PHARMADRUG INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

The following Management's Discussion and Analysis ("MD&A") is current to November 29, 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 nine months ended September 30, 2021. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. It is supplemental to and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three and nine months ended September 30, 2021 and 2020 (the "Q3 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 100% 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 OTCQB under the ticker symbol "LMLLF".

Corporate Developments

On January 25, 2021, the Company entered into the definitive agreement to acquire Sairiyo. On February 2, 2021, the Sairiyo Acquisition closed.

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 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 appointed Dr. Paul Van Slyke as its Chief Scientific Officer (the "CSO"). Mr. Van Slyke previously served as the CSO of Sairiyo and is an entrepreneur-scientist with 18 granted and filed patents. Having completed his PhD at the University of Toronto ("U of T"), from the 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.

On May 17, 2021, through its Super Smart division, the Company 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.

On June 7, 2021, 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 its 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 add 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 ("TIBI") 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.

On August 25, 2021, the Company completed the acquisition of the remaining 20% interest in Pharmadrug GmBH for cash consideration of €35,000 ($52,878).

On August 30, 2021, the Company appointed Mr. David Kideckel to the Board of Directors (the "Board"). Mr. Kideckel has over 20 years of combined industry and capital markets experience, most recently serving as Managing Director, Senior Institutional Equity Research Analyst at ATB Capital Markets. His industry experience spans several senior healthcare & biotechnology executive roles including Johnson & Johnson Inc. and Alexion Pharmaceuticals. Mr. Kideckel also has a PhD in Neuroscience from the U of T.

On September 23, 2021, 2021, the Company announced the launch of its own premium blend of functional mushrooms, MycoWeR Infinite. This product will initially debut for sale in the U.S. before also being made available through Super Smart's eCommerce platform in Europe.

On September 28, 2021, the Company announced that it had been granted a Pre-IND meeting with the FDA for the clinical development of Cepharanthine.

On October 19, 2021, the Company's common shares commenced trading on the OTCQB under the symbol "LMLLF."

On November 5, 2021, the Company announced that the TIBI has received and will immediately commence in vitro characterization studies on the Company's short-list of DMT analogue molecules, which will support IND-enabling studies for FDA review. Pursuant to a research agreement, the TIBI has also been commissioned to develop a novel ocular drug delivery platform that aims to deliver psychedelic and tryptamine-based pharmaceuticals, related to DMT, for eye diseases.

On November 18, 2021, the Company announced interim positive results for the preclinical cancer study which evaluated the effectiveness of Cepharanthine-2HCl alone, or when in combination with standard of care ("SoC") chemotherapy.

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

During the nine months ended September 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

Following the recent German federal elections that took place on September 26, 2021, a new coalition government is expected to be formed by the "Traffic Lights" group. The coalition was so named due to the colours of the red Social Democrats, yellow Free Democrats and the Green Party. A formal coalition agreement was announced on November 24, 2021 with an official government expected to follow in the first half of December. The coalition formally stated that it planned to move ahead with the legalization of adult-use cannabis. Discussions so far have pointed to some form of a cannabis control act. This would imply a regime where cannabis remains a controlled substance in Germany that would be subjected to stricter controls than alcohol or tobacco. Sales would only be allowed in pharmacies or specialty licensed retail stores. Regardless of the end retail model, two major themes have emerged. Firstly, there is a strong likelihood that adult-use cannabis will be legalized in the next couple of years; and secondly, it will probably remain a controlled substance but with expanded access. This would imply that the current supply chain regulatory framework will remain in place and that the importation and distribution of cannabis will continue to require a narcotics or controlled substance license. A license

that the Company currently has through Pharmadrug GmBH. As a result, management will seek to significantly expand its product offering to prepare for a much wider cannabis market following the introduction of adult-use cannabis products.

The Company announced at the end of October that it has signed a supply agreement for Dronabinol, a synthetic THC oil that currently dominates the medical cannabis oil market in Germany. Pharmadrug GmBH has already added the product to its license and first shipment was received at the start of November. Initial sales and deliveries have already commenced. Management believes the selling of Dronabinol will serve to increase sales volumes but should also significantly increase its pharmacy distribution network beyond its current levels. Dronabinol is a third-party product and Pharmadrug GmBH will act as a distributor much like its Bedrocan business. The Company is in advanced discussions with two other manufacturers to be able to supply Dronabinol on a white label basis to be branded as a Pharmadrug-branded product.

In October, Pharmadrug GmBH conducted the final inspection of its supply partner in Denmark. The visit was deemed successful with the newly built cannabis oil extraction facility fulfilling all the necessary requirements to be able to supply GMP calibre THC oils to the German medical cannabis market. The Company has registered the initial product with the regulator, and it has been added to its controlled substance license. The initial product will be a Pharmadrug-branded high THC oil. It is currently going through confirmatory stability testing with final results and certificates of analysis scheduled for January 2022. Once launched, Pharmadrug and its Danish supply partner have planned to introduce other oils including a balanced CBD / THC oil.

While the Company recently made the decision to focus its growth on cannabis oils and extractions, management believes the outcome of the recent German election and the likelihood of adult-use cannabis products on the horizon requires a renewed focus on cannabis flowers. As expected, recent trends showed that cannabis oil growth is accelerating and is on a path to overtake flowers at some point in the future. That being said, the introduction of adult-use should reignite the flower market. As such, the Company has resumed discussions to introduce a unique brand of flower to the German market. Such a product can either take the form of a third-party brand with an exclusive relationship and marketing sovereignty or a unique white label product that will carry the Pharmadrug brand.

Super Smart

The Company announced in September 2021 that Super Smart would be launching its own premium blend of functional mushrooms. The product line will be branded as MycoWeR with the first product being named MycoWeR Infinite. It will initially debut for sale in the U.S. before also being made available through Super Smart's ecommerce platform in Europe. The first commercial lot of products was received in October with initial sales and deliveries having taken place in November.

MycoWeR Infinite has been positioned as a premium brand in a rapidly growing marketplace primarily occupied by high price, low potency functional mushroom products. Although it is still early and sales are still modest, initial feedback is positive with users touting the quality of the product, the approach in terms of transparency of ingredients well as a noted impact in efficacy. Super Smart has launched programs with influencers and micro influencers with a plan to increase digital marketing campaigns with an educational focus.

Super Smart will continue with the European online effort and has undertaken to overhaul the site and develop an e-commerce only model. The Company plans to keep the current store in Tiel to serve as a logistical hub but will not seek to open or acquire additional locations. 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.

Cepharanthine and Cancer

Sairiyo is currently focused on advancing the clinical development of Cepharanthine to treat rare cancer diseases. 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. ODD Status from the FDA provides numerous benefits such as tax credits, a more streamlined process, and seven years of marketing exclusivity post regulatory 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 study demonstrated that esophageal cancer was the most highly responsive of all sixty cancers examined.

Based on the results of the initial large in vitro cancer screen, the Company initiated a second study based a short list of 23 cancers that were highly responsive to Cepharanthine-2HCl. The Company updated the market on the results of the study in a press release dated November 18, 2021. Four instances of drug synergy (Cepharanthine+chemotherapy) were revealed in the latest drug combination study. Cancer cell types and SoC treatments remain confidential for the purpose of filing subsequent intellectual property, but the Company provided results in the aforementioned press release for the four most promising types of cancer tested. Most notably, esophageal cancer was approximately 5-times more responsive to Cepharanthine than the experimental positive control; a clinically approved chemotherapeutic agent. That esophageal cancer was shown to be the most highly responsive cancer examined further validates the Company's motivation to expeditiously advance the clinical development of its patented enteric-coated oral formulation of PD-001 for esophageal cancer and leverage the benefits of its FDA ODD granted by the FDA earlier this year.

The Company has shipped its drug product, PD-001 to a CRO in support of the upcoming IND-enabling animal studies. These studies are designed to evaluate PD-001 efficacy, alone and in combination with SoC in two animal cancer models. The Company's prime cancer focus continues to be esophageal cancer for several reasons previously stated including the orphan drug designation awarded by the FDA earlier this year. The Company has also selected a second cancer type to pursue for these studies based on multiple considerations including Cepharanthine potency, ability of Cepharanthine to provide synergistic benefits with SoC drugs, relative market size/need and the suitability of available animal models to provide high translation value to the program. In vitro cancer cell models, while quite useful for screening cancer types responsive to a given drug, are not ideally suited to assess a particular drug's benefit in overcoming adaptive chemoresistance. The currently designed animal models aim to more thoroughly tackle the serious clinical issue of chemoresistance. Pharmadrug will disclose additional positive findings for the preceding two in vitro cancer studies once its patent council will have had an opportunity to review all of the recently generated data and file a provisional patent by the end of this year. The Company also expects to publish the results in a prominent scientific journal in the near future

Cepharanthine and COVID-19

On a separate front, the Company has initiated preparation of a Pre-IND for its patented enteric-coated formulation of PD-001 as an oral antiviral pill to treat mild-moderate cases of COVID-19. Cepharanthine may work to lessen the effects of coronavirus infection. Cell, animal, and human studies have long reported the immunomodulatory and anti-inflammatory properties of Cepharanthine. Cepharanthine has previously been shown to suppress cytokine production and the expression of cyclooxygenase; both of which are crucial to viral replication and inflammatory response. A 2019 study examined the effects of Cepharanthine on human lung cells infected with the coronavirus HCoV-OC43. Following pre-treatment with Cepharanthine, lung cells showed no virus-induced death. These findings were attributed to the ability of Cepharanthine to inhibit viral RNA replication, block expression of viral proteins, and suppress production of proinflammatory molecules, thus preventing a deleterious exacerbation of cytokine response to the viral infection. Several third party validated library screens of approved and investigational drugs have identified Cepharanthine as a forerunner drug candidate in the treatment of COVID-19 based on the superior antiviral properties it holds. Cepharanthine has been shown to be highly effective at blocking cell death following exposure to multiple different coronaviruses, including COVID-19. As such, it is believed that the Company's novel formulation of Cepharanthine, PD-001 would be an ideal candidate to evaluate as a potential treatment for mild to moderate COVID-19.

Sequel to the submission of the Pre-IND during the third week of September 2021, the Company was granted a Pre-IND meeting with the FDA for the clinical development of its patented enteric-coated formulation of Cepharanthine, an oral antiviral pill as a potential treatment for mild-moderate cases of COVID-19. The Company submitted a briefing package to the FDA, Office of Infectious Diseases, Center for Drug Evaluation and Research for Cepharanthine and awaits further feedback on its proposed path toward human clinical development. The Pre-IND meeting is a critical step in the U.S. regulatory approval process that is meant to develop mutual understanding and agreement between the FDA and the Issuer regarding content required to assess manufacturing, toxicology, pre-clinical studies, clinical trials design, and rationale to support subsequent human clinical trials. The FDA suggested a written response to its Pre-IND briefing package by the end November 2021. The Company expects to update the market on the response in the first week of December.

Pharmaceutical Psychedelics Research

Pharmadrug and Sairiyo had already begun to develop a strategy to commence a unique and value adding research in the psychedelic space prior to signing the purchase agreement. Following the Sairiyo Acquisition and its biotech R&D core competencies, Pharmadrug has undertaken efforts to expand its research activities in the pharmaceutical psychedelics space. The Company's psychedelic pharmaceutical strategy will focus specifically on DMT. Through engagement with respected academics and medical/clinical key opinion leaders in the space, management will initiate pivotal preclinical and clinical development activities. Pharmadrug has brought on Dr. Barker, a prominent American DMT academic researcher as an advisor. The Company is collaborating with top-tier academic psychedelic teams on foundational DMT research to be able to build internal intelligence to serve as the building block at establishing its explicit commercial strategy. The first such relationship was announced in March 2021 with the funding of a foundational study at UoM on the role of naturally occurring DMT in the brain. On August 25, 2021, the Company announced that it had entered into a Clinical Trial Agreement with JHU to conduct a clinical study comparing acute and enduring psychological and neural effects of DMT and an undisclosed, potently active comparator molecule. This clinical research collaboration builds upon Pharmadrug's existing strategy of focusing on establishing a better understanding of the basic mechanisms by which DMT exerts its effects in the brain and elsewhere in the body. By supporting world class talent with distinct expertise in early discovery and clinical use, the Company will be optimally positioned to identify novel applications for DMT and unlock its full therapeutic potential.

The Company was also able to form a collaboration with the TIBI, 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 to 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 TIBI will use its in-house technology to select and develop an effective delivery mechanism. During the first stage of the collaboration, the TIBI'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. The intention is to bring the product to the FDA for the purpose of a clinical trial.

Based on considerations related to physiochemical properties, resistance to metabolic breakdown and anticipated downstream formulation requirements, the Company has elected to specifically focus its efforts on comparing the potency of two candidate tryptamines, which were narrowed from an initial list of six. The next few months will be vital in characterizing relative drug potency and selecting a single lead candidate to take forward for further development. The following phase will focus on IND enabling efficacy studies using a well accepted animal model of Glaucoma. The Company expects to be in position to begin an animal study late in Q1 of 2022 with the results by late spring or early summer.

Financial Information

Selected quarterly financial results

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

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
	$	$	$	$
Sales revenue	143,526	112,862	136,655	175,406
Operating expenses	(1,317,455)	(1,196,909)	(1,400,557)	(792,585)
Other expenses	(184,821)	(193,073)	(525,088)	(2,302,308)
Net loss	(1,374,494)	(1,234,674)	(1,831,877)	(2,570,050)
Loss per share – basic and diluted	(0.013)	(0.009)	(0.006)	(0.012)

	Q3 2020 [1]	Q2 2020 [2]	Q1 2020	Q4 2019
	$	$	$	$
Sales revenue	137,322	192,328	178,615	37,918
Operating expenses	(1,227,726)	(1,420,155)	(643,044)	(2,976,638)
Other income (expenses)	148,597	(289,991)	379,790	(1,189,935)
Net loss	(1,043,168)	(1,661,210)	(224,945)	(3,813,300)
Loss per share – basic and diluted	(0.006)	(0.018)	(0.003)	(0.029)

Financial Results for the Three Months ended September 30, 2021

Results of operations

During the three months ended September 30, 2021 ("Q3 2021"), the Company recorded total sales revenue of $143,526 (2020 – $137,322) and cost of goods sold of $108,109 (2020 – $101,361), for a gross profit of $35,417 (2020 – $35,961) from sales of cannabis products to pharmacies through out Germany, and online sales of products through the Slim Winkle website for the Netherlands and the U.S. As compared to the second quarter of the year ("Q2 2021"), the Company had an increase of $30,664 in sales on a quarter-to-quarter basis of approximately 27.2%. The quarterly increase is mainly the result of supply backlogs from suppliers which were finally shipped in Q3 2021, thus leading to the Company recognizing more sales in meeting customers' orders in the quarter.

During Q3 2021, the Company incurred total operating expenses of $1,317,455, as compared to total operating expenses of $1,227,726 in the comparative period. The significant variances in operating expenses are comprised primarily of:

- Increase in research expenses to $359,306 (Q3 2020 – $nil) as a result of cost incurred on various research activities carried out by the Company in connection with various health and academic institutions in the current period.
- Increase of $113,920 in travel and promotion to $117,750 (Q3 2020 – $3,830) as a result of cost incurred on marketing activities during the current period. Also, there was an increase in international travel in the current period as management paid a visit to both the German and Dutch operations, compared to prior period where there was travel restriction because of the COVID-19 global pandemic.
- Increase of $85,880 in management, consulting and salaries expense to $272,891 (Q3 2020 – $187,011) as a result of the Company having more employees and an increased accounting services fee in the current period than the comparative period.
- Decrease of $157,037 in expected credit loss ("ECL") reversal to $39 (Q3 2020 – $157,076) as a result of ECL relating to settlement over a promissory note balance owed from Empower Healthcare Assets Inc. ("Empower")

[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.

due since the early part of 2019, which was reversed in the comparative period and partially offset the operating expense.

- Decrease of $459,329 in professional fees to $36,700 (Q3 2020 – 496,029) as a result of significant expenses relating to the settlement of the Bridge Loan Facility, including additional restructuring and advisory fees of over $250,000, which occurred in the comparative period and none in the current period.
- Decrease of $187,294 in share-based compensation to $113,229 (Q3 2020 – $300,523) as a result of recognition of expenses on vesting of options granted, and issuance of the Company's common shares as a compensation during the prior period. The Company also granted options during the comparative quarter which vested immediately, and the entire grant date fair value had been recognized as an expense.

During Q3 2021, the Company also incurred other non-cash expenses such as depreciation of property and equipment and right-of-use ("ROU") assets and amortization on intangible assets. The amount incurred was $27,820 lower than that of the comparative period.

Finance costs, comprising interest and accretion recorded on various debt instruments totaled $27,656 (Q3 2020 – $111,040). In relation to its investments, the Company recorded an unrealized loss of $185,697 (Q3 2020 – $77,594) on the fair value decrease in the quarter of investments in warrants held.

Net loss for Q3 2021 was $1,374,494, as compared to a net loss $1,043,168 in Q3 2020. Net loss attributable to shareholders of Pharmadrug for Q3 2021 was $1,322,487 (loss of $0.013 on a basic and diluted basis), as compared to a net loss $943,937 attributable to shareholders of Pharmadrug (loss of $0.006 on a basic and diluted basis) for Q3 2020.

Cash flows

Net cash used in operating activities for Q3 2021 was $855,139, as compared to net cash used in operating activities of $474,824 in Q3 2020, for an increase of $380,815. 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 used in financing activities for Q3 2021 was $127,913, as compared to net cash used in financing activities of $1,291,884 in Q3 2020, for a decrease of $1,163,971. In the current period, the Company paid interest on debentures of $111,323 to the creditors while in comparative period, the Company repaid the full balance of a Bridge Loan Facility through a combination of cash payment and issuance of common shares, including a cash payment of $1,481,158 on the Bridge Loan Facility. The use of funds was partially offset by $200,000, on RLH's subscription of 2,666,667 units of the Company.

Net cash used in investing activities for Q3 2021 was $86,650, whereas the use of funds was primarily attributed to amount invested in intangible assets development of $33,099 and acquisition of the outstanding 20% interest in Pharmadrug GmbH for $52,878. During Q3 2020, the Company did not undertake any investment activities.

Financial Results for the Nine Months ended September 30, 2021

Results of operations

During the nine months ended September 30, 2021, the Company recorded total sales revenue of $393,043 (2020 – $508,265) and cost of goods sold of $289,960 (2020 – $385,059), for a gross profit of $103,083 (2020 – $123,206) 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 23% as a result of the Company running out of stock and vendors not supplying products as expected in the current period.

During the nine months ended September 30, 2021, the Company incurred total operating expenses of $3,914,921, for an increase of $686,754 as compared to total operating expenses of $3,228,167 in the comparative period. The significant variances in operating expenses are comprised primarily of:

- Increase of $365,793 in management, consulting fees and salaries to $781,346 (2020 – $415,553) 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 $371,517 in travel and promotion expenses to $391,485 (2020 – $19,968) 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 in research expenses to $384,872 (2020 – $nil) due to research activities being carried out by various research institutions in the current year. The Company did not engage in these research activities in comparative period.
- Increase of $122,567 in office and general expenses to $258,224 (2020 – $135,657) as a result of geographical business expansion which led to the Company incurring more expenses such as insurance and rent.

The increase in operating expenses during the period was partially offset by the following items:

- Decrease of $526,231 in professional fees to $540,244 (2020 – $1,066,475) which is as a result of significant expenses which were incurred in relation to the settlement of the Bridge Loan Facility, including additional restructuring and advisory fees of over $250,000 in comparative period.
- Decrease of 220,572 in share-based compensation to $530,469 (2020 – $751,041) as a result of options granted in prior period which were fully vested immediately, compared to the current period in which options issued vest over a period of time.

During the nine months ended September 30, 2021, in relation to its investments, the Company recorded a realized gain of $903,060 on disposal of certain investments for proceeds of $1,214,454 and had an unrealized loss of $1,207,684. In the comparative period, the Company recorded a realized gain of $741,375 with respect on disposals of certain investments, and an unrealized loss of $517,646 on liquid investments.

Finance costs, comprising interest and accretion recorded on various debt instruments, totaled $104,981 (2020 – $340,275). 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 nine months ended September 30, 2021 was $4,441,045, as compared to a net loss $2,866,565 in the comparative period in 2020. Net loss attributable to shareholders of Pharmadrug for the period year-to-date was $4,206,725 (loss of $0.014 on a basic and diluted basis), as compared to a net loss attributable to shareholders of Pharmadrug of $2,598,742 (loss of $0.023 on a basic and diluted basis) in the comparative period in 2020.

Cash flows

Net cash used in operating activities for the nine months ended September 30, 2021 was $2,995,686, as compared to net cash used in operating activities of $1,072,351 in the comparative period, for an increase of $1,923,335. 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 nine months ended September 30, 2021 was $790,845, as the Company primarily received funds of over $950,000 from various exercises of warrants and options while the cash used from financing activities in comparative period was about $841,493, arising mainly from the Company fully repaying the Bridge Loan facility through a combination of cash payment and issuance of common shares, including a cash payment of $1,481,158 made in July 2020. The company also received funds of $480,000 from Interrobang prior to the closing of the Super Smart Transaction, and proceeds of $200,000 of RLH's subscription of 2,666,667 units of Pharmadrug.

Net cash provided in investing activities for the nine months ended September 30, 2021 was $1,485,656, primarily from proceeds from disposal of investment of $1,214,454 and cash acquired on business acquisition of $361,983. There was also cash used in the acquisition of the remaining 20% interest in Pharmadrug GmBH of $52,878 and intangible assets of $37,230 in the current period. In the comparative period, net cash provided by investing activities are in the form of total cash of more than $2 million generated from 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.

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 September 30, 2021	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
	$	$	**$**	$
Net loss for the period	**(1,374,494)**	(1,043,168)	**(4,441,045)**	(2,866,565)
Adjusted for:				
Depreciation on property and equipment	**2,401**	1,732	**7,261**	5,078
Depreciation on right-of-use assets	**15,426**	10,414	**42,517**	30,524
Amortization on intangible assets	**304,105**	337,606	**916,678**	930,618
Share-based compensation	**113,229**	300,523	**530,469**	751,041
Foreign exchange loss (gain)	**28,532**	150,480	**(493,377)**	168,191
Current tax (recovery) expense	**(37)**	-	**9,542**	-
Deferred tax recovery	**(92,328)**	-	**(283,317)**	-
	(1,003,166)	(242,413)	**(3,711,272)**	(981,113)

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 nine month perioded ended September 30, 2021, was $1,003,166 and $3,711,272, respectively (2020 – Adjusted EBITDA loss $242,413 and $981,113).

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.

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 September 30, 2021, the Company had current assets of $2,763,947 (December 31, 2020 – $4,685,770), including cash of $1,747,368 (December 31, 2020 – $2,134,866) and liquid investments valued at $750,426 (December 31, 2020 – $2,269,504), to settle current liabilities of $397,833 (December 31, 2020 – $619,303), for a working capital of $2,366,114 (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. 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 September 30, 2021, the Company's capital consisted of an equity attributable to the shareholders of Pharmadrug Inc. of $18,512,913 (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 September 30, 2021 and 2020 were as follows:

	2021	2020
	$	$
Management, salaries and consulting fees	165,015	10,000
Professional fees	107,500	67,500
Share-based compensation	460,950	191,189
	733,465	268,689

Effective September 1, 2020, the Company and Daniel Cohen, the CEO, entered into an executive employment agreement, whereas the Company agreed to pay an annual base salary of $120,000 for his services. The annual base salary shall be increased to $180,000, exclusive of bonuses, benefits and other compensation, once the Company has raised a minimum of $1,500,000. During the nine months ended September 30, 2021, the Company recorded management salaries of $90,000 (2020 – $10,000) in relation to the CEO's employment compensation. As at September 30, 2021, no balance was owed to the CEO (December 31, 2020 – $nil).

Effective May 1, 2021, the Company and Paul Van Slyke, the new 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 nine months ended September 30, 2021, the Company recorded management salaries of $58,333 in relation to the CSO's employment compensation. Prior to entering into the employment agreement, the CSO also charged fees of $16,681 (2020 – $nil) for providing CSO-consulting services to the Company. As at September 30, 2021, no balance was owed to the CSO (December 31, 2020 – $nil).

During the nine months ended September 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 $107,500 (2020 – $67,500), for providing CFO services to the Company, as well as other accounting and administrative services. As at September 30, 2021, no balance was owed to Branson (December 31, 2020 – $39,550 included in accounts payable and accrued liabilities).

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 $77,058 was recorded as share-based compensation in connection with the vesting of these options during the nine months ended September 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, 2026. 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 $311,004, of which $274,933 was recorded as share-based compensation in connection with the vesting of these options during the nine months ended September 30, 2021.

On May 12, 2021, the Company granted 2,000,000 options to the CSO at an exercise price of $0.09, expiring on May 12, 2026. 500,000 of these options vested immediately on grant, with the remaining options to vest in two equal halves after six and 12 months until fully vested. The grant date fair value attributable to these options was $136,277, of which $92,972 was recorded as share-based compensation in connection with the vesting of these options during the nine months ended September 30, 2021.

On August 30, 2021, the Company granted 750,000 options to a director at an exercise price of $0.06, expiring on August 30, 2026. 250,000 of these options vested immediately on grant, with the remaining options to vest in two equal halves after six and 12 months until fully vested. The grant date fair value attributable to these options was $38,223, of which $15,987 was recorded as share-based compensation in connection with the vesting of these options during the nine months ended September 30, 2021.

Financial Instruments

The Company is exposed to various risks as it relates to financial instruments. Management, in conjunction with the Board, mitigates these risks by assessing, monitoring and approving the Company's risk management process. There have not been any changes in the nature of these risks or the process of managing these risks from the previous reporting periods.

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 and other receivables, which expose the Company to credit risk should the borrower

default on maturity of the instruments. Cash is held with reputable chartered banks in Canada and Germany, and in trust with the Company's legal counsel. Management believes that the credit risk concentration with respect to financial instruments included in cash and other receivables is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities.

As at September 30, 2021, the Company had a cash balance of $1,747,368 (December 31, 2020 – $2,134,866) and liquid investments valued at $750,426 (December 31, 2020 – $2,269,504), to settle current liabilities of $397,833 (December 31, 2020 – $619,303).

As at September 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	385,399	-	-	**385,399**
Lease liabilities	53,626	24,168	14,925	**92,719**
Provisions	52,507	-	-	**52,507**
Convertible debentures	-	738,531	-	**738,531**
Total	**491,532**	**762,699**	**14,925**	**1,269,156**

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 a 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 $7,502 based upon balances as at September 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 September 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 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Other investments	-	750,426	-	**750,426**

As at September 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 nine months ended September 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 September 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.

The Company may, from time to time, be subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. Liabilities associated with legal proceedings are recorded when (i) the liabilities are a result of a past event, (ii) it is probable that an outflow of resources will be required to settle the obligations, and (iii) a reliable estimate can be made of the amount of obligation.

As at September 30, 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 September 30, 2021, the Company had recorded a provision of approximately $52,507 (€35,475) for the estimated potential damages and liabilities it is expected to pay out.

Commitments

On May 14, 2021, the Company entered into a supply agreement with an emerging Eurozone cannabis extractor for medical grade THC oil to be sold under Pharmadrug's own brand.

On October 1, 2021, the Company, through Pharmadrug GmBH, signed another supply agreement with an exclusive partner in Germany, for the purchase of Dronabinol for the medical cannabis oil market in Germany. The German partner will assemble Dronabinol kits which will be marketed by the Company. The term of the supply agreement will be in force until December 31, 2023 and can be extended with the joint agreement of the parties.

Off-Balance Sheet Arrangements

As at September 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 November 29, 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 22,100,000 outstanding stock options, of which 17,600,000 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 Q3 2021 Financial Statements.

Summary of Significant Accounting Policies

The accounting policies applied by the Company in the Q3 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 cannabis in a manner that will make it extremely difficult or impossible to transact business that is necessary for the continued operation of the cannabis 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 cannabis 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 cannabis 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 cannabis 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 cannabis 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 cannabis 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 Company, 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 cannabis 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 cannabis 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 cannabis 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 cannabis 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 cannabis alone or in combination with other medications or substances could occur. As a manufacturer, distributor and retailer of adult-use and medical cannabis, 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 cannabis, the Company may be subject to various product liability claims, including, among others, that the cannabis 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 cannabis 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 Q3 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 companies, 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 Q3 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 Q3 2021 Financial Statements in all material aspects.

The Audit Committee has reviewed the Q3 2021 Financial Statements and this MD&A with management of Pharmadrug. The Board of the Company has approved the Q3 2021 Financial Statements and this MD&A on the recommendation of the Audit Committee.

November 29, 2021

Daniel Cohen
Chief Executive Officer