



PHARMADRUG INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 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 September 30, 2020 \$	As at December 31, 2019 \$
Assets			
Current Assets			
Cash		269,253	73,677
Receivables	5	202,787	46,023
Inventories	6	75,454	110,477
Prepaid expenses and other assets	7	104,070	71,071
Note receivable	8	-	39,686
Other investments	9	872,566	440,052
Total Current Assets		1,524,130	780,986
Property and equipment	10	82,932	111,007
Intangible assets	11	4,616,640	5,198,779
Goodwill	11	8,901,937	4,287,713
Total Assets		15,125,639	10,378,485
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12	619,973	1,133,449
Loans payable	13	-	1,889,819
Notes payable	14	-	733,161
Lease payable – current	15	70,757	40,159
Convertible debentures – current	16	-	404,431
Income tax payable		2,800	119,073
Total Current Liabilities		693,530	4,320,092
Lease payable	15	68,955	54,284
Convertible debentures	16	1,657,714	-
Provisions	24	82,063	76,550
Deferred tax liabilities		1,775,818	1,469,461
Total Liabilities		4,278,080	5,920,387
Shareholders' Equity			
Share capital	17	19,183,514	13,215,765
Equity component of convertible debentures	16	313,826	63,491
Reserve for share-based payments	18	789,482	240,498
Reserve for warrants	19	3,095,532	1,656,243
Accumulated other comprehensive loss		(452,941)	(715,349)
Accumulated deficit		(13,294,163)	(11,482,682)
Equity Attributable to Shareholders of Pharmadrug Inc.		9,635,250	2,977,966
Non-Controlling Interest	4,21	1,212,309	1,480,132
Total Equity		10,847,559	4,458,098
Total Liabilities and Shareholders' Equity		15,125,639	10,378,485
Nature of operations and going concern	1		
Contingencies	24		
Commitments	25		
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 and nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

	Notes	Three months ended September 30, 2020 \$	Three months ended September 30, 2019 \$	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
Revenue					
Sales revenue		137,322	271,291	508,265	572,658
Cost of goods sold	6	(101,361)	(204,623)	(385,059)	(306,522)
Gross Profit		35,961	66,668	123,206	266,136
Expenses					
Management, consulting fees and salaries	20	187,011	198,979	415,553	575,236
Professional fees	20	496,029	96,697	1,066,475	887,992
Office and general		35,730	59,991	135,657	61,903
Amortization of property and equipment	10	12,146	-	35,602	-
Amortization of intangible assets	11	337,606	298,571	930,618	454,320
Filing fees		11,927	5,184	30,329	43,964
Travel and promotion		3,830	61,320	19,968	279,322
Share-based compensation	17,18	300,523	13,642	751,041	521,795
Reversal on expected credit loss	8	(157,076)	-	(157,076)	-
		(1,227,726)	(734,384)	(3,228,167)	(2,824,532)
Loss before Other Income		(1,191,765)	(667,716)	(3,104,961)	(2,558,396)
Other Income (Expenses)					
Gain on sale of investments in joint venture		3,244	39,853	3,244	46,696
Realized (loss) gains on disposals of investments	9	-	(1,625,285)	741,375	(1,625,285)
Unrealized (loss) gains on investments	9	(77,594)	2,891,434	(517,646)	2,000,450
Finance costs	13,14,15,16	(111,040)	(25,774)	(340,275)	(314,075)
Fair value change in derivative liability	16(a)	-	-	-	(166,243)
Gain on settlement of debts	12,14,16,17	183,507	-	183,507	-
Other expenses		-	(103,649)	-	(168,396)
Foreign exchange gain (loss)		150,480	(246)	168,191	(96,275)
		148,597	1,176,333	238,396	(323,128)
Net (Loss) Income		(1,043,168)	508,617	(2,866,565)	(2,881,524)
Other Comprehensive Loss					
Exchange gain (loss) on translation of foreign		8,570	(27,893)	262,408	(49,777)
Net (Loss) Income and Comprehensive (Loss) Income		(1,034,598)	480,724	(2,604,157)	(2,391,301)
Total Net (Loss) Income Attributable to:					
Shareholders of Pharmadrug Inc.		(943,937)	829,915	(2,598,742)	(2,417,205)
Non-Controlling Interest	21	(99,231)	(321,298)	(267,823)	(464,319)
Net (Loss) Income		(1,043,168)	508,617	(2,866,565)	(2,881,524)
Weighted Average Number of Outstanding Shares					
- Basic and diluted		187,917,043	83,302,274	122,061,832	65,668,841
(Loss) Income per Share					
- Basic and diluted		(0.006)	0.006	(0.023)	(0.044)

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 and nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

	Notes	Three months ended September 30, 2020 \$	Three months ended September 30, 2019 \$	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
<u>Operating Activities</u>					
Net (loss) income for the period		(1,043,168)	508,617	(2,866,565)	(2,881,524)
Adjustments for non-cash items:					
Share-based compensation	17,18	300,523	13,642	751,041	521,795
Amortization of property and equipment	10	12,146	-	35,602	-
Amortization of intangible assets	11	337,606	298,571	930,618	454,320
Realized loss (gains) on disposals of investments	9	-	1,625,285	(741,375)	1,625,285
Unrealized loss (gains) on investments	9	77,594	(2,891,434)	517,646	(2,000,450)
Fair value change in derivative liability	16(a)	-	-	-	166,243
Finance costs	13,14,15,16	92,448	21,311	302,016	308,554
Gain on sale of investments in joint venture		(3,244)	(39,853)	(3,244)	(46,696)
Gain on settlements of debts	12,14,16,17	(183,507)	-	(183,507)	-
Reversal on expected credit loss	8	(157,076)	-	(157,076)	-
Other income		-	-	-	(6,356)
		(566,678)	(463,861)	(1,414,844)	(1,858,829)
Net change in non-cash working capital items:					
Receivables	5	(76,166)	234,216	(151,148)	(78,240)
Inventories	6	(73,697)	(30,704)	35,023	(104,106)
Prepaid expenses and other assets	7	(60,533)	63,726	(32,999)	203,341
Accounts payable and accrued liabilities	12	302,750	(6,588)	607,948	(666,256)
Provisions		-	(113,002)	-	(113,002)
Income tax payable		-	-	(116,331)	-
Cash Flows used in Operating Activities		(474,324)	(316,213)	(1,072,351)	(2,617,092)
<u>Financing Activities</u>					
Proceeds from private placement financings	17	200,000	-	200,000	6,464,100
Share issue costs	17	-	-	-	(38,350)
Commissions paid on financings	17	-	-	-	(487,615)
Interest payment made on debentures	16	-	-	-	(72,000)
(Repayment) proceeds from bridge loan facility	13	(1,481,158)	-	(1,481,158)	3,000,000
Net repayment on loans from third-party	13	-	-	(8,897)	-
Proceeds from advances from Interrobang	13	-	-	480,000	-
Proceeds from notes payable	14	-	-	-	600,000
Lease payments	15	(10,726)	-	(31,439)	-
Proceeds from exercise of options	17	-	-	-	26,000
Proceeds from exercise of warrants	17	-	-	-	38,119
Cash Flows (used in) provided by Financing Activities		(1,291,884)	-	(841,494)	9,530,254
<u>Investing Activities</u>					
Acquisition of to Pharmadrug GmBH	4	-	-	-	(7,101,848)
Cash acquired on business combination	4	-	-	-	618,498
Cash acquired on amalgamation with Interrobang	4	-	-	2,192,452	-
Advances made to acquisition targets		-	(96,525)	-	(230,135)
Purchases of property and equipment		-	(8,061)	-	(8,061)
Additions of intangible assets	11	-	(6,008)	(470)	(6,008)
Cash Flows (used in) provided by Investing Activities		-	(110,594)	2,191,982	(6,727,554)

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 and nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

	Notes	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
		\$	\$	\$	\$
Decrease (increase) in cash		(1,766,208)	(426,807)	278,137	185,608
Effects of foreign exchange on cash		(127,907)	(32,475)	(82,561)	23,760
Cash, beginning of period		2,163,368	823,767	73,677	155,117
Cash, end of period		269,253	364,485	269,253	364,485
Supplemental Information					
Bridge loan facility settled with proceeds on sale of other investments	9,13	-	-	741,375	-
Bridge loan facility settled with issuance of units	13,17	478,301	-	478,301	-
Debts settled with issuance of units	12,14	721,854	-	721,854	-
Debts settled through conversion of new debts	14,16	1,005,619	-	1,005,619	-

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 Shareholders' Equity

For the nine months ended September 30, 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 Debentures	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 placements	17,19	33,039,452	5,558,496	-	-	-	905,604	-	-	-	6,464,100
Broker warrants issued on private placements	19	-	-	-	-	-	496,022	-	-	-	496,022
Share issue costs	17,19	-	(452,423)	-	-	-	(382,405)	-	-	-	(834,828)
Issuance on conversion of debentures	16,17	4,000,000	897,520	-	-	-	-	-	-	-	897,520
Issuance on share exchange agreement	9,17	14,376,130	3,187,161	-	-	-	-	-	-	-	3,187,161
Shares issued for services	17	300,000	37,500	-	-	-	-	-	-	-	37,500
Share-based compensation	18	-	-	-	-	96,331	-	-	-	-	96,331
Exercise of options	17	260,000	39,000	-	-	(13,000)	-	-	-	-	26,000
Exercise of warrants	17	254,125	49,417	-	-	-	(11,298)	-	-	-	38,119
Expiry of warrants		-	-	-	-	-	(16,603)	-	16,603	-	-
NCI acquired on business combination	4	-	-	-	-	-	-	-	-	72,969	72,969
Reversal of shares to be issued		-	-	(6,356)	-	-	-	-	-	-	(6,356)
Exchange gain on translating foreign operations		-	-	-	-	-	-	2,618	-	-	2,618
Net loss for the period		-	-	-	-	-	-	-	(2,417,205)	(464,319)	(2,881,524)
Balance, September 30, 2019		83,302,274	13,215,767	-	63,491	253,409	1,664,378	(49,777)	(7,650,606)	(391,350)	7,105,312
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
Issuance on amalgamation transaction	4,17	44,000,000	2,860,000	-	268,624	-	1,531,974	-	-	-	4,660,598
Issuance on conversion of debentures	16,17	31,500,000	1,108,987	-	(168,958)	-	466,013	-	-	-	1,406,042
Units and warrants issued on private placements	17,19	2,666,667	110,494	-	-	-	89,506	-	-	-	200,000
Issuance on debt settlements	13,14,17,19	24,003,104	1,080,140	-	150,669	-	-	-	-	-	1,230,809
Issuance on share exchange agreement	9,17,19	9,333,333	745,128	-	-	-	-	-	-	-	745,128
Shares issued for services	17,20	1,800,000	63,000	-	-	-	-	-	-	-	63,000
Share-based compensation	18	-	-	-	-	688,041	-	-	-	-	688,041
Expiry and cancellation of options	18	-	-	-	-	(139,057)	-	-	139,057	-	-
Expiry of warrants	19	-	-	-	-	-	(648,204)	-	648,204	-	-
Exchange gain on translating foreign operations		-	-	-	-	-	-	262,408	-	-	262,408
Net loss for the period		-	-	-	-	-	-	-	(2,598,742)	(267,823)	(2,866,565)
Balance, September 30, 2020		196,605,378	19,183,514	-	313,826	789,482	3,095,532	(452,941)	(13,294,163)	1,212,309	10,847,559

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 nine months ended September 30, 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. The Company owns an 80% equity in Pharmadrug Production GmbH (“Pharmadrug GmbH”), a medical cannabis distributor in Germany. The Company also owns and operates an early-stage retail company focused on consolidating the psychedelic smartshop market in the Netherlands. The address of the Company’s registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada.

The Company’s common shares are listed on the Canadian Securities Exchange under the trading symbol “BUZZ”.

The business of medical cannabis and psychedelics involves a high degree of risk, and there is no assurance that any prospective project the medical cannabis industry and psychedelic domain 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 nine months ended September 30, 2020, the Company incurred a net loss of \$2,866,565 and negative cash flow from operations of \$1,072,351, and as at September 30, 2020, the Company had an accumulated deficit of \$13,294,163 (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 medical cannabis and psychedelics business, 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 November 30, 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 carried 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 nine months ended September 30, 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”), Pharmadrug GmbH from Germany, and Interrobang.

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 and Interrobang, (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 nine months ended September 30, 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 nine months ended September 30, 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 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 (“FVTPL”) 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 nine months ended September 30, 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 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 these amendments did not have any material impact on the unaudited condensed interim 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 had assessed that the adoption of the revised Conceptual Framework did not have any material impact on the unaudited condensed interim consolidated financial statements.

(b) Recent Accounting Pronouncements

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

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company is currently assessing the impact that the adoption of new standards or amendments will have on the unaudited condensed interim consolidated financial statements.

4. Business Acquisitions

Pharmadrug Acquisition

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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

4. Business Acquisitions (continued)

Pharmadrug Acquisition (continued)

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 (“IFRS 3”), and as such, has accounted for it in accordance with this standard, with the Company being the acquirer on the Acquisition Date.

The following table sets forth the allocation of the purchase price to the net identifiable assets acquired, based on estimates of fair value:

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 right-of-use 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

Super Smart Transaction

On May 25, 2020 and as amended on June 12, 2020, the Company entered into a definitive agreement (the “Amalgamation Agreement”) with Interrobang d/b/a 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, Interrobang d/b/a Super Smart became a wholly-owned subsidiary of the Company. Pursuant to the terms of the Amalgamation Agreement, each issued and outstanding share of Super Smart will be exchanged for one common share in the capital of Pharmadrug.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

4. Business Acquisitions (continued)

Super Smart Transaction (continued)

On June 15, 2020 (the “Super Smart Transaction Date”), the Super Smart Transaction closed. Pursuant to the terms of the Super Smart Transaction, each Super Smart share, warrant or finder’s warrants was exchanged for one equivalent security in the capital of Pharmadrug. Super Smart previously issued on May 23, 2020, 2,500 subscription receipts (the “Debentures Subscription Receipts”) for an outstanding principal amount of \$2,500,000 of senior secured convertible debentures (the “Super Smart Debentures”). Each Debentures Subscription Receipt entitles the holder to receive, without payment of any additional consideration or further action, and subject to adjustment, one 12% senior secured Super Smart Debenture automatically immediately prior to the completion of the Super Smart Transaction.

The Company determined that the Super Smart Transaction was a business combination in accordance to the definition of IFRS 3, and as such, has accounted for it in accordance with this standard, with the Company being the acquirer on the Super Smart Transaction Date.

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

Purchase Price Consideration Paid	
	\$
Fair value of common shares issued ⁽ⁱ⁾	2,860,000
Fair value of warrants issued ⁽ⁱⁱ⁾	1,531,974
Less: Effective settlement of an existing promissory note ⁽ⁱⁱⁱ⁾	(80,000)
	4,311,974
Net Identifiable Assets Acquired	
	\$
Cash	2,192,452
Sales tax receivable	5,616
Advances	400,000
Accounts payable and accrued liabilities	(25,020)
Debentures Subscription Receipts	(2,500,000)
Deferred tax liability	(67,164)
	5,884
	Goodwill
	4,306,090

Consideration paid consisted entirely of shares and warrants of the Company which were measured at the estimated fair value on the date of the Super Smart Transaction, as follows:

- (i) The fair value of the 44,000,000 common shares, issued to former Super Smart shareholders, was determined to be \$2,860,000 based on the closing share price of Pharmadrug on the Super Smart Transaction Date on June 15, 2020.
- (ii) The estimated fair value of the 32,000,000 warrants and 3,478,400 finders’ warrants as consideration are based on Black-Scholes with the following assumptions: current stock price – \$0.065 per share, expected dividend yield – 0%, expected volatility – 100%, risk-free interest rate – 0.27%, and an expected life of 2.99 – 3 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of the cannabis industry.
- (iii) At the time of the Super Smart Transaction, a non-interest-bearing promissory note of \$80,000 was owed by Pharmadrug to Super Smart (see Note 13). As a result of the Super Smart Transaction, the pre-existing relationship is effectively settled. Consideration transferred was reduced for the effective settlement of the promissory note due to Super Smart.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

5. Receivables

	September 30, 2020	December 31, 2019
	\$	\$
Sales tax receivables	124,025	19,425
Trade receivables	50,354	19,066
Other receivables	28,408	7,532
	202,787	46,023

6. Inventories

As at September 30, 2020, the Company's inventories consisted of finished goods held with Pharmadrug GmbH in Germany. For the nine months ended September 30, 2020, inventories of \$385,059 (2019 – \$306,522) were expensed and included in cost of goods sold.

7. Prepaid Expenses and Other Assets

	September 30, 2020	December 31, 2019
	\$	\$
Advances made to suppliers	-	4,639
Prepaid insurance	62,308	46,315
Other prepaid expenses and assets	41,762	20,117
	104,070	71,071

8. Note Receivable

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 wholly-owned subsidiary of Empower Clinics Inc., pursuant to which Empower acquired Pharmadrug's 30% interest in the Sun Valley Clinics (the "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 expected to be paid, as the Promissory Note was 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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

8. Note Receivable (continued)

On July 16, 2020, Empower settled the overdue balance of \$205,032 under the Promissory Note. In conjunction to its private placement offering which closed on July 16, 2020, Empower issued 4,100,634 units (“Empower Units”) at a price of \$0.05 per Empower Unit to the Company. Each Empower Unit is comprised of one common share in the capital of Empower (“Empower Shares”), and one common share purchase warrant (“Empower Warrants”) exercisable at \$0.12 per Empower Warrant, expiring on July 16, 2022. As a result of the settlement, the Company recorded a reversal of ECL of \$157,076 on the Promissory Note, and an additional gain of \$3,244 on its unaudited condensed interim consolidated statements of loss and comprehensive loss during the nine months ended September 30, 2020.

9. Other Investments

FSD Pharma Inc.

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 “FSD 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”).

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

The Share Exchange Agreement governing the FSD 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 of FSD Shares is lower than the issuance price as of the hold period expiry date, FSD will issue the Company an 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 the FSD 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 Additional 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 were applied as a partial repayment on the Bridge Loan Facility. During the nine months ended September 30, 2020, the Company recorded a realized gain of \$741,375 (2019 – a realized loss of \$1,625,285), and an unrealized loss of \$440,052 (2019 – unrealized gains of \$2,000,450) on the disposition of the FSD Additional Shares.

Empower

Upon receipt of the Empower Units on settlement of the Promissory Note as per disclosed in Note 8, the Empower Shares and Warrants were valued at \$205,032 and were classified at FVTPL. As at September 30, 2020, the Empower Shares and Warrants were measured at a total fair value of \$173,588. During the nine months ended September 30, 2020, the Company had recorded an unrealized loss of \$31,444 on the Empower Shares and Empower Warrants.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

9. Other Investments (continued)

Red Light Holland Corp.

On July 16, 2020, the Company entered into a share exchange agreement (the “RLH Share Exchange”) with Red Light Holland Corp. (“RLH”), an Ontario-based corporation positioned to engage in the production, growth and sale of a premium brand of magic truffles to the legal, recreational market within the Netherlands.

Under the terms of RLH Share Exchange, the Company issued 9,333,333 Units to RLH at a price of \$0.075 per Unit (see Notes 17 and 19 for more details), and RLH issued 4,242,424 units (the “RLH Units”) to Pharmadrug. Each RLH Unit is comprised of one common share in the capital of RLH (a “RLH Share”) and one RLH share purchase warrant (a “RLH Warrant”). Each RLH Warrant entitles the Company to purchase one additional RLH Share at an exercise price of \$0.26 for 48 months from issuance of the RLH Warrant, subject to an accelerated expiry option.

On completion of the RLH Share Exchange, the RLH Shares and RLH Warrants were valued at \$745,128 and were classified at FVTPL. As at September 30, 2020, the RLH Shares and Warrants were measured at a total fair value of \$698,978. During the nine months ended September 30, 2020, the Company had recorded an unrealized loss of \$46,150 on the RLH Shares and RLH Warrants.

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	8,233	2,355	10,588
September 30, 2020	122,799	35,129	157,928
Accumulated amortization at:			
December 31, 2019	26,403	9,930	36,333
Amortization	30,524	5,078	35,602
Effect of foreign exchange on translation	2,637	424	3,061
September 30, 2020	59,564	15,432	74,996
Net book value:			
December 31, 2019	88,163	22,844	111,007
September 30, 2020	63,235	19,697	82,932

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
Acquired on business acquisition (Note 4)	-	-	4,306,090	4,306,090
Additions of intangible assets	-	470	-	470
Amortization	(61,641)	(868,977)	-	(930,618)
Effects of movements in foreign exchange	23,080	324,929	308,134	656,143
September 30, 2020	305,774	4,310,866	8,901,937	13,518,577

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

12. Accounts Payable and Accrued Liabilities

	September 30, 2020	December 31, 2019
	\$	\$
Trade payables	406,378	529,219
Accrued liabilities	213,595	604,230
	619,973	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 matures 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 FSD shares.

On August 19, 2019, the FSD Shares were sold for \$1,374,715 and the proceeds were applied as a partial repayment 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 agreed to pay the Lender a restructuring fee of \$180,000 (the “Restructuring Fee”), 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.

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

On July 16, 2020, the Company repaid the full balance of the Bridge Loan Facility (the “Settlement”) through a combination of cash payment and issuance of common shares, comprised of: (i) a cash payment of \$1,481,158 to settle the total outstanding principal balance of \$883,910, accrued interest of \$356,561, the Restructuring Fee, related fees and expenses, and any harmonized sale tax (“HST”) outstanding under the Bridge Loan Facility; and (ii) the issuance of 9,566,014 common shares in the capital of Pharmadrug to satisfy in full other fees negotiated between the Company and the Lender, including:

- 2,965,499 common shares issued for a fee of \$148,275 (the “4-Month Hold Inducement Fee”).
- 385,515 common shares issued for \$19,275 in relation to the HST amount on the 4-Month Hold Inducement Fee.
- 5,500,000 common shares issued in full satisfaction of an advisory fee of \$275,000 (the “Advisory Fee”) in relation to a previously entered advisory agreement; and
- 715,000 common shares issued \$33,750 in relation to the HST amount on the Advisory Fee.

During the nine months ended September 30, 2020, the Company had recorded a gain on the Settlement of \$47,830 (2019 – \$nil) on its unaudited condensed interim consolidated statements of loss and comprehensive loss.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

13. Loans Payable (continued)

Private loan

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 letter of intent (“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. On May 21, 2020, the parties had mutually terminated the LOI.

On June 29, 2020, the Company repaid the Private Loan for \$258,897, including accrued interest of \$8,897.

Advances from Super Smart

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

On June 9, 2020, the Company also received advances of \$400,000 from Super Smart for working capital purposes.

On completion of the Super Smart Transaction, the unsecured promissory note and advances due to Super Smart had been eliminated on consolidation.

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 the former Chief Operating Officer (“Former COO”) of the Company, with the remaining balance being advanced from an arm’s length third-party.

On July 17, 2020, the Company completed a restructuring on certain of its outstanding indebtedness (the “Restructuring”), of which (i) the \$400,000 principal amount of the Notes owing to the CEO and the arm’s length third-party, plus accrued interest of \$139,209, were exchanged for an aggregate of \$1,005,620 principal amount of 12% convertible debentures (the “Replacement Debentures”) maturing on July 17, 2023 (see Note 16(d) for details), and (ii) the remaining \$200,000 principal amount of the Notes owing to the Former COO, plus accrued interest of \$69,604, were exchanged for 6,635,090 Units at a deemed price of \$0.05 per Unit. Each Unit is comprised of one common share and one-half (1/2) of a Warrant exercisable into one common share at \$0.07 per share at any time on or before July 17, 2023 (see Note 17 for details).

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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

15. Lease Payable (continued)

These leases under the German operations had been recognized as right-of-use 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	5,858	2,375	8,233
September 30, 2020	87,373	35,426	122,799
Accumulated amortization at:			
December 31, 2019	18,786	7,617	26,403
Amortization	22,060	8,464	30,524
Effect of foreign exchange on translation	2,202	435	2,637
September 30, 2020	43,048	16,516	59,564
Net book value:			
December 31, 2019	62,729	25,434	88,163
September 30, 2020	44,325	18,910	63,235

The following table reflects the reconciliation of the lease payable under the German operations as at September 30, 2020:

	\$
Lease liability, December 31, 2019	94,443
Lease payments	(31,439)
Interest on lease obligations	687
Effects of foreign exchange	76,021
Lease liability, September 30, 2020	139,712
Current	70,757
Non-current	68,955
	139,712

The lease liability is secured by the related underlying assets. Future minimum lease payments as at September 30, 2020 are as follows:

	Total	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years
	\$	\$	\$	\$	\$
Lease payments	68,967	40,484	26,097	1,988	398
	68,967	40,484	26,097	1,988	398

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

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.

On April 29, 2019, the remaining \$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 remaining debentures and the derivative liability balances of \$246,065 and \$160,000, respectively, were derecognized as a result. For the period from January 1, 2019 to the conversion date, a loss of \$166,243 was included in fair value change in derivative liability.

(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 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.

On July 17, 2020, the Company completed the Restructuring, of which a \$400,000 principal amount of the Unsecured Debentures, plus accrued interest of \$66,411 (see Note 14), were part of the exchange for an aggregate of \$1,005,620 principal amount of Replacement Debentures maturing on July 17, 2023 (see Note 16(d) for more details).

(c) Pharmadrug Debentures

On completion of the Super Smart Transaction, the Debentures Subscription Receipts were converted into the Super Smart Debentures, which were then 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. The Pharmadrug Debentures mature three years from the issuance date, on May 19, 2023 (the “Maturity Date”).

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

16. Convertible Debentures (continued)

(c) *Pharmadrug Debentures (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 is 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 common share of Pharmadrug (the “Pharmadrug Share”) and one-half (1/2) of a common 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, the Company will be able to cause the Pharmadrug Debentures to be converted into Units.

The Pharmadrug Debentures are compound financial instruments. On initial recognition, the residual value method was used to allocate the fair value of the debt and equity components. The fair value of the liability was calculated as \$2,231,376 using a discount rate of 18%. The residual proceeds of \$268,624 were allocated to the conversion option. Total transaction costs of \$371,864 were capitalized and have been allocated proportionately to the host liability and the equity components.

From the period from the completion of the Super Smart Transaction to September 30, 2020, holders had converted a combined total of \$1,575,000 principal amount of the Pharmadrug Debentures resulting in the issuance of 31,500,000 Units of the Company. On conversions, the Company reduced the carrying amount of the liability by \$1,397,128 and related equity component by \$168,958.

From the period from the completion of the Super Smart Transaction to September 30, 2020, the Company had recorded accretion expense on the Pharmadrug Debentures of \$8,915 which is included within finance costs.

(d) *Replacement Debentures*

On July 17, 2020, the Company completed the Restructuring on certain of its outstanding indebtedness.

Under the terms of the Restructuring, (i) the \$400,000 principal amount of the Unsecured Debentures plus accrued interest of \$66,411 (see Note 16(b)), and (ii) the \$400,000 principal amount of the Notes owing to the CEO and an arm’s length third-party plus accrued interest of \$139,209 (see Note 14), were exchanged for an aggregate of \$1,005,620 principal amount of the Replacement Debentures. The Replacement Debentures bear interest at a rate of 12% per annum, payable annually in arrears, and are due on July 17, 2023. The Replacement Debentures are convertible into Units of the Company at a price of \$0.05 per Unit. Each Unit is comprised of one common share and one-half (1/2) of a Warrant exercisable into one common share at \$0.07 per share at any time on or before July 17, 2023.

The Replacement 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 Replacement Debentures utilizing the effective interest rate method at a 19.7% discount rate.

During the nine months ended September 30, 2020, the Company had recorded accretion expense on the Replacement Debentures of \$32,006 which is included in finance costs on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

During the nine months ended September 30, 2020, the Company had recorded a gain of \$63,491 on completion of the exchange of debts for the Replacement Debentures, on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

16. Convertible Debentures (continued)

The following table reflects the continuity of convertible debentures as at September 30, 2020:

	\$
Balance, December 31, 2019	404,431
Issuance on business acquisition (Note 4)	2,246,547
Conversion of principal debenture	(1,406,042)
Extinguishment of Unsecured Debentures	(466,411)
Issuance of Replacement Debentures on exchange	791,459
Interest and accretion expense	87,730
Balance, September 30, 2020	1,657,714
Non-current – Pharmadrug Debentures	834,248
Non-current – Replacement Debentures	823,466
	1,657,714

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 September 30, 2020 are as follows:

	September 30, 2020	December 31, 2019
	\$	\$
Issued: 196,605,378 common shares (December 31, 2019 – 83,302,274)	19,183,514	13,215,765

Share capital transactions for the nine months ended September 30, 2020

On June 15, 2020, the Company issued 44,000,000 common shares in exchange for common shares of Super Smart on closing of the Super Smart Transaction (see Note 4).

During the nine months ended September 30, 2020, a principal amount of \$1,575,000 of the Pharmadrug Debentures were converted into 31,500,000 Units of the Company at a price of \$0.05 per share. Each Unit is comprised of one common share of the Company and one-half (1/2) of a Warrant exercisable at \$0.05 for a period of 36 months from the date of issuance of the Pharmadrug Debentures (see Note 16(c)).

On July 16, 2020, the Company issued 9,566,014 common shares to satisfy all remaining fees under the Settlement of the Bridge Loan Facility (see Note 13 for details). These common shares were valued at \$430,471 based on the closing share price on the day of issuance.

On July 16, 2020, the Company issued 9,333,333 Units to RLH in pursuant to the RLH Share Exchange. Each Unit is comprised of: (i) one common share of Pharmadrug, (ii) 0.9 of a Warrant exercisable into one common share of the Company at a price of \$0.13 for 48 months from issuance, and (iii) 0.1 of a Warrant exercisable into one common share at a price of \$0.08 for 48 months from issuance.

On July 16, 2020, the Company also issued 2,666,667 Units to RLH at a price of \$0.075 per Unit, for subscription proceeds of \$200,000. Each Unit is comprised of one common share and one Warrant exercisable into one common share at a price of \$0.08 for 48 months from issuance.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

17. Share Capital (continued)

Share capital transactions for the nine months ended September 30, 2020 (continued)

On July 17, 2020, the Company issued 14,437,090 Units to settle: (i) the total outstanding balance owing to the Former COO under the Notes comprised on a \$200,000 principal amount and accrued interest of \$69,604, and (ii) other total obligations of \$452,250, including amounts of \$62,150 and \$77,950 owed to the CEO and the former Chairman, respectively. Each Unit is comprised of one common share and one-half (1/2) of a Warrant exercisable into one common share at \$0.07 per share at any time on or before July 17, 2023.

On August 31, 2020, the Company issued 1,300,000 common shares to an entity controlled by the CEO of the Company, and 500,000 common shares to the Former COO, respectively, as compensation as stipulated by their respective consulting agreement with Pharmadrug. These common shares were valued at \$63,000 based on the closing share price on the day of issuance, and the amount was included in share-based compensation on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

Share capital transactions for the nine months ended September 30, 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 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 19 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)).

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 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 19 for details).

On April 17, 2019, the Company closed the second tranche (“Tranche 2”) of the Offering of 12,818,500 Subscription Receipts, for gross proceeds of \$2,820,070 under the same terms as Tranche 1. Upon satisfaction of the Escrow Release Conditions, each Subscription Receipt entitles the holder to receive, without any further action on the part of the holder or payment of any additional consideration, one Unit of the Company consisting of one common share and one-half (1/2) of a Warrant exercisable at \$0.28 into one common share of the Company for a period of 24 months from the date of satisfaction of the Escrow Release Conditions. In connection with Tranche 2, the Company paid \$262,990 in cash commissions and issued 897,295 Finder’s Warrants (see Note 19 for details).

On April 17, 2019, 13,562,387 common shares valued at \$3 million were issued in pursuant to the FSD Share Exchange (see Note 9).

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

On April 29, 2019, the Company issued 2,000,000 common shares as a result of the conversion of the remaining \$300,000 of principal of the Series B Debentures at the conversion price of \$0.15 (see Note 16(a)).

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

17. Share Capital (continued)

Share capital transactions for the nine months ended September 30, 2019 (continued)

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

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

During the nine months ended September 30, 2019, 254,125 common shares were issued as a result of the exercise of warrants for cash proceeds of \$38,119.

Escrow Release Conditions

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

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

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

18. 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 September 30, 2020, the Company had 4,310,537 common shares available for issuance under the Option Plan.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

18. Reserve for Share-Based Payments (continued)

The following summarizes the stock option activity for the nine months ended September 30, 2020 and 2019:

	September 30, 2020		September 30, 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	5,500,000	0.11	1,100,000	0.235
Granted	8,500,000	0.05	550,000	0.22
Exercised	-	-	(260,000)	0.10
Expired	(1,020,000)	0.10	(200,000)	0.235
Cancelled	(350,000)	0.31	-	-
Cancelled	(400,000)	0.22	-	-
Outstanding, end of period	15,350,000	0.09	3,440,000	0.19
Exercisable, end of period	9,725,000	0.11	2,977,500	0.18

Option grants for the nine months ended September 30, 2020

On May 31, 2020, the Company granted 5,000,000 options to the Chairman of its advisory board at an exercise price of \$0.11, expiring on May 31, 2025. The options vested immediately on grant. The Company also granted 500,000 options to a consultant under the same terms and expiry. The options were valued using Black-Scholes with the following assumptions: expected volatility of 156% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.39% and an expected life of five years. The grant date fair value attributable to these options of \$556,433 was recorded as share-based compensation in connection with the vesting of options during the nine months ended September 30, 2020.

On August 31, 2020, the Company granted 3,000,000 options to the CEO at an exercise price of \$0.05, expiring on August 31, 2025. The options vested immediately on grant. The Company also granted 5,500,000 options to its other officers and directors under the same terms and expiry, of which these options vest in one-third increments after six months, 12 months and 18 months until fully vested. The options were valued using Black-Scholes with the following assumptions: expected volatility of 152% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.40% and an expected life of five years. The grant date fair value attributable to these options was \$306,476, of which \$128,189 was recorded as share-based compensation in connection with the vesting of these options during the nine months ended September 30, 2020.

Option grants for the nine months ended September 30, 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% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.90% and an expected life of two years. The grant date fair value attributable to these options of \$45,157 was recorded as share-based compensation in connection with the vesting of these options during the nine months ended September 30, 2019. As of August 14, 2019, the 200,000 options granted to the former director were cancelled, and the grant date fair value of \$16,421 attributable to these options were reallocated to accumulated deficit.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

18. Reserve for Share-Based Payments (continued)

Option grants for the nine months ended September 30, 2019 (continued)

On May 24, 2019, the Company granted 500,000 options to consultants at an exercise price of \$0.22, expiring on May 24, 2021. 125,000 options vested immediately on grant, with 125,000 options to be vested on a quarterly basis thereafter. The options were valued using Black-Scholes with the following assumptions: expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.56% and an expected life of two years. The grant date fair value attributable to these options was \$20,519 of which \$16,253 was recorded as share-based compensation in connection with the vesting of these options during the nine months ended September 30, 2019.

On May 28, 2019, the Company granted 600,000 options to a consultant at an exercise price of \$0.22, expiring on May 28, 2021. Of the 600,000 options granted, 475,000 options vested immediately on grant, with the remaining 125,000 options to be vested depending on certain performance conditions as follows:

- 62,500 options to be vested after the first cannabis plant is potted at a greenhouse facility in Netanya (the “Facility”) from a past investment in Israel; and
- 62,500 options to be vested after the first commercial harvest at the Facility.

The options were valued using Black-Scholes with the following assumptions: expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.53% and an expected life of two years. The grant date fair value attributable to 475,000 vested options of \$22,209 was recorded as stock-based compensation in connection with the vesting of these options during the nine months ended September 30, 2019.

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

The following table summarizes information of stock options outstanding and exercisable as at September 30, 2020:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	\$	Years
January 17, 2021	350,000	350,000	0.235	0.98
May 24, 2021	100,000	100,000	0.22	0.65
May 28, 2021	600,000	475,000	0.22	0.66
September 24, 2021	300,000	300,000	0.31	0.98
May 31, 2025	5,500,000	5,500,000	0.11	4.67
August 31, 2025	8,500,000	3,000,000	0.05	4.92
	15,350,000	9,725,000	0.09	4.45

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

19. Reserve for Warrants

The following summarizes the warrant activity for the nine months ended September 30, 2020 and 2019:

	September 30, 2020		September 30, 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	2,666,667	0.08	5,869,159	0.25
Issued from offering of subscription receipts	-	-	12,280,912	0.28
Issued from share exchange agreement (Note 9)	8,400,000	0.13	813,743	0.22
Issued from share exchange agreement (Note 9)	933,333	0.08	-	-
Issued from business acquisition (Note 4)	35,478,400	0.05	-	-
Issued from conversion of debentures (Note 16(c))	15,750,000	0.05	-	-
Issued from debt settlement units	7,218,545	0.05	-	-
Exercised	-	-	(254,125)	0.15
Expired	(1,052,996)	0.20	(428,163)	1.00
Expired	(2,301,873)	0.75	-	-
Expired	(78,015)	0.49	-	-
Expired	(2,350,000)	0.15	-	-
Expired	(467,000)	0.10	-	-
Outstanding, end of period	89,410,759	0.30	25,293,698	0.30

Warrant issuances for the nine months ended September 30, 2020

On June 15, 2020, the Company issued 35,478,400 warrants to former warrant holders of Super Smart on completion of the Super Smart Transaction (see Note 4).

During the nine months ended September 30, 2020, a principal amount of \$1,575,000 of the Pharmadrug Debentures were converted into 31,500,000 Units, where 15,750,000 Warrants exercisable at \$0.05 were issued (see Note 16(c)).

On July 16, 2020, the Company issued 8,400,000 Warrants exercisable at \$0.13 and 933,333 Warrants exercisable at \$0.08, respective, in pursuant to the RLH Share Exchange (see Notes 9 and 17). All these Warrants are exercisable into one common share of the Company for 48 months from issuance.

On July 16, 2020, the Company also issued 2,666,667 Warrants for RLH's subscription of Units for proceeds of \$200,000. Each Warrant is exercisable at \$0.08 into one common share of the Company for a period of 48 months from issuance. The grant date fair value of the Warrants issued was estimated to be \$89,506 using Black-Scholes with the following assumptions: expected volatility of 146% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.31% and an expected life of four years.

On July 17, 2020, the Company issued 7,218,545 Warrants as part of the settlement of the total outstanding balance owing to the Former COO under the Notes, and other total obligations of \$452,250. Each Warrant is exercisable into one common share of the Company at \$0.07 per share at any time on or before July 17, 2023.

Warrant issuances for the nine months ended September 30, 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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

19. Reserve for Warrants (continued)

Warrant issuances for the nine months ended September 30, 2019 (continued)

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.

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

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

On April 17, 2019, the Company entered into the Share Exchange Agreement with FSD. In connection to the Share Exchange, 813,743 Compensation Options were issued to the Agent as corporate finance and structuring fees. The grant date fair value of the Compensation Options issued was estimated to be \$81,264 using Black-Scholes with the following assumptions: share price of \$0.23, expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.66% and an expected life of two years. The grant date fair value of the Compensation Options was recorded as share-based compensation during the nine months ended September 30, 2019.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

19. Reserve for Warrants (continued)

The following table summarizes information of warrants outstanding as at September 30, 2020:

<u>Date of expiry</u>	<u>Number of warrants outstanding</u>	<u>Exercise price</u>	<u>Weighted average remaining contractual life</u>
	<u>#</u>	<u>\$</u>	<u>Years</u>
January 10, 2021	5,869,159	0.25	0.28
April 17, 2021	813,743	0.22	0.55
May 9, 2021	12,280,912	0.28	0.61
June 12, 2023	19,228,400	0.05	2.70
June 15, 2023	32,000,000	0.05	2.71
July 23, 2023	7,218,545	0.05	2.79
July 16, 2024	3,600,000	0.08	3.79
July 16, 2024	8,400,000	0.13	3.79
	89,410,759	0.11	2.39

20. Key Management Personnel 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 nine months ended September 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
	<u>\$</u>	<u>\$</u>
Management salaries and consulting fees	10,000	225,000
Professional fees	67,500	108,000
Share-based compensation	191,189	16,421
	268,689	349,421

During the nine months ended September 30, 2020, Daniel Cohen, the CEO of the Company, did not charge the Company for consulting services provided to the Company (2019 – \$90,000). As at September 30, 2020, no balance was owed to the CEO (December 31, 2019 – \$65,606, included in accounts payable and accrued liabilities).

Effective September 1, 2020, the Company and the CEO entered into an executive agreement, whereas the Company agreed to pay an annual base salary of \$120,000 for CEO services. The annual base salary shall be increased to \$180,000, exclusive of bonuses, benefits and other compensation, once the Company has raised a minimum of \$1,500,000. During the nine months ended September 30, 2019, the Company recorded management salaries of \$10,000 in relation to the CEO's new employment compensation.

During the nine months ended September 30, 2020, Howard Brass, the Former COO, also did not charge the Company for consulting services provided to the Company up to his resignation on May 21, 2020 (2019 – \$90,000). As at September 30, 2020, no balance was owed to the Former COO (December 31, 2019 – \$62,150, included in accounts payable and accrued liabilities).

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

20. Key Management Personnel Compensation and Related Party Transactions (continued)

Key management personnel compensation (continued)

During the nine months ended September 30, 2020, the Company incurred professional fees of \$67,500 (2019 – \$108,000, including billings on certain services provided from 2017 and up to the RTO Transaction on 2018), from Branson Corporate Services Ltd. (“Branson”), where Keith Li, the Chief Financial Officer (“CFO”) and Corporate Secretary of the Company is employed. Branson is party to a management services agreement, for providing CFO services to the Company, as well as other accounting and administrative services. As at September 30, 2020, \$65,229 (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.

During the nine months ended September 30, 2019, David Posner, the former Chairman of the Company, charged consulting fees of \$45,000 for services provided to the Company. As at September 30, 2020, no balance was owed to the former Chairman (December 31, 2019 – \$77,950, included in accounts payable and accrued liabilities).

Share-based compensation

On August 31, 2020, the Company granted 3,000,000 options to the CEO at an exercise price of \$0.05, expiring on August 31, 2025. The options vested immediately on grant. The Company also granted 5,500,000 options to its other officers and directors under the same terms and expiry, of which these options vest in one-third increments after six months, 12 months and 18 months until fully vested. The grant date fair value attributable to these options was \$306,476, of which \$128,189 was recorded as share-based compensation in connection with the vesting of these options during the nine months ended September 30, 2020.

On August 31, 2020, the Company issued 1,300,000 common shares to an entity controlled by the CEO of the Company, and 500,000 common shares to the Former COO, respectively, as compensation as stipulated by their respective consulting agreement with Pharmadrug. The common shares valued at \$63,000 was included in share-based compensation during the nine months ended September 30, 2020.

On January 17, 2019, the Company granted 200,000 options to Joel Freudman, a former director of Pharmadrug. The options vested immediately on grant, and the grant date fair value of \$16,421 attributable to these options was recorded as share-based compensation during the nine months ended September 30, 2019. On August 14, 2019, these options were cancelled.

Restructuring on debts with related parties

On July 17, 2020, the Company completed the Restructuring. All settlements involving amounts previously due to the Company’s officers under the terms of the Restructuring are summarized below.

Indebtedness exchanged as part of the aggregate of \$1,005,620 principal amount of Replacement Debentures include:

- A balance of \$269,604 owed to the CEO, comprised of a \$200,000 principal amount and accrued interest of \$69,604 under the Notes (see Note 14); and
- A balance of \$233,206 owed to the CEO, comprised of a \$200,000 principal amount and accrued interest of \$33,206 under the Unsecured Debentures (see Note 16(b)).

Indebtedness settled as part of the issuance of 14,437,090 Units at a deemed price of \$0.05 per Unit (see Note 17) include:

- A balance of \$62,150 owed to the CEO for services provided under the terms of his consulting agreement.
- A balance of \$269,604 owed to the CEO, comprised of a \$200,000 principal amount and accrued interest of \$69,604 under the Notes (see Note 14).
- A balance of \$62,150 owed to the Former COO for services provided under the terms of his consulting agreement; and
- A balance of \$77,950 owed to the former Chairman for consulting services previously provided to the Company.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the nine months ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

21. 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 nine months ended September 30, 2020, the Company recorded a net loss of \$267,823 (2019 – net loss of \$464,319) attributable to the non-controlling interest.

22. 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 September 30, 2020, the Company’s capital consisted of an equity attributable to the shareholders of Pharmadrug Inc. of \$9,635,250 (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.

23. 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 September 30, 2020, the Company had a cash balance of \$269,253 (December 31, 2019 – \$73,677) and liquid investments valued at \$872,566 (December 31, 2019 – \$440,052), to settle current liabilities of \$693,530 (December 31, 2019 – \$4,320,092).

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

23. Financial Instrument Risks (continued)

Liquidity risk (continued)

As at September 30, 2020, the Company had the following contractual obligations:

	Less than 1 year	1 to 3 years	3 to 5 years	Total
Accounts payable and accrued liabilities	\$ 619,973	\$ -	\$ -	\$ 619,973
Convertible debentures	-	2,622,414	-	2,622,414
Total	619,973	2,622,414	-	3,242,387

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.

During the nine months ended September 30, 2020, the Company completed the Restructuring in order to improve its solvency and liquidity position. With the Restructuring in place, management believes there is sufficient capital to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at period-end.

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 September 30, 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.

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, receivables, note receivable, accounts payables, loans payable, notes payable, lease payable and convertible debentures. The fair value of cash, 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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

23. Financial Instrument Risks (continued)

Fair value (continued)

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

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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	269,253	-	-	269,253
Other investments	525,340	347,226	-	872,566

As at September 30, 2020, the Company's financial instruments carried at fair value consisted of its cash and other investments, which have been classified as Level 1 and Level 2 (for investments in warrants securities). There were no other transfers between Levels 2 and 3 for recurring fair value measurements during the nine months ended September 30, 2020.

24. 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 regulations as at September 30, 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 September 30, 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 September 30, 2020, the Company had recorded a provision of approximately \$10,635 (€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 plus interest. The loan with Thor Investments dates back to March 2019. As at September 30, 2020, the Company had recorded a provision of approximately \$53,492 (€34,222) for the potential damages it is expected to pay out.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

25. Commitments

Share exchange agreement

On April 17, 2019, the Company entered into the Share Exchange Agreement with FSD. 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 €4.00 per gram. In the ensuing 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 €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.

On July 21, 2020, the Company entered into a supply agreement (the “NMC Supply Agreement”) with Natural MedCo Ltd. (“NMC”), a Canadian Licensed Producer of medical cannabis and a wholly-owned subsidiary of Eve & Co Incorporated, for bulk and finished EuGMP medical cannabis. Pursuant to the NMC Supply Agreement, the Company will purchase and import into Germany between 250 to 500 kg of cannabis flower on a bulk basis.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

26. Segmented Information

As at September 30, 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 nine months ended September 30, 2020, the breakdown between operations in Canada and Germany are as follows:

Statement of Financial Position	Canada	Germany	Total
	\$	\$	\$
Current assets	1,350,022	174,108	1,524,130
Non-current assets	4,306,090	9,295,419	13,601,509
Total Assets	5,656,112	9,469,527	15,125,639
Current liabilities	521,951	171,579	693,530
Long-term liabilities	1,724,879	1,859,671	3,584,550
Total Liabilities	2,246,830	2,031,250	4,278,080

Statement of Loss	Canada	Germany	Total
	\$	\$	\$
Revenue	-	508,265	508,265
Cost of goods sold	-	(385,059)	(385,059)
Operating expenses	(1,766,535)	(1,461,632)	(3,228,167)
Other income (expenses)	239,087	(691)	238,396
Net Loss	(1,527,448)	(1,339,117)	(2,866,565)

27. Reclassification of Comparative Figures

For comparative purposes, the Company had reclassified certain items on the unaudited condensed interim consolidated statements of loss and comprehensive loss and the unaudited condensed interim consolidated statements of cash flows to conform with current period's presentation.

28. Subsequent Events

Conversion of Pharmadrug Debentures

Subsequent to September 30, 2020, an additional principal amount of \$20,000 of the Pharmadrug Debentures was converted into 400,000 Units of the Company at a price of \$0.05 per share.

Smart Shop Acquisition

On August 11, 2020, the Company, through Interrobang, had entered into a definitive agreement (the "Smart Shop Acquisition") to acquire a retail establishment specializing in the sale of psychedelic products (the "Smart Shop") located in the Town of Tiel, in central Netherlands. On October 1, 2020, the Smart Shop Acquisition closed.