PHARMADRUG INC.

(formerly Aura Health Inc.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2019

The following Management's Discussion and Analysis ("MD&A") is current to June 15, 2020, and constitutes management's assessment of the factors that affected the financial condition and operating performance of Pharmadrug Inc. (formerly Aura Health Inc.) ("Pharmadrug", "We" or the "Company") for the year ended December 31, 2019 ("Fiscal 2019"). This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended December 31, 2019 and 2018, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All figures in this MD&A are reported in Canadian dollars ("$" or "CAD") unless otherwise stated.

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

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

Business Overview

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

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

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.

Recent Developments

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

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

On April 30, 2019, the Company, through its wholly-owned subsidiary Green Global Properties Inc. ("Green Global"), entered into a definitive purchase and sale agreement (the "Purchase Sale Agreement") with Empower Healthcare Assets Inc. ("Empower"), a wholly-owned subsidiary of Empower Clinics Inc., pursuant to which Empower acquired Pharmadrug's 30% interest in the Sun Valley Clinics for USD $125,000 (see Sun Valley Clinics" for details).

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

On September 19, 2019, the Company announced a multi-year supply agreement (the "My Green Fields Supply Agreement") with Israel-based My Green Fields Ltd. ("My Green Fields"), a nursery and cultivation license holder located in Northern Israel, that has nearly completed the buildout of one of Israel's only indoor facilities (see "Commitments" for details).

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

On October 31, 2019, the Company announced a multi-year supply agreement (the "Canada House Supply Agreement") between Pharmadrug GmBH and Canada House Wellness Group Inc. ("Canada House"). Under the Canada House Supply Agreement, all medical cannabis will be sold through the 'Cannabion' brand (see "Commitments" for details).

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

On December 24, 2019, the Company entered into a non-binding letter of intent ("LOI") in connection with a potential business combination transaction between the Company and an arm's length third party. On May 21, 2020, the parties had mutually terminated the non-binding LOI.

On April 28, 2020, the Company announced that it intends to rely on the temporary blanket relief for market participants from certain regulatory filings published by Canadian securities regulators on March 23, 2020 as a result of the COVID-19 pandemic. Accordingly, the Company expects to file its audited consolidated financial statements and MD&A for the year ended December 31, 2019 in accordance with the Ontario Securities Commission Instrument 51-502 Temporary Exemption from Certain Corporate Finance Requirements and similar relief provided by the British Columbia Securities Commission and the Alberta Securities Commission.

On May 15, 2020, David Posner resigned as Director and Chairman of Pharmadrug. Daniel Cohen, the Chief Executive Officer ("CEO") of the Company, was elected as a Director, and assumed the role of Chairman of the Company and will hold office until an appointment subject to the provisions of the Company's by-laws.

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.

On May 21, 2020, Howard Brass resigned as Chief Operating Officer ("Former COO") of Pharmadrug, to pursue other ventures. We thank Mr. Brass for his past contributions to the Company.

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 (the "Transaction") between Pharmadrug, Super Smart and a wholly-owned subsidiary of Pharmadrug. The Transaction closed on June 15, 2020 (see "Subsequent Events" for details).

Financing Developments

Private Placement Financings

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

On January 28, 2019, the Company issued promissory notes (the "Notes") in the principal amount of $600,000, bearing interest at 2% per month and due on March 28, 2019 (see "Key Management Compensation and Related Party Transactions" for details).

On February 27, 2019, the Company closed the first tranche 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 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.

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

Escrow Release Conditions

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

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

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

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

(iv) The Company has disposed of all its interests in cannabis operations located in the United States (the "US").

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

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

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

Loans

On May 9, 2019, the Company received a $3 million bridge facility (the "Bridge Loan Facility") from a private lender ("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"). 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") (see "Bridge Loan Facility" for details).

On February 7, 2020, the Company secured a private loan (the "Private Loan") of $250,000 from the arm's length party in connection to the non-binding LOI entered on December 24, 2019.

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

Outlook and Plans

Pharmadrug is building a European controlled substances company with a focus on medical cannabis and psychedelics. In medical cannabis, the Company currently sources and wholesales products to pharmacies in Germany with a strategy to launch and develop its own brand of cannabis for distribution in Germany and other legal jurisdictions in the EU. In psychedelics, the Company intends to utilize a unique two-pronged approach. The first will be to capitalize on markets in the Netherlands through consolidation of legalized adult-use psychedelic dispensaries. Secondly, as products get developed and achieve regulatory approval or get legalized in jurisdictions across the Eurozone, the Company will seek to utilize the Company's controlled substance important and distribution license to establish a pharmaceutical psychedelic business.

Medical Cannabis

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

The nascent German cannabis market continues to grow at a fast pace and social acceptance is gaining momentum. Recently, it was widely reported that Angela Merkel, Chancellor of Germany and her ruling Christian Democratic Union Party, is considering introducing legislation allowing adult-use of marijuana. The country's drug commissioner, Daniela Ludwig, has also expressed a more liberal view on cannabis policy. This is occurring on a backdrop where all other major political parties in Germany already have internal policies that are friendlier to cannabis.

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

As Pharmadrug continues to develop business in Germany, management believes that the Company will see significant growth in 2020. A new sales team was recently put in place in November 2019 that began to execute on a new strategic plan. The Company has grown its Bedrocan business and the number of pharmacies in its distribution network had also significantly increased over the past several months. However, as Bedrocan's supply is becoming increasingly limited, growth will need to come from added supply sources.

Sales volumes had been on the rise since the beginning of 2020. In January and February, there were volume increases in both the number of pharmacies the Company sells to and the total number of grams sold. The month of March had limited volumes due to a delay in a shipment of product for the Netherlands, but April's sales rebounded as it generated the highest volumes of medical cannabis sold by the Company to date. Alas, the month of May suffered from the same supply issues we had in March. The path to profitability will need to come from new supply sources.

Pharmadrug signed two major supply agreements in the fall of 2019, but short-term supply shortfalls will need to be remedied from additional new sources. We had been able to secure an EuGMP inspection from German regulators for Canada House's Abba Medix facility in Pickering, but that appointment is in question due to the current limitations for overseas travel caused by the COVID-19 pandemic. The My Green Fields facility in Israel has been completed and the first crop's harvest is expected in June 2020. Also, Israel has finally opened the doors to export cannabis. That being said, the facility needs EuGMP certification and we are in the midst of determining the timeline to achieve it. We will update investors with the progress in the coming months.

In order to address short term needs for additional supply, the Company is working on a second wholesale source of cannabis directly from another LP for product under their brand. We hope to begin selling that product in the next few months. The Company is also in advanced discussions with a Canadian cultivator that recently received its EuGMP certification. Management is negotiating a bulk purchase agreement that would allow Pharmadrug to package and brand the product itself in Germany. Management is also in advanced discussions with two emerging producers out of Denmark. These relationships would also be applicable for medical cannabis to be sold by Pharmadrug under its own brand. With all of the developments, management is confident it will be able to both grow its available supply of medical cannabis considerably in the next six months and also be able to introduce product under its own brand in the second half of 2020.

The Board and management of Pharmadrug have decided to end the ventures into HolyCanna Inc. ("HolyCanna") and CannabiSendak Ltd. ("CannabiSendak"). With a supply agreement in place with My Green Fields, the Company believes it will be able to source an adequate amount of supply form Israel. The Company also believes the time has passed for companies to undertake the construction of small-scale cannabis greenhouse cultivation projects. CannabiSendak had been put on hold due to the restricted retail environment resulting from the COVID-19 pandemic. Since then, the Company had decided that opening a retail business in Israel didn't make sense given its new psychedelic strategy and a plan to build out a retail chain in the Netherlands. In essence, the Company has pivoted its strategy and believes it should focus on the Eurozone market and its new psychedelic businesses. As a result, Pharmadrug had written down its initial investments in both HolyCanna and CannabiSendak.

Psychedelics

The Company intends to utilize a unique two-prong approach, capitalizing on markets in the Netherlands through "smart shop" consolidation and the entire EU by way of Pharmadrug's controlled substance important and distribution license.

On May 19, 2020, the Company entered into a non-binding LOI with Interrobang, d/b/a as Super Smart, an early-stage retail company focused on consolidating the fragmented smartshop market in the Netherlands. Smartshops are retail establishments in the Netherlands that specialize in the sale of psychoactive substances including psychedelic truffles, the hardened masses of mycelium that grow underground. This variety of magic mushrooms has psilocybin and is legal in the Netherlands. Super Smart will seek to acquire smartshops and deploy disciplined business expertise, retail best practices and consistent branding across multiple locations to capture in market share and improve margins in this rapidly growing segment.

There are roughly 100 smartshops currently spread throughout the Netherlands with an annual market value of approximately EUR 100 million. Unlike coffee-shops, they have a legal framework that allows them to sell entheogenic plants, which are plants containing substances that have hallucinogenic properties. The bulk of what is sold in smart shops are truffles that contain psilocybin, the active component of "magic" mushrooms.

Using the Netherlands as the initial geographic focus, the Company will establish a business that is firmly driven by retail revenue. Due to the fragmented nature of the stores currently in existence, there is little brand loyalty and no clear vision across various storefronts. The industry is ripe for consolidation. Furthermore, the recent COVID-19 lockdowns have put many of the independent store owners in a position where they are motivated to sell. Super Smart's goal will be to purchase approximately ten smart shops within the first 12 months of operation, rebranding them under their "Slim" concept store identity, "Slim Winkel" being the Dutch word for Smartshop.

Super Smart will look to acquire shops spread out across the country, sharing the focus on both the tourist consumer and also local residents. This means establishing shops in more populous urban centers like Amsterdam and Rotterdam, but also spreading to border towns that attract customers from various geographic locations. Cities with big student populations are also important to Super Smart's retail positioning and strategy.

Branding and unity will be key as this will allow Super Smart to create a unified story that brings together all retail locations and patrons, creating a community and imbuing a sense of brand loyalty into customers. Consolidation will increase margins by negotiating better discounts on inventory at larger volumes. By eventually adding an online component through a digital marketplace, Super Smart will look to further increase its customer base and grow revenues. Pharmadrug will use the model to eventually expand into other countries and regions as they legalize.

The psychedelic pharmaceutical space is still in its infancy and has barely begun in the EU. Ibogaine is used in Portugal and the Netherlands, and ketamine has strict and limited use for human medicine. Pharmadrug has no current plans to initiate biotech research activities, but it will monitor the sector closely and may decide to license technologies or engage in the distribution of pharmaceutical psychedelics using its class I narcotics license should medicines get introduced or approved.

Overall Performance

Selected Financial Information

The Company's selected financial information as at the end of the reporting period and for the three most recently completed financial years ended December 31, are summarized as follows:

	2019	2018	2017
	$	$	$
Sales revenue	610,576	-	-
Gross profit	253,255	-	-
Operating expenses	(5,346,850)	(950,525)	(795,257)
Other expenses	1,888,228)	(418,991)	(116,357)
Reverse takeover acquisition costs	-	(2,142,633)	-
Net loss from continuing operations	(6,981,823)	(3,512,149)	(911,614)
Net loss on discontinued operations	-	(373,375)	(243,726)
Net loss and comprehensive loss	(7,202,028)	(3,941,780)	(1,151,323)
Total assets	10,378,485	1,062,312	936,873
Total liabilities	5,920,388	1,552,632	1,579,422
Shareholders' equity (deficiency)	2,977,966	(490,320)	(642,549)

Selected Quarterly Financial Results

Selected financial information for the eight most recently completed quarters as follows:

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
	$	$	$	$
Sales revenue	37,918	271,291	301,367	-
Operating expenses	(2,976,638)	(435,813)	(1,356,126)	(578,273)
Other expenses	(1,189,935)	(89,816)	(316,971)	(291,506)
Net loss	(3,736,706)	(458,961)	(1,473,629)	(869,779)
Loss per share – basic and diluted	(0.04)	(0.01)	(0.02)	(0.02)

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
	$	$	$	$
Sales revenue	-	-	-	-
Operating expenses	(439,165)	(355,250)	(133,142)	(22,968)
Other expenses	(92,085)	(2,298,219)	(84,237)	(87,083)
Net loss	(677,885)	(2,880,209)	(217,379)	(110,051)
Loss per share – basic and diluted	(0.10)	(0.16)	(0.01)	(0.01)

Financial Results for the year ended December 31, 2019

Results of Operations

With the closing of the Pharmadrug Acquisition in May 2019, the Company had since been operating its cannabis distribution business with shipments to pharmacies through out Germany. In Fiscal 2019, the Company recorded total sales revenue of $610,576 and cost of goods sold of $357,321, for a gross profit was $253,255. The gross margin of approximately 40% closely aligns with the margin forecasted by management on the German distribution business.

During the year ended December 31, 2019, the Company incurred total operating expenses of $5,346,850, as compared to $950,525 in 2018. The substantial increase in operating expenses is attributable to an increased scope of business with the presence of the German operations with Pharmadrug GmBH. Significant changes in operating expenses in Fiscal 2019 are comprised primarily of:

- Increase of $482,492 in management, consulting fees and salaries to $667,992 (2018 – $185,500) due to services provided by the management team and a host of consultants engaged for services in areas of investor relations, capital advisory and cultivation. Staffing from Pharmadrug GmBH also contributed to the significant increase.
- Increase of $1,205,232 in professional fees to $1,642,663 (2018 – $437,431) primarily related to the various legal and transactional fees incurred on the many transactions and initiatives that the Company had undertaken during the year, which accounted for over $1 million. Accounting and audit fees for services provided over the course of the year are also included in professional fees.
- Increase of $166,208 in office and general expenses to $175,997 (2018 – $9,789) to increased scope of operations from the presence of the oversea subsidiary, with a proportional increase in general and administrative expenses.
- Increase of $121,623 in travel and promotional expenses to $328,699 (2018 – $207,076) incurred in the course of completing the Pharmadrug Acquisition and for marketing and promoting the Company for its cannabis projects in Israel and Germany.

The following non-cash operating expenses had also been incurred:

- An allowance for expected credit losses of $1,172,935 (2018 – $nil) recorded upon assessment of impairment on the Company's note receivable, loans in CannabiSendak and investment in HolyCanna.
- Non-cash share-based compensation of $115,840 (2018 – $90,078) on vesting of options, and share-based payments in the form of issuance of securities valued at $411,822 (2018 – $nil); and
- Amortization of $26,529 (2018 – $nil) and $751,701 (2018 – $nil) recorded respectively, on the Company's property and equipment and intangible assets.

During the year ended December 31, 2019, the Company had also incurred other expenses. Finance costs, comprising interest and accretion on convertible debentures, the Notes and the Bridge Loan Facility, totaled $476,986 (2018 – $188,037). The conversion feature and the warrants component of the convertible debentures were accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Company's shares. The fair value change of the derivative liabilities resulted in a loss of $166,243 (2018 – loss of $287,749), as the fair value of the derivative liability on the remaining Series B unsecured debentures issued on December 22, 2017 (the "Series B Debentures") increased during the period. As of April 29, 2019, the derivative liability was derecognized as the remaining Series B Debentures were converted into common shares.

During Fiscal 2019, the Company recognized a gain of $46,616 on the sale of its 30% interest in the Sun Valley Clinics. In relation to the Share Exchange with FSD, the Company recorded a realized loss of $1,625,285 (2018 – $nil) upon the disposition of some 13.1 million FSD Shares for $1,374,715 which was applied as a partial repayment on the Bridge Loan Facility. In valuing the FSD Shares, an unrealized gain of $440,052 had also been recorded in valuing the investments at fair value.

During the year ended December 31, 2018, the Company recorded a one-time expense of $2,142,633, which represented the transaction costs relating to the RTO Transaction plus the fair value of the consideration paid.

Net loss from continuing operations for Fiscal 2019 was $6,981,823, as compared to $3,512,149 for 2018.

Net loss from continuing operations attributable to shareholders of Pharmadrug for Fiscal 2019 was $6,289,936 (loss of $0.10 on a basic and diluted basis), as compared to $3,885,524 (loss of $0.255 on a basic and diluted basis) for 2018.

Cash Flows

Net cash used in operating activities for year ended December 31, 2019 was $2,339,969, as compared to cash flows used in operating activities of $1,287,285 in 2018. Substantially more cash was spent on operations during the current year, as

the Company had been fully operational since the closing of the Pharmadrug Acquisition. The increased in spending aligns with the Company's expansion in the cannabis market in the Eurozone. In the comparative period in 2018, cash was primarily used in operations due to substantial fees required in transitioning the Company in closing its going-public transaction.

Net cash provided from financing activities for the year ended December 31, 2019 was $9,509,952 (2018 – $1,773,281), mainly comprised of net proceeds of $1,7 million raised from the $0.15 round of financing which closed in January 2019, $4.25 million net proceeds raised from the Offering which closed in April and May 2019; $3 million proceeds received from the Bridge Loan Facility, and advances of $600,000 in the form of promissory notes. In 2018, the financing activities primarily comprised of proceeds from the concurrent financing of $1,032,918 net of share issue costs of $80,189, cash acquired in the RTO Transaction of $190,901, proceeds from issuance of convertible debentures for $400,000 and proceeds from warrant exercises of $257,465.

Net cash used in investing activities for the year ended December 31, 2019 was $7,318,737 (2018 – $774,100). The use of funds was primarily attributed to over $7 million invested into the Pharmadrug Acquisition, $133,610 advances made for the CannabiSendak investment and $96,525 advances made to HolyCanna. In 2018, the funds were paid as advances for the HolyCanna and CannbiSendak investments, which aligned with the Company's expansion strategy focusing in Israel as a pipeline into the Eurozone at the time. The Company had also advanced capital contribution of $133,062 to the Sun Valley Clinics in 2018.

Working Capital and Liquidity Outlook

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

As at December 31, 2019, the Company had current assets of $340,934 (December 31, 2018 – $528,109), including cash of $73,677 (December 31, 2018 – $155,117) to settle current liabilities of $4,320,092 (December 31, 2018 – $1,053,756), for a working capital deficiency of $3,979,158 (December 31, 2018 – working capital deficiency of $525,647).

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

The Company's major capital expenditures during Fiscal 2019 consisted of the Pharmadrug Acquisition, which was primarily financed by the Company through private placements, the Share Exchange and the Bridge Loan Facility. In connection with the Bridge Loan Facility, the Company was able to negotiate an extension on the Maturity Date in exchange for a restructuring fee.

Management is actively monitoring cash forecasts and managing performance against its forecasts. Management understands that the Company is dependent on additional capital by way of financing in 2020, and is closing in on new capital despite the recent negative market performance noted from the cannabis sector in general.

Capital Management

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the development of its planned business activities. The Board 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.

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.

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	**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.

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 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

On January 28, 2019, the Company issued the Notes in the principal amount of $600,000, bearing interest at 2% per month and due on March 28, 2019. 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.

Financial Instruments 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.

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.

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 I – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level I 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 I	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 I. There were no transfers between Levels 2 and 3 for recurring fair value measurements during the year.

Significant Accounting Judgments and Estimates

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

Business combination

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

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

Going concern

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

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities on the 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 an indefinite useful life and are tested for impairment annually.

Determination of cash generating units

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

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.

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.

(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.

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.

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).

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.

(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 ("IFRS 5"). 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.

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.

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 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 income 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.

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.

(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.

(r) 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.

(s) 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.

(r) 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 IFRIC 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.

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. 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. 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.

(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.

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 (CAD $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 of the Offering of Subscription Receipts.

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

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.

Sun Valley Clinics

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 the Purchase Sale Agreement with Empower, pursuant to which Empower acquired Pharmadrug's 30% interest in the Sun Valley Clinics. In consideration, Green Global received a promissory note issued by Empower in the principal amount of USD $125,000 (the "Promissory Note"). The Promissory Note bears interest at a rate of 4% per annum, matures on July 31, 2019 and may be prepaid at any time, in whole or in part, without penalty or premium.

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

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

Including the additional payment of USD $30,000, as the Promissory Note were unpaid as at August 31, 2019, the Company had recognized a total gain of $46,616 (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.

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 Company's consolidated statements of financial position.

Share Exchange Agreement

On April 17, 2019, Pharmadrug entered into the Share Exchange Agreement with FSD, 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 received from 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 by the Private Lender 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. 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.

Bridge Loan Facility

On May 9, 2019, the Company received the $3 million 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.

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. 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 the Extended Maturity Date of March 24, 2020. 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.

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.

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.

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 the My Green Fields Supply Agreement with Israel-based 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 the Canada House Supply Agreement with Canada House. Under the Canada House Supply Agreement, all medical cannabis will be sold through Pharmadrug GmBH'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.

Off-Balance Sheet Arrangements

As at December 31, 2019 and the date of this MD&A, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

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, d/b/a Super Smart. 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.

On May 25, 2020, the Company entered into 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. 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.

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 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.

Disclosure of Outstanding Share Data as of June 15, 2020

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited number of common shares	144,243,874 common shares
Securities convertible or exercisable into voting or equity		a) 60,639,102 warrants exercisable to acquire common shares of the Company, and b) 8,270,000 outstanding stock options, of which 8,145,000 stock options are exercisable into common shares of the Company.

Risk Factors

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

The following is a summary of risks that could be applicable to the business of the Company:

Limited operating history in cannabis industry

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

Because the Company has a limited operating history in an emerging area of business, investors should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

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

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

Immediate need for additional financing

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

Volatile financial and economic conditions

Current financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors, particularly in the cannabis sector. Such factors may impact the Company's ability to obtain financing in the future on favorable terms or obtain any financing at all. Additionally, global

conditions may cause a long-term decrease in asset values. If such volatility and market turmoil continue, the Company's operations and financial condition could be adversely impacted.

Non-compliance with cannabis laws and regulations

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

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

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

Regulatory approvals and permits

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

Cannabis regulations

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

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

Pharmadrug GmBH

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

Risks associated with increasing competition

The marijuana industry is highly competitive. The Company will compete with numerous other businesses in the medicinal cannabis industry, many of which possess greater financial and marketing resources and other resources than the Company. The marijuana business is affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, local competitive factors, cost and availability of raw material and labour, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations.

The Company expects to face additional competition from new entrants. If the number of legal users of marijuana increases in Germany, and/or other jurisdictions where the Company currently operates or plans to operate, the demand for cannabis-related products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

To remain competitive, the Company will require a continued high level of investment in acquisitions and investments, research and development, and marketing. The Company may not have sufficient resources to maintain such activities on a competitive basis which could adversely affect the business, financial condition and results of operations the Company.

The success of new and existing products and services is uncertain

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

New well-capitalized entrants may develop large-scale operations

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

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

Factors which may prevent realization of growth targets

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

- delays in obtaining, or conditions imposed by, regulatory approvals.
- facility design errors.
- environmental pollution.
- non-performance by third party contractors.
- increases in materials or labour costs.
- construction performance falling below expected levels of output or efficiency.
- breakdown, aging or failure of equipment or processes.
- contractor or operator errors.
- labour disputes, disruptions or declines in productivity.
- inability to attract sufficient numbers of qualified workers.
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

Constraints on marketing products

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

Risks inherent in an agricultural business

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

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

Reliance on third-party service providers

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

Reliance on management

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

Insurance and uninsured risks

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

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

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

Dependence on suppliers and skilled labor

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

Management of growth

Due to its early stage of development, Pharmadrug may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its personnel base. The inability of the Company to deal with this growth may have an adverse effect on the Company's business, financial condition, results of operations and prospects.

No dividends

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

Foreign currency exchange rates

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

Limited market for securities

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

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

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

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

Enforcement of proprietary rights

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

Infringement or misappropriation claims

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

Unfavourable publicity or consumer perception

Management of the Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the marijuana produced.

Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity

will be favorable to the marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or other publicity could have a material adverse effect on the demand of the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have such a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Company's products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consumer such products appropriately or as directed.

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

Internal controls

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

Product liability

As a distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of marijuana involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of marijuana alone or in combination with other medications or substances could occur. As a manufacturer, distributor and retailer of adult-use and medical marijuana, or in its role as an investor in or service provider to an entity that is a manufacturer, distributor and/or retailer of adult-use or medical marijuana, the Company may be subject to various product liability claims, including, among others, that the marijuana product caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

There can be no assurances that the Company will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products

or otherwise have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls cause unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant amount of sales. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's products were subject to recall, the image of that product and the Company could be harmed. Additionally, product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Liability for activity of employees, contractors and consultants

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

Ability to obtain and retain licenses and permits

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

Difficult to forecast demand

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the marijuana industry in Canada and Europe. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Disruption of business

Conditions or events including, but not limited to, those listed below could disrupt the Company's operations, increase operating expenses, resulting in delayed performance of contractual obligations or require additional expenditures to be incurred: (i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.; (ii) a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity (see also, "Public Health Crises, including COVID-19"); (iii) political instability, social and labour unrest, war or terrorism; or (iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road.

Public health crises

The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises beyond our control, including the current outbreak of COVID-19. On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a global health emergency. Many governments have likewise declared that the COVID-19 outbreak in their jurisdictions constitutes an emergency. Reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, business closures, quarantines, and a general reduction in consumer activity. While these effects are expected to be temporary, the duration of the business disruptions and related financial impact cannot be reasonably estimated at this time.

Such public health crises can result in volatility and disruptions in the supply and demand for various products and services, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect interest rates, credit ratings, credit risk and inflation. The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak. At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations and financial condition.

Disclosure of Internal Controls over Financial Reporting

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

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

Evaluation of disclosure controls and procedures

Due to the delays in filing its annual financial statements resulting from the increased complexity of the required reporting after the acquisitions completed in May 2019, the Company has recognized that it has certain internal control deficiencies relating to its financial reporting. The Company has begun an initiative to improve these internal controls going forward. The Company is in the process of engaging external consultants and additional internal accounting resources to meet the increased financial reporting complexities due to the recent international acquisitions and the numerous equity-based transactions.

Cautionary Note Regarding Forward-Looking Statements

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking statements are often identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking

statements herein include those relating to, without limitation: Pharmadrug's international expansion strategy and plans, including plans relating to those entities in which it has invested; the status of German laws with respect to cannabis; and Pharmadrug's financing plans and needs. Such statements are based on numerous assumptions believed by management to be reasonable in the circumstances, including among others that the Company will succeed with its German and eventual international expansion plans.

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

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

Management's Responsibility for Financial Information

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

The Audit Committee has reviewed Pharmadrug's consolidated financial statements and this MD&A with management of Pharmadrug. The Board of the Company has approved the consolidated financial statements and this MD&A on the recommendation of the Audit Committee.

June 15, 2020

Daniel Cohen
Chief Executive Officer