PHARMADRUG INC.

(formerly Aura Health Inc.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

The following Management's Discussion and Analysis ("MD&A") is current to 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 nine months ended September 30, 2019 ("Q3 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 condensed interim consolidated financial statements and related notes for the three and nine months ended September 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.

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

The Company also holds a note which is convertible into a 54% equity of HolyCanna Ltd. ("HolyCanna"), a cultivation and nursery license holder in Israel. It had also entered into a Letter of Intent ("LOI") to purchase 57% of CannabiSendak LTD. ("CannabiSendak"), the builder of a planned network of dispensaries in Israel. See "Outlook and Plans" for more details.

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

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

Recent Developments

On September 19, 2019, the Company announced a multi-year supply agreement (the "Supply Agreement") with Israel-based My Green Fields Ltd. ("My Green Fields"). My Green Fields is a nursery and cultivation license holder located in Northern Israel, that has nearly completed the buildout of one of Israel's only indoor facilities. Under the Supply Agreement, Pharmadrug will have access to dry flower and oil and extracts, where the medical cannabis product will be sold under Pharmadrug Production's own 'Cannabion' brand. As My Green Fields' grower facility is being built to EuGMP standards, the Company will assist My Green Fields in meeting EuGMP standards, German regulatory approvals, and registration requirements.

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

On October 31, 2019, the Company announced a multi-year Supply Agreement between Pharmadrug Production and Canada House Wellness Group Inc. ("Canada House"). Under the Supply Agreement, all medical cannabis will be sold through the 'Cannabion' brand. Terms for the first year are 250 kilograms ("Kg") of dry flower or oil equivalent with a right of first refusal. Minimum quantities for the second year are 500 Kg of dry flower or oil equivalent with a right of first refusal on another 500 Kg. In following years, Pharmadrug will have access to up to 3,000 Kg of dry flower or oil equivalent per year at mutually agreed upon prices. Canada House's subsidiary Abba Medix Corp. ("Abba") has a 22,000 square foot cultivation facility in Pickering, Ontario that received its Canadian Sales License in October 2019. Pharmadrug will sponsor Abba in getting EuGMP certification and will also assist Abba in registering its strains with German regulators.

On November 19, 2019, Nikolai Vassev was appointed to the Board of Directors (the "Board"). Mr. Vassev has strong pedigree in public markets and is a psychedelics industry pioneer. He replaced Alain Dobkin, who resigned from Pharmadrug's Board due to a conflict of interest after having accepted a senior position at an international investment bank in Israel.

Financing Developments

Private Placement Financings

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.

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.

Bridge Facility

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 of the Pharmadrug Acquisition. As security for the Bridge Facility, the Company collateralized certain shares of FSD Pharma Inc. ("FSD"), a licensed producer under the Cannabis Act (Canada), to the Lender (as defined below).

On October 3, 2019, the Bridge Facility was amended to extend the maturity for a further six (6) months to March 24, 2020 (the "Maturity Date"). The Company also made a partial repayment of $1,374,715 to the Lender, on the principal amount of the Bridge Facility. The remaining principal amount and accrued interest on the Bridge Facility shall be due and payable in full by the Company on the Maturity Date.

In connection to the extension of the Maturity Date, the Company has agreed to pay to the Lender a restructuring fee of $180,000, payable in cash or in shares at the option of the Lender, and to also issue to the Lender additional Pharmadrug shares having a value equal to 20% of the net proceeds from the sale of the FSD Additional Shares (as defined below) based on Pharmadrug's current share price.

Share Exchange Agreement

On April 17, 2019, Pharmadrug entered into a share exchange agreement (the "Share Exchange Agreement") with FSD, 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 of four months and one day from the closing of purchase and sale of the FSD Shares. On August 19, 2019, the statutory hold period on the FSD Shares under the Share Exchange Agreement ended, and the FSD Shares were sold by the Lender for $1,374,715 which was applied as a partial repayment on the Bridge Facility.

On September 19, 2019, FSD issued an additional 12,440,298 common shares of FSD (the "FSD Additional Shares") to the Company as part of the make-whole provision, subject to the applicable statutory hold period. Upon the expiry

of the statutory hold period on the FSD Additional Shares, the Company may sell the FSD Additional Shares for gross proceeds that would be further used to repay the outstanding balance of the Bridge Facility.

Outlook and Plans

Pharmadrug's mission is to build a medical cannabis company with a focus on the European and Israeli markets. Since completion of the Company's reverse takeover transaction of Lamêlée Iron Ore Ltd. ("Lamêlée") (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 nascent German cannabis market continues to grow at a fast pace and social acceptance is gaining momentum. Recently, it was widely reported that Angela Merkel, Chancellor of Germany and her ruling Christian Democratic Union Party, is considering introducing legislation allowing adult-use of marijuana. The country's new drug commissioner, Daniela Ludwig, had also expressed a more liberal view on cannabis policy. This is occurring on a backdrop where all other major political parties in Germany already have internal policies that are friendlier to cannabis.

While adult-use legislation in Germany is not guaranteed, and if it were introduced could be years away, it is evident that social acceptance of cannabis is growing in the country. As in Canada, this evolution is a fundamental precondition for market growth to continue and even accelerate.

As Pharmadrug continues to develop business in Germany, management believes that the Company will see significant growth in 2020. A new sales team was recently put in place in November that began to execute on a new strategic plan. The Company expects to continue to grow its Bedrocan business and the number of pharmacies in its distribution network significantly over the next six (6) months with a plan to reach profitability in Germany in the first half of 2020.

Pharmadrug signed two (2) major Supply Agreements this fall and is confident it can sign a third in the near short term. These agreements will supply Pharmadrug Production with medical cannabis under its own brand 'Cannabion.' The agreement with Canada House calls for their Abba facility in Pickering, Ontario to supply Pharmadrug Production with 250 to 500 Kg of medical cannabis in the first year, and 500 to 1,000 Kg in the following years. The facility is ramping up to 2,000 to 3,000 Kg per year and depending on growth in Germany and relative prices in Canada, Pharmadrug Production may have access to far more than 1,000 Kg per year. The process to assist Abba to obtain its EuGMP certification has already begun and we believe first shipments should begin in the second quarter of 2020.

Pharmadrug also signed a Supply Agreement with My Green Fields in Israel. The Company expects the Israeli government to introduce the export framework in the near term and supply to begin shipping to Europe by mid-2020. My Green Fields plans to plant its first crop in January with commercial production to begin by the end of second quarter of 2020. The Supply Agreement calls for 500 Kg in the first year with up to 2,000 Kg per year after that. With Bedrocan and these two (2) agreements, our goal is to get Pharmadrug Production to 1,000 Kg run rate of annual supply by the last quarter of 2020, climbing to 3,000 to 5,000 Kg per year by 2021.

Pharmadrug also plans to grow its distribution platform is three (3) distinct ways. First, it will continue to increase the number of pharmacies it sells to directly. Second, once Pharmadrug Production begins to import its own branded product, the Company will look to resell its product to other distributors in Germany. Management has already begun discussions with several interested players. Third, Pharmadrug will look beyond Germany into other EU countries.

Through the German business, the Company aims to export GMP medical cannabis to other EU countries as and when those countries legalize cannabis.

Israel

The Company believes 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, which boasts one (1) 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.

Given the Supply Agreement in place with My Green Fields and the current sate of the capital markets in the cannabis sector, the Company will delay its plans to build out HolyCanna and will reassess its commitment to being a medical cannabis cultivator over the coming year. Currently, management believes it makes more sense to focus on branded distribution, as considerable capital has already been allocated to cultivation in both Israel and Canada.

On that note, management remains fully committed to CannabiSendak, as it believes the domestic market will grow significantly in Israel and the business fits well with Pharmadrug's strategy of branded distribution. The Company will monitor the development of the domestic Israeli market and will determine the opportune time to execute on the plan over the next couple of quarters.

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:

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
	$	$	$	$
Sales revenue	271,291	301,367	-	-
Operating expenses	(435,813)	(1,356,126)	(578,273)	(439,165)
Other expenses	(89,816)	(316,971)	(291,506)	(92,085)
Net loss	(458,961)	(1,473,629)	(869,779)	(304,510)
Loss per share – basic and diluted	(0.01)	(0.02)	(0.02)	(0.02)

	Q3 2018	Q2 2018	Q1 2018	Q4 2017
	$	$	$	$
Sales revenue	-	-	-	-
Operating expenses	(580,177)	(133,142)	(24,781)	(197,100)
Other expenses	(2,244,248)	(35,501)	(29,904)	(51,971)
Net loss	(2,824,425)	(168,643)	(54,685)	(249,071)
Loss per share – basic and diluted	(0.14)	(0.01)	(0.00)	(0.02)

Financial Results for the three months ended September 30, 2019

Results of Operations

With the German distribution business fully under way after the closing of the Pharmadrug Acquisition in May 2019, the Company recorded sales revenue of $271,291 and cost of goods sold of $204,623 for the three months ended September 30, 2019, for gross profit of $66,668.

During Q3 2019, the Company incurred total operating expenses of $435,813, as compared to $580,177 for the three months ended September 30, 2018 ("Q3 2018"). The decrease in operating expenses is primarily related to lower non-cash stock-based compensation of $13,642 recorded during the period (Q3 2018 – $84,591), share-based payment of $226,740 recorded from shares issued for advisory and finder fees connected to the RTO Transaction in Q3 2018, and lower travel and promotional expenses of $61,320 (Q3 2018 – $104,288) incurred in marketing and promoting the Company for its cannabis projects in Israel and Germany. These changes were partially offset by increases in management, consulting fees and salaries of $198,979 (Q3 2018 – $55,000) for services provided by management and a host of consultants; professional fees of $96,697 (Q3 2018 – $96,968) incurred on various transactions that the Company had been taking initiatives on; and additional office and general expenses of approximately $60,000 incurred in the current quarter.

During Q3 2019, the Company incurred significantly fewer other expenses, as compared to Q3 2018. Finance costs, comprising interest and accretion on convertible debentures, promissory notes and the Bridge Facility, totaled $25,774 (Q3 2018 – $46,123). The decrease in finance costs is directly related to the conversion of the Series B Debentures into common shares during the year. No fair value change in derivative liability was also recorded in Q3 2019 as compared to a fair value loss in derivative liability of $270,733 in Q3 2018, as all derivative liability was derecognized from the prior quarter as the remaining Series B Debentures were converted into shares.

During Q3 2019, the Company also recognized an additional gain of $39,853 on the sale of its 30% interest in the Sun Valley Clinics to Empower Healthcare Assets Inc. ("Empower"), a Delaware corporation from the US and a wholly-owned subsidiary of Empower Clinics Inc. The additional gain resulted from amended payments terms agreed by the parties on delinquent payment past August 31, 2019.

During Q3 2018, the Company recorded a one-time expense of $1,915,893, which represented the transaction costs relating to the RTO Transaction plus the fair value of the consideration paid.

Net loss from continuing operations for the three months ended September 30, 2019 was $458,961 (loss of $0.006 on a basic and diluted basis), as compared to $2,824,425 (loss of $0.135 on a basic and diluted basis) for Q3 2018.

Net loss from continuing operations attributable to shareholders of Pharmadrug for the three months ended September 30, 2019 was $436,234 (loss of $0.006 on a basic and diluted basis), as compared to $2,824,425 (loss of $0.135 on a basic and diluted basis) for Q3 2018.

Cash Flows

Net cash used in operating activities for the three ended September 30, 2019 was $320,806, as compared to cash flows used in operating activities of $856,456 in Q3 2018. Resources were streamlined as the Company was prudent in its operational spending during the current quarter, despite the Company having expanded its scope of its European operations with the Pharmadrug Acquisition. In Q3 2018, the higher cash used in operating activities was due to substantial fees required in transitioning the Company in closing its going-public transaction.

No financing activities took place during Q3 2019. In Q3 2018, the Company generated net cash flows of $1,147,961 from financing activities, which primarily comprised proceeds from the concurrent financing of $1,032,918, and cash of $190,901 acquired from the RTO Transaction, and proceeds from warrant exercises of $4,331.

Net cash used in investing activities for Q3 2019 was $110,594 (Q3 2018 – $82,736). The use of funds was primarily attributed to an advance of $96,525 to HolyCanna. In Q3 2018, funds were primarily spent to fund the Sun Valley Clinics.

Financial Results for the nine months ended September 30, 2019

Results of Operations

With the closing of the Pharmadrug Acquisition in May 2019, the Company had since been operating its cannabis distribution business with shipments to pharmacies through out Germany. For the nine months ended September 30, 2019, the Company recorded total sales revenue of $572,658 and cost of goods sold of $306,522. The year-to-date gross profit was $266,136.

During the nine months ended September 30, 2019, the Company incurred total operating expenses of $2,370,212, as compared to $738,100 in the comparative period in 2018. The substantial increase in operating expenses is primarily attributable to management, consulting fees and salaries of $575,236 (2018 – $65,000) for services provided by management team and a host of consultants; professional fees of $887,992 (2018 – $233,897) incurred on various transactions that the Company had been taking initiatives on; and travel and promotion expenses of $279,322 (2018 – $108,857) incurred in marketing and promoting the Company for its cannabis projects in Israel and Germany. The Company also recorded non-cash share-based compensation of $109,973 (2018 – $86,404) and share-based payments of $411,822 (2018 – $226,740) during the period.

During the nine months ended September 30, 2019, the Company incurred significantly fewer other expenses, as compared to the comparative period in 2018. Finance costs, comprising interest and accretion on convertible debentures, promissory notes and the Bridge Facility, totaled $314,075 (2018 – $146,599). 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 – loss of $264,433), 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.

During the nine months ended September 30, 2019, the Company also recognized a gain of $46,696 on the sale of its 30% interest in the Sun Valley Clinics.

During the nine months ended September 30, 2018, the Company recorded a one-time expense of $1,915,893, which represented the transaction costs relating to the RTO Transaction plus the fair value of the consideration paid.

Net loss from continuing operations for the nine months ended September 30, 2019 was $2,802,369 (loss of 0.043 on a basic and diluted basis, respectively), as compared to $3,047,753 (loss of $0.168 on a basic and diluted basis) for 2018.

Net loss from continuing operations attributable to shareholders of Pharmadrug for the nine months ended September 30, 2019 was $2,792,370 (loss of $0.043 on a basic and diluted basis), as compared to $3,207,639 (loss of $0.177 on a basic and diluted basis) for the same period in 2018.

Cash Flows

Net cash used in operating activities for the nine months ended September 30, 2019 was $2,600,106, as compared to cash flows used in operating activities of $1,096,475 in 2018. Substantially more cash was spent on operations during the current period, as the Company had been fully operational since the closing of the Pharmadrug Acquisition. The increased in spending aligns with the Company's expansion in the cannabis market in Israel and the Eurozone. In the comparative period in 2018, cash was primarily used in operations due to substantial fees required in transitioning the Company in closing its going-public transaction.

Net cash provided from financing activities for the nine months ended September 30, 2019 was $9,530,253 (2018 – $1,147,961), mainly comprised of $4.74 million proceeds raised from the Offering; $3 million proceeds received from the Bridge Facility and gross proceeds of $1,7 million 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 financing activities primarily comprised of proceeds from the concurrent financing of $1,032,918 net of share issue costs of $80,189, cash acquired in the RTO Transaction of $190,901, and proceeds from warrant exercises of $4,331.

Net cash used in investing activities for the nine months ended September 30, 2019 was $6,727,554 (2018 – $82,736). The use of funds was primarily attributed to over $7 million invested into the Pharmadrug Acquisition, $133,610 advances made for the CannabiSendak investment and $96,525 advances made to HolyCanna. The Company also acquired cash of $618,498 upon closing of the Pharmadrug Acquisition. In 2018, funds were primarily spent in funding the Sun Valley Clinics.

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.

As at September 30, 2019, the Company had current assets of $2,025,829 (December 31, 2018 – $528,109), including cash of $364,485 (December 31, 2018 – $155,117) to settle current liabilities of $3,209,197 (December 31, 2018 – $1,053,756), for a working capital deficiency of $1,183,368 (December 31, 2018 – working capital deficiency of $525,647).

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.

The Company's major capital expenditures during the nine months ended September 30, 2019 consisted of the new advances to HolyCanna, CannabiSendak, and the Pharmadrug Acquisition. The financings for approximately $7.7 million from the first half of 2019 was primarily used to fund 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 was able to negotiate an extension on the Maturity Date in exchange for a restructuring fee.

Management is actively monitoring cash forecasts and managing performance against its forecasts. The Company is also looking to raise new capital in the next six (6) months despite the recent negative market performance noted from the cannabis sector in general.

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, reserves for share-based payments and warrants, accumulated other comprehensive loss and accumulated deficit. As at September 30, 2019, the Company's capital consisted of an equity attributable to shareholder of Pharmadrug of $7,135,139 (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.

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 nine months ended September 30, 2019 and 2018 were as follows:

	2019	2018
	$	$
Consulting fees	225,000	30,000
Professional fees	108,000	44,750
Share-based compensation	16,421	46,390
	349,421	121,140

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 nine months ended September 30, 2019, the Company was charged $90,000 (2018 – $15,000) for services provided by the CEO. As at September 30, 2019, $67,853 (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 nine months ended September 30, 2019, the Company was charged $90,000 (2018 – $nil) for services provided by the COO. As at September 30, 2019, $50,850 (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 nine months ended September 30, 2019, the Company incurred professional fees of $108,000 (2018 – $44,750) 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 September 30, 2019, $63,308 was owed to Branson (December 31, 2018 – $8,475) was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the nine months ended September 30, 2019, David Posner, the Chairman of the Company, charged consulting fees of $45,000 (2018 – $nil) for services provided to the Company. As at September 30, 2019, $73,600 (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.

During the nine months ended September 30, 2018, Chris Carl, former CEO of the Company, charged consulting fees of $15,000 for services provided up to the RTO Transaction.

Share-based compensation

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 nine months ended September 30, 2019. On August 14, 2019, these options were cancelled.

On March 1, 2018, the Company granted 50,000 stock 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 nine months ended September 30, 2018.

On September 24, 2018, the Company granted 300,000 stock options to the CEO of the Company. The grant date fair value of $44,577 attributable to these options was recorded as stock-based compensation during the nine months ended September 30, 2018.

Notes payable

As per disclosed in Note 13 of the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and 2018, the CEO, the COO and the Chairman had advanced $200,000 each to the Company under the Notes on January 28, 2019.

As at September 30, 2019, the total outstanding balance under the Notes was $697,161, including accrued interest of $97,161. The Notes are payable on demand.

Financial Instruments Risks

Fair value

The carrying amount of cash, other receivables, note receivable, accounts payables and accrued liabilities on the Company's 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 September 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, note receivable 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, note receivable 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 September 30, 2019, the Company had a cash balance of $364,485 (December 31, 2018 – $155,117) to settle current liabilities of $3,209,197 (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.

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short or long-term financing of its operations.

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. With the Company's expansion based in Europe through the Pharmadrug Acquisition, some of the Company's financial instruments and transactions are denominated in currencies other than the CAD. The Company's primary exposure to foreign exchange risk is that transactions denominated in EUR may expose the Company to the risk of exchange rate fluctuations.

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 September 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 Company's 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.

Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization, if applicable, and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Licenses and trade names have an indefinite useful life and are tested for impairment annually.

Determination of cash generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped at the lowest levels for which there are largely independent cash inflows. The Company determines which groups of assets (each a "Cash-Generating Unit or a "CGU") can generate cash flows that are largely independent of other operations within the Company. Management exercises judgment in assessing where active markets exist including an analysis of the degree of autonomy each operation has in negotiating prices with customers. The Company has identified each retail dispensary as a separate CGU, based on the nature of the business and the assessment that the CGUs generate cash flows that are largely independent of the cash flows from other assets deployed in the Company.

Impairment

Long-lived assets, including property and equipment and intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the CGU to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

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 ("ECL") 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 Company's unaudited condensed interim consolidated financial statements of 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 12 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 IFRIC have issued certain pronouncements that are mandatory for the Company's accounting periods commencing 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 September 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.

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.

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 FSD Additional 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. On August 19, 2019, the statutory hold period on the FSD Shares under the Share Exchange Agreement ended, and the FSD Shares were sold by the Lender for $1,374,715 which was applied as a partial repayment on the Bridge Facility.

On September 19, 2019, FSD issued 12,440,298 FSD Additional Shares to the Company as part of the make-whole provision, subject to the applicable statutory hold period. Upon the expiry of the statutory hold period on the FSD Additional Shares, the Company may sell the FSD Additional Shares for gross proceeds that would be further used to repay the outstanding balance of the Bridge Facility.

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 Production also entered into a 5-year Supply Agreement with FSD whereby, upon proper EuGMP certification Pharmadrug Production will commit to purchase a total of 1,000 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.

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.

Included in the Company's financial results were $572,658 in revenue, and $49,995 in net loss before tax attributable to the shareholders of Pharmadrug, from the Acquisition Date to September 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)]	226,740
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 for the year ended December 31, 2018.

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 Properties Inc., entered into a definitive purchase and sale agreement (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 a promissory note issued by Empower in

the principal amount of USD $125,000 (the "Promissory Note"). 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.

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

Including the additional payment of USD $30,000, as the Promissory Note were unpaid as at August 31, 2019, the Company had recognized a total gain of $46,696 (USD $35,131) upon disposition of its interests in the Sun Valley Clinics.

The disposition of Pharmadrug's interest in the Sun Valley Clinics satisfied one (1) of the Escrow Release Conditions of the Offering of Subscription Receipts.

As at September 30, 2019, $208,042 (USD $157,096) was owed to the Company under the Promissory Note, comprised of the principal amount of $205,266 (USD $155,000) and accrued interest of $2,776 (USD $2,096). The Company fully expects to receive the payment from Empower. As such, no ECL had been recorded on the Promissory Note.

Subsequent to September 30, 2019, the Company received a partial repayment on the Promissory Note.

Assets held for sale

As at December 31, 2018, the investments in the Sun Valley Clinics were classified as held for sale on the Company's consolidated statements of financial position.

Subsequent Events

Sun Valley Clinics

On November 7, 2019, the Company received a partial repayment of $15,313 (USD $12,041) from Empower, comprised of the principal amount of $12,717 (USD $10,000) and interest of $2,596 (USD $2,041).

Bridge Facility extension

On October 3, 2019, the Bridge Facility was amended to extend the maturity for a further six (6) months to March 24, 2020. The Company also made a partial repayment of $1,374,715 to the Lender, on the principal amount of the Bridge Facility. The remaining principal amount and accrued interest on the Bridge Facility shall be due and payable in full by the Company on the Maturity Date.

In connection to the extension of the Maturity Date, the Company also agreed to pay the Lender a restructuring fee of $180,000, payable in cash or in shares at the option of the Lender, and to also issue to the Lender additional shares having a value equal to 20% of the net proceeds from the sale of the FSD Additional Shares based on Pharmadrug's current share price.

Supply Agreement

On October 31, 2019, the Company announced a multi-year Supply Agreement between Pharmadrug Production and Canada House. Under the Supply Agreement, all medical cannabis will be sold through Pharmadrug Production's own

'Cannabion' brand. Terms for the first year are 250 Kg of dry flower or oil equivalent with a right of first refusal on another 250 Kg at EUR 4.00 per gram. Minimum quantities for the second year are 500 Kg of dry flower or oil equivalent with a right of first refusal on another 500 Kg. In following years, Pharmadrug will have access to up to 3,000 Kg of dry flower or oil equivalent per year at mutually agreed upon prices.

Canada House's wholly owned subsidiary Abba has a 22,000 square foot cultivation facility in Pickering, Ontario that received its Canadian Sales License on October 1, 2019. Pharmadrug will sponsor Abba in getting EuGMP certification and will also assist Abba in registering its strains with German regulators.

Disclosure of Outstanding Share Data as of November 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 3,102,500 stock options are exercisable into common shares of the Company.

Risk Factors

The Company faces exposure to risk factors and uncertainties relating to its business that could significantly negatively impact its operations and financial results. Additional risks and uncertainties not presently known to Pharmadrug or currently deemed immaterial by Pharmadrug may also impair the Company's operations. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could also be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected.

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.

Volatile financial and economic conditions

Current financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors, particularly in the cannabis sector. Such factors may impact the Company's ability to obtain financing in the future on favorable terms or obtain any financing at all. Additionally, global conditions may cause a long-term decrease in asset values. If such volatility and market turmoil continue, the Company's operations and financial condition could be adversely impacted.

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 Production, 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 Pharmadrug. 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, city, state and provincial 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 Production, 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.

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 Production

Management highlights several possible risks related to the Pharmadrug Acquisition. 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 cannabis 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.

The success of new and existing products and services is uncertain

The Company expects to commit significant resources and capital to develop and market existing and new products, services and enhancements. These products and services are relatively untested, and the Company cannot provide any assurance that it will achieve market acceptance for these products and services, or other new products and services that it may offer in the future. Moreover, these and other new products and services may face significant competition with new and existing competitors. In addition, new products, services and enhancements may pose a variety of technical challenges and require the Company to attract additional qualified employees. The failure to successfully develop and market these new products, services or enhancements could seriously harm the Company's business, financial condition and results of operations. Moreover, if the Company fails to accurately project demand for our new or existing products, it mayencounter problems of overproduction or underproduction which would materially and adversely affect its business, financial condition and results of operations, as well as damage our reputation and brand.

New well-capitalized entrants may develop large-scale operations

Currently, the marijuana industry generally is comprised of individuals and small to medium-sized entities, however, the risk exists that large conglomerates and companies who also recognize the potential for financial success through investment in this industry could strategically purchase or assume control of larger or a larger number of dispensaries and cultivation and production facilities, which trend is now being observed by the Company. These potential competitors may have longer operating histories, significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources, and be larger and better capitalized. Larger competitors could establish price setting and cost controls which would effectively "price out" many of the individuals and small to medium-sized entities who currently make up the bulk of the participants in the varied businesses operating within and in support of the medical and adult-use marijuana industry. While the approach in most state laws and regulations seemingly deters this type of takeover, this industry remains nascent and as indicated above this trend is being observed, so what the landscape will be in the future remains largely unknown.

The Company's proposed business plan is subject to all business risks associated with new business enterprises, including the absence of any significant operating history upon which to evaluate an investment. The likelihood of the Company's success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the formation of a new business, the development of new strategy and the competitive environment in which the Company operates. It is possible that the Company will incur losses in the future. There is no guarantee that the Company will be profitable.

Factors which may prevent realization of growth targets

The Company is currently in the early development stage. There is a risk that the additional resources will be needed, and milestones will not be achieved on time, on budget, or at all, as they are can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;

- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

Constraints on marketing products

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in Europe may limit the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's revenues and operating results could be adversely affected.

Risks inherent in an agricultural business

The Company's business involves the growing of cannabis, an agricultural product. Cannabis cultivation has the risks inherent in any agricultural business, including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others.

Given the proximity with which commercially farmed cannabis plants are farmed, pest, disease, and crop failures can spread quickly between plants causing material losses. As with any plant crop, quality finished product requires that plants be provided with the correct quantities of clean water, clean air, sunshine, and nutrients, all within a controlled environment. In addition to crop failure due to pest and disease, crop failure can result from sabotage, natural disaster, and human error. Failure of the plant to survive, pass testing requirements or meet industry standards could result in unsaleable finished product. Given the complex series of variables required to produce top quality cannabis, no assurances can be given that production levels will meet estimates or that product will pass required testing or be of a quality that is competitive in the market. Failure to produce marketable cannabis product could have a material adverse financial impact on the Company.

Reliance on third-party service providers

Third party service providers to the Company may withdraw or suspend their service to the Company under threat of prosecution. In jurisdictions where the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia may be illegal, and any such acts are criminal acts under local, city, state and provincial law, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services. Any suspension of service and inability to procure goods or services from an alternative source, even on a temporary basis, that causes interruptions in the Company's operations could have a material and adverse effect on the Company's business.

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.

Insurance and uninsured risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

The Company may be underinsured and there may be difficulties with acquiring and maintaining insurance coverage in the cannabis industry may reduce the capability of insurance to serve as a reliable and effective risk management tool. Cannabis specific insurance is still a small and specialized market. Consequently, insurance is often unattainable as it is not offered, or it is prohibitively expensive given the scarcity of actuarial data, small number of market participants, which both reduce the ability to share risk across entities. Consequently, many of the risks we face as a Company are uninsured or uninsurable, and we self-insure. Consequently, the Company will be vulnerable to low probability high impact events. If one such event, were to occur it could result in material adverse effects to the financial condition of the Company.

Dependence on suppliers and skilled labor

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labor, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

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 CAD and costs are incurred primarily in EUR in its PACs. The depreciation of the CAD against the EUR could increase the actual capital and operating costs of the Company 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.

Enforcement of proprietary rights

The Company may be unable to adequately protect or enforce its proprietary rights. Its continuing success will likely depend, in part, on its ability to protect internally developed or acquired, intellectual property and maintain the proprietary nature of its technology through a combination of licenses and other intellectual property arrangements, without infringing the proprietary rights of third parties. The Company cannot prove assurance that its intellectual property owned by the Company will be held valid at the foreign government level if challenged, or that other parties will not claim rights in or ownership of its proprietary rights.

Infringement or misappropriation claims

The Company may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to the resulting issuer, could subject the Company to significant liabilities and other costs. The Company's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of marijuana without infringing the intellectual property rights of third parties. The Company cannot assure that third parties will not assert intellectual property claims against it. The Company is subject to additional risks if entities licensing to it intellectual property do not have adequate rights in any such licensed materials. If third parties assert copyright or patent infringement or violation of other intellectual property rights against the Company, it will be required to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of management personnel. An adverse determination in any such litigation or proceedings to which the Company may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties or subject the Company to injunctions prohibiting the development and operation of its applications.

Unfavourable publicity or consumer perception

Management of the Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the marijuana 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 cannabis products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or other publicity could have a material adverse effect on the demand of 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 such 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 cannabis in general, or the Company's products specifically, or associating the consumption of 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 consumer such products appropriately or as directed.

A negative shift in the public's perception of cannabis, including vaping or other forms of cannabis administration, in the EU, Israel or any other applicable jurisdiction could cause State jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new jurisdictions into which the Company could expand. Recent medical alerts by health agencies on vaping related illness and other issues directly related to cannabis consumption could potentially create an inability to fully implement the Company's expansion strategy and may have a material adverse effect on the Company's business, results of operations or prospects.

Internal controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of Pharmadrug's shares.

Product liability

As a 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 marijuana 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 marijuana alone or in combination with other medications or substances could occur. As a manufacturer, distributor and retailer of adult-use and medical marijuana, or in its role as an investor in or service provider to an entity that is a manufacturer, distributor and/or retailer of adult-use or medical marijuana, the Company may be subject to various product liability claims, including, among others, that the marijuana product 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, results of operations, financial condition or prospects of the Company.

There can be no assurances that the Company will be able to 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 maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products or otherwise have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

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. Such recalls cause unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant amount of sales. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its 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 Company's products were subject to recall, the image of that product and the Company could be harmed. Additionally, product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Liability for activity of employees, contractors and consultants

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims or regulatory enforcement actions against the Company. The cannabis industry is under strict scrutiny. Failure to comply with relevant laws could result in fines, suspension of licenses and civil or criminal action being taken against the Company. Consequently, the Company is subject certain risks, including that employees, contractors and consultants may inadvertently fail to follow the law or purposefully neglect to follow the law, either of which could result in material adverse effects to the financial condition of the Company.

Ability to obtain and retain licenses and permits

The Company may not be able to obtain and/or retain all necessary licenses and permits in Germany, Israel and throughout the Eurozone, which could, among other things, delay or prevent the Company from becoming profitable. The Company's business is reliant on the issuance of required licenses. Failure to acquire necessary licenses required to operate new business expansion could have a material adverse effect on its financial condition. Due to the nature of licensing, which is at the discretion of local governments, it is outside of the Company's control and therefore ability to ensure that the Company will receive the licenses it seeks.

Difficult to forecast demand

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 marijuana industry in Canada and Europe. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

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" 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 Company's 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 Pharmadrug's 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