PHARMADRUG INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2020

The following Management's Discussion and Analysis ("MD&A") is current to April 30, 2021, and constitutes management's assessment of the factors that affected the financial condition and results of operations of Pharmadrug Inc. ("Pharmadrug", "We" or the "Company") for the year ended December 31, 2020. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. It is supplemental and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended December 31, 2020 and 2019 (the "2020 Financial Statements"), prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All figures in this MD&A are reported in Canadian dollars ("$") unless otherwise stated.

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

Business Overview

Pharmadrug is a specialty pharmaceutical company focused on the research, development and commercialization of controlled-substances and natural medicines such as psychedelics, cannabis and naturally-derived approved drugs.

The Company owns an 80% equity interest in Pharmadrug Production GmbH ("Pharmadrug GmBH"), a medical cannabis distributor in Germany with a Schedule I European Union ("E.U.") narcotics license and German EuGMP certification allowing for the importation and distribution of medical cannabis to pharmacies in Germany and throughout the E.U.

The Company also owns and operates an early-stage retail company focused on consolidating the psychedelic smartshop market in the Netherlands, through the Super Smart Transaction (as defined hereafter).

In February of 2021, the Company acquired Sairiyo Therapeutics ("Sairiyo"), a biotechnology company focused on repurposing and developing improved formulations of naturally-derived compounds for serious, rare, and life-threatening diseases (see "Outlook and Plans" for more details).

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". Its shares are also traded in the United States (the "U.S.") on the Pink Open Market under the ticker symbol "LMLLF".

Corporate Developments

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

On May 21, 2020, Howard Brass resigned as Chief Operating Officer ("COO") of Pharmadrug, to pursue other ventures.

On June 2, 2020, the Company appointed Terry Booth as Chairman of its advisory board focusing on the psychedelic business. Mr. Booth has over 27 years of experience in tightly regulated government industries, and was a founder of Aurora Cannabis Inc.

On May 25, 2020 and as amended on June 12, 2020, the Company entered into a definitive agreement (the "Amalgamation Agreement") with Interrobang Ltd. ("Interrobang") d/b/a Super Smart, pursuant to which Pharmadrug acquired all of the issued and outstanding shares of Super Smart (the "Super Smart Transaction") (see "Business Acquisitions" for details).

On June 19, 2020, Michael Forbes was appointed to the Board of Directors (the "Board"). For over 15 years, Mr. Forbes had operated a chain of pharmacies throughout British Columbia and Alberta, where his experience in pharmacy, clinic and dispensary development fits with the Company's strategy to roll up smart shops in the Netherlands.

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 positioning itself to engage in the production, growth and sale of magic truffles to the legal, recreational market within the Netherlands.

On July 21, 2020, Pharmadrug entered into a supply agreement (the "NMC Supply Agreement") with Natural MedCo Ltd. ("NMC"), a Canadian Licensed Producer ("LP") of medical cannabis and a wholly-owned subsidiary of Eve & Co Incorporated ("Eve & Co") for bulk and finished EuGMP medical cannabis.

On August 10, 2020, the Company, through Interrobang, 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 (see "Business Acquisitions" for details).

On October 13, 2020, the Company announced that Interrobang had begun to work with Essential Good LLC ("Essential Good") to develop its Slim Winkel brand and establish an online retail platform that will focus on functional mushrooms and other legal medical plants and that within the Netherlands will include the sale of psilocybin truffles.

On November 30, 2020, the Company announced that Interrobang will be launching its Slim Winkel brand.

On January 4, 2021, the Company entered into a supply agreement with a Canadian based multinational cannabis company for EuGMP certified medical cannabis. The supply is already registered and approved for sale in the German market.

On January 25, 2021, the Company entered into the definitive agreement to acquire Sairiyo (the "Sairiyo Acquisition"). On February 2, 2021, the Sairiyo Acquisition closed (see "Outlook and Plans" and "Subsequent Events" for details).

On February 8, 2021, the Company announced that it has appointed world-renowned chemist and neuroscientist Dr. Steven A. Barker, Ph.D. to its newly-formed scientific advisory board for psychedelic pharmaceuticals to lead the research and development initiatives of N, N-Dimethyltryptamine ("DMT") for mental health, neurological and inflammatory disorders.

On February 14, 2021, the Company filed an application with the U.S. Food and Drug Administration ("FDA") to receive Orphan Drug Designation ("ODD") for DMT in the treatment of acute ischemic stroke patients presenting for emergency medical assistance within 3-hours of symptom onset.

On February 25, 2021, the Company announced it has expanded its psychedelic pharmaceutical program with the filing of an application with the FDA to receive ODD for DMT in the prevention of ischemia reperfusion injury ("IRI") in patients undergoing kidney transplantation.

On March 4, 2021, the Company announced that Sairiyo had appointed world-renowned gastric cancer expert, Dr. Yelena Y. Janjigian, MD, to Sairiyo's newly-formed scientific and clinical advisory board for Cepharanthine in the treatment of esophageal cancer. On March 9, 2021, world-renowned drug-repurposing expert, Moshe Regosnitzky, was also appointed to the scientific and clinical advisory board.

On March 16, 2021, the Company entered into a sponsored research agreement with the University of Michigan, under the direction of Dr. Jimo Borjigin as Principal Investigator, to evaluate DMT's potential role in normal, diseased and altered states of consciousness in a newly created animal model, with the objective to develop novel therapeutic strategies of DMT for clinical unmet medical needs currently not addressed by DMT.

On April 20, 2021, the Company announced that it had entered into an agreement with Southwest Research Institute® ("SwRI®"), to initiate non-clinical and clinical manufacturing of Cepharanthine for the Company's rare cancer and infectious diseases programs.

Financing Activities

On July 17, 2020, the Company completed a restructuring (the "Restructuring") on certain of its outstanding indebtedness. Under the terms of the Restructuring, (i) $400,000 principal amount of the unsecured convertible debentures issued back in October 2018, plus accrued interest of $66,411, and (ii) $400,000 principal amount of the Notes owing to the CEO and an 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. The Replacement Debentures are convertible into units ("Units") at the holder's option 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 ("Warrant") exercisable into one common share at $0.07 per share at any time on or before July 17, 2023.

The remaining $200,000 principal amount of the promissory notes (the "Notes") owing due to the Former COO, plus accrued interest of $69,604, along with other total obligations of $452,250, including amounts of $62,150 and $77,950 owed to the CEO and the former Chairman, respectively, were exchanged for Units at a deemed price of $0.05 per Unit, based on the same terms as per noted above.

During the year ended December 31, 2020 ("Fiscal 2020"), a principal amount of $2,215,000 of the Pharmadrug Debentures (defined hereafter) were converted into 44,300,000 Units of the Company at a price of $0.05 per share. Each Unit is comprised of one common share and one-half (1/2) of a Warrant exercisable at $0.05 for a a period of 36 months. As of the date of this MD&A, the remaining principal amount of $285,000 had been fully converted into an additional 5,700,000 Units of Pharmadrug.

In Fiscal 2020, the Company received total cash proceeds of $1,456,538 on exercises of over 29 million warrants. Subsequent to December 31, 2020, additional cash proceeds of $928,960 were received on exercises of 850,000 stock options and 17,134,200 warrants, respectively.

Outlook and Plans

Medical Cannabis

As Pharmadrug continues to develop its business in Germany, management believes that the Company is on track to achieve significant growth in 2021. The Company has grown its Bedrocan business, and the number of pharmacies in its distribution network has grown to over 300. However, as Bedrocan's supply is becoming increasingly limited, it has served as an impediment to our growth. Demand currently outstrips supply. The Company believes it already has enough of a distribution network to achieve profitability, but will need to secure more sources to satisfy demand.

In order to address the short-term needs for additional supply, the Company previously decided to secure a second wholesale source of cannabis directly from another LP for products under their brand. The Company has signed a supply agreement with the German subsidiary of a Canadian-based Global LP. The first shipment was received in the first quarter of 2021 and deliveries to the pharmacy network have already begun. Pharmadrug has also received regulatory approval to distribute THC oil from the same LP. The Company expects to receive first shipments of that oil in the second quarter of 2021.

The real opportunity for growth will be the launch of cannabis products under Pharmadrug's own brand. The Company signed a supply agreement with Eve & Co in 2020. Eve & Co is a Canadian LP with EuGMP certification. The Company is currently working on final technical requirements to import bulk cannabis from Eve & Co on a white label basis to be placed in final packaging in Germany by Pharmadrug GmBH under its own brand. Pharmadrug is also in final negotiations and preparations with a Danish company to import THC oil on a white label basis. Management anticipates receiving product in the third quarter of 2021. Management is also in advanced discussions with an LP from the Iberian Peninsula for white label flower.

Pharmadrug is on track to significantly increase its product offering in 2021 by increasing the volume of supply and introducing new lines. By the end of 2021, the Company plans to have three lines of third-party cannabis products as well as both THC oil and flower under its own brand. In order to prepare for the increase in supply, the Company has started to expand its sales force. A new senior sales manager with over 20 years of German pharmaceutical sales experience was hired

in April. New sales efforts will also focus on both expanding the direct pharmacy network and establishing relationships with wholesalers as we launch products under our own brand.

The Company has also made significant advancements towards launching a CBD line. The CBD business model will differ from Pharmadrug's Medical Cannabis business as it will seek to be a supplier of branded product to be sold via distributors and e-commerce platforms. A quality supplier has been sourced and Pharmadrug GmBH is already in possession of its first shipment of bulk inventory. The product has been tested by several potential distribution partners and the feedback has been positive. Management has begun the process of placing the product in final packaging and hopes to begin selling its first batch in May of 2021. Management will monitor sales performance from the first batch of products.

Psychedelics in Europe

The Company intends to utilize a unique two-prong approach. The first, with Super Smart, will be to capitalize on markets in the Netherlands through the development of an adult-use Smart Shop brand, brick and mortar chain and an online retail platform. Secondly, in Germany and across the Eurozone, the Company will seek to use Pharmadrug GmBH's controlled substance import and distribution license to build a pharmaceutical psychedelics business as jurisdictions in the E.U. legalize psychedelics, and pharmaceutical psychedelics pass through clinical testing. Pharmadrug GmBH recently passed its EuGMP inspection and has secured its certification for another three years. This gives the Company the ability to third-party source narcotics and package them under its own brand.

Super Smart took effective control of its first smart shop on October 1, 2020. The Smart Shop, located in the Town of Tiel in central Netherlands, will serve as an initial platform for Super Smart to build out and refine its new smart shop vision and a springboard to develop its brand and operations. Unfortunately, the coronavirus ("COVID-19") pandemic has been severe in the Netherlands and the country has had a strict lockdown regime. As a result, the development of its brick and mortared strategy is being put on hold. In the meantime, the Company has decided to develop its brand and business by establishing an online retail strategy under its Slim Winkel brand. The strategy will see a full Slim Winkel website in the Netherlands that will sell psilocybin truffles as well as functional mushrooms and other wellness products. The website will also service other parts of Europe, but without the access to psilocybin truffles. Pharmadrug has also setup a new subsidiary in the U.S. that will launch an American version of the Slim Winkel online retail platform that will focus on functional mushrooms.

Sairiyo - Biotech Research and Development

In connection with the Sairiyo Acquisition, the Company has secured an exclusive license from SwRI® to develop and commercialize a novel oral formulation of Cepharanthine for all fields of use as well as exclusive rights to U.S. Patent: 10,576,077, titled "Pharmaceutical Salt forms of Cepharanthine and Tetrandrine". More recently, the Company has entered into an agreement with SwRI® to initiate non-clinical and clinical manufacturing of Cepharanthine for the Company's rare cancer and infectious diseases programs. Formalization of the relationship will allow Pharmadrug to expedite development timelines by leveraging SwRI®'s existing Cepharanthine preclinical data sets and considerable manufacturing know-how.

Cepharanthine is a natural product and an approved drug which has been used for more than 70 years in Japan to successfully treat a variety of acute and chronic diseases. In clinical research, Cepharanthine has been shown to exhibit multiple pharmacological properties including anti-oxidative, anti-inflammatory, immuno-regulatory, anti-cancer, anti-viral and anti-parasitic properties. However, historically Cepharanthine's low oral bioavailability has represented a major obstacle to realizing its full clinical potential.

The Company is focused on advancing the clinical development of an improved oral formulation of Cepharanthine to treat rare cancers and infectious diseases. Compared to generic Cepharanthine, Pharmadrug's novel formulation has been shown in rodent and non-rodent models to possess markedly superior bioavailability (more easily absorbed). These findings support the development of an orally administered formulation, and in so doing, removes the undesirable requirement for frequent intravenous dosing.

Cepharanthine and Cancer

Based on preclinical data in esophageal cancer and a streamlined path to approval which comes by way of a recently granted FDA ODD, the Company plans to pursue Cepharanthine for this indication. In parallel, the Company will initiate high throughput studies to screen a large panel of additional cancers with the aim of identifying additional types of cancer sensitive to the effects of Cepharanthine-alone (monotherapy), or when combined with first and second-line chemotherapy drugs. It is expected that these studies will provide the mechanistic understanding to rationally define a clinical lead program in oncology while also affording the opportunity to secure additional intellectual property around novel findings.

Cepharanthine and COVID-19

Recently, to rapidly identify drug candidates and provide patients with 'off the shelf' treatments for COVID-19, two independent research groups screened approximately 3,000 already approved agents in differing cell culture models of SARS-CoV-2 infection and have recently published the results. In both cases, Cepharanthine was identified as the most promising lead; showing greater potency at inhibiting infection than existing clinical development candidates remdesivir and chloroquine. Moreover, Cepharanthine was also found to block viral cell entry of lab-attenuated SARS-CoV and the virus that causes Middle East respiratory syndrome (MERS). The anti-viral mechanism of action for Cepharanthine is mediated primarily through direct binding to the virus spike protein; the presence of which is required for viral entry into the cell. The authors note that while interesting, the poor oral bioavailability of generic Cepharanthine would necessitate intravenous administration and would limit patient access. The Company intends to capitalize on these findings by evaluating the benefit of their novel oral formulation of Cepharanthine in an animal model of SARS-CoV-2 infection. As a potential oral antiviral therapeutic agent to treat mild-moderate COVID-19, the Company will proceed to initiate discussions with health regulators, such as the FDA and Health Canada, to determine the appropriate next steps to advance to human clinical studies that would position Cepharanthine as a potential first-in-class therapeutic against coronaviruses and future pandemics.

Pharmaceutical Psychedelics Research

Pharmadrug and Sairiyo had already begun to develop a strategy to commence unique and value adding research in the psychedelic space prior to signing the purchase agreement. Following the acquisition of Sairiyo and its biotech R&D core competencies, Pharmadrug has undertaken efforts to expand its research activities in the pharmaceutical psychedelics space. The Company's psychedelic pharmaceutical strategy will focus specifically on DMT. Through engagement with respected academics and medical/clinical key opinion leaders in the space, management will initiate pivotal preclinical and clinical development activities. Pharmadrug has brought on Dr. Barker, a prominent American DMT academic researcher as an advisor.

Although Pharmadrug has already filed for orphan drug status for the use of DMT with two distinct indications, the Company will also seek to collaborate with top tier academic psychedelic teams on foundational DMT research before determining and establishing its explicit commercial strategy. The first such relationship was announced in March of 2021 with the funding of a foundational study at The University of Michigan on the role of naturally occurring DMT in the brain. The Company is also in discussions with another prominent university for the funding of a clinical study focused on administering DMT in humans. The goal of such a study will be to try to properly understand pathways for DMT in the brain and the biomechanics of both endogenous and exogenously administered DMT.

On April 28 2021, Sairiyo was granted ODD to DMI for prevention of IRI in patients undergoing solid organ transplantation, which includes the liver, kidney, heart and lung. The FDA ODD granted is broader than the Company's original application for kidney transplantation, recognizing the pernicious consequences of IRI in all solid organ transplantation.

Before filing an Investigational New Drug application with the FDA to evaluate DMT in human clinical trials, the Company will advance its overall DMT strategy on three separate initiatives. Firstly, Pharmadrug is already at work evaluating specific DMT formulations aimed at superior delivery and improved efficacy. Secondly, management will contemplate additional pre-clinical research in inflammatory and oxidative stress-induced complications, including organ transplants, to better understand the role DMT plays in the field. Lastly, the Company will broaden its scope to evaluate other rare indications that potentially could benefit from DMT.

Financial Information

Selected financial information

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

	2020	2019	2018
	$	$	$
Sales revenue	683,671	610,576	-
Gross profit	182,037	253,255	-
Operating expenses	(4,020,752)	(5,346,850)	(950,525)
Other expenses	(2,063,912)	(1,888,228)	(418,991)
Net loss from continuing operations	(5,902,627)	(6,981,823)	(3,512,149)
Net loss and comprehensive loss	(5,248,083)	(7,202,028)	(3,941,780)
Total assets	13,688,600	10,378,485	1,062,312
Total liabilities	3,117,608	5,920,388	1,552,632
Shareholders' equity (deficiency)	9,332,287	2,977,966	(490,320)

Selected quarterly financial results

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

	Q4 2020	Q3 2020	Q2 2020	Q1 2020
	$	$	$	$
Sales revenue	175,406	137,322	192,328	178,615
Operating expenses	(792,585)	(1,227,726)	(1,357,397)	(643,044)
Other income (expenses)	(2,302,308)	148,597	(289,991)	379,790
Net loss	(2,655,987)	(1,034,168)	(1,598,452)	(224,945)
Loss per share – basic and diluted	(0.013)	(0.006)	(0.017)	(0.003)

	Q4 2019	Q3 2019 [1]	Q2 2019 [1]	Q1 2019
	$	$	$	$
Sales revenue	37,918	271,291	301,367	-
Operating expenses	(2,976,638)	(734,384)	(1,356,126)	(578,273)
Other income (expenses)	(1,189,935)	1,176,333	(1,207,955)	(291,506)
Net income (loss)	(3,813,300)	508,617	(2,364,613)	(869,779)
Income (loss) per share – basic and diluted	(0.029)	0.006	(0.034)	(0.024)

Financial Results for the Year Ended December 31, 2020

Results of operations

In Fiscal 2020, the Company recorded total sales revenue of $683,671 (2019 – $610,576) and cost of goods sold of $501,634 (2019 – $357,321), for a gross profit of $182,037 (2019 – $253,255) from shipments of cannabis products to pharmacies through out Germany. Toward the end of 2019, sales had been steadily building up into 2020. The Company was growing its Bedrocan business, and had expanded its German distribution network to over more than 300 pharmacies. However, Bedrocan's supply has become increasingly scarce, with the current supply level unable to match demand. As mentioned in the "Outlook and Plans" section, the scarcity of products has served as an impediment to Pharmadrug's growth. In 2020, sales volume has been volatile as the Company frequently ran out of inventory which led to longer wait time for smaller shipments from the Netherlands. The Company believes that it will be able to overcome the on-going supply issue, as it already has enough of a distribution network to achieve profitability, but needs to secure more sources to satisfy demand.

[1] For comparative purposes, certain figures had been adjusted to reflect 2019 year-end adjustments which would have retroactively impacted the results of operations for Q2 and Q3 2019. The adjustments between amounts previously reported and amounts restated had no material effect on the consolidated statements of cash flows and working capital of the Company.

In Fiscal 2020, the Company incurred total operating expenses of $4,020,752, as compared to total operating expenses of $5,346,850 in the prior year. The substantial decrease in operating expenses incurred is primarily due to:

- Reversal of allowance for expected credit losses ("ECL") of $152,710 as compared to an allowance for ECL of $1,172,935 in 2019. The reversal had been recorded upon the settlement over a promissory note balance owed from Empower Healthcare Assets Inc., a wholly-owned subsidiary of Empower Clinics Inc. in July of 2020. In 2019, an allowance for ECL of $1,172,935 was recorded upon assessment of impairment on the promissory note, and on certain investments which the Company was no longer pursuing;

- Decrease of $468,273 in professional fees to $1,174,390 (2019 – $1,642,663) where significant expenses were incurred in relation to the Settlement of the Bridge Loan Facility (defined hereafter), including total restructuring fees of over $250,000 which had been recorded during the current period. In addition, legal fees and related expenses had also been incurred over the course of the Restructuring. In 2019, the Company was preoccupied with closing multiple financings while trying to close the negotiations on the Pharmadrug Acquisition, where various legal and transactional fees incurred on the many transactions and initiatives that the Company had undertaken, which totalled for over $1.6 million;

- Decrease of $295,221 in travel and promotional expenses to $33,478 (2019 – $328,699). As business had now been firmly established in Germany and also due to travel restrictions imposed by the COVID-19 pandemic, travel needs had been drastically reduced. In 2019, significant efforts were made by the Company's management team over negotiations on the Pharmadrug Acquisition (defined hereafter) and for marketing and promoting the Company for past cannabis projects in Israel which it was no longer pursuing.

Such decrease in operating expenses in Fiscal 2020 was partially offset by the following items:

- Increase of $247,153 in share-based compensation to $774,815 (2019 – $527,662) primarily from expenses of options vested during the year. The measurement of share-based payments is subject to the use of judgments and estimates, as it involves use of assumptions which will directly impact the valuations;

- Increases of $518,344 in total depreciation on property and equipment and on right-of-use ("ROU") assets, and amortization on intangible assets to $1,296,5748 (2019 – $778,230). The big difference is due to the fact that amortization has been recorded for the full year in 2020, whereas amortization in 2019 was recorded only effective upon the completion of the Pharmadrug Acquisition; and

- Increase of $35,224 in office and general expenses to $211,221 (2019 – $175,997) as with the presence of the oversea operations, the Company had continued to see a higher rise of general and administrative expenses, in comparison to the corporate side in Canada.

In Fiscal 2020, the Company incurred other expenses of $2,063,912, as compared to other expenses of $1,888,228 incurred in 2019. Finance costs, comprising interest and accretion on convertible debentures, the Notes, and loans payable, totaled $321,293 (2019 – $476,986). In terms of investments held by the Company, a realized loss of $42,611 (2019 – $1,625,285) was recorded upon the dispositions of certain investments, while a fair value increase of $2,574,778 (2019 – $440,052) was also recorded of the valuation of the liquid investments. There were also expenses of a non-cash nature which were recorded in 2020. In relation to the FSD Share Exchange (defined hereafter), the Company recorded a loss of $40,801 on the share exchange transaction. Upon completion of the Super Smart and Smart Shop Transactions, a total of $4,509,267 related to unidentifiable assets acquired has also been recorded on the business acquisitions completed in 2020 (see "Business Acquisitions" for more details).

Net loss for Fiscal 2020 was $5,513,552, as compared to a net loss $7,202,028 in the prior year. Net loss attributable to shareholders of Pharmadrug for Fiscal 2020 was $5,219,031 (basic loss of $0.039), as compared to a net loss attributable to shareholders of Pharmadrug of $6,289,836 (basic loss of $0.093) in 2019.

Cash flows

Net cash used in operating activities during Fiscal 2020 was $1,413,907, as compared to net cash used in operating activities of $2,339,969 in 2019, for a decrease of $926,062. Due to a shortage of funds experienced from late 2019 up to the first half of 2020, which was alleviated with the completion of the Super Smart Transaction and the Restructuring, the Company had tightened its cash spending while management was looking for ways to obtain new sources of funds. In contrast, the Company spent significantly more in 2019, as it was gearing at the time for a European expansion.

Net cash provided by financing activities during Fiscal 2020 was $132,235, as compared to net cash provided by financing activities of $9,509,952 in 2019. In 2020, the Company repaid the full balance of the Bridge Loan Facility through a combination of cash payment and issuance of common shares, including a total payment of $1,889,819 made in July 2020 (see "Bridge Loan Facility" for details). The Company also received funds of $480,000 from Interrobang prior to the closing of the Super Smart Transaction, and proceeds of $200,000, on RLH's subscription of 2,666,667 Units of Pharmadrug. In the fourth quarter of Fiscal 2020, the Company also received proceeds of more than $1.4 million from exercise of warrants and broker options, as Pharmadrug garnered the attention of investors and the markets.

On the other hand, the capital market was much more robust a year earlier. In 2019, net cash provided from financing activities comprised of net proceeds of $1,7 million raised from the $0.15 round of financing which closed in January 2019, $4.25 million net proceeds raised from the Offering which closed in April and May 2019; $3 million proceeds received from the Bridge Loan Facility, and advances of $600,000 in the form of promissory notes.

Net cash provided by investing activities during Fiscal 2020 was $3,781,417, as compared to net cash used in investing activities of $7,318,737 in 2019. On completion of the amalgamation transaction, more than $2.1 million was acquired from Interrobang, while the Company also received proceeds of $2,115,332 upon dispositions of certain liquid investments, which was partially offset by proceeds of $492,076 spent on the exercise of certain warrant investments. In 2019, the use of funds was primarily attributed to over $7 million invested into the Pharmadrug Acquisition, and $230,135 of advances made to certain investments which the Company was no longer pursuing.

Reconciliation of Non-IFRS Measures

The following information provides reconciliations of the supplemental non-IFRS financial measures, presented herein to the most directly comparable financial measures calculated and presented in accordance with IFRS. The Company has provided the non-IFRS financial measures, which are not calculated or presented in accordance with IFRS, as supplemental information.

These supplemental non-IFRS financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believes that the supplemental non-IFRS financial measures presented provide additional perspective and insight when analyzing the core operating performance of the business. These supplemental non-IFRS measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the IFRS financial measures presented. The following table reconciles non-IFRS measures to the most directly comparable IFRS measures.

Adjusted EBITDA

Adjusted EBITDA is a measure of the Company's overall financial performance and is used as an alternative to earnings or income in some circumstances. Adjusted EBITDA is essentially net income (loss) with interest, taxes, depreciation and amortization, non-cash adjustments and other unusual or non-recurring items added back. Adjusted EBITDA can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. Adjusted EBITDA is often used in valuation ratios and can be compared to enterprise value and revenue.

	Year ended December 31,2020	Year ended December 31, 2019
	$	$
Net loss	(5,513,552)	(6,539,075)
Adjusted for:		
Depreciation on property and equipment	41,500	26,529
Depreciation on right-of-use assets	7,891	-
Amortization on intangible assets	1,247,183	751,701
Share-based compensation	774,815	527,662
Unidentifiable assets acquired	4,509,267	-
Gain on sale of investments in joint venture	-	(46,616)
Restructuring fees	467,726	-
Loss on share exchange transaction	40,801	1,052,395
Gain on settlement	(169,279)	-
Fair value change in derivative liability	-	166,243
Foreign exchange (gain) loss	(115,111)	106,382
Current income tax – recovery	(389,075)	-
Deferred income tax – recovery	-	(442,748)
	902,166	(4,397,527)

After adjusting for non-cash or extraordinary non-recurring items, including depreciation on property and equipment and ROU assets, amortization on intangible assets, share-based compensation, unidentifiable assets acquired, gain on sale of investments in join venture, restructuring fees related to the Bridge Loan Facility, loss of share exchange, fair value change derivative liability and non-cash income tax expense (recovery), the Adjusted EBITDA for Fiscal 2020 was an adjusted earning of $902,166 (2019 – adjusted loss of $4,397,527).

Working Capital and Liquidity Outlook

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

As at December 31, 2020, the Company had current assets of $4,685,770 (December 31, 2019 – $780,986), including cash of $2,134,866 (December 31, 2019 – $73,677) and liquid investments valued at $2,269,504 (December 31, 2019 – $440,052), to settle current liabilities of $619,303 (December 31, 2019 – $4,320,092), for a working capital of $4,066,467 (December 31, 2019 – working capital deficiency of $3,539,106).

The Company currently has no regular cash flows from operations, and the level of operations is principally a function of availability of capital resources. The primary source of funding has been through the completion of private placement financings of equity securities and convertible debentures, as well as from proceeds on exercises of options and warrants. In Q4 2020, the Company raised more than $1.4 million from exercises of options, and the trend continue into 2021. Since the turn of the new year to date, an amount of over $850,000 was raised from further exercises of warrants. The Company plans to take advantage of the increased cash position to execute a more aggressive growth plan for the operations in Germany and the Netherlands in 2021.

Going forward, the Company will have to continue to rely on equity or debt financings for its working capital requirements, or to restructure its debt level. There is no guarantee that the Company will be able to successfully complete such financings, as market conditions and business performance may dictate availability and interest.

Capital Management

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the development of its planned business activities. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company considers its capital to be shareholders' equity, which is comprised of share capital, equity component of convertible debentures, reserves for share-based payments and warrants, accumulated other comprehensive loss and accumulated deficit. As at December 31, 2020, the Company's capital consisted of an equity attributable to the shareholders of Pharmadrug Inc. of $9,332,287 (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.

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 years ended December 31, 2020 and 2019 were as follows:

	2020	2019
	$	$
Management salaries and consulting fees	**40,000**	240,000
Professional fees	**90,000**	134,960
Share-based compensation	**211,157**	16,421
	341,157	391,381

During the year ended December 31, 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 December 31, 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 also 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 year ended December 31, 2020, the Company recorded management salaries of $40,000 in relation to the CEO's employment compensation.

During the year ended December 31, 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 – $100,000). As at December 31, 2020, no balance was owed to the Former COO (December 31, 2019 – $62,150, included in accounts payable and accrued liabilities).

During the year ended December 31, 2020, Branson Corporate Services Ltd. ("Branson"), where Keith Li, the Chief Financial Officer ("CFO") and Corporate Secretary of the Company is employed, charged fees of $90,000 (2019 – $134,960, including billings on certain services provided from 2017 and up to the RTO Transaction on 2018), for providing CFO services to the Company, as well as other accounting and administrative services. As at December 31, 2020, $39,550 (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 year ended December 31, 2019, David Posner, the former Chairman of the Company, charged consulting fees of $50,000 for services provided to the Company. As at December 31, 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 January 17, 2019, the Company granted 200,000 options to 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 payments during the nine months ended September 30, 2019. On August 14, 2019, these options were cancelled.

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 $239,501, of which $148,157 was recorded as share-based compensation in connection with the vesting of these options during the year ended December 31, 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 payments during the year ended December 31, 2020.

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; and
- A balance of $233,206 owed to the CEO, comprised of a $200,000 principal amount and accrued interest of $22,815 under the Unsecured Debentures.

Indebtedness settled as part of the issuance of 14,437,090 Units at a deemed price of $0.05 per Unit 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.
- A balance of $62,150 owed to the Former COO for services provided under the terms of his consulting agreement; &
- A balance of $77,950 owed to the former Chairman for consulting services previously provided to the Company.

Financial 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, 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 December 31, 2020, the Company had a cash balance of $2,134,866 (December 31, 2019 – $73,677) and liquid investments valued at $2,269,504 (December 31, 2019 – $440,052), to settle current liabilities of $619,303 (December 31, 2019 – $4,320,092).

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

	Less than 1	1 to 3 years	3 to 5 years	Total
	$	$	$	$
Accounts payable and accrued liabilities	562,130	-	-	**562,130**
Lease payments	94,060	58,249	32,351	**184,660**
Provisions	91,270	-	-	**91,270**
Convertible debentures	-	1,033,082	-	**1,033,082**
Total	**747,460**	**1,091,331**	**32,351**	**1,871,142**

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 year ended December 31, 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 year-end.

COVID-19

In December 2019, COVID-19 surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak then characterized it as a pandemic on March 11, 2020. The outbreak has spread throughout Europe and the Middle East and there have been cases of COVID-19 in Canada and the U.S., and has continued to cause companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. The duration of the business disruptions internationally and related financial impact to the global economy remains highly uncertain at this time, as COVID-19 continues to evolve.

The Company's German operations had been impacted by limited supply of cannabis products caused by shipment delays from the Netherlands, but management expects the situation to improve once lockdown restrictions will be lifted with vaccine roll-out. Ultimately, the extent to which the COVID-19 pandemic impacts the Company's financial results will depend on future developments, which remain highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and actions taken to contain it or its impact, among others. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place by Canada, Germany, the Netherlands and other countries to fight the virus. While the extent of the impact remains unknown, the Company anticipates this outbreak may cause supply chain disruptions, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

Market risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices. A 1% change in closing trade price of the Company's other investments would impact net income or loss by approximately $22,700 based upon balances as at December 31, 2020.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's loans payable, notes payable and convertible debentures have fixed interest rates. As at December 31, 2020, the Company had no hedging agreements in place with respect to floating interest rates.

Foreign exchange risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company has operations in Europe where there are financial instruments and transactions denominated in foreign currencies, notably in EUR. The Company's primary exposure to foreign exchange risk is that transactions denominated in EUR may expose the Company to the risk of exchange rate fluctuations.

Fair value

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

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

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

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Other investments	1,293,939	975,565	-	**2,269,504**

As at December 31, 2020, the Company's financial instruments carried at fair value consisted of its 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 year ended December 31, 2020.

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

In addition, the Company had advanced €400,000 (approximately $601,520) to Pharmadrug GmBH as a shareholder loan to assist the German subsidiary to maintain appropriate levels of working capital. The Share Purchase Agreement provides that Anquor will be entitled to receive an earn-out payment of €400,000 if the total revenues of the pharmaceutical tender business of Pharmadrug GmBH for the 2019 financial year are 90% or more of the total revenues of that business segment for the 2018 financial year. The earn-out, if any, will be due and payable to Anquor on March 1, 2020. As at December 31, 2019, the earn-out had not been achieved. Thus, no pay-out has been made.

On May 17, 2019 (the "Acquisition Date"), the Company completed the Pharmadrug Acquisition. Goodwill of $4,605,861 is not tax deductible and was recognized due to the expected synergies from combining operations of the Company and Pharmadrug GmBH. The Company determined that the Pharmadrug Acquisition was a business combination in accordance to the definition of IFRS 3 – Business Combination ("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 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 ROU assets	135,245
Intangible assets	
Supply relationship	406,026
Licenses and permits	5,714,440
Accounts payable and accrued liabilities	(120,296)
Lease liabilities	(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 acquired 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").

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 purchase price and other terms of the Super Smart Transaction were negotiated at arm's length with the Board of Pharmadrug and Interrobang.

Following completion of the Super Smart Transaction, Interrobang became a wholly-owned subsidiary of Pharmadrug.

The acquisition of Super Smart does not constitute a business combination because this entity did not meet the definition of a business under IFRS 3. As a result, the transaction has been accounted for in accordance with IFRS 2 – Share-Based Payments ("IFRS 2"), and share consideration paid was measured at the fair value of the identifiable and unidentifiable assets acquired. Consideration consisted entirely of shares and warrants of the Company which were measured at the estimated fair value on the date of the acquisition.

Details of the Super Smart Transaction are presented as follows:

Purchase Price Consideration Paid	
	$
Fair value of common shares issued (i)	2,886,000
Fair value of warrants issued (ii)	1,749,765
	4,635,765

Net Identifiable Assets Acquired	
	$
Cash	2,191,932
Advances	400,000
Promissory note	76,975
Accounts payable and accrued liabilities	(27,667)
Other liabilities	(1,000)
Debentures Subscription Receipts	(2,500,000)
Total Net Identifiable Assets Acquired	140,240
Unidentifiable Assets Acquired	4,495,525

The unidentifiable assets acquired consist largely of the synergies and economies of scale expecting from combining the operations of the Company and Interrobang. The synergies include improved sales and marketing, lower management salaries and wages, and potential supply chain efficiencies in combining the cannabis distribution and psychedelic business.

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 44,400,000 common shares, issued to former Super Smart shareholders, was determined to be $2,886,000 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 32,200,000 warrants and 3,478,400 finders' warrants as consideration are based on the Black-Scholes valuation model ("Black-Scholes"), with the following assumptions: current stock price – $0.065 per share, expected dividend yield – 0%, expected volatility – 121%, 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) The estimated fair value of the 3,748,400 finders' options as consideration are based on the Monte Carlo option model with the following assumptions: current stock price – $0.065 per share, expected volatility 97%, risk-free interest rate – 0.29%, and an expected life of two years. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies operating in the cannabis industry.

Smart Shop Acquisition

On August 10, 2020, the Company, through its subsidiary Interrobang Tiel B.V., entered into a purchase and sale agreement with Souveniert JE, pursuant to which Pharmadrug acquired the assets of the seller (the "Smart Shop Acquisition"). On October 1, 2020, the Smart Shop Acquisition closed.

The acquisition of Souveniert JE does not constitute a business combination because this entity did not meet the definition of a business under IFRS 3. As a result, the Company has accounted for the Smart Shop Acquisition as an asset acquisition. Consideration consisted of cash payment of €10,000 ($15,805).

Details of the Smart Shop Acquisition are presented as follows:

	$
Purchase Price Consideration Paid	
Cash	15,805
	15,805
Net Identifiable Assets Acquired	
Inventories	1,561
Total Net Identifiable Assets Acquired	1,561
Unidentifiable Net Assets Acquired	14,243

The unidentifiable net assets acquired consist largely of the synergies and economies of scale expecting from the Smart Shop Acquisition. The synergies include improved sales and marketing, complementary products, and potential complementary geographies and customers.

Bridge Loan Facility

On May 9, 2019, the Company received a $3 million Bridge Loan Facility from a private lender (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 with the Lender, (ii) granted the Lender exclusive control over the FSD Shares, and (iii) granted the Lender a power of attorney or trading authority in respect of the securities of FSD.

On August 19, 2019, the FSD Shares were sold 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 year ended December 31, 2020, the Company had recorded a gain of $31,075 (2019 – $nil) upon completion of the Settlement with the Lender, on its consolidated statements of loss and comprehensive loss.

Contingencies

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

While management believes that the Company is in compliance with applicable local and state regulations as at December 31, 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 December 31, 2020, the Company had 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.

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 December 31, 2020, the Company had recorded a provision of approximately $91,270 (€58,747) for the estimated potential damages it is expected to pay out on the above claims.

Commitments

On July 21, 2020, the Company entered into the NMC Supply Agreement with NMC, a Canadian LP of medical cannabis, 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. The Company anticipates it should begin receiving shipments in the final quarter 2020, and the cannabis flower will be packaged in Germany and sold under Pharmadrug's own in-house brand. The NMC Supply Agreement shall remain in force and effect for a period of three years, and will automatically renew for additional successive two-year terms.

On January 4, 2021, the Company entered into a supply agreement with a Canadian-based multinational cannabis company for EuGMP certified medical cannabis. The supply is already registered and approved for sale in the German market. Pursuant to the supply agreement, Pharmadrug GmbH will purchase branded medical cannabis from the supplier's German

subsidiary. Pharmadrug GmBH has already received regulatory approval to distribute the cannabis and the product has been added to their license. The flower will be imported into Germany by the global supplier and sold under the supplier's medical cannabis brand.

Off-Balance Sheet Arrangements

As at December 31, 2020 and the date of this MD&A, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

Subsequent Events

Sairiyo Acquisition

On January 24, 2021, the Company entered into a share exchange agreement (the "Agreement") to acquire Sairiyo.

On February 2, 2021, the Company completed the Sairiyo Acquisition. Under the terms of the Agreement, the Company acquired all of the issued and outstanding shares of Sairiyo in consideration for the issuance of an aggregate of 75,000,000 Units of Pharmadrug. Each Unit is comprised of one common share and one Warrant of Pharmadrug. Each Warrant entitles the holder thereof to acquire one common share in the capital of Pharmadrug at any time on or before the August 2, 2022 at an exercise price of $0.10 per share.

The Company is currently working to finalize the accounting related to the acquisition of Sairiyo.

Shares, options and warrants

On January 10, 2021, 5,869,159 warrants exercisable at $0.25, expired unexercised.

On January 17, 2021, 350,000 options exercisable at $0.235, expired unexercised.

On February 4, 2021, the Company granted 4,250,000 options to its officers and directors. The options are exercisable at a price of $0.085 per common share for a period of five years. 4,250,000 options granted to officers and directors will vest in one-third increments after three months, six months and 12 months until fully vested. The Company also granted 950,000 options to consultants under the same exercise price and expiry, which vested immediately on grant.

On February 17, 2021, the Company issued 850,000 common shares as a result of the exercises of 850,000 stock options for cash proceeds of $72,250.

On April 17, 2021, 813,743 compensation options exercisable at $0.22, expired unexercised.

Subsequent to December 31, 2020, the remaining principal amount of $285,000 of the Pharmadrug Debentures was converted into 5,700,000 Units of the Company at a price of $0.05 per share.

Subsequent to December 31, 2020, the Company issued 17,134,200 common shares as a result of the exercises of 17,134,200 Warrants for cash proceeds of $856,710.

Disclosure of Outstanding Share Data as of April 30, 2021

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited number of common shares	340,316,383 common shares

Securities convertible or exercisable into voting or equity		a) 123,203,240 warrants exercisable to acquire common shares of the Company, and b) 20,350,000 outstanding stock options, of which 12,208,333 stock options are exercisable into common shares of the Company.

Significant Accounting Judgments and Estimates

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

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. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends, and are consistent with those used to evaluate impairment of goodwill and intangible assets as at December 31, 2020. Management believes there is sufficient capital to meet the Company's business obligations for at least the next 12 months, after taking into account expected cash flows and the Company's cash position at year-end.

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. Purchase consideration also includes consideration of any pre-existing relationships that are effectively settled as a result of the acquisition at their fair values.

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities on the consolidated statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available,

judgment is required to establish fair values. Judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

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

Depreciation 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.

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 is defined as the higher of: (i) value-in-use; or (ii) fair value less cost to sell. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the CGU 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 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 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 consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

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

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

Expected credit losses on financial assets

Determining an allowance for expected credit losses 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.

Provisions

The Company recognizes provisions if there is a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and the obligation can be reliably estimated. The amount recognized as a provision reflects management's best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Summary of Significant Accounting Policies

(a) Cash

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

(b) Revenue from Contracts with Customers

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

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

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

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

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

(c) Financial Instruments

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

Classification

The Company classifies its financial assets in the following measurement categories: (a) those to be measured subsequently at FVTPL; (b) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and (c) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows.

Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are recorded in profit or loss. The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Company's financial assets include cash, other receivables excluding any sales tax amounts, note receivable, and other investments. The Company's financial liabilities include its accounts payable and accrued liabilities, loans payable, promissory notes payable, lease liabilities and convertible debentures.

Fair value through profit or loss

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

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss). As at December 31, 2020, the Company did not have any financial assets at FVTOCI.

Amortized cost

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

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

Cash	Amortized cost
Other receivables (excluding sales tax recoverable)	Amortized cost
Note receivable	Amortized cost
Other investments	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Loans payable	Amortized cost
Notes payable	Amortized cost
Lease liabilities	Amortized cost
Convertible debentures	Amortized cost

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are

expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

Expected credit loss impairment model

Under IFRS 9 – Financial Instruments, the Company recognizes a provision for ECL on financial assets that are measured on amortized cost. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

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

Derecognition

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

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

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

Determination of fair value

The determination of fair value requires judgment and is based on market information, where available and appropriate. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

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

(d) Inventories

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

(e) Compound Instruments

The components of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the contractual agreement. At the date of issue, the fair value of the liability component is estimated using the market interest rate then in effect for a similar non-convertible instrument. This amount is recorded as a liability, at amortized cost, using the effective interest rate method until its expiry at the time of conversion or maturity of the instrument. The equity component is determined by deducting the amount of the liability component of the total fair value of the compound instrument. This amount is recognized in equity, net of income tax effects, and is not subsequently remeasured.

Transaction costs related to the issuance of the convertible debentures are allocated to the liability and equity components in proportion to their initial carrying amounts. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the convertible debentures using the effective interest method. Interest and accretion expense are recognized as a finance cost in the consolidated statements of loss and comprehensive loss.

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

(f) Intangible Assets

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

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

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or CGUs which are expected to benefit from the synergies of the combination. Goodwill has an indefinite useful life that is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

(g) Property and Equipment

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

Amortization is computed using the straight-line method based on the estimated useful life of the assets and commences when title and ownership have transferred to the Company and is readily available for its intended use. The residual value, useful life and amortization methods are reviewed at the end of each reporting period. Such a review takes into consideration

the nature of the asset, the intended use and impact of technological changes. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of capital assets. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.
Amortization is recorded on a straight-line basis as follows:

- Office equipment: Straight-line over the term of the lease
- Right-of-use assets: Straight-line over the term of the lease

(h) Leased Assets

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

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

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

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

(i) Provisions

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

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

(j) Income Taxes

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

Current income tax is recognized and measured at the amount expected to be recovered from, or payable to, the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes

any adjustment to taxes payable in respect of previous years.

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

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

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

Estimates

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

(k) Share Capital

In situations where the Company issues units, the value of units is bifurcated and the value of warrants is included as a separate reserve for warrants of the Company's equity. The proceeds from the issuance of units are allocated between common shares and warrants on a pro-rated basis using the relative fair value method. The fair value of the common shares is determined using the share price at the date of issuance of the units. The fair value of the warrants is determined using Black-Scholes.

(l) Share Issuance Costs

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

(m) Share-Based Payments Transactions

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

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

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

(n) Loss Per Share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted (loss) earnings per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

(o) Foreign Currency Translation

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

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

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

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

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

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

(p) Related Party Transactions

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

(q) 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 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 revision was 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 consolidated financial statements.

(r) Recent Accounting Pronouncements

As at the date of authorization of the 2020 Financial Statements, the IASB and the IFRS Interpretations Committee had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2021. Many are not applicable or do not have a significant impact to the Company, have been excluded. The Company had assessed that no material impact is expected upon the adoption of the following amendments on its consolidated financial statements:

Amendments to IAS 1

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management's expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

In May 2020, the IASB issued amendments to update IAS 37. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

Risk Factors

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

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

Limited operating history in cannabis industry

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

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

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

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

Immediate need for additional financing

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

Volatile financial and economic conditions

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

Non-compliance with cannabis laws and regulations

Non-compliance with federal, provincial or state laws and regulations, or the expansion of current or enactment of new laws or regulations, could adversely affect the Company's business in Germany, and elsewhere it operates or invests. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the carrying on of business of Pharmadrug GmBH. The Company cannot predict the time required to secure all appropriate regulatory approvals for its

business or other businesses in which the Company invests, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

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

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

Regulatory approvals and permits

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

Environmental and employee health and safety regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Pharmadrug GmBH

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

Risks associated with increasing competition

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

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

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

The success of new and existing products and services is uncertain

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

New well-capitalized entrants may develop large-scale operations

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

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

No assurance of commercial success

The successful commercialization of the Company's products will depend on many factors, including, the Company's ability to establish and maintain working partnerships with industry participants in order to market its products, the Company's ability to supply a sufficient amount of its products to meet market demand, and the number of competitors within each jurisdiction within which the Company may from time to time be engaged. There can be no assurance that the Company or its industry partners will be successful in their respective efforts to develop and implement, or assist the in developing and implementing, a commercialization strategy for the Company's products.

Factors which may prevent realization of growth targets

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

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

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

Constraints on marketing products

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

Risks inherent in an agricultural business

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

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

Reliance on management and advisory board

The Company will need to expand and effectively manage its managerial, operational, financial, development and other resources in order to successfully pursue its development and commercialization efforts of its products. The success of the Company is currently dependent on the performance of its management team, which also relies on advice and guidance of certain members of the Board and Advisory Board, not all of whom are or will be bound by formal contractual employment agreements.

The Company's success depends on its continued ability to attract, retain, and motivate highly qualified people. The loss of the services of these persons would have a material adverse effect on the Company's business and prospects in the short term and could delay or prevent the commercialization of its products, and the business may be harmed as a result.
The Company may not be able to attract or retain qualified management and scientific personnel in the future due to the intense competition for qualified personnel with extensive management experience in such fields as pharmaceutical regulations, finance, manufacturing, marketing, law, and investment. If the Company is not able to attract and retain the necessary personnel to accomplish its business objectives, the achievement of its development objectives, its ability to raise additional capital and its ability to implement its business strategy may be significantly reduced and could have a material adverse effect on the Company and its prospects.

Reliance on third-party service providers

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

Insurance and uninsured risks

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

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

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

Dependence on suppliers and skilled labor

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

Management of growth

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

No dividends

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

Foreign currency exchange rates

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

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

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

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

Limited market for securities

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

Enforcement of proprietary rights

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

Infringement or misappropriation claims

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

Unfavourable publicity or consumer perception

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

Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or other publicity could have a material adverse effect on the demand of the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have such a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company.

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

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

Internal controls

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

Product liability

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

its clients and consumers generally, and could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

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

Product recalls

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

Liability for activity of employees, contractors and consultants

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

Ability to obtain and retain licenses and permits

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

Difficult to forecast demand

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

Disruption of business

Conditions or events including, but not limited to, those listed below could disrupt the Company's operations, increase operating expenses, resulting in delayed performance of contractual obligations or require additional expenditures to be incurred: (i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.; (ii) a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity (see also, "Public Health Crises,

including COVID-19"); (iii) political instability, social and labour unrest, war or terrorism; or (iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road.

Public health crises

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

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

Use of Non-IFRS Financial Measures

This MD&A contains references to "Adjusted EBITDA", which is a non-IFRS financial measures which does not have any standardized definitions under IFRS.

Adjusted EBITDA is a measure of the Company's overall financial performance and is used as an alternative to earnings or income in some circumstances. Adjusted EBITDA is essentially net income (loss) with interest, taxes, depreciation and amortization, non-cash adjustments and other unusual or non-recurring items added back. Adjusted EBITDA can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. Adjusted EBITDA is often used in valuation ratios and can be compared to enterprise value and revenue. The term Adjusted EBITDA does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

There are no comparable IFRS financial measures presented in the 2020 Financial Statements. Reconciliations of the supplemental non-IFRS financial measures are presented in this MD&A. The Company provides the non-IFRS financial measures as supplemental information and in addition to the financial measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management believes such measures provide information which is useful to shareholders and investors in understanding its performance and which may assist in the evaluation of the Company's business relative to that of its peers. However, such measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the most comparable IFRS financial measures.

Disclosure of Internal Controls over Financial Reporting

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements; and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented. In contrast to non-venture issuers this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable

assurance that information required to be disclosed by the Company in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Company to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

Cautionary Note Regarding Forward-Looking Statements

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking statements are often identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements herein include those relating to, without limitation: Pharmadrug's international expansion strategy and plans, including plans relating to those entities in which it has invested; the status of German laws with respect to cannabis; and Pharmadrug's financing plans and needs. Such statements are based on numerous assumptions believed by management to be reasonable in the circumstances, including among others that the Company will succeed with its German and eventual international expansion plans.

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

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

Management's Responsibility for Financial Information

Management is responsible for all information contained in this MD&A. The Company's 2020 Financial Statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the 2020 Financial Statements in all material aspects.

The Audit Committee has reviewed the 2020 Financial Statements and this MD&A with management of Pharmadrug. The Board of the Company has approved the 2020 Financial Statements and this MD&A on the recommendation of the Audit Committee.

April 30, 2021

Daniel Cohen
Chief Executive Officer