



PHARMADRUG INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(EXPRESSED IN CANADIAN DOLLARS)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management of Pharmadrug Inc.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

PHARMADRUG INC.

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	As at March 31, 2020 \$	As at December 31, 2019 \$
Assets			
Current Assets			
Cash		17,741	73,677
Other receivables	5	65,762	46,023
Inventories	6	87,682	110,477
Prepaid expenses and other assets	7	26,936	71,071
Note receivable	8	45,396	39,686
Total Current Assets		243,517	340,934
Other investments	9	-	440,052
Property and equipment	10	106,985	111,007
Intangible assets	11	5,238,009	5,198,779
Goodwill	11	4,582,028	4,287,713
Total Assets		10,170,539	10,378,485
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12	1,157,513	1,133,449
Loans payable	13	1,445,539	1,889,819
Notes payable	14	769,161	733,161
Lease payable – current	15	42,055	40,159
Convertible debentures	16	427,354	404,431
Income tax payable		2,792	119,073
Total Current Liabilities		3,844,414	4,320,092
Lease payable	15	90,209	54,284
Provisions	25	81,816	76,550
Deferred tax liabilities		1,703,303	1,469,461
Total Liabilities		5,719,742	5,920,387
Shareholders' Equity			
Share capital	17	13,215,765	13,215,765
Equity component of convertible debentures	16	63,491	63,491
Reserve for share-based payments	19	181,509	240,498
Reserve for warrants	20	1,656,243	1,656,243
Accumulated other comprehensive loss		(501,123)	(715,349)
Accumulated deficit		(11,554,416)	(11,482,682)
Equity Attributable to Shareholders of Pharmadrug Inc.		3,061,469	2,977,966
Non-Controlling Interest	4,22	1,389,328	1,480,132
Total Equity		4,450,797	4,458,098
Total Liabilities and Shareholders' Equity		10,170,539	10,378,485
Nature of operations and going concern	1		
Commitments	26		
Subsequent events	28		

Approved on behalf of the Board of Directors:

“Daniel Cohen” (signed)
Director

“Al Quong” (signed)
Director

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

PHARMADRUG INC.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

	Notes	2020	2019
		\$	\$
Revenue			
Sales revenue		178,615	-
Cost of goods sold	6	(140,306)	-
Gross Profit		38,309	-
Expenses			
Management, consulting fees and salaries	21	98,936	195,000
Professional fees	21	127,019	184,091
Office and general		83,447	3,265
Amortization of property and equipment	10	11,560	-
Amortization of intangible assets	11	302,175	-
Filing fees		9,235	14,918
Travel and promotion		7,254	124,600
Share-based compensation	19	3,418	56,399
		(643,044)	(578,273)
Loss before Other Income		(604,735)	(578,273)
Other Income (Expenses)			
Foreign exchange gain (loss)		183,503	(30,352)
Realized gain on disposals of investments	9	741,375	-
Unrealized loss on investments	9	(440,052)	-
Finance costs	13,14,15,16	(105,036)	(39,111)
Fair value change in derivative liability	16(a)	-	(222,043)
		379,790	(291,506)
Net Loss		(224,945)	(869,779)
Other Comprehensive Income (Loss)			
Exchange gain (loss) on translation of foreign operations		214,226	(34,923)
Net Loss and Comprehensive Loss		(10,719)	(904,702)
Total Net Loss Attributable to:			
Shareholders of Pharmadrug Inc.		(134,141)	(869,779)
Non-Controlling Interest	22	(90,804)	-
Net Loss		(224,945)	(869,779)
Weighted Average Number of Outstanding Shares			
- Basic and diluted		83,302,274	36,919,189
Loss per Share			
- Basic and diluted		(0.003)	(0.024)

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

PHARMADRUG INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Notes	2020	2019
		\$	\$
<u>Operating Activities</u>			
Net loss for the period		(224,945)	(869,779)
Adjustments for non-cash items:			
Share-based compensation	19	3,418	56,399
Amortization of property and equipment	10	11,560	-
Amortization of intangible assets	11	302,175	-
Realized gains on disposals of investments	9	(741,375)	-
Unrealized loss on investments	9	440,052	-
Fair value change in derivative liability	16(a)	-	222,043
Finance costs	13,14,15,16	104,301	39,147
Foreign exchange gain		-	17,166
		(104,814)	(535,024)
Net change in non-cash working capital items:			
Other receivables	5	(19,739)	(28,102)
Inventories	6	22,795	-
Prepaid expenses and other assets	7	44,135	45,914
Accounts payable and accrued liabilities	12	24,063	51,764
Income tax payable		(116,281)	-
Cash Flows used in Operating Activities		(149,841)	(465,448)
<u>Financing Activities</u>			
Proceeds from private placement	17	-	1,724,100
Share issue costs	17	-	(38,324)
Proceeds received on subscriptions	18	-	1,983,130
Commissions paid on subscriptions	18	-	(157,428)
Interest payment made on debentures	16	-	(27,814)
Proceeds from notes payable	14	-	600,000
Proceeds from loan from arm's length party	14	250,000	-
Lease payments	15	(10,208)	-
Exercise of warrants	17	-	619
Cash Flows provided by Financing Activities		239,792	4,084,283
<u>Investing Activities</u>			
Pre-acquisition advances made to Pharmadrug GmBH	4	-	(3,060,100)
Advances made to acquisition target		-	(133,610)
Additions of intangible assets	11	(470)	-
Cash Flows used in Investing Activities		(470)	(3,193,710)
Increase in cash		89,481	425,125
Effects of foreign exchange on cash		(145,417)	20,229
Cash, beginning of period		73,677	155,117
Cash, end of period		17,741	600,471
<u>Supplemental Information</u>			
Settlement of Bridge Loan Facility with sale of other investments	9,13	741,375	-

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

PHARMADRUG INC.

Unaudited Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Notes	Share Capital		Reserves				Accumulated Other Comprehensive Loss	Accumulated Deficit	Non- Controlling Interest	Total
		Number of Shares	Amount	Shares to be Issued	Equity Component of Debtentures	Reserve for Share-Based Payments	Reserve for Warrants				
Balance, December 31, 2018		31,072,567	3,899,096	6,356	63,491	170,078	673,058	(52,395)	(5,250,004)	-	(490,320)
Units and warrants issued on private placement	17,20	11,493,998	1,593,236	-	-	-	130,864	-	-	-	1,724,100
Broker warrants issued on private placement	20	-	-	-	-	-	7,224	-	-	-	7,224
Share issue costs	17,20	-	(35,415)	-	-	-	(10,133)	-	-	-	(45,548)
Subscription receipts issued on private placement	18	-	-	1,983,100	-	-	-	-	-	-	1,983,100
Broker warrants issued on private placement	18	-	-	(134,395)	-	-	134,395	-	-	-	-
Share issue costs	18	-	-	(157,428)	-	-	-	-	-	-	(157,428)
Issuance on conversion of debentures	16,17	2,000,000	491,454	-	-	-	-	-	-	-	491,454
Warrants exercised	17	4,125	619	-	-	-	-	-	-	-	619
Share-based compensation	19	-	-	-	-	56,400	-	-	-	-	56,400
Exchange gain on translating foreign operations		-	-	-	-	-	-	17,472	-	-	17,472
Net loss for the period		-	-	-	-	-	-	-	(869,779)	-	(869,779)
Balance, March 31, 2019		44,570,690	5,948,990	1,697,633	63,491	226,478	935,408	(34,923)	(6,119,783)	-	2,717,294
Balance, December 31, 2019		83,302,274	13,215,765	-	63,491	240,498	1,656,243	(715,349)	(11,482,682)	1,480,132	4,458,098
Share-based compensation	19	-	-	-	-	3,418	-	-	-	-	3,418
Options cancellation	19	-	-	-	-	(62,407)	-	-	62,407	-	-
Exchange gain on translating foreign operations		-	-	-	-	-	-	214,226	-	-	214,226
Net loss for the period		-	-	-	-	-	-	-	(134,141)	(90,804)	(224,945)
Balance, March 31, 2020		83,302,274	13,215,765	-	63,491	181,509	1,656,243	(501,123)	(11,554,416)	1,389,328	4,450,797

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

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Pharmadrug Inc. (“Pharmadrug” or the “Company”) is focused on building an international network of vertically integrated cannabis assets. Pharmadrug is targeting a downstream business in the legalized medical cannabis sector in the European markets. On May 17, 2019, the Company acquired an 80% equity interest in Pharmadrug Production GmBH (“Pharmadrug GmBH”), a pharmaceutical distribution company in Germany (see Note 4 for details). The Company’s common shares are listed on the Canadian Securities Exchange under the trading symbol “BUZZ”.

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

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

For the three months ended March 31, 2020, the Company incurred a net loss of \$224,945 and negative cash flow from operations of \$149,841, and as at March 31, 2020, the Company had a working capital deficiency of \$3,600,897 (December 31, 2019 – working capital deficiency of \$3,979,158), an accumulated deficit of \$11,554,416 (December 31, 2019 – deficit of \$11,482,682). The Company’s ability to continue as a going concern is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. The unpredictability of the cannabis business, a limited working capital and the potential impact of the COVID-19 pandemic represent material uncertainties which may cast significant doubt upon the Company’s ability to continue as a going concern.

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

2. Basis of Presentation

(a) Statement of Compliance

The Company’s unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 – Interim Financial Reporting. Accordingly, they do not include all of the information and disclosures required by IFRS for annual financial statements.

These unaudited condensed interim consolidated financial statements were reviewed, approved and authorized for issuance by the Board of Directors (the “Board”) of the Company on July 13, 2020.

(b) Basis of Measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

(c) Basis of Consolidation

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

The unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

(d) Functional Currency

These unaudited condensed interim consolidated financial statements are presented in Canadian dollars (\$) or “CAD”), which is the Company’s functional currency. The functional currency is the currency of the primary economic environment in which the Company operates.

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

(e) Significant Accounting Judgments and Estimates

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

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.

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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Fair value of financial assets and financial liabilities

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

Estimated useful lives, amortization of property and equipment and amortization of intangible assets

Amortization of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts which take into account factors such as economic conditions, market conditions and the useful lives of assets.

Amortization of intangible assets is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgment. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions.

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. Supply relationships, licenses and permits have a useful life estimated to be five years.

Determination of cash generating units

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

Impairment

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

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Goodwill

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 or group of CGUs to which goodwill has been allocated must be valued using present value techniques. The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves significant estimates and assumptions. 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.

Income taxes

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

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

In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies

The accounting policies applied by the Company in these unaudited condensed interim consolidated financial statements are the same as noted in the Company's audited consolidated financial statements for the year ended December 31, 2019, unless otherwise noted below.

(a) Adoption of New Accounting Standards

The Company adopted the following new standards and amendments, effective January 1, 2020. These changes were made in accordance with the applicable transitional provisions:

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 its consolidated financial statements.

Conceptual Framework

On March 29, 2018, the IASB issued its revised Conceptual Framework for Financial Reporting. The revised Conceptual Framework does not constitute a substantial revision from the previously effective guidance, but does provide additional guidance on topics not previously covered such as presentation and disclosure. This amendment is effective on January 1, 2020. The Company intends to adopt this amendment in its consolidated financial statements for the annual period beginning January 1, 2020. The adoption of the revised Conceptual Framework for Financial Reporting is not expected to have a material impact on the Company's consolidated financial statements.

4. 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 (the “Pharmadrug Acquisition”), for a final purchase price of €4.6 million settled in cash (\$7,101,848). The seller, Anquor Pharmaceuticals Ug (“Anquor”), retains a 20% interest in Pharmadrug GmbH.

In addition, the Company had advanced €400,000 (approximately \$601,520) to Pharmadrug GmbH as a shareholder loan to assist the German subsidiary to maintain appropriate levels of working capital. The Share Purchase Agreement provides that Anquor will be entitled to receive an earn-out payment of €400,000 if the total revenues of the pharmaceutical tender business of Pharmadrug GmbH for the 2019 financial year are 90% or more of the total revenues of that business segment for the 2018 financial year. The earn-out, if any, will be due and payable to Anquor on March 1, 2020. As at December 31, 2019, the earn-out had not been achieved. Thus, 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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. Business Combination (continued)

The following table sets forth the allocation of the purchase price to the assets acquired, based on estimates of fair value. The allocation is subject to adjustments, specifically related to the valuation of intangible assets acquired:

Purchase Price Consideration Paid	
	\$
Cash	7,101,848
<hr/>	
Non-Controlling Interest	
	\$
Non-Controlling interest	1,729,370
<hr/>	
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

5. Other Receivables

	March 31,	December 31,
	2020	2019
	\$	\$
Sales tax receivables	17,025	19,425
Trade receivables	41,065	19,066
Other receivables	7,672	7,532
	65,762	46,023

6. Inventories

As at March 31, 2020, the Company's inventories consisted of finished goods held with Pharmadrug GmbH in Germany. For the three months ended March 31, 2020, inventories of \$140,306 were expensed and included in cost of goods sold (2019 – \$nil).

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

7. Prepaid Expenses and Other Assets

	March 31, 2020	December 31, 2019
	\$	\$
Advances made to suppliers	-	4,639
Prepaid insurance	17,644	46,315
Other prepaid expenses and assets	9,292	20,117
	26,936	71,071

8. Note Receivable

In October 2018, management approved the sale of the Company's 30% interest in the Sun Valley Clinics (the "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 Clinics, the investments were no longer a significant part of Pharmadrug's operations, as the Company began exploring the European cannabis markets.

On April 30, 2019, the Company, through Green Global, entered into a definitive purchase and sale agreement (the "Purchase Sale Agreement") with Empower Healthcare Assets Inc. ("Empower"), a Delaware corporation and wholly-owned subsidiary of Empower Clinics Inc., pursuant to which Empower acquired Pharmadrug's 30% interest in the Sun Valley Clinics. As 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 Clinics during the year ended December 31, 2019.

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 was recorded by the Company on the Promissory Note during the year ended December 31, 2019.

As at March 31, 2020, the Promissory Note was valued at the amortized cost of \$45,396, including accrued interest of \$4,254.

9. Other Investments

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

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

9. Other Investments (continued)

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

The Share Exchange Agreement governing the Share Exchange contains adjustment provisions that depend on the price of the FSD Shares at the end of the statutory hold period. If the volume weighted average trading price (the “VWAP”) of FSD Shares is lower than the issuance price as of the hold period expiry date, FSD will issue the Company additional number of FSD shares.

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

On September 19, 2019, FSD issued an additional 12,440,298 common shares of FSD (the “FSD Additional Shares”) to the Company as part of the make-whole provision, subject to the applicable statutory hold period. As the FSD Additional Shares were under the make-whole provision, they were assigned a cost of \$nil. Upon the expiry of the statutory hold period on the FSD Additional Shares, the Company may sell the FSD Additional Shares for gross proceeds that would be further used to repay the outstanding balance of the Bridge Loan Facility.

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

On January 13, 2020, the remaining 61,892 post-Consolidation FSD Additional Shares were sold for proceeds of \$741,375, which was applied as a partial repayment on the Bridge Loan Facility. For the three months ended March 31, 2020, a realized gain of \$741,375 (2019 – \$nil), and an unrealized loss of \$440,052 (2019 – \$nil) were recorded on the disposition of the FSD Additional Shares.

10. Property and Equipment

	Right-of-use assets	Office equipment	Total
	\$	\$	\$
Cost at:			
December 31, 2019	114,566	32,774	147,340
Effects of foreign exchange on translation	7,581	2,169	9,750
March 31, 2020	122,147	34,943	157,090
Accumulated amortization at:			
December 31, 2019	26,403	9,930	36,333
Amortization	9,911	1,649	11,560
Effect of foreign exchange on translation	1,955	257	2,212
March 31, 2020	38,269	11,836	50,105
Net book value:			
December 31, 2019	88,163	22,844	111,007
March 31, 2020	83,878	23,107	106,985

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

11. Intangible Assets and Goodwill

	Supply relationship	Licenses and permits	Goodwill	Total
	\$	\$	\$	\$
December 31, 2019	344,335	4,854,444	4,287,713	9,486,492
Additions of intangible assets	-	470	-	470
Amortization	(20,015)	(281,694)	-	(301,709)
Effects of movements in foreign exchange	22,612	317,857	294,315	634,784
March 31, 2020	346,932	4,891,077	4,582,028	9,820,037

12. Accounts Payable and Accrued Liabilities

	March 31, 2020	December 31, 2019
	\$	\$
Trade payables	602,971	529,219
Accrued liabilities	554,542	604,230
	1,157,513	1,133,449

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

13. Loans Payable

Bridge Loan Facility

On May 9, 2019, the Company received a \$3 million bridge facility (the “Bridge Loan Facility”) from the Lender, for which the proceeds were applied on closing of the Pharmadrug Acquisition. The Bridge Loan Facility bears interest at a rate of 18% per annum and matured on September 24, 2019 (the “Maturity Date”). To secure the Bridge Loan Facility, the Company: (i) entered into a general security agreement (“GSA”) with the Lender, (ii) granted the Lender exclusive control over the FSD Shares, and (iii) granted the Lender a power of attorney or trading authority in respect of the securities of FSD.

On August 19, 2019, the FSD Shares were sold and the proceeds were applied as a partial repayment of \$1,374,715 to the Lender, on the principal amount of the Bridge Loan Facility.

On October 3, 2019, the Bridge Loan Facility was amended to extend the maturity for a further six months to March 24, 2020 (the “Extended Maturity Date”). In connection to the Extended Maturity Date, the Company also agreed to pay the Lender a restructuring fee of \$180,000, payable in cash or in shares at the option of the Lender, and to also issue to the Lender additional shares having a value equal to 20% of the net proceeds from the sale of the FSD Additional Shares based on Pharmadrug’s share price. As at March 31, 2020, the restructuring fee was included in accounts payable and accrued liabilities.

On January 13, 2020, the remaining 61,892 post-Consolidation FSD Shares were sold and the proceeds of \$741,375 were applied as a partial repayment on the principal amount of the Bridge Loan Facility.

As at March 31, 2020, the total outstanding balance under the Bridge Loan Facility was \$1,192,740 (December 31, 2019 – \$1,889,819), including accrued interest of \$308,829 (December 31, 2019 – \$264,544). The remaining principal amount and accrued interest on the Bridge Loan Facility is due and payable in full by the Company on the Maturity Date.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

13. Loans Payable (continued)

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 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 due on the earlier of: (i) the closing of a proposed transaction, and (ii) 180 days following the termination of the non-binding LOI. Subsequent to period-end, the parties had mutually terminated the non-binding LOI.

As at March 31, 2020, the outstanding balance under the Private Loan was 252,800, including accrued interest of \$2,800.

14. Notes Payable

On January 28, 2019, the Company issued promissory notes (the “Notes”) in the principal amount of \$600,000, bearing interest at 2% per month and due on March 28, 2019. \$400,000 were advanced by the Chief Executive Officer (“CEO”) and a former officer of the Company, with the remaining balance being advanced from an arm’s length third-party.

As at March 31, 2020, the total outstanding balance under the Notes was \$769,161 (December 31, 2019 – \$733,161), including accrued interest of \$169,161 (December 31, 2019 – \$133,161). The Notes are payable on demand.

15. Lease Payable

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

- (i) A lease for its office in Rostock, Germany expiring in June 2022.
- (ii) A lease for office equipment expiring in December 2023.
- (iii) A lease for a vehicle expiring in February 2022; and
- (iv) A lease for its warehouse expiring in December 2020, which has not been recognized due to the short-term nature and low value of the lease.

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

	Buildings and leaseholds	Office equipment	Total
	\$	\$	\$
Cost at:			
December 31, 2019	81,515	33,051	114,566
Effects of foreign exchange on translation	5,394	2,188	7,582
March 31, 2020	86,909	35,239	122,148
Accumulated amortization at:			
December 31, 2019	18,786	7,617	26,403
Depreciation	7,163	2,748	9,911
Effect of foreign exchange on translation	1,903	53	1,956
March 31, 2020	27,852	10,418	38,270
Net book value:			
December 31, 2019	62,729	25,434	88,163
March 31, 2020	59,057	24,821	83,878

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

15. Lease Payable (continued)

The following table reflects the reconciliation of the lease payable under the German operations as at March 31, 2020:

	\$
Lease liability, December 31, 2019	94,443
Lease payments	(10,208)
Interest on lease obligations	223
Effects of foreign exchange	47,806
Total lease liability, March 31, 2020	132,264
Current	42,055
Non-current	90,209
	132,264

The lease liability is secured by the related underlying asset. Future minimum lease payments as at March 31, 2020 are as follows:

	Total	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years
	\$	\$	\$	\$	\$
Lease payments	90,749	42,706	37,773	8,880	1,390
	90,749	42,706	37,773	8,880	1,390

16. Convertible Debentures

(a) Series B Debentures

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

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

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

As at March 31, 2019, the derivative liability was valued at \$215,800 and a loss of \$222,043 was included in fair value change in derivative liability for the three months ended March 31, 2019.

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

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

16. Convertible Debentures (continued)

(b) Unsecured Debentures

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

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

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

The following table reflects the continuity of convertible debentures as at March 31, 2020:

	\$
Balance, December 31, 2019	404,431
Interest and accretion expense	22,923
Balance, March 31, 2020	427,354

17. Share Capital

Authorized share capital

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

Common shares issued and outstanding as at March 31, 2020 are as follows:

	March 31, 2020	December 31, 2019
	\$	\$
Issued: 83,302,274 common shares (December 31, 2019 – 83,302,274)	13,215,765	13,215,765

Share capital transactions for the three months ended March 31, 2020

There were no share capital transactions during the three months ended March 31, 2020.

Share capital transactions for the three months ended March 31, 2019

On January 10, 2019, the Company closed a non-brokered private placement (the “Private Placement”) of 11,493,998 Units at a price of \$0.15 per Unit, for gross proceeds of \$1,724,100. Each Unit is comprised of one common share of the Company and one-half (1/2) of a common share purchase warrant exercisable at \$0.25 for a period of 24 months from closing. In connection with the Private Placement, the Company issued 122,160 Finder’s Warrants and paid cash commissions of \$18,324. Each Finder’s Warrant is exercisable into one common share of the Company at a price of \$0.25 for a period of 24 months from closing (see Note 20 for details).

On January 15, 2019, the Company issued 2,000,000 common shares as a result of the conversion of \$300,000 of principal of the Series B Debentures at the conversion price of \$0.15 (see Note 16(a)).

During the three months ended March 31, 2019, 4,125 common shares were issued as a result of the exercise of warrants for cash proceeds of \$619.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

18. Shares to be Issued

On February 27, 2019, the Company closed the first tranche (“Tranche 1”) of an offering of 8,726,954 Subscription Receipts (the “Offering”) at an issue price of \$0.22 per Subscription Receipt, for gross proceeds of \$1,919,930. Upon satisfaction by the Company of certain Escrow Release Conditions (defined hereafter), each Subscription Receipt entitles the holder to receive, without any further action on the part of the holder or payment of any additional consideration, one unit of the Company consisting of one common share and one-half (1/2) of a warrant, with each warrant exercisable at \$0.28 into one common share for a period of 24 months from the date of satisfaction of the Escrow Release Conditions. In connection with Tranche 1 of the Offering, the Company paid \$157,428 in cash commissions and issued 610,888 Finder’s Warrants (see Note 20 for details).

Escrow Release Conditions

On closing of the Offering, subscription proceeds were placed in escrow with Capital Transfer Agency, ULC, the Company’s transfer agent, on behalf of the subscribers of the Subscription Receipts, to be released to the Company upon satisfaction of certain Escrow Release Conditions, which included, among other things, that:

- (i) All conditions prior to the completion of the Pharmadrug Acquisition have been satisfied or waived in accordance with the terms of the Pharmadrug Acquisition Agreement.
- (ii) There have been no material amendments of the terms and conditions of the Pharmadrug Acquisition Agreement which have not been approved by Mackie Research Capital Corporation, the Lead Agent of the Offering (the “Lead Agent”).
- (iii) The Company has received all necessary regulatory and other approvals regarding the Offering and the Pharmadrug Acquisition.
- (iv) The Company has disposed of all its interests in cannabis operations located in the US.
- (v) The Lead Agent is satisfied with its due diligence review with respect to the business, assets, financial condition, operating results, affairs and prospects of the Company; and
- (vi) The Company has delivered all required documents as requested by the Lead Agent.

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

As at March 31, 2019, the Company had also received proceeds of \$63,200 in relation to subscription funds on the second tranche of the Offering, which closed on April 17, 2019.

19. Reserve for Share-Based Payments

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

As at March 31, 2020, the Company had 5,560,227 common shares available for issuance under the Option Plan.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

19. Reserve for Share-Based Payments (continued)

The following summarizes the stock option activity for the three months ended March 31, 2020 and 2019:

	March 31, 2020		March 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of period	3,120,000	0.20	2,250,000	0.16
Granted	-	-	550,000	0.235
Cancelled	(350,000)	0.31	-	-
Outstanding, end of period	2,770,000	0.19	2,800,000	0.18
Exercisable, end of period	2,645,000	0.19	2,475,000	0.16

Option grants for the three months ended March 31, 2020

There were no option grants during the three months ended March 31, 2020.

Option grants for the three months ended March 31, 2019

On January 17, 2019, the Company granted 200,000 options to a former director at an exercise price of \$0.235, expiring on January 17, 2021. The options vested immediately on grant. The Company also granted 350,000 options to a consultant under the same terms and expiry, of which 200,000 options vested immediately on grant, while the remaining 150,000 options vested on April 17, 2019. The options were valued using Black-Scholes with the following assumptions: expected volatility of 77%, expected dividend yield of 0%, risk-free interest rate of 1.90% and an expected life of two years. The grant date fair value attributable to these options of \$45,157, of which \$42,831 was recorded as share-based compensation in connection with the vesting of options during the three months ended March 31, 2019.

The following table summarizes information of stock options outstanding and exercisable as at March 31, 2020:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	\$	Years
August 16, 2020	1,020,000	1,020,000	0.10	0.38
January 17, 2021	350,000	350,000	0.235	0.80
May 24, 2021	500,000	500,000	0.22	1.15
May 28, 2021	600,000	475,000	0.22	1.16
September 24, 2021	300,000	300,000	0.31	1.48
	2,770,000	2,645,000	0.19	0.86

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

20. Reserve for Warrants

The following summarizes the warrant activity for the three months ended March 31, 2020 and 2019:

	March 31, 2020		March 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of period	25,213,698	0.30	7,012,172	0.41
Issued from private placement of units	-	-	5,869,159	0.25
Issued from offering of subscription receipts	-	-	610,888	0.25
Underlying warrants exercised	-	-	(4,125)	0.15
Outstanding, end of period	25,213,698	0.30	13,488,094	0.34

Warrant issuances for the three months ended March 31, 2020

There were no warrant issuances during the three months ended March 31, 2020.

Warrant issuances for the three months ended March 31, 2019

On January 10, 2019, the Company issued 5,746,999 warrants in conjunction with the Private Placement, as disclosed in Note 17. Each warrant is exercisable at \$0.25 to purchase one common share of the Company for 24 months after closing of the Private Placement. The grant date fair value of the warrants issued was estimated to be \$243,264 using Black-Scholes with the following assumptions: expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.91% and an expected life of two years.

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

On February 27, 2019, the Company closed Tranche 1 of the Offering of 8,726,954 Subscription Receipts, as disclosed in Note 18 and issued 4,363,479 warrants. Each warrant is exercisable at \$0.28 into one common share of the Company for a period of 24 months from the Escrow Release Date. On May 9, 2019, the Company satisfied all Escrow Release Conditions. The grant date fair value of the warrants issued was estimated to be \$268,280 using Black-Scholes with the following assumptions: expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.58% and an expected life of two years.

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

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

20. Reserve for Warrants (continued)

The following table summarizes information of warrants outstanding as at March 31, 2020:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	\$	Years
April 21, 2020	1,052,996	0.20	0.06
August 9, 2020	2,301,873	0.75	0.36
August 9, 2020	78,015	0.49	0.36
August 16, 2020	2,350,000	0.15	0.38
August 16, 2020	467,000	0.10	0.38
January 10, 2021	5,869,159	0.25	0.78
April 17, 2021	813,743	0.22	1.05
May 9, 2021	12,280,912	0.28	1.11
	25,213,698	0.30	0.83

21. 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 three months ended March 31, 2020 and 2019 were as follows:

	2020	2019
	\$	\$
Consulting fees	-	75,000
Professional fees	23,500	22,500
Share-based compensation	-	16,421
	23,500	113,921

During the three months ended March 31, 2020, Daniel Cohen, the CEO of the Company, did not charge the Company for services provided to the Company (2019 – \$30,000). As at March 31, 2020, \$62,150 (December 31, 2019 – \$65,606) 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 three months ended March 31, 2020, Howard Brass, the former Chief Operating Officer (“COO”) of the Company, also did not charge the Company for services provided to the Company (2019 – \$30,000). As at March 31, 2020, \$62,150 (December 31, 2019 – \$62,150) 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 three months ended March 31, 2020, the Company incurred professional fees of \$23,500 (2019 – \$22,500), from Branson Corporate Services Ltd. (“Branson”), where Keith Li, the Chief Financial Officer (“CFO”) and Corporate Secretary of the Company is employed. Branson is party to a management services agreement, for providing CFO services to the Company, as well as other accounting and administrative services. As at March 31, 2020, \$84,680 (December 31, 2019 – \$70,620) owing to Branson was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

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

Key management personnel compensation (continued)

During the three months ended March 31, 2019, David Posner, the former Chairman of the Company, charged consulting fees of \$15,000 for services provided to the Company. As at March 31, 2020, \$77,950 (December 31, 2019 – \$77,950) 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.

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 three months ended March 31, 2019. On August 14, 2019, these options were cancelled.

Notes payable

As per disclosed in Note 14, the CEO and the former COO had advanced \$200,000 each to the Company under the Notes on January 28, 2019. As at March 31, 2020, the total outstanding balance owing to the CEO and the former COO under the Notes was \$512,774 (December 31, 2019 – \$488,774), including accrued interest of \$112,774 (December 31, 2019 – \$88,774). The Notes are payable on demand.

22. Non-Controlling Interest

On completion of the Pharmadrug Acquisition, the 20% interest attributable to Anquor is presented as “non-controlling interest” within shareholders’ equity on the consolidated statements of financial position. For the three months ended March 31, 2020, the Company recorded a net loss of \$90,804 (2019 – \$nil) attributable to the non-controlling interest.

23. 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, equity component of convertible debentures, reserves for share-based payments and warrants, accumulated other comprehensive loss and accumulated deficit. As at March 31, 2020, the Company’s capital consisted of an equity attributable to the shareholders of Pharmadrug Inc. of \$3,061,469 (December 31, 2019 – equity attributable to the shareholders of Pharmadrug Inc. of \$2,977,966).

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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

24. Financial Instrument Risks

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, other receivables and note 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.

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 March 31, 2020, the Company had a cash balance of \$17,741 (December 31, 2019 – \$73,677) to settle current liabilities of \$3,844,414 (December 31, 2019 – \$4,320,092).

As at March 31, 2020, the Company had the following contractual obligations:

	Less than 1	1 to 3 years	3 to 5 years	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,157,513	-	-	1,157,513
Loans payable	1,445,539	-	-	1,445,539
Notes payable	769,161	-	-	769,161
Convertible debentures	427,354	-	-	427,354
Total	3,799,567	-	-	3,799,567

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows for a rolling period of 12 months to identify financial requirements. 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.

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 March 31, 2020, 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 operations in Europe where there are financial instruments and transactions denominated in foreign currencies, notably in EUR. 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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

24. Financial Instrument Risks (continued)

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, other investments, accounts payables, loans payable, notes payable, lease payable and convertible debentures. The fair value of cash, other receivables, note 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 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at March 31, 2020, the Company's financial instruments carried at fair value consisted solely of cash, which have been classified as Level 1. There were no transfers between Levels 2 and 3 for recurring fair value measurements during the three months ended March 31, 2020.

25. 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 March 31, 2020, 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 March 31, 2020, 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 March 31, 2020, the Company had recorded a provision of approximately \$10,579 (€6,804) for the potential damages it is expected to pay out.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

25. Contingencies (continued)

Provisions (continued)

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 plus interest. The loan with Thor Investments dates back to March 2019. As at March 31, 2020, the Company had recorded a provision of approximately \$53,208 (€34,222) for the potential damages it is expected to pay out.

26. Commitments

Share exchange agreement

On April 17, 2019, the Company entered into the Share Exchange Agreement with FSD, whereby, among other things, FSD issued \$3 million of FSD Shares to the Company under the Share Exchange for \$3 million of Pharmadrug Shares (see Note 19 for details).

As part of the Share Exchange Agreement, Pharmadrug and FSD entered into a consulting agreement whereby the Company will assist FSD with obtaining EuGMP certification at the existing licensed facility of FSD. Pharmadrug GmbH also entered into a 5-year supply agreement (the “FSD Supply Agreement”) with FSD whereby, upon proper EuGMP certification, Pharmadrug GmbH will commit to purchase a total of 1,000 kilograms (“Kg”) over the first two years of Canadian produced cannabis product from FSD at a price of \$7.00 per gram FOB Germany (subject to downward adjustment should market exigencies dictate), provided that the product is saleable in the German market. The FSD Supply Agreement calls for Pharmadrug GmbH to commit to purchase 1,000 Kg per year for an additional three years at a price to be mutually determined by both parties at that time.

Supply agreements

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

On October 31, 2019, the Company through Pharmadrug GmbH, entered into a multi-year supply agreement (the “Canada House Supply Agreement”) with Canada House Wellness Group Inc. (“Canada House”). Under the Canada House Supply Agreement, all medical cannabis will be sold through Pharmadrug’s own ‘Cannabion’ brand. Terms for the first year are 250 Kg of dry flower or oil equivalent with a right of first refusal on another 250 Kg at EUR 4.00 per gram. Minimum quantities for the second year are 500 Kg of dry flower or oil equivalent with a right of first refusal on another 500 Kg. In following years, the Company will have access to up to 3,000 Kg of dry flower or oil equivalent per year at mutually agreed upon prices.

Canada House’s wholly-owned subsidiary Abba Medix Corp. (“Abba”) has a 22,000 square foot cultivation facility in Pickering, Ontario that received its Canadian Sales License on October 1, 2019. The Company will sponsor Abba in getting EuGMP certification and will also assist Abba in registering its strains with German regulators.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)

27. Segmented Information

As at March 31, 2020, the Company's operations comprise of a single reporting operating segment engaged in the distribution of medical cannabis in Germany. As at and for the three months ended March 31, 2020, the breakdown between operations in Canada and Germany are as follows:

Statement of Financial Position	Canada	Germany	Total
	\$	\$	\$
Current assets	95,939	147,578	243,517
Non-current assets	-	9,927,022	9,927,022
Total Assets	95,939	10,074,600	10,170,539
Current liabilities	3,662,674	181,740	3,844,414
Long-term liabilities	-	1,875,328	1,875,328
Total Liabilities	3,662,674	2,057,068	5,719,742
Statement of Loss	Canada	Germany	Total
	\$	\$	\$
Revenue	-	178,615	178,615
Cost of goods sold	-	(140,306)	(140,306)
Operating expenses	(150,940)	(492,104)	(643,044)
Other income (expenses)	380,013	(223)	379,790
Net Loss	229,073	(454,018)	(224,945)

28. Subsequent Events

Super Smart Transaction

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

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

On June 15, 2020, the Super Smart Transaction closed. Pursuant to the terms of the Super Smart 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 Super Smart 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 INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

28. Subsequent Events (continued)

Super Smart Transaction (continued)

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 Lam  lee Iron Ore Ltd. upon the completion of the Company’s reverse takeover transaction on August 9, 2018, which are exercisable at \$0.20, expired unexercised.

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

- (a) regulatory approval; and
- (b) either (i) an increase in the number of issued and outstanding shares of the Company such that the grant is permitted under terms of the Company’s 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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in Canadian Dollars)

28. Subsequent Events (continued)

Debt settlement

On July 9, 2020, the Company announced a proposed restructuring (the “Restructuring”) of certain of its outstanding indebtedness. Under the terms of the Restructuring, the outstanding \$400,000 principal amount of the Unsecured Debentures maturing in October 2020 with accrued interest of approximately \$66,411, and \$400,000 of the Notes with accrued interest of approximately \$139,209, will be exchanged for an aggregate of \$1,005,620 principal amount of 12% convertible debentures (“Replacement Debentures”) that mature on the third anniversary of their issuance and will be convertible into Units at the holder’s option at a deemed issue price of \$0.05 per Unit. Each Unit will be comprised of one Pharmadrug Share and one Pharmadrug Share purchase warrant with each such warrant being exercisable into one-half of one Pharmadrug Share at a price of \$0.07 per share at any time on or before the third anniversary of the issuance of the Replacement Debentures.

The Company anticipates that (i) the remaining \$200,000 principal amount of the Notes with approximately \$69,604 of accrued interest thereon and (ii) \$452,250 of accounts payable will be exchanged for Units at a deemed issue price of \$0.05 per Unit.