INNOCAN PHARMA CORPORATION

Management's Discussion and Analysis
For the three months period ended March 31, 2024

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 unaudited condensed consolidated financial statements and accompanying notes for the three months period ended March 31, 2024, and the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2023.

The date of this management's discussion and analysis ("**MD&A**") is May 27, 2024. The Company's 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 trading under the symbol INNO, and is quoted in the United States on the OTCQB venture market under the symbol INNPF, and is listed for trading in Germany on the Frankfurt stock exchange under the symbol IP4. The Company is the parent company of Innocan Pharma Ltd. ("**Innocan**").

Innocan is a pharmaceutical technology company that focuses on the development of several drug delivery platforms, combining cannabinoids, especially cannabidiol ("**CBD**"), with other pharmaceutical ingredients as well as the development and sale of CBD-integrated pharmaceuticals and topical products.
Innocan is at a pre-clinical stage and is expected to conduct activities mainly in the United States (US), Canadian and European (EU) markets. Innocan's operations and research and development activities are based in Israel.

In October 2019, Innocan announced its plans to enter the CBD beauty market and to manufacture CBD cosmetic products. Innocan intends to sell its CBD cosmetic products primarily in the US, Canadian and European markets. For more information on Innocan's product lines, please see details on SHIR | Beauty & Science (shirbeauty.com) and its corporate website at www.innocanpharma.com. The websites are not incorporated into this MD&A and do not form part of this MD&A.

On May 5, 2021, Innocan Pharma UK Ltd. ("Innocan UK") was established, as a management and financial services supplier of Innocan in the European market, regarding the sales of its topical products. Innocan holds 100% of Innocan UK's shares. As of March 31, 2024, Innocan UK had not commenced operation.

On May 26, 2021, Innocan entered into a founder's agreement with Brandzon Co. Ltd. to establish a joint venture by the name of B.I. Sky Global Ltd. ("**Sky Global**") that focuses on the development of beauty microbrands for online platforms such as Amazon, and other e-commerce and online marketplaces.

In bringing together a unique combination of experts in online marketplaces, e-commerce, logistics, operations and finance, Sky Global is focusing on advancing online sales for microbrands.

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

Description of the Company's Principal Businesses and Operations

Company's Activity Under Research Agreements

On February 26, 2024 the Company announced the latest findings from the Company's pharmacokinetic study of its LPT-CBD platform in rabbits. The fundamentals of LPT-CBD lay in its ability to slowly release CBD into the blood stream. Studies conducted in various animal models including mice, dogs, goats, and sheep showed long pharmacokinetics of CBD that persisted up to several weeks. In the Company's latest study conducted on rabbits, the results showed additional supportive data for the long exposure of CBD obtained following a single subcutaneous LPT-CBD injection. The results from studies of several organisms injected with the Company's liposomal CBD –have consistently demonstrated that a detectable CBD level could be maintained for weeks following one injection.

On March 5,2024 the Company announced the results of a recent tissue distribution study of its liposome CBD platform (LPT-CBD), that indicated the potential of LPT-CBD to support a new therapeutic venue for neurological disorders. In the Company's latest study, CBD was found to be in the brains of both mice and rabbits weeks after LPT-CBD was subcutaneously injected to them. These results show a strong correlation between the prolonged blood exposure of CBD and its brain distribution. LPT technology provides a long presence of CBD in the blood enabling CBD to pass the blood brain barrier and deliver long brain exposure.

On March 25,2024 the Company announced the signing of an agreement with the Hebrew University, which will facilitate Innocan to initiate the Food and Drug Administration (FDA) approval process for its liposome CBD platform in accordance with FDA's Chemistry Manufacturing Control (CDC) Guidelines.

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	Milestone status	Expenditures Incurred to Date (March 2024) (US$)	Estimated Costs to Achieve Milestone (US$)	Expected Time Period
Project: CBD-loaded exosomes (the "CLX Project")				
Literature research	Concluded			
Exosome production and purchase	Undergoing production	87,000	53,000	On-going
Exosome characterization	Undergoing production	Part of the payment to Ramot. See Ramot Research Agreement costs below.	See Ramot Research Agreement costs below.	Complete
CBD synthesis for Exosome loading	Work undergoing	194,000	7,000	Q2 24 – Q4 24
Loading the CBD in the Exosome	Work undergoing	Part of the payment to Ramot. See Ramot Research Agreement costs below.	See Ramot Research Agreement costs below.	Q2 24 – Q3 24
In - Vitro	Work undergoing	Part of the payment to	See Ramot	Q2 24 – Q4 24

Milestones	Milestone status	Expenditures Incurred to Date (March 2024) (US$)	Estimated Costs to Achieve Milestone (US$)	Expected Time Period
		Ramot. See Ramot Research Agreement costs below**.**	Research Agreement costs below**.**	
Production of the CLX	In preparation	Part of the payment to Ramot. See Ramot Research Agreement costs below**.**	See Ramot Research Agreement costs below**.**	Q4 24 – Q3 25
In-Vivo (animal study)	In preparation	Part of the payment to Ramot. See Ramot Research Agreement costs below**.**	See Ramot Research Agreement costs below**.**	Q4 24 – Q3 25
Safety in animals (including Pharmacokinetic, toxicity, bio-distribution)	Waiting for animal model results	-	600,000	Q3 25 – Q1 26
Ramot Research Agreement		828,000	-	The agreement has been terminated (1)
Total pre-clinical		**1,109,000**	**660,000**	

Notes:

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

Project: CBD Loaded Liposomes Technology (the "LPT Project")

Development of initial matrix of liposomal formulations of cannabidiol	Concluded	Part of the payment to Yissum. See Yissum Research costs below.	Part of the payment to Yissum. See Yissum Research costs below.	
Characterization of the physicochemical properties, drug loading, short-term stability and release in the presence of serum	Concluded	Part of the payment to Yissum. See Yissum Research costs below.	Part of the payment to Yissum. See Yissum Research costs below.	
Small animal study	concluded	Part of the payment to Yissum. See Yissum Research costs below.	Part of the payment to Yissum. See Yissum Research costs below.	
Animal study of different indications	On-going	Part of the payment to Yissum. See Yissum Research costs below.	Part of the payment to Yissum. See Yissum Research costs below.	Q4 24-Q1 25
FDA Submission	On-Going (Contract Research Organization (CRO)	183,000	1,817,000	Q1 24-Q3 26
Production Scale-up +Analytica	On going (Contract development and manufacturing	-	1,800,000	Q2 24- Q2 25

Milestones	Milestone status	Expenditures Incurred to Date (March 2024) (US$)	Estimated Costs to Achieve Milestone (US$)	Expected Time Period
	organization (CDMO)			
Safety in animals (including Pharmacokinetic, toxicity, bio-distribution)	Waiting to animal model results	-	500,000	Q2 24- Q2 25
Yissum Research		4,705,000	183,000	The Company and Yissum entered negotiations for a new research and license agreement for the next phase of the research. The Company is intending to sign a sub-licensing agreement before reaching Phase II.
Total Pre-Clinical (including safety)		**4,888,000**	**4,300,000**	
Veterinary application clinical use study		-	1,200,000	Q2 24- Q4 24
Project: CBD - Topicals (the "Topicals Project")				
	Production & registration submission done	1,374,000	Budget depends on many parameters, such as nature of distribution agreements to be signed, COVID-19 effect on the market, regulatory changes.	On-Going
	Marketing & brand recognition	967,000	133,000	On-Going
	Efficacy studies	60,000	70,000	On-Going

In general, and as is the case for each of the CLX Project and the LPT Project, in order to develop a new treatment, drug or medical procedure in a clinical research and development context, the following phases are required:

Preclinical: this phase involves the testing in non-human subjects to gather information regarding efficacy, toxicity and pharmacokinetic data; particularly bioavailability, half-life, maximum blood concentration and safety assessment of the given drug or treatment. Studies completed during this phase intend to support FDA submission to obtain approval to enter clinical phase in humans.

Chemistry Manufacturing Control (CMC): This phase is conducted in parallel to the preclinical phase and involves development and control of the drug manufacturing process, including formulation characterization, qualification, and validation of analytical methods and manufacturing scale-up in accordance with Good Manufacturing Practice (GMP) standards.

Phase I: this phase introduces "dose-ranging" on healthy volunteers or genuine patients (this depends on the indication, but could also be considered Phase I/II); the purpose of this phase is to evaluate safety.

Phase II: this phase involves further testing of the given drug or treatment on participants to assess efficacy and monitor for any side effects.

Phase III: this phase expands testing of the given drug or treatment on participants in larger numbers to similarly assess for efficacy, effectiveness and safety.

Phase IV: Post marketing surveillance in public.

With respect to each of the CLX Project and the LPT Project, the Company is in the Preclinical phase of the research and development. In order to commercialize the CLX Project and LPT Project, each of the above-noted phases will need to be completed. The timeline for completion of the CLX Project and LPT Project is unknown at this time.

Regarding the known costs of the CLX Project, LPT Project and Topicals Project, the Company projects the following, as related to its commitments to fund research and development over the next five years:

Business activity	Term of signed agreement/commitment	Expected US$ commitment for the term	Two-year expected budget(1,3)	Expected five year status(2)
LPT	Yissum (Hebrew University of Jerusalem) – current until Q4 23	N/A	4,500,000	At least one licensing agreement, clinical stage
CLX	Ramot (Tel Aviv University) – current until Q4 23	N/A	No signed agreements carrying any financial commitment. Ramot grants to the Company an exclusive, worldwide, royalty-bearing license, under Ramot's rights to make, use, offer to sell, sel and import products in the field of this research.	At least one licensing agreement, clinical stage.
Topicals	No signed agreements carrying any financial commitment	N/A	see comment	Budget depends on many parameters, such as nature of distribution agreements to be signed, and regulatory changes.

Notes:

(1) This budget is a forward-looking budget. Actual budget may vary, as the project develops.

(2) The status of the project depends on actual achievements of the research. Actual results may vary, based on the research and development success and the Company's ability to translate those achievements into licensing agreements and/or sales.

(3) Amounts may vary based on signing of future licensing agreements.

Sales, Marketing and Business Development

The expenses addressed below are to be incurred to broadly develop general brand recognition of the Company and its products in a number of jurisdictions (principally, the US and EU). These costs also relate to the development of relationships with potential third party distributors, licensees and wholesalers at the production and distribution end of the product chain, developing relationships with third parties potentially utilizing the Company's services, and promoting product awareness and product attributes with medical, pharmaceutical and other healthcare individuals and enterprises, as well as consumers.

Business Objective	Estimated Cost Related to Business Objectives (US$)	Time Period
Continuing building brand and reputation awareness	~562,500	2024 and 2025
Online and offline marketing	~262,500	2024 and 2025
Distributors marketing support	~262,500	2024 and 2025
Personnel	~1,050,000	2024 and 2025
Public relations	~150,000	2024 and 2025
Business development	~150,000	2024 and 2025
Total:	**$2,437,500**	

Other Businesses and Operations

On February 20, the Company announced participation in the White Label World Expo on February 27-28th, 2024.
Oon March 15, 2024, the Company announced that it had closed a non-brokered private placement offering of units of the Company (the "March 2024 Units"), pursuant to which the Company issued 7,952,840 March 2024 Units at a price of $0.25 per March 2024 Unit for aggregate gross proceeds of $1,988,210. Each March 2024 Unit is comprised of one common share of the Company and one common share purchase warrant of the Company (each a "March 2024 Warrant"). Each March 2024 Warrant entitles the holder thereof to purchase one common share at an exercise price of $0.32 for a period of four (4) years from the date of issuance.

Significant Financial Developments during the Period

On December 5, 2022, Innocan entered a third amendment (the "Third Amendment") to the research and license agreement with Yissum. As part of the Third Amendment, Innocan agreed to finance additional research with the aim of meeting the FDA guidance on Liposome drug-products in a total amount of approximately US$278,000, over a period of three months (November 2022 to January 2023). The full amount of US$278,000 was paid in December 2022.

On February 20, 2023, Innocan entered into the fourth amendment to the research and license agreement with Yissum Research Development Company of the Hebrew University of Jerusalem Ltd. ("Yissum") (the "Fourth Amendment"). As part of the Fourth Amendment, Innocan agreed to finance additional research with the aim of meeting the FDA guidance on liposome drug products in a total amount of approximately US$293,000 over a period of three months (February 2023 to April 2023).

On September 13, 2023 Innocan entered a fifth amendment (the "Fifth Amendment") to the research and license agreement with Yissum for an additional amount of approximately US$183,000 over a period of three months (July 2023-September 2023).

In addition, on December 14, 2023 Innocan entered a sixth amendment (the "Sixth Amendment") to the research and license agreement with Yissum for an additional amount of approximately US$273,000 over a period of two months (November 2023-December 2023).

On March 6, 2024, Innocan entered the seventh amendment (the "Seven Amendment") to the research and license agreement with Yissum. As part of the Amendments Innocan agreed to finance additional research with the aim of meeting the FDA guidance on Liposome drug-products in a total amount of approximately $264 thousand over a period of nine months (January 2024 - September 2024). The total expense due to research activity by Yissum incurred during the three months period ended March 31, 2024 amounted to US$87,000.

Yissum grants to the Company an exclusive, worldwide, royalty-bearing license, under Yissum's rights to make, use, offer to sell, sell and import products in the field of this research. Negotiations are ongoing between the Company and Yissum regarding next steps.

On December 6, 2021, Innocan entered into a license and research agreement with Ramot at Tel Aviv University Ltd., under which Innocan agreed to finance additional research in a total amount of approximately US$1,180,000, over a period of 21 months, in four installments. Since December 2021, Innocan had made payment in the amount of US$290,000.

On April 3, 2023, the Company entered into a second amendment to the License and Research Funding Agreement with Ramot, which included an agreement to terminate the research under the agreement. In light of the termination of the research: (i) none of the second instalment (US$309,150), the Third Instalment (US$270,000) nor the fourth instalment (US$328,050) are due to be paid; and (ii) the Tel Aviv University team is no longer required to perform the remainder of the research. Ramot has granted to the Company an exclusive, worldwide, royalty-bearing license, under Ramot's rights to make, use, offer to sell, sell and import products in the field of this research.

On March 23, 2023, the Company announced the successful results of a controlled efficacy test (the "**Trial**") regarding its vaginal derma product (the "**Product**"). The results of the Trial demonstrate that Company's Product, which contains cannabinoids, phytoestrogens, hyaluronic acid, and probiotics, effectively reduced the symptoms, and improved overall vaginal health**.**

Financial Review

The following financial data was prepared in accordance with IFRS and is presented for the three months period ended March 31, 2024. See below discussion for period over period variations.

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

	March 31, 2024	**December 31, 2023**	**September 30, 2023**	**June 30, 2023**	**March 31, 2023**	**December 31, 2022**	**September 30, 2022**	**June 30, 2022**
Revenues	6,768	4,893	4,083	3,121	1,560	1,135	749	415
Selling, marketing and distribution expenses	5,314	3,945	3,358	2,290	1,314	1,158	866(1)	922(1)
Research and development expense	424	504	431	257	604	357	232	460
General and administrative expense	1,475	733	1,081	545	718	995	677(2)	809(2)
Total operating loss	1,212	895	1,206	436	1,266	1,410	1,060	1,977
Total finance expense (income), net	**8**	(312)	621	(40)	(38)	(240)	(898)	(150)
Total comprehensive loss	1,454	797	1,827	396	1,228	1,170	162	1,827
Basic (loss) per share	(0.005)	(0.003)	(0.007)	(0.002)	(0.005)	(0.005)	(0.001)	(0.007)
Diluted (loss) per share	(0.005)	(0.003)	(0.007)	(0.002)	(0.005)	(0.005)	(0.001)	(0.007)

Notes:
(1) Reclassified immaterial amounts from cost of revenues to selling, marketing and distribution expenses of: US$182,000 and US$314,000 for the three months ended June 30, 2022 and September 30, 2022, respectively.

(2) Reclassified immaterial amounts from general and administrative to cost of revenues of: US$7,000, US$9,000 and US$38,000 for the three months ended, June 30, 2022 and September 30, 2022, respectively.

Three Months Period Ended March 31, 2024, compared to the Three Months Period Ended March 31, 2023

Revenues

For the three months period ended March 31, 2024, revenues amounted to US$6,768,000 compared to US$1,560,000 for the three months period ended March 31, 2023. The increase in revenues of US$5,208,000 is mainly attributed to the increase in revenues from on-line sales platforms of a subsidiary company.

Selling, Marketing and Distribution Expenses

For the three months period ended March 31, 2024, selling, marketing and distribution expenses amounted to US$5,314,000 (US$261,000 is share-based compensation expenses) compared to US$1,314,000 (US$24,000 is share-based compensation expenses) for the three months period ended March 31, 2023.

The main factors contributing to the increase of US$4,000,000 included:

- An increase of US$3,673,000 was attributed to Amazon advertising and related fees. These expenses are related to revenue from the operational subsidiary of Sky Global.
    a. An increase of US$237,000 was attributed to a increase in share-based compensation expenses as a result of more options that were vesting during the three months period ended March 31, 2024 (to selling and marketing service providers and employees of the Company) compared to the three months period ended March 31, 2023. This expense is a non-cash item and does not influence the cash flow of the Company nor results in negative cash flow.

Research and Development Expenses

For the three months period ended March 31, 2024, research and development expenses amounted to US$424,000 compared to US$604,000 for the three months period ended March 31, 2023. The decrease, of US$180,000, is mainly attributed to an decrease in research and development expenses of US$201,000 related to the research and license agreement with Yissum. The Seventh Amendment was signed during March 2024 for additional research. The Company is currently in negotiations with Yissum regarding next steps.

General and Administrative Expenses

For the three months period ended March 31, 2024, general and administrative expense amounted to US$1,475,000 (US$788,000 is share-based compensation expense) as compared to US$718,000 (US$77,000 is share-based compensation expense) for the three months period ended March 31, 2023. The increase of US$757,000 in general and administrative expenses compared to three months period ended March 31, 2024, is attributed mainly to the following changes:

- Share based compensation expenses increased by US$711,000 in the three months period ended March 31, 2024 compared to the three months period ended March 31, 2023, as a result of more options having vesting during the three months period ended March 31, 2024 (to general and administrative service providers and employees of the Company) compared to the three months period ended March 31, 2023. This expense is a non-cash item and does not influence the cash flow of the Company nor results in negative cash flow.

- Professional services expenses increased by US$94,000 in the three months period ended March 31, 2024 compared to the three months period ended March 31, 2023.

Finance Income (expense)

For the three months period ended March 31, 2024, net finance expense amounted to US$8,000 as compared to a net finance income of US$38,000 for the three months period ended March 31, 2023. The change in finance expense and income, was mainly a result of changes in fair value of warrants outstanding during the three months period ended March 31, 2024, compared with the changes in fair value of warrants outstanding during the three months period ended March 31, 2023. This change in fair value of warrants outstanding is mainly affected by the share price of the Company (the decrease in the share price during the three months period ended March 31, 2024 was significant compared to the three months period ended March 31, 2023) and the amount of warrants outstanding. The number of warrants outstanding increased from March 31, 2023, to March 31, 2024, as a result of granting of warrants. The decrease in net finance income or the increase in the 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 result 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.sedarplus.ca.

3. LIQUIDITY AND CAPITAL RESOURCES

On each of March 14, 2024 , the Company completed a private placement, the proceeds of which are being used to fund the research, development and commercialization of the Company's technology and marketing activities (the "March 2024 Private Placement). 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 and expects to continue to finance itself through raising adequate funds in the foreseeable future. The Company has incurred an accumulated deficit of US$34,841,000 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 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

As of March 31, 2024, the Company had working capital of US$7,326,000, compared with US$6,207,000 as of December 31, 2023, which consisted of current assets of cash and cash equivalents, trade receivables, other accounts receivable and inventory, and trade accounts payable, other accounts payable. 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.

Three Months Period Ended March 31, 2024, compared to the Three Months Period Ended March 31, 2023

During the three months period ended March 31, 2024, the Company's overall position of cash and cash equivalents increased by US$710,000, compared to a decrease of US$858,000 in the three months period ended March 31, 2023
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 three months period ended March 31, 2024 amounted to US$747,000 as compared to US$1,162,000 for the three months period ended March 31, 2023. The decrease in net cash used in operating activities in the three months ended March 31, 2024 is mainly attributed to a decrease in spending on business development consultant services and higher revenues comes from the subsidiary's activity;
- the Company's net cash provided by financing activities during the three months period ended March 31, 2024 amounted to US$ 1,450,000 as compared to net cash used of US$ 357,000 for the three months period ended March 31, 2023. This increase in cash provided by financing activities during the three months period ended March 31, 2024 is attributed to cash received in March 2024 from the March 2024 Private Placement.
- Exchange rate fluctuations caused the Company's overall position of cash and cash equivalents to decrease by US$9,000.

4. TRANSACTIONS WITH 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 and related corporate entity for the three months period ended March 31, 2024 and March 31, 2023.

(US$ in thousands)	Three months period ended March 31, 2024	2023
Management compensation	178	149
Share-based compensation	892	50
Services fees	14	14

The Company has transactions with key management personnel.

	As of March 31, 2024 (US$ in thousands)	As of December 31, 2023 (US$ in thousands)
Balances owing to the CEO	55	53
Balances owing to the VP Business development	-	28
Balances owing to the Board of directors Chairman	1	1
Balances owing to the CFO	3	3
Balances owing to the COO	17	14

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 US$. 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 March 31, 2024, the Company had a US$7,326,000 working capital balance (December 31, 2023 – US$6,207,000, 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

1. In October 2021, the Company issued 9,679,000 Common Shares and Common Warrants as part of a 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 March 31, 2024 amounted to US$271,000. 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 (hereafter: Black Scholes Merton, or BSM), 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.

2. In connection with the February 2023 Private Placement, the Company issued 1,982,000 Units to investors. Each Unit consists of one-half of one (1) Class A common share purchase warrant (each whole Class A common share purchase warrant, a "Class A Warrant"); and (iii) one-half of one (1) Class B common share purchase warrant (each whole Class B common share purchase warrant, a "Class B Warrant") (collectively each whole Class A Warrant and each whole Class B Warrant, a "Warrant"). The Warrants were recorded as a derivative financial liability and will be re-measured each reporting date. The derivative financial liability as of March 31, 2024 amounted to US$124,000. The value of the Warrants was estimated using a binomial lattice, under the assumption that once the price per share exceeds the defined mandatory exercise threshold, the Warrants will be exercised immediately.

3. In connection with the August 2023 Private Placement, the Company issued 8,409,735 Units to investors. Each Unit consists of: (i) one (1) common share in the capital of the Company; (ii) one-half of one (1) Class A common share purchase warrant (each whole Class A common share purchase warrant, a "Class A Warrant"); and (iii) one-half of one (1) Class B common share purchase warrant (each whole Class B common share purchase warrant, a "Class B Warrant") (collectively each whole Class A Warrant and each whole Class B Warrant, a "Warrant"). The Warrants were recorded as a derivative financial liability and will be re-measured each reporting date. The derivative financial liability as of March 31, 2024 amounted to US$899,000. 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 (hereafter: Black Scholes Merton, or BSM), which imply that all corporate securities may be analyzed as contingent claim on the firm's assets, and therefore, their value may be modeled as financial derivative contracts on the firm.

4. In connection with the October 2023 Private Placement, the company issued on October 12 and 20, 2023 5,425,608 Units to investors at a price of CAD 0.30 per October 2023 Unit. Each October 2023 Unit is comprised of one common share of the Company (a "Common Share") and one purchase warrant of the Company (a "October 2023 Warrant"). Each October 2023 Warrant entitles the holder thereof to purchase one Common Share at an exercise price of CAD 0.36 for a period of 36 months from the offering closing date. The derivative financial liability as of March 31, 2024, amounted to US$487,000. The fair value of the derivatives was obtained using a structural approach, based on the Black Scholes (1973) and Merton (1974) models (hereafter: Black Scholes Merton, or BSM), which imply that all corporate securities may be analyzed as contingent claim on the firm's assets, and therefore, their value may be modeled as financial derivative contracts on the firm.

5. In connection with the March 2024 Private Placement, the company issued on March 14, 2024 7,952,840 Units to investors at a price of CAD 0.25 per March 2024 Unit. Each March 2024 Unit is comprised of one common share of the Company (a "Common Share") and one purchase warrant of the Company (a "March 2024 Warrant"). Each March 2024

Warrant entitles the holder thereof to purchase one Common Share at an exercise price of CAD 0.32 for a period of four years from the offering closing date. The derivative financial liability as of March 31, 2024, amounted to US$959,000. The fair value of the derivatives was obtained using a structural approach, based on the Black Scholes (1973) and Merton (1974) models (hereafter: Black Scholes Merton, or BSM), which imply that all corporate securities may be analyzed as contingent claim on the firm's assets, and therefore, their value may be modeled as financial derivative contracts on the firm.

7. SEGMENT REPORTING

Innocan has two main divisions:

1. Online sales - B.I. Sky Global Ltd. operations, which engages with the development of beauty microbrands for online platforms such as Amazon, and other e-commerce retail sales.
2. Other operations - the development of several drug delivery platforms, combining cannabinoids with other pharmaceutical ingredients as well as the development and sale of CBD-integrated topical products.

Commencing 2023, management has concluded that beauty online sales segment should be reported separately, as operations volume has increased significantly, and it is closely monitored by management as a potential growth business segment.

8. ACCOUNTING STANDARDS ISSUED

The following amendments are effective for the period beginning January 1, 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements); and
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures).

9. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Innocan has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.
There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that Innocan has decided not to adopt early.
The following amendments are effective for the period beginning January 1, 2025:

- Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates).

Innocan is currently assessing the impact of these new accounting standards and amendments. Innocan does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on Innocan.

10. FINANCIAL COMMITMENTS

As of March 31, 2024, there is a restricted deposit in the amount of US$85,000, 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 US$22,000, US$11,000, US$17,000 and US$13,000 were paid to secure rent, car lease, lab rent obligations and tax authority, respectively.

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

Business activity	**Agreement**	**Commitment Remaining**
LPT	Yissum Research & License Agreement	Agreement concluded. New agreement is currently under negotiation.
Topicals	No signed agreements carrying any financial commitment	N/A

11. OTHER INFORMATION

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

Common Shares – As of May 27, 2024, 280,661,437 Common Shares were issued and outstanding.

Share Purchase Warrants

Investors	**Number Of Warrants**		**Exercise Price**	**Exercisable at March 28, 2024**		**Expiry Date**
October 2021 Common Warrants	9,679,000		CAD 1.10	9,679,000		October 13, 2026[(1)]
February 2023 Warrants (Class A)	991,000		CAD 0.31	991,000		February 16, 2025[(2)]
February 2023 Warrants (Class B)	991,000		CAD 0.44	991,000		February 16, 2026[(3)]
August 2023 Warrants (Class A)	4,204,867		CAD 0.29	4,204,867		August 3, 2026[(4)]
August 2023 Warrants	4,204,867		CAD 0.40	4,204,867		August 3,

(Class B)						2028(5)
First Tranche 2023 Broker Warrants	113,616		CAD 0.30	113,616		October 12, 2026 (6)
First Tranche October 2023 Warrants	1,420,200		CAD 0.36	1,420,200		October 12, 2026 (7)
Second Tranche 2023 Broker Warrants	153,430		CAD 0.30	153,430		October 20, 2026 (8)
2023 Broker Units	122,500		CAD 0.36	122,500		October 20, 2026 (9)
Second Tranche October 2023 Warrants	4,005,408		CAD 0.36	4,005,408		October 20, 2026 (10)
March 2024 Warrants	7,952,840		CAD 0.32	7,952,840		March 14, 2028 (11)

Notes:

(1) 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.

(2) Each Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.31 for a period of two years from February 16, 2023.

(3) Each Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.44 for a period of three years from February 16, 2023.

(4) Each Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.29 for a period of three years from August 3, 2023.

(5) Each Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.4 for a period of five years from August 3, 2023.

(6) Each First Tranche 2023 Broker Warrant consists of one Broker Unit Share and one Broker Unit Warrant. Each Broker Unit Warrant will entitle the holder thereof to purchase one Broker Unit Warrant Share at a price of CAD 0.36 for a period of three years from October 12, 2023.

(7) Each First Tranche October 2023 Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.36 for a period of three years from October 12, 2023.

(8) Each Second Tranche 2023 Broker Warrant consists of one Broker Unit Share and one Broker Unit Warrant. Each Broker Unit Warrant will entitle the holder thereof to purchase one Broker Unit Warrant Share at a price of CAD 0.36 for a period of three years from October 20, 2023.

(9) Each Broker Unit is comprised of one common share of the Company and one common share purchase warrant of the Company. Each warrant shall entitle the holder thereof to purchase one Common Share at an exercise price of CAD 0.36 for a period of 36 months from the date of the closing of the Second Tranche.

(10) Each Second Tranche October 2023 Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.36 for a period of three years from October 20, 2023.

(11) Each Warrant will entitle the holder thereof to purchase one Common Share at an exercise price of CAD 0.32 for a period of four years from the date of issuance.

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 three months period ended March 31, 2024, the Company recorded an expense in the amount of US$96,000 (US$133,000 for the three months period ended March 31, 2023) with respect to the issuance of stock options under the Plan.

Restricted Stock Units

On March 14, 2024, the Company granted an aggregate of 7,140,483 restricted share units (each, an "RSU") to directors and officers of the Company. Each RSU entitles the recipient to receive one common share of the Company on vesting. A total of 3,807,150 RSUs vested on March 14, 2024 and 3,333,333 RSUs vest as follows: (i) one-third on March 14, 2024; (ii) one-third on September 14, 2024; and (iii) one-third on March 14, 2025. The RSUs and the underlying common shares are subject to a statutory hold period of four months and one day expiring on July 15, 2024.

During the three months period ended March 31, 2024, the Company recorded an expense in the amount of US$1,059,000 with respect to the issuance of restricted stock units under the Plan.

SUBSEQUENT EVENTS:

1. On April 22, 2024, Innocan announced that it has reached a key milestone and submitted its letter of application for a Pre-IND meeting, the first phase in the FDA approval process in the United States for Innocan's LPT-CBD injectable treatment of chronic pain. Innocan's Pre-IND Meeting Request Letter to the FDA is a first step in seeking approval of its LPT-CBD therapy for use in humans. At the Pre-IND meeting, the objective will be to obtain guidance from the FDA on the preclinical and clinical development plan, enabling the initiation of an Investigational New Drug (IND) program in the United States

12. RISKS AND UNCERTAINTIES

Risks Related to our Business and Industry

Going Concern

Since inception, the Company has generated revenues, despite that, Innocan expects to continue to finance itself through raising adequate funds in the foreseeable future. During the three months period ended March 31, 2024, Innocan incurred a net loss of US$1,454,000, negative cash flow from operations of US$747,000 for the three months period ended March 31, 2024 and generated US$34,841,000 of accumulated deficit since inception. Innocan currently has insufficient cash to fund its operations for the next 12 months. These material uncertainties may cast significant doubt upon Innocan's ability to continue as a going concern. In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the twelve months period following March 31, 2024.

Innocan is currently implementing various financing strategies, including the following:

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

- Innocan has identified various cost-reduction initiatives

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

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

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 and 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 Risks

The Company notes that additional risks to the business are outlined in the Company's Annual Information Form for the year ended December 31, 2023, which is available on the Company's profile at www.sedarplus.ca.

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.sedarplus.ca.

May 27, 2024 Iris