PHARMADRUG INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(EXPRESSED IN CANADIAN DOLLARS)

HARBOURSIDE CPA

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pharmadrug Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Pharmadrug Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021, the consolidated statements of loss and comprehensive loss, and consolidated statements of cash flows, and consolidated statements of changes in shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The consolidated financial statements of Pharmadrug Inc. for the year ended December 31, 2020, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on May 28, 2021.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about Pharmadrug Inc.'s ability to continue as a going concern.

Information other than the Consolidated Financial Statements and the Auditor's Report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's discussion and analysis report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's discussion and analysis report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mickey Goldstein

HARBOURSIDE CPA LLP

Vancouver, British Columbia
May 2, 2022

Harbourside CPA, LLP
Chartered Professional Accountants

PHARMADRUG INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2021	As at December 31, 2020
	$	$
Assets		
Current Assets		
Cash	**957,984**	2,134,866
Other receivables (Note 5)	**83,926**	183,694
Inventories (Note 6)	**156,059**	39,902
Prepaid expenses (Note 7)	**58,393**	57,804
Other investments (Note 9)	**337,387**	2,269,504
Total Current Assets	**1,593,749**	4,685,770
Property and equipment (Note 10)	**99,619**	122,013
Intangible assets (Note 11)	**7,353,196**	4,291,733
Goodwill (Note 11)	**10,473,876**	4,589,084
Total Assets	**19,520,440**	13,688,600
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 12)	**437,176**	562,130
Lease liabilities – current (Note 15)	**42,674**	57,173
Total Current Liabilities	**479,850**	619,303
Lease liabilities (Note 15)	**37,320**	35,581
Convertible debentures (Note 16)	**786,374**	1,033,082
Provisions (Note 26)	**97,014**	91,270
Deferred tax liabilities (Note 23)	**1,254,568**	996,415
Total Liabilities	**2,655,126**	2,775,651
Shareholders' Equity		
Share capital (Note 17)	**30,606,969**	21,831,792
Equity component of convertible debentures	**248,945**	248,945
Reserve for share-based payments (Note 18)	**1,242,275**	813,256
Reserve for warrants (Note 19)	**4,292,722**	2,866,900
Accumulated other comprehensive loss	**(121,569)**	(246,952)
Accumulated deficit	**(19,404,028)**	(15,856,884)
Equity Attributable to Shareholders of Pharmadrug Inc.	**16,865,314**	9,657,057
Non-Controlling Interest (Note 22)	-	1,255,892
Total Equity	**16,865,314**	10,912,949
Total Liabilities and Shareholders' Equity	**19,520,440**	13,688,600

Nature of operations and going concern (Note 1)
Contingencies (Note 26)
Subsequent events (Note 29)

Approved on behalf of the Board of Directors:

"Daniel Cohen" (signed)
Director

"Al Quong" (signed)
Director

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

PHARMADRUG INC.

Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	$	$
Revenue		
Sales revenue	**494,991**	683,671
Cost of goods sold (Note 6)	**(394,130)**	(501,634)
Gross Profit	**100,861**	182,037
Expenses		
Salaries and consulting fees (Note 21)	**1,045,458**	643,343
Professional fees (Note 21)	**824,012**	1,174,390
Office and general	**351,881**	211,221
Depreciation on office equipment (Note 10)	**9,589**	7,891
Depreciation on right-of-use assets (Note 10)	**61,148**	41,500
Amortization on intangible assets (Note 11)	**1,212,292**	1,247,183
Filing fees	**76,537**	39,641
Travel and promotion	**489,807**	33,478
Share-based compensation (Notes 17,18 and 21)	**599,761**	774,815
Research expense	**553,768**	**-**
Reversal of expected credit losses (Note 8)	**-**	(152,710)
	(5,224,253)	(4,020,752)
Loss before Other Expenses	**(5,123,392)**	(3,838,715)
Other Expenses		
Unidentifiable assets acquired (Note 4)	**-**	(4,509,767)
Loss on share exchange transaction (Note 9)	**-**	(40,801)
Realized gain (loss) on disposals of investments (Note 9)	**903,060**	(42,611)
Fair value change in investments (Note 9)	**(1,620,723)**	2,574,778
Finance costs (Note 28)	**(156,358)**	(321,293)
Gain on settlement (Notes 8,13,16(c) and 17(f))	**-**	169,279
Other income (expenses)	**17,040**	(8,608)
Foreign exchange (loss) gain	**(726,727)**	115,111
	(1,583,708)	(2,063,912)
Net Loss before Income Taxes	**(6,707,100)**	(5,902,627)
Current income tax – expense (Note 23)	**(14,730)**	-
Deferred income tax – recovery (Note 23)	**848,276**	475,012
Net Loss	**(5,873,554)**	(5,427,615)
Other Comprehensive Loss		
Exchange gain on translation of foreign operations	**121,015**	521,491
Comprehensive Loss	**(5,752,539)**	(4,906,124)
Total Net Loss Attributable to:		
Shareholders of Pharmadrug Inc.	**(5,626,492)**	(5,150,281)
Non-Controlling Interest (Note 22)	**(247,062)**	(277,334)
Net Loss	**(5,873,554)**	(5,427,615)
Net Loss per Share		
- Basic and diluted (Note 20)	**(0.018)**	(0.038)
Weighted Average Number of Outstanding Shares		
- Basic and diluted (Note 20)	**331,181,318**	142,456,439

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

PHARMADRUG INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	$	$
Operating Activities		
Net loss for the year	**(5,873,554)**	(5,427,615)
Adjustments for non-cash items:		
Share-based compensation (Notes 17 and 18)	**599,761**	774,815
Depreciation on office equipment (Note 10)	**9,589**	41,500
Depreciation on right-of-use assets (Note 10)	**61,148**	7,891
Amortization on intangible assets (Note 11)	**1,212,292**	1,247,183
Reversal of expected credit loss (Note 8)	**-**	(152,710)
Unidentifiable assets acquired (Note 4)	**-**	4,509,767
Realized (gain) loss on disposals of investments (Note 9)	**(903,060)**	42,611
Fair value change on investments (Note 9)	**1,620,723**	(2,574,778)
Restructuring fees	**-**	467,726
Loss on share exchange transaction (Note 9)	**-**	40,801
Finance costs (Notes 13, 14 and 16)	**152,786**	225,116
Gain on settlements (Note 8,13 and 16)	**-**	(169,279)
Current tax expense (Note 23)	**14,730**	-
Deferred tax recovery (Note 23)	**(848,276)**	(475,012)
Other (income) expenses	**(39,883)**	6,160
Foreign exchange gain	**-**	(115,111)
	(3,993,744)	(1,550,935)
Net change in non-cash working capital items:		
Other receivables (Note 5)	**107,881**	(140,033)
Inventories (Note 6)	**(116,157)**	77,289
Prepaid expenses (Note 7)	**(589)**	14,712
Accounts payable and accrued liabilities (Note 12)	**(122,710)**	(88,416)
Provisions	**-**	9,346
Income tax payable (Note 23)	**-**	(124,945)
Cash Flows (used in) Operating Activities	**(4,125,319)**	(1,802,982)
Financing Activities		
Proceeds from private placement financings (Note 17)	**-**	200,000
Interest payment made on debentures (Note 16)	**(112,958)**	(62,135)
Repayment on Bridge Loan Facility (Note 13)	**-**	(1,889,819)
Proceeds received on loan from third party (Note 13)	**-**	250,000
Repayment on loan from third-party (Note 13)	**-**	(250,000)
Proceeds from advances from Super Smart (Note 13)	**-**	480,000
Lease payments (Note 15)	**(64,029)**	(52,349)
Proceeds from exercise of options (Note 17)	**72,250**	-
Proceeds from exercise of warrants (Note 17)	**881,710**	1,429,946
Proceeds from exercise of broker options (Note 17)	**-**	26,592
Cash Flows provided by Financing Activities	**776,973**	132,235

PHARMADRUG INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	$	$
Investing Activities		
Cash (paid) acquired on business acquisitions (Note 4)	**361,982**	(15,805)
Cash acquired on amalgamation with Interrobang (Note 4)	**-**	2,191,932
Payments on exercise of warrant investments (Note 9)	**-**	(492,076)
Proceeds from disposals of investments (Note 9)	**1,214,455**	2,115,332
Cash paid on acquisition of Non-Controlling Interest (Note 22)	**(52,879)**	-
Purchases of property and equipment (Note 10)	**-**	(17,966)
Additions of intangible assets (Note 11)	**(42,718)**	-
Cash Flows provided by Investing Activities	**1,480,840**	3,781,417
(Decrease) increase in cash	**(1,867,506)**	2,110,670
Effects of foreign exchange on cash	**690,624**	(49,481)
Cash, beginning of year	**2,134,866**	73,677
Cash, end of year	**957,984**	2,134,866
Supplemental Information		
Bridge Loan Facility settled with proceeds from disposals of investments (Notes 9 and 13)	**-**	741,375
Bridge Loan Facility settled with issuance of units (Notes 13 and 17)	**-**	478,301
Interest expense on lease payable (Note 15)	**1,535**	1,967
Debts settled with issuance of units (Notes 12 and 17)	**-**	721,854
Debts settled through conversion of new debts (Notes 14 and 16)	**-**	1,005,619
Cash paid on convertible debentures (Note 16)	**112,958**	62,135

PHARMADRUG INC.

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Share Capital		Reserves						
	Number of Shares	Amount	Equity Component of Debentures	Reserve for Share-Based Payments	Reserve for Warrants	Accumulated Other Comprehensive Loss	Accumulated Deficit	Non-Controlling Interest	Total
	#	$	$	$	$	$	$	$	$
Balance, December 31, 2019	**83,302,274**	**13,215,765**	**63,491**	**240,498**	**1,656,243**	**(715,349)**	**(11,482,682)**	**1,480,132**	**4,458,098**
Issuance of amalgamation transaction (Notes 4 and 17)	44,400,000	2,886,000	-	-	1,749,765	-	-	-	4,635,765
Issuance of conversion of debentures (Notes 16 and 17)	46,996,045	1,742,366	-	-	616,386	-	-	-	2,358,752
Units and warrants issued on private placements (Notes 17 and 19)	2,666,667	110,494	-	-	89,506	-	-	-	200,000
Issuance on debt settlement (Notes 12,14,15 and 17)	24,003,104	952,155	185,454	-	197,607	-	-	-	1,335,216
Issuance on share exchange agreement Notes 9 and 17)	9,333,333	336,420	-	-	263,469	-	-	-	599,889
Share issued for services (Notes 17 and 21)	1,800,000	63,000	-	-	-	-	-	-	63,000
Share-based compensation (Note 18)	-	-	-	711,815	-	-	-	-	711,815
Expiry and cancellation of stock options (Note 18)	-	-	-	(139,057)	-	-	139,057	-	-
Exercise of warrants (Notes 17 annd 19)	28,598,920	2,483,997	-	-	(1,054,051)	-	-	-	1,429,946
Exercise of broker options (Notes 17 and 19)	531,840	41,595	-	-	(29,527)	-	-	-	12,068
Issuance on exercise of broker options (Notes 17 and 19)	-	-	-	-	14,524	-	-	-	14,524
Expiry of warrants (Note 19)	-	-	-	-	(637,022)	-	637,022	-	-
Exchange gain on translation of foreign operations	-	-	-	-	-	468,397	-	53,094	521,491
Net loss for the year	-	-	-	-	-	-	(5,150,281)	(277,334)	(5,427,615)
Balance, December 31, 2020	**241,632,183**	**21,831,792**	**248,945**	**813,256**	**2,866,900**	**(246,952)**	**(15,856,884)**	**1,255,892**	**10,912,949**
Issuance on business acquisition (Notes 4 and 17)	75,000,000	6,750,000	-	-	3,169,059	-	-	-	9,919,059
Issuance of conversion of debentures (Notes 16 and 17)	5,700,000	213,993	-	-	71,007	-	-	-	285,000
Share-based compensation (Note 18)	-	-	-	599,761	-	-	-	-	599,761
Exercise of stock options (Notes 17 and 18)	850,000	134,451	-	(62,201)	-	-	-	-	72,250
Expiry and cancellation of stock options (Note 18)	-	-	-	(108,541)	-	-	108,541	-	-
Exercise of warrants (Notes 17 and 19)	17,634,200	1,676,733	-	-	(795,023)	-	-	-	881,710
Expiry of warrants (Note 19)	-	-	-	-	(1,019,221)	-	1,019,221	-	-
Exchange loss on translation of foreign operations	-	-	-	-	-	125,383	-	(4,368)	121,015
Net loss for the year	-	-	-	-	-	-	(5,626,492)	(247,062)	(5,873,554)
Acquisition of non-controlling interest (Note 22)	-	-	-	-	-	-	951,586	(1,004,462)	(52,876)
Balance, December 31, 2021	**340,816,383**	**30,606,969**	**248,945**	**1,242,275**	**4,292,722**	**(121,569)**	**(19,404,028)**	**-**	**16,865,314**

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

1. Nature of Operations and Going Concern

Pharmadrug Inc. ("Pharmadrug" or the "Company") 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 in Pharmadrug Production GmBH ("Pharmadrug Production"), a German medical cannabis distribution company that holds a Schedule 1 European Union ("E.U.") narcotics license, 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 doing business as Super Smart, an entity building a vertically integrated retail business with the goal to elevate the use of functional mushrooms, and psilocybin mushrooms where federally legal, as natural based medicines. In 2021, the Company acquired Sairiyo Therapeutics Inc. ("Sairiyo"), a biotech Company that specializes in researching and reformulating established natural medicines with a goal of bringing them through clinical trials and the associated regulatory approval process in the United States (the "U.S.").

The Company's common shares are listed on the Canadian Securities Exchange under the trading symbol "PHRX". Its shares are also traded in the U.S. on the OTCQB under the ticker symbol "LMLLF", and in Germany on the Frankfurt exchange under the ticker "G111.F".

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

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

For the year ended December 31, 2021, the Company incurred a net loss of $5,873,554 and negative cash flow from operations of $4,125,319, and as at December 31, 2021, the Company had an accumulated deficit of $19,404,028 (December 31, 2020 – deficit of $15,856,884). The Company's ability to continue as a going concern is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. The unpredictability of the medical cannabis and psychedelic business, and the continued evolution of the coronavirus ("COVID-19") pandemic represent material uncertainties which may cast significant doubt upon the Company's ability to continue as a going concern.

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

2. Basis of Presentation

(a) Statement of Compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were reviewed, approved and authorized for issuance by the Board of Directors (the "Board") of the Company on May 2, 2022.

2. Basis of Presentation (continued)

(b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments carried at fair value, as explained in the accounting policies as set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, as follows:

Name	Jurisdiction	Percentage Owned
Pharmadrug Inc.	Ontario, Canada	100%
Aura Health Corp.	Ontario, Canada	100%
Interrobang Ltd.	Ontario, Canada	100%
Sairiyo Therapeutics Inc.	Ontario, Canada	100%
Green Global Properties Inc.	Delaware, U.S.	100%
Interrobang Online Ltd.	Delaware, U.S.	100%
Pharmadrug Production GmBH	Hamburg, Germany	100%
Interrobang Tiel B.V.	Tiel, Netherlands	100%

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are-deconsolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

(d) Functional Currency

These consolidated financial statements are presented in Canadian dollars (“$” or “CAD”), which is the Company’s functional currency. The functional currency is the currency of the primary economic environment in which the Company operates. The functional currency of the subsidiaries is: (i) CAD for Aura Health Corp., Interrobang Ltd. (“Interrobang”), and Sairiyo, (ii) U.S. dollar (“USD”) for Green Global Properties Inc. (“Green Global”), Interrobang Online Ltd. (“Interrobang Online”) and (iii) Euro (“€” or “EUR”) for Pharmadrug Production and Interrobang Tiel B.V. (“Interrobang Tiel”).

(e) Significant Accounting Judgments and Estimates

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

Going concern

At each reporting period, management exercises judgment in assessing the Company’s ability to continue as a going concern by reviewing the Company’s performance, resources, and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budgets, expected profitability, investment and financing activities and management’s strategic planning.

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Going concern (continued)

The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends, and are consistent with those used to evaluate the impairment of goodwill and intangible assets as at December 31, 2021. Management believes there is sufficient capital to meet the Company's business obligations for at least the next 12 months, after taking into account expected cash flows and the Company's cash position at year-end.

Business combination

In a business acquisition, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the acquisition date at their respective fair values. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree – the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. Management exercises judgment in considering all pertinent facts and circumstances in identifying the acquisition date.

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets.

Management exercises judgement in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied. Purchase consideration also includes consideration of any pre-existing relationships that are effectively settled as a result of the acquisition at their fair values.

Fair value of financial assets and financial liabilities

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

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

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

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

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Determination of cash generating units

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

Impairment

Long-lived assets, including property and equipment and intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is defined as the higher of: (i) value-in-use; or (ii) fair value less cost to sell ("FVLCS"). If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the CGU or group of CGUs to which goodwill has been allocated is valued using present value techniques. The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to their carrying value. The determination of the recoverable amount involves significant estimates and assumptions. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Warrants and options

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes valuation model ("Black-Scholes"). This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the expected volatility of the share price, expected forfeitures, expected dividend yield, expected term of the warrants or options, and expected risk-free interest rate.

Income taxes

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

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

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Income taxes (continued)

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

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECL") for amounts receivable and all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Provisions

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

Research and development costs

Judgment is required to distinguish the research phase and the development phase to correctly identify costs that qualify for capitalization.

3. Summary of Significant Accounting Policies

(a) Cash

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

(b) Revenue from Contracts with Customers

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

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

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

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

The Company's payment terms vary by customer types. Payment is due immediately before the transfer of control.

3. Summary of Significant Accounting Policies (continued)

(c) Financial Instruments

The Company classifies and measures financial instruments in accordance with IFRS 9 – Financial Instruments ("IFRS 9"). A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognizes financial assets and financial liabilities on the consolidated statements of financial position when it becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets in the following measurement categories: (a) those to be measured subsequently at FVTPL; (b) those to be measured subsequently at fair value through other comprehensive income (loss) ("FVTOCI"); and (c) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition).

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

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

Fair value through profit or loss

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

Financial assets at fair value through other comprehensive income

Debt and equity instruments that are held for collection of contractual cash flows and for sale, and where the assets' cash flows represent solely payments of principal and interest, are classified as FVTOCI. Movements in fair values are recognized in other comprehensive income ("OCI") and accumulated in fair value reserve, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss recognized in OCI is reclassified from equity to profit or loss and presented in "other gains and losses". Interest income from these financial assets is recognized using the effective interest rate method and presented in "interest income". As at December 31, 2021 and 2020, the Company did not have any financial assets at FVTOCI.

Amortized cost

Debt and equity instruments that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortized cost. Interest income from these financial assets is included in interest income using the effective interest rate method.

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

Cash	FVTPL
Other receivables (excluding sales tax recoverable)	Amortized cost
Other investments	FVTPL
Accounts payable	Amortized cost
Lease liabilities	Amortized cost
Convertible debentures	Amortized cost

3. Summary of Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

Expected credit loss impairment model

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

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

Derecognition

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

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

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

Determination of fair value

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

The fair value hierarchy has the following levels:

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

3. Summary of Significant Accounting Policies (continued)

(d) Inventories

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

(e) Compound Instruments

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

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

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

(f) Intangible Assets

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

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

Goodwill

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

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

3. Summary of Significant Accounting Policies (continued)

(g) Property and Equipment

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

Depreciation is computed using the straight-line method based on the estimated useful life of the assets and commences when title and ownership have transferred to the Company and is readily available for its intended use. The residual value, useful life and depreciation methods are reviewed at the end of each reporting period. Such a review takes into consideration the nature of the asset, the intended use and impact of technological changes. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of capital assets. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is recorded on a straight-line basis as follows:

- Office equipment: Straight-line over the useful life of the asset
- Right-of-use (“ROU”) assets: Straight-line over the term of the lease

(h) Leased Assets

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company’s incremental borrowing rate which was determined to be between 1.5% to 2% in Germany and about 6% in the Netherlands. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, if there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment whether it will exercise a purchase, extension or termination option.

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

3. Summary of Significant Accounting Policies (continued)

(i) Provisions

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

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

(j) Income Taxes

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

Current income tax is recognized and measured at the amount expected to be recovered from, or payable to, the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

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

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

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

Estimates

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

(k) Share Capital

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

(l) Share Issuance Costs

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

3. Summary of Significant Accounting Policies (continued)

(m) Share-Based Payments Transactions

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

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

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

(n) Loss Per Share

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

(o) Foreign Currency Translation

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

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

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

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

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

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

3. Summary of Significant Accounting Policies (continued)

(p) Related Party Transactions

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

(q) Research and Development Costs

Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized as internally generated intangible assets if the Company can demonstrate each of the following criteria:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible assets and use or sell it;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

(r) Adoption of New Accounting Standards and Amendments

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 the consolidated financial statements.

(s) Recent Accounting Pronouncements

As at the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee ("IFRIC") had issued certain new 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, and have been excluded. The Company is currently assessing the impact upon the adoption of the following amendments on its 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.

4. Business Acquisitions

Pharmadrug Acquisition

On February 27, 2019, the Company entered into a definitive share purchase agreement (the "Share Purchase Agreement") to acquire an 80% ownership in Pharmadrug Production (the "Pharmadrug Acquisition"), for a purchase price of €4.6 million settled in cash ($7,101,848). The seller, Anquor Pharmaceuticals Ug ("Anquor"), retains a 20% NCI in Pharmadrug Production.

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

On May 17, 2019 (the "Acquisition Date"), the Company completed the Pharmadrug Acquisition. Goodwill of $4,605,861, which is not tax deductible, was recognized due to the expected synergies from combining operations of the Company and Pharmadrug Production. The Company determined that the Pharmadrug Acquisition was a business combination in accordance to the definition of IFRS 3 – Business Combination ("IFRS 3"), and as such, had accounted for it in accordance with this standard, with the Company being the acquirer on the Acquisition Date.

On July 14, 2021, the Company entered into a new share purchase agreement (the "New Share Purchase Agreement") with Anquor, to acquire the 20% NCI (the "NCI Acquisition") in Pharmadrug Production, to obtain 100% ownership, for a purchase price consideration of €35,000 ($52,879) payable in cash.

On August 25, 2021, the Company completed the NCI Acquisition by transferring the purchase price consideration to Anquor. On closing of the NCI Acquisition, the carrying amount of the NCI was $1,004,463. The difference between the purchase price and the carrying amount of the NCI has been recognized in accumulated deficit (see Note 22 for more details).

Super Smart Transaction

On May 25, 2020 and as amended on June 12, 2020, the Company entered into a definitive agreement (the "Amalgamation Agreement") with Interrobang d/b/a Super Smart, pursuant to which Pharmadrug acquired all of the issued and outstanding shares of Super Smart, effected by way of a three-cornered amalgamation between Pharmadrug, Super Smart and a wholly-owned subsidiary of Pharmadrug (the "Super Smart Transaction").

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

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

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

(Expressed in Canadian Dollars)

4. Business Acquisitions (continued)

Super Smart Transaction (continued)

Details of the Super Smart Transaction are presented as follows:

	$
Purchase Price Consideration Paid	
Fair value of common shares issued (i)	**2,886,000**
Fair value of warrants issued (ii)	**1,749,765**
	4,635,765
Net Identifiable Assets Acquired	
Cash	**2,191,932**
Advances	**400,000**
Promissory note	**76,975**
Accounts payable and accrued liabilities	**(27,667)**
Other liabilities	**(1,000)**
Debentures Subscription Receipts	**(2,500,000)**
Total Net Identifiable Assets Acquired	**140,240**
Unidentifiable Assets Acquired	**4,495,525**

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

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

(i) The fair value of the 44,400,000 common shares, issued to former Super Smart shareholders, was determined to be $2,886,000 based on the closing share price of Pharmadrug on the Super Smart Transaction Date on June 15, 2020.

(ii) The estimated fair value of the 32,200,000 warrants as consideration are based on Black-Scholes with the following assumptions: current stock price – $0.065 per share, expected dividend yield – 0%, expected volatility – 121%, risk-free interest rate – 0.27%, exercise price of $0.05, and an expected life of three years. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies operating in the cannabis industry.

(iii) The estimated fair value of the 3,748,400 finders' options as consideration are based on the Monte Carlo option model with the following assumptions: current stock price – $0.065 per share, expected volatility 97%, risk-free interest rate – 0.29%, and an expected life of two years. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies operating in the cannabis industry.

Smart Shop Acquisition

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

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

(Expressed in Canadian Dollars)

4. Business Acquisitions (continued)

Smart Shop Acquisition (continued)

Details of the Smart Shop Acquisition are presented as follows:

	$
Purchase Price Consideration Paid	
Cash	**15,805**
	15,805
Net Identifiable Assets Acquired	
Inventories	**1,563**
Total Net Identifiable Assets Acquired	**1,563**
Unidentifiable Net Assets Acquired	**14,242**

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

Sairiyo Acquisition

On January 25, 2021, the Company entered into a share exchange agreement (the “Agreement”) to acquire Sairiyo.

On February 2, 2021 (the “Sairiyo Acquisition Date”), the Company completed the acquisition of Sairiyo (the “Sairiyo Acquisition”). Under the terms of the Agreement, the Company acquired all the issued and outstanding shares of Sairiyo in consideration for the issuance of an aggregate of 75,000,000 units (each a “Unit”) of Pharmadrug. Each Unit is comprised of one common share and one common share purchase warrant (“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.

Following completion of the Sairiyo Acquisition, Sairiyo became a wholly-owned subsidiary of Pharmadrug.

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

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

	$
Purchase Price Consideration Paid	
Fair value of common shares issued (i)	**6,750,000**
Fair value of warrants issued (ii)	**3,169,059**
	9,919,059

(Expressed in Canadian Dollars)

4. Business Acquisitions (continued)

Sairiyo Acquisition (continued)

Net Identifiable Assets Acquired	
Cash	**361,982**
Intangible assets	
Patents and Licenses	**4,529,600**
Accounts payable and accrued liabilities	**(14,795)**
Deferred tax liabilities on intangible assets acquired	**(1,200,344)**
Total Net Identifiable Assets Acquired	**3,676,443**
Goodwill	**6,242,616**

Consideration paid consisted entirely of shares and warrants of the Company which were measured at the estimated fair value on the Sairiyo Acquisition Date, 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 Sairiyo Acquisition Date of 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 – 109%, risk-free interest rate – 0.15%, exercise price of $0.10, and an expected life of 1.5 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies operating in the cannabis industry.

Goodwill of $6,242,616, which is not tax deductible, was recognized due to the expected synergies from combining operations of the Company and Sairiyo.

5. Other Receivables

	December 31, 2021	December 31, 2020
	$	$
Sales taxes receivable	**35,795**	116,978
Trade receivables	**21,847**	37,342
Other receivables	**26,284**	29,374
	83,926	183,694

6. Inventories

As at December 31, 2021, the Company's inventories consisted of finished goods held with Pharmadrug Production in Germany, the Smart Shop in the Netherlands, and Interrobang Online in the U.S. For the year ended December 31, 2021, inventories of $394,130 (2020 – $501,634) were expensed and included in cost of goods sold.

7. Prepaid Expenses

	December 31, 2021	December 31, 2020
	$	$
Prepaid insurance	**12,312**	28,187
Advances made to suppliers and deposits	**46,081**	29,617
	58,393	57,804

8. Note Receivable

On April 30, 2019, the Company, through Green Global, entered into a definitive purchase and sale agreement (the "Purchase Sale Agreement") with Empower Healthcare Assets Inc. ("Empower"), a wholly-owned subsidiary of Empower Clinics Inc., pursuant to which Empower acquired Pharmadrug's 30% interest in the Sun Valley Clinics in the U.S. As consideration, Green Global received a promissory note issued by Empower in the principal amount of USD $125,000 (the "Promissory Note"). The Promissory Note bears interest at a rate of 4% per annum, matures on July 31, 2019 and may be prepaid at any time, in whole or in part, without penalty or premium. As the Promissory Note remained outstanding as at August 31, 2019, the Company was entitled to an additional payment of USD $30,000, pursuant to certain amended payment terms as per agreed between the Company and Empower on July 30, 2019.

On November 7, 2019, the Company received a partial repayment of $15,313 (USD $12,041) from Empower, comprised of payment for the principal amount of $12,717 (USD $10,000) and interest of $2,596 (USD $2,041).

On July 16, 2020, Empower settled the overdue balance of $205,032 under the Promissory Note through the issuance of units. In conjunction to its private placement offering which closed on July 14, 2020, Empower issued 4,100,634 units ("Empower Units") at a price of $0.05 per Empower Unit to the Company.

Each Empower Unit is comprised of one common share in the capital of Empower ("Empower Shares"), and one common share purchase warrant ("Empower Warrants") exercisable at $0.12 per Empower Warrant, expiring on July 14, 2022. The Empower Shares and Warrants are carried at FVTPL with the estimated fair value of the Empower Warrants based on Black-Scholes with the following assumptions: current stock price – $0.06 per share, expected dividend yield – 0%, expected volatility – 180%, risk-free interest rate – 0.27%, exercise price of $0.05, and an expected life of three years. In making the assumptions for expected volatility, the Company used the estimated volatility using Empower's historical share prices. As a result of the settlement, the Company recorded a reversal of ECL of $155,614 on the Promissory Note, and a gain on settlement of $156,331 on its consolidated statements of loss and comprehensive loss during the year ended December 31, 2020.

9. Other Investments

FSD Pharma Inc.

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

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

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

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

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

9. Other Investments (continued)

FSD Pharma Inc. (continued)

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

On January 13, 2020, the remaining 61,892 post-Consolidation FSD Additional Shares were sold for proceeds of $741,375 which were applied as a partial repayment on the Bridge Loan Facility. During the year ended December 31, 2020, the Company recorded a realized gain of $221,321 (2019 – a realized loss of $1,625,285), and a fair value increase of $80,062 upon the disposition of the FSD Additional Shares.

Empower

Upon receipt of the Empower Units on settlement of the Promissory Note as per disclosed in Note 8, the Empower Shares and Warrants were valued at $205,032 and were classified at FVTPL. The Company subsequently disposed of its entire position of Empower Shares, including an additional 4,100,634 Empower Shares issued as a result of the exercise of the Empower Warrants for $492,076, for total proceeds of $1,373,957. During the year ended December 31, 2020, the Company recorded a realized loss of $263,932 and a fair value increase of $784,361 upon the dispositions of the Empower Shares.

Red Light Holland Corp.

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

Under the terms of RLH Share Exchange, the Company issued 9,333,333 Units to RLH at a price of $0.075 per Unit (see Notes 17 and 19 for more details), and RLH issued 4,242,424 units (the "RLH Units") to Pharmadrug. Each RLH Unit is comprised of one common share in the capital of RLH (a "RLH Share") and one RLH share purchase warrant (a "RLH Warrant"). Each RLH Warrant entitles the Company to purchase one additional RLH Share at an exercise price of $0.26 for 48 months from issuance of the RLH Warrant, subject to an accelerated expiry option. On completion of the RLH Share Exchange, the RLH Shares and RLH Warrants were valued at $305,836 and $253,252, respectively, and were classified at FVTPL.

As at December 31, 2020, the RLH Shares and Warrants were measured at a total fair value of $2,269,504. During the year ended December 31, 2020, the Company had recorded a fair value increase of $1,710,355 on the RLH Shares and RLH Warrants. The fair value of the RHL Warrants was measured at $975,564 using Black-Scholes with the following market inputs and assumptions: share price of $0.305, exercise price of $0.26, expected historical volatility of 118% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.33% and an estimated remaining life of 3.54 years.

In January 2021, the Company disposed of the RLH Shares for total proceeds of $1,214,454 and recorded a realized gain of $903,060 and a fair value decrease of $982,545 upon disposal.

As at December 31, 2021, the RLH Warrants were measured at a fair value of $337,387 using Black-Scholes with the following market inputs and assumptions: share price of $0.135, exercise price of $0.26, expected historical volatility of 128% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.99% and an estimated remaining life of 2.54 years. During the year ended December 31, 2021, the Company recorded a fair value decrease of $638,178 on the RLH Warrants.

(Expressed in Canadian Dollars)

10. Property and Equipment

	Right-of-use assets	Office equipment	Total
	$	$	$
Cost at:			
December 31, 2019	114,566	32,774	**147,340**
Additions	42,043	18,331	**60,374**
Disposals	(7,796)	-	**(7,796)**
Effects of foreign exchange on translation	8,053	2,304	**10,357**
December 31, 2020	156,866	53,409	**210,275**
Additions	56,799	-	**56,799**
Effects of foreign exchange on translation	(13,904)	(3,518)	**(17,422)**
December 31, 2021	**199,761**	**49,891**	**249,652**
Accumulated depreciation at:			
December 31, 2019	26,403	9,930	**36,333**
Depreciation	41,500	7,891	**49,391**
Effect of foreign exchange on translation	1,856	682	**2,538**
December 31, 2020	69,759	18,503	**88,262**
Depreciation	61,148	9,589	**70,737**
Effect of foreign exchange on translation	(7,240)	(1,726)	**(8,966)**
December 31, 2021	**123,667**	**26,366**	**150,033**
Net book value:			
December 31, 2020	87,107	34,906	**122,013**
December 31, 2021	**76,094**	**23,525**	**99,619**

(Expressed in Canadian Dollars)

11. Intangible Assets and Goodwill

	Licenses and Permits	Patent	Supply Relationship	Software	Goodwill	Total
	$	$	$	$	$	$
Cost at:						
December 31, 2019	5,556,278	-	394,202	-	4,287,712	10,238,192
Effects of f/x on translation	390,145	-	27,214	-	301,372	718,731
December 31, 2020	5,946,423	-	421,416	-	4,589,084	10,956,923
Addition	-	-	-	42,718	-	42,718
Acquired on business	-	4,529,600	-	-	6,242,616	10,772,216
Effects of f/x on translation	(468,791)	-	(32,859)	487	(357,824)	(858,987)
December 31, 2021	**5,477,632**	**4,529,600**	**388,557**	**43,205**	**10,473,876**	**20,912,870**
Accumulated depreciation at:						
December 31, 2019	701,834	-	49,867	-	-	751,701
Amortization	1,162,899	-	84,283	-	-	1,247,182
Effects of f/x on translation	73,763	-	3,460	-	-	77,223
December 31, 2020	1,938,496	-	137,610	-	-	2,076,106
Amortization	1,128,793	-	80,071	3,428	-	1,212,292
Effects of f/x on translation	(189,138)	-	(13,501)	39	-	(202,600)
December 31, 2021	**2,878,151**	**-**	**204,180**	**3,467**	**-**	**3,085,798**
Net book value:						
December 31, 2020	4,007,927	-	283,806	-	4,589,084	8,880,817
December 31, 2021	**2,599,481**	**4,529,600**	**184,377**	**39,738**	**10,473,876**	**17,827,072**

As at December 31, 2021, the Company reviewed the software for the U.S. entity, the supply relationship, and the narcotics license for the German operations, for indicators of impairment. Management assessed all available external and internal sources of information, including any observable signs of obsolescence and decline in the software's value arising from passage of time, general market and economic conditions of the German cannabis market, changes to the legal environment, and forecasted cash flows that would be generated by the supply relationship and the narcotics license. Management concluded that that there were no events or changes in circumstances which would have indicated that the carrying amount of an asset exceeds its recoverable amount.

As at December 31, 2021, the Company also performed its annual impairment test on goodwill, which compared the carrying amount of Pharmadrug Production and Sairiyo to their respective recoverable amount. Pharmadrug Production and Sairiyo are regarded as their own CGU, being the smallest identifiable group of assets that generates cash inflows and includes research and development ("R&D"), brand name, customer relationships, and goodwill.

The recoverable amount for Pharmadrug Production of $2,375,000 as at December 31, 2021, has been determined based on the FVLCS, which is price that would be received to sell the CGU in a business transaction between the Company and a market buyer, who are acting in their best economic interest. The estimated excess of the recoverable value over the carrying value of the Pharmadrug Production entity is $6,067,377 and management did not identify an impairment for this CGU.

The recoverable amount for Sairiyo of $11,550,000 as at December 31, 2021, has been determined based on the FVLCS, which is the derived Enterprise Value ("EV") less cost of disposal. The EV of Sairiyo was arrived at by multiplying the entity's reporting date fair value of cumulative R&D by the industry average of EV/R&D. The industry average of EV/R&D was arrived at by dividing the EV of various entities operating in the biotechnology industry by the cumulative R&D amount for each entity. The estimated excess of the recoverable value over the carrying value of the CGU is $619,248 and management did not identify an impairment for this CGU.

(Expressed in Canadian Dollars)

12. Accounts Payable and Accrued Liabilities

	December 31, 2021	December 31, 2020
	$	$
Trade payables	**249,002**	353,246
Accrued liabilities	**188,174**	208,884
	437,176	562,130

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

13. Loans Payable

Bridge Loan Facility

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

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

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

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

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

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

During the year ended December 31, 2020, the Company had recorded a gain of $31,075 upon completion of the settlement with the Lender, on its consolidated statements of loss and comprehensive loss.

13. Loans Payable (continued)

Private loan

On February 7, 2020, the Company secured a private loan (the "Private Loan") of $250,000 from an arm's length third-party lender, in connection to a non-binding LOI previously entered on December 24, 2019. The Private Loan carries an interest rate of 9% per annum accruing every 90 days, payable on maturity with such interest increasing to 15% per annum from the date of the occurrence of an event of default. The Private Loan is secured by: (i) GSAs from the Company and its material subsidiaries, (ii) a pledge of shares by the Company of its interest in Pharmadrug Production, and (iii) guarantees from the Company's material subsidiaries. The Private Loan is due on the earlier of: (i) the closing of a proposed transaction, and (ii) 180 days following the termination of the non-binding LOI. On May 21, 2020, the parties mutually terminated the LOI.

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

Advances from Super Smart

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

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

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

14. Notes Payable

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

On July 17, 2020, the Company completed a restructuring on certain of its outstanding indebtedness (the "Restructuring"), of which (i) the $400,000 principal amount of the Notes owing to the CEO and the arm's length third-party, plus accrued interest of $139,209, were exchanged as part of an aggregate of $1,005,620 principal amount of 12% convertible debentures (the "Replacement Debentures") maturing on July 17, 2023 (see Note 16(c) for details), and (ii) the remaining $200,000 principal amount of the Notes owing to the former officer plus accrued interest of $69,604, were exchanged for 5,392,080 Units at a deemed price of $0.05 per Unit. Each Unit is comprised of one common share and one-half (1/2) of a Warrant exercisable into one common share at $0.07 per share at any time on or before July 17, 2023 (see Note 17 and 19 for details).

The Company assessed that pursuant to the terms and conditions of the debt conversion agreements entered between the parties and the Company, all above-mentioned parties had agreed and accepted in full the terms of the Restructuring, which provided evidence that the legal release condition in extinguishing a debt.

15. Lease Liabilities

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

(i) A lease for its office in Rostock, Germany expiring in June 2022.
(ii) A lease for office equipment expiring in December 2023.
(iii) A lease for a vehicle expiring in February 2022.
(iv) A lease for a vehicle expiring in February 2023.
(v) Leases for office equipment expiring September 2026.
(vi) Lease for office space expiring June 2022.

(Expressed in Canadian Dollars)

15. Lease Liabilities (continued)

In the Netherlands, the Company is party to a lease for its retail location in the town of Tiel, in central Netherlands, expiring in September 2022.

During the years ended December 31, 2021 and 2020, the movements and carrying amounts of the Company's ROU assets under leases as per disclosed in Note 10, are summarized as follows:

	Buildings and leaseholds	Office equipment	Total
	$	$	$
Cost at:			
December 31, 2019	81,515	33,051	**114,566**
Additions	26,584	15,460	**42,044**
De-recognition	(7,796)	-	**(7,796)**
Effects of foreign exchange on translation	5,729	2,323	**8,052**
December 31, 2020	106,032	50,834	**156,866**
Additions	10,426	46,373	**56,799**
Effects of foreign exchange on translation	(25,898)	11,994	**(13,904)**
December 31, 2021	**90,560**	**109,201**	**199,761**
Accumulated depreciation at:			
December 31, 2019	18,786	7,617	**26,403**
Depreciation	33,373	15,923	**49,296**
De-recognition	(7,796)	-	**(7,796)**
Effect of foreign exchange on translation	1,320	536	**1,856**
December 31, 2020	45,683	24,076	**69,759**
Depreciation	30,295	30,853	**61,148**
Effect of foreign exchange on translation	(17)	(7,223)	**(7,240)**
December 31, 2021	**75,961**	**47,706**	**123,667**
Net book value:			
December 31, 2020	60,349	26,758	**87,107**
December 31, 2021	**14,599**	**61,495**	**76,094**

The following table reflects the reconciliation of the lease liabilities as at December 31, 2021 and 2020:

	$
Lease liabilities, January 1, 2020	**94,443**
Additions	**42,043**
Lease payments	**(52,349)**
Interest on lease obligations	**1,967**
Effects of foreign exchange	**6,650**
Lease liabilities, December 31, 2020	**92,754**
Additions	**56,799**
Lease payments	**(64,029)**
Interest on lease obligations	**1,535**
Effects of foreign exchange	**(7,065)**
Lease liabilities, December 31, 2021	**79,994**

(Expressed in Canadian Dollars)

15. Lease Liabilities (continued)

	$
Current	**42,674**
Non-current	**37,320**
	79,994

The lease liabilities are secured by the related underlying assets. Future minimum lease payments as at December 31, 2021 are as follows:

	Total	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years
	$	$	$	$	$
Lease payments	**71,278**	33,825	11,809	9,325	16,319
	71,278	**33,825**	**11,809**	**9,325**	**16,319**

16. Convertible Debentures

(a) Unsecured Debentures

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

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

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

On July 17, 2020, the Company completed the Restructuring, of which a $400,000 principal amount of the Unsecured Debentures, plus accrued interest of $45,632, were part of the exchange for an aggregate of $1,005,620 principal amount of Replacement Debentures maturing on July 17, 2023 (see Note 16(c) for more details).

(b) Pharmadrug Debentures

On completion of the Super Smart Transaction, the Debentures Subscription Receipts were converted into the Super Smart Debentures, which were then exchanged pursuant to their terms into debentures of Pharmadrug (the "Pharmadrug Debentures") which bear interest at a rate of 12% per annum from the date of issue payable monthly in cash and ranking pari passu with one another. The Pharmadrug Debentures are secured by first ranking security of Super Smart and second ranking security of Pharmadrug. The Pharmadrug Debentures mature three years from the issuance date, on May 19, 2023 (the "Maturity Date").

Pharmadrug has a right to prepay or redeem a part or the entire principal amount of the Pharmadrug Debentures at par plus accrued and unpaid interest at any time by providing written notice of the date (the "Redemption Date") for such redemption to the holder at least a minimum of 30 days and a maximum 60 days' prior to the Redemption Date. Each Pharmadrug Debenture is convertible into units (each, a "Unit") at the option of the holder at any time prior to the close of the third business day prior to the earlier of: (i) the Maturity Date and (ii) the Redemption Date at a price of $0.05 per Unit with each Unit consisting of one common share of Pharmadrug (the "Pharmadrug Share") and one-half (1/2) of a common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will entitle the holder thereof to purchase one Pharmadrug Share at an exercise price of $0.05 for a period of 36 months from the date of issuance of the Pharmadrug Debentures.

16. Convertible Debentures (continued)

(b) Pharmadrug Debentures (continued)

In the event that the Pharmadrug Shares have a closing price on such exchange on which the Pharmadrug Shares may be traded at such time of greater than $0.15 per share for a period of 10 consecutive trading days, the Company will be able to cause the Pharmadrug Debentures to be converted into Units.

The Pharmadrug Debentures are compound financial instruments. On initial recognition, the residual value method was used to allocate the fair value of the debt and equity components. The fair value of the liability was calculated as $2,500,000 using a discount rate of 12%. No proceeds were allocated to the conversion option.

From the period from the completion of the Super Smart Transaction to December 31, 2020, holders had converted a combined total of $2,215,000, principal amount of the Pharmadrug Debentures resulting in the issuance of 44,300,000 Units of the Company. On conversions, the Company reduced the carrying amount of the liability by $2,215,000.

From the period from the completion of the Super Smart Transaction to December 31, 2020, the Company had recorded accretion expense on the Pharmadrug Debentures of $62,135 which is included within interest expense.

During the year ended December 31, 2021, the remaining principal amount of $285,000 of the Pharmadrug Debentures were converted by holders into 5,700,000 Units of the Company.

(c) Replacement Debentures

On July 17, 2020, the Company completed the Restructuring on certain of its outstanding indebtedness. Under the terms of the Restructuring, (i) the $400,000 principal amount of the Unsecured Debentures plus accrued interest of $45,632 (see Note 16(a)), and (ii) the $400,000 principal amount of the Notes owing to the CEO and an arm's length third-party plus accrued interest of $139,209 (see Note 14), were exchanged for an aggregate of $1,005,620 principal amount of the Replacement Debentures. The Replacement Debentures bear interest at a rate of 12% per annum, payable annually in arrears, and are due on July 17, 2023. The Replacement Debentures are convertible into Units at a price of $0.05 per Unit. Each Unit is comprised of one common share and one-half (1/2) of a Warrant exercisable into one common share at $0.07 per share at any time on or before July 17, 2023.

The Company also assessed whether the exchange of debt amounted to a substantial modification of the terms of the of the existing debts. The 'exchange' of the debts into the Replacement Debentures is intended to defer the overdue repayment of interest and principal to a later time period. However, the obligations remained with the same creditors. The Company assessed whether the 'exchange' amounted to a substantial modification of the terms of the of the existing debts.

In determining whether the change of terms is substantially different, the Company determined whether the present value of the new cash flows under the Replacement Debentures is at least 10% different from the present value of remaining balance under the old debts. It was assessed that the difference is greater than 10%, and the Notes and the Unsecured Debentures were derecognized and accounted for as extinguishments, with the Replacement Debentures being recognize separately.

The present value of the Replacement Debentures was valued at $791,460, with the present value of the old debts determined to be $1,005,620 (as the Notes were already due on demand, and with the Unsecured Debentures approaching its maturity, their respective carrying amounts were taken as their present value at the time of the exchange).

The Replacement Debentures are compound financial instruments. On initial recognition, the residual value method was used to allocate the fair value of the debt and equity components. The face value of the liability was calculated using a discount rate of 20%.

(Expressed in Canadian Dollars)

16. Convertible Debentures (continued)

(c) Replacement Debentures (continued)

The difference between the principal amount of the Replacement Debentures and the discounted cash flows is allocated to the conversion feature, which was classified within equity, using the residual value method. Accretion of the liability portion and interest payable on the Convertible Debentures are included in finance costs in the consolidated statements of loss and comprehensive loss.

On December 18, 2020, a principal amount of $134,802 of the Replacement Debentures were converted into 2,696,045 Units of the Company at a conversion price of $0.05 when the carrying of the liability was $$115,047.

During the year ended December 31, 2020, the Company had recorded a loss of $20,779 on completion of the exchange of debts for the Replacement Debentures, on the consolidated statements of loss and comprehensive loss.

During the year ended December 31, 2021, the Company had recorded an interest and accretion expense of $151,251 (2020 – $71,668) on the Replacement Debentures which is included in finance costs on the consolidated financial statement. Interest payment on the Replacement Debentures made during the year was $112,958 (2020 – $nil).

The following table reflects the continuity of convertible debentures as at December 31, 2021 and 2020:

	$
Balance, December 31, 2019	**404,431**
Issuance on business acquisition (Note 4)	2,500,000
Conversion of Pharmadrug debentures into common shares	(2,215,000)
Extinguishment of Unsecured Debentures	(445,632)
Issuance of Replacement Debentures on settlement	791,460
Interest and accretion expense	175,004
Conversion of Replacement Debentures	(115,047)
Payment of interest on debentures	(62,135)
Balance, December 31, 2020	**1,033,081**
Interest and accretion expense	151,251
Conversion of Pharmadrug Debentures	(285,000)
Payment of interest on debentures	(112,958)
Balance, December 31, 2021	**786,374**

(Expressed in Canadian Dollars)

17. Share Capital

Authorized share capital

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

Common shares issued and outstanding as at December 31, 2021 and 2020 are as follows:

	Number of common shares	Amount
	#	$
Balance, December 31, 2019	**83,302,274**	**13,215,765**
Shares issued on business acquisition [(a)]	44,400,000	2,886,000
Shares issued on conversion of Pharmadrug Debentures [(b)]	44,300,000	1,634,387
Shares issued on settlement of bridge loan facility [(c)]	9,566,014	430,471
Shares issued on share exchange [(d)]	9,333,333	336,420
Shares issued on private placements [(e)]	2,666,667	110,494
Shares issued on restructuring [(f)]	14,437,090	521,684
Shares issued as compensation [(g)]	1,800,000	63,000
Shares issued on conversion of Replacement Debentures [(h)]	2,696,045	107,806
Shares issued from exercise of warrants [(i)]	28,525,000	2,476,167
Shares issued from exercise of finders’ warrants [(j)]	73,920	8,003
Shares issued from exercise of finders’ options[(k)]	531,840	41,595
Balance, December 31, 2020	**241,632,183**	**21,831,792**
Shares issued on conversion of Pharmadrug Debentures[(l)]	5,700,000	213,993
Shares issued on acquisition of Sairiyo[(m)]	75,000,000	6,750,000
Shares issued from exercise of options[(n)]	850,000	134,451
Shares issued from exercise of warrants[(o)]	16,281,400	1,550,463
Shares issued from exercise of finders’ warrants[(p)]	1,352,800	126,270
Balance, December 31, 2021	**340,816,383**	**30,606,969**

Share capital transactions for the year ended December 31, 2020

(a) On June 15, 2020, the Company issued 44,400,000 common shares in exchange for common shares of Super Smart on closing of the Super Smart Transaction (see Note 4).

(b) During the year ended December 31, 2020, a principal amount of $2,215,000 of the Pharmadrug Debentures were converted into 44,300,000 Units of the Company at a price of $0.05 per share. Each Unit is comprised of one common share of the Company and one-half (1/2) of a Warrant exercisable at $0.05 for a a period of 36 months from the date of issuance of the Pharmadrug Debentures (see Note 16(b)).

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

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

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

17. Share Capital (continued)

Share capital transactions for the year ended December 31, 2020 (continued)

(f) On July 17, 2020, the Company issued 14,437,090 Units to settle: (i) the total outstanding balance owing to the Former COO under the Notes comprised on a $200,000 principal amount and accrued interest of $69,604, and (ii) other total obligations of $452,250, including amounts of $62,150 and $77,950 owed to the CEO and the former Chairman of the Company, respectively. Each Unit is comprised of one common share and one-half (1/2) of a Warrant exercisable into one common share at $0.07 per share at any time on or before July 17, 2023 and recorded a gain of $2,652 in connection with this settlement.

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

(h) On December 18, 2020, the Company issued 2,696,045 Units as a result of the conversion of $134,802 of principal of the Replacement Debentures at the conversion price of $0.05 (see Note 16(c)).

(i) During the year ended December 31, 2020, 28,525,000 common shares were issued as a result of the exercise of Warrants for cash proceeds of $1,426,250.

(j) During the year ended December 31, 2020, 73,920 common shares were issued as a result of the exercise of Finders' Warrants for cash proceeds of $3,696.

(k) During the year ended December 31, 2020, 531,840 common shares were also issued as a result of the exercise of broker options for cash proceeds of $26,592.

Share capital transactions for the year ended December 31, 2021

(l) During the year ended December 31, 2021, a principal amount of $285,000 of the Pharmadrug Debentures were converted into 5,700,000 Units of the Company at a price of $0.05 per share. Each Unit is comprised of one common share of the Company and one-half (1/2) of a Warrant exercisable at $0.05. The expiry date for these warrants is June 12, 2023 (see Note 16(c)).

(m) On February 2, 2021, the Company issued 75,000,000 Units in exchange for common shares of Sairiyo on closing of the Sairiyo Transaction (see Note 4). Each Unit is comprised of one common share of the Company and one Warrant exercisable at a price of $0.10 for 18 months from closing of the Sairiyo Acquisition.

(n) During the year ended December 31, 2021, 850,000 common shares were also issued as a result of the exercise of options for cash proceeds of $72,250.

(o) During the year ended December 31, 2021, 16,281,400 common shares were issued as a result of the exercise of Warrants for cash proceeds of $814,070.

(p) During the year ended December 31, 2021, 1,352,800 common shares were issued as a result of the exercise of Finders' Warrants for cash proceeds of $67,640.

18. Reserve for Share-Based Payments

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

As at December 31, 2021, the Company had 11,981,638 common shares available for issuance under the Option Plan.

(Expressed in Canadian Dollars)

18. Reserve for Share-Based Payments (continued)

The following summarizes the stock option activity for the years ended December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**16,350,000**	**0.09**	3,120,000	0.20
Granted	**5,200,000**	**0.085**	5,500,000	0.11
Granted	**2,000,000**	**0.09**	8,500,000	0.05
Granted	**750,000**	**0.06**	1,000,000	0.06
Exercised	**(850,000)**	**0.085**	-	-
Expired	**(1,350,000)**	**0.225**	(1,020,000)	0.10
Cancelled	**-**	**-**	(350,000)	0.31
Cancelled	**-**	**-**	(400,000)	0.22
Outstanding, end of year	**22,100,000**	**0.08**	16,350,000	0.09
Exercisable, end of year	**17,600,000**	**0.08**	10,725,000	0.10

Option grants for the year ended December 31, 2020

On May 31, 2020, the Company granted 5,000,000 options to the Chairman of its advisory board at an exercise price of $0.11, expiring on May 31, 2025. The options vested immediately on grant. The Company also granted 500,000 options to a consultant under the same terms and expiry. The options were valued using Black-Scholes with the following assumptions: expected volatility of 126% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.39%, forfeiture rate of 0% and an expected life of five years. The grant date fair value attributable to these options of $509,858 was recorded as share-based compensation in connection with the vesting of options during the year ended December 31, 2020.

On August 31, 2020, the Company granted 3,000,000 options to the CEO at an exercise price of $0.05, expiring on August 31, 2025. The options vested immediately on grant. The Company also granted 5,500,000 options to its other officers and directors under the same exercise price and expiry, of which these options vest in one-third increments after six months, 12 months and 18 months until fully vested. The options were valued using Black-Scholes with the following assumptions: expected volatility of 124% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.40%, forfeiture rate of 0% and an expected life of five years. The grant date fair value attributable to these options was $239,501, of which $85,762 (2020 – $148,157) was recorded as share-based compensation in connection with the vesting of these options during the year ended December 31, 2021.

On December 8, 2020, the Company granted 1,000,000 options to a consultant at an exercise price of $0.06, expiring on December 8, 2025. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 126% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.47%, forfeiture rate of 0% and an expected life of five years. The grant date fair value attributable to these options of $50,185 was recorded as share-based compensation in connection with the vesting of options during the year ended December 31, 2020.

During the year ended December 31, 2020, the Company also recorded stock-based compensation of $3,615 in connection with the vesting of options which were granted prior to 2020.

(Expressed in Canadian Dollars)

18. Reserve for Share-Based Payments (continued)

Option grants for the year ended December 31, 2021

On February 4, 2021, the Company granted 4,250,000 options to various officers and directors of the Company at an exercise price of $0.05, expiring on February 4, 2026. The options vest one-third increments after three months, six months, and 12 months until fully vested. The Company also granted 950,000 options to two consultants for services provided at an exercise price of $0.085, expiring on February 4, 2026. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 132% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.47%, forfeiture rate of 0% and an expected life of five years. The grant date fair value attributable to these options was $380,523, of which $370,582 was recorded as share-based compensation in connection with the vesting of these options during the year ended December 31, 2021.

On May 12, 2021, the Company granted 2,000,000 options to an officer at an exercise price of $0.09, expiring on May 12, 2026. 500,000 of the options vests immediately, 750,000 of the options vesting from six month and remaining 750,000 vesting 12 months from the date of issuance until fully vested. The options were valued using Black-Scholes with the following assumptions: expected volatility of 131% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.97%, forfeiture rate of 0% and an expected life of five years. The grant date fair value attributable to these options was $136,277, of which $117,796 was recorded as share-based compensation in connection with the vesting of these options during the year ended December 31, 2021.

On August 30, 2021, the Company granted 750,000 options to an officer at an exercise price of $0.06, expiring on August 30, 2026. Of which one-third vests immediately, and the remaining vests in equal increment after six months and 12 months until fully vested. The options were valued using Black-Scholes with the following assumptions: expected volatility of 128% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.81%, forfeiture rate of 0% and an expected life of five years. The grant date fair value attributable to these options was $38,223, of which $25,622 was recorded as share-based compensation in connection with the vesting of these options during the year ended December 31, 2021.

The following table summarizes information of stock options outstanding and exercisable as at December 31, 2021:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	$	Years
May 31, 2025	5,500,000	5,500,000	0.11	3.42
August 31, 2025	8,500,000	6,666,667	0.05	3.67
December 8, 2025	1,000,000	1,000,000	0.05	3.94
February 4, 2026	4,350,000	2,933,333	0.085	4.10
May 12, 2026	2,000,000	1,250,000	0.09	4.36
August 30, 2026	750,000	250,000	0.06	4.67
	22,100,000	**17,600,000**	**0.08**	**3.80**

(Expressed in Canadian Dollars)

19. Reserve for Warrants

The following summarizes the warrant activity for the years ended December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted Average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**68,493,942**	**0.12**	25,213,698	0.30
Issued from business acquisition	**75,000,000**	**0.10**	35,678,400	0.05
Issued from share exchange agreement	**-**	**-**	8,400,000	0.13
Issued from share exchange agreement	**-**	**-**	933,333	0.08
Issued from conversion of debentures	**2,850,000**	**0.05**	22,150,000	0.05
Issued from conversion of replacement debentures	**-**	**-**	1,348,023	0.05
Issued from private placement of units	**-**	**-**	2,666,667	0.08
Issued from exercise of broker option	**676,400**	**0.05**	-	-
Issued from debt settlement units	**-**	**-**	7,218,545	0.07
Exercised	**(17,634,200)**	**0.05**	(28,864,840)	0.05
Expired	**(5,869,159)**	**0.25**	(1,052,996)	0.20
Expired	**(813,743)**	**0.22**	(2,301,873)	0.75
Expired	**(12,280,912)**	**0.28**	(78,015)	0.49
Expired	**-**	**-**	(2,350,000)	0.15
Expired	**-**	**-**	(467,000)	0.10
Outstanding, end of year	**110,422,328**	**0.09**	68,493,942	0.12

Warrant issuances for the year ended December 31, 2020

On June 15, 2020, the Company issued 32,200,400 warrants to former warrant holders of Super Smart on completion of the Super Smart Transaction and 3,478,400 finders' options.

During the year ended December 31, 2020, a principal amount of $2,215,000 of the Pharmadrug Debentures were converted into 44,300,000 Units, where 22,150,000 Warrants exercisable at $0.05 were issued (see Note 16(b)).

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

On July 16, 2020, the Company also issued 2,666,667 Warrants for RLH's subscription of Units for proceeds of $200,000 (see Note 17(e)). Each Warrant is exercisable at $0.08 into one common share of the Company for a period of 48 months from issuance. The grant date fair value of the Warrants issued was estimated to be $89,506 using Black-Scholes with the following assumptions: expected volatility of 146% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 0.31% and an expected life of four years.

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

On December 18, 2020, the Company issued 1,348,023 Warrants as a result of the conversion of $134,802 of principal of the Replacement Debentures at the conversion price of $0.05 (see Note 17(h)). Each warrant is exercisable at $0.05 to purchase one common share of the Company up to July 17, 2023.

(Expressed in Canadian Dollars)

19. Reserve for Warrants (continued)

Warrant issuances for the year ended December 31, 2021

During the year ended December 31, 2021, a principal amount of $285,000 of the Pharmadrug Debentures were converted into 5,700,000 Units of the Company at a price of $0.05 per share. Each Unit is comprised of one common share of the Company and one-half (1/2) of a Warrant exercisable at $0.05. The expiry date for these warrants is June 12, 2023 (see Note 16(c)).

On February 2, 2021, the Company issued 75,000,000 Warrants as part consideration in exchange for common shares of Sairiyo on closing of the Sairiyo Transaction (see Note 4). The grant date fair value of the Warrants issued was estimated to be $3,593,184 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 two years. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies operating in the cannabis industry.

During the year ended December 31, 2021, the Company issued 676,400 Warrants as a result of exercise of brokers' options. These Warrants were also exercised into common shares of the Company at $0.05 per share.

The following table summarizes information of warrants outstanding as at December 31, 2021:

Date of expiry	**Number of warrants outstanding**	**Exercise price**	**Weighted average remaining contractual life**
	#	**$**	**Years**
August 2, 2022	75,000,000	0.10	0.59
June 12, 2023	9,415,760	0.05	1.45
June 15, 2023	5,440,000	0.05	1.45
July 17, 2023	7,218,545	0.07	1.54
July 17, 2023	1,348,023	0.05	1.54
July 16, 2024	3,600,000	0.08	2.54
July 16, 2024	8,400,000	0.13	2.54
	110,422,328	**0.09**	**0.99**

20. Basic and Diluted Loss per Share

The calculations of basic and diluted EPS for the year ended December 31, 2021 were based on the net loss of $5,873,554 (2020 – net loss of $5,427,615) and the weighted average number of basic and diluted common shares outstanding of 331,181,318 (2020 – 142,456,439).

The details of the computation of basic and diluted loss per share are as follows:

	2021	2020
	$	$
Net Loss	**(5,873,554)**	(5,427,615)
	#	#
Basic weighted-average number of shares outstanding	**331,181,318**	142,456,439
Assumed conversion of dilutive stock options and warrants	**-**	-
Diluted weighted-average number of shares outstanding	**331,181,318**	142,456,439
	$	$
Basic loss per share	**(0.018)**	(0.038)
Diluted loss per share	**(0.018)**	(0.038)

(Expressed in Canadian Dollars)

21. Key Management Personnel Compensation and Related Party Transactions

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing, and controlling the activities of an entity, directly or indirectly.

Key management personnel compensation

The remuneration of directors and other members of key management personnel during the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
	$	$
Management salaries and consulting fees	**230,014**	40,000
Professional fees	**137,500**	90,000
Share-based compensation	**539,017**	211,157
	906,531	341,157

Effective September 1, 2020, Pharmadrug and the CEO entered into an executive agreement, whereas the Company agreed to pay an annual base salary of $120,000 for CEO services. The annual base salary shall be increased to $180,000, exclusive of bonuses, benefits and other compensation, once the Company has raised a minimum of $1,500,000. During the year ended December 31, 2021, the Company recorded management salaries of $120,000 (2020 – $40,000) in relation to the CEO's employment compensation. As at December 31, 2021, no balance was owed to the CEO (December 31, 2020 – $nil).

Effective May 1, 2021, Pharmadrug and the Chief Scientific Officer ("CSO") of the Company 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 year ended December 31, 2021, the Company recorded management salaries of $93,333 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 December 31, 2021, a balance of $1,893 (December 31, 2020 – $nil) owing to the CSO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the year ended December 31, 2021, Branson Corporate Services Ltd. ("Branson"), where the Chief Financial Officer ("CFO") and Corporate Secretary of the Company is employed, charged fees of $137,500 (2020 – $90,000), for providing CFO services to the Company, as well as other accounting and administrative services. As at December 31, 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 3,000,000 options to the CEO at an exercise price of $0.05, expiring on August 31, 2025. The options vested immediately on grant. The Company also granted 5,500,000 options to its other officers and directors under the same terms and expiry, of which these options vest in one-third increments after six months, 12 months and 18 months until fully vested. The grant date fair value attributable to these options was $239,501, of which $85,762 (2020 – $148,157) was recorded as share-based payments in connection with the vesting of these options during the year ended December 31, 2021.

On August 31, 2020, the Company also issued 1,300,000 common shares to an entity controlled by the CEO of the Company, and 500,000 common shares to a former officer respectively, as compensation as stipulated by their respective consulting agreement with Pharmadrug. The common shares valued at $63,000 was included in share-based payments during the year ended December 31, 2020.

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

Share-based compensation (continued)

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 $301,063 was recorded as share-based compensation in connection with the vesting of these options during the year ended December 31, 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 $117,796 was recorded as share-based compensation in connection with the vesting of these options during the year ended December 31, 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 $25,622 was recorded as share-based compensation in connection with the vesting of these options during the year ended December 31, 2021.

Restructuring on debts with related parties

On July 17, 2020, the Company completed the Restructuring which also involved amounts previously due to certain of its officers.

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

- A balance of $269,604 owed to the CEO, comprised of a $200,000 principal amount and accrued interest of $69,604 under the Notes (see Note 14); and
- A balance of $233,206 owed to the CEO, comprised of a $200,000 principal amount and accrued interest of $22,815 under the Unsecured Debentures (see Note 16(a)).

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

- A balance of $62,150 owed to the CEO for services provided under the terms of his consulting agreement.
- A balance of $269,604 owed to the CEO, comprised of a $200,000 principal amount and accrued interest of $69,604 under the Notes (see Note 15).
- A balance of $62,150 owed to a former officer for services provided under the terms of his consulting agreement; and
- A balance of $77,950 owed to the former Chairman of the Company for consulting services previously provided to the Company.

22. Non-Controlling Interest

On August 25, 2021, the Company acquired the remaining 20% NCI interest in Pharmadrug Production for a purchase consideration of €35,000 ($52,879), increasing its ownership from 80% to 100%. The carrying amount of the NCI on the date of acquisition was $1,004,463.

For the year ended December 31, 2021, the Company recorded a net loss of $247,062 (2020 – net loss of $277,334) attributable to the NCI.

(Expressed in Canadian Dollars)

22. Non-Controlling Interest (continued)

Below is a table which shows details of equity attributable to the owners of the Company as of the date of acquisition:

	$
Balance, December 31, 2020	**1,255,892**
NCI share of 2021 YTD net loss as at date of acquisition	(247,062)
NCI share of 2021 YTD OCI loss as at date of acquisition	(4,367)
Balance, August 25, 2021	**1,004,463**
Consideration paid to NCI	(52,878)
Increase in equity attributable to owners of the Company	**951,585**

23. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2020 – 26.5%) to the effective tax rate is as follows:

	2021	2020
	$	$
Net loss before recovery of income taxes provision:	**(6,707,100)**	(5,902,627)
Expected income tax recovery	**(1,777,381)**	(1,564,196)
Difference in foreign tax rates	**(124,642)**	(85,817)
Tax rate changes and other adjustments	**758,051**	90,769
Share-based compensation and non-deductible expenses	**494,475**	838,558
Change in tax benefits not recognized	**(184,049)**	245,674
Current income tax expense	**14,730**	
Deferred income tax recovery	**(848,276)**	(475,012)
	(833,546)	(475,012)

Deferred tax

The following table summarizes the components of deferred tax:

	2021	2020
	$	$
Deferred Tax Assets		
Non-capital losses carried forward - Germany	**740,894**	328,505
Non-capital losses carried forward – Canada	**141,389**	87,454
Capital losses carried forward – Canada	**48,161**	48,161
Lease payable	**22,047**	31,932
Deferred Tax Liabilities		
Other investments	**(114,098)**	(113,578)
Intangibles	**(2,070,995)**	(1,342,239)
Property and equipment, including ROU assets	**(11,611)**	(14,613)
Convertible debentures	**(5,381)**	(22,037)
Movement in foreign exchange	**(4,974)**	-
Net deferred tax liabilities	**(1,254,568)**	(996,415)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

(Expressed in Canadian Dollars)

23. Income Taxes (continued)

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2021	2020
	$	$
Share issuance costs	**245,682**	415,636
Net operating losses carried forward – U.S.	**746,111**	574,408
Non-capital losses carried forward – Canada	**7,635,544**	7,008,067
Other temporary differences	**148,179**	148,810

The Canadian non-capital loss carry-forwards expire as noted in the table below.

Share issuance and financing costs will be fully amortized in 2023. The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

	$
2037	590,888
2038	1,117,865
2039	3,684,273
2040	1,615,041
2041	1,073,754
	8,081,821

The Company's U.S. net operating losses expire as follows:

	$
2037	176,752
Indefinite	406,777
	583,529

24. Capital Management

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

The Company considers its capital to be shareholders' equity, which is comprised of share capital, equity component of convertible debentures, reserves for share-based payments and warrants, accumulated other comprehensive loss and accumulated deficit. As at December 31, 2021, the Company's capital consisted of an equity attributable to the shareholders of Pharmadrug Inc. of $16,865,314 (December 31, 2020 – equity attributable to the shareholders of Pharmadrug Inc. of $9,657,057).

(Expressed in Canadian Dollars)

24. Capital Management (continued)

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.

25. Financial Risks

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 receivable, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash is held with reputable chartered banks in Canada, Germany, Netherlands, and the U.S. Management believes that the credit risk concentration with respect to financial instruments included in cash and other receivables is minimal. For the year ended December 31, 2021, the Company did not recognize any ECL on trade receivables in the consolidated statements of loss and comprehensive loss. For the year ended December 31, 2020, the Company recorded a reversal of ECL on the Empower loan receivable of $155,614 (Note 8) and an ECL on trade receivables of $2,904 which are included in reversal of ECL in the consolidated statements of loss and comprehensive loss.

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 and investing activities.

As at December 31, 2021, the Company had a cash balance of $957,984 (December 31, 2020 – $2,134,866) and liquid investments valued at $337,387 (December 31, 2020 – $2,269,504), to settle current liabilities of $479,850 (December 31, 2020 – $619,303).

As at December 31, 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	437,176	-	-	**437,176**
Lease liabilities	42,674	37,320	-	**79,994**
Provisions	-	97,014	-	**97,014**
Convertible debentures	-	786,374	-	**786,374**
Total	**479,850**	**920,708**	-	**1,400,558**

25. Financial Risks (continued)

Liquidity risk (continued)

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.

Management believes there is sufficient capital to meet short-term business obligations, after taking into account cash flow requirements from operations and the Company's cash position as at December 31, 2021.

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 10% change in the fair value of the Company's other investments would impact net income or loss by approximately $34,000 based upon balances as at December 31, 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 loans payable, notes payable and convertible debentures have fixed interest rates. As at December 31, 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.

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 continued shipment delays from the Netherlands. While management expects the situation to improve once all lockdown restrictions will be eventually lifted, 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.

(Expressed in Canadian Dollars)

25. Financial Risks (continued)

COVID-19 (continued)

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, the U.S. and other countries to fight the virus. While the extent of the impact remains unknown, the Company anticipates this outbreak may continue to cause supply chain disruptions, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

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 (excluding sales tax recoverable), other investments, accounts payables, lease liabilities and convertible debentures.

The fair value of other receivables (excluding sales tax recoverable), other investments, and accounts payables 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**
	$	**$**	**$**	**$**
Cash	957,984	-	-	**957,984**
Other investments	-	337,387	-	**337,387**

As at December 31, 2021 and 2020, the Company's financial instruments carried at fair value consisted of its cash, which is classified as Level 1, and its other investments, which have been classified as Level 2 (for investments in warrants securities). There were no transfers between Levels 2 and 3 for recurring fair value measurements during the years ended December 31, 2021 and 2020.

26. Contingencies

The Company's cannabis operations are subject to a variety of local regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations in that specific state or local jurisdiction. In Germany, the legalization of medical cannabis in March 2017 gave rise to a formal medical cannabis program nationwide. However, Germany does not currently have a legally permissible adult-use, or recreational cannabis market. While management believes that the Company is in compliance with applicable local and state regulations as at December 31, 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.

(Expressed in Canadian Dollars)

26. Contingencies (continued)

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

As at December 31, 2021, the Company had the following claims:

- On August 20, 2019, THoR Beteiligungen GmbH ("THoR") incorrectly transferred an amount of €6,804 to Pharmadrug Production's business account and subsequently demanded its repayment. On October 22, 2019, Pharmadrug Production 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 Production for the same amount.
- On February 21, 2020, Thor Investments GmbH ("Thor Investments") filed a lawsuit with Pharmadrug Production for a repayment of a loan in the amount of €34,222 plus interest. The loan with Thor Investments dates back to March 2019.

As at December 31, 2021, the Company had recorded a provision of approximately $71,955 (€50,000) for the estimated potential damages and liabilities that it expects to pay out.

27. Segmented Information

As at December 31, 2021, the Company's operations comprise of the corporate division in Canada, the distribution operations of medical cannabis in Germany, the retail Smart Shop in the Netherlands, and the Online Slim Winkel business in the U.S. As at and for the years ended December 31, 2021 and 2020, the breakdown between operations in Canada, Germany, Netherlands and the U.S. are as follows:

Year ended December 31, 2021

	Canada	**Germany**	**Netherlands**	**U.S.**	**Total**
	$	**$**	**$**	**$**	**$**
Non-current assets	10,803,048	7,062,330	21,574	39,739	17,926,691
Revenue	-	487,172	7,009	810	494,991

Year ended December 31, 2020

	Canada	**Germany**	**Netherlands**	**Total**
	$	**$**	**$**	**$**
Non-current assets	2,269,504	8,962,572	16,997	11,249,073
Revenue	-	677,531	6,139	683,671

(Expressed in Canadian Dollars)

28. Finance Costs

Finance costs during the years ended December 31, 2021 and 2020 are composed of the following:

	2021	**2020**
	$	**$**
Interest on Private Loans (Note 9)	-	8,897
Interest on Bridge Loan Facility (Note 13)	-	92,017
Interest on notes payable (Note 14)	-	75,652
Interest on lease liabilities (Note 15)	1,535	1,967
Interest on Pharmadrug Debentures (Note 16(b))	-	62,135
Interest on settled convertible debentures (Note 16(c))	151,251	41,201
Interest on Replacement Debentures (Note 16(c))	-	71,668
Other interest (revenue)	3,572	(32,244)
	156,358	**321,293**

29. Subsequent Events

Shares, options and warrants

On January 18, 2022, the Company issued 3,400,000 common shares to a marketing advisor (the “Marketing Advisor”), pursuant to the terms of the marketing services agreement entered between the parties. The Company also granted 3,000,000 options to the Marketing Advisor. The options are exercisable at a price of $0.05 per common share for a period of one year. The options vested immediately on grant.

On January 18, 2022, the Company also granted 750,000 options to an arm’s length consultant. The options are exercisable at a price of $0.05 per common share for a period of two years. The options also vested immediately on grant.

On April 18, 2022, the Company issued 750,000 common shares as a result of the exercise of 750,000 Warrants for cash proceeds of $37,500.

On April 19, 2022, the Company issued 620,000 common shares as a result of the exercise of 620,000 broker options for cash proceeds of $31,000. Upon exercise of the broker options, 310,000 underlying warrants exercisable at $0.05 to purchase one common share of the Company up to June 12, 2023, were issued.

On April 21, 2022, the Company issued another 750,000 common shares as a result of the exercise of 750,000 Warrants for cash proceeds of $37,500.