NOTICE TO READER

The Audit Committee, in consultation with management of the Company, has determined that the Company's previously filed unaudited condensed interim consolidated financial statements and management's discussion and analysis for the three and six months ended June 30, 2019 and 2018 needed to be restated to correct certain purchases of inventories which were incorrectly recorded during the three and six months ended June 30, 2019, which caused the sales, the gross profit, the operating expenses and net loss for the three and six months ended June 30, 2019 to be misstated. Certain balances of assets and liabilities were also affected as a result.

Details of the changes are fully described in Note 24 to the Company's Restated Condensed Interim Consolidated Financial Statements as filed on SEDAR on November 29, 2019.

The previously filed financial statements and management's discussion and analysis for the financial periods were originally filed by the Company on SEDAR on August 29, 2019. Each of the Restated Condensed Interim Consolidated Financial Statements and Revised MD&A replaces and supersedes the respective previously filed original financial statements and related management's discussion and analysis. There have been no other changes. This notice supersedes the previously filed version.

PHARMADRUG INC.

(formerly Aura Health Inc.)

REVISED MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

The following Management's Discussion and Analysis ("MD&A") was revised on November 29, 2019, and constitutes management's assessment of the factors that affected the financial condition and operating performance of Pharmadrug Inc. (formerly Aura Health Inc.) ("Pharmadrug", "We" or the "Company") for the three and six months ended June 30, 2019 ("Q2 2019"). This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This MD&A should be read in conjunction with the Company's unaudited restated condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2019, as well as the audited consolidated financial statements for the years ended December 31, 2018, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All figures in this MD&A are reported in Canadian dollars ("$" or "CAD") unless otherwise stated.

This MD&A contains forward-looking statements that are not historical in nature and involves risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements" below.

Additional information relating to Pharmadrug is available on SEDAR at www.sedar.com.

Business Overview

Pharmadrug is focused on building an international network of vertically integrated cannabis assets, through development of a product line of cannabis-infused edible products and oil extracts. Pharmadrug is targeting a potentially high margin downstream business in the legalized medical marijuana sector in Europe.

The Company holds debt convertible into 54% equity of HolyCanna Ltd. ("HolyCanna"), a cultivation and nursery license holder in Israel. On May 2019, Pharmadrug acquired 80% of Pharmadrug Production GmbH ("Pharmadrug Production"), a German medical cannabis and pharmaceutical distributor, as well as a Letter of Intent ("LOI") to purchase 57% of CannabiSendak LTD. ("CannabiSendak"), the builder of a planned network of dispensaries in Israel. See "Recent Developments" and "Outlook and Plans" for more details.

The Company's common shares are listed on the Canadian Securities Exchange under the trading symbol "BUZZ".

On October 21, 2019, the Company rebranded its name to Pharmadrug Inc., to better reflect the vision, strategy, and operations of the business.

The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada.

Recent Developments

On March 26, 2019, Alain Dobkin was appointed to the Board of Directors (the "Board"), as Chris Carl resigned as Director, President and Corporate Secretary of the Company. Mr. Dobkin has over 20 years of experiences, notably in investment banking, strategic mergers and acquisitions, and equity and debt capital raising transactions from both public and private markets globally. On the same day, Keith Li was appointed as Corporate Secretary of the Company.

On April 30, 2019, the Company, through Green Global Properties Inc. ("Green Global"), entered into a definitive purchase and sale agreement (the "Purchase Sale Agreement") with Empower Healthcare Assets Inc. ("Empower"), for consideration of USD $125,000 in the form of a promissory note (the "Promissory Note").

On May 17, 2019, the Company acquired an 80% equity interest in Pharmadrug Production for the total purchase price of EUR 4.6 million. Pharmadrug Production is a German pharmaceutical distribution company with over 20 years of operating history and Schedule I European Union narcotics license allowing for the distribution of medical cannabis to pharmacies in Germany and throughout the Eurozone as markets become legalized.

On June 3, 2019, Al Quong was appointed to the Board as a Director and Chair of the Audit Committee as Joel Freudman resigned as Director on May 16, 2019, in order to focus on his other business ventures. Mr. Quong has over 25 years of operational and advisory experience in various capacities and industries.

While management spent the better part of Q2 2019 committing capital and human resources to the Pharmadrug project in Germany, we are now actively starting the Israeli operations. The new medical cannabis regime in Israel is currently being rolled out, which will add new patients as well as the export law over time. Given the unknown timing of the new regime, we have worked with our partners HolyCanna to delay ground-breaking. We are now currently preparing the land to break ground to build 60,000 square feet ("sq. ft.") of greenhouse space with the first phase of construction to begin in short order. For CannabiSendak, the Company is in the final stages of discussion to close the definitive agreement to acquire 57% of that business.

Financing Developments

On January 10, 2019, the Company closed a non-brokered private placement (the "Private Placement") of 11,493,998 units ("Units") at a price of $0.15 per Unit, for gross proceeds of $1,724,100. Each Unit is comprised of one (1) common share of the Company and one-half (1/2) of a common share purchase warrant exercisable at $0.25 for a period of 24 months from closing.

On January 28, 2019, the Company issued promissory notes (the "Notes") in the principal amount of $600,000, bearing interest at 2% per month and due on March 28, 2019. The funds were lent by three (3) of the Company's directors and officers. The maturity date of the Notes was postponed until fulfillment by the Company of the escrow release conditions (as defined below) pursuant to the offering of subscription receipts (the "Offering").

On February 27, 2019, the Company closed the first tranche ("Tranche 1") of the Offering of 8,726,954 Subscription Receipts at an issue price of $0.22 (the "Issue Price") per Subscription Receipt, for gross proceeds of $1,919,930. Upon satisfaction by the Company of certain escrow release conditions, each Subscription Receipt entitles the holder to receive one (1) unit of the Company consisting of one (1) common share and one-half (1/2) of a warrant, with each warrant exercisable at $0.28 into one (1) common share of the Company for a period of 24 months from the date of satisfaction of the escrow release conditions.

On April 17, 2019, the Company closed Tranche 2 of the Offering of 12,818,500 Subscription Receipts, for gross proceeds of $2,820,070 under the same terms as Tranche 1.

On May 9, 2019, the Company received a $3 million bridge facility (the "Bridge Facility") from a private lender (the "Lender"). The proceeds from the Bridge Facility were applied on closing the Pharmadrug Acquisition. As security for the Bridge Facility, the Company collateralized certain shares of FSD to the Lender (as defined below).

Share Exchange Agreement

On April 17, 2019, the Company entered into a share exchange agreement (the "Share Exchange Agreement") with FSD Pharma Inc. ("FSD"), a licensed producer under the Cannabis Act (Canada), whereby FSD issued $3 million of FSD Class B Subordinate Voting Shares (the "FSD Shares") to Pharmadrug in exchange (the "Share Exchange") for $3 million of Pharmadrug common shares.

To secure the Bridge Facility, the Company: (i) entered into a general security agreement with the Lender, (ii) granted the Lender exclusive control over the FSD Shares, and (iii) granted the Lender a power of attorney or trading authority in respect of the securities of FSD.

The Share Exchange Agreement governing the Share Exchange contains adjustment provisions that depend on the price of the FSD Shares at the end of the statutory hold period. If the volume weighted average trading price (the

"VWAP") of FSD Shares is lower than the issuance price as of the hold period expiry date, FSD will issue the Company additional number of FSD Shares.

The Company granted the Lender exclusive control over the FSD Shares and granted the Lender a power of attorney or trading authority in respect of the FSD Shares. These conditions are subject to a hold period (the "Hold Period") of four months and one day from the closing of purchase and sale of the Purchased Shares (the "Closing"). On August 19, 2019, the statutory hold period ended.

Escrow Release Conditions

On closing of the Offering, the proceeds were placed in escrow with Capital Transfer Agency, ULC, the transfer agent of Pharmadrug, on behalf of the subscribers of the Subscription Receipts, to be released to the Company upon satisfaction of certain escrow release conditions (the "Escrow Release Conditions"), which include, among other things, that:

(i) All conditions prior to the completion of the Pharmadrug Acquisition have been satisfied or waived in accordance with the terms of the Pharmadrug Acquisition Agreement;

(ii) There have been no material amendments of the terms and conditions of the Pharmadrug Acquisition Agreement which have not been approved by Mackie Research Capital Corporation, the Lead Agent of the Offering (the "Lead Agent");

(iii) The Company has received all necessary regulatory and other approvals regarding the Offering and the Pharmadrug Acquisition;

(iv) The Company has disposed of all its interests in cannabis operations located in the US;

(v) The Lead Agent is satisfied with its due diligence review with respect to the business, assets, financial condition, operating results, affairs and prospects of the Company; and

(vi) The Company has delivered all required documents as requested by the Lead Agent.

On May 9, 2019, the Company satisfied all Escrow Release Conditions pursuant to the Offering.

Outlook and Plans

Pharmadrug's mission is to build a leading vertically integrated medical cannabis company with a focus on the European and Israeli markets. Since completion of the RTO Transaction in August 2018, we have very quickly been executing on our plan.

Germany & Europe

Management's thesis is that the European medical cannabis market will soon command significant attention. Europe is home to more than 740 million people, a population which is more than double that of the United States (the "US") and Canada combined. Industry analysts expect Europe to be one (1) of the largest consumers of medical cannabis around the world.

The acquisition of Pharmadrug Production, a German EU-GMP-approved pharmaceutical distribution company, makes the Company a player in the European medical cannabis market overnight. Pharmadrug Production holds one (1) of approximately fifteen (15) coveted German Schedule I narcotics licenses that is permitted the business to import and distribute medical cannabis throughout legalized areas in the European Union (the "EU").

Pharmadrug Production received its second, much larger shipment of medical cannabis from the Netherlands at the end of June and the German business continues to see a significant ramp in its customer base and distribution efforts. Based on Pharmadrug Production's current growth trajectory and the continued chronic supply shortage of medical cannabis in Germany, management is confident in its ability to distribute its full allocation of cannabis from

Netherlands (190 kg) over the next several months. While this is dependent on a variety of factors, including continued available supply from Netherlands, management believes it is readily achievable.

Management sees two (2) ways to materially increase Pharmadrug's German supply and revenue for Fiscal 2020:

- Increase in the quota from BfArM, achievable once current allocation run rates have been met. Once Pharmadrug is at a run rate of approximately 15-16 kilograms ("Kg") per month and have sold through the brunt of the allocation, the German Company will request from BfArM for a larger annual allocation. Given the shortages of medical cannabis in the country and the select number of distribution licenses, management is optimistic that a larger allocation can be achieved. Until then, Pharmadrug will be aggressively growing its distribution base of pharmacies to continue to increase sales velocity.
- Source additional suppliers of cannabis. The Company is in active supply discussions with producers in both Canada and Israel, adding to the current 190 Kg quota. Management is confident it can add supply from at least one (1) new producer in both Canada and Israel in Fiscal 2020. We continue to witness robust demand for dry flower medical cannabis in Germany. In addition, as we continue to grow our distribution network of pharmacies in Germany, management is confident all additional supply will be absorbed by the German market.

The Company also plans to grow its distribution platform beyond Germany into other EU countries. Pharmadrug Production is a Schedule I Narcotics distributor, allowing the German Business to export GMP medical cannabis to other EU countries as and when those countries legalize cannabis. For instance, Poland awarded medical cannabis import licenses in 2018 and began importing this year. The French Senate passed a bill in June for a trial run of CBD, trace-THC medical cannabis. With no plans of domestic cultivation, France will require importation of GMP medical-grade cannabis. As well, Italy is currently importing from Netherlands. We will continue to explore other European jurisdictions, big and small, to expand upon our foundation being set in Germany.

Israel

We believe that Israel will be a medical cannabis jurisdiction that will continue to garner attention from capital markets going forward. First of all, we believe the nation is a natural global hub for medical cannabis. Israel is a pioneer of modern medical cannabis, a global centre for cannabis research and development, and boasts one of the highest consumption rates per capita. Secondly, in January of 2019, Israel became the third country in the world to approve the export of medical cannabis, after the Netherlands and Canada.

The Company has a first-mover advantage with two (2) Israeli assets which we plan on advancing in 2019. The first business is HolyCanna, a cultivation and nursery licence holder, of which Pharmadrug holds convertible debt that will convert into 54% equity in the event Israeli regulatory approval is obtained. HolyCanna is a project to build an IMC GAP cannabis cultivation [facility/operation] 45 minutes north of Tel Aviv in Netanya. The first phase will be approximately 60,000 sq. ft. of greenhouse, with more than 300,000 sq. ft. of additional space available to us. While management has acquired the construction and operational expertise needed, we have pushed back breaking ground for some time as we wait for export markets to open, domestic markets to expand, as well as better visibility on pricing and margins.

The second asset is an LOI to acquire 57% of CannabiSendak, the builder of a planned network of high-profile dispensaries in Israel. CannabiSendak leverages the experience and profile of Shlomi Sendak, a well-known Israeli medical cannabis activist who assisted nearly one-third of Israeli prescription holders in the process of obtaining their patient cards. The first clinic opened in Tel Aviv in August with the full-service dispensary and club to launch in the first half of Fiscal 2020. There is a significant market potential in Israel as the current number of medical patients increases significantly from its current base of more than 50,000 [up from 35,000 since the launch of the new medical cannabis regime in April]. As the new regime rolls out, cannabis patients across Israel will have easier access to the

product for medical requirements. Pharmadrug and CannabiSendak will play a leading role in accessing the hundreds of thousands new patients in Israel over the coming years.

We believe that our assets in Israel will unlock significant value for Pharmadrug as capital markets begin paying more attention to the country, as we progress HolyCanna, and open our first clinic/dispensary for CannabiSendak.

Other Initiatives

We are also actively seeking to establish a medical grade extraction and manufacturing facility in Europe or Israel. Pharmadrug signed a LOI with Nutritional High International Inc. ("NHII") in October 2018 to utilize NHII's cryo-ethanol extraction process and other operational expertise. This will enable Pharmadrug to set up facilities to produce high-quality oils and end products ranging from vapes to chocolates and chewable tablets. The partnership will take the form of a joint venture and final economics will be determined on a project by project basis.

Sun Valley Clinics

In October 2018, management approved the sale of the Company's 30% interest in the Sun Valley Clinics, which operate four (4) Clinics in the States of Nevada, Arizona and Florida, in the US. At the time of management's decision to divest of its interest in the Sun Valley Clinics, the investments were no longer a significant part of Pharmadrug's operations, as the Company began exploring the European cannabis markets.

On April 30, 2019, the Company, through Green Global, entered into the Purchase Sale Agreement with Empower, pursuant to which Empower acquired Pharmadrug's 30% interest in the Sun Valley Clinics. In consideration, Green Global received the Promissory Note in the principal amount of USD $125,000. The Promissory Note bears interest at a rate of 4% per annum, matures on July 31, 2019 and may be prepaid at any time, in whole or in part, without penalty or premium. The Company recognized a gain of $6,843 (USD $5,131) upon disposition of its interest in the Sun Valley Clinics.

Business Combination

On February 27, 2019, the Company entered into a definitive share purchase agreement (the "Share Purchase Agreement") to acquire an 80% ownership in Pharmadrug Production, for a final purchase price of EUR 4.6 million. The seller, Anquor Pharmaceuticals Ug ("Anquor"), retains a 20% interest in Pharmadrug Production.

In addition, the Company had advanced EUR 400,000 to Pharmadrug Production as a shareholder loan to assist the German subsidiary to maintain appropriate levels of working capital. The Share Purchase Agreement provides that Anquor will be entitled to receive an earn-out payment of EUR 400,000 if the total revenues of the pharmaceutical tender business of Pharmadrug Production for the 2019 financial year are 90% or more of the total revenues of that business segment for the 2018 financial year. The earn-out, if any, will be due and payable to Anquor on March 1, 2020.

On May 17, 2019 (the "Acquisition Date"), the Company completed the Pharmadrug Acquisition. Goodwill of $6,809,970 is not tax deductible and was recognized due to the expected synergies from combining operations of the Company and Pharmadrug Production. The Company determined that the Pharmadrug Acquisition was a business combination in accordance to the definition of IFRS 3 – Business Combination, and as such, has accounted for it in accordance with this standard, with the Company being the acquirer on the Acquisition Date.

Closing of the Pharmadrug Acquisition satisfied one (1) of the Escrow Release Conditions, of the offering of Subscription Receipts.

Included in the Company's financial results were $301,367 in revenue, and $63,640 in net loss before tax attributable to the shareholders of Pharmadrug, from the Acquisition Date to June 30, 2019.

The following table sets forth a preliminary allocation of the purchase price to the assets acquired, based on the preliminary estimate of fair value:

Purchase Price Consideration Paid	
	$
Cash	7,101,848

Non-Controlling Interest	
	$
Non-Controlling interest (20% of net assets acquired)	72,969

Net Identifiable Assets Acquired	
	$
Cash	618,498
Other receivables	499,097
Inventories	248,962
Prepaid expenses	3,639
Other assets	204,115
Property and equipment	18,855
Accounts payable and accrued liabilities	(946,962)
Provisions	(281,357)
Total net identifiable assets acquired	**364,847**
Goodwill	**6,809,970**

Reverse Takeover Transaction

On August 9, 2018, Lamêlée and Aura Health Corp. completed the RTO Transaction, providing for the acquisition by Lamêlée of all of the issued and outstanding common shares of Aura Health Corp. Pursuant to a Securities Exchange Agreement, all common shares of Aura Health Corp. were exchanged for common shares of Lamêlée, whereby shareholders of Aura Health Corp. held a majority of the outstanding common shares of the resulting issuer.

Aura Health Corp. became a wholly-owned subsidiary of Lamêlée, which continued on with the business of Aura Health Corp. Concurrent with the closing of the RTO Transaction, Lamêlée changed its name to Aura Health Inc.

The substance of the RTO Transaction is a reverse acquisition of a non-operating company. As a result, the RTO Transaction has been accounted for as a capital transaction with Aura Health Corp. being identified as the acquirer and the equity consideration being measured at fair value, using the acquisition method of accounting. The RTO Transaction has been accounted for as a continuation of the operations of Aura Health Corp., together with a deemed issuance of shares equivalent to the shares held by the former shareholders of Lamêlée.

Details of the RTO Transaction are presented as follows:

Purchase Price Consideration Paid	
	$
Fair value of common shares issued (i)	1,497,083
Fair values of options issued (ii)	-
Fair value of warrants issued (iii)	238,606
	1,735,689

Net Identifiable Assets Acquired	
	$
Cash	190,901
Sales tax receivable	19,122
Accounts payable and accrued liabilities	(172,397)
Due to related party	(217,830)
Total net identifiable assets acquired	(180,204)
Excess of consideration paid over net assets acquired, representing a cost of the RTO Transaction	**1,915,893**
Finders' compensation paid on closing of RTO Transaction [(iv)]	
Total RTO acquisition costs	**2,142,633**

The Company has accounted for the RTO Transaction as an asset acquisition under the scope of IFRS 2 – Share Based Payments. Consideration consisted entirely of shares, options and warrants of the Company which were measured at the estimated fair value on the date of the acquisition:

(i) The fair value of the 3,961,584 common shares, issued to former Lamêlée shareholders, was determined to be $1,497,083 based on the fair value of common shares issued through a concurrent financing (the "Concurrent Financing") on August 9, 2018. Immediately after the RTO Transaction was completed, the number of shares of the resulting issuer held by Lamêlée shareholders was approximately 17.3%.

(ii) The estimated fair value of the 92,500 options issued as consideration are based on the Black-Scholes valuation model with the following assumptions: current stock price – $0.38 per share, expected dividend yield – 0%, expected volatility – 49%, risk-free interest rate – 1.46% and an expected life of 0.25 years. In making the assumptions for expected volatility, the Company used the historical volatility of comparable companies.

(iii) The estimated fair value of the 1,052,996 warrants issued as consideration are based on the Black-Scholes valuation model with the following assumptions: current stock price – $0.38 per share, expected dividend yield – 0%, expected volatility – 81%, risk-free interest rate – 2.11% and an expected life of 1.70 years. In making the assumptions for expected volatility, the Company used the historical volatility of comparable companies.

(iv) On August 9, 2018, the Company issued 300,000 common shares to a financial advisor as compensation for advisory services provided and 300,000 common shares to a finder on closing of the RTO Transaction. The fair value of these common shares was estimated at $226,740 based on the fair value of common shares issued in the Concurrent Financing and was recorded as share-based payments during the year ended December 31, 2018.

(v) The transaction costs relating to the RTO Transaction plus the aggregate of the fair value of the consideration paid has been recognized as reverse takeover acquisition costs, in the audited consolidated statements of loss and comprehensive loss.

Overall Performance

Selected Financial Information

The Company's selected financial information as at the end of the reporting period and for the three (3) most recently completed financial years ended December 31, derived from the Company's audited consolidated financial statements and the related notes prepared in accordance with IFRS, are summarized as follows:

	As at and for the year ended December 31, 2018	As at and for the year ended December 31, 2017	For period from incorporation (November 8, 2016) to December 31, 2016
	$	$	$
Operating expenses	(950,525)	(795,257)	(181,447)
Reverse takeover acquisition costs	(2,142,633)	-	-
Other expenses	(418,991)	(116,357)	(7,781)
Net loss from continuing operations	(3,512,149)	(911,614)	(209,143)
Net loss on discontinued operations	(373,375)	(243,726)	-
Net loss and comprehensive loss	(3,941,780)	(1,151,323)	(209,143)
Total assets	1,062,312	936,873	687,039
Total liabilities	1,552,632	1,579,422	271,537
Shareholders' (deficiency) equity	(490,320)	(642,549)	415,502

Selected Quarterly Financial Results

Selected financial information for the previous eight quarters as follows:

	Q2 2019	Q1 2019	Q4 2018	Q3 2018
	$	$	$	$
Sales revenue	301,367	-	-	-
Operating expenses	(1,356,126)	(578,273)	(439,165)	(355,250)
Other expenses	(316,971)	(291,506)	(92,085)	(2,298,219)
Net loss	(1,473,629)	(869,779)	(677,885)	(2,880,209)
Loss per share – basic and diluted	(0.02)	(0.02)	(0.10)	(0.16)

	Q2 2018	Q1 2018	Q4 2017	Q3 2017
	$	$	$	$
Sales revenue	-	-	-	-
Operating expenses	(133,142)	(24,781)	(197,100)	(183,541)
Other expenses	(35,501)	(29,904)	(51,971)	(159,997)
Net loss	(217,379)	(111,864)	(301,986)	(343,538)
Loss per share – basic and diluted	(0.01)	(0.01)	(0.02)	(0.02)

Financial Results for the three months ended June 30, 2019

Results of Operations

As the Pharmadrug Acquisition closed on May 17, 2019, the Company recorded sales revenue of $301,367 and cost of goods sold of 101,899 for the three months ended June 30, 2019. This represents the first time in the history of the Company, that it had generated revenues from operations.

For the three months ended June 30, 2019, the Company incurred total operating expenses of $1,356,126, as compared to $133,142 for the three months ended June 30, 2018 ("Q2 2018"). The substantial increase in operating expenses is primarily attributable to management and consulting fees of $181,257 (Q2 2018 – $10,000) for services provided by the new management team; professional fees of $607,204 (Q2 2018 – $114,229) incurred primarily to legal costs on the various transactions that the Company had been taking initiatives on; non-cash share-based compensation and payments of $451,754 (Q2 2018 – $1,813) due to fair value adjustments on issuance of new shares, warrants and vesting of options; and travel and promotion expenses of $93,402 (Q2 2018 – $4,659) due to marketing efforts to promote the Company as a public company and for its projects to acquire certain Israeli and German cannabis assets.

During the three months ended June 30, 2019, finance costs, comprising interest and accretion on the convertible debentures and promissory notes, totaled $249,190 (Q2 2018 – $51,296). The conversion feature and the warrants component of the convertible debentures were accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Company's shares. The fair value change of the derivative liabilities resulted in a gain of $55,800 (Q2 2018 – $2,650), as the fair value of the derivative liability on the remaining Series B unsecured debentures issued on December 22, 2017 (the "Series B Debentures") decreased during the current quarter. As of April 29, 2019, the derivative liability was derecognized as the remaining Series B Debentures were converted into common shares.

Net loss for the three months ended June 30, 2019 was $1,473,629 (loss of $0.021 and $nil per share on a basic and diluted basis), as compared to $217,379 (loss of $0.010 and $0.003) for Q2 2018.

Cash Flows

Net cash used in operating activities for the three ended June 30, 2019 was $1,813,853, as compared to cash flows used in operating activities of $139,576 in Q2 2018. Substantially more cash was spent on operations during the current quarter, as the Company had been driving towards the European expansion with the Pharmadrug Acquisition. The increased in spending aligns with the Company's focus for the cannabis market in Israel and the Eurozone. In contrast, the Company was fairly inactive in the comparative period, aside from getting setup for the listing activities which picked up steam in Q2 2018.

Net cash provided from financing activities for the three months ended June 30, 2019 was $5,446,001 (2018 – $nil), mainly comprised of $2,756,900 proceeds raised from the Offering, and $3,000,000 proceeds received from the Bridge Facility. The Company did not undertake any financing activities during Q2 2018.

Net cash used in investing activities for the three months ended June 30, 2019 was $3,423,250 (Q2 2018 – $nil). The use of funds was primarily attributed to $4,041,748 advances made for the Pharmadrug Acquisition, which is offset by $618,498 cash acquired upon closing of the Pharmadrug Acquisition.

Financial Results for the six months ended June 30, 2019

Results of Operations

As the Pharmadrug Acquisition closed on May 17, 2019, the Company recorded sales revenue of $301,367 and cost of goods sold of 101,899 for the six months ended June 30, 2019. This represents the first time in the history of the Company, that it had generated revenues from operations.

For the six months ended June 30, 2019, the Company incurred total operating expenses of $1,934,399, as compared to $157,923 for the six months ended June 30, 2018. The substantial increase in operating expenses is primarily attributable to management and consulting fees of $376,257 (2018 – $10,000) for services provided by the new management team; professional fees of $791,295 (2018 – $136,929) incurred primarily to legal costs on the various transactions that the Company had been taking initiatives on; non-cash share-based compensation and payments of

$508,153 (2018 – $1,813) due to fair value adjustments on issuance of new shares, warrants and share exchange agreement; and travel and promotion expenses of $218,002 (Q2 2018 – $4,569) due to marketing efforts to promote the Company as a public company and for its projects to acquire certain Israeli and German cannabis assets.

During the six months ended June 30, 2019, finance costs, comprising interest and accretion on the convertible debentures and promissory notes, totaled $288,301 (2018 – $100,476). The conversion feature and the warrants component of the convertible debentures were accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Company's shares. The fair value change of the derivative liabilities resulted in a loss of $166,243 (2018 – gain of $6,300), as the fair value of the derivative liability on the remaining Series B unsecured debentures issued on December 22, 2017 (the "Series B Debentures") increased during the period. As of April 29, 2019, the derivative liability was derecognized as the remaining Series B Debentures were converted into common shares.

Net loss for the six months ended June 30, 2019 was $2,343,408 (loss of 0.041 and $nil per share on a basic and diluted basis, respectively), as compared to $329,243 (loss of $0.013 and $0.006 per share) for 2018.

Cash Flows

Net cash used in operating activities for the six months ended June 30, 2019 was $2,279,300, as compared to cash flows used in operating activities of $240,019 in 2018. Substantially more cash was spent on operations during the current period, as the Company had been driving towards the European expansion with the Pharmadrug Acquisition. The increased in spending aligns with the Company's focus for the cannabis market in Israel and the Eurozone. In contrast, the Company was fairly inactive in the comparative period, aside from getting setup for the listing activities which picked up steam in 2018.

Net cash provided from financing activities for the six months ended June 30, 2019 was $9,530,254 (2018 – $nil), mainly comprised of 4,740,000 proceeds raised from the Offering; $3,000,000 proceeds received from the Bridge Facility and gross proceeds of $1,724,100 raised from the $0.15 round of financing which closed on January 10, 2018. The Company also received advances of $600,000 from three (3) of its officers and directors in the form of promissory notes. In the comparative period of 2018, the Company did not undertake any financing activities.

Net cash used in investing activities for the six months ended June 30, 2019 was $6,616,960 (Q2 2018 – $nil). The use of funds was primarily attributed to $7,101,848 advances made for the Pharmadrug Acquisition and $133,610 advances made for the CannabiSendak investment. The Company also acquired cash of $618,498 upon closing of the Pharmadrug Acquisition.

Working Capital and Liquidity Outlook

The Company's objective when managing its liquidity and capital resources is to maintain sufficient liquidity to support financial obligations when they come due, while executing operating and strategic plans. The Company manages liquidity risk by monitoring its operating requirements and preparing budgets and cash flow forecast to identify cash flow needs for general corporate and working capital purposes, as well as for expansion initiatives.

The Company currently has no regular cash flows from operations, and the level of operations is principally a function of availability of capital resources. The primary source of funding has been through the completion of private placement financings of equity securities and convertible debentures. Going forward, the Company will have to continue to rely on equity or debt financings for its working capital requirements. There is no guarantee that the Company will be able to successfully complete such financings, as market conditions and business performance may dictate availability and interest.

As at June 30, 2019, the Company had current assets of $2,694,541 (December 31, 2018 – $528,109), including cash of $823,767 (December 31, 2018 – $155,117) to settle current liabilities of $4,577,333 (December 31, 2018

– $1,053,756), for a working capital deficiency of $1,882,792 (December 31, 2018 – working capital deficiency of $525,647).

Management has been actively monitoring cash forecasts and managing performance against its forecasts. As such, it believes there is sufficient capital in order to meet short-term business obligations, after taking into consideration cash flow requirements from operations and the Company's cash position at period-end.

Capital expenditures

The Company's major capital expenditures during the six months ended June 30, 2019 consisted of the new advances to CannabiSendak, and acquisition of 80% interest in Pharmadrug Production. Our recent financing for $7.72 million was used pay for the Pharmadrug Acquisition for which the Company financed through the Offering, the Share Exchange and the Bridge Facility. In connection with the Bridge Facility, the Company granted the Lender exclusive control over the FSD Shares and granted the Lender a power of attorney or trading authority in respect of the FSD Shares. These conditions are subject to a hold period of four months and one day from the closing of purchase and sale of the Purchased Shares. Subsequent to period-end, the statutory hold period on the FSD shares ended on August 19, 2019.

There is sufficient capital to meet short-term business obligations, including the initial stages of HolyCanna's greenhouse grow facility. We expect to raise additional capital this year to fund the balance of our Israeli operations and future working capital. More specifically, the Company plans to complete CannabiSendak in the fourth quarter of 2019 and HolyCanna in the first half of 2020.

Restatement

Subsequent to the issuance of the Company's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 and 2018, it was determined that certain purchases of inventories were incorrectly recorded during the period, which caused the sales, the gross profit, the operating expenses and net loss for the three and six months ended June 30, 2019 to be misstated. Certain balances of assets and liabilities were also affected as a result. The effects of the restatement on the condensed interim consolidated statement of financial position as at June 30, 2019, the condensed interim consolidated statements of loss and comprehensive loss and the condensed interim consolidated statements of cash flows for the three and six months ended June 30, 2019 are summarized below.

Condensed Interim Consolidated Statement of Financial Position as at June 30, 2019

	Previously reported	Adjustments	Restated
	$	$	$
Assets			
Cash	854,402	(30,635)	823,767
Other receivables	919,650	(80,558)	839,092
Inventories	415,132	(92,768)	322,364
Other assets	106,866	17,871	124,737
Other current assets	584,581	-	584,581
Total Current Assets	2,880,631	(186,090)	2,694,541
Goodwill	6,737,001	72,969	6,809,970
Other current assets	3,389,343	-	3,389,343
Total Non-Current Assets	10,126,344	72,969	10,199,313
Total Assets	13,006,975	(113,121)	12,893,854

Liabilities			
Accounts payable and accrued liabilities	777,373	(67,002)	710,371
Other current liabilities	3,866,962	-	3,866,962
Total Current Liabilities	4,644,335	(67,002)	4,577,333
Non-Current Liabilities	645,200	-	645,200
Total Liabilities	5,289,535	(67,002)	5,222,533
Equity			
Share capital	13,215,767	-	13,215,767
Equity component of convertible debentures	63,491	-	63,491
Reserve for share-based payments	253,409	-	253,409
Reserve for warrants	1,680,981	-	1,680,981
Accumulated other comprehensive income	(20,994)	(890)	(21,884)
Accumulated deficit	(7,507,532)	(98,608)	(7,606,140)
Equity attributable to Shareholders of Pharmadrug	7,685,122	(99,498)	7,585,624
Non-Controlling Interest	32,318	53,379	85,697
Total Equity	7,717,440	(46,119)	7,671,321
Total Liabilities and Equity	13,006,975	(113,121)	12,893,854

Condensed Interim Consolidated Statement of Loss and Comprehensive Loss for the three months ended June 30, 2019

	Previously reported	Adjustments	Restated
	$	$	$
Revenue			
Sales revenue	294,788	6,579	301,367
Cost of goods sold	8,388	93,511	101,899
Gross Profit	286,400	(86,932)	199,468
Expenses			
Operating expenses	1,356,126	-	1,356,126
Other expenses	285,705	31,266	316,971
Net Loss from Continuing Operations	(1,355,431)	(118,198)	(1,473,629)
Net Loss	(1,355,431)	(118,198)	(1,473,629)
Net Loss and Comprehensive Loss	(1,341,502)	(119,088)	(1,460,590)

Condensed Interim Consolidated Statement of Loss and Comprehensive Loss for the six months ended June 30, 2019

	Previously reported	Adjustments	Restated
	$	$	$
Revenue			
Sales revenue	294,788	6,579	301,367
Cost of goods sold	8,388	93,511	101,899
Gross Profit	286,400	(86,932)	199,468
Expenses			
Operating expenses	1,934,399	-	1,934,399
Other expenses	577,211	31,266	608,477
Net Loss from Continuing Operations	(2,225,210)	(118,198)	(2,343,408)
Net Loss	(2,225,210)	(118,198)	(2,343,408)
Net Loss and Comprehensive Loss	(2,246,204)	(119,088)	(2,365,292)

Condensed Interim Consolidated Statement of Cash Flows for the three months ended June 30, 2019

	Previously reported	Adjustments	Restated
	$	$	$
Cash flows (used in) operating activities	(1,782,998)	(30,855)	(1,813,853)
Cash flows from financing activities	5,446,001	-	5,446,001
Cash flows (used in) investing activities	(3,423,250)	-	(3,423,250)
Increase in cash	239,754	(30,855)	208,898
Effect of exchange rate changes on cash	14,177	221	14,398
Cash, beginning of period	600,471	-	600,471
Cash, end of period	854,402	(30,635)	823,767

Condensed Interim Consolidated Statement of Cash Flows for the six months ended June 30, 2019

	Previously reported	Adjustments	Restated
	$	$	$
Cash flows (used in) operating activities	(2,248,445)	(30,855)	(2,279,300)
Cash flows from financing activities	9,530,254	-	9,530,254
Cash flows (used in) investing activities	(6,616,960)	-	(6,616,960)
Increase in cash	664,849	(30,855)	633,994
Effect of exchange rate changes on cash	34,436	220	34,656
Cash, beginning of period	155,117	-	155,117
Cash, end of period	854,402	(30,635)	823,767

Proposed Transactions

As previously discussed, Pharmadrug is actively involved in transactions which we will again highlight here. For CannabiSendak, management believes we are close to finalizing a definitive agreement to close the 57% interest in that business.

Related Party Transactions and Key Management Compensation

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

Key management personnel compensation

The remuneration of directors and other members of key management personnel during the six months ended June 30, 2019 and 2018 were as follows:

	2019	2018
	$	$
Consulting fees	150,000	10,000
Professional fees	80,000	24,550
Stock-based compensation	16,421	1,813
	246,421	36,363

On August 16, 2018, the Company appointed Daniel Cohen as Chief Executive Officer ("CEO"), and entered into a consulting agreement, providing for CEO services. In consideration for the services provided, the Company agreed to pay a monthly fee of $10,000. During the six months ended June 30, 2019, the Company was charged $60,000 (2018 – $nil) for services provided by the CEO. As at June 30, 2019, $39,550 (December 31, 2018 – $50,850) owing to the CEO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

On November 19, 2018, the Company appointed Howard Brass as Chief Operating Officer ("COO"), and entered into a consulting agreement, providing for consulting services. In consideration for the services provided, the Company agreed to pay a monthly fee of $10,000. During the six months ended June 30, 2019, the Company was charged $60,000 (2018 – $nil) for services provided by the COO. As at June 30, 2019, $2,740 (December 31, 2018 – $34,699) owing to the COO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the six months ended June 30, 2019, the Company incurred professional fees of $80,000 (2018 – $24,550) from Branson Corporate Services Ltd. ("Branson"), where Keith Li, the Chief Financial Officer ("CFO") and Corporate Secretary of the Company is employed. Branson is party to a management services agreement, for providing CFO services to the Company, as well as other accounting and administrative services. As at June 30, 2019, $39,550 was owed to Branson (December 31, 2018 – $8,475 was included in accounts payable and accrued liabilities), and a balance $6,356 (December 31, 2018 – $6,356) was included in shares to be issued to settle with Branson. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the six months ended June 30, 2019, David Posner, the Chairman of the Company, charged consulting fees of $30,000 (2018 – $nil) for services provided to the Company. As at June 30, 2019, $66,000 (December 31, 2018 – $103,500) owing to the Chairman was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

On January 17, 2019, the Company granted 200,000 options to Joel Freudman, a former director of Pharmadrug. The options vested immediately on grant, and the grant date fair value of $16,421 attributable to these options was recorded as share-based compensation during the six months ended June 30, 2019.

On March 1, 2018, the Company granted 50,000 options to the CFO. The options vested immediately on grant, and the grant date fair value of $1,813 attributable to these options was recorded as share-based compensation during the six months ended June 30, 2018.

Units subscription

During the six months ended June 30, 2019, the CEO had subscribed for 400,000 Units from the Private Placement, and 500,000 Subscription Receipts from Tranche 1 of the Offering. The CEO also holds title to 350,000 units of the Company subscribed in prior years.

During the six months ended June 30, 2019, the COO had subscribed for 100,000 Units from the Private Placement, and 150,000 Subscription Receipts from Tranche 2 of the Offering. The COO also holds title to 200,000 units of the Company subscribed in prior years.

Notes payable

As per disclosed in Note 13, the CEO, the COO and the Chairman had advanced $200,000 each to the Company under the Notes on January 28, 2019.

As at June 30, 2019, the amounts in outstanding principal of $600,000 (December 31, 2018 – $nil) and accrued interest of $63,484 (2018 – $nil) were owed by the Company, and the Notes are payable on demand.

Capital Management

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the development of its planned business activities. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company considers its capital to be shareholders' equity, which is comprised of share capital, shares to be issued, equity component of convertible debentures, reserve for share-based payments and warrants, accumulated other comprehensive loss and accumulated deficit. As at June 30, 2019, the Company's capital consisted of an equity of $7,585,624 (December 31, 2018 – deficit of $490,320).

The Company's objective when managing capital is to obtain adequate levels of funding to support its business activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the development of its business. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements and issuance of convertible debentures. There can be no assurance that the Company will be able to continue raising capital in this manner.

The Company is not subject to externally imposed capital requirements.

Financial Instruments Risks

Fair value

The carrying amount of cash, other receivables, accounts payables and accrued liabilities on the unaudited condensed interim consolidated statements of financial position approximate fair value due to the relatively short maturity of these financial instruments. The fair value of the derivative liability was estimated based on the assumptions disclosed in Note 14 of the Company's unaudited condensed interim consolidated financial statement.

Fair value hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at June 30, 2019, the Company does not have any financial instruments measured at fair value after initial recognition, except for cash included at Level 1.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, other receivables and loans receivable, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash is held with a reputable Canadian chartered bank. Management believes that the credit risk concentration with respect to financial instruments included in cash, other receivables and loans receivable is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities.

As at June 30, 2019, the Company had a cash balance of $823,767 (December 31, 2018 – $155,117) to settle current liabilities of $4,577,333 (December 31, 2018 – $1,053,756). Although the Company does not maintain a revolving credit facility, it has sufficient funds available to meet its current and foreseeable financial requirements.

Foreign exchange risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company has investments denominated in foreign currencies, notably in EUR and USD. With the Company's expansion into Europe through the Pharmadrug Acquisition, some of the Company's financial instruments and transactions are denominated in currencies other than the CAD. The results of the Company's operations are subject to currency transaction and translation risks.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's debentures have fixed interest rates. As at June 30, 2019, the Company had no hedging agreements in place with respect to floating interest rates.

Significant Accounting Judgments and Estimates

The preparation of the Company's unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates.

Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

Business combination

In a business acquisition, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the acquisition date at their respective fair values. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree – the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. Management exercises judgment in considering all pertinent facts and circumstances in identifying the acquisition date.

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management exercises judgement in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Going concern

At each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations.

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities on the unaudited condensed interim consolidated statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

Warrants and options

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes valuation model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the expected volatility of the share price, expected forfeitures, expected dividend yield, expected term of the warrants or options, and expected risk-free interest rate.

Derivative liabilities

The conversion feature and the warrants component of convertible debentures which contain contractual terms that result in the potential adjustment in the conversion or exercise price, are accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Company's common shares. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The conversion feature of the convertible debentures is required to be measured at fair value at each reporting period. The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as

estimating the future volatility of the stock price, expected dividend yield, and expected term. Such judgments and assumptions are inherently uncertain.

Income taxes

Income taxes and tax exposures recognized in the unaudited condensed interim consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Expected credit losses on financial assets

Determining an allowance for expected credit losses for all debt financial assets not held at fair value through profit or loss requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Summary of Significant Accounting Policies

The accounting policies applied in the unaudited condensed interim consolidated financial statements of the Company are the same as those applied in its audited consolidated financial statements as at and for the year ended December 31, 2018. For a summary of significant accounting policies adopted by the Company, please refer to Note 3 of Pharmadrug's audited financial statements for the year ended December 31, 2018.

Adoption of New Accounting Standards

The Company adopted the following new standards, effective January 1, 2019. The changes and amendments were made in accordance with the applicable transitional provisions. On adoption of the new standard and amendment, the Company had assessed that there was no material impact on the Company's unaudited condensed interim consolidated financial statements:

IFRS 16 – Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset ("RUA") and a lease liability. The RUA is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the RUA at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease.

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23")

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The IFRS Interpretations Committee ("IFRIC") concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates.

Recent Accounting Pronouncements

At the date of authorization of the Company's unaudited condensed interim consolidated financial statements, the IASB and the IFRIC have issued the following new and revised Standards and Interpretations which are effective for annual periods beginning on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The Company is currently assessing the impact of adopting the following new standard will have on its unaudited condensed interim consolidated financial statements:

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

Off-Balance Sheet Arrangements

As at June 30, 2019 and the date of this MD&A, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

Commitments

On April 17, 2019, the Company entered into the Share Exchange Agreement with FSD, whereby, among other things, FSD issued $3 million of FSD Shares to the Company under the Share Exchange for $3 million of Pharmadrug Shares.

Since the FSD Shares were issued on a private placement basis, Pharmadrug had to secure the Bridge Facility in order to close the Pharmadrug Acquisition. As part of the Bridge Facility, the Company: (i) entered into a general security agreement with the Lender, (ii) granted the Lender exclusive control over the FSD Shares, and (iii) granted the Lender a power of attorney or trading authority in respect of the securities of FSD.

In order to protect Pharmadrug in its $3 million obligation to the Bridge Facility, FSD agreed to provide a "make-whole" payment to the Company, immediately following the end of the applicable statutory hold period for the FSD Shares, payable in the form of additional FSD Shares issued from treasury, having a value equal to the excess, if any, of the per share price at which the FSD Shares were initially issued to Pharmadrug (the "Issue Price") over the VWAP of the FSD Shares for the 10 consecutive trading days.

As part of the Share Exchange Agreement, Pharmadrug and FSD entered into a consulting agreement whereby Pharmadrug will assist FSD with obtaining EuGMP certification at the existing licensed facility of FSD. Pharmadrug also entered into a 5-year supply agreement (the "Supply Agreement") with FSD whereby, upon proper EuGMP

certification, Pharmadrug Production will commit to purchase a total of 1,000 kilograms ("Kg") over the first two (2) years of Canadian produced cannabis product from FSD at a price of $7.00 per gram FOB Germany (subject to downward adjustment should market exigencies dictate), provided that the product is saleable in the German market. The Supply Agreement calls for Pharmadrug Production to commit to purchase 1,000 Kg per year for an additional three (3) years at a price to be mutually determined by both parties at that time.

Subsequent Events

Sun Valley Clinics

On July 30, 2019, payments terms of the Promissory Note were amended as per agreed between the Company and Empower, as follows as follows:

- Additional USD $15,000 to be paid by Empower, beyond the original USD $125,000 and its interest, if the principal amount is paid after July 31, 2019, but before August 15, 2019.
- Additional USD $30,000 to be paid by Empower, beyond the original USD $125,000 and its interest, if the principal amount is paid after August 15, 2019, but before August 31, 2019.

The Company fully expects to receive the payment from Empower.

Share Exchange Agreement

On August 19, 2019, the statutory hold period on the FSD Shares under the Share Exchange Agreement ended.

Disclosure of Outstanding Share Data as of August 29, 2019

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited number of common shares	83,302,274 common shares
Securities convertible or exercisable into voting or equity		a) 25,293,698 warrants exercisable to acquire common shares of the Company; and b) 3,440,000 outstanding stock options, of which 2,890,000 stock options are exercisable into common shares of the Company.

Risk Factors

There are numerous and varied risks, known and unknown, that may prevent the Company from achieving its goals. If any of these risks occur, the Company's business, financial condition or results of operation may be adversely affected. In such case, the trading price of the Company's common shares could decline, and investors could lose all or part of their investment. The following is a summary of risks that could be applicable to the business of the Company:

Limited operating history in cannabis industry

The Company, with a limited operating history in the cannabis industry, is in the early-stage of development and must be considered as a start-up company. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenue. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. The Company also has no history of earnings. Because the Company has a limited operating history in an emerging area of business,

investors should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy;
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its patients' or customers' requirements;
- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving legal and regulatory regime for cannabis that varies significantly by jurisdiction.

The Company's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

Immediate need for additional financing

The capital raised by the Company to date is insufficient to meet its presently anticipated working capital requirements and capital expenditure commitments for the near future. The Company needs to raise significant additional funds sooner to support its international growth strategy, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive cannabis-related businesses or technologies, or take advantage of unanticipated opportunities. The Company cannot be sure that additional financing will be available on acceptable terms or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit Pharmadrug's operating flexibility with respect to business matters. As additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced; such shareholders may experience additional dilution in net book value; and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

Non-compliance with cannabis laws and regulations

Non-compliance with federal, provincial or state laws and regulations, or the expansion of current or enactment of new laws or regulations, could adversely affect the Company's business in Israel and Germany, and elsewhere it operates or invests. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the carrying on of business of Pharmadrug, HolyCanna and CannabiSendak. The Company cannot predict the time required to secure all appropriate regulatory approvals for its business or other businesses in which the Company invests, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

There can be no assurances the federal government of the German and Israeli jurisdictions will not seek to enforce applicable cannabis or other laws against the Company. The consequences of such enforcement would likely be materially detrimental to the Company and the businesses in which the Company invests, and could result in the forfeiture or seizure of all or substantially all of the Company's assets. Further, the Company's third-party service providers could suspend or withdraw services as a result of non-compliance with federal, state or local laws and regulations regarding cannabis.

It is also important to note that local and city ordinances may strictly limit and/or restrict disbursement of marijuana in a manner that will make it extremely difficult or impossible to transact business that is necessary for the continued operation of the marijuana industry.

Regulatory approvals and permits

The Company is and may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions in which it operates. There can be no assurance that the Company will be able to obtain and/or maintain the necessary permits, licenses and approvals. Any regulatory authority with jurisdiction could also impose certain restrictions on the Company's ability to operate in the relevant jurisdiction. Any material delay or failure to receive these items, or onerous regulatory restrictions would delay and/or inhibit the Company's ability to conduct its business and would adversely affect the Company's business, financial condition and results of operations.

Marijuana regulations

The operations of the businesses in which the Company has invested, including Pharmadrug, HolyCanna and CannabiSendak, are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana, as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment.

Local, State and federal laws and regulations in the US governing marijuana for medicinal and adult-use purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance.

The Company cannot predict the nature of any future laws, regulations, interpretations, policies or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the operations of the Company's investees. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

Israeli cannabis export framework not yet in place

The government of Israel passed the law allowing the export of medical cannabis on January 27, 2019. That being said, the framework has yet to be introduced and the process may take some time. As such, it is unclear when exports will begin to happen and which companies will have the right to do so. If HolyCanna succeeds in growing cannabis at a mass scale and subsequently cannot export the cannabis it eventually will produce, it may be materially adversely affected by factors such as over-supply in the domestic Israeli market, competitive pressures on prices, and inability to secure enough domestic buyers for its cannabis. Any of these factors or others could have a material adverse impact on the Company's investments in HolyCanna and/or CannabiSendak.

Pharmadrug

Management highlights several possible risks to the acquisition of the 80% interest in the Pharmadrug Production business. To begin, Germany is a country to which management has not operated in before. While the Company has sufficient resources on the ground and management will spend adequate time on site to help grow the business, Pharmadrug Production is located on a different continent. In addition, the Company is in the early stages of the medical cannabis industry in Germany. There are other associated risks such as a lack of demand, changes to the regulatory environment, competitive factors, the ability for Pharmadrug Production to import product into the country, the eventual production of medical cannabis domestically, amongst others.

Risks associated with increasing competition

The marijuana industry is highly competitive. The Company will compete with numerous other businesses in the medicinal and adult-use industry, many of which possess greater financial and marketing resources and other resources than the Company. The marijuana business is affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, local competitive factors, cost and availability

of raw material and labour, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations.

The Company expects to face additional competition from new entrants. If the number of legal users of marijuana increases in Germany, Israel and/or other jurisdictions where the Company currently operates or plans to operate, the demand for cannabis-related products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in acquisitions and investments, research and development, and marketing. The Company may not have sufficient resources to maintain such activities on a competitive basis which could adversely affect the business, financial condition and results of operations the Company.

Reliance on management

The success of the Company is dependent on the performance of its senior management. The loss of services of these persons would have a material adverse effect on the Company's business and prospects in the short-term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business, nor that the Company can successfully recruit qualified replacements if necessary.

Uninsurable risks

It is not always possible for the Company to fully insure against its business and other risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not currently have any insurance policies in place, and any liabilities that may arise as a result any of the risks set out in this MD&A may cause a material adverse effect on the financial condition of the Company.

Other marijuana-related risks

The Company, through its investments in Pharmadrug, HolyCanna, and CannabiSendak, may be indirectly exposed to a wide variety of cannabis-related risks, including without limitation:

- threats posed by illegal drug dealers, seeking to compete with legal marijuana businesses; and
- potential imposition of rules and regulations by any German or Israeli regulatory authority relating to cannabis manufacturing, cultivation, distribution, and other related business activities.

Volatile global financial market and economic conditions

Current global financial market and economic conditions remain volatile, which may impact the Company's ability to obtain financing in the future on favourable terms or at all. Additionally, uncertainty over global economic conditions may cause a long-term decrease in financial and real asset values. If such volatility and market turmoil continue, the Company's operations and financial condition could be adversely impacted.

Securities markets are subject to a high level of price and volume volatility, and the market prices of securities of many companies have experienced substantial volatility in the past. Continued volatility, whether or not related to Pharmadrug's business performance and financial results, may affect the ability of holders of Pharmadrug's securities to sell their securities at an advantageous price. The market price of Pharmadrug's securities may decline even if Pharmadrug's underlying asset values or growth prospects have not changed. There can be no assurance that continuing fluctuations in price and volume will not occur, and the trading price of the Company's common shares and the market value of its convertible debentures and warrants may be materially adversely affected.

Management of growth

Due to its early stage of development, Pharmadrug 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 personnel base. The inability of the Company to deal with this growth may have an adverse effect on the Company's business, financial condition, results of operations and prospects.

No dividends

The Company has no earnings or dividend record and does not anticipate paying any dividends on the Company's shares in the foreseeable future.

Foreign currency exchange rates

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business will be conducted in EUR. The Company's financial results are reported in Canadian Dollars and costs are incurred primarily in EUR in its PACs. The depreciation of the Canadian Dollar against the EUR could increase the actual capital and operating costs of Pharmadrug and materially adversely affect the results presented in the Company's consolidated financial statements.

Limited market for securities

There can be no assurance that an active and liquid market for the Company's common shares, warrants and/or convertible debentures will develop or be maintained, and an investor may find it difficult to resell such securities.

The market price of securities is volatile and may not accurately reflect the long-term value of the Company

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies – including Pharmadrug – has experienced substantial volatility in the past. This volatility may affect the ability of holders of common shares to sell their securities at an advantageous price. Market price fluctuations in the common shares may be due to the Company's operating ore financial results failing to meet expectations of investors in any period, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of Pharmadrug's common shares.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of Pharmadrug's shares may decline even if the Company's business performance, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause prolonged decreases in investment values which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the shares may be materially adversely affected.

Ability to access public and private capital

The Company has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. The Company has completed private placement financings throughout 2018 and 2019, including private placement offerings to raise enough funds to acquire 80% interest in Pharmadrug.

The Company may be vulnerable to unfavorable publicity or consumer perception regarding cannabis

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, social media, and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention, social media, or other publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future industry coverage perceived as less favorable than, or that questions, earlier research or publicity could adversely affect the demand for cannabis and thus the prospects for those businesses in which the Company has invested.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have a material adverse effect. Such adverse publicity reports or other media attention could hinder market growth and consumer adoption due to inconsistent public opinion and perception of the medical-use and adult-use cannabis industry. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general).

Disclosure of Internal Controls over Financial Reporting

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements; and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented.

In contrast to non-venture issuers this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Company to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

Cautionary Note Regarding Forward-Looking Statements

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking statements are often identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements herein include those relating to, without limitation: Pharmadrug's international expansion strategy and plans, including plans relating to those entities in which it has invested; the status of Israeli export laws with respect to cannabis; and Pharmadrug's financing plans and needs. Such statements are based

on numerous assumptions believed by management to be reasonable in the circumstances, including among others that the Company will succeed with its international expansion plans and that Israel will permit the export of cannabis.

The risks and uncertainties that could affect such forward-looking statements include, but are not limited to, those set out in this MD&A under "Risk Factors" and "Regulatory Overview" as well as: rapidly changing legal and regulatory environment affecting the cannabis industry in Germany, Israel, and other jurisdictions globally; inability to identify and complete future strategic investments and acquisitions on favourable terms or at all; operating internationally and/or in emerging markets; and agricultural risks. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any such statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements herein are expressly qualified by this cautionary statement.

Management's Responsibility for Financial Information

Management is responsible for all information contained in this MD&A. The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the unaudited condensed interim consolidated financial statements in all material aspects.

The Audit Committee has reviewed the unaudited condensed interim consolidated financial statements and this MD&A with management of Pharmadrug. The Board has approved the unaudited condensed interim consolidated financial statements and this MD&A on the recommendation of the Audit Committee.

November 29, 2019

Daniel Cohen
Chief Executive Officer