**INNOCAN PHARMA CORPORATION**

**Management's Discussion and Analysis**
**For the year ended December 31, 2019**

## 1. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is management's assessment of the results and financial condition of InnoCan Pharma Corporation (the "**Company**").

The following information should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2019.

The date of this management's discussion and analysis ("**MD&A**") is March 31, 2020. The Company's comparative amounts in this MD&A have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All dollar amounts are stated in United States dollars ("**USD**") unless otherwise indicated (for reference, "**CAD**" means Canadian dollars).

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information within the meaning of applicable Canadian securities legislation ("**forward-looking information**"). Such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made.

In some cases, these forward-looking statements can be identified by words or phrases such as “may”, “believes”, “expects”, “will”, “intends”, “projects”, “anticipates”, “estimates”, “continues”, “plans”, “aim”, “seek” or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on current expectations and projections about future events and financial trends that they believe may affect the Company’s financial condition, results of operations, business strategy and financial needs.
Forward-looking information contained herein is given as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results, except as may be required by applicable securities laws. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. For a description of material factors that could cause the Company’s actual results to differ materially from the forward-looking statements in this MD&A, please see the section titled “Risks and Uncertainties” herein.

## 2. DESCRIPTION OF BUSINESS

### Structure of the Company

InnoCan Pharma Corporation was incorporated as a corporation in Canada and commenced its activity in May 2018. The Company's registered office is in 1015, 926 – 5 Avenue SW Calgary, Canada.

### IPO, listing on the CSE and Share Exchange & Related Transactions

On September 3, 2018, the shareholders of the Company approved a potential share exchange (the "**Share Exchange**") and on October 4, 2018 the Company and InnoCan Pharma Ltd. ("**InnoCan**") entered into a share exchange agreement (the "**Share Exchange Agreement**").

Pursuant to the Share Exchange Agreement, InnoCan shareholders received common shares in the capital of the Company (the "**Common Shares**") in exchange for their InnoCan ordinary shares (the "**Ordinary Shares**"), on the basis of seven hundred and thirty-five (735) Common Shares for each one (1) Ordinary Share. As a result, the holders of Ordinary Shares received an aggregate of 120,888,390 Common Shares.

All of the issued and outstanding InnoCan Ordinary Share purchase warrants ("**InnoCan Warrants**"), by agreement among the Company, InnoCan and each InnoCan Warrant holder, became warrants of the Company, exercisable for Common Shares following the closing of the initial public offering of InnoCan (the "**Offering**" or the "**IPO**"), at a price equal to CAD 0. 09 for a period of eighteen (18) months from the date of the closing of the Offering. As of December 31, 2019, two of the six investors exercised their warrants. As for the warrants that were not exercised as of this date, the aforementioned 18 months period following the date of the agreement has ended, therefore they were expired.

On September 25, 2019, the Company completed an IPO of 6,111,112 units of the Company at a price of CAD 0.18 per unit, for which it received gross proceeds of CAD 1,100,000. Each unit consists of one Common Share of the Company and one-half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "**Unit Warrant**"). Each Unit Warrant entitles the holder thereof to acquire, subject to adjustment in certain circumstances, one Common Share in the capital of the Company (each, a "**Warrant Share**") at an exercise price of CAD 0.30 for a period of 24 months following the closing date of the Offering. On September 25, 2019, the Company commenced trading on the Canadian Securities Exchange (the "**CSE**"), following the IPO, under the name "InnoCan Pharma Corporation" with the trading symbol: INNO.

As a result of the completion of the Share Exchange Agreement, the former shareholders of InnoCan acquired control of the Company as they owned a majority of the outstanding shares of the Company upon completion of the transaction.

**Description of the Company's Principal Businesses and Operations**

The Company, following the Share Exchange and the IPO, through its subsidiary, InnoCan (together: the "**Group**"), became a pharmaceutical company, at pre-clinical stage, 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, whose operations, research and development are currently based in Israel. In 2018, the Company, through its subsidiary, InnoCan, entered into a research and option agreement (the "**Yissum agreement**") with Yissum Research Development Company of the Hebrew University of Jerusalem Ltd. ("**Yissum**"). The Yissum agreement allows InnoCan to receive the research results of Yissum (the "**Research**") and grants InnoCan an exclusive option to inter into an agreement to license, on a worldwide basis, the results of the research (the "**Option**"). Under the Option Agreement, InnoCan agreed to finance the Research to an amount of no less than USD 310,000 and additional overhead expenses of USD 108,000 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. Between August 2018 and December 31, 2019, InnoCan paid an aggregated amount of USD 418,000 as part of the Option Agreement.

As of December 31, 2019, the research was completed and on January 13, 2020, InnoCan exercised the Option and entered into a new research and license agreement (the "**License Agreement**") with Yissum. The License Agreement grants InnoCan an exclusive license to make commercial use, on a worldwide basis, of the results of the Research (see also Subsequent Events).

On October 7, 2019, the Company announced that Yissum has filed a provisional patent covering a unique cannabinoid loaded liposome platform technology developed under the Yissum Agreement. InnoCan's project with Yissum is targeted at developing a breakthrough technology platform that enables the delivery of cannabinoids by injection of hydrogel-cannabinoid-loaded (such as CBD) liposomes into the blood stream or to a specific body part. The controlled release of CBD (or other cannabinoids) from the liposomes allows a continuous exposure of the patient to the cannabinoid and decreases the variations of CBD concentration in the blood caused by food intake or other physiological condition. Moreover, through injection of loaded liposomes, a greater portion of intact CBD can reach its target site, decreasing the total amount of CBD needed to achieve the desired therapeutic effect. The use of the technology is versatile and may be tailored to the development of different cannabinoids.

On October 21, 2019, the Company announced that it plans to accelerate its entry into the lucrative and growing CBD beauty market. The Company's research and development team, led by Nir Avram, a senior pharmaceutical scientist with more than 30 years of experience, is developing a line of cosmetics containing CBD offering several high-quality products including anti-aging facial oils, facial serums, eye serums, facial creams, facial masks, body oils and body lotions.

On November 5, 2019, the Company announced it has entered into an agreement with Fancystage Unipessoal LDA of Portugal, a leading cosmetics manufacturer to manufacture its cannabidiol (CBD) cosmetic products for the European market.

On November 18, 2019, the Company announced it has entered into an agreement with Biogenesis Inc. of NJ, USA, to manufacture its cannabidiol (CBD) based cosmetics and OTC topical products for the US market.


**The Company operations:**

**Topicals:**

The company finished development and tech transferring of several products to the Portugal and New Jersey manufacturing facilities. These products are currently being registered in Europe. During 2019 the company filed an application for 3 patents:
1. Cannabinoid pain-relieving topical compositions
2. Antipruritic compositions comprising cannabinoids
3. Cannabinoid ear drops

**Injectable Cannabinoids**

Developing technology which will enable injection of cannabinoids to the body, based on the cooperation with Yissum, the merchandising arm of the Hebrew University of Jerusalem (the "**Hebrew University**").

Following the good results of the first stage and the successes in proving the possibility of implementation of the research by Prop Hezi Barenholz from the Hebrew University, a new patent application was filed. The patent is based on a unique liposome's platform loaded with cannabinoids which was developed as part of the research funded by the company. During this stage the following points were completed:

- High loading of CBD was achieved which result in innovative CBD Liposomes development.
- The loaded amount is sufficient for administration of a therapeutic dose.
- Several types of liposomal formulations were developed having potential of targeting a variety of clinical indications.
- The liposomes formulations may have the potential to enable a controlled release delivery of CBD.
- Submission of provisional patent application.

As a result of the above, InnoCan executed its option and on January 21, 2020 signed the Research & License Agreement (see above).

In order to position the Company as a leader in its field the of following marketing activities were preformed:

Creating a new website for InnoCan Pharma
Opening and promoting InnoCan Facebook and LinkedIn pages
Presenting InnoCan Pharma at the MJBIZ conference, the world's largest in the cannabis industry.

Joining of Mr. Peter Bloch to InnoCan board.

On January 23, 2020 Mr. Peter Bloch has joined the company's Board of Directors, replacing Mr. Daryl Fridhandler.

Mr. Bloch is a Chartered Accountant with an extensive record of entrepreneurial and executive successes. He has held senior management positions with Sanofi-Aventis Canada, Intellivax International Inc., Gennum Corporation and Tribute Pharmaceuticals. Mr. Bloch is currently the CEO of Bresotec Inc., a medical device company developing and commercializing easy to use and accurate technologies for the diagnosis and treatment of sleep apnea and related health conditions through acoustic analysis.

Mr. Bloch was previously CEO and Chairman of Bionik Laboratories, a publicly listed company and was a member of the Dean's Advisory Council at the Ted Rogers School of Management, Ryerson University.

Mr. Bloch has a vest experience in the North America's market leading startups as well as mature companies in the pharma industry. Mr. Bloch experience in leading young and mature companies alike in the pharma and biotech field in North America is a real asset for InnoCan.


**The Coronavirus:**

The world is currently experiencing an event with macroeconomic consequences, originating from the spread of coronavirus (COVID-19) in many countries around the world (hereinafter - the "**Coronavirus**" or the "**Event**"). Following the Event, many countries are taking significant measures to try to prevent the spread of the Coronavirus, such as restrictions on civilian movement, gatherings, transit restrictions on passengers and goods, closing borders between countries, etc. (hereinafter – the "**Measures**"). As a result, the Event and the actions taken by the various countries have significant implications on many economies worldwide.

InnoCan had commenced manufacturing and production of its topical product lines through contracts including supply of packaging materials via Chinese companies. As packaging materials are already delayed, the production of these products will likely be delayed for an unknown period which will create uncertainty as to the timing of when these products may be distributed and sold in the future. In addition, the Event and Measures taken by governments substantially influence the Group's marketing abilities, especially of a new brand. These Measures and general circumstances are expected to influence ability of the Group to raise additional funds either privately or in the public markets in the future. These uncertainties shall affect the future cash flow and sales and revenue of the Group, the amounts of which cannot be determined at this time.

**Significant Financial Developments during the Period**

- Between January and March 2019, InnoCan issued 2,081 ordinary shares with a par value of NIS 0.01 (which were exchanged upon the Share Exchange into 1,529,535 common shares without nominal par value of the Company) to different investors for an approximately USD 141,000.
- On January 15, 2019, the Company entered into convertible notes private placement agreements (the "Convertible Notes") in the amount of USD 300,000. The cash was put into trust and according to the agreement, the Company could not receive the cash unless an IPO was completed by the end of September 2019, at a share price of at least CAD 0.15. In such an event, the Convertible Notes will be mandatorily converted into common shares at a conversion price of CAD 0.12 per share. The IPO was completed in accordance with the conditions stated above, therefore the Company received the cash from the trustee and issued 3,317,250 common shares of the Company to the investors at September 25, 2019.
- On April 15, 2019, InnoCan issued 28,840 ordinary shares with a par value of NIS 0.01 per value (which were exchanged due to the Share Exchange) into 21,197,400 common shares without nominal par value of the Company) as part of the Tamar InnoVest transaction (see also hereunder).
- Effective April 15, 2019 the Company and InnoCan entered into a number of arrangements with Tamar InnoVest Limited ("Tamar InnoVest", formerly Solsken Limited, whose name was changed on October 31, 2019), the results of which are to provide the Company subject to the IPO, a cash amount of USD 3,000,000 in an equity investment (including an amount of USD 2,000,000 received by InnoCan on April 16, 2019).

The arrangements with the Company and InnoCan are as follows:

Tamar InnoVest SPA – pursuant to which Tamar InnoVest agreed to purchase 28,840 (21,197,400 following the Share Exchange) ordinary shares of InnoCan for a purchase price of USD 2,000,000, at a price per share of USD 69.348 (USD 0.09435 following the Share Exchange) together with the issuance by InnoCan to Tamar InnoVest of the following:

19,023 Tamar InnoVest A Warrants (13,981,916 following the Share Exchange) exercisable at a price per Ordinary Share of USD 91.875 (USD 0.125 following the Share Exchange), for a period of 24 months from April 15, 2019, subject to an accelerated exercise expiry at any time following April 15, 2020, should the weighted average volume trading price over a consecutive 30 day period exceed USD 138.696 or CAD 0.25 (based on 1:735 Share Exchange Agreement ratio between InnoCan and the Company) in Common Shares following the Closing; and

2,721 Tamar InnoVest B Warrants (2,000,000 following the Share Exchange) exercisable at a price per Ordinary Share of USD 128.63 (USD 0.175 following the Share Exchange), for a period of 28 months from April 15, 2019, subject to an accelerated exercise expiry following July 31, 2020, should the weighted volume trading price over a consecutive 30 day period exceed USD 183.75 or CAD 0.335 (based on 1:735 Share Exchange Agreement ratio between InnoCan and the Company)in Common Shares following Closing.

InnoCan assessed the accounting for the transaction and due to the fact that the exercise price of the warrants after the Share Exchange will be stated in CAD, both warrants A and B, 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 InnoCan's functional currency is the USD. The Company recognized a derivative liability and finance expense which represents the fair value of the warrants on the transaction date.

Tamar InnoVest Private Placement Agreement – pursuant to which Tamar InnoVest agreed to purchase 4,000,000 Common Shares of the Company at a price of USD 0.125 per Common Share (an aggregate amount of USD 500,000). The principal amount of USD 500,000 was put into a separate trust which was not controlled by the Company. On September 25, 2019, following the Offering, the Company received the cash from the trustee and issued 4,000,000 Common Shares of the Company to Tamar InnoVest.

Unsecured Convertible Notes Private Placement – pursuant to which Tamar InnoVest purchased a USD 500,000, non-interest-bearing convertible notes from the Company, convertible to Common Shares at a price of USD 0.09435 per Common Share by Tamar InnoVest at any time following closing and prior to maturity. The subscription amount for the note was held in escrow. On September 25, 2019, following the Offering, the Company received the cash from the escrow and issued 5,299,417 Common Shares to Tamar InnoVest.

**Financial Review**

The following financial data was prepared in accordance with IFRS and is presented for the years ended December 31, 2019 and December 31, 2018.

| | **Three months period ended December 31, 2019 (USD in thousands)** | **Three months period ended September 30, 2019 (USD in thousands)** | **Three months period ended June 30, 2019 (USD in thousands)** | **Three months period ended March 31, 2019 (USD in thousands)** |
|---|---|---|---|---|
| Selling and marketing expense | 294 | 215 | 109 | 77 |
| Research and development expense | 114 | 113 | 31 | 110 |
| General and administrative expense | 446 | 1,193 | 181 | 118 |
| **Operating loss** | 854 | 1,521 | 321 | 305 |
| Financial income | - | - | (26) | (4) |

| | | | | |
|---|---|---|---|---|
| Finance expense | (1,765) | 2,097 | 31 | 1 |
| **Loss (profit) before income taxes** | (911) | 3,618 | 326 | 302 |
| Income taxes | - | - | - | - |
| **Total comprehensive loss (profit)** | **(911)** | **3,618** | **326** | **302** |
| **Basic profit (loss) per share (*)** | **0.01** | **(0.03)** | **(0.003)** | **(0.003)** |
| **Diluted profit (loss) per share (*)** | **(0.003)** | **(0.03)** | **(0.003)** | **(0.003)** |

| | **Three months period ended December 31, 2018 (USD in thousands)** | **Three months period ended September 30, 2018 (USD in thousands)** | **Three months period ended June 30, 2018 (USD in thousands)** | **Three months period ended March 31, 2018 (USD in thousands)** |
|---|---|---|---|---|
| Selling and marketing expense | 70 | 44 | 66 | - |
| Research and development expense | 472 | 19 | 26 | 17 |
| General and administrative expense | 113 | 211 | 67 | 61 |
| **Operating loss** | 655 | 274 | 159 | 78 |
| Financial income | - | (7) | - | - |
| Finance expense | 15 | 17 | 1 | - |
| **Loss before income taxes** | 670 | 284 | 160 | 78 |
| Income taxes | - | - | - | - |
| **Total comprehensive loss** | **670** | **284** | **160** | **78** |
| **Basic and diluted loss per share (*)** | **(0.007)** | **(0.003)** | **(0.002)** | **(0.001)** |

| | Year ended December 31, | | Period between October 18 and December 31, |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| | **USD in thousands (Audited)** | | |
| Selling and marketing expense | 695 | 180 | 15 |
| Research and development expense | 368 | 534 | 11 |
| General and administrative expense | 1,938 | 452 | 57 |
| **Operating loss** | 3,001 | 1,166 | 83 |
| Finance (income) | - | - | - |
| Finance expense | 334 | 26 | - |
| Finance expense, net | 334 | 26 | |
| **Loss before taxes on income** | 3,335 | 1,192 | 83 |
| Taxes on income | - | - | - |
| **Total comprehensive loss** | 3,335 | 1,192 | 83 |
| **Basic and diluted loss per share (*)** | (0.03) | (0.01) | (0.02) |

*** after giving effect to the Share Exchange.**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| | **USD in thousands (Audited)** | | |
| **Total current assets** | 2,487 | 657 | 30 |
| **Total non-current assets** | 95 | 3 | - |
| **Total current liabilities** | 1,131 | 533 | 83 |
| **Total non-current liabilities** | 38 | - | - |

## The Year Ended December 31, 2019, compared to the Year Ended December 31, 2018

### *Selling and Marketing Expenses*

For the year ended December 31, 2019, Selling and marketing expenses amounted to USD 695,000 compared to USD 180,000 for the year ended December 31, 2018. The increase in Selling and marketing expenses in the year ended December 31, 2019 was as a result of increase in the activity of the Company. During 2019 the Company hired additional business development personnel, developed marketing materials and has prepared to launch its first products line.

The increase is comprised of an increase in salary and related expenses of USD 256,000 and an increase in service providers expenses of USD 153,000, in addition to an increase of USD 104,000 non-cash share based compensation expenses.

### *Research and Development Expenses*

For the year ended December 31, 2019, research and development expenses amounted to USD 368,000 compared to USD 534,000 for the year ended December 31, 2018. The decrease was attributed to a one time USD 419,000 expense incurred by the Company for the year ended December 31, 2018 for the entire Yissum agreement consideration.

The decrease is mainly offset by an increase in materials expenses of USD 102,000 and an increase in salary and related expenses of USD 73,000, in addition to an increase of USD 46,000 non-cash share based compensation expenses. Following the License Agreement signed with Yissum, in January 2020 (described below, under Subsequent Events), additional significant research expenses are expected in 2020.

### *General and Administrative Expenses*

For the year ended December 31, 2019, general and administrative expenses amounted to USD 1,938,000 as compared to USD 452,000 for the year ended December 31, 2018. The increase in general and administrative expenses of USD 1,486,000 in the year ended December 31, 2019 was mainly as a result of the significant increase in operations and the IPO that took place in 2019:

- IPO issuance expenses which amounted to USD 555,000. These expenses are related to a one-time event and are not expected to repeat.
- On September 25, 2019 the board of directors of the Company approved a one time share based compensation to several of its employees, directors and service providers. The share based compensation increased as a result by USD 219,000. These expenses are related to specific events and are not expected to repeat in the same amounts on a regular basis. These expenses are also a non-cash item and does not include any cash payments by the Company.
- Salary and related expenses increased by USD 197,000 in the year ended December 31, 2019 compared to the year ended December 31, 2018, as a result of the significant increase in operations and additional staff hired.
- Professional services and legal fees also increased by a total of USD 333,000, as a result of the significant increase in operations, and the Company becoming a public company. Due to a termination of a contracts with certain service providers, expenses in amount of USD 70,000 incurred in 2019, are not expected to repeat in 2020.

***Finance Expense***

For the year ended December 31, 2019, finance expense, net, amounted to USD 334,000, as compared to USD 26,000 for the year ended December 31, 2018. The increase in finance expense, net, in the year ended December 31, 2019 was a result of an increase in fair value of warrants, which is a non-cash item, and does not include cash payments by the Company.

## 3. LIQUIDITY AND CAPITAL RESOURCES

On September 25, 2019, following the execution of the Share Exchange Agreement, the Company completed the IPO. The funds raised as a result of the Offering are funding the research, development and commercialization of the Company's technology and marketing activity until reaching sufficient operating profit. Should the Company be unable to continue to obtain outside financing and or commence earning revenue to sustain a commercial operation, the Company may be unable to continue as a going concern.

Since inception, the Company has not generated any revenues and expects to continue financing itself in the foreseeable future, through the issuance of equity. The Company has generated an accumulated deficit of USD 4,610,000 since inception. These events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. These uncertainties have been largely addressed by the Tamar InnoVest USD 2,000,000 private placement (discussed above under "Significant Financial Developments during the Period") and other arrangements with Tamar InnoVest and additionally with the IPO (as mentioned above).

On December 31, 2019, the Company had working capital of USD 1,356,000, compared with USD 124,000 on December 31, 2018, which consisted of current assets of cash and cash equivalents and other receivables and current liabilities of other accounts payable, accrued liabilities and a derivative liability.

On December 31, 2019, the Company expects to have sufficient resources to continue its operations for at least the next 12 months, including the payment of current liabilities, as they fall due. To meet its full liabilities, current and non-current, the Company will need to raise additional capital.

### The Year ended December 31, 2019 compared to the Year Ended December 31, 2018

During the year ended December 31, 2019, the Company's overall position of cash and cash equivalents has increased by USD 1,759,000. This increase in cash and cash equivalents was mainly a result of the Tamar InnoVest private placement, the Convertible Notes and the IPO funds (discussed above under "Significant Financial Developments during the Period").

This increase in cash can be mainly attributed to the following:

- The Company's net cash used in operating activities during the year ended December 31, 2019 was USD 2,715,000 as compared to USD 909,000 for the year ended December 31, 2018. The net cash used in operating activities in the year ended December 31, 2019 is mainly due to a loss of USD 3,335,000, offset by a non-cash change in fair value of the warrants of USD 294,000 and a non-cash share based compensation of USD 426,000, and by an increase in other accounts payable of USD 166,000.

- Cash provided by financing activities during the year ended December 31, 2019 was USD 4,454,000 as compared to USD 1,118,000 for the year ended December 31, 2018. The cash provided in the year ended December 31, 2019, resulted mainly from the issuance of Common Shares and warrants in the aggregate amount of USD 4,492,000.

## 4. OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements.

## 5. TRANSACTIONS BETWEEN RELATED PARTIES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making operating and financial decisions. This would include the Company's senior management, who are considered to be key management personnel by the Company.

Parties are also related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

The following table sets forth information concerning the total compensation paid to the named executive officers (the "**Named Executive Officers**") of the Company.

| Principal position | Year | Salary (USD in thousands) | Share based compensation (USD in thousands) | All other compensation (USD in thousands) | Total compensation (USD in thousands) |
|---|---|---|---|---|---|
| CEO | 2019 | 219 | 113 | 52 | 384 |
| | 2018 | 54 | 57 | 54 | 165 |
| VP Business development | 2019 | 173 | 64 | 52 | 289 |
| | 2018 | 74 | - | - | 74 |
| Board of directors Chairman | 2019 | 114 | 64 | 52 | 230 |
| | 2018 | 63 | - | - | 63 |
| CFO | 2019 | - | 11 | 30 | 41 |
| | 2018 | 42 | - | - | 42 |

The Company has transactions with key management personnel.

| | As of December 31, 2019 (USD in thousands) | As of December 31, 2018 (USD in thousands) |
|---|---|---|
| Balances owing to (from) the CEO | 1 | (13) |
| Balances owing to the VP Business development | 5 | 27 |
| Balances owing to the Board of directors Chairman | 4 | 8 |
| Balances owing to the CFO | 2 | 11 |

## 6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK EXPOSURES

The Company's financial instruments consist of cash and cash equivalents and, unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

Management understands that the Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates as its operations are located in Israel, and the Company's functional and presentation currency is the USD. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The board of directors of the Company (the "**Board of Directors**") approves and monitors the risk management process. The overall objectives of the Board of Directors are to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

The type of risk exposure and the way in which such exposure is managed is as follows:

- ***Credit Risk –*** The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to financial instruments is remote.
- ***Liquidity Risk –*** The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they come due by raising sufficient funds. As of December 31, 2019, the Company had a USD 1,356,000 working capital balance (December 31, 2018 - USD 124,000), and the Company has little exposure to liquidity risk.
- ***Market Risk –*** Competitive Conditions – The pharmaceutical industry is characterized by extensive research efforts, rapid technological change and intense competition. Competition can be expected to increase as technological advances are made and commercial applications for pharmaceutical products increase. Competition in the pharmaceutical industry is based primarily on the following: product performance, efficacy, safety, ease of use and adaptability to various modes of administration, patient compliance, price, acceptance by physicians, marketing and distribution.

The availability of patent protection in the pharmaceutical market, including the United States, the European Union, Canada and other jurisdictions of commercial interest and the ability to obtain governmental approval for testing, manufacturing and marketing are also important factors. The Company faces competing forces in each of its markets, however, owing to their sheer size, each market provides ample opportunity for a new player offering novel solutions to consumers of said market, to carve out a foothold, which it can use as a springboard for capturing additional market share and for extending into other related markets.

- ***Interest Rate Risk –*** The Company has no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors its cash activity and is satisfied with the credit ratings of its banks.
- ***Foreign Currency Risk –*** The Company is exposed to foreign exchange risk as its operations are conducted primarily in US dollars.
- ***Fair Values –*** The carrying values of other receivables approximate their fair values due to their short terms to maturity. The cash is valued using quoted market prices in active markets.

## 7. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements to which this MD&A applies requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods when the revision affects both current and future periods.

Below is a list of the critical accounting estimates and judgments applied in this MD&A which may have a significant effect on the figures recognized in the financial statements.

Derivative Fair Value Measurement

During the May to June 2018 period, InnoCan signed share purchase agreements with certain Investors according to which InnoCan issued investment units consisting of 1,826 Ordinary Shares and 1,826 Ordinary Share purchase warrants, exercisable into 1,826 Ordinary Shares (1,342,110 following the share exchange). Each warrant has an exercise price equal to 50% of the price per share at the closing of an initial public offering or a reverse merger (CAD 0.09, discussed above under "**Significant Financial Developments during the Period**"). The warrants expired at December 31, 2019. Before expiration, 2 of the investors exercised their warrants.

During April 2019, InnoCan entered into various arrangements with Tamar InnoVest. As part of these arrangements, InnoCan issued warrants to Tamar InnoVest (discussed above under "**Significant Financial Developments during the Period**").

The warrants were recorded as a derivative financial liability and will be re-measured each reporting date, with changes in fair value recognized in finance expense (income), net. The derivative financial liability as at December 31, 2019 amounted to USD 536,000.

During September 2019, the Company issued 6,111,112 units (discussed above under "**Significant Financial Developments during the Period**"), as part of the Offering. Each unit consists of one Common Share (each, a "**Unit Share**") and one-half of one Common Share purchase warrant (each whole common share purchase warrant, a "**Warrant**").

The warrants were recorded as a derivative financial liability and will be re-measured each reporting date, with changes in fair value recognized in finance expense (income), net. The derivative financial liability as at December 31, 2019 amounted to USD 125,000.

The fair value of the derivatives was obtained using a structural approach. This approach is based on the Black Scholes (1973) and Merton (1974) models, which imply that all corporate securities may be analyzed as a contingent claim on the Company assets, and therefore, their value may be modeled as financial derivative contracts.

## 8. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

None

## 9. FINANCIAL COMMITMENTS

As of December 31, 2019, there is a restricted deposit in the amount of USD 24,000, which has been pledged as security to an Israeli bank to secure a credit line from the bank. In addition, deposits in the amount of USD 7,000 and USD 19,000 ware paid to secure rent and car leases obligations, respectively. The Group is currently disputing the amounts invoiced by its former legal counsel in December 2019 as they significantly exceed the amounts previously proposed and agreed upon between the parties. As of the approval date of the reports, no legal claims have been filed and partial amounts have been paid by the Group. The Group has included an accrual for the disputed amounts in its financial statements.

## 10. OTHER INFORMATION

The following details the Common Shares and warrants outstanding as of the date of this MD&A:

**Common Shares –** As of December 31, 2019, 143,866,169 Common Shares were issued and outstanding.

**Share Purchase Warrants**

| Investors | Number Of Warrants | Exercise Price | Exercisable at November 27, 2019 | Expiry Date |
|---|---|---|---|---|
| Tamar InnoVest A Warrants | 13,981,916 | USD 0.125[(2)] | 13,981,916 | April 15, 2021 [(1)] |

| | | | | |
|---|---|---|---|---|
| Tamar InnoVest B Warrants | 2,000,000 | USD 0.175[3] | 2,000,000 | August 15, 2021 [2] |
| Unit Warrants | 3,666,667 | CAD 0.30 | 3,666,667 | September 25, 2021[3] |

Notes:

(1) Exercisable at a price of USD 91.875 per share, or USD 0.125 (based on a 1:735 Share Exchange Agreement ratio between InnoCan and the Company) for a period of 24 months from April 15, 2019, subject to an accelerated exercise expiry at any time following April 15, 2020, should the weighted average volume trading price over a consecutive 30 day period exceed USD 138.696 or CAD 0.25 (based on a 1:735 Share Exchange Agreement ratio between InnoCan and the Company) in Common Shares following the Closing.

(2) Exercisable at a price of USD 128.63 per share, or USD 0.175 (based on a 1:735 Share Exchange Agreement ratio between InnoCan and the Company) for a period of 28 months from April 15, 2019, subject to an accelerated exercise expiry following July 31, 2020, should the weighted volume trading price over a consecutive 30 day period exceed USD 183.75 or CAD 0.335 in Common Shares following Closing.

(3) Each 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.

Between January and March 2019, InnoCan issued 2,081 Common Shares of NIS 0.01 par value to different investors for a total consideration of NIS 507,000 (approximately USD 141,854) on the same terms as the crowdfunding private placement.

On January 15, 2019, the Company issued the Convertible Notes in the amount of USD 300,000. The cash was put into trust and according to the agreement the Company could not receive the cash unless an IPO was completed by the end of September 2019, at a share price of at least CAD 0.15. In such an event, the Convertible Notes will be mandatorily converted into common shares at a conversion price of CAD 0.12 per share. The IPO was completed in accordance with the conditions stated above, therefore the Company received the cash from the trustee and issued 3,317,250 common shares of the Company to the investors at September 25, 2019.

During April 2019, InnoCan issued 28,840 ordinary shares of NIS 0.01 par value as part of the agreement with Tamar InnoVest (discussed above under "**Significant Financial Developments during the Period**").

On September 25, 2019 the Company issued 6,111,112 common shares as part of the IPO (discussed above under "**Share Exchange & Related Transactions**").

On September 25, 2019, as part of the Share Exchange, the Company issued 98,161,455 common shares without nominal par value to the former InnoCan shareholders.

On September 25, 2019 the Company issued 9,299,417 common shares to Tamar InnoVest (discussed above under "**Significant Financial Developments during the Period**").

Following the IPO, several shareholders invested in the Company USD 242,000.

**Incentive Stock Options**

The Company has a stock option plan (the "**Plan**"), which is intended to provide an incentive to retain, in the employ of the Company, persons of training, experience, and ability, to attract new employees, officers, directors, consultants and service providers, to encourage the sense of proprietorship of such persons, and to stimulate the active interest of such persons in the development and financial success of the Company by providing them with opportunities to purchase Common shares of the Company pursuant to the Plan.

The following table reflects the activity with respect to options of the Company from September 25, 2019 (following the IPO) to December 31, 2019:

| | Number of Options | Weighted Average Exercise Price (CAD) |
|---|---|---|
| Balance outstanding September 25, 2019 (prior to Offering) | - | - |
| Granted – exercise price 0.30 | 300,000 | 0.30 |
| Granted – exercise price 0.32 | 80,00 | 0.32 |
| Granted – exercise price 0.18 | 11,926,477 | 0.18 |
| Forfeited | (200,000) | - |
| **Balance outstanding December 31, 2019** | **12,106,477** | **0.18** |
| Exercisable options | 3,865,492 | 0.18 |

During the year ended December 31, 2019, the Company recorded an expense in the amount of USD 426,000.

**SUBSEQUENT EVENTS:**

1. On January 13, 2020, InnoCan exercised the Option in its Option Agreement and entered into the "License Agreement" with Yissum. The License Agreement grants InnoCan an exclusive license to make commercial use, on a worldwide basis, of the results of the Research. As part of the License Agreements, InnoCan agreed to finance additional research in a total amount of approximately USD 1,400,000, over a period of 15 months. InnoCan has also agreed to pay Yissum royalties of 3-5% on sales of products sold under the License Agreement, and an annual license fee of USD 35,000.
2. On January 27, 2020, InnoCan entered into an exclusive distribution agreement (the "**Distribution Agreement**") with Active Therapeutics Ltd, a company based in the UK ("**Active Therapeutics**"). According to the Distribution Agreement, Active Therapeutics

will distribute InnoCan's cannabidiol (CBD) cosmetic products exclusively in the United Kingdom and Ireland.

3. Coronavirus (COVID-19) – discussed above under "**Description of the Company's Principal Business and Operations"**.

## 11. RISKS AND UNCERTAINTIES

### Risks Related to Our Business and Industry

***Going Concern***

The Company has financed itself by the issuance of Common Shares. Following the execution of the Share Exchange Agreement, the Company has completed the IPO. The consideration raised will continue to fund the research, development and commercialization of the technology and marketing activity until reaching sufficient operating profit. Should the Company be unable to continue to obtain outside financing and or commence earning revenue to sustain a commercial operation, the Company may be unable to continue as a going concern.

Since inception, the Company has not generated any revenues and expects to continue to finance itself through raising adequate funds in the foreseeable future. In addition, it has incurred a net loss of USD 3,335,000 for the year ended December 31, 2019 and generated an accumulated deficit of USD 4,610,000 since inception. These events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. These uncertainties have been largely overcome by the Tamar InnoVest USD 2,000,000 private placement (discussed above under "Significant Financial Developments during the Period") and other arrangements with Tamar InnoVest and additionally with the IPO (as mentioned above).

***Regulatory risks***

Successful execution of the Company's strategy is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products, including maintaining and renewing its licenses. The impact of regulations in the jurisdictions where the Company is looking to operate or sell its products, such as the compliance regimes under the Food and Drug Administration, European Medicines Agency, and Health Canada, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, financial condition and operating results of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could

have a material adverse effect on the business, financial condition and operating results of the Company.

***Change in laws, regulations and guidelines***

The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, packaging/labelling, advertising, sale, transportation, storage and disposal of pharmaceutical products but also including laws and regulations relating to drug, controlled substances, health and safety, the conduct of operations and the protection of the environment at the territories the Company is looking to be active. While to the knowledge of management, other than routine corrections that may be required by health authorities in the U.S., Canada and European Union from time to time, the Company is currently in compliance with all such laws. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to its operations.

The Company endeavors to comply with all relevant laws, regulations and guidelines in the countries that the Company is looking to be active. To the Company's knowledge, it is complying or is in the process of being assessed for compliance with all such laws, regulations and guidelines as described elsewhere in this MD&A.

***Medical research of phytocannabinoids***

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy and dosing of cannabis or isolated phytocannabinoids remains in their early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated phytocannabinoids. The statements made in this MD&A concerning the potential medical benefits of cannabinoids are based on published articles and reports with details of research studies and clinical trials, including those shown in the list of third-party studies summarized in the Company's IPO. As a result, the statements made in this MD&A are subject to the experimental parameters, qualifications and limitations in the studies that have been completed.

***We rely on management and need additional key personnel to grow our business, and the loss of key employees or inability to hire key personnel could harm our business.***

We believe our success has depended, and continues to depend, on the efforts and talents of our management team and employees. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. In addition, the loss of any of our senior management or key employees could materially adversely affect our ability to execute our business plan and strategy, and we may not be able to find adequate replacements on a timely basis, or at all. We do not maintain key person life insurance policies on any of our employees.

***Factors which may prevent realization of growth targets***

The Company is currently in the expansion stage from early development stage. There is a risk that expansion and development will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these

Risks and Uncertainties and the following:

1. failure or delays in obtaining, or conditions imposed by, regulatory approvals;
2. environmental pollution; non-performance by third party contractors; increases in materials or labour costs; construction performance falling below expected levels of output or efficiency;
3. breakdown, aging or failure of equipment or processes;
4. contractor or operator errors;
5. operational inefficiencies;
6. labour disputes, disruptions or declines in productivity; inability to attract sufficient numbers of qualified workers; disruption in the supply of energy and utilities; and
7. major incidents and/or catastrophic events such as fires, explosions or storms.

As a result, there is a risk that the Company may not have product or sufficient product available to meet the anticipated demand or to meet future demand when it arises.

***Additional financing***

There is no guarantee that the Company will be able to execute on its strategy. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of the current business strategy or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may contain provisions, which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing. The Company may require additional financing to fund its operations to the point where it is generating positive cash flow. Negative cash flow may restrict the Company's ability to pursue its business objectives.

***Competition***

There is potential that the Company will face intense competition from other companies, some of which can be expected to have more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

***Research and development and product obsolescence***

Rapidly changing markets, technology, emerging industry standards and frequent introduction of new products characterize the Company's business. The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render the Company's products obsolete, less competitive or less marketable. The process of developing the Company's products is complex and requires significant continuing costs, development efforts and third party commitments The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect the business, financial condition and operating results of the Company. The Company may be unable to anticipate changes in its potential customer requirements that could make the Company's existing technology obsolete. The Company's success will depend, in part, on its ability to continue to enhance its existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of the Company's proprietary technology entails significant technical and business risks. The Company may not be successful in using its new technologies or exploiting its niche markets effectively or adapting its businesses to evolving customer or medical requirements or preferences or emerging industry standards.

***Transportation risks***

Due to the perishable and premium nature of the Company's products, the Company will depend on fast and efficient third party transportation services to distribute its product. Any prolonged disruption of third party transportation services could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the third party transportation services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

Due to the nature of the Company's products, security of the product during transportation to and from the Company's facilities is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the business, financial condition and operating results of the Company. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under its licenses or the prospect of renewing its licenses.

***We may be subject to unfavourable publicity or consumer perception***

The Company believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical cannabis produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media

attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Company's products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

***Product liability***

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, financial condition and operating results of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

***Product recalls***

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products produced by the Company are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if

one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for products produced by the Company and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the operations of the Company by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

***Reliance on key inputs***

The Company's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

***Dependence on suppliers and skilled labour***

The Company is dependent on various suppliers for inputs for its commercial products, in particular, the availability of CBD will vary in various target markets, depending on national regulations and supply levels.

***Difficulty to forecast***

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis pharmaceutical industry in North America and Europe. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

***Operating risk and insurance coverage***

The Company has insurance to protect its assets, operations and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

***Management of growth***

The Company may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will

require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

***Conflicts of interest***

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or Companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

***We are subject to environmental regulations and risks***

The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the business, financial condition and operating results of the Company.

Government approvals and permits are current and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed production of medical cannabis or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities

causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

***In certain circumstances, the Company's reputation could be damaged***

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regard to the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

***Third party reputational risk***

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's medical cannabis business activities. This may impact the Company's ability to retain current partners, such as its banking relationship, or source future partners as required for growth or future expansion in Canada or the United States. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

***Changes to safety, health and environmental regulations could have a material effect on future operations***

Safety, health and environmental legislation affects nearly all aspects of the Company's operations including product development, working conditions, waste disposal and emission controls. Compliance with safety, health and environmental legislation can require significant expenditures and failure to comply with such safety, health and environmental legislation may result in the imposition of fines and penalties, the temporary or permanent suspension of operations, clean-up costs resulting from contaminated properties, damages and the loss of important permits. Exposure to these liabilities arises not only from the Company's existing operations, but from operations that have been closed or sold to third parties. The Company could also be held liable for worker exposure to hazardous substances and for accidents causing injury or death. There can be no assurances that the Company will at all times be in compliance with all safety, health and environmental regulations or that steps to achieve compliance would not materially adversely affect the Company's business.

Safety, health and environmental laws and regulations are evolving in all jurisdictions where the Company has activities. The Company is not able to determine the specific impact that future changes in safety, health and environmental laws and regulations may have on its operations and activities, and its resulting financial position; however, the Company anticipates that capital

expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent safety, health and environmental regulation. Further changes in safety, health and environmental laws, new information on existing safety, health and environmental conditions or other events, including legal proceedings based upon such conditions or an inability to obtain necessary permits, may require increased financial reserves or compliance expenditures or otherwise have a material adverse effect on the Company.

***Disruption of Supply Chain***

Conditions or events including, but not limited to, those listed below could disrupt the Company's supply chains, interrupt operations at its facilities, increase operating expenses, resulting in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred:

(a) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.;
(b) a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity;
(c) political instability, social and labour unrest, war or terrorism; and
(d) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road.

***Information systems security threats***

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("**IT**") services in connection with its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.
The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Additional information:
The Company files annual and interim financial reports and MD&A information circular, and other information with certain Canadian regulatory authorities. The documents filed with Canadian securities regulatory authorities are available at www.sedar.com.

March 31, 2020
Iris Bincovich
President