INNOCAN PHARMA CORPORATION

Management's Discussion and Analysis
For the year ended December 31, 2021

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 notes to the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2021.

The date of this management's discussion and analysis ("**MD&A**") is March 29, 2022. 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

Company Overview

Innocan Pharma Corporation was incorporated under the *Canada Business Corporations Act* on May 31, 2018. The Company's registered office is 1015, 926 – 5 Avenue SW Calgary, Canada and its corporate website is www.innocanpharma.com. The Company is publicly listed on the Canadian Securities Exchange (the "**CSE**") trading under the symbol INNO and is the parent company of Innocan Pharma Ltd. ("**Innocan**").

Innocan is a pharmaceutical company which specializes in integrating cannabinoids with existing proven drugs to enhance their capabilities by harnessing the cannabinoids healing properties and interaction with the human body's endocannabinoid system. Innocan is at a pre-clinical stage and is expected to conduct activities mainly in the United States (US), Canadian and European markets.

In October 2019, Innocan announced its plans to enter the cannabidiol (CBD) beauty market and to manufacture cannabidiol (CBD) cosmetic products. Innocan intends to be selling its CBD cosmetic products primarily in the US, Canadian and European markets. For more information on Innocan's product lines, please see details on its corporate website at www.innocanpharma.com.

References throughout to "Innocan" and the "Company" refer generally to the collective activity and operations of both entities, in aggregate.

Description of the Company's Principal Businesses and Operations

Company's Activity Under Research Agreements

On January 14, 2021, the Company announced the successful completion of a large-scale production of exosomes under its CBD Loaded Exosome (CLX) therapy project led by Professor Offen, of Tel Aviv University in Israel, demonstrates the possibility of reliable large-scale production of exosomes and is an important milestone in the CLX therapy development process. Under the project, Innocan produced trillions of exosomes in a short period of time in a three-dimensional bioreactor, which could lead to large-scale CLX production.

On January 22, 2021, the Company announced a successful manufacturing demonstration of liposome platform technology (LPT) CBD-loaded liposomes under aseptic conditions, together with the Hebrew University of Jerusalem. This demonstration brings the product closer to market in that it moves the process toward animal and human clinical studies. It also supports future studies on small and large animals, examining the therapeutic efficacy of Innocan's CBD-loaded LPT in relevant diseases. These studies follow the results of previous studies that demonstrated prolonged release of cannabidiol into the blood of mice and rats, for at least three weeks after a single injection.

On May 14, 2021, the Company announced that a study conducted in mice based on Innocan's licensed CBD-loaded LPT for injectable CBD solutions demonstrated a prolonged release of CBD into the bloodstream of mice, for at least 50 days following two injections. This study was led by Dr. Ahuva Cern, a senior researcher in the laboratory of Professor Barenholz of The Hebrew University of Jerusalem. These results are significant in comparison to oral or inhalation-based intake methods, in which CBD is found to remain in the bloodstream for a maximum-period of 36

hours following a single dose.

On June 11, 2021, the Company announced that a recent study conducted on mice demonstrated a prolonged release of cannabidiol into the bloodstream of mice, for at least seven weeks following two injections. This study was led by Dr. Ahuva Cern, a senior researcher in the lab of Professor Chezy Barenholz of The Hebrew University of Jerusalem and is based on Innocan's licensed CBD-loaded LPT for injectable CBD solutions.

On August 3, 2021, the Company updated its progress in the pre-clinical studies of its LPT. To date, the Company has completed two pre-clinical trials on animals. After a single intra-muscular injection, the first trial resulted in the presence of a high level of CBD for at least 3 weeks in the plasma, and demonstrated no side effects. In the second trial, the researchers observed the effect of CBD in a disease model of the central nervous system, while CBD was detected for a period of over seven weeks, after two injections.

On August 18, 2021, the Company announced that it had issued a notice to Ramot, the Technology Transfer Company of Tel Aviv University (TAU), declaring the Company's intention to exercise its option to enter into a full Research and License Agreement with Ramot. Innocan's project with TAU is aimed at developing a breakthrough technology platform that enables the delivery of cannabinoids by loading them on Exosomes to be delivered to a specific body organ.

On September 3, 2021, the Company announced results of an experimental study of its CBD-loaded liposome technology in large animals, which demonstrated a similar pharmacokinetic (PK) profile to previous small animal studies. The data obtained suggests that Innocan's LPT platform may be suitable for human therapeutic applications.

On October 19, 2021, the Company announced the results of a recent study showed the presence of CBD in mice's brains 41 days after being injected with Innocan's CBD LPT. In contrast, no CBD was demonstrated in mice's brains 22 days following the injection of free CBD (without using Innocan's LPT delivery system). Prolonged and controlled release of CBD from Innocan's novel LPT platform injected subcutaneously, showed continuous clinically relevant concentrations of CBD in the blood for an extended period of time.

The Company believes that the extended presence of CBD in blood renders local administration, superior to orally administered CBD in two respects: (a) it will all allow a single administration of CBD instead of daily administration; and (b) it will overcome the low (i.e., 10-20%) oral bioavailability of CBD. The superior PK of the CBD Delivery System administered, may achieve controlled concentration of CBD in the blood leading to a better clinical outcome.

On November 10, 2021, the Company announced further progress in the CBD CLX research. The researchers at Professor Offen's laboratory at the Tel Aviv University succeeded in characterizing the profile of the micro-RNA content in exosomes. The new analysis will allow more accurate characterization of the exosomes intended for treatment combined with CBD. Characterization of the exosomes is a further step in the FDA regulatory process.

On November 18, 2021, the Company announced the successful demonstration of prolonged release of CDB in dogs using its LPT platform, which demonstrated prolonged plasma concentrations for at least six weeks after a single administration. The dog received a single administration of 5 mg/kg dose injected subcutaneously. Comparatively, the common

practice for oral CBD dosing is in the range of 1-4 mg/kg daily (given in two doses)1 with a half-life of four to five hours. This translates to administration of 30-120 mg/kg per month as compared to the 5 mg/kg single LPT dose that was lasted for at least six weeks. This study highlighted one of the advantages of the LPT technology over the oral CBD administration.

On December 9, 2021, the Company announced that after the early results of its CBD CLX, it signed a research and license agreement with Ramot of TAU. The agreement is designed to execute and extend a previously announced research and option agreement between Innocan and Ramot dated April 17, 2020 (the "Ramot Agreement"). The new agreement finalizes certain terms of the Ramot Agreement and defines the royalties and payments Ramot would receive under various scenarios. The new agreement expands the Ramot Agreement regarding the research plan by introducing a broader research work plan that will be carried out over the next 21 months, which will continue the development of the CLX platform and may expand the potential applications of the technology being developed at Ramot.

The table below provides a description of each of Innocan's major projects. More stages are required in order to receive full regulatory approval. Forward-looking information is based on estimations at the time of this report. Actual results may vary.

Milestones	Status	Expenditures incurred to date (USD)	Estimated remaining costs to achieve milestone (USD)	Expected time period	Comments
Project: CLX, CBD Loaded Exosomes					
Literature research	Concluded	-	-	-	-
Exosome production	Ongoing	50,000	90,000	On-going	-
Exosome characterization	Concluded	Part of the payment to Ramot	N/A	-	-
CBD synthesis for Exosome loading	Ongoing	150,000	50,000	Q2/22	Including upscaling
Loading the CBD in the Exosome	Ongoing	Part of the payment to Ramot	Part of the payment to Ramot	Q2-3/22	-
In - Vitro	Ongoing	Part of the payment to Ramot	Part of the payment to Ramot	Q3/22	-
In-Vivo (animal study)	In preparation	Part of the payment to Ramot	Part of the payment to Ramot	Q2/22	Several animal models are being considered
Ramot research		900,000	1,200,000		
Project: LPT, CBD Loaded Liposomes					
Development of initial matrix of liposomal formulations of CBD	Concluded	Part of the payment to Yissum	Part of the payment to Yissum	-	-

Characterization of the physicochemical properties, drug loading, short-term stability, and release in the presence of serum	Concluded	Part of the payment to Yissum	Part of the payment to Yissum	-	-
Small animal study	Concluded	Part of the payment to Yissum	Part of the payment to Yissum	-	
Animal study of different indications	Ongoing	Part of the payment to Yissum	Part of the payment to Yissum	Q4/21 - Q4/22	Includes dogs, rats and mice
Safety in animals (including pharmacokinetic, toxicity, bio-distribution)	Awaiting for animal model results	-	500,000	Q4/22 - Q2/23	-
Yissum Research		2,900,000	1,600,000 (see comment)		The Company and Yissum entered negotiations for a new research & license agreement, for the next phase of the research. The Company is intending to sign a sub-licensing agreement before reaching Phase II stage.

Company's Products

Among the Company's products are the CBD eye serum, CBD face oil, CBD face cream, CBD facial serum, CBD sleeping mask, CBD recovery lotion, and the Relief & Go spray.

On January 5, 2021, the Company announced the launch of its commercial web-platform shop.innocanpharma.com. The Company, through Innocan, entered into various agreements with respect to the fulfillment, logistics, and service of its new web-platform. The online product distribution will be led by Brandzon Co Ltd. (www.brandzon.co), a company specializing in ecommerce growth and worldwide acceleration.

On February 22, 2021, the Company announced the completion of its first full, large-scale commercial production of its SYNONY premium cosmetic line and its Relief & Go OTC pain relief spray in the US as well as the launch of its US commercial website. It also announced that Innocan

had completed manufacturing in the US of 40,000 units of its SYNONY and Relief & Go brands. In addition, the Company announced the launch of its North American commercial web-platform, https://synonyshop.com/. Further, the Company announced that it had entered into various agreements with respect to fulfillment, logistics, and service related to the new North American website.

On April 22, 2021, the Company announced the signing of a commercial distribution agreement with Polyflame Europe SAS ("Polyflame"). As part of the multi-year agreement, Polyflame will have an exclusive right to distribute both of Innocan's SHIR and Relief & Go brands in France, subject to relevant regulation in France.

On June 16, 2021, the Company announced that it has completed a cosmetic clinical study of SHIR CBD Eye Serum on 22 human volunteers. Roughly 54% of participants in the study demonstrated a decrease of volume of the participants' eye bags of between 52.18% and 90.06%. These effects were also observed 28 days after consecutive application of the investigational product when compared to the baseline. The clinical study was conducted by UPTEC, Science and Technology Park of the University of Porto, Portugal which is an independent lab. The findings of the clinical study were consistent with the main principles of ICH Good Clinical Practice guideline, the Helsinki declaration and Portuguese legal requirements.

On June 24, 2021, the Company announced that it has completed a cosmetic clinical study of its SHIR CBD+ Anti-Aging Sleeping Mask. The study demonstrates that women who tested the product experienced a reduction in the appearance of their lines and wrinkles by up to 28.8% after four weeks. Further, 90.5% of the participants expressed that they would recommend the product to a friend and would like to buy the product.

On July 1, 2021, the Company announced that it had entered into an exclusive distribution agreement with Health Investment Group S.A ("HIG"), under which HIG will distribute Innocan's SHIR and Relief & Go brands in Poland. HIG is part of the IPS Holding Group, and is responsible for the international JUST BUY IT project. HIG is also responsible for strategic initiatives within the IPS Holding Group, and currently works with nearly 30 international brands for exclusive distribution in Poland.

On August 11, 2021, the Company announced that it entered into a manufacturing and distribution agreement with Ayurcann Inc. ("Ayurcann") to manufacture and distribute Innocan's CBD topical products in Canada, including its SHIR and Relief & Go products. Ayurcann will act as the exclusive Canadian distributor for these products, and shall pay the Company royalties based on net sales.

Company IP

On March 10, 2021, the Company filed an international patent application for a novel cannabis-based anti-itch treatment. The composition is comprised of a pharmaceutically effective amount of a cannabinoid and active ingredients to aid in the relief of itching associated with insect bites, rash, cuts, burns or exposure to various allergens.

On June 14, 2021, the Company filed an international patent application for a novel cannabis-based vaginal moisturizer and lubricant treatment. The composition comprises cannabinoids and additional agents of a phytoestrogen and hyaluronic acid and may be applied to alleviate vaginal dryness and vaginal atrophy. Vaginal moisturizers and lubricants are applied to help overcome vaginal dryness and solve intercourse difficulties. Vaginal dryness is a common condition faced by women of all ages; however, it is particularly common during and after the menopause transition. It is the result of decreased levels of estrogen, a hormone that keeps the lining of the vagina thick, moisturized, and lubricated. The vaginal moisturizers and lubricants market is expected to grow from USD 2.15 billion in 2021 to USD 3.14 billion by 2026, demonstrating a compound annual growth rate of 7.4%, according to a report issued by Market Data Forecast in December 2020.

On July 9, 2021, the Company announced the filing of an international patent application for topical treatment for diabetic symptoms. The patent application discloses and makes claims for several compositions for topical administration of cannabinoid for the treatment of diabetic related conditions. Specifically, the compositions enable enhanced blood flow to peripheral areas in patients suffering from diabetes symptoms.

On July 28, 2021, the Company announced the filing of a patent application for the treatment and prevention of hair loss, which claims several compositions for topical administration of cannabinoid for the treatment and prevention of hair loss.

On September 24, 2021, the Company announced the filing of an international patent application by Ramot at Tel Aviv University for Innocan's cannabinoid loaded exosome delivery platform (CLX). The new patent application covers the ability of a cannabinoid loaded exosome to target specific organs.

On October 4, 2021, the Company announced that a new patent application has been filed for Innocan's CBD Delivery System Technology, alongside the existing LTP (CBD Loaded Liposomes) and CLX. The new patent application discloses a unique and novel delivery system allowing the controlled release of CBD into the blood stream with improved PK performance. This patent application is a significant milestone in the research conducted in collaboration with the Hebrew University, that indicates the potential of the Company's technological ability to deliver cannabinoids to the blood stream in precise and effective administration.

Other Businesses and Operations

On March 23, 2021, the Company announced the addition of Dr. Mitchell Kline to its Scientific Advisory Committee. Dr. Kline will serve as an active member of Innocan's research and development team, utilizing his extensive experience in researching and treating different skin conditions to further develop Innocan's derma cosmetic line. Dr. Kline is a board-certified, fellowship-trained surgical and clinical dermatologist, currently acting as the Principal Clinician at Kline Dermatology and the Clinical Assistant Instructor of Dermatology at Weill Cornell Medical College. He has published over ten articles, holds 23 organizational memberships, has generated five research and concept proposals, and has participated in over 14 grand rounds presentations. Dr. Kline has served on the boards of various leading organizations, including Healthright International, Whitehead Institute-MIT, American Academy of Dermatology, Dermatology Foundation, New York Academy of Sciences and the American Society for Dermatologic Surgery.

On April 6, 2021, the Company announced the addition of Richard Serbin to its Advisory Committee. Richard Serbin will work closely with the Company's leadership to address the emerging global pharma opportunities, to expand the Company's global presence as part of its growth strategy, and will bring his extensive experience as former Johnson & Johnson's Executive Vice President of Corporate Development, and as a former board member of more than 16 companies. Richard Serbin is a regulatory attorney, a patent attorney, and a pharmacist. He has worked in the pharmaceutical industry for over 40 years, including at Schering-Plough Corporation as an attorney and patent attorney; at Revlon and Revlon Healthcare as Chief FDA Counsel; and at Johnson & Johnson Corporation as FDA Counsel and subsequently as VP of Corporate Development. Richard established several US and international medical communication companies, which were subsequently acquired by large international companies. Richard Serbin is the co-founder of Bio-Imaging Technologies, which used NASA's LANDSAT technology for clinical evaluations, and has extensive experience dealing with FDA issues and with licensing and acquisition activities and strategic planning.

On May 6, 2021, the Company announced it began trading on the OTCQB Venture Market and is eligible for electronic clearing and settlement through the Depository Trust Company in the US. The Company's common shares in the capital of the Company (the "**Common Shares**") are quoted in the US on the OTCQB Venture Market under the ticker symbol "INNPF".

On July 14, 2021 the Company announced the addition of Izhar Shay, former Israeli Minister of Science and Technology and highly influential venture capitalist to join the Company's Advisory Committee. Until January 2021, Izhar Shay was the Minister of Science and Technology in the 35th Government of the State of Israel. Prior to that role, he managed the activities of Canaan Partners in Israel and led its investments in a variety of companies, including LiveU, N-trig, Rollout.io, Drupe, Regulus and Prime Sense. Shay is currently a venture partner with Disruptive AI, an early stage deep-tech venture capital firm focused on artificial intelligence investments. Shay is the Chairman of Kendago, a leading digital marketing group, and he is actively involved in several other innovative companies as an advisor, board member and mentor for executives and entrepreneurs.

On November 5, 2021, the Company announced that all investors who participated in the Company's December 2020 private placement had fully exercised the common share purchase warrants issued to them as part of that offering. The exercise of the warrants by the investors resulted in a total cash receipt for the Company of approximately CAD $1.4 million and resulted in the issuance of 3,998,705 Common Shares of the Company.

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 were delayed, the production of some of these products were 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 Innocan's marketing abilities, especially of new brands. These Event and Measures also influenced negatively on off-line retail sales worldwide, diminishing Innocan's ability to sell its products in stores, limiting its sales mainly to on-line retail. These Measures and general circumstances could influence the ability of Innocan to raise additional funds either privately or in the public markets in the future. These uncertainties may affect the future cash flow and sales and revenue of Innocan, the amounts of which cannot be determined at this time.

Significant Financial Developments during the Period

1. On January 21, 2020, Innocan entered into a Research and License agreement with Yissum Research Development Company of the Hebrew University of Jerusalem Ltd. ("**Yissum**") (the "**Yissum Research & License Agreement**"). The Yissum Research & License Agreement grants Innocan an exclusive license to make commercial use, in order to develop, manufacture, market, distribute or sell, on a worldwide basis, the results of the research, for a period of twenty years, unless terminated earlier. As part of the Yissum Research & License Agreement, Innocan agreed to finance additional research in a total amount of approximately USD 1.4 million, over a period of 18 months, in six installments. As part of the Yissum Research & License Agreement. Innocan has also agreed to pay Yissum royalties of 3% to 5% of sales of products sold under the Yissum Research & License Agreement and an annual license fee of USD 35,000. During 2021 the Yissum Research & License Agreement concluded, and Innocan and Yissum entered into negotiations for a new research & license agreement, for the next phase of the research.

2. On April 17, 2020, Innocan entered into a research agreement with Ramot of Tel Aviv University in Israel (the "**Ramot Research Agreement**"). The Ramot Research Agreement allows Innocan to receive the research results of Ramot in respect of the development of cannabidiol loaded exosomes (the "**CLX Research**") and grants Innocan an exclusive option (the "**CLX Option**") to enter into an agreement to license the results of the CLX Research on a worldwide basis. Under the Ramot Research Agreement, Innocan provided financing for the CLX Research in the amount of USD 446,000 over a period of 18 months in exchange for the CLX Option. Innocan may exercise the CLX Option at any time during the CLX Research until the date that is thirty days from Innocan's receipt of the final report in respect of the CLX Research (which is due during the fourth quarter of 2021) by notifying Ramot in writing (the "**Option Exercise Notice**").

   In August 2021 Innocan notified Ramot it was electing to exercise the CLX Option, and, on December 6, 2021, Innocan entered into a license and research agreement with Ramot (the "Ramot License & Research Agreement"). As part of the Ramot License & Research

Agreement, Innocan agreed to finance additional research in a total amount of approximately USD approximately 1.18 million, over a period of 21 months, in four installments. During 2021, Innocan paid a part of the first installment, in the total amount of approximately USD 135,000 and a license fee in amount of USD 20,000.

The Ramot License & Research Agreement grants Innocan an exclusive license to make commercial use, in order to develop, manufacture, market, distribute or sell, on a worldwide basis, the results of the CLX Research, for a period of the longer of: (a) 15 years from the date of the first commercial sale of such product in such country; (b) until the last to expire of the Ramot patents and joint patents in such country, and (c) until the end of any exclusivity on the product granted by a regulatory or government body. As part of the Ramot License & Research Agreement, Innocan has also agreed to pay Ramot royalties of 3.5% on future sales of products sold under the Ramot License & Research Agreement and an upfront license fee of USD 20,000.

3. On October 13, 2021, the Company completed a non-brokered private placement (the "October 2021 Private Placement"), pursuant to which the Company issued 9,679,000 Common Shares and 9,679,000 Common Share purchase warrants ("Common Warrants") at a combined purchase price of CAD 0.85 per unit for gross proceeds of CAD 8,227,150. Each Common Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 1.10 until October 13, 2026.

Financial Review

The following financial data was prepared in accordance with IFRS and is presented for the years ended December 31, 2021 and December 31, 2020. See below discussion for period over period variations.

Summary of quarterly results (USD in thousands, except for per share data):

	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Revenues	16	54	89	37	8	-	-	-
COGS	6	23	33	13	5	-	-	-
Selling and marketing expense	880	406	386	823	348	191	206	169

Research and development expense	311	211	375	502	425	491	488	340
General and administrative expense	790	1,038	378	1,199	482	486	399	382
Issuance expense	302	-	-	-	-	-	321	-
Total operating loss	2,273	1,624	1,083	2,500	1,252	1,168	1,414	891
Total finance expense (income), net	(1,668)	2,009	(46)	2,316	5,039	393	351	(555)
Total comprehensive loss (profit)	605	3,633	1,037	4,816	6,291	1,561	1,765	336
Basic loss (profit) per share	(0.003)	(0.016)	(0.005)	(0.024)	(0.036)	(0.009)	(0.012)	(0.002)
Diluted loss per share	(0.003)	(0.016)	(0.005)	(0.024)	(0.036)	(0.009)	(0.012)	(0.002)

	Year ended December 31,	
	2021	2020
	USD in thousands	
Revenues	196	8
Gross profit	121	3
Research and development expenses	1,399	1,744
Selling, general and administrative expenses	6,202	2,984
Operating loss	7,840	4,725
Financial expense, net	2,611	5,228
Total comprehensive loss	10,091	9,953

	Year ended December 31,		
	2021	2020	2019
	USD in thousands		
Total current assets	12,521	4,278	2,487
Total non-current assets	54	56	95
Total current liabilities	3,564	7,940	1,131
Total non-current liabilities	-	1	38
Total revenues	196	8	-
Total comprehensive loss attributed to the owners of the parent	10,047	9,953	3,335
Basic and diluted loss per share	(0.05)	(0.06)	(0.03)

The Year Ended December 31, 2021, compared to the Year Ended December 31, 2020

Revenues

For the year ended December 31, 2021, revenues amounted to USD 196,000 compared to USD 8,000 for the year ended December 31, 2020. The Company's first revenue was recognized in the fourth quarter of 2020. The revenues in the year ended December 31, 2021, are mainly comprised of sales to distributors in the US, Germany, France, and Poland. The main products that were sold during the year ended December 31, 2021, were the Relief & Go pain relief spray, SHIR face cream and SHIR Eye Serum.

Selling and Marketing Expenses

For the year ended December 31, 2021, selling and marketing expense amounted to USD 2,495,000 (USD 2,005,000 not including non-cash share-based compensation expense) compared to USD 914,000 for the year ended December 31, 2020. Of the total increase of USD 1,581,000, an amount of USD 370,000 was attributed to an increase in share-based compensation expense as a result of options granted during the year ended December 31, 2021 (to selling and marketing service providers and employees of the Company). This expense is a non-cash item and does not influence the cash flows of the Company nor results in negative cash flow. Salary and related expense increased by USD 144,000 in the year ended December 31, 2021, mainly due to hiring of additional employees and the payment of annual bonuses for each of 2020 and 2021 (during 2020 no annual bonuses were paid by the Company). The remainder of the increase in selling and marketing expenses, of approximately USD 1,067,000 in the year ended December 31, 2021, was mainly as a result of an increase in the selling and marketing activities of the Company, compared to the year ended December 31, 2020, during which most activities were suspended due to COVID-19. During the year ended December 31, 2021, the Company continued to search for new business opportunities, develop its marketing materials, and prepared to launch its product lines, SHIR and SYNONY.

Research and Development Expenses

For the year ended December 31, 2021, research and development expense amounted to USD 1,399,000 compared to USD 1,744,000 for the year ended December 31, 2020. The decrease, of USD 345,000, is mainly attributed to the Research and License Agreement with Yissum, which ended in July 2021. As a result, the research expenses for the Research and License Agreement with Yissum in 2020 were recorded for a full year, while in 2021 they were recorded for a period of seven months, until July 2021. Currently, a new research agreement, for the next phase of the research is being negotiated between the Company and Yissum.

General and Administrative Expenses

For the year ended December 31, 2021, general and administrative expense amounted to USD 3,707,000 (USD 2,142,000 not including non-cash share-based compensation expense) as compared to USD 2,070,000 for the year ended December 31, 2020. The increase of USD 1,637,000 in general and administrative expenses compared to the year ended December 31, 2020, is attributed to the following changes:

- share-based compensation expenses, which is a non-cash item and does not affect the cash flows of the Company or result in any negative cash flow, increased by USD 1,222,000 as a result of options granted, mainly to employees and directors of the Company, during the year ended December 31, 2021, compared to the year ended December 31, 2020. This increase resulted from an increase in the number of options granted, and also from an increase in the fair value of the options granted in 2021, as a result of increased share prices of the Company;
- salary and related expenses increased by USD 155,000 in the year ended December 31, 2021, mainly due to hiring of additional employees and the payment of annual bonus for both years 2020 and 2021 (during 2020 no annual bonuses were paid by the Company);
- insurance expenses increased by USD 87,000 in the year ended December 31, 2021, due to increased insurance premiums across the industry, including for officers and directors insurance; and
- the remainder of the increase is mainly attributed to an increase in professional services expenses, and travel expenses (there were no travel expenses recorded in 2020 due to Covid-19 restrictions).

Finance Expense (income)

For the year ended December 31, 2021, net finance expenses amounted to USD 2,611,000 as compared to a net finance expenses of USD 5,228,000 for the year ended December 31, 2020. The decrease in finance expense, net for the year ended December 31, 2021, was mainly as a result of changes in fair value of warrants outstanding during the year ended December 31, 2021, compared with the changes in fair value of warrants outstanding during the year ended December 31, 2020. This change in fair value of warrants outstanding is mainly affected by the share price of the Company and the amount of warrants outstanding during each year. The number of warrants outstanding decreased significantly during the year ended December 31, 2021, as a result of warrant exercises (see also "Other information" below). The decrease in net finance expenses resulting from changes in fair value, is a non-cash item, and does not affect the cash flows of the Company or resulting in any negative cash flow.

Further details on changes in expenses for the previous year presented in the table above can be found at relevant Management Discussion and Analysis documents and Management Information Circulars, that have been filed with Canadian securities regulatory authorities and are available at www.sedar.com.

3. LIQUIDITY AND CAPITAL RESOURCES

On October 13, 2021, the Company completed the October 2021 Private Placement. The proceeds of the October 2021 Private Placement are being used to fund the research, development and commercialization of the Company's technology and marketing activities. Should the Company be unable to continue to obtain 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 generated an amount of revenue lower than its operational expenses. The Company believes it has the capability to continue financing itself in the foreseeable future, through the issuance of equity. The Company has generated an accumulated deficit of USD 24,610,000 since inception (much of this deficit was a result of the changes in finance expense, which is a non-cash item, and does not affect the cash flows of the Company or resulting in any negative cash flow). 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 addressed, in part, by the completion of the October 2021 Private Placement, and by funds received during the year ended December 31, 2021 from warrants exercised.

As of December 31, 2021, the Company had working capital of USD 12,035,000, compared with USD 3,330,000 on December 31, 2020, which consisted of current assets of cash and cash equivalents, other accounts receivable and inventory, and trade accounts payable, other accounts payable and accrued liabilities. The working capital above is a non-GAAP measure since it does not include the balance of the warrants under current liabilities. The warrants balance was not included since it has no effect on the future cash flow of the Company, and not current or future payments are required to be made by the Company.

As of the date of this MD&A, the Company anticipates raising additional funds in the future to support additional research and development costs and to have sufficient resources to support its operations, including the payment of current and non-current liabilities, as they become due.

The Year Ended December 31, 2021, compared to the Year Ended December 31, 2020

During the year ended December 31, 2021, the Company's overall position of cash and cash equivalents increased by USD 8,710,000, compared to USD 365,000 in the year ended December 31, 2020.

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

- The Company's net cash used in operating activities during the year ended December 31, 2021 amounted to USD 6,629,000 as compared to USD 3,687,000 for the year ended December 31, 2020. The increase in net cash used in operating activities in the year ended December 31, 2021 is mainly attributed to the increased sales and marketing payments, compared to the year ended December 31, 2020, due to sales commencing towards the end of the year. Other factors which contributed to the increase in net cash used in operating activities are the payment of annual bonuses at the end of 2021 (these bonuses were paid for 2020 & 2021, since no annual bonuses were paid in 2020), and timing differences where certain payments, mainly research and development payments, were made at the beginning of January 2021 instead of December 2020.
- The Company's net cash provided by financing activities during the year ended December 31, 2021 amounted to USD 15,303,000 as compared to USD 4,024,000 for the year ended December 31, 2020. The increase in cash provided by financing activities during the year ended December 31, 2021 is attributed to the October 2021 Private Placement closed in October 2021, and to the warrants exercised during the period, where the amount of warrants outstanding decreased from approximately 54 million warrants outstanding in

December 31, 2020 to approximately 10 million warrants outstanding in December 31, 2021, due to exercises.

- Exchange rate fluctuations caused the Company's overall position of cash and cash equivalents to increase by USD 84,000.

4. 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 for the year ended December 31, 2021 and December 31, 2020.

(USD in thousands)	Year ended December 31,	
	2021	2020
Management compensation	827	638
Share-based compensation	615	236

The Company has transactions with key management personnel.

	As of December 31, 2021 (USD in thousands)	**As of December 31, 2020 (USD in thousands)**
Balances owing to the CEO	41	20
Balances owing to the VP Business development	1	13
Balances owing to the Board of directors Chairman	2	9
Balances owing to the CFO	4	2

5. 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, 2021, the Company had a USD 12,035,000 working capital balance (December 31, 2020 - USD 3,330,000, see comment under "liquidity and capital resources" section above), and the Company has little exposure to liquidity risk, as it will balance expenditures with available working capital.
- ***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 USA, 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.

6. 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

In June 2020, the Company issued 28,423,943 units, as part of an offering. Each unit consisted of one Common Share and one purchase 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. As of December 31, 2021, all of the warrants were exercised.

In December 2020, the Company issued 10,294,800 units, as part of a private placement. Each unit consists of one Common Share and one-half of one Common Share purchase 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. As of December 31, 2021, all of the warrants were exercised.

During October 2021, the Company issued 9,679,000 Common Shares and Common Warrants as part of the October 2021 Private Placement.

The Common 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, 2021 amounted to USD 3,078,000.

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.

7. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

None

8. FINANCIAL COMMITMENTS

As of December 31, 2021, there is a restricted deposit in the amount of USD 25,000, 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 12,000 and USD 16,000 were paid to secure rent and car lease obligations, respectively.

In addition, the Company has research agreements with Yissum and Ramot. Under these agreements, the Company is committed to pay additional amounts during the term of the agreements, as detailed below:

Business activity	Agreement	Commitment remained
CLX	Ramot License & Research Agreement	USD 1,042,000
LPT	Yissum Research & License Agreement	Agreement concluded (see "Significant Financial Developments during the Period" above)
Topicals	No signed agreements carrying any financial commitment	N/A

9. OTHER INFORMATION

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

Common Shares – As of March 29, 2022, 248,496,145 Common Shares were issued and outstanding.

Share Purchase Warrants

Investors	Number Of Warrants	Exercise Price	Exercisable at March 29, 2022	Expiry Date
June 2020 Unit Warrants	-	CAD 0.25	-	June 10, 2023[(1)]
2020 Broker Warrants	-	CAD 0.25	-	June 10, 2023[(2)]
2020 Finder Warrants	302,233	CAD 0.25	302,233	June 10, 2023[(3)]
Broker Compensation Units	96,316	CAD 0.18	96,316	June 10, 2022[(4)]
Broker Compensation Warrants	44,550	CAD 0.25	44,550	June 10, 2023[(4)]
December 2020 Unit Warrants	-	CAD 0.35	-	December 30, 2023[(5)]
October 2021 Common Warrants	9,679,000	CAD 1.10	9,679,000	October 13, 2026[(6)]

Notes:

(1) Each 2020 Unit Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.25 for a period of 36 months following June 10, 2020, subject to acceleration in certain cases. During the year ended December 31, 2021, all but 1,430,000 of the warrants were exercised into shares (representing 95% exercise rate). The remaining 1,430,000 warrants expired.

(2) Each 2020 Broker Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.25 for a period of 36 months following June 10, 2020. During the year ended December 31, 2021, all of the warrants were exercised into shares.

(3) Each Finder Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.25 for a period of 36 months following June 10, 2020.

(4) Each Broker Compensation Unit entitles the holder thereof to acquire one unit ("Compensation Unit") at an exercise price of CAD 0.18 for a period of 24 months following June 10, 2020. Each Compensation Unit is comprised of one Common Share and one warrant ("Broker Compensation Warrant"). Each Broker Compensation Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.25 for a period of 36 months following June 10, 2020.

(5) Each December 2020 Unit Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.35 for a period of 36 months following December 30, 2020, subject to acceleration in certain cases. On October 1, 2021, the Company issued a notice of early exercise, and until November 1, 2021, all of the warrants were exercised into shares.

(6) Each Common 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.

Incentive Stock Options

The Company has adopted a stock option plan (the "**Plan**"), which is intended to provide an incentive to retain, 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.

During the year ended December 31, 2021, the Company recorded an expense in the amount of USD 2,163,000 (USD 527,000 for the year ended December 31, 2020) with respect to the issuance of stock options under the Plan.

SUBSEQUENT EVENTS:

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

10. RISKS AND UNCERTAINTIES

Risks Related to our Business and Industry

Going Concern

The Company has financed itself by the issuance of Common Shares. In October 2021 the Company completed the October 2021 Private Placement. 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 material revenues and expects to continue to finance itself through raising adequate funds in the foreseeable future. In addition, the Company has incurred a net loss of USD 10,091,000 for the year ended December 31, 2021 and generated an accumulated deficit of USD 24,610,000 since inception. As of December 31, 2021, the Company has a positive working capital of USD 12,035,000 (see comment under liquidity and capital resources section above). 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 partially addressed by the October 2021 Private Placement, which was completed on October 13, 2021, and by funds received from warrants exercised during the period.

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.

Reliance on Key Contracts

The Company is reliant on certain key commercial agreements, including the Yissum Research & License Agreement, in order to continue operations. These agreements may include options for termination by the other parties if the Company fails to meet certain development milestones, does not commercialize the products within a reasonable timeframe, or fails to file and maintain patents in certain jurisdictions. The loss of any of these key commercial agreements could materially adversely affect the Company's ability to execute its business plan and strategy, and it may not be able to find adequate replacements on a timely basis, or at all.

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 initial public offering (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 USA. 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 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, Management Discussion and Analysis, Management Information Circulars, and other information with certain Canadian regulatory authorities. Additional information relating to the Company is available at www.sedar.com.

March 29, 2022