXPENSES:

	Three months period ended March 31,	
	2025	2024
Currency exchange expenses	-	45
Others	<u>3</u>	<u>5</u>
	<u>3</u>	<u>50</u>

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 11 – WARRANTS AND CONVERTIBLE DEBENTURE:

The Company accounts for warrants issued to investors and for the convertible debenture under IFRS 9, Financial Instruments. Warrants issued to service providers are accounted for as equity-classified awards under IFRS 2, Share-based Payment.

The Company recorded the October 2021 Unit Warrants, February 2023 Unit Warrants, August 2023 Unit Warrants, October 2023 Unit Warrants, March 2024 Unit Warrants, August 2024 Unit Warrants, December 2024 Unit Warrants and March 2025 Debenture Unit Warrants as a derivative financial liability at the fair value of the warrants on the issuance 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. In addition, the Company recorded the convertible debenture as a derivative financial liability at fair value. The derivative financial liability and the convertible debenture are re-measured at each reporting date, with changes in fair value recognized in finance expense (income), net. The carrying amounts represents fair value based on valuation performed by management with the assistance of an independent third-party appraiser.

1. October 2021 Unit Warrants

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

The warrants are transferable but are not listed or quoted on any stock exchange or market. The derivative financial liability as of issuance date amounted to \$3,427 thousand. As of March 31, 2025 and December 31, 2024, it amounted to \$19 thousand and \$39 thousand, respectively.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 11 - WARRANTS AND CONVERTIBLE DEBENTURE (CONT.):

2. February 2023 Unit Warrants

In connection with the private placement which closed on February 16, 2023, the Company issued 1,982,000 units to investors. Each February 2023 Unit consists of one (1) common share; one-half of one Class A warrant to purchase common shares (each whole Class A common share purchase warrant, a “February 2023 Class A Warrant”); and one-half of one Class B warrant to purchase common shares (each whole Class B common share purchase warrant, a “February 2023 Class B Warrant”) (collectively each whole February 2023 Class A Warrant and each whole February 2023 Class B Warrant, a “February 2023 Warrant”). Each February 2023 Class A Warrant entitles 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 entitles the holder thereof to purchase one common share at a price of CAD 0.44 for a period of three (3) years from the date of issuance.

Following the date of issuance of the February 2023 Warrants, if the daily volume weighted average trading price of the common shares on the CSE for any period of 20 consecutive trading days equals or exceeds CAD 0.62 in the case of a February 2023 Class A Warrant or CAD 1.32 in the case of a February 2023 Class B Warrant, the Company may, upon 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 derivative financial liability as of issuance date amounted to \$154 thousand. As of March 31, 2025, and December 31, 2024, it amounted to \$8 thousand and \$14 thousand, respectively.

3. August 2023 Unit Warrants

In connection with the private placement which closed on August 3, 2023, the Company issued 8,409,735 units to investors. Each August 2023 Unit consists of: (i) one common share; (ii) one-half of one 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 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 entitles 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 entitles 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 derivative financial liability as of issuance date amounted to \$692 thousand. As of March 31, 2025, and December 31, 2024, it amounted to \$307 thousand and \$359 thousand, respectively.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 11 - WARRANTS AND CONVERTIBLE DEBENTURE (CONT.):

4. October 2023 Unit Warrants

In connection with October 12, 2023, and October 20, 2023, Offerings, the Company issued 5,425,108 warrants (the "October 2023 Unit Warrants") to investors. Each October Unit Warrant entitled the holder therefore to acquire one common share at an exercise price of CAD 0.36 for a period of 36 months from the date of the closing. The derivative financial liability as of issuance date amounted to \$538 thousand. As of March 31, 2025 and December 31, 2024, it amounted to \$128 thousand and \$161 thousand, respectively.

5. March 2024 Unit Warrants

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

The derivative financial liability as of issuance date amounted to \$1,103 thousand. As of March 31, 2025, and December 31, 2024, it amounted to \$381 thousand and \$427 thousand, respectively.

6. August 2024 Unit Warrants

In connection with the private placement which closed on August 29, 2024, the Company issued 5,025,725 units to investors. Each August 2024 Unit entitles the holder thereof to acquire one common share at an exercise price of CAD 0.32 for a period of four years following August 29, 2024.

The derivative financial liability as of issuance date amounted to \$517 thousand. As of March 31, 2025, and December 31, 2024, it amounted to \$320 thousand and \$349 thousand, respectively.

7. December 2024 Unit Warrants

In connection with the private placement which closed on December 31, 2024, the Company issued 3,177,223 units to investors. Each December 2024 Unit entitles the holder thereof to acquire one common share at an exercise price of CAD 0.28 for a period of four years following December 31, 2024.

The derivative financial liability as of issuance date amounted to \$215 thousand. As of March 31, 2025, and December 31, 2024, it amounted to \$197 thousand and \$215 thousand, respectively.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 11 - WARRANTS AND CONVERTIBLE DEBENTURE (CONT.):

8. March 2025 Debenture Unit Warrants

In connection with the private placement which closed on March 7, 2025, the Company issued 5,555,555 units to investors. Each March 2025 Unit entitles the holder thereof to acquire one common share at an exercise price of CAD 0.26 for a period of four years following March 7, 2025.

The derivative financial liability as of the issuance date amounted to \$360 thousand. As of March 31, 2025, it amounted to \$368 thousand.

The fair value measurements of the warrants as of March 31, 2025, in the table below were measured using:

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

The key inputs that were used in measuring the fair value of the warrants as of March 31, 2025, were: average risk-free interest rate – 2.57%, average expected volatility - 70%, year-end expected dividend yield – 0 and share price of the Company as of March 31, 2025 – CAD 0.205.

9. Convertible debenture

In connection with the private placement which closed on March 7, 2025, the Company issued one secured convertible debenture of the Company in the principal amount of \$1,000,000 (the “Debenture”). The Debenture matures two years from the date of issuance (the “Maturity Date”), will bear interest at the rate of 10% per annum and is convertible into common shares of the Company prior to the Maturity Date at a price of CAD 0.21 (approximately \$0.15) per share (based on a foreign exchange rate on the day prior to the date of conversion). The derivative financial liability as of the issuance date amounted to \$640 thousand. As of March 31, 2025, it amounted to \$1,302 thousand.

The fair value measurements of the Debenture as of March 31, 2025, in the table below were measured using the binomial model.

The key inputs that were used in measuring the fair value of the Debenture as of March 31, 2025, were: average risk-free interest rate – 3.9%, average expected volatility - 70%, year-end expected dividend yield – 0 and share price of the Company as of March 31, 2025 – CAD 0.205.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 11 - WARRANTS AND CONVERTIBLE DEBENTURE (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			
	March 31, 2025			
	Level 1	Level 2	Level 3	Total
Derivative liability - warrants	-	(1,729)	-	(1,729)
Derivative liability – convertible debenture	-	(1,302)	-	(1,302)

The changes in derivative warrant liabilities as of March 31, 2025, are as follows:

	Fair Value of warrants
Balance as of December 31, 2024	1,565
Changes during 2025:	
March 2025 Debenture Unit Warrants	360
Changes in FV	(196)
Balance as of March 31, 2025	1,729

The changes in the convertible debenture as of March 31, 2025, are as follows:

	Fair Value of convertible debenture
Balance as of December 31, 2024	-
Changes during 2025:	
March 2025 Debenture Unit Warrants	640
Changes in FV	662
Balance as of March 31, 2025	1,302

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 11 - WARRANTS AND CONVERTIBLE DEBENTURE (CONT.):

Warrants accounted for under IFRS 2 are as follows:

	Three months period ended March 31, 2025	
	Number of warrants	Weighted average exercise price (CAD)
Warrants outstanding at beginning of period	457,046	0.313
Warrants outstanding at end of period	457,046	0.313
Exercisable warrants	457,046	0.313

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 12 - OPERATING SEGMENTS:

The Group has two segments:

1. Online sales - Sky Global operations, which engages in the development, manufacture and marketing of cosmetic products.
2. Other operations - the development of CBD-LPT as well as the development and marketing of self-care products.

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the Company's CEO.

The CODM evaluates the Company's performance and allocates resources based on net profit (loss).

The tables set forth the operating results of the Group:

For three months period ended March 31, 2025:

	Online sales	Other operations	Total
Segment revenues	7,788	8	7,796
Cost of revenues (*)			681
Selling, marketing and distribution expenses	5,640	62	5,702
Research and development expenses	-	180	180
General and administrative expenses	328	416	744
Segment operating profit (loss)	1,145	(1,634)	489
Loss from changes in fair value of warrants	-	(466)	(466)
Financial income (expenses), net	(1)	11	10
Income tax expense	262	-	262
Net profit (loss) for the year	881	(1,110)	(229)

(*) Cost of revenues is substantially comprised of costs incurred by the online sales segment.

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 12 - OPERATING SEGMENTS (cont.):

For three months period ended March 31, 2024:

	Online sales	Other operations	Total
Segment revenues	6,756	12	6,768
Cost of revenues (*)			767
Selling, marketing and distribution expenses	4,762	552	5,314
Research and development expenses	-	424	424
General and administrative expenses	211	1,264	1,475
Segment operating profit (loss)	1,024	(2,236)	(1,212)
Gain from changes in fair value of warrants	-	42	42
Financial expense, net	6	44	50
Income tax expense	234	-	234
Net profit (loss) for the year	1,018	(2,238)	(1,220)

(*) Cost of revenues is substantially comprised of costs incurred by the online sales segment.

The tables set forth other information of the Group:

As of March 31, 2025:

	Online sales	Other operations	Total
Segment assets	9,167	1,650	10,817
Segment liabilities	372	3,557	3,929

As of December 31, 2024:

	Online sales	Other operations	Total
Segment assets	8,152	1,078	9,230
Segment liabilities	262	1,976	2,238

INNOCAN PHARMA CORPORATION
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(US Dollars in thousands)

NOTE 13 - INVESTMENT IN SUBSIDIARIES:

Summarized financial information of Sky Global, which is a subsidiary of the Company with a significant non-controlling interest, is as follows:

	March 31, 2025	December 31, 2024
Current assets	9,122	8,109
Non-current assets	44	43
Current liabilities	371	262
Non-current liabilities	3,275	3,251
Equity	5,520	4,639

	Three months period ended March 31, 2025	Three months period ended March 31, 2024
Revenues	7,788	6,756
Net profit for the year	881	1,018

NOTE 14 - SUBSEQUENT EVENTS:

- On April 15, 2025, the Company closed a non-brokered private placement offering of units of the Company (the “Units”), pursuant to which the Company issued 1,193,551 Units at a price of CAD 0.18 (approximately \$0.13) per Unit (the “Offering Price”) for aggregate gross proceeds of CAD 214,839 (approximately \$148,239). Each Unit is comprised of one common share of the Company (a “Common Share”) and one common share purchase warrant of the Company (a “Warrant”). Each Warrant will entitle the holder thereof to purchase one Common Share at an exercise price of CAD 0.25 (approximately \$0.17) for a period of four years from the date of issuance.