PHARMADRUG INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021

The following Management's Discussion and Analysis ("MD&A") is current to August 27, 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 three and six months ended June 30, 2021. 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 unaudited condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2021 and 2020 (the "Q2 2021 Financial Statements"), as well as the audited consolidated financial statements for the year ended December 31, 2020, 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. 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 2021, the Company completed the acquisition of Sairiyo Therapeutics Inc. ("Sairiyo") (the "Sairiyo Acquisition"), a biotechnology company focused on repurposing and developing improved formulations of naturally-derived compounds for serious, rare, and life-threatening diseases.

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 "PHRX". 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 January 4, 2021, the Company entered into a supply agreement with a Canadian-based multinational cannabis company (the "Supplier") for EuGMP certified medical cannabis. The supply is registered and approved for sale in the German market.

On January 25, 2021, the Company entered into the definitive agreement to acquire Sairiyo. On February 2, 2021, the Sairiyo Acquisition closed (see "Outlook and Plans" and "Business Acquisition" 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 United States 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 ("UoM"), 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.

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.

On May 6, 2021, the Company announced that it has entered into a service agreement with a contract research organization ("CRO") with expertise in preclinical oncology model development and drug testing, to evaluate the Company's patented entericcoated formulation of Cepharanthine ("PD-001") in a broad panel of human cancers.

On May 12, 2021, the Company entered into an employment agreement with Dr. Paul Van Slyke and appointed him as Chief Scientific Officer (the "CSO"). Mr. Van Slyke previously served as CSO of Sairiyo, and is an entrepreneur-scientist with 18 granted and filed patents. Having completed his PhD at the University of Toronto, Department of Medical Biophyics, Mr. Van Slyke will exercise a multidisciplinary approach to developing market ready solutions to foundational biological questions.

On May 14, 2021, the Company announced that it has entered into a supply agreement with an emerging Eurozone cannabis extractor for medical grade THC oil to be sold under Pharmadrug's own brand. The Company expects to receive product and begin selling in Germany by September of 2021 (see "Outlook and Plans" for details).

On May 17, 2021, the Company announced that its Super Smart division has launched a Slim Winkel branded online retail platform in the U.S., focusing on functional mushrooms. The website was launched with a domain name of slimwinkel.com (see "Outlook and Plans" for details).

On June 7, 2021, the Company announced that the Slim Winkel branded online retail platform was also launched in the Netherlands. The website will also service other parts of Europe, but without the access to psilocybin truffles.

On June 22, 2021, the Company announced that it has initiated preparation of a Pre-Investigational new Drug Application ("Pre-IND") for its patented enteric-coated formulation of PD-001.

On July 14, 2021, the Company announced interim positive result from its ongoing preclinical study evaluating the Company's patented enteric-coated formulation of PD-001 in a broad panel of human cancers conducted by a respected CRO with deep expertise in preclinical oncology model development and drug testing.

On July 28, 2021, the Company announced the result of the completion its preclinical cancer study which evaluated Cepharanthine-2HCI, the active pharmaceutical ingredient in PD-001, which validated Cepharanthine's potential in treating different types of cancer, including esophageal, colorectal, liver and skin.

On August 3, 2021, the Company changed its ticker symbol to "PHRX", in order to provide greater visibility with respect to the Company's long-term strategy, and to continue adding value to the shareholders by developing and commercializing naturally derived medicines.

On August 5, 2021, the Company announced that it had entered into a sponsored research agreement with the Terasaki Institute for Biomedical Innovation (the "Terasaki Institute") to develop a novel ocular drug delivery platform that aims to deliver psychedelic and tryptamine-based pharmaceuticals.

On August 25, 2021, the Company announced that it has entered into a clinical trial agreement with the Johns Hopkins University ("JHU") to conduct a clinical study comparing acute and enduring psychological and neural effects of DMT and an undisclosed, potently active comparator molecule. The principal investigator, Dr. Frederick S. Barrett, PhD, Associate Professor of Psychiatry and Behavioral Sciences, will be supported by Co-investigators Dr. Sandeep Nayak and Dr. Roland Griffiths; all from the JHU Center for Psychedelic and Consciousness Research.

Financing Activities

By March 2021, the Company converted a remaining principal amount of $285,000 of the Pharmadrug Debentures into 5,700,000 units ("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 common share purchase warrant ("Warrant") exercisable at $0.05 for a a period of 36 months.

During the six months ended June 30, 2021, 850,000 common shares were issued as a result of the exercise of options for cash proceeds of $72,250.

During the six months ended June 30, 2021, 17,634,200 common shares were issued as a result of the exercise of 16,281,400 Warrants, 1,352,800 Finders' Warrants and 276,400 broker options, for total cash proceeds of $881,710.

Outlook and Plans

Medical Cannabis

The second quarter saw continued challenges on the medical cannabis supply front as the Company ran out of Bedrocan inventory for several weeks. Although inventory levels have been replenished, management has now lowered its expectations on the ongoing levels of Bedrocan's product availability. Bedrocan's overall supply issues resulted in a corresponding loss of market share, but that void seems to have been filled by the likes of Aurora Cannabis Inc., Canopy Growth Corporation and Tilray, Inc. The Company did see the first shipment of medical cannabis from the Supplier, however, demand for the product was much lower than anticipated. The Supplier also failed to co-operate adequately on the marketing initiatives deemed necessary by management. Additional developments in the German market included the first introduction of natively-grown medical cannabis. All of these elements have led to the beginning of margin erosion. Pharmadrug has been offered supply agreements from some of the other aforementioned players but has determined that the price is not attractive.

Management believes it needs to focus on its own supply chain where it can better control product margins, inventory supply and marketing initiatives. Consistent with this view, management has decided to shift its focus to the growing medical cannabis oil segment. The Company plans to maintain its Bedrocan business, but all future growth initiatives will be focused on burgeoning cannabis extracts and oils space.

Management estimates that the medical cannabis flower market was more than two times the size of the cannabis oil market in 2019 with approximately 90% of the oil market dominated by synthetic oils such as dronabinol. By the first quarter of 2022, management estimates the oil market is within 15% of the flower market. The full extract market is continuing to gain ground on dronabinol, nearly doubling its share of the total cannabis oil market. The German market's overall move towards oils mirrors that seen in the North American markets in the last five years. As such, the Company is planning to enter the oil market with Pharmadrug branded offerings of dronabinol, high THC oil and balanced THC/CBD oils.

As previously announced, the Company has signed a supply agreement with an emerging cannabis extractor in Denmark to produce cannabis oil under Pharmadrug's brand. The facility has already received EuGMP certification from the Danish government and Pharmadrug is in the final stages of registering the product with the regulatory authorities in Germany. The Company anticipates its first receipt and distribution of high THC oil early in the fourth quarter of 2021 followed by balanced oil in the first quarter of 2022. The Company is also finalizing a supply agreement with a German company to supply Pharmadrug with dronabinol. The supply cost should allow Pharmadrug to enter the market with an extremely competitive price. Management anticipates beginning sales of dronabinol on a wholesale basis early in the fourth quarter followed by a Pharmadrug branded dronabinol in the first quarter of 2022.

Cepharanthine and COVID-19

The Company has nearly completed the preparation of a Pre-IND for its patented enteric-coated formulation of Cepharanthine as an oral antiviral medication to treat mild-moderate COVID-19 symptoms. Management anticipates it will be in a position to submit the Pre-IND by the first week of September 2021. The FDA typically grants a meeting date within three weeks of the submission. That meeting takes places within sixty days of the notification. The Company will notify the market once the meeting date will be confirmed, which is expected to be in November. Thus begins the process of moving towards an FDA clinical trial. The submission is a lengthy document that includes the scientific rationale, the existing research, chemical and manufacturing data on the drug itself, as well as a suggested protocol for the proposed clinical trial. The document also includes a set of questions on what the FDA would be looking for in the eventual Investigational New Drug Application ("IND") that serves as the official request to begin a clinical trial. More specifically, the results of the meeting will give the Company guidance from the FDA if it is to move towards a phase 1 or phase 2 trial and if it needs to perform additional non-clinical work before proceeding to human trials in the clinic.

Cepharanthine and Cancer

The Company is currently focused on advancing the clinical development of Cepharanthine to treat rare cancers with high unmet medical needs. Sairiyo was granted ODD from the FDA for Cepharanthine in the treatment of esophageal cancer in January 2021 and has since added some world class experts to its scientific advisory team. Orphan Status from the FDA provides numerous benefits such as tax credits, a more streamlined regulatory process and seven years of marketing exclusivity post-FDA approval.

Management decided to conduct some pre-clinical work to evaluate the mechanism of action more fully for Cepharanthine given that the drug displays potential as a direct anti-cancer agent as well a prospect for reducing resistance to common chemotherapies.

The first phase of the study aimed to compare cepharanthine to the current standard of care in 60 human cancers. The Company was pleased to see that 20 of the 60 cells lines screened showed growth inhibition of at least 50% when exposed to cepharanthine levels previously determined to be well tolerated in a human clinical population. Additionally, there were several instances in which Cepharanthine displayed growth inhibition which was comparable or superior to current gold standard treatments, including colorectal, liver and skin cancers. More notably, results of the current study demonstrated that esophageal cancer was the most highly responsive of all 60 cancers examined.

Management has already begun the next phase of studies where cepharanthine will be tested in combination with standard of care chemo on the 20 cell lines that delivered positive results in the previous study. The goal will be to identify cancers where there is a synergy to combining Cepharanthine and chemo, beyond results seen by Cepharanthine or chemo on their own. While designed to provide guidance as to which cancer is most optimally responsive to Cepharanthine, such combo studies often provide important guidance related to clinical applicability and potential opportunities for the Company related to the generation of new intellectual property. The studies will test each cancer cell three times. Once with Cepharanthine alone, once with the standard of care chemo and once with both Cepharanthine and chemo combined. Management is most excited about the results from the esophageal cancer cell lines for three reasons. Firstly, because the Company has ODD to Cepharanthine for esophageal cancer and it is Pharmadrug's current primary oncological focus. Secondly, because the results from the first tests had the strongest response from esophageal cancer. Lastly, the current deficiency in the treatment of esophageal cancer stems from the cancer's ability to build a resistance to chemo. A significant response from combining Cepharanthine with chemo could result in a game changing potential to treat the cancer. The Company anticipates the results from this phase of tests in September.

Following the results of the current study, the Company will initiate animal models using human cancer cell lines grown in mice to be treated with its patented enteric-coated PD-001. Based on forthcoming results, the Company will select two or three cancers along with esophageal cancer. Management anticipates beginning the trials in November. Results from the mouse models should begin to arrive in December 2021 or January 2022.

Psychedelic Biotech Research

The Company spent the majority of the second quarter developing a commercial strategy in the psychedelic biotech space focused on DMT. The first step was to bring on Dr. Steven Barker, a prominent American DMT academic researcher as an advisor. The Company then entered into a sponsored research agreement with the UoM which provides funding to support a foundational study to examine the role of naturally occurring DMT in the brain. The goal is to build an internal intelligence capacity and think tank to be able to develop a native commercial strategy. Unlike most psychedelics being pursued for commercial development, the Company was intrigued by the fact that DMT is synthesized endogenously in the brain and by extension, the implication that the molecule has a specific purpose in the normal functioning on the body. Of particular interest was DMT's potential as an anti-inflammatory and anti-oxidative agent.

The Company filed for and was granted ODD from the FDA to DMT for the prevention of ischemia-reperfusion injury in patients undergoing organ transplants, including liver, kidney, heart and lung. The Company was the first to receive ODD for DMT, and while still working on this path, felt there was a more immediate opportunity to focus on DMT's potential for conditions in the eye, namely glaucoma. The rationale behind this is management's view that a potential successful psychedelic strategy requires the combination of a unique indication, unique formulation and a unique delivery technology.

Tryptamines, such as DMT for eye diseases represent the right opportunity to fulfill the objectives of identifying a unique indication, unique formulation and a unique delivery technology. Management was able to capitalize on our CSO's many years of experience in targeting receptor pathways combined with existing literature to develop the concept. Essentially, glaucoma causes pathological increases in intraocular pressure ("IOP") that can cause progressive and irreversible vision loss. Many remedies are available in the form of topical drops. None of the treatments are completely successful due in part to side effects, lack of compliance and the increase in IOP overnight when drops are not administered. Previous research has shown that elevated IOP can be reduced though activation of serotonin receptors, but attractive drug candidates and methods of delivery remain to be developed. More specifically, tryptamine family members (of which DMT is one) have been shown to reduce IOP by activating 5HT-1a and 5HT-2a receptors in regions of the eye know to regulate fluid dynamics/pressure. The company is currently evaluating novel formulations of DMT (as well as undisclosed analogues) that can address elevated IOP. Once these studies are complete, the Company will elect the optimal candidate to be incorporated into controlled release device for the treatment of glaucoma.

Pharmadrug was also able to form a collaboration with the Terasaki Institute, which is a world-leading biotechnology institute which develops medical devices and cutting-edge protocols for a variety of diagnostic, monitoring and treatment applications. Their research platforms include work in biomaterials, cellular and tissue engineering, wearable biosensors and organs-on-a-chip, with specific expertise in novel polymer development. The goal of the collaboration is develop an ocular medical device that can continuously and slowly release a reformulated DMT or DMT analogue to reduce IOP. Pharmadrug will contribute the chemical formulations and the Terasaki Institute will use its in-house technology to select and develop an effective delivery mechanism. During the first stage of the collaboration, the Terasaki Institute's scientists will use human, primary cell-based studies to identify the most potent candidate tryptamine. Follow-up studies will leverage specific expertise in biomaterial engineering to produce a controlled release ophthalmic medical device. Finally, the drug-impregnated, controlled release product will be evaluated in a generally accepted non-human primate model of glaucoma.

Super Smart

The Company's efforts in the second quarter were focused on launching its e-commerce strategy. The continued lockdown in the Netherlands and its persistent impact on the retail industry had made the execution of a brick-and-mortar strategy less than attractive. While online shops were set up in both the U.S. and Europe, they served more as beta versions to help define and refine our approach. A director of e-commerce with specific experience in the functional mushroom industry was hired and a major overhaul of the U.S. site was initiated. It was quickly determined that the cornerstone of a successful business would require the development of an in-house product that can adequately match the quality and technical specifications that the Company strived for. A product line was developed and the initial batch of the first product has been sent into production. The product will be revealed with the new e-commerce site at the start of September with initial sales to commence at the start of October. The site will continue to provide educational content and the product offering will be augmented with curated bundles. In the meantime, the Company has been successfully increasing traffic to its website and social network while it has been recruiting influencers and micro influencers to champion the Slim Winkel products as they are launched.

Following a recent trip to Germany, management also travelled to the Netherlands to visit the current store in Tiel, as well as several locations in both Amsterdam and Rotterdam. Management was able to visit over 30 stores, including several stores currently for sale. The conclusion was that the retail market is still under tremendous pressure. The cost of purchasing existing stores is prohibitive and the building of greenfield locations in a competitive environment is not economically viable, especially since the market is relatively small and not currently exhibiting any signs of significant growth.

Super Smart will continue with the European online effort and will undertake to overhaul the site and develop a strategy to reflect the distinct market within North America by adapting an e-commerce only model. In formulating this decision, management met with director of e-commerce candidates with direct European branding expertise. Future focus will be on a launch of a Slim psilocybin product for the Netherlands complemented by a functional mushroom offering in all of Europe including the Slim functional products once they are established in the U.S.

Financial Information

Selected quarterly financial results

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

	Q2 2021	Q1 2021	Q4 2020	Q3 2020
	$	$	$	$
Sales revenue	112,862	136,655	175,406	137,322
Operating expenses	(1,196,909)	(1,400,557)	(792,585)	(1,227,726)
Other income (expenses)	(193,073)	(525,088)	(2,302,308)	148,597
Net loss	(1,234,674)	(1,831,877)	(2,570,050)	(1,034,168)
Loss per share – basic and diluted	(0.009)	(0.006)	(0.012)	(0.006)

	Q2 2020 [1]	Q1 2020	Q4 2019	Q3 2019 [1]
	$	$	$	$
Sales revenue	192,328	178,615	37,918	271,291
Operating expenses	(1,420,155)	(643,044)	(2,976,638)	(734,384)
Other income (expenses)	(289,991)	379,790	(1,189,935)	1,176,333
Net income (loss)	(1,661,210)	(224,945)	(3,813,300)	508,617
Income (loss) per share – basic and diluted	(0.018)	(0.003)	(0.029)	0.006

Financial Results for the Three Months ended June 30, 2021

Results of operations

During the three months ended June 30, 2021 ("Q2 2021"), the Company recorded total sales revenue of $112,862 (2020 – $192,328) and cost of goods sold of $51,762 (2020 – $142,392), for a gross profit of $61,100 (2020 – $48,936) from shipments of cannabis products to pharmacies through out Germany, and online sales of products in the Netherlands and the U.S. As compared to the first quarter of the year ("Q1 2021"), the Company had a decrease of $23,793 in sales for a quarter-to-quarter decrease of approximately 17.4%. This is mainly as a result of unsteady and volatile supply of products available for sale in the current quarter as there was a delay in the supply of the products primarily from Bedrocan.

During Q2 2021, the Company incurred total operating expenses of $1,196,909, as compared to total operating expenses of $1,420,155 in the comparative period. The significant variances in operating expenses are comprised primarily of:

- Decrease of $315,114 in share-based compensation to $194,744 (2020 – $509,858) as a result of 5.5 million options granted in the comparative period. The options vested immediately, and the entire grant date fair value was recognized as expense.

[1] For comparative purposes, certain figures had been adjusted to reflect 2019 and 2020 year-end adjustments which would have retroactively impacted the results of operations for Q2 2020 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.

- Decrease of $225,006 in professional fees to $218,421 (2020 – $443,427) as a result of one-time professional fees expenses incurred on restructuring of a bridge loan which occurred in Q2 2020.
- Increase of $141,328 in management, consulting fees and salary to $270,934 (2020 – $129,606) as a result of an increase in staffing and recruitment Canada, Germany, the Netherlands and the U.S. The Company's CSO was also hired in Q2 2021.
- Increase of $73,137 in marketing and travel cost to $82,021 (2020 – $8,884) as a result of the business' drive to increase public awareness of the Company's business and products.

Other expenses incurred by the Company in Q2 2021 include $25,566 (2020 – $nil) on research activities being carried out by SwRI® on the use of Cepharanthine dihydrochloride and $67,189 (2020 – $16,480) spent on office and general expenses such as insurance, rent and lease.

During Q2 2021, the Company also incurred other non-cash expenses such as allowance for expected credit loss ("ECL"), amortization of property and equipment and, right-of-use ("ROU") assets and intangible assets. The amount incurred was $28,408 more than that of the comparative period.

Finance costs, comprising interest and accretion recorded on various debt instruments totaled $34,372 (2020 – $124,199). In relation to its investments, the Company recorded an unrealized loss of $96,286 (2020 – $520,114) on the fair value decrease of warrants held in Q2 2021.

Net loss for Q2 2021 was $1,234,674, as compared to a net loss $1,661,210 in Q2 2020. Net loss attributable to shareholders of Pharmadrug for Q2 2021 was $1,145,160 (loss of $0.009 on a basic and diluted basis), as compared to a net loss $1,583,422 attributable to shareholders of Pharmadrug (loss of $0.018 on a basic and diluted basis) for Q2 2020.

Cash flows

Net cash used in operating activities for Q2 2021 was $720,460, as compared to net cash used in operating activities of $447,686 in Q2 2020, for an increase of $272,774. Due to the Company's continuous expansion in Europe and North America, along continuous progress into Biotech research and development, operating spending had increased as a result. Management intends to maintain a tight control on incurring expenses and ensuring that only expenses necessary are incurred at a reasonable cost.

Net cash provided by financing activities for Q2 2021 was $73,467, as compared to net cash provided by financing activities of $210,598 in Q2 2020, for a decrease of $137,131. In the current period, the Company received proceeds of $90,000 from the exercise of 1.8 million warrants while in comparative period, the Company received funds of $480,000 from Interrobang Ltd. ("Interrrobang") prior to the closing of the Super Smart Transaction in June 2020, while repaying in full a secured private loan for $258,897 including accrued interest to an arm's length third-party.

Net cash used in investing activities for Q2 2021 was $4,131, as compared to net cash provided by investing activities of $2,191,952 in Q2 2020, for a decrease of $2,196,083. In the current period, the use of funds was primarily attributed to amount invested in intangible assets development while in the comparative period, $2.1 million was acquired from the amalgamation transaction with Interrobang.

Financial Results for the Six Months ended June 30, 2021

Results of operations

During the six months ended June 30, 2021, the Company recorded total sales revenue of $249,517 (2020 – $370,943) and cost of goods sold of $181,851 (2020 – $283,698), for a gross profit of $67,666 (2020 – $87,245) from shipments of cannabis products to pharmacies through out Germany and sales of mushrooms and other wellness products in the Netherlands and the U.S. As compared to the comparative period in 2020, sales reduced by 33% as a result of the Company running out of stock and vendors not supplying products as expected in the current period, a problem which had hampered the Company's sales since late 2019.

During the six months ended June 30, 2021, the Company incurred total operating expenses of $2,597,466, for an increase of $534,267 as compared to total operating expenses of $2,063,199 in the comparative period. The significant variances in operating expenses are comprised primarily of:

- Increase of $279,913 in management, consulting fees and salaries to $508,455 (2020 – $228,542) where the majority was attributed to the staff and sales force recruitment by Pharmadrug GmBH and Interrobang Tiel. In the current period, salary was paid to the Chief Executive Officer ("CEO") and the new CSO. Fees paid for consultants were also included under management, consulting fees and salaries during the period.
- Increase of $257,597 in travel and marketing expenses to $273,735 (2020 – $16,138) where the increase is primarily from marketing and investor relations consulting work performed during the period. In conjunction with the Sairiyo Acquisition, the Company had started a marketing campaign to promote the different facets of Pharmadrug, whereas in the comparative period in 2020, the Company did not engage in much promotional activities due to shortage of funds and from travel restrictions imposed by COVID-19.
- Increase of $76,276 in office and general expenses to $176,203 (2020 – $99,927) as a result of geographical business expansion which led to the Company incurring more expenses such as insurance and rent.
- Decrease of $96,036 in share-based compensation to $417,240 (2020 – $513,276) as a result of vesting of options recorded in the respective periods.

During the six months ended June 30, 2021, in relation to its investments, the Company recorded a realized gain of $903,060 on disposal of certain investments for $1,214,454 and had an unrealized loss of $1,021,987. In the comparative period, the Company recorded a realized gain of $741,375, and an unrealized loss of $440,052 upon disposition of certain investments for $741,375.

Finance costs, comprising interest and accretion recorded on various debt instruments, totaled $77,325 (2020 – $229,235). The decrease is mainly a result of certain debts obligations which had since been converted or extinguished since the comparative period had lapsed.

Net loss for the six months ended June 30, 2021 was $3,066,551, as compared to a net loss $1,886,155 in the comparative period in 2020. Net loss attributable to shareholders of Pharmadrug for the period year-to-date was $2,884,237 (loss of $0.010 on a basic and diluted basis), as compared to a net loss attributable to shareholders of Pharmadrug of $1,717,563 (loss of $0.021 on a basic and diluted basis) in the comparative period in 2020.

Cash flows

Net cash used in operating activities for the six months ended June 30, 2021 was $2,140,545, as compared to net cash used in operating activities of $597,527 in the comparative period, for an increase of $1,543,018. Due to the Company's continuous expansion in Europe and North America, along continuous progress into Biotech research and development, operating spending had increased as a result. Management intends to maintain a tight control on incurring expenses and ensuring that only expenses necessary are incurred at a reasonable cost.

Net cash provided by financing activities for the six months ended June 30, 2021 was $918,757, as the Company primarily received funds of over $950,000 from various exercises of warrants and options while the cash generated from financing activities in comparative period was about $450,000 arising mainly from $480,000 from Interrobang prior to the closing of the Super Smart Transaction.

Net cash used in investing activities for the six months ended June 30, 2021 was $4,131, primarily from additions of intangible assets. In the comparative period, net cash provided by investing activities are in the form of total cash of more than $1.57 million generated from dispositions of certain investments, cash acquired from business combination and cash used in acquisition of intangible assets. In comparative period, net cash provided by investing activities was over $2.19 million acquired on the amalgamation with Interrobang.

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.

	Three months ended June 30, 2021	Three months ended June 30, 2020	**Six months ended June 30, 2021**	Six months ended June 30, 2020
	$	$	**$**	$
Net loss for the period	**(1,234,674)**	(1,661,210)	**(3,066,551)**	(1,886,155)
Adjusted for:				
Depreciation on property and equipment	**3,438**	1,697	**4,860**	3,346
Depreciation on right-of-use assets	**15,903**	10,199	**27,091**	20,110
Amortization on intangible assets	**301,736**	290,837	**612,573**	593,012
Share-based compensation	**194,744**	509,858	**417,240**	513,276
Foreign exchange loss (gain)	**62,415**	165,732	**521,909**	(17,711)
Deferred tax recovery	**(94,065)**	-	**(190,989)**	-
	(750,503)	(682,887)	**(1,673,867)**	(774,123)

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, foreign exchange gains and losses, and non-cash income tax expense (recovery), the Adjusted EBITDA loss for three and six month perioded ended June 30, 2021, was $750,503 and $1,673,867, respectively (2020 – Adjusted EBITDA loss $682,887 and $774,123).

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 June 30, 2021, the Company had current assets of $4,100,991 (December 31, 2020 – $4,685,770), including cash of $2,899,646 (December 31, 2020 – $2,134,866) and liquid investments valued at $936,123 (December 31, 2020 – $2,269,504), to settle current liabilities of $479,405 (December 31, 2020 – $619,303), for a working capital of $3,621,586 (December 31, 2020 – $4,066,467).

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 Q2 2021, the trend continued as the Company raised about $90,000 from various exercises of warrants. The Company plans to take advantage of the increased cash position to execute a more aggressive growth plan for the operations for the remainder of 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 June 30, 2021, the Company's capital consisted of an equity attributable to the shareholders of Pharmadrug Inc. of $18,789,030 (December 31, 2020 – equity attributable to the shareholders of Pharmadrug Inc. of $9,657,057).

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 six months ended June 30, 2021 and 2020 were as follows:

	2021	2020
	$	$
Management, salaries and consulting fees	97,033	-
Professional fees	77,500	45,000
Share-based compensation	346,298	-
	520,831	45,000

Effective September 1, 2020, the Company and Daniel Cohen, the CEO of Pharmadrug, entered into an executive employment 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 six months ended June 30, 2021, the Company recorded management salaries of $60,000 in relation to the CEO's employment compensation. During the six months ended June 30, 2020, the

CEO did not charge the Company for any consulting services provided. As at June 30, 2021, no balance was owed to the CEO (December 31, 2020 – $nil). The amount outstanding is unsecured, non-interest bearing and due on demand.

Effective May 1, 2021, the Company and Paul Van Slyke, the CSO, entered into an executive employment agreement, whereas the Company agreed to pay an annual base salary of $140,000 for his services. The annual base salary shall be increased to $182,000, exclusive of bonuses, benefits and other compensation once the Company has raised a minimum of $2,000,000 in equity. During the six months ended June 30, 2021, the Company recorded management salaries of $23,333 in relation to the CSO's employment compensation. Prior to entering into the employment agreement, the CSO also charged fees of $13,700 (2020 – $nil) for providing CSO-consulting services to the Company. As at June 30, 2021, $3,437 (December 31, 2020 – $nil) owing to the CSO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the six months ended June 30, 2021, Branson Corporate Services Ltd. ("Branson"), where Keith Li, the Chief Financial Officer ("CFO") and Corporate Secretary of the Company is employed, charged fees of $77,500 (2020 – $45,000), for providing CFO services to the Company, as well as other accounting and administrative services. As at June 30, 2021, the Company owed Branson a balance of $11,300 (December 31, 2020 – $39,550, included in accounts payable and accrued liabilities). The amount outstanding is unsecured, non-interest bearing and due on demand.

Share-based compensation

On August 31, 2020, the Company granted 5,500,000 options to various officers and directors an exercise price of $0.05, expiring on August 31, 2025. The 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 $154,971, of which $59,579 was recorded as share-based compensation in connection with the vesting of these options during the six months ended June 30, 2021.

On February 4, 2021, the Company granted 4,250,000 options to various officers and directors at an exercise price of $0.085, expiring on February 4, 2021. These options vest in one-third increments after three months, six months and 12 months until fully vested. The grant date fair value attributable to these options was $317,371, of which $233,440 was recorded as share-based compensation in connection with the vesting of these options during the six months ended June 30, 2021.

On May 12, 2021, the Company granted 2,000,000 options to the CSO at an exercise price of $0.09, expiring May 12, 2026. 500,000 of these options vested immediately after being granted. The remaining options vests in two equal halves after six and 12 months until fully vested. The grant date fair value attributable to these options was $133,129, of which $53,279 was recorded as share-based compensation in connection with the vesting of these options during the six months ended June 30, 2021.

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 June 30, 2021, the Company had a cash balance of $2,899,646 (December 31, 2020 – $2,134,866) and liquid investments valued at $936,123 (December 31, 2020 – $2,269,504), to settle current liabilities of $479,405 (December 31, 2020 – $619,303).

As at June 30, 2021, the Company had the following contractual obligations:

	Less than 1 year	1 to 3 years	3 to 5 years	Total
	$	$	$	$
Accounts payable and accrued liabilities	427,443	-	-	**427,443**
Lease liabilities	62,101	29,577	16,956	**108,634**
Provisions	52,145	-	-	**52,145**
Convertible debentures	-	816,055	-	**816,055**
Total	**541,689**	**845,632**	**16,956**	**1,404,277**

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. Management believes there is sufficient capital to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at period-end.

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 $9,361 based upon balances as at June 30, 2021.

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 convertible debentures have fixed interest rates. As at June 30, 2021, 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 and in the U.S. where there are financial instruments and transactions denominated in foreign currencies, notably in EUR and USD. The Company's primary exposure to foreign exchange risk is that transactions denominated in EUR and USD 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, other investments accounts payables and accrued liabilities, loans payable, lease liabilities and convertible debentures.

The fair value of cash, receivables, other investments, accounts payables and accrued liabilities and loans payable, are approximately equal to their carrying value due to their short-term nature. The fair values of the lease liabilities and convertible debentures approximate their carrying amounts as they were measured taking into consideration comparable instruments with similar risks in determining the rates at which to discount their amount in applying their respective measurement models.

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

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

	Level I	Level 2	Level 3	Total
	$	$	$	$
Other investments	-	936,123	-	**936,123**

As at June 30, 2021, the Company's financial instruments carried at fair value consisted of its other investments, which have been classified as Level 2 (for investments in warrants securities). There were no other transfers between Levels 2 and 3 for recurring fair value measurements during the six months ended June 30, 2021 and the year ended December 31, 2020.

Business Acquisitions

Sairiyo Acquisition

On January 24, 2021, the Company entered into a share exchange agreement (the "Agreement") to acquire Sairiyo, a biotechnology company focused on developing improved formulations of naturally-derived compounds for serious, rare, and life-threatening diseases.

On February 2, 2021 (the "Acquisition Date"), 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.

Goodwill of $5,894,237 is not tax deductible and was recognized due to the expected synergies from combining operations of the Company and Sairiyo. The Company determined that the Sairiyo Acquisition was a business combination in accordance to the definition of IFRS 3 – Business Combination, and as such, has accounted for it in accordance with this standard, with the Company being the acquirer on the Acquisition Date.

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

	$
Purchase Price Consideration Paid	
Fair value of common shares issued (i)	6,750,000
Fair value of warrants issued (ii)	3,593,184
	10,343,184
Net Identifiable Assets Acquired	
Cash	361,983
Licenses and rights to patents	4,101,760
Accounts payable and accrued liabilities	(14,796)
Total Net Identifiable Assets Acquired	4,448,947
Goodwill	5,894,237

Goodwill consists largely of the synergies and economies of scale expecting from combining the operations of the Company and Sairiyo. The synergies include improved sales and marketing, lower management salaries and wages, and the sharing of strategy development to commence value-adding research in the psychedelic space.

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

(i) The fair value of the 75,000,000 common shares, issued to former Sairiyo shareholders, was determined to be $6,750,000 based on the closing share price of Pharmadrug on the Acquisition Date on February 2, 2021.

(ii) The estimated fair value of the 75,000,000 Warrants as consideration are based on Black-Scholes with the following assumptions: current stock price – $0.09 per share, expected dividend yield – 0%, expected volatility – 125%, risk-free interest rate – 0.15%, exercise price of $0.10, and an expected life of 18 months. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies operating in the cannabis industry.

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 June 30, 2021, 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 June 30, 2021, 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 June 30, 2021, the Company had recorded a provision of approximately $52,145 (€35,375) for the estimated potential damages and liabilities it is expected to pay out.

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.

On May 14, 2021, the Company announced that it has entered into a supply agreement with an emerging Eurozone cannabis extractor for medical grade THC oil to be sold under Pharmadrug's own brand. The Company expects to receive product and begin selling in Germany by September of 2021. Pursuant to the Supply Agreement, Pharmadrug GmbH will purchase Pharmadrug branded medical cannabis from the Eurozone cannabis extractor. The cannabis extractor recently had its EuGMP inspection from their local regulator with no noted major deficiencies. The Company expects them to receive their certification in this current quarter. The Company has already finalized the final specs of the product with the extractor and expects to register the product with German authorities in July 2021. Pharmadrug expects initial shipments and sales to begin in September of 2021.

Off-Balance Sheet Arrangements

As at June 30, 2021 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

There were no significant activities that have occurred after the reporting period to the date of filing of this MD&A.

Disclosure of Outstanding Share Data as of August 27, 2021

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited number of common shares	340,816,383 common shares
Securities convertible or exercisable into voting or equity		110,422,328 warrants exercisable to acquire common shares of the Company, and 21,650,000 outstanding stock options, of which 15,066,667 stock options are exercisable into common shares of the Company.

Significant Accounting Judgments and Estimates

The preparation of the Company's unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. These are described in greater detail in Note 2(e) to the Company's Q2 2021 Financial Statements.

Summary of Significant Accounting Policies

The accounting policies applied by the Company in the Q2 2021 Financial Statements are the same as noted in the Company's audited consolidated financial statements for the year ended December 31, 2020, unless otherwise noted below:

(a) Adoption of New Accounting Standards

The Company adopted the following amendments, effective January 1, 2021. These changes were made in accordance with the applicable transitional provisions:

Amendments to IAS 1 – Presentation of Financial Statements ("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. The Company early-adopted these amendments as permitted and had assessed that the adoption of these amendments did not have any material impact on its unaudited condensed interim consolidated financial statements.

(b) Recent Accounting Pronouncements

As at the date of authorization of the Company's unaudited condensed interim consolidated financial statements, the IASB and the IFRIC had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2022. 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 unaudited condensed interim consolidated financial statements:

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, Netherlands, the U.S., 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. 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, Dutch and American 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 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 and USD. The Company's financial results are reported in CAD and costs are incurred primarily in EUR and also in USD in its PACs. The depreciation of the CAD against the EUR and USD 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 or 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 the risk 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, MERS, 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 Q2 2021 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 Q2 2021 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 Q2 2021 Financial Statements in all material aspects.

The Audit Committee has reviewed the Q2 2021 Financial Statements and this MD&A with management of Pharmadrug. The Board of the Company has approved the Q2 2021 Financial Statements and this MD&A on the recommendation of the Audit Committee.

August 27, 2021

Daniel Cohen
Chief Executive Officer