PHARMADRUG INC.

(formerly Aura Health Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

Independent Auditor's Report

To the Shareholders of Pharmadrug Inc. (formerly Aura Health Inc.):

Opinion

We have audited the consolidated financial statements of Pharmadrug Inc. (formerly Aura Health Inc.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that as at December 31, 2019, the Company had a working capital deficiency and had not yet achieved profitable operations. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

MNP

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ahlan Veerasamy.

MNP LLP

Toronto, Ontario
June 15, 2020

Chartered Professional Accountants
Licensed Pubic Accountants

PHARMADRUG INC. (formerly Aura Health Inc.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	As at December 31, 2019	As at December 31, 2018
		$	$
Assets			
Current			
Cash		**73,677**	155,117
Other receivables	6	**46,023**	27,539
Inventories	7	**110,477**	-
Prepaid expenses and other assets	8	**71,071**	93,656
Note receivable	9	**39,686**	-
Loans receivable	10	**-**	251,797
Total Current Assets		**340,934**	528,109
Assets classified as held for sale	9	**-**	163,525
Investments in associate	11	**-**	370,678
Other investments	12	**440,052**	-
Property and equipment	13	**111,007**	-
Intangible assets	5,14	**5,198,779**	-
Goodwill	5,14	**4,287,713**	-
Total Assets		**10,378,485**	1,062,312
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	15,23	**1,133,450**	423,077
Loans payable	16	**1,889,819**	-
Notes payable	17	**733,161**	-
Lease payable - current	18	**40,159**	-
Convertible debentures - current	19	**404,431**	630,679
Income tax payable	25	**119,073**	-
Total Current Liabilities		**4,320,093**	1,053,756
Lease payable	18	**54,284**	-
Derivative liability	19	**-**	169,357
Convertible debentures	19	**-**	329,519
Provisions	28	**76,550**	-
Deferred tax liabilities	25	**1,469,461**	-
Total Liabilities		**5,920,388**	1,552,632
Equity			
Share capital	20	**13,215,765**	3,899,096
Shares to be issued		**-**	6,356
Equity component of convertible debentures	19	**63,491**	63,491
Reserve for share-based payments	21	**240,498**	170,078
Reserve for warrants	22	**1,656,243**	673,058
Accumulated other comprehensive loss		**(715,349)**	(52,395)
Accumulated deficit		**(11,482,682)**	(5,250,004)
Equity Attributable to Shareholders of Pharmadrug Inc.		**2,977,966**	(490,320)
Non-Controlling Interest	5,24	**1,480,132**	-
Total Equity		**4,458,098**	(490,320)
Total Liabilities and Equity		**10,378,486**	1,062,312
Nature of operations and going concern	1		
Commitments	29		
Subsequent events	31		

Approved on behalf of the Board of Directors:

"Daniel Cohen" (signed)	*"Al Quong" (signed)*
Director	Director

The accompanying notes are an integral part of these consolidated financial statements

PHARMADRUG INC. (formerly Aura Health Inc.)
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019	2018
		$	$
Revenue			
Sales revenue		**610,576**	-
Cost of goods sold	7	**(357,321)**	-
Gross Profit		**253,255**	-
Expenses			
Management, consulting fees and salaries	23	**667,992**	185,500
Professional fees	23	**1,642,663**	437,431
Office and general		**175,997**	9,789
Allowance for expected credit losses	9,10,11	**1,172,935**	-
Amortization on property and equipment	13	**26,529**	-
Amortization on intangible assets	14	**751,701**	-
Filing fees		**52,672**	20,651
Travel and promotion		**328,699**	207,076
Share-based compensation	21	**115,840**	90,078
Share-based payments	20	**411,822**	-
		(5,346,850)	(950,525)
		(5,093,595)	(950,525)
Other Income (Expenses)			
Foreign exchange (loss) gain		**(106,382)**	56,795
Reverse takeover acquisition costs	4	**-**	(2,142,633)
Gain on sale of investments in joint venture	9	**46,616**	-
Realized loss on disposals of investments	12	**(1,625,285)**	-
Unrealized gains on investments	12	**440,052**	-
Finance cost	16,17,18,19	**(476,986)**	(188,037)
Fair value change in derivative liability	19	**(166,243)**	(287,749)
		(1,888,228)	(2,561,624)
Net Loss from Continuing Operations		**(6,981,823)**	(3,512,149)
Discontinued Operations			
Equity loss from joint ventures	9	**-**	(159,886)
Impairment losses	9	**-**	(213,489)
Loss on Discontinued Operations		**-**	(373,375)
Net Loss before Income Taxes		**(6,981,823)**	(3,885,524)
Deferred tax recovery	25	**442,748**	-
Net Loss		**(6,539,075)**	(3,885,524)
Other Comprehensive Income (Loss)			
Exchange loss on translation of foreign operations		**(662,953)**	(56,256)
Net Loss and Comprehensive Loss		**(7,202,028)**	(3,941,780)
Total Net Loss attributable to:			
Shareholders of Pharmadrug Inc.		**(6,289,836)**	(3,885,524)
Non-controlling interest	24	**(249,239)**	-
Net Loss		**(6,539,075)**	(3,885,524)
Weighted Average Shares Outstanding			
- Basic and diluted		**70,113,432**	13,747,922
Loss per Share			
- Basic and diluted - Continuing operations		**$ (0.093)**	$ (0.283)
- Basic and diluted - Discontinued operations		**$ -**	$ (0.283)

The accompanying notes are an integral part of these consolidated financial statements

PHARMADRUG INC. (formerly Aura Health Inc.)
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019	2018
		$	$
Operating Activities			
Net loss for the year		**(6,539,075)**	(3,885,524)
Adjustments for non-cash items:			
Share-based compensation	21	**115,840**	90,078
Share-based payments	22	**411,822**	-
Reverse takeover acquisition costs	4	**-**	2,142,633
Gain of on sale of assets held for sale	9	**(46,616)**	-
Equity loss from joint ventures - discontinued operations	9	-	159,886
Impairment loss - discontinued operations	9	-	213,489
Allowance on expected credit loss	9,10,11	**1,172,935**	-
Amortization on property and equipment	13	**26,529**	-
Amortization of intangible assets	14	**751,701**	-
Realized loss on disposals of investments	12	**1,625,285**	-
Unrealized (gains) on investments	12	**(440,052)**	-
Fair value change in derivative liabilitiy	19	**166,243**	287,749
Finance cost	16,17,18,19	**476,986**	188,037
Deferred tax recovery		**(442,748)**	-
Other income		**(6,356)**	-
Foreign exchange gains		**(7,392)**	(7,284)
		(2,734,898)	(810,936)
Net change in non-cash working capital items:			
Other receivables	6	**(115,176)**	7,765
Inventories	7	**(95,150)**	-
Prepaid expenses	8	**48,564**	(58,564)
Accounts payable and accrued liabilities	15	**591,383**	(425,550)
Provisions	28	**75,046**	-
Income tax payable	25	**(109,738)**	-
Cash Flows used in Operating Activities		**(2,339,969)**	(1,287,285)
Financing Activities			
Proceeds from private placement	20	**1,724,100**	1,032,918
Share issue costs	20	**(38,353)**	(80,189)
Proceeds received on subscription receipts financings	20	**4,740,000**	-
Commissions paid on subscription receipt financings	20	**(487,616)**	-
Cash acquired on reverse takeover	5	**-**	190,901
Proceerds from debentures financings	19	**-**	400,000
Interest payment made on debentures	19	**(72,000)**	(27,814)
Proceeds from bridge loan facility	16	**3,000,000**	-
Proceeds from note payable	17	**600,000**	-
Lease payments	18	**(20,298)**	-
Exercise of options	20	**26,000**	-
Exercise of warrants	20	**38,119**	257,465
Cash Flows provided by Financing Activities		**9,509,952**	1,773,281
Investing Activities			
Loan advances made to CannabiSendak	10	**(133,610)**	(270,360)
Advances made to HolyCanna	11	**(96,525)**	(370,678)
Acquisition of Pharmadrug GmBH	5	**(7,101,848)**	-
Cash acquired on business combination	5	**16,978**	-
Payment received on note receivable	9	**15,313**	-
Investments in joint venture	9	**-**	(133,062)
Purchases of property and equipment	13	**(9,787)**	-
Purchases of intangible assets	14	**(9,258)**	-
Cash Flows used in Investing Activities		**(7,318,737)**	(774,100)
Decrease in cash		**(148,754)**	(288,104)
Effects of exchange rate changes on cash		**67,314**	(56,254)
Cash, beginning of year		**155,117**	499,475
Cash, end of year		**73,677**	155,117
Supplemental Information			
Settlement of bridge loan facility with sale of other investments	16	**1,374,715**	-
Interest expense on lease payable	18	**1,042**	-

The accompanying notes are an integral part of these consolidated financial statements

PHARMADRUG INC. (formerly Aura Health Inc.)
Consolidated Statements of Changes in Equity
For the years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

		Share Capital		Reserves							
	Notes	Number of Shares	Amount	Shares to be Issued	Equity Component of convertible debentures	Reserve for Share-Based Payments	Reserve for Warrants	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-Controlling Interest	Total
		#	$	$	$	$	$	$	$	$	$
Balance, December 31, 2017		**16,630,000**	**410,749**	**6,356**	**32,043**	**80,000**	**188,922**	**3,861**	**(1,364,480)**	**-**	**(642,549)**
Units and warrants issued on private placement	20,22	2,301,873	869,811	-	-	-	258,107	-	-	-	1,127,918
Broker warrants issued on private placement	22	-	-	-	-	-	14,980	-	-	-	14,980
Share issue costs	20,22	-	(76,819)	-	-	-	(18,350)	-	-	-	(95,169)
Reverse takeover transaction	4	3,961,584	1,497,083	-	-	-	238,606	-	-	-	1,735,689
Issuance on conversion of debentures	19,20	816,327	444,754	-	-	-	23,938	-	-	-	468,692
Issuance on conversion of promissory notes	19	4,028,272	176,243	-	(32,043)	-	59,924	-	-	-	204,124
Warrants exercised	20	720,375	139,551	-	-	-	(33,145)	-	-	-	106,406
Warrants exercised on conversion of promissory notes	19,20	2,014,136	210,984	-	-	-	(59,924)	-	-	-	151,060
Stock-based compensation	21	-	-	-	-	90,078	-	-	-	-	90,078
Share-based payments	4	600,000	226,740	-	-	-	-	-	-	-	226,740
Issuance of convertible debentures	19	-	-	-	63,491	-	-	-	-	-	63,491
Exchange (loss) on translating foreign operations		-	-	-	-	-	-	(56,256)	-	-	(56,256)
Net loss for the year		-	-	-	-	-	-	-	(3,885,524)	-	(3,885,524)
Balance, December 31, 2018		**31,072,567**	**3,899,096**	**6,356**	**63,491**	**170,078**	**673,058**	**(52,395)**	**(5,250,004)**	**-**	**(490,320)**
Issuances on private placements	20,22	33,039,452	5,558,496	-	-	-	905,604	-	-	-	6,464,100
Broker warrants issued on private placements	22	-	-	-	-	-	496,022	-	-	-	496,022
Share issue costs	20,22	-	(452,425)	-	-	-	(382,405)	-	-	-	(834,830)
Issuance on conversion of debentures	19,20	4,000,000	897,520	-	-	-	-	-	-	-	897,520
Issuance on share exchange agreement	12,20	14,376,130	3,187,161	-	-	-	-	-	-	-	3,187,161
Issuance for services	20	300,000	37,500	-	-	-	-	-	-	-	37,500
Options exercised	20	260,000	39,000	-	-	(13,000)	-	-	-	-	26,000
Options expired	21	-	-	-	-	(32,420)	-	-	32,420	-	-
Share-based compensation	21	-	-	-	-	115,840	-	-	-	-	115,840
Warrants exercised	20	254,125	49,417	-	-	-	(11,298)	-	-	-	38,119
Warrants expired	22	-	-	-	-	-	(24,738)	-	24,738	-	-
NCI acquired on business acquisition	5	-	-	-	-	-	-	-	-	1,729,371	1,729,371
Reversal of shares to be issued		-	-	(6,356)	-	-	-	-	-	-	(6,356)
Exchange (loss) on translating foreign operations		-	-	-	-	-	-	(662,954)	-	-	(662,954)
Net loss for the year		-	-	-	-	-	-	-	(6,289,836)	(249,239)	(6,539,075)
Balance, December 31, 2019		**83,302,274**	**13,215,765**	**-**	**63,491**	**240,498**	**1,656,243**	**(715,349)**	**(11,482,682)**	**1,480,132**	**4,458,098**

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of Operations and Going Concern

Pharmadrug Inc. (formerly Aura Health Inc.) ("Pharmadrug" or the "Company") is focused on building an international network of vertically integrated cannabis assets. Pharmadrug is targeting a downstream business in the legalized medical cannabis sector in the European markets. On May 17, 2019, the Company acquired an 80% equity interest in Pharmadrug Production GmBH ("Pharmadrug GmBH"), a pharmaceutical distribution company in Germany (see Note 5 for details).

On October 21, 2019, the Company rebranded its name as Pharmadrug Inc. The Company's common shares are listed on the Canadian Securities Exchange (the "CSE") 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.

The business of medical cannabis involves a high degree of risk, and there is no assurance that any prospective project in the medical cannabis industry will be successfully initiated or implemented. Further, regulatory evolution and uncertainty may require the Company to alter its business plan to react to regulatory changes.

For the year ended December 31, 2019, the Company had a net loss of $6,539,075 and negative cash flow from operations of $2,339,969, and as at December 31, 2019, the Company had a working capital deficiency of $3,979,158 (December 31, 2018 – working capital deficiency of $525,647), an accumulated deficit of $11,482,682 (December 31, 2018 – deficit of $5,250,004). The Company's ability to continue as a going concern is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. The unpredictability of the cannabis business, a limited working capital and the potential impact of the COVID-19 pandemic (Note 31) represent material uncertainties which may cast significant doubt upon the Company's ability to continue as a going concern.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses, and classifications of statements of financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. Basis of Presentation

(a) Statement of Compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were reviewed, approved and authorized for issuance by the Board of Directors (the "Board") of the Company on June 15, 2020.

(b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies as set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. Basis of Presentation (continued)

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries: Aura Health Corp., Green Global Properties Inc. ("Green Global") which was formed in the State of Delaware in the United States (the "US"), and Pharmadrug GmBH from Germany.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are-deconsolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

(d) Functional Currency

These consolidated financial statements are presented in Canadian dollars ($ or "CAD"), which is the Company's functional currency. The functional currency is the currency of the primary economic environment in which the Company operates.

The functional currency of the subsidiaries is: (i) the CAD for Aura Health Corp., (ii) the US dollar ("USD") for Green Global, and (iii) the Euro ("€" or "EUR") for Pharmadrug GmBH.

(e) Significant Accounting Judgments and Estimates

The preparation of these 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.

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

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 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 permits have a useful life estimated to be five years.

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 the German subsidiary 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.

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Warrants and options

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes valuation model ("Black-Scholes"). 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 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.

3. Summary of Significant Accounting Policies

(a) Cash

Cash in the consolidated statements of financial position comprises cash at chartered banks in Canada and Germany, and funds held in trust with the Company's legal counsel which is available on demand.

3. Summary of Significant Accounting Policies (continued)

(b) Revenue from Contracts with Customers

The Company's policy for the timing and amount of revenue to be recognized is based on the following 5-step process:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price, which is the total consideration provided by the customer.
- Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Net revenue from sale of goods, as presented in the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less expected price discounts.

The Company's contracts with customers for the distribution of cannabis products consist of one performance obligation. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when control is transferred to the customer, which is on shipment or delivery, depending on the contract.

The Company's payment terms vary by customer types. Typically, payment is due 10 days after the transfer of control.

(c) Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at FVTPL, gains and losses are recorded in the consolidated statements of loss and comprehensive loss.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. The Company's financial assets include cash, other receivables excluding any sales tax amounts, note receivable, loans receivable, and other investments. The Company's financial liabilities include its accounts payable, loans payable, promissory notes payable, lease payable and convertible debentures.

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion. Financial asset classified in this category are measured at amortized cost using the effective interest method.

3. Summary of Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

Expected credit loss impairment model

IFRS 9 – Financial Instruments introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The adoption of the ECL impairment model had resulted in a provision of ECL recorded on the Company's consolidated statements of loss and comprehensive loss, from its other receivables, note and loans receivables, and investments in its Israeli associate during the year ended December 31, 2019 (see Notes 9, 10 and 11 for details).

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in the consolidated statements of loss and comprehensive loss.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income. As at December 31, 2019, the Company did not have any financial assets at FVTOCI.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

3. Summary of Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

The Company's classification and measurements of financial assets and liabilities are summarized below:

	Classification	Measurement
Cash	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Note receivable	Amortized cost	Amortized cost
Loans receivable	Amortized cost	Amortized cost
Other investments	FVTPL	Fair value
Accounts payable	Amortized cost	Amortized cost
Loans payable	Amortized cost	Amortized cost
Promissory notes payable	Amortized cost	Amortized cost
Lease payable	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost
Derivative liability	FVTPL	Fair value

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

Determination of fair value

The determination of fair value requires judgment and is based on market information, where available and appropriate. 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).

(d) Inventories

Inventories are initially recognized at cost, and subsequently measured at the lower of cost and net realizable value (the estimate selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale) using the "first-in first-out" method. Cost comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition.

3. Summary of Significant Accounting Policies (continued)

(e) Compound Instruments

The components of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the contractual agreement. At the date of issue, the fair value of the liability component is estimated using the market interest rate then in effect for a similar non-convertible instrument. This amount is recorded as a liability, at amortized cost, using the effective interest rate method until its expiry at the time of conversion or maturity of the instrument. The equity component is determined by deducting the amount of the liability component of the total fair value of the compound instrument. This amount is recognized in equity, net of income tax effects, and is not subsequently remeasured. Transaction costs related to the issuance of the convertible debentures are allocated to the liability and equity components in proportion to their initial carrying amounts. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the convertible debentures using the effective interest method. Interest and accretion expense are recognized as a finance cost in the consolidated statements of loss and comprehensive loss.

In situations where the convertible debentures contain contractual terms that result in the potential adjustment in the conversion or exercise price, the conversion feature does not meet equity classification and is accounted for as a derivative liability as the fair value is affected by changes in the fair value of the Company’s common shares. The effect is that the debt component will be accounted for at amortized cost, with the derivative liability being measured at fair value with changes in value being recorded in profit or loss.

(f) Assets Held for Sale

Certain assets are classified as held for sale, when they meet the criteria to be assets classified as held for sale in accordance to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations. A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of shareholders’ approval (if required in the jurisdiction) are also considered as part of the assessment of whether the sale is highly probable.

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

(g) Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life, amortization method, and residual values are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization is provided over the estimated useful lives as follows:

Supply relationship	Straight-line basis over 5 years
Licenses and permits	Straight-line basis over 5 years

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or CGUs which are expected to benefit from the synergies of the combination.

3. Summary of Significant Accounting Policies (continued)

(g) Intangible Assets (continued)

Goodwill (continued)

Goodwill has an indefinite useful life that is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment on goodwill is determined by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any impairment loss for goodwill is recognized directly in profit or loss and any impairment loss recognized for goodwill is not reversed in subsequent periods.

(h) Property and Equipment

Property and equipment are carried at cost less accumulated amortization and impairment losses. Cost includes the acquisition costs or construction costs, as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property and equipment include significant components with different useful lives, they are recorded and amortized separately.

Amortization is computed using the straight-line method based on the estimated useful life of the assets and commences when title and ownership have transferred to the Company and is readily available for its intended use. The residual value, useful life and amortization methods are reviewed at the end of each reporting period. Such a review takes into consideration the nature of the asset, the intended use and impact of technological changes. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of capital assets. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Amortization is recorded on a straight-line basis as follows:

- Office equipment: Straight-line over the term of the lease
- Building and leasehold improvements: Straight-line over the term of the lease
- Vehicles: Straight-line over the term of the lease

(i) Leased Assets

The Company primarily leases office facilities, warehouses, equipment and vehicles. The Company assesses service arrangements to determine if an asset is explicitly or implicitly specified in the agreement and if we have the right to control the use of the identified asset.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company then recognizes a right-of-use (“ROU”) asset and a lease liability at the lease commencement date. The ROU asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the ROU asset or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. The Company elected to recognize expenses for leases with a term of 12 months or less on a straight-line basis over the lease term and lease of assets of low value, and not to recognize these short-term leases on the consolidated statements of financial position.

3. Summary of Significant Accounting Policies (continued)

(i) Leased Assets (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate which was determined to be between 1.5% to 2% in Germany. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, the amount of the remeasurement is recognized as a corresponding adjustment to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

(j) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(k) Income Taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax

Current income tax is recognized and measured at the amount expected to be recovered from, or payable to, the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax

Deferred tax is recorded for temporary differences at the date of the consolidated statements of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of a deferred tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if, and only if, they relate to income taxes levied by the same taxation authority and the Company has the legal rights and intent to offset.

3. Summary of Significant Accounting Policies (continued)

(k) Income Taxes (continued)

Estimates

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax‑related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

(l) Share Capital

In situations where the Company issues units, the value of units is bifurcated and the value of warrants is included as a separate reserve for warrants of the Company's equity.

(m) Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

(n) Share-Based Payments Transactions

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received, or at the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The fair value of options is determined using Black–Scholes. The fair value of equity-settled share-based compensation transactions are recognized as an expense with a corresponding increase in the reserve for share-based payments.

The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Amounts recorded for forfeited or expired unexercised options are transferred to retained earnings (deficit) in the period of forfeiture or expiry. Expired warrants are also transferred to retained earnings (deficit).

Upon the exercise of stock options and warrants, proceeds received from the stock option or warrant holders are recorded as an increase to share capital and the related reserves is transferred to share capital.

(o) Loss Per Share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes conversion, exercise or contingent issuance of options, warrants and securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share.

For the years ended December 31, 2019 and 2018, no potential convertible securities are included in the computation as they are anti-dilutive.

3. Summary of Significant Accounting Policies (continued)

(p) Foreign Currency Translation

Monetary assets and liabilities denominated in currencies other than CAD are translated into CAD at the rate of exchange in effect at the consolidated statements of financial position date. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction exchange rate. Foreign currency gains and losses resulting from translation are reflected in net comprehensive loss for the period.

The assets and liabilities of entities with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the financial period;
- Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions);
- Equity transactions are translated using the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognized as a separate component of equity as reserve for foreign exchange.

When a foreign operation is disposed of, the relevant amount in the reserve for foreign exchange in other comprehensive income (loss) is transferred to profit or loss as part of the profit or loss on disposal.

On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which in substance, is considered to form part of the net investment in the foreign operation, are recognized in the reserve for foreign exchange.

(q) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(r) Joint Arrangements

A joint arrangement represents an arrangement where two or more parties hold joint control. Joint control is deemed to exist under contractual agreement where decisions regarding relevant activities of the arrangement require the unanimous consent of those parties sharing control.

A joint venture is a joint arrangement and represents a company or other entity in which each venturer has an interest, holds joint control and holds rights to the net assets of the entity. Interests in joint ventures are accounted for using the equity method of accounting.

A joint operation is a joint arrangement and represents a company, partnership or other entity in which each venture has an interest, holds joint control and rights to the assets and obligations for the liabilities of the entity. Interests in joint operations are accounted for by recognizing the Company’s share of the assets, liabilities, revenue and expenses.

3. Summary of Significant Accounting Policies (continued)

(s) Investment in Associates

Investments in associates are accounted for using the equity method based on the Company's ability to exercise significant influence over the operating and financial policies of the investee. Investments of this nature are recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the associate's net income or losses after the date of investment, additional contributions made, and dividends received. Investments are written down when there has been a significant or prolonged decline in fair value.

(t) Adoption of New Accounting Standards

The Company adopted the following new standards, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions:

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 ROU asset and a lease liability. The ROU asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the ROU asset 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.

The Company had reviewed its leasing arrangements outstanding as at January 1, 2019 and had assessed that there was no significant impact of adopting this new standard on the Company's consolidated financial statements.

IFRS 23 – Uncertainty over Income Tax Treatments ("IFRS 23")

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12 – Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. The Company has assessed there was no significant impact of adopting this new standard on the Company's consolidated financial statements.

(u) Recent Accounting Pronouncements

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee have issued the following new standard which is effective for annual periods beginning on or after January 1, 2020:

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 Company had assessed that the adoption of this new standard will not have a material impact on the consolidated financial statements.

(Expressed in Canadian Dollars)

4. Reverse Takeover Transaction

On August 9, 2018, Aura Health Corp. and Lamêlée Iron Ore Ltd. ("Lamêlée") completed a reverse takeover transaction (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, and Aura Health Corp. became a wholly-owned subsidiary of Lamêlée, which is continuing on with the business of Aura Health Corp. 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 was accounted for in the consolidated financial statements as a continuation of the financial statements of Aura Health Corp., together with a deemed issuance of shares equivalent to the shares held by the former shareholders of Lamêlée. Concurrent with the closing of the RTO Transaction, Lamêlée changed its name to Aura Health Inc.

Details of the RTO Transaction are presented as follows:

Purchase Price Consideration Paid	
	$
Fair value of common shares issued (i)	1,497,083
Fair value 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 ("IFRS 2"). 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 the Concurrent Financing (as defined below) on August 9, 2018 (see Note 20). 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 Black-Scholes 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 Black-Scholes 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.

(Expressed in Canadian Dollars)

4. Reverse Takeover Transaction (continued)

(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 consolidated statements of loss and comprehensive loss.

5. 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 GmBH, for a final purchase price of €4.6 million settled in cash ($7,101,848). The seller, Anquor Pharmaceuticals Ug ("Anquor"), retains a 20% interest in Pharmadrug GmBH.

In addition, the Company had advanced €400,000 (approximately $601,520) to Pharmadrug GmBH 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 €400,000 if the total revenues of the pharmaceutical tender business of Pharmadrug GmBH 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. As at December 31, 2019, the likelihood of the earn-out being achieved is assessed to be low. Therefore, no pay-out has been made.

On May 17, 2019 (the "Acquisition Date"), the Company completed the Pharmadrug Acquisition. Goodwill of $4,605,861 is not tax deductible and was recognized due to the expected synergies from combining operations of the Company and Pharmadrug GmBH. The Company determined that the Pharmadrug Acquisition was a business combination in accordance to the definition of IFRS 3 – Business Combination, and as such, has accounted for it in accordance with this standard, with the Company being the acquirer on the Acquisition Date.

Closing of the Pharmadrug Acquisition satisfied one of the escrow release conditions (the "Escrow Release Conditions"), of the Offering of Subscription Receipts as defined in Note 20.

Included in the Company's financial results were $610,576 in revenue, and $1,246,197 in net loss attributable to the shareholders of Pharmadrug Inc., from the Acquisition Date to December 31, 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. The preliminary allocation is subject to adjustments, specifically related to the valuation of intangible assets acquired:

Purchase Price Consideration Paid	
	$
Cash	**7,101,848**

Non-Controlling Interest	
	$
Non-Controlling interest	**1,729,370**

(Expressed in Canadian Dollars)

5. Business Combination (continued)

Net Identifiable Assets Acquired	
	$
Cash	618,498
Other receivables	1,161,325
Inventories	15,327
Prepaid expenses and other assets	25,979
Property and equipment, including ROU assets	135,245
Intangible assets	
Supply relationship	406,026
Licenses and permits	5,714,440
Accounts payable and accrued liabilities	(120,296)
Leases payable	(118,140)
Income tax payable	(228,811)
Other liabilities	(1,468,556)
Provisions	(1,504)
Deferred tax liabilities	(1,914,176)
Total net identifiable assets acquired	**4,225,357**
Goodwill	**4,605,861**

If the Pharmadrug Acquisition had been completed on January 1, 2019, the Company estimates it would have recorded an increase of $371,671 in revenue and an increase of $758,587 in net loss for the year ended December 31, 2019.

6. Other Receivables

	December 31, 2019	December 31, 2018
	$	$
Sales tax receivables	**19,425**	22,039
Trade receivables	**19,066**	-
Other receivables	**7,532**	5,500
	46,023	27,539

7. Inventories

As at December 31, 2019, the Company’s inventories consisted of finished goods held with Pharmadrug GmBH in Germany. For the year ended December 31, 2019, inventories of $357,321 were expensed and included in cost of goods sold (2018 – $nil).

8. Prepaid Expenses and Other Assets

	December 31, 2019	December 31, 2018
	$	$
Advances made to suppliers	**4,639**	91,823
Prepaid insurance	**46,315**	-
Other prepaid expenses and assets	**20,117**	1,833
	71,071	93,656

9. Note Receivable

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

On April 30, 2019, the Company, through Green Global, entered into a definitive purchase and sale agreement (the "Purchase Sale Agreement") with Empower Healthcare Assets Inc. ("Empower"), a Delaware corporation and wholly-owned subsidiary of Empower Clinics Inc., 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 $46,616 (USD $35,131) upon disposition of its interests in the Sun Valley Clinics.

The disposition of the Company's interest in the Sun Valley Clinics satisfied one of the Escrow Release Conditions of the offering of Subscription Receipts as defined in Note 20.

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

As at December 31, 2019, an amount comprised of the principal amount of $188,326 (USD $145,000) and accrued interest of $2,021 (USD $1,556) remains outstanding to the Company. Although the Company still expects to be paid, as the Promissory Note is more than 30 days past due maturity, an allowance for ECL of $153,920 (2018 – $nil) was recorded by the Company 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 consolidated statements of financial position.

10. Loans Receivable

On September 4, 2018, the Company entered into a letter of intent ("LOI") to acquire 57% of the outstanding equity of CannabiSendak LTD. ("CannabiSendak") (the "CannabiSendak Transaction"), an Israeli company intending to establish licensed medical cannabis dispensaries in Israel. Terms of the LOI are as follows**:**

- The Company will purchase common shares of CannabiSendak for USD $300,000 upon closing, and will make contingent payments of USD $200,000 after CannabiSendak reaches clientele of 500 active medical cannabis patients, and additional payments of USD $250,000 for every incremental 500 active patients CannabiSendak achieves thereafter;
- The Company will purchase common shares of CannabiSendak for USD $200,000, payable in equal tranches of USD $40,000 over a 5-month period, commencing once CannabiSendak obtains the necessary licenses and approvals for the establishment of dispensaries; and

10. Loans Receivable (continued)

- The Company will purchase common shares of CannabiSendak for USD $200,000 for the establishment of dispensaries. This consideration will be divided into four equal payments of USD $50,000 paid every 45 days, commencing the day of signing the Agreement.

Prior to the above taking place, in accordance with the LOI with CannabiSendak, the Company made an unsecured loan (the "Loan") to the existing shareholders of CannabiSendak in the total principal amount of USD $300,000 as follows:

(a) USD $100,000 – Within 10 days after signing the term sheet and Loan (advanced in 2018).

(b) USD $100,000 – Within 45 days after signing the term sheet and Loan (advanced in 2018); and

(c) USD $100,000 – Within 90 days after signing the term sheet and Loan (advanced in 2019).

The Loan was due and payable at the earlier of the closing date (defined as the completion of (a) and (b) noted above) and one year from the date of the execution of the term sheet. The shareholders of the Loan will have a one-sided option to extend the maturity date for an additional 180 days (option period). The Loan is non-interest bearing prior to maturity. The Loan will bear interest during the option period (if exercised) at an annual rate of 12% on or after the original maturity date.

As at December 31, 2019, the Company had advanced a total amount of $366,885 (USD $300,000) (December 31, 2018 – $270,360 (USD $200,000)) under the Loan to CannabiSendak shareholders.

As the Loan is non-interest bearing, it was recorded at its fair present value of $389,640 (December 31, 2018 – $251,797). The fair value was determined by using a discount rate of 12%.

Although the Company's original intention on repayment of the Loan was to reinvest the proceeds into CannabiSendak, management had decided to no longer pursue the investments in CannabiSendak. Management had assessed that the probability of collection on the Loans is low and had written off the Loans by recording an ECL of $389,640 (2018 – $nil) for the year ended December 31, 2019.

11. Investment in Associate

On August 22, 2018, the Company entered into a LOI to subscribe to an unsecured convertible note (the "Convertible Note") in HolyCanna Ltd. ("HolyCanna"), an Israel-based company with a cannabis cultivation and sales license application ("License Application") submitted to the Israeli Ministry of Health (the "Ministry").

Terms of the LOI are as follows:

- The Company will provide HolyCanna with a bridge loan (the "Bridge Loan") in the principal amount of 1,000,000 Israeli Shekels ("ILS"). The Bridge Loan is non-interest-bearing and was due on November 1, 2018, upon which the Bridge Loan will be cancelled and converted to principal within the Convertible Note investment.
- On November 1, 2018, the Company will subscribe for the Convertible Note in the maximum principal amount of approximately $3,566,060 (ILS 10,000,000), which will be advanced in tranches on the following timetable:
    - Approximately $713,212 (ILS 2,000,000) by December 15, 2018.
    - Approximately $1,248,121 (ILS 3,500,000) by February 1, 2019; and
    - The remaining sum of approximately $1,248,121 (ILS 3,500,000) will be advanced after February 1, 2019 upon request made by HolyCanna.
- Upon approval of the License Application, the Convertible Note will be automatically converted into a majority (54%) equity stake.

11. Investment in Associate (continued)

On November 22, 2018, the Company entered into a definitive agreement with HolyCanna to advance up to approximately $3.57 million (ILS 10,000,000) to HolyCanna and subscribed to the Convertible Note which automatically converts to 54% equity in HolyCanna once the Company is added to the License Application. As part of HolyCanna's founders' agreement, Pharmadrug was awarded four of the seven Board votes of HolyCanna. As a result, it was determined that the Company had significant influence and will account for the investment in HolyCanna as an investment in associate using the equity basis of accounting.

As at December 31, 2019, the Company had advanced a total amount of $467,203 (ILS 1,250,000) (December 31, 2018 – $370,678 (ILS 1,000,000)) to HolyCanna.

As at December 31, 2019, management had decided to no longer pursue the investments in HolyCanna. Management had assessed that the probability of recoverability of the investee is low and had written off the investment by recording an ECL of $467,203 (2018 – $nil) for the year ended December 31, 2019.

12. Other Investments

On April 17, 2019, Pharmadrug entered into a share exchange transaction (the "Share Exchange Agreement") with FSD Pharma Inc. ("FSD"), a licensed producer under the Cannabis Act (Canada), whereby, among other things, FSD issued 13,181,019 FSD Class B Subordinate Voting Shares (the "FSD Shares") valued at $3 million to the Company in exchange (the "Share Exchange") for 13,562,387 Pharmadrug common shares ("Pharmadrug Shares") valued at $3 million. The FSD Shares were collateralized by the Company against a Bridge Loan Facility (defined hereafter in Note 16) received from a private lender (the "Lender"),

The Company classifies the FSD Shares at FVTPL, with gains and losses recorded in the consolidated statements of loss and comprehensive loss.

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.

On August 19, 2019, the statutory hold period on the FSD Shares under the Share Exchange Agreement ended, and the FSD Shares were sold for $1,374,715 which was applied as a partial repayment on the Bridge Loan Facility. A realized loss of $1,625,285 was recorded on the disposition of the FSD Shares.

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. As the FSD Additional Shares were under the make-whole provision, they were assigned a cost of $nil. 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 Loan Facility.

On October 11, 2019, FSD completed a consolidation of its Class A Multiple Voting Shares and its Class B Subordinate Voting Shares, each on a 1 to 201 basis (the "Consolidation"). As at December 31, 2019, the Company held a position of 61,892 post-Consolidation FSD Shares measured at a fair value of $440,052. For the year ended December 31, 2019, the Company had recorded an unrealized gain of 440,052 (2018 – $nil) on the FSD Shares.

(Expressed in Canadian Dollars)

13. Property and Equipment

	Right-of-use assets	Office equipment	Total
	$	$	$
Cost at:			
December 31, 2018	-	-	**-**
Acquired on business acquisition (Note 5)	118,140	23,798	**141,938**
Additions	-	9,787	**9,787**
Effects of foreign exchange on translation	(3,574)	(811)	**(4,385)**
December 31, 2019	**114,566**	**32,774**	**147,340**
Accumulated amortization at:			
December 31, 2018	-	-	**-**
Acquired on business acquisition (Note 5)	-	6,692	**6,692**
Amortization	26,649	3,457	**30,106**
Effect of foreign exchange on translation	(246)	(219)	**(465)**
December 31, 2019	**26,403**	**9,930**	**36,333**
Net book value:			
December 31, 2018	-	-	**-**
December 31, 2019	**88,163**	**22,844**	**111,007**

14. Intangible Assets

	Supply relationship	Licenses and permits	Goodwill	Total
	$	$	$	**$**
December 31, 2018	-	-	-	**-**
Acquired on business acquisition (Note 5)	406,026	5,714,440	4,605,861	**10,726,327**
Additions of intangible assets	-	9,258	-	**9,258**
Amortization	(49,867)	(701,834)	-	**(751,701)**
Effects of movements in foreign exchange	(11,824)	(167,420)	(318,148)	**(497,392)**
December 31, 2019	**344,335**	**4,854,444**	**4,287,713**	**9,486,492**

Management has determined the German operations to be the Company's CGU. At year-end, management had tested for impairment the value of the Company's supply relationship with one of the main suppliers of medical cannabis to the German market, and its narcotics licenses and permits for its German distribution business and had assessed that no impairment was required for the year ended December 31, 2019.

Goodwill

Goodwill represents the excess of the purchase price paid for the Pharmadrug Acquisition over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the German operations which is expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

As at December 31, 2019, the Company performed its annual impairment test on the goodwill on the cannabis operating segment for impairment using the value-in-use method. The Company estimated the recoverable amounts of goodwill by determining the value-in-use of the German operations.

(Expressed in Canadian Dollars)

14. Intangible Assets (continued)

Goodwill (continued)

The recoverable amount of the Pharmadrug GmBH CGU was determined based on a value-in-use calculation which uses cash flow projections based on financial budgets covering a four-year period and an after-tax discount rate of 17.0% per annum. The discount rate reflects appropriate adjustments relating to market risk and specific risk factors of the CGU. The cash flows beyond the four-year period have been extrapolated using a steady growth rate. As a result of its annual goodwill impairment testing, the Company determined that there was no impairment of goodwill as at December 31, 2019.

The cash flow projections used in estimating the recoverable amounts are generally consistent with results achieved historically adjusted for anticipated growth. The Company believes that any reasonably possible change in key assumptions on which the recoverable amounts were based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

15. Accounts Payable and Accrued Liabilities

	December 31, 2019	December 31, 2018
	$	$
Trade payables	**529,219**	132,670
Accrued liabilities	**604,230**	290,377
	1,133,449	423,077

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases incurred in the normal course of business.

16. Loans Payable

On May 9, 2019, the Company received a $3 million bridge facility (the “Bridge Loan Facility”) from the Lender, for which the proceeds were applied on closing of the Pharmadrug Acquisition. The Bridge Loan Facility bears interest at a rate of 18% per annum and matured on September 24, 2019 (the “Maturity Date”).

To secure the Bridge Loan Facility, the Company: (i) entered into a general security agreement (“GSA”) 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. On August 19, 2019, the FSD Shares were sold and the proceeds were applied as a partial repayment of $1,374,715 to the Lender, on the principal amount of the Bridge Loan Facility (see Note 12). The remaining principal amount and accrued interest on the Bridge Loan Facility shall be due and payable in full by the Company on the Maturity Date.

On October 3, 2019, the Bridge Loan Facility was amended to extend the maturity for a further six months to March 24, 2020 (the “Extended Maturity Date”). In connection to the Extended 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 share price. As at December 31, 2019, the restructuring fee was included in accounts payable and accrued liabilities and was recorded in professional fees in the consolidated statements of loss and comprehensive loss.

As at December 31, 2019, the total outstanding balance under the Bridge Loan Facility was $1,889,819, including accrued interest of $264,544.

(Expressed in Canadian Dollars)

17. Notes Payable

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. $400,000 were advanced by the Chief Executive Officer ("CEO") and the former Chief Operating Officer (the "COO") of the Company, with the balance advanced from an arm's length third-party. The maturity date of the Notes was subsequently postponed until fulfillment by the Company of the Escrow Release Conditions pursuant to the Offering of Subscription Receipts (see Note 20).

As at December 31, 2019, the total outstanding balance under the Notes was $733,161, including accrued interest of $133,161. The Notes are payable on demand.

18. Lease Payable

As part of the German operations under Pharmadrug GmBH, the Company is party to the following lease agreements:

(i) A lease for its facility in Hamburg, Germany which expired in December 2019.

(ii) A lease for its office in Rostock, Germany expiring in June 2022.

(iii) A lease for office equipment expiring in December 2023.

(iv) A lease for a vehicle expiring in February 2022; and

(v) A lease for its warehouse expiring in December 2020, which has not been recognized due to the short-term nature and low value of the lease.

These leases under the German operations had been recognized as ROU assets as follows:

	Buildings and leaseholds	**Office equipment**	**Total**
	$	**$**	**$**
Cost at:			
December 31, 2018	-	-	**-**
Acquired on business acquisition (Note 5)	84,058	34,082	**118,140**
Effects of foreign exchange on translation	(2,543)	(1,031)	**(3,574)**
December 31, 2019	**81,515**	**33,051**	**114,566**
Accumulated amortization at:			
December 31, 2018	-	-	**-**
Depreciation	18,961	7,688	**26,649**
Effect of foreign exchange on translation	(175)	(71)	**(246)**
December 31, 2019	**18,786**	**7,617**	**26,403**
Net book value:			
May 31, 2019	84,058	34,082	**118,140**
December 31, 2019	**62,729**	**25,434**	**88,163**

(Expressed in Canadian Dollars)

18. Lease Payable (continued)

The following table reflects the reconciliation of the lease payable under the German operations as at December 31, 2019:

	$
Lease liability, January 1, 2019	**-**
Acquired on business acquisition	**118,140**
Lease payments	**(20,298)**
Interest on lease obligations	**1,042**
Effects of foreign exchange	**(4,441)**
Total lease liability, December 31, 2019	**94,443**
Current	**40,159**
Non-current	**54,284**
	94,443

The Company has elected not to include initial direct costs in the measurement of the ROU assets for operating leases in existence at the date of initial application of IFRS 16. At this date, the Company has also elected to measure the ROU assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The lease liability is secured by the related underlying asset. Future minimum lease payments as December 31, 2019 are as follows:

	Total	**Within 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**
	$	**$**	**$**	**$**	**$**
Lease payments	**94,443**	40,165	36,378	15,497	2,403
Finance charges	**1,212**	878	289	45	-
	95,655	**41,043**	**36,667**	**15,542**	**2,403**

19. Convertible Debentures

(a) Nutritional High Debentures

On November 14, 2016, the Company closed a non-brokered private placement of an unsecured convertible debenture (the "Nutritional High Debentures") for total proceeds of USD $120,000. Subject to the approval of the CSE, on or after November 14, 2017 and prior to the maturity date, the principal together with accrued and unpaid interest on the principal amount shall be convertible, at the option of the holder, into units of the Company at a price equal to $0.05. Each unit is comprised of one common share of the Company and one-half (1/2) of a warrant, with each whole warrant exercisable until August 16, 2020, which is two years from the date of listing of the Company's common shares on the CSE, into one common share of the Company at an exercise price of $0.075 per common share.

On November 14, 2016, USD $100,000 was transferred to the Company, and the remaining USD $20,000 was held by the debenture holder for legal expenses of the issuance. On March 28, 2017, the debenture holder paid the remaining balance of $10,601 to the Company. The amount represents the balance of the USD $20,000 ($26,936) after deduction of legal expenses of $16,335.

The Nutritional High Debentures bear interest at 12% per annum, payable on the maturity date. Interest on any overdue interest and all other amounts due from the Company to the debenture holder shall be calculated and payable at the same rate and in the same manner if not paid when due. In consideration of the debenture holder providing the loan to the Company, the Company issued 4,000,000 common shares to the debenture holder in November 2016.

19. Convertible Debentures (continued)

(a) Nutritional High Debentures (continued)

The Nutritional High Debentures were classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debentures being less than the face value. The discount is being accreted over the term utilizing the effective interest rate method at a 26.7% effective interest rate.

On closing of the RTO Transaction, the Nutritional High Debentures were placed in escrow, to be released over a period of 36 months, with 10% to be released upon the listing of the Company's common shares on the CSE, and 15% each six months thereafter.

The Nutritional High Debentures were due to mature on November 14, 2018. On December 10, 2018, they were converted into 4,028,272 units, for the equivalent balance of the debenture principal and interest accrued to date. Each unit is comprised of one common share of the Company and one-half (1/2) of a warrant, exercisable at $0.075 per common share. In addition, Nutritional High International Inc. ("NHII"), the holder of the debentures, exercised 2,014,136 common share purchase warrants received on the conversion, resulting in an aggregate issuance of 6,042,408 common shares of the Company.

(b) Series A Debentures

On April 20, 2017, the Company closed a non-brokered private placement of unsecured convertible debentures (the "Series A Debentures") for total proceeds of $300,000. The Series A Debentures bear interest at a rate of 12% per annum and mature on April 20, 2019. Upon the listing of the Company's common shares on the CSE, the Series A Debentures were automatically convertible into units of the Company at a conversion price which shall be the lower of (i) $0.60 per unit and (ii) the price equal to 75% of the Concurrent Financing price.

Each unit is comprised of one common share of the Company and one-half (1/2) of a common share purchase warrant, with each whole such warrant exercisable until 12 months from the date on which the Company's common shares are listed on the CSE. As the Concurrent Financing was completed on August 9, 2018, the conversion price is now set at $0.368 and each warrant is exercisable until August 9, 2019. One warrant entitles the holder to purchase one additional common share at a purchase price of $1.00. Total costs of raising the debt includes cash paid for commissions and legal costs of $20,263 and the issuance of 20,000 broker warrants with a fair value of $116.

The discount is being accreted over the term of the Series A Debentures utilizing the effective interest rate method at a 18.5% effective interest rate.

The conversion feature meets the definition of a derivative liability instrument because the conversion rate is variable and therefore does not meet the "fixed-for-fixed" criteria outlined under IFRS. As a result, the conversion feature is required to be recorded as a derivative liability recorded at fair value and marked-to-market each period with the changes in fair value each period being charged or credited to income. On April 20, 2017, the value of the derivative liability was $8,500.

On August 9, 2018, the Series A Debentures were converted into 816,327 units of the Company. The debentures and the derivative liability had been derecognized as a result. Immediately prior to the conversion of the Series A Debentures, a loss of $127,792 was included in fair value change in derivative liability for the year ended December 31, 2018.

19. Convertible Debentures (continued)

(c) Series B Debentures

On December 22, 2017, the Company closed a non-brokered private placement of secured convertible debentures (the "Series B Debentures") for total proceeds of $600,000. The Series B Debentures bear interest at a rate of 12% per annum and mature on December 22, 2019. The Series B Debentures are convertible at the option of the holder at any time prior to the maturity date into common shares of the Company at a conversion price which shall be the lower of (i) $0.60 per share, (ii) the price equal to 75% of the Concurrent Financing price, (iii) the lowest price that Pharmadrug common shares are issued from treasury during the period from the Series B Debentures issuance date up to the conversion date, or (iv) if a liquidity event (being the RTO Transaction) has not occurred by June 30, 2018, or such later date agreed by the Series B Debentures holders in writing, the price equal to the higher of (a) $0.20, and (b) 50% of the lowest price that Pharmadrug shares are issued from treasury during the period from the first liquidity deadline to the conversion date. The Series B Debentures rank pari passu with respect to the security and collateral granted in connection therewith and have first priority security against the Company.

The conversion feature of the Series B Debentures meets the definition of a derivative liability instrument because the conversion rate is variable and therefore does not meet the "fixed-for-fixed" criteria outlined under IFRS. As a result, the conversion feature is required to be recorded as a derivative liability recorded at fair value and marked-to-market each period with the changes in fair value each period being charged or credited to income.

On January 15, 2019, $300,000 of the Series B Debentures were converted into 2,000,000 common shares of the Company at a conversion price of $0.15. The debentures and the derivative liability balances of $315,854 and $175,600, respectively, were derecognized as a result.

On April 29, 2019, the remaining $300,000 of the Series B Debentures were also converted into 2,000,000 common shares of the Company at a conversion price of $0.15. The remaining debentures and the derivative liability balances of $246,065 and $160,000, respectively, were derecognized as a result.

For the year ended December 31, 2019, a loss of $166,243 was included in fair value change in derivative liability for the period up to the conversion date (2018 – loss of $159,743).

(d) Unsecured Debentures

On October 26, 2018, the Company closed a non-brokered private placement offering of unsecured convertible debentures (the "Unsecured Debentures") for gross proceeds of $400,000. The Unsecured Debentures bear interest at a rate of 10% per annum, payable quarterly in arrears, and are due on October 26, 2020. Each Unsecured Debenture is convertible at the conversion price of $0.365 into units of the Company consisting of one common share and one-half (1/2) of a share purchase warrant, with each whole such warrant exercisable at the conversion price of $0.50 to acquire one common share of the Company for a period of 24 months from the date of issuance.

Total costs of raising the Unsecured Debentures include legal costs of $20,000, which had been capitalized.

The Unsecured Debentures are classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debentures being less than face value. The discount is being accreted over the term of the debentures utilizing the effective interest rate method at a 23.15% discount rate.

(Expressed in Canadian Dollars)

19. Convertible Debentures (continued)

The following table reflects the continuity of convertible debentures as at December 31, 2019 and 2018:

	$
Balance, December 31, 2017	**1,032,822**
Convertible debentures issued	316,509
Interest and accretion expense	167,000
Conversion of debentures into common shares	(541,226)
Payment of interest on debentures	(27,814)
Foreign exchange loss	12,907
Balance, December 31, 2018	**960,198**
Interest and accretion expense	78,153
Conversion of debentures into common shares	(561,920)
Payment of interest on debentures	(72,000)
Balance, December 31, 2019	**404,431**

20. Share Capital

Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value.

Common shares issued and outstanding as at December 31, 2019 and 2018 are as follows:

	Number of common shares	**Amount**
	#	**$**
Balance, December 31, 2017	**16,630,000**	**410,749**
Shares issued by private placement [(a)]	2,301,873	869,811
Share issuance costs [(a)]	-	(76,819)
Shares issued on RTO Transaction [(b)]	3,961,584	1,497,083
Shares issued on conversion of Series A Debentures [(c)]	816,327	444,754
Shares issued on conversion of NHII Debentures [(d)]	4,028,272	176,243
Shares issued on exercise of warrants from NHII Debentures [(d)]	2,014,136	210,984
Shares issued for advisory and finder fees [(e)]	600,000	226,740
Shares issued from exercise of warrants [(f)]	720,375	139,551
Balance, December 31, 2018	**31,072,567**	**3,899,096**
Shares issued by private placement [(g)]	11,493,998	1,480,836
Share issuance costs [(g)]	-	(32,946)
Shares issued on conversion of Series B Debentures [(h), (m)]	4,000,000	897,520
Shares issued by subscription receipts offering [(i), (j)]	21,545,454	4,077,660
Share issuance costs [(i), (j)]	-	(419,479)
Shares issued on share exchange and corporate finance fee [(k), (n)]	14,376,130	3,187,161
Shares issued from exercise of options [(l)]	260,000	39,000
Shares issued for service agreements [(o)]	300,000	37,500
Shares issued from exercise of warrants [(p)]	254,125	49,417
Balance, December 31, 2019	**83,302,274**	**13,215,765**

20. Share Capital (continued)

Share capital transactions for the year ended December 31, 2018

(a) On August 9, 2018, the Company closed the Concurrent Financing of 2,301,873 units at a price of $0.49 per unit ("Units"), for gross proceeds of $1,127,918. Each Unit consists of one common share of the Company and one warrant. Each warrant entitles the holder to purchase one common share at a price of $0.75, expiring on August 9, 2020. In connection with the Concurrent Financing, the Company issued 78,015 finder warrants (each a "Finder's Warrant") and paid finders' fees of $40,326.

(b) On August 9, 2018, the Company issued 3,961,584 common shares to former shareholders of Lamêlée on completion of the RTO Transaction (Note 4(i)).

(c) On August 9, 2018, the Company issued 816,327 common shares as a result of the conversion of the Series A Debentures at the conversion price of $0.368 (Note 19(b)).

(d) On December 10, 2018, the Company issued 4,028,272 units on conversion of the Nutritional High Debentures (see Note 19(a)). Each unit is comprised of one common share and one-half (1/2) of a warrant. Upon conversion, the 2,014,136 warrants were exercised into 2,014,136 common shares of the Company for total proceeds of $151,060.

(e) On August 9, 2018, the Company issued 300,000 common shares to a financial advisor as compensation for advisory services provided and 300,000 shares to a finder on closing of the RTO Transaction (Note 4(iv)).

(f) During the year ended December 31, 2018, 720,375 common shares were issued as a result of the exercise of warrants for cash proceeds of $106,406.

Share capital transactions for the year ended December 31, 2019

(g) On January 10, 2019, the Company closed a non-brokered private placement (the "Private Placement") of 11,493,998 Units at a price of $0.15 per Unit, for gross proceeds of $1,724,100. Each Unit is comprised of one 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. In connection with the Private Placement, the Company issued 122,160 Finder's Warrants and paid cash commissions of $18,324. Each Finder's Warrant is exercisable into one common share of the Company at a price of $0.25 for a period of 24 months from closing (see Note 22 for details).

(h) On January 15, 2019, the Company issued 2,000,000 common shares as a result of the conversion of $300,000 of principal of the Series B Debentures at the conversion price of $0.15 (see Note 19(c)).

(i) On February 27, 2019, the Company closed the first tranche ("Tranche 1") of an offering of 8,726,954 Subscription Receipts (the "Offering") 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, without any further action on the part of the holder or payment of any additional consideration, one unit of the Company consisting of one common share and one-half (1/2) of a warrant, with each warrant exercisable at $0.28 into one common share for a period of 24 months from the date of satisfaction of the Escrow Release Conditions. In connection with Tranche 1 of the Offering, the Company paid $224,625 in cash commissions and issued 610,888 Finder's Warrants (see Note 22 for details).

(j) On April 17, 2019, the Company closed the second tranche ("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. Upon satisfaction of certain Escrow Release Conditions, each Subscription Receipt entitles the holder to receive, without any further action on the part of the holder or payment of any additional consideration, one unit of the Company consisting of one common share and one-half (1/2) of a warrant, with each warrant exercisable at $0.28 into one common share of the Company for a period of 24 months from the date of satisfaction of the Escrow Release Conditions. In connection with Tranche 2, the Company paid $262,990 in cash commissions and issued 897,295 Finder's Warrants (see Note 22 for details).

20. Share Capital (continued)

Share capital transactions for the year ended December 31, 2019 (continued)

(k) On April 17, 2019, 13,562,387 common shares valued at $3 million were issued in pursuant to the Share Exchange Agreement with FSD (see Note 12).

(l) On April 25, 2019, 260,000 common shares were issued as a result of the exercise of stock options for cash proceeds of $26,000.

(m) On April 29, 2019, the Company issued 2,000,000 common shares as a result of the conversion of the remaining $300,000 of principal of the Series B Debentures at the conversion price of $0.15 (see Note 19(c)).

(n) On May 9, 2019, 813,743 common shares were issued as compensation to the Lead Agent of the Share Exchange in the form of a corporate finance and structuring fee. The grant date fair value of the common shares issued was $187,161 based on the closing share price on the day of issuance, and the amount was recorded as share-based payments on the consolidated statements of loss and comprehensive loss.

(o) On June 21, 2019, 300,000 common shares were issued as a result of a service agreement. The grant date fair value of the common shares issued was $37,500 based on the closing share price on the day of issuance, and the amount was recorded as share-based payments on the consolidated statements of loss and comprehensive loss.

(p) During the year ended December 31, 2019, 254,125 common shares were issued as a result of the exercise of warrants for cash proceeds of $38,119.

Escrow Release Conditions

On closing of the Offering, subscription proceeds were placed in escrow with Capital Transfer Agency, ULC, the Company's transfer agent, on behalf of the subscribers of the Subscription Receipts, to be released to the Company upon satisfaction of certain Escrow Release Conditions, which included, 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 "Escrow Release Date"), the Company satisfied all Escrow Release Conditions pursuant to the Offering.

(Expressed in Canadian Dollars)

21. Reserve for Share-Based Payments

The Company maintains a stock option plan (the "Option Plan") whereby certain key officers, directors and consultants may be granted stock options for common shares of the Company. The maximum number of common shares that are issuable under the Option Plan is limited to 10% of the number of issued and outstanding common shares. Under the Option Plan, the exercise price of each option may not be less than the closing price of the Company's shares on the trading day prior to the grant date or the grant date itself, whichever is higher. Vesting of options is determined at the discretion of the Board of the Company. As at December 31, 2019, the Company had 5,210,227 common shares available for issuance under the Option Plan.

The following summarizes the stock option activity for the years ended December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**2,250,000**	**0.16**	1,600,000	0.10
Granted	**550,000**	**0.235**	50,000	0.10
Granted	**1,100,000**	**0.22**	650,000	0.31
Issued on reverse takeover	**-**	**-**	17,500	1.00
Issued on reverse takeover	**-**	**-**	12,500	2.80
Issued on reverse takeover	**-**	**-**	62,500	2.90
Exercised	**(260,000)**	**0.10**	-	-
Expired	**(320,000)**	**0.10**	(142,500)	1.68
Cancelled	**(200,000)**	**0.235**	-	-
Outstanding, end of year	**3,120,000**	**0.20**	2,250,000	0.16
Exercisable, end of year	**2,782,500**	**0.20**	1,987,500	0.14

For stock options exercised during the year ended December 31, 2019, the weighted average share price at the exercise date was $0.225.

Option grants for the year ended December 31, 2019

On January 17, 2019, the Company granted 200,000 options to a former director at an exercise price of $0.235, expiring on January 17, 2021. The options vested immediately on grant. The Company also granted 350,000 options to a consultant under the same terms and expiry, of which 200,000 options vested immediately on grant, while the remaining 150,000 options vested on April 17, 2019. The options were valued using Black-Scholes with the following assumptions: expected volatility of 77%, expected dividend yield of 0%, risk-free interest rate of 1.90% and an expected life of two years. The grant date fair value attributable to these options of $45,157 was recorded as share-based compensation in connection with the vesting of these options during the year ended December 31, 2019. As of August 14, 2019, the 200,000 options granted to the former director were cancelled, and the grant date fair value of $16,421 attributable to these options were reallocated to accumulated deficit.

On May 24, 2019, the Company granted 500,000 options to consultants at an exercise price of $0.22, expiring on May 24, 2021. 125,000 options vested immediately on grant, with 125,000 options to be vested on a quarterly basis thereafter. The options were valued using Black-Scholes with the following assumptions: expected volatility of 77%, expected dividend yield of 0%, risk-free interest rate of 1.56% and an expected life of two years. The grant date fair value attributable to these options of $20,519 of which $19,467 was recorded as share-based compensation in connection with the vesting of these options during the year ended December 31, 2019.

(Expressed in Canadian Dollars)

21. Reserve for Share-Based Payments (continued)

Option grants for the year ended December 31, 2019 (continued)

On May 28, 2019, the Company granted 600,000 options to a consultant at an exercise price of $0.22, expiring on May 28, 2021. Of the 600,000 options granted, 475,000 options vested immediately on grant, with the remaining 125,000 options to be vested depending on certain performance conditions as follows: (i) 62,500 options to be vested after the first cannabis plant is potted at the HolyCanna's greenhouse facility in Netanya, Israel (the "Facility"); and (ii) 62,500 options to be vested after the first commercial harvest at the Facility. The options were valued using Black-Scholes with the following assumptions: expected volatility of 77%, expected dividend yield of 0%, risk-free interest rate of 1.53% and an expected life of two years. The grant date fair value attributable to 475,000 options of $22,209 was recorded as stock-based compensation in connection with the vesting of these options during the year ended December 31, 2019.

In accordance with IFRS 2, the fair value treatment of performance-based vesting conditions is dependent on whether they are market or non-market conditions. As there are no set timelines in place to when the two respective conditions will be met, they are considered non-market conditions and therefore not allowed to recognize fair value.

Option grants for the year ended December 31, 2018

On March 1, 2018, the Company granted 50,000 stock options to an officer of the Company. The options are exercisable at $0.10 per share and will expire on August 16, 2020, two years after completion of the RTO Transaction. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 87%, expected dividend yield of 0%, risk-free interest rate of 1.922% and an expected life of 2.85 years. The grant date fair value attributable to these options of $1,813 was recorded as stock-based compensation in connection with the vesting of these options during the year ended December 31, 2018.

On August 9, 2018, the Company issued 92,500 options to former option holders of Lamêlée which expired in November 2018 (see Note 4(ii) for details).

On September 24, 2018, the Company granted 650,000 stock options to an officer and certain consultants of the Company. The options are exercisable at $0.31 per share and will expire on September 24, 2021. 300,000 of these options vested immediately on grant, while 350,000 options granted to an Investor Relations consultant vest 25% on grant, and 25% every six months thereafter over the ensuing 18 months. The options were valued using Black-Scholes with the following assumptions: expected volatility of 89%, expected dividend yield of 0%, risk-free interest rate of 2.22% and an expected life of 3 years. The grant date fair value attributable to these options was $121,130, of which $88,265 was recorded as stock-based compensation in connection with the vesting of these options during the year ended December 31, 2018.

The following table summarizes information of stock options outstanding and exercisable as at December 31, 2019:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	$	Years
August 16, 2020	1,020,000	1,020,000	0.10	0.63
January 17, 2021	350,000	350,000	0.235	1.05
May 24, 2021	500,000	375,000	0.22	1.40
May 28, 2021	600,000	475,000	0.22	1.41
September 24, 2021	650,000	562,500	0.31	1.73
	3,120,000	**2,782,500**	**0.20**	**1.18**

(Expressed in Canadian Dollars)

22. Reserve for Warrants

The following summarizes the warrant activity for the year ended December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**7,012,172**	**0.41**	3,875,000	0.16
Issued from private placement of units	**5,869,159**	**0.25**	2,301,873	0.75
Issued from private placement of units	**-**	**-**	78,015	0.49
Issued from subscription receipts Offering	**12,280,912**	**0.28**	-	-
Issued on reverse takeover	**-**	**-**	1,052,996	0.20
Issued on conversion of debentures	**-**	**-**	408,163	1.00
Issued on conversion of NHII Debentures	**-**	**-**	2,014,136	0.08
Exercised on conversion of NHII Debentures	**-**	**-**	(2,014,136)	0.08
Issued from share exchange agreement	**813,743**	**0.22**	-	-
Warrants exercised	**(254,125)**	**0.15**	(708,000)	0.15
Issuance of underlying warrants	**-**	**-**	16,500	0.15
Underlying warrants exercised	**-**	**-**	(12,375)	0.15
Expired	**(80,000)**	**0.60**	-	-
Expired	**(428,163)**	**1.00**	-	-
Outstanding, end of year	**25,213,698**	**0.30**	7,012,172	0.41

Warrant issuances for the year ended December 31, 2019

On January 10, 2019, the Company issued 5,746,999 warrants in conjunction with the Private Placement, as disclosed in Note 20(g). Each warrant is exercisable at $0.25 to purchase one common share of the Company for 24 months after closing of the Private Placement. The grant date fair value of the warrants issued was estimated to be $243,264 using Black-Scholes with the following assumptions: expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.91% and an expected life of two years.

In connection with the Private Placement, 122,160 Finder's Warrants were issued as compensation. The Finder's Warrants are exercisable at $0.25 to purchase one common share of the Company. The Finder's Warrants are exercisable for a period of two years. The grant date fair value of the Finder's Warrants issued was estimated to be $7,224 using Black-Scholes with the following assumptions: market price of $0.18, expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.91% and an expected life of two years.

On February 27, 2019, the Company closed Tranche 1 of the Offering of 8,726,954 Subscription Receipts, as disclosed in Note 20(i) and issued 4,363,479 warrants. Each warrant is exercisable at $0.28 into one common share of the Company for a period of 24 months from the Escrow Release Date. On May 9, 2019, the Company satisfied all Escrow Release Conditions. The grant date fair value of the warrants issued was estimated to be $268,280 using Black-Scholes with the following assumptions: expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.58% and an expected life of two years.

In connection with Tranche 1 of the Offering, 610,888 Finder's Warrants in the form of Subscription Receipt were issued as compensation. The Finder's Warrants entitles the holder to receive one unit of the Company consisting of one common share and one-half (1/2) of a warrant, with each warrant exercisable at $0.28 into one common share of the Company for a period of 24 months from the date of closing of the Offering. The grant date fair value of the Finder's Warrants issued was estimated to be $122,178 using Black-Scholes with the following assumptions: market price of $0.20, expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.58% and an expected life of two years.

22. Reserve for Warrants (continued)

Warrant issuances for the year ended December 31, 2019 (continued)

On April 17, 2019, the Company closed Tranche 2 of the Offering of 12,818,500 Subscription Receipts, as disclosed in Note 20(j) and issued 6,409,250 warrants under the same terms as Tranche 1 of the Offering. Each warrant is exercisable at $0.28 into one common share of the Company for a period of 24 months from the Escrow Release Date, which was May 9, 2019. The grant date fair value of the warrants issued was estimated to be $394,060 using Black-Scholes with the following assumptions: expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.58% and an expected life of two years.

In connection with Tranche 2 of the Offering, 897,295 Finder's Warrants in the form of Subscription Receipt were issued as compensation to the Agents. The Finder's Warrants will entitle the holder to receive one unit of the Company consisting of one common share and one-half (1/2) of a warrant, with each warrant exercisable at $0.28 into one common share of the Company for a period of 24 months from the date of closing of the Offering. The grant date fair value of the Finder's Warrants issued was estimated to be $179,459 using Black-Scholes with the following assumptions: market price of $0.20, expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.58% and an expected life of two years.

On April 17, 2019, the Company entered into the Share Exchange Agreement with FSD. In connection to the Share Exchange, 813,743 Compensation Options were issued to the Agent as corporate finance and structuring fees. The grant date fair value of the Compensation Options issued was estimated to be $81,264 using Black-Scholes with the following assumptions: share price of $0.23, expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.66% and an expected life of two years. The grant date fair value of the Compensation Options was recorded as share-based compensation during the year ended December 31, 2019 on the consolidated statements of loss and comprehensive loss.

Warrant issuances for the year ended December 31, 2018

On August 9, 2018, the Company issued 2,301,873 warrants in conjunction with the Concurrent Financing, as disclosed in Note 20(a). Each warrant is exercisable at $0.75 to purchase one common share of the Company for 24 months after closing of the RTO Transaction. The grant date fair value of the 2,301,873 warrants issued was estimated to be $258,107 using Black-Scholes with the following assumptions: expected volatility of 87%, expected dividend yield of 0%, risk-free interest rate of 2.11% and an expected life of two years.

In connection with the Concurrent Financing, 78,015 Finder's Warrants were issued as compensation. The finder warrants are exercisable at $0.49 to purchase one common share of the Company and one-half (1/2) of a common share purchase warrant, with each whole warrant exercisable into a common share at $0.75. The finder warrants are exercisable for a period of two years. The grant date fair value of the finder warrants issued was estimated to be $14,980 using Black-Scholes with the following assumptions: market price of $0.43, expected volatility of 87% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 2.11% and an expected life of two years.

On August 9, 2018, the Company issued 1,052,996 warrants to former warrant holders of Lamêlée (see Note 4(iii)) for details). The warrants are exercisable into one common share of the Company at an exercise price of $0.20.

On August 9, 2018, the Company issued 408,163 warrants exercisable at $1.00 into one common share of the Company, as a result of the conversion of the Series A Debentures into units at the conversion price of $0.368 (see Note 19(b)). The warrants issued were measured at a fair value of $23,938 using Black-Scholes with the following assumptions: market price of $0.38, expected volatility of 92% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.94% and an expected life of one year.

(Expressed in Canadian Dollars)

22. Reserve for Warrants (continued)

Warrant issuances for the year ended December 31, 2018 (continued)

On December 10, 2018, the Nutritional High Debentures were converted into 4,028,272 units, resulting in the issuance of 2,014,136 warrants exercisable at $0.075 into one common share of the Company. These warrants were measured at a fair value of $59,924 using Black-Scholes with the following assumptions: market price of $0.18, expected volatility of 89% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.98% and an expected life of 1.7 year. Upon conversion, the 2,014,136 warrants were exercised into 2,014,136 common shares of the Company for total proceeds of $151,060.

The following table summarizes information of warrants outstanding as at December 31, 2019:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	$	Years
April 21, 2020	1,052,996	0.20	0.31
August 9, 2020	2,301,873	0.75	0.61
August 9, 2020	78,015	0.49	0.61
August 16, 2020	2,350,000	0.15	0.63
August 16, 2020	467,000	0.10	0.63
January 10, 2021	5,869,159	0.25	1.03
April 17, 2021	813,743	0.22	1.30
May 9, 2021	12,280,912	0.28	1.36
	25,213,698	**0.30**	**1.33**

23. Key Management Compensation and Related Party Transactions

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 years ended December 31, 2019 and 2018 were as follows:

	2019	2018
	$	$
Consulting fees	**240,000**	112,500
Professional fees	**134,960**	66,050
Share-based compensation (Note 21)	**16,421**	48,402
	391,381	226,952

During the year ended December 31, 2019, Daniel Cohen, the CEO of the Company, charged consulting fees of $90,000 (2018 – $45,000) for services provided to the Company. As at December 31, 2019, $65,606 (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.

During the year ended December 31, 2019, Howard Brass, the former COO of the Company, charged consulting fees of $100,000 (2018 – $30,000) for services provided to the Company. As at December 31, 2019, $62,150 (December 31, 2018 – $34,699) owing to the former COO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

23. Key Management Compensation and Related Party Transactions (continued)

Key management personnel compensation (continued)

During the year ended December 31, 2019, David Posner, the former Chairman of the Company, charged consulting fees of $50,000 (2018 – $22,500) for services provided to the Company. As at December 31, 2019, $77,950 (December 31, 2018 – $103,500) owing to the former Chairman was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the year ended December 31, 2019, the Company incurred professional fees of $134,960 (2018 – $66,050), including billings on certain services provided from 2017 and up to the RTO Transaction in 2018, 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 December 31, 2019, $70,620 (December 31, 2018 – $8,475) owing to Branson was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the year ended December 31, 2018, Chris Carl, the 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 year ended December 31, 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 year ended December 31, 2018.

On September 24, 2018, the Company granted 250,000 stock options to the CEO. The grant date fair value of $46,588 attributable to these options was recorded as stock-based compensation during the year ended December 31, 2018.

Notes payable

As per disclosed in Note 17, the CEO and the former COO of Pharmadrug had advanced $200,000 each to the Company under the Notes on January 28, 2019. As at December 31, 2019, the total outstanding balance owing to the CEO and the former COO under the Notes was $488,774, including accrued interest of $88,774. The Notes are payable on demand.

24. Non-Controlling Interest

On completion of the Pharmadrug Acquisition, the 20% interest attributable to Anquor is presented as "non-controlling interest" within shareholders' equity on the consolidated statements of financial position. For the year ended December 31, 2019, the Company recorded a net loss of $249,239 attributable to the non-controlling interest.

(Expressed in Canadian Dollars)

25. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2018 – 26.5%) to the effective tax rate is as follows:

Provision for income tax

	2019	2018
	$	$
Net loss before recovery of income taxes provision:	**(6,981,823)**	(3,885,524)
Expected income tax (recovery) expense	**(1,850,183)**	(1,029,664)
Difference in foreign tax rates	**(53,934)**	(15,467)
Tax rate changes and other adjustments	**(64,357)**	(45,351)
Share-based compensation and non-deductible expenses	**311,712**	572,447
Change in tax benefits not recognized	**1,214,014**	518,035
Income tax (recovery) expense	**(422,748)**	-

Deferred tax

The following table summarizes the components of deferred tax:

	2019	2018
	$	$
Deferred Tax Assets		
Non-capital losses carried forward – Canada	**-**	6,172
Non-capital losses carried forward - Germany	**152,341**	-
Lease payable	**29,537**	-
Deferred Tax Liabilities		
Property and equipment, including ROU assets	**(27,388)**	-
Intangibles	**(1,625,918)**	-
Unrealized foreign exchange differences	**-**	(6,172)
Movement in foreign exchange	**1,967**	-
Net deferred tax liabilities	**(1,469,461)**	-

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movements in net deferred tax liabilities:

	2019	2018
	$	$
Balance, beginning of year	**-**	-
Recognized in business combination	**(1,916,176)**	-
Recognized in profit or loss	**442,748**	-
Effect of foreign exchange	**1,967**	-
Balance, end of year	**(1,469,461)**	-

(Expressed in Canadian Dollars)

25. Income Taxes (continued)

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2019	2018
	$	$
Share issuance costs	**588,153**	308,245
Net operating losses carried forward – US	**602,642**	3,996,695
Non-capital losses carried forward – Canada	**5,721,056**	565,567
Net capital loss carried forward – Canada	**812,642**	-
Investments	**397,571**	-
Other temporary differences	**162,443**	358,856

The Canadian non-capital loss carry-forwards expire as noted in the table below.

Share issuance and financing costs will be fully amortized in 2023. The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

	$
2036	167,134
2037	751,784
2038	1,117,865
2039	3,684,273
	5,721,056

The Company's US net operating losses expire as follows:

	$
2036	48,461
2037	283,775
Indefinite	270,406
	602,642

26. 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 of the Company 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.

(Expressed in Canadian Dollars)

26. Capital Management (continued)

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 December 31, 2019, the Company's capital consisted of an equity attributable to the shareholders of Pharmadrug Inc. of $2,977,966 (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.

27. Financial Instrument Risks

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 reputable chartered banks in Canada and Germany, and in trust with the Company's legal counsel. Management believes that the credit risk concentration with respect to financial instruments included in cash and other receivables is minimal.

As at December 31, 2019, the loss allowance was as follows:

	Note receivable from Empower	**Loans receivable from CannabiSendak**	**Investments in HolyCanna**	**Total**
	$	**$**	**$**	**$**
Balance prior to ECL allowance	193,606	389,640	467,203	**1,050,449**
Projected loss rate	80%	100%	100%	**n/a**
12-month ECL allowance	153,920	389,640	467,203	**1,010,763**
Balance as at December 31, 2019, net of allowance	**39,686**	**-**	**-**	**39,686**

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 December 31, 2019, the Company had a cash balance of $73,677 (December 31, 2018 – $155,117) to settle current liabilities of $4,320,092 (December 31, 2018 – $1,053,756). The Company manages liquidity risk by ensuring that it has sufficient cash and other financial resources available to meet its needs. The Company forecasts cash flows for a period of 12 months to identify financial requirements.

27. Financial Instrument Risks (continued)

Liquidity risk (continued)

As at December 31, 2019, the Company had the following contractual obligations:

	Less than 1	**1 to 3 years**	**3 to 5 years**	**Total**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	1,133,449	-	-	**1,133,449**
Loans payable	1,889,819	-	-	**1,889,819**
Notes payable	733,161	-	-	**733,161**
Convertible debentures	404,431	-	-	**404,431**
Total	**4,160,860**	**-**	**-**	**4,160,860**

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. Nevertheless, management understands that the Company is dependent on additional capital by way of financing in 2020.

Market risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices. A 1% change in closing trade price of the Company's other investments would impact net income or loss by approximately $5,000 based upon balances as at December 31, 2019.

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 Company's loans payable, notes payable and convertible debentures have fixed interest rates. As at December 31, 2019, the Company had no hedging agreements in place with respect to floating interest rates.

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 operations 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.

Fair value

Fair value estimates of financial instruments are made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The Company's financial instruments consist of cash, other receivables, note receivable, loans receivable, other investments, accounts payables, loans payable, notes payable, lease payable and convertible debentures. The fair value of cash, other receivables, note receivable, loans receivable, other investments, accounts payables, loans payable, notes payable, lease payable and convertible debentures are approximately equal to their carrying value due to their short-term nature.

(Expressed in Canadian Dollars)

27. Financial Instrument Risks (continued)

Fair value (continued)

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).

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Cash	73,677	-	-	**73,677**
Other investments	440,052	-	-	**440,052**

As at December 31, 2019, the Company's financial instruments carried at fair value consisted of its cash and other investments, which have been classified as Level 1. There were no transfers between Levels 2 and 3 for recurring fair value measurements during the year.

28. Contingencies

The Company's cannabis operations are subject to a variety of local regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations in that specific state or local jurisdiction. In Germany, the legalization of medical cannabis in March 2017 gave rise to a formal medical cannabis program nationwide. However, Germany does not currently have a legally permissible adult-use, or recreational cannabis market.

While management believes that the Company is in compliance with applicable local and state regulations as at December 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Provisions

The Company may, from time to time, be subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. Liabilities associated with legal proceedings are recorded when (i) the liabilities are a result of a past event, (ii) it is probable that an outflow of resources will be required to settle the obligations, and (iii) a reliable estimate can be made of the amount of obligation.

As at December 31, 2019, the Company had recorded provisions on the following claims:

On August 20, 2019, THoR Beteiligungen GmbH ("THoR") incorrectly transferred an amount of €6,804 to Pharmadrug GmBH's business account and subsequently demanded its repayment. On October 22, 2019, Pharmadrug GmbH declared that the Company would offset this amount against a counterclaim against THoR, which subsequently issued a notice of assignment, according to which the claim had been assigned to Pharmadrug International GmbH ("Pharmadrug International") on September 27, 2019. Pharmadrug International has since filed a claim for repayment of a mismatch transfer against Pharmadrug GmbH for the same amount. As at December 31, 2019, the Company had recorded a provision of approximately $9,921 (€6,804) for the potential damages it is expected to pay out.

On February 21, 2020, Thor Investments GmbH ("Thor Investments") filed a lawsuit with Pharmadrug GmbH for a repayment of a loan in the amount of €34,222. The loan with Thor Investments dates back to March 2019. As at December 31, 2019, the Company had recorded a provision of approximately $49,899 (€34,222) for the potential damages it is expected to pay out.

29. Commitments

Share exchange agreement

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 (see Note 12 for details).

As part of the Share Exchange Agreement, Pharmadrug and FSD entered into a consulting agreement whereby the Company will assist FSD with obtaining EuGMP certification at the existing licensed facility of FSD. Pharmadrug GmBH also entered into a 5-year supply agreement (the "FSD Supply Agreement") with FSD whereby, upon proper EuGMP certification, Pharmadrug GmBH will commit to purchase a total of 1,000 kilograms ("Kg") over the first two 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 FSD Supply Agreement calls for Pharmadrug GmBH to commit to purchase 1,000 Kg per year for an additional three years at a price to be mutually determined by both parties at that time.

Supply agreements

On September 19, 2019, the Company, through Pharmadrug GmBH, entered into a multi-year supply agreement (the "My Green Fields Supply Agreement") with Israel-based My Green Fields Ltd. ("My Green Fields"). Beginning the five-year supply agreement, the medical cannabis product will consist initially of dry flower and complemented soon after by oils and extracts, all sold under Pharmadrug's own 'Cannabion' brand. Terms for the first year are 500 kg of dry flower or oil equivalent at EUR 4.00 per gram. In the following years, Pharmadrug will have access to up to two tons of dry flower or oil equivalent per year at market-determined or mutually agreed upon prices. The supply will initially consist of high THC strains which comprises the majority of the demand for medical cannabis in Germany. The parties have also agreed to plan on importing high CBD/trace THC strains for other Eurozone countries that are CBD-only jurisdictions. Under the My Green Fields Supply Agreement, Pharmadrug will assist My Green Fields to meet EuGMP standards, German regulatory approvals, and registration requirements.

On October 31, 2019, the Company through Pharmadrug GmBH, entered into a multi-year supply agreement (the "Canada House Supply Agreement") with Canada House Wellness Group Inc. ("Canada House"). Under the Canada House Supply Agreement, all medical cannabis will be sold through Pharmadrug'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, the Company 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 Medix Corp. ("Abba") has a 22,000 square foot cultivation facility in Pickering, Ontario that received its Canadian Sales License on October 1, 2019. The Company will sponsor Abba in getting EuGMP certification and will also assist Abba in registering its strains with German regulators.

(Expressed in Canadian Dollars)

30. Segmented Information

As at December 31, 2019, the Company's operations comprise of a single reporting operating segment engaged in the distribution of medical cannabis in Germany. As at and for the year ended December 31, 2019, the breakdown between operations in Canada and Germany are as follows:

Statement of Financial Position	Canada	Germany	Total
	$	$	$
Current assets	139,130	201,804	340,934
Non-current assets	440,052	9,597,499	10,037,551
Total Assets	**579,182**	**9,799,303**	**10,378,485**
Current liabilities	4,048,802	271,290	4,320,092
Long-term liabilities	-	1,600,295	1,600,295
Total Liabilities	**4,048,802**	**1,871,585**	**5,920,387**

Statement of Loss	Canada	Germany	Total
	$	$	$
Revenue	-	610,576	610,576
Cost of goods sold	-	(357,321)	(357,321)
Operating expenses	(3,884,456)	(1,462,394)	(5,346,850)
Other expenses	(1,851,171)	405,691	(1,445,480)
Net Loss	**(5,735,627)**	**(803,448)**	**(6,539,075)**

31. Subsequent Events

Bridge Loan Facility repayment

On January 13, 2020, the remaining 61,892 post-Consolidation FSD Shares were sold by the Private Lender for proceeds of $741,375, which was applied as a partial repayment on the Bridge Loan Facility.

Private loans

On February 7, 2020, the Company secured a private loan (the "Private Loan") of $250,000 from an arm's length third party lender, in connection to a non-binding LOI previously entered on December 24, 2019. The Private Loan bears interest at a rate of 9% per annum payable quarterly and will be due on the earlier of: (i) the closing of the proposed transaction, and (ii) 180 days following the termination of the non-binding LOI entered between the parties on December 24, 2019. On May 21, 2020, the parties had mutually terminated the non-binding LOI.

The Private Loan carries an interest rate of 9% per annum accruing every 90 days, payable on maturity with such interest increasing to 15% per annum from the date of the occurrence of an event of default. The Private Loan is secured by: (i) GSAs from the Company and its material subsidiaries, (ii) a pledge of shares by the Company of its interest in Pharmadrug GmBH, and (iii) guarantees from the Company's material subsidiaries. The Private Loan is being provided in connection with a potential business combination transaction between the Company and the Private Lender, which is in process. At this time, there is no certainty that the proposed transaction will be completed in the near future or at all.

Super Smart Transaction

On May 19, 2020, the Company entered into a non-binding LOI with Interrobang Ltd. ("Interrobang"), doing business as Super Smart ("Super Smart"), an early-stage retail company focused on consolidating the fragmented smartshop market in the Netherlands. The non-binding LOI outlines the general terms and conditions of a proposed transaction that will result in Pharmadrug acquiring all of the issued and outstanding common shares and other securities of Super Smart.

31. Subsequent Events (continued)

Super Smart Transaction (continued)

On May 25, 2020, the Company entered into a definitive agreement (the "Acquisition Agreement") with Super Smart, pursuant to which Pharmadrug will acquire all of the issued and outstanding shares of Super Smart, to be effected by way of a three-cornered amalgamation between Pharmadrug, Super Smart and a wholly-owned subsidiary of Pharmadrug (the "Transaction"). Following completion of the Transaction, Super Smart will become a wholly-owned subsidiary of Pharmadrug. Pursuant to the terms of the Acquisition Agreement, each issued and outstanding share of Super Smart will be exchanged for one common share in the capital of Pharmadrug.

Completion of the Transaction is subject to certain conditions precedent including, among other things: (i) the receipt of all required approvals by the respective boards of directors of Pharmadrug and Super Smart; (ii) the receipt of approval of the Transaction by shareholders of Interrobang; (iii) the receipt of all required consents, approvals and authorizations of any regulatory authorities, including, without limitation, the CSE; (iv) each of the parties shall have complied with each of its obligations, covenants and agreements in the Acquisition Agreement; (v) there shall be no material adverse effect with respect to either of Pharmadrug or Super Smart; and (vi) the receipt of all required consents and approvals of third parties.

On June 15, 2020, the Transaction closed. Pursuant to the terms of the Transaction, each Super Smart Share was exchanged for one common share in the capital of the Company (a "Pharmadrug Share"). At the time of the closing of the Transaction, Super Smart had 64,420,000 Super Smart Shares issued and outstanding together with $1,479,000 principal amount of Super Smart Debentures, 33,000,000 common share purchase warrants ("Placement Warrants") and 3,478,400 finder options (the "Finder Options").

The Super Smart Debentures were exchanged pursuant to their terms into debentures of Pharmadrug (the "Pharmadrug Debentures") which bear interest at a rate of 12% per annum from the date of issue payable monthly in cash and ranking pari passu with one another. The Pharmadrug Debentures are secured by first ranking security of Super Smart and second ranking security of Pharmadrug. $1,190,000 principal amount of Pharmadrug Debentures mature on May 19, 2023 and $289,000 principal amount of Pharmadrug Debentures mature on May 22, 2022 (each a "Maturity Date"). Pharmadrug has a right to prepay or redeem a part or the entire principal amount of the Pharmadrug Debentures at par plus accrued and unpaid interest at any time by providing written notice of the date (the "Redemption Date") for such redemption to the holder at least a minimum of 30 days and a maximum 60 days' prior to the Redemption Date. Each Pharmadrug Debenture will be convertible into units (each, a "Unit") at the option of the holder at any time prior to the close of the third business day prior to the earlier of: (i) the Maturity Date and (ii) the Redemption Date at a price of $0.05 per Unit with each Unit consisting of one Pharmadrug Share and one-half of one Pharmadrug Share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will entitle the holder thereof to purchase one Pharmadrug Share at an exercise price of $0.05 for a period of 36 months from the date of issuance of the Pharmadrug Debentures. In the event that the Pharmadrug Shares have a closing price on such exchange on which the Pharmadrug Shares may be traded at such time of greater than $0.15 per share for a period of 10 consecutive trading days, Pharmadrug will be able to cause the Pharmadrug Debentures to be converted into Units.

In addition to the outstanding Super Smart Shares and Super Smart Debentures, Super Smart also had outstanding prior to closing (i) 3,478,400 Finder Options which entitled the holder thereof to acquire one Unit at a price of $0.05 at any time on or before June 12, 2023 and (ii) 33,000,000 Placement Warrants issued in connection with a private placement of units of Super Smart with each such Placement Warrant entitling the holder to acquire one Super Smart Share at a price of $0.05 at any time on or before June 15, 2023. Each Finder Option and Placement Warrant, following completion of the Transaction, entitles the holder thereof to acquire equivalent securities of Pharmadrug in place of the securities of Super Smart.

Unsecured promissory note

On May 25, 2020, the Company issued a non-interest bearing unsecured promissory note to Interrobang for a loan of $80,000. The unsecured promissory note is due and payable on August 25, 2020.

31. Subsequent Events (continued)

Options and warrants

On April 21, 2020, 1,052,996 warrants previously issued to former warrant holders of Lamêlée exercisable at $0.20, expired unexercised.

On May 31, 2020, the Company granted 5,000,000 options to the Chairman of its advisory board. The options vested immediately on grant and are exercisable for a period of two years, at an exercise price of $0.11 per common share provided that the Chairman purchases the equivalent number of common shares in the market at a market price at or above the 5-day VWAP prior to or concurrently with the exercise of his options. Of the 5,000,000 options granted, 3.4 million are conditional on:

(a) regulatory approval; and

(b) either (i) an increase in the number of issued and outstanding shares of the Company such that the grant is permitted under terms of the Company' current stock option plan, or (ii) the approval of an amendment to the stock option plan to permit the issuance of such options.

On May 31, 2020, the Company also granted 500,000 options to a consultant of the Company. The options are exercisable at an exercise price of $0.11 per common share for a period of five years. These 500,000 options vested immediate on grant.

COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak ("COVID-19") a "Public Health Emergency of International Concern" and on March 10, 2020, declared COVID-19 a pandemic, and it caused significant impact on businesses through restrictions put in place by the Canadian and German governments regarding travel, business operations, and quarantine/isolation orders.

At this time, the Company's German operations had been impacted by limited sales volumes of cannabis products in the month of March 2020, caused by shipment delays from the Netherlands, but preliminary results from April suggest that sales volumes had subsequently rebounded to date. Ultimately, the extent to which the COVID-19 pandemic impacts the Company's financial results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and actions taken to contain it or its impact, among others. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place by Canada, Germany and other countries to fight the virus. While the extent of the impact is unknown, the Company anticipates this outbreak may cause reduced customer demand, supply chain disruptions, and increased government regulations, all of which may negatively impact the Company's business and financial condition.