PHARMADRUG INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021

(EXPRESSED IN CANADIAN DOLLARS)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management of Pharmadrug Inc.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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

	As at June 30, 2022	As at December 31, 2021
	$	$
Assets		
Current Assets		
Cash	**19,282**	957,984
Other receivables (Note 5)	**80,923**	83,926
Inventories (Note 6)	**71,115**	156,059
Prepaid expenses (Note 7)	**13,463**	58,393
Other investments (Note 8)	**107,102**	337,387
Assets held for sale (Note 13)	**2,324,492**	-
Total Current Assets	**2,616,377**	1,593,749
Property and equipment (Note 9)	**-**	99,619
Intangible assets (Note 10)	**4,567,138**	7,353,196
Goodwill (Note 10)	**6,242,616**	10,473,876
Total Assets	**13,426,131**	19,520,440
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 11)	**577,124**	437,176
Lease liabilities – current (Note 12)	**-**	42,674
Loan payable (Note 18)	**1,500**	**-**
Liabilities directly associated with assets held for sale (Note 13)	**393,992**	-
Total Current Liabilities	**972,616**	479,850
Lease liabilities (Note 12)	**-**	37,320
Convertible debentures (Note 14)	**867,942**	786,374
Provisions (Note 22)	**-**	97,014
Deferred tax liabilities	**1,200,344**	1,254,568
Total Liabilities	**3,040,902**	2,655,126
Shareholders' Equity		
Share capital (Note 15)	**31,148,825**	30,606,969
Equity component of convertible debentures	**248,945**	248,945
Reserve for share-based payments (Note 16)	**1,365,318**	1,242,275
Reserve for warrants (Note 17)	**4,305,266**	4,292,722
Accumulated other comprehensive gain (loss)	**112,493**	(121,569)
Accumulated deficit	**(26,795,618)**	(19,404,028)
Total Shareholders' Equity	**10,385,229**	16,865,314
Total Liabilities and Shareholders' Equity	**13,426,131**	19,520,440

Nature of operations and going concern (Note 1)
Contingencies (Note 22)
Subsequent events (Note 25)

Approved on behalf of the Board of Directors:

"Daniel Cohen" (signed)	*"Al Quong" (signed)*
Director	Director

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

PHARMADRUG INC.
Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Three and Six Months Ended June 30, 2022 and 2021
(Expressed in Canadian Dollars)

	Three Months ended June 30,		Six Months ended June 30,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Revenue				
Sales revenue	**-**	1,255	**864**	1,255
Cost of goods sold (Note 6)	**-**	(72)	**(3,003)**	(72)
Gross Profit	**-**	1,183	**(2,139)**	1,183
Expenses				
Management salaries and consulting fees (Note 18)	**142,830**	105,223	**331,654**	190,023
Professional fees (Note 18)	**138,773**	161,454	**274,285**	414,561
Office and general	**6,564**	44,702	**54,990**	123,792
Depreciation of property and equipment (Note 9)	**11,145**	847	**11,956**	1,717
Depreciation of right-of-use assets (Note 9)	**-**	6,762	**9,072**	6,762
Amortization of intangible assets (Note 10)	**11**	69	**2,815**	69
Filing fees	**16,473**	6,892	**28,464**	38,135
Travel and promotion	**72,119**	70,962	**128,835**	261,548
Share-based compensation (Notes 15 and 16)	**9,057**	194,744	**342,627**	417,240
Research expense	**153,383**	25,566	**452,868**	25,566
	(550,355)	(617,221)	**(1,637,566)**	(1,479,413)
Loss before Other Income	**(550,355)**	(616,038)	**(1,639,705)**	(1,478,230)
Other Expenses				
Realized gain on disposals of investments (Note 8)	**-**	-	**-**	903,060
Unrealized loss on investments	**(88,709)**	(96,286)	**(230,285)**	(1,021,987)
Finance costs (Note 24)	**(9,011)**	(12,362)	**(20,184)**	(35,914)
Other income	**16,071**	-	**16,071**	-
Gain on lease derecognition (Note 12)	**-**	-	**6,416**	-
Foreign exchange loss	**(225,453)**	(62,414)	**(617,373)**	(521,909)
	(307,102)	(171,062)	**(845,355)**	(676,750)
Net Loss from Continuing Operations	**(857,457)**	(787,100)	**(2,485,060)**	(2,154,980)
Discontinued Operations				
Loss from discontinued operations (Note 13)	**(353,955)**	(447,573)	**(783,956)**	(911,571)
Impairment loss on remeasurement to FVLCS (Note 13)	**(4,172,158)**	-	**(4,172,158)**	-
Net Loss from Discontinued Operations	**(4,526,113)**	(447,573)	**(4,956,114)**	(911,571)
Net Loss	**(5,383,570)**	(1,234,673)	**(7,441,174)**	(3,066,551)
Other Comprehensive Income				
Exchange gain on translation of foreign operations	**67,641**	26,632	**234,062**	16,826
Net Loss and Comprehensive Loss	**(5,315,929)**	(1,208,041)	**(7,207,112)**	(3,049,725)

PHARMADRUG INC.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Three and Six Months Ended June 30, 2022 and 2021
(Expressed in Canadian Dollars)

	Three Months ended June 30, 2022	Three Months ended June 30, 2021	Six Months ended June 30, 2022	Six Months ended June 30, 2021
	$	$	**$**	$
Total Net Loss Attributable to:				
Shareholders of Pharmadrug Inc.	**(5,383,570)**	(1,145,159)	**(7,441,174)**	(2,884,237)
Non-Controlling Interest (Note 19)	**-**	(89,514)	**-**	(182,314)
Net Loss	**(5,383,570)**	(1,234,673)	**(7,441,174)**	(3,066,551)
Weighted Average Number of Outstanding Shares				
- Basic and diluted	**348,500,888**	339,016,383	**346,032,350**	321,386,556
Loss per Share from Continuing Operations				
- Basic and diluted ($)	**(0.002)**	(0.002)	**(0.007)**	(0.007)
Loss per Share from Discontinued Operations				
- Basic and diluted ($)	**(0.013)**	(0.001)	**(0.014)**	(0.003)

PHARMADRUG INC.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Three and Six Months Ended June 30, 2022 and 2021
(Expressed in Canadian Dollars)

	Three Months ended June 30,		Six Months ended June 30,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Operating Activities				
Net loss for the period from continuing operations	**(857,457)**	(787,100)	**(2,485,060)**	(2,154,980)
Adjustments for non-cash items:				
Share-based compensation (Notes 15 and 16)	**9,057**	194,744	**342,627**	417,240
Amortization of property and equipment (Note 9)	**11,145**	1,717	**11,956**	1,717
Amortization of right-of-use asset (Note 9)	**-**	5,892	**9,072**	6,762
Amortization of intangible assets (Note 10)	**11**	69	**2,815**	69
Realized gains on disposals of investments (Note 8)	**-**	-	**-**	(903,060)
Unrealized loss on investments (Note 8)	**88,709**	96,286	**230,285**	1,021,987
Finance costs (Note 24)	**41,010**	34,174	**81,678**	69,608
Other income (Note 12)	**-**	-	**(6,416)**	-
	(707,525)	(454,218)	**(1,813,043)**	(1,540,657)
Net change in non-cash working capital items:				
Receivables (Note 5)	**(134,943)**	46,836	**(143,455)**	51,951
Inventories (Note 6)	**38,921**	(8,668)	**42,934**	(8,414)
Prepaid expenses (Note 7)	**61,366**	54,482	**29,120**	(35,185)
Accounts payable and accrued liabilities (Note 11)	**282,127**	(114,390)	**384,238**	(201,823)
Cash Flows used in continuing operations	**(460,054)**	(475,958)	**(1,500,206)**	(1,734,128)
Cash Flows provided by (used in) discontinued operations (Note 13)	**(158,883)**	(244,502)	**(371,229)**	(406,417)
Net Cash Flows used in Operating Activities	**(618,937)**	(720,460)	**(1,871,435)**	(2,140,545)
Financing Activities				
Interest payment made on debentures (Note 14(b))	**-**	-	**-**	(1,635)
Loan proceeds received from related party (Note 18)	**1,500**	-	**1,500**	-
Proceeds from private placement (Note 15)	**280,000**	-	**280,000**	-
Shares issue cost on private placement (Note 15)	**(1,600)**	-	**(1,600)**	-
Lease payments (Note 12)	**-**	-	**(3,196)**	-
Proceeds from exercise of options (Note 15)	**-**	-	**-**	72,250
Proceeds from exercise of warrants (Note 15)	**75,000**	90,000	**75,000**	881,710
Proceeds from exercise of broker's warrants (Note 15)	**31,000**	-	**31,000**	-
Cash Flows provided by continuing operations	**385,900**	90,000	**382,704**	952,325
Cash Flows used in discontinued operations (Note 13)	**(25,148)**	(16,533)	**(38,314)**	(33,568)
Net Cash Flows provided by Financing Activities	**360,752**	73,467	**344,390**	918,757

PHARMADRUG INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Three and Six Months Ended June 30, 2022 and 2021
(Expressed in Canadian Dollars)

	Three Months ended June 30, 2022	2021	Six Months ended June 30, 2022	2021
	$	$	$	$
Investing Activities				
Cash acquired on business acquisition (Note 4)	**-**	-	**-**	361,982
Proceeds from dispositions of investments (Note 8)	**-**	-	**-**	1,214,454
Purchases of property and equipment	**-**	(4,131)	**-**	(4,131)
Cash Flows (used in) provided by continuing operations	**-**	(4,131)	**-**	1,572,305
Cash Flows (used in) discontinued operations (Note 13)	**(2,757)**	-	**(4,336)**	-
Net Cash Flows (used in) provided by Investing Activities	**(2,757)**	(4,131)	**(4,336)**	1,572,305
(Decrease) increase in cash	**(260,942)**	(651,124)	**(1,531,381)**	350,517
Effects of foreign exchange on cash	**218,746**	17,858	**608,459**	414,263
Cash, beginning of period	**77,258**	3,532,912	**957,984**	2,134,866
Cash transferred to assets held for sale (Note 13)	**(15,780)**	-	**(15,780)**	-
Cash, end of period	**19,282**	2,899,646	**19,282**	2,899,646

PHARMADRUG INC.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the Three and Six Months Ended June 30, 2022 and 2021
(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 Income (Loss)	Accumulated Deficit	Non-Controlling Interest	Total
	#	$	$	$	$	$	$	$	$
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 of conversion of debentures (Note 14(a))	5,700,000	213,993	-	-	71,007	-	-	-	285,000
Issuance on business acquisition (Notes 4, 15 and 17)	75,000,000	6,750,000	-	-	3,593,184	-	-	-	10,343,184
Exercise of stock options (Notes 15 and 16)	850,000	135,724	-	(63,474)	-	-	-	-	72,250
Share-based compensation (Note 16)	-	-	-	417,240	-	-	-	-	417,240
Expiry and cancellation of stock options (Note 16)	-	-	-	(55,049)	-	-	55,049	-	-
Exercise of warrants (Notes 15 annd 17)	17,634,200	1,676,733	-	-	(795,023)	-	-	-	881,710
Expiry of warrants (Note 17)	-	-	-	-	(1,019,221)	-	1,019,221	-	-
Exchange gain on translation of foreign operations	-	-	-	-	-	16,826	-	-	16,826
Net loss for the period	-	-	-	-	-	-	(2,884,237)	(182,314)	(3,066,551)
Balance, June 30, 2021	**340,816,383**	**30,608,242**	**248,945**	**1,111,973**	**4,716,847**	**(230,126)**	**(17,666,851)**	**1,073,578**	**19,862,608**
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**
Units and warrants issued on private placements (Notes 15 and 17)	7,000,000	165,896	-	-	114,104	-	-	-	280,000
Share issue costs (Notes 15 and 17)	-	(1,545)	-	-	(1,062)	-	-	-	(2,607)
Broker warrants issued on private placements (Note 17)	-	-	-	-	1,007	-	-	-	1,007
Share issued for services (Note 15)	3,400,000	170,000	-	-	-	-	-	-	170,000
Share-based compensation (Note 16)	-	-	-	172,627	-	-	-	-	172,627
Expiry and cancellation of stock options (Note 16)	-	-	-	(49,584)	-	-	49,584	-	-
Exercise of warrants (Notes 15 and 17)	2,120,000	207,505	-	-	(101,505)	-	-	-	106,000
Exchange gain on translation of foreign operations	-	-	-	-	-	234,062	-	-	234,062
Net loss for the period	-	-	-	-	-	-	(7,441,174)	-	(7,441,174)
Balance, June 30, 2022	**353,336,383**	**31,148,825**	**248,945**	**1,365,318**	**4,305,266**	**112,493**	**(26,795,618)**	**-**	**10,385,229**

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 100% of 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.") and Europe. The Company also owns Super Smart, an entity building a vertically integrated retail business with the goal to elevate the use of functional mushrooms as natural based medicines.

Subsequent to period-end, the Company closed the sale of 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. (see Notes 13 and 25 for more details).

The Company's common shares are listed on the Canadian Securities Exchange under the trading symbol "PHRX". Its common shares are also traded in the U.S. on the OTCQB under the ticker symbol "LMLLF", and in Germany on the Frankfurt Stock 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 research development and commercialization of natural medicines 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 six months ended June 30, 2022, the Company incurred a net loss of $7,441,174 and negative cash flow from operations of $1,871,435, and as at June 30, 2022, the Company had an accumulated deficit of $26,795,618 (December 31, 2021 – deficit of $19,404,028). 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 unaudited condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses, and classifications of statements of financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. Basis of Presentation

(a) Statement of Compliance

The Company's unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting. Accordingly, they do not include all of the information and disclosures required by IFRS for annual financial statements.

These unaudited condensed interim consolidated financial statements were reviewed, approved, and authorized for issuance by the Board of Directors (the "Board") of the Company on August 29, 2022.

2. Basis of Presentation (continued)

(b) Basis of Measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments carried at fair value. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Reclassification

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

(d) 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. These unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

(e) Functional Currency

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

(f) Significant Accounting Judgments and Estimates

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

2. Basis of Presentation (continued)

(f) Significant Accounting Judgments and Estimates (continued)

Going concern

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

The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends. 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 period-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.

Fair value less costs to sell of disposal group

Upon disposal of an asset, management exercises judgment in assessing whether a non-current asset (or disposal group) meets the criteria of an asset held of sale ("Asset HFS"). A non-current asset, or a disposal group, is classified as HFS if its carrying amount will be recovered principally through a sale transaction rather through continuing use, which will be the case if the following conditions are met: (a) asset/disposal group must be available for immediate sale in its present condition and, (b) the sale must be highly probable.

2. Basis of Presentation (continued)

(f) Significant Accounting Judgments and Estimates (continued)

Fair value less costs to sell of disposal group (continued)

Management also exercises judgment in measuring the non-current asset, or disposal group, classified as HFS at the lower of the carrying amount measured immediately before reclassification and fair value less costs to sell ("FVLCS"), which is the amount that a market participant would pay for the asset or a "Cash-Generating Unit" or a "CGU"), less the costs of sale. Management uses judgments and assumptions and may use a variety of valuation techniques in deriving the FVLCS.

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.

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 or CGU can generate cash flows that are largely independent of other operations within the Company. Management exercises judgment in assessing where active markets exist including an analysis of the degree of autonomy each operation has in negotiating prices with customers. The Company has identified the German subsidiary as a separate CGU, based on the nature of the business and the assessment that the CGUs generate cash flows that are largely independent of the cash flows from other assets deployed in the Company.

Impairment

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

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

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the CGU or group of CGUs to which goodwill has been allocated 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.

2. Basis of Presentation (continued)

(f) Significant Accounting Judgments and Estimates (continued)

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.

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

Expected credit losses on financial assets

Determining an allowance for expected credit losses for 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

The accounting policies applied by the Company in these unaudited condensed interim consolidated financial statements are the same as noted in the Company's audited consolidated financial statements for the year ended December 31, 2021, unless otherwise noted below.

(a) Adoption of New Accounting Standards and Amendments

The Company adopted the following amendments effective January 1, 2022. These changes were made in accordance with the applicable transitional provisions:

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. There was no material impact upon adoption of these amendments on the Company's unaudited condensed interim consolidated financial statements.

4. Business Acquisitions

Pharmadrug Acquisition

On February 27, 2019, the Company entered into a definitive share purchase agreement (the "Share Purchase Agreement") to acquire an 80% ownership in Pharmadrug 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% non-controlling interest ("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 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.

Subsequent to period-end, the Company closed the sale of Pharmadrug Production (see Note 25 for more details).

(Expressed in Canadian Dollars)

4. Business Acquisitions

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
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.

(Expressed in Canadian Dollars)

5. Other Receivables

	June 30, 2022	December 31, 2021
	$	$
Sales taxes receivable	**70,139**	35,795
Trade receivables	**-**	21,847
Other receivables	**10,784**	26,284
	80,923	83,926

6. Inventories

As at June 30, 2022, the Company's inventories consisted of finished goods held with Interrobang Online in the U.S. For the six months ended June 30, 2022, inventories of $2,960 (2021 – $72) were expensed and included in cost of goods sold from continuing operations. Cost of goods sold pertaining to the German business of $145,859 (2021 – $181,779) had been presented as part of discontinued operations on the consolidated statements of loss and comprehensive loss.

7. Prepaid Expenses

	June 30, 2022	December 31, 2021
	$	$
Prepaid insurance	**3,237**	12,312
Advances made to suppliers and deposits	**10,226**	46,081
	13,463	58,393

8. Other Investments

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, 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.

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 June 30, 2022, the RLH Warrants were measured at a fair value of $107,102 (December 31, 2021 – $337,387) using Black-Scholes with the following market inputs and assumptions: share price of $0.08, exercise price of $0.26, expected historical volatility of 108% based on the historical share prices of the company, expected dividend yield of 0%, risk-free interest rate of 3.10% and an estimated remaining life of 2.05 years. During the six months ended June 30, 2022, the Company recorded a fair value decrease of $230,285 (2021 – fair value increase of $56,844) on the RLH Warrants.

(Expressed in Canadian Dollars)

9. Property and Equipment

	Right-of-use assets	Office equipment	Total
	$	$	$
Cost at:			
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**
Additions	34,779	4,336	**39,115**
Effects of foreign exchange on translation	(13,243)	(3,943)	**(17,186)**
Reclassification as Assets HFS [1]	(221,297)	(50,284)	**(271,581)**
June 30, 2022	**-**	**-**	**-**
Accumulated depreciation at:			
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**
Depreciation on Assets HFS	23,009	2,936	**25,945**
Depreciation on other property and equipment	9,072	11,956	**21,028**
Effect of foreign exchange on translation	(8,464)	(2,153)	**(10,617)**
Impairment loss [2]	7,347	1,110	**8,457**
Reclassification as Assets HFS [1]	(154,631)	(40,215)	**(194,846)**
June 30, 2022	**-**	**-**	**-**
Net book value:			
December 31, 2021	76,094	23,525	**99,619**
June 30, 2022	**-**	**-**	**-**

[1] Included in Reclassification as Assets HFS are the historical cost, opening accumulated depreciation balance and depreciation charged during the period for items of property and equipment classified as Assets HFS, as a result of the Board's approval and agreement to sell the German business (see Notes 13 and 25 for details).

[2] Impairment loss relates to the excess of the carrying value over the fair value less costs of disposal for the net assets of the German business that are being held for sale.

(Expressed in Canadian Dollars)

10. Intangible Assets and Goodwill

	Licenses and Permits	Patent	Supply Relationship	Software	Goodwill	Total
	$	$	$	$	$	$
Cost at:						
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
Effects of f/x on translation	(351,701)	-	(24,948)	709	(271,675)	(647,615)
Reclassification as Assets HFS [3]	(5,125,931)	-	(363,609)	-	-	(5,489,540)
June 30, 2022	**-**	**4,529,600**	**-**	**43,914**	**10,202,201**	**14,775,715**
Accumulated depreciation at:						
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
Amortization on Assets HFS	528,922	-	37,519	-	-	566,441
Amortization on other intangible assets	-	-	-	2,815	-	2,815
Effects of f/x on translation	(201,124)	-	(14,268)	94	-	(215,298)
Impairment loss [4]	190,598	-	13,518	-	3,959,585	4,163,701
Reclassification as Assets HFS [3]	(3,396,547)	-	(240,949)	-	-	(3,637,496)
June 30, 2022	**-**	**-**	**-**	**6,376**	**3,959,585**	**3,965,961**
Net book value:						
December 31, 2021	2,599,481	4,529,600	184,377	39,738	10,473,876	17,827,072
June 30, 2022	**-**	**4,529,600**	**-**	**37,538**	**6,242,616**	**10,809,754**

11. Accounts Payable and Accrued Liabilities

	June 30, 2022	December 31, 2021
	$	$
Trade payables	**400,356**	249,002
Accrued liabilities	**176,768**	188,174
	577,124	437,176

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

[3] Included in Reclassification as Assets HFS are the historical cost, opening accumulated depreciation balance and depreciation charged during the period for items of property and equipment classified as Assets HFS, as a result of the Board's approval and agreement to sell the German business (see Notes 13 and 25 for details).

[4] Impairment loss relates to the excess of the carrying value over the fair value less costs of disposal for the net assets of the German business that are being held for sale.

(Expressed in Canadian Dollars)

12. Lease Liabilities

As part of the German operations, 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.
(vii) A lease for a vehicle expiring June 2025.

In the Netherlands, the Company was party to a lease for its retail location in the town of Tiel, in central Netherlands, expiring in September 2022. However, in line with management's strategic decision, this lease was cancelled at the end of March 2022, with the right-of-use ("ROU") asset balance fully amortized and outstanding lease liability written off to the consolidated financial statements.

The movements and carrying amounts of the Company's ROU assets under leases as per disclosed in Note 9, are summarized as follows:

	Buildings and leaseholds	Office equipment	Total
	$	$	**$**
Cost at:			
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**
Additions	-	34,779	**34,779**
Effects of foreign exchange on translation	(5,815)	(7,428)	**(13,243)**
Reclassification as Assets HFS [(5)]	(84,745)	(136,552)	**(221,297)**
June 30, 2022	-	-	-
Accumulated depreciation at:			
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**
Depreciation on Assets HFS	14,096	8,913	**23,009**
Depreciation on other ROU assets	-	9,072	**9,072**
Effect of foreign exchange on translation	(5,312)	(3,152)	**(8,464)**
Impairment loss	-	7,347	**7,347**
Reclassification as Assets HFS [(5)]	(84,745)	(69,886)	**(154,631)**
June 30, 2022	-	-	-
Net book value:			
December 31, 2021	14,599	61,495	**76,094**
June 30, 2022	-	-	-

[5] Included in Reclassification as Assets HFS are the historical cost, opening accumulated depreciation balance and depreciation charged during the period for items of property and equipment classified as Assets HFS, as a result of the Board's approval and agreement to sell the German business (see Notes 13 and 25 for details).

(Expressed in Canadian Dollars)

12. Lease Liabilities (continued)

The following table reflects the reconciliation of the lease liabilities as at June 30, 2022 and 2021:

	$
Lease liabilities, January 1, 2021	**92,754**
Lease payments	**(33,568)**
Effects of foreign exchange	**804**
Lease liabilities, June 30, 2021	**59,990**

	$
Lease liabilities, January 1, 2022	**79,994**
Lease payments on assets held for sale	**(38,314)**
Lease payments – Others	**(3,196)**
Lease additions	**34,779**
Interest on lease obligations – assets held for sale	**31**
Interest on lease obligations – Others	**110**
Lease derecognized	**(6,416)**
Effects of foreign exchange	**(4,418)**
Liabilities directly associated with the assets held for sale	**(62,570)**
Lease liabilities, June 30, 2022	**-**

13. Assets Held for Sale and Discontinued Operations

On May 31, 2022, the Board of the Company approved the decision to enter into an agreement with Khiron Life Sciences Corp. ("Khiron") to sell all of the outstanding securities of Pharmadrug Production. The German subsidiary was sold on August 2, 2022 (see Note 25).

As at June 30, 2022, Pharmadrug Production met the criteria to be classified as a disposal group HFS and as discontinued operations. Financial information relating to the discontinued operations for the six months ended June 30, 2022 and 2021 is set out below:

	2022	2021
	$	$
Revenue	**208,734**	248,262
Expenses	**(1,109,863)**	(1,299,834)
Operating loss	**(901,129)**	(1,051,572)
Finance costs	**(62,517)**	(41,410)
Impairment Loss on remeasurement to fair value less costs to sell	**(4,172,158)**	-
Loss before tax from discontinued operations	**(5,135,804)**	(1,092,982)
Tax from ordinary activities for the period	**179,690**	181,411
Loss from Discontinued Operations	**(4,956,114)**	(911,571)

(Expressed in Canadian Dollars)

13. Asset Held for Sale and Discontinued Operations (continued)

The major classes of assets and liabilities of Pharmadrug Production classified as held for sale as at June 30, 2022 are summarized as follows:

	$
Assets	
Intangible assets	**1,852,044**
Property and equipment	**76,735**
Deferred tax asset	**175,655**
Other receivables	**146,458**
Inventories	**42,010**
Prepaid expenses	**15,810**
Cash	**15,780**
Assets held for sale	**2,324,492**
Liabilities	
Accounts payable and accrued liabilities	**239,290**
Provisions	**92,132**
Lease payable	**62,570**
Liabilities directly associated with the assets held for sale	**393,992**
Net assets directly associated with assets held for sale	**1,930,500**

The net cash flows incurred by Pharmadrug Production presented on the consolidated cash flows for the six months ended June 30, 2022 and 2021 are summarized as follows:

	2022	2021
	$	$
Net cash flows used in operating activities	**(371,229)**	(406,417)
Net cash flows used in financing activities	**(38,314)**	(33,568)
Net cash flows used in investing activities	**(4,336)**	-
Net Decrease in Cash from Discontinued Operations	**(413,879)**	(439,985)

14. Convertible Debentures

(a) Pharmadrug Debentures

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.

14. Convertible Debentures (continued)

(a) Pharmadrug Debentures (continued)

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.

From the period from the completion of the amalgamation 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.

During the six months ended June 30, 2021, the remaining principal amount of $285,000 of the Pharmadrug Debentures were converted by holders into 5,700,000 Units of the Company (see Notes 15 and 17).

(b) Replacement Debentures

On July 17, 2020, the Company completed a restructuring on certain of its outstanding indebtedness (the “Restructuring”). Under the terms of the Restructuring, (i) a $400,000 principal amount of an unsecured convertible debentures plus accrued interest of $45,632, and (ii) a $400,000 principal amount of promissory notes previously owing to the Chief Executive Officer (“CEO”) of the Company and an arm’s length third-party plus accrued interest of $139,209, were exchanged for an aggregate of $1,005,620 principal amount of 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 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 debts were already due on demand, and with the unsecured convertible 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%.

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 Replacement 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.

(Expressed in Canadian Dollars)

14. Convertible Debentures (continued)

(b) Replacement Debentures (continued)

During the six months ended June 30, 2022, the Company had recorded an interest and accretion expense of $81,568 (2021 – $69,608) on the Replacement Debentures which is included in finance costs on the unaudited condensed interim consolidated financial statement. During the six months ended June 30, 2022, no interest payment was made by the Company on the Replacement Debentures (2021 – $1,635).

The following table reflects the continuity of convertible debentures as at June 30, 2022 and 2021:

	$
Balance, December 31, 2020	**1,033,082**
Conversion of Pharmadrug debentures into common shares	(285,000)
Interest and accretion expense	69,608
Payment of interest on debentures	(1,635)
Balance, June 30, 2021	**816,055**

	$
Balance, December 31, 2021	**786,374**
Interest and accretion expense	81,568
Balance, June 30, 2022	**867,942**

15. 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 June 30, 2022 and 2021 are as follows:

	Number of common shares	Amount
	#	$
Balance, December 31, 2020	**241,632,183**	**21,831,792**
Shares issued on conversion of Pharmadrug Debentures[a]	5,700,000	213,993
Shares issued on acquisition of Sairiyo[b]	75,000,000	6,750,000
Shares issued from exercise of options[c]	850,000	135,724
Shares issued from exercise of warrants[d]	16,281,400	1550,463
Shares issued from exercise of finders' warrants[e]	1,352,800	126,270
Balance, June 30, 2021	**340,816,383**	**30,608,242**

	#	$
Balance, December 31, 2021	**340,816,383**	**30,606,969**
Shares issued for services [f]	3,400,000	170,000
Shares issued on private placement [g]	7,000,000	165,896
Shares issued from exercise of warrants [h]	1,500,000	149,635
Shares issued from exercise of finder's warrants [i]	620,000	57,870
Shares issuance cost [g]	-	(1,545)
Balance, June 30, 2022	**353,336,383**	**31,148,825**

15. Share Capital (continued)

Share capital transactions for the six months ended June 30, 2021

(a) During the six months ended June 30, 2021, the remaining 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 for a a period of 36 months from the date of issuance of the Pharmadrug Debentures (see Note 14(a)).

(b) On February 2, 2021, the Company issued 75,000,000 Units in exchange for common shares of Sairiyo on closing of the Sairiyo Acquisition (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.

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

(d) During the six months ended June 30, 2021, 16,281,400 common shares were issued as a result of the exercise of Warrants for cash proceeds of $814,070.

(e) During the six months ended June 30, 2021, 1,352,800 common shares were issued as a result of the exercise of Finders' Warrants for cash proceeds of $67,640.

Share capital transactions for the six months ended June 30, 2022

(f) On January 18, 2022, the Company issued 3,400,000 common shares to a service provider as part of consideration for marketing services to be provided by the vendor. These common shares were valued at $170,000 based on the closing share price on the day of issuance.

(g) On May 27, 2022, the Company closed a private placement (the "Private Placement") of 7,000,000 Units at a price of $0.04 per Unit, for gross proceeds of $280,000. Each Unit is comprised of one common share and one Warrant exercisable into one common share at $0.05 per share for a period of 24 months from closing. In connection with the Private Placement, the Company issued 40,000 Finder's Warrants and paid cash commission of $1,600. Each Finder's Warrant is exercisable into one common share of the Company at a price of $0.04 for a period of 24 months from closing (see Note 17 for details).

(h) During the six months ended June 30, 2022, 1,500,000 common shares were issued as a result of the exercise of Warrants for cash proceeds of $75,000.

(i) During the six months ended June 30, 2022, 620,000 common shares were issued as a result of the exercise of Finder's Warrants for cash proceeds of $31,000.

16. 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 June 30, 2022, the Company had 10,483,638 common shares available for issuance under the Option Plan.

(Expressed in Canadian Dollars)

16. Reserve for Share-Based Payments (continued)

The following summarizes the stock option activity for the six months ended June 30, 2022 and 2021:

	June 30, 2022		June 30, 2021	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of period	**22,100,000**	**0.09**	16,350,000	0.09
Granted	**3,750,000**	**0.05**	5,200,000	0.085
Granted	**-**	**-**	2,000,000	0.09
Exercised	**-**	**-**	(850,000)	0.085
Expired	**-**	**-**	(1,050,000)	0.225
Cancelled	**(500,000)**	**0.05**	-	-
Cancelled	**(500,000)**	**0.085**	-	-
Outstanding, end of period	**24,850,000**	**0.07**	21,650,000	0.08
Exercisable, end of period	**24,600,000**	**0.07**	13,650,000	0.09

Option grants for the six months ended June 30, 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 $0.085, 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 $9,234 was recorded as share-based compensation in connection with the vesting of these options during the six months ended June 30, 2022 (2021 – $298,275).

On May 12, 2021, the Company granted 2,000,000 options to an officer at an exercise price of $0.09, expiring May 12, 2026. 500,000 of these options vested immediately on grant. The remaining options vests in two equal halves after six and 12 months 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 $18,481 was recorded as share-based compensation in connection with the vesting of options during the six months ended June 30, 2022 (2021 – $54,539).

Option grants for the six months ended June 30, 2022

On January 18, 2022, the Company granted 3,000,000 options to a consultant for services provided at an exercise price of $0.05, expiring on January 18, 2023. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 189% based on historical share prices of the Company, expected dividend yield of 0%, risk-free rate of 1.27%, forfeiture rate of 0% and an expected life of two years. The grant date fair value attributable to these options of $98,481 was recorded as the share-based compensation during the six months ended June 30, 2022.

On January 18, 2022, the Company also granted 750,000 options to another consultant for services provided at an exercise price of $0.05, expiring on January 18, 2024. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 189% based on historical share prices of the Company, expected dividend yield of 0%, risk-free rate of 1.07%, forfeiture rate of 0% and an expected life of one year. The grant date fair value attributable to these options of $30,762 was recorded as the share-based compensation during the six months ended June 30, 2022.

(Expressed in Canadian Dollars)

16. Reserve for Share-Based Payments (continued)

The following table summarizes information of stock options outstanding and exercisable as at June 30, 2022:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	$	Years
January 18, 2023	3,000,000	3,000,000	0.05	0.55
January 18, 2024	750,000	750,000	0.05	1.55
May 31, 2025	5,500,000	5,500,000	0.11	2.92
August 31, 2025	8,000,000	8,000,000	0.05	3.17
December 8, 2025	1,000,000	1,000,000	0.05	3.44
February 4, 2026	3,850,000	3,850,000	0.085	3.60
May 12, 2026	2,000,000	2,000,000	0.09	3.87
August 30, 2026	750,000	500,000	0.06	4.17
	24,850,000	**24,600,000**	**0.07**	**2.92**

17. Reserve for Warrants

The following summarizes the warrant activity for the six months ended June 30, 2022 and 2021:

	June 30, 2022		June 30, 2021	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted Average exercise
	#	**$**	#	$
Outstanding, beginning of period	**110,422,328**	**0.09**	68,493,942	0.12
Issued from business acquisition	**-**	**-**	75,000,000	0.10
Issued from conversion of debentures	**-**	**-**	2,850,000	0.05
Issued from private placement of units	**7,000,000**	**0.05**	-	-
Issued from private placement of units	**40,000**	**0.04**	-	-
Issued from exercise of broker options	**310,000**	**0.05**	-	-
Exercised	**(2,120,000)**	**0.05**	(16,957,800)	0.05
Expired	**-**	**-**	(18,963,812)	0.25
Outstanding, end of period	**115,652,328**	**0.09**	110,422,328	0.09

Warrant issuances for the six months ended June 30, 2021

On February 2, 2021, the Company issued 75,000,000 Warrants to warrant holders of Sairiyo on completion of the Sairiyo Acquisition (see Note 4).

During the six months ended June 30, 2021, the remaining principal amount of $285,000 of the Pharmadrug Debentures were converted into 5,700,000 Units, where 2,850,000 Warrants exercisable at $0.05 were issued (see Note 15(a)).

Warrant issuances for the six months ended June 30, 2022

On May 27, 2022, the Company issued 7,000,000 Warrants in connection of the Private Placement (see Note 15(g)). Each Warrant is exercisable at $0.05 into one common share of the Company for a period of 24 months from issuance. The grant date fair value of the Warrants issued was estimated to be $114,104 using Black-Scholes with the following assumptions: expected volatility of 156% based on historical share prices of the Company, expected dividend yield of 0%, risk-free interest rate of 2.55% and an expected life of two years.

(Expressed in Canadian Dollars)

17. Reserve for Warrants (continued)

Warrant issuances for the six months ended June 30, 2022 (continued)

In connection with the Private Placement, the Company also issued 40,000 Finder's Warrants. Each Finder's Warrant is exercisable at $0.04 into one common share of the Company for a period of 24 months from issuance. The grant date fair value of the Warrants issued was estimated to be $1,007 using Black-Scholes with the following assumptions: expected volatility of 156% based on historical share prices of the Company, expected dividend yield of 0%, risk-free interest rate of 2.55% and an expected life of two years.

During the six months ended June 30, 2022, the Company issued 310,000 Warrants as a result of exercise of brokers' options. Each Warrant is exercisable at $0.05 into one common share of the Company for a period of 14 months from issuance.

The following table summarizes information of warrants outstanding as at June 30, 2022:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	$	Years
August 2, 2022	75,000,000	0.10	0.09
June 12, 2023	9,105,760	0.05	0.95
June 15, 2023	3,940,000	0.05	0.96
July 17, 2023	7,218,545	0.07	1.05
July 17, 2023	1,348,023	0.05	1.05
May 27, 2024	7,000,000	0.05	1.91
May 27, 2024	40,000	0.04	1.91
July 16, 2024	3,600,000	0.08	2.05
July 16, 2024	8,400,000	0.13	2.05
	115,652,328	**0.09**	**0.57**

18. Related Party Transactions

In accordance with IAS 24 – Related Party Disclosures, key management personnel, including companies controlled by them, are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the compensation committee of the Board.

The remuneration of directors and other members of key management personnel for the six months ended June 30, 2022 and 2021 were as follows:

	2022	2021
	$	$
Management salaries and consulting fees	**231,129**	97,033
Professional fees	**65,400**	77,500
Share-based compensation	**42,921**	341,615
	339,450	516,148

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 six months ended June 30, 2022, the Company recorded management salaries of $60,000 (2021 – $60,000) in relation to the CEO's employment compensation. As at June 30, 2022, $10,000 in management salaries was owed to the CEO (December 31, 2021 – $nil).

18. Related Party Transactions (continued)

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 six months ended June 30, 2022, the Company recorded management salaries of $70,000 in relation to the CSO’s employment compensation (2021 – $23,333). During the six months ended June 30, 2021, the CSO also charged fees of $13,700 for providing CSO-consulting services to the Company prior to his appointment. As at June 30, 2022, no balance was owed to the CSO (December 31, 2021 – $1,893 included in accounts payable and accrued liabilities).

Effective January 10, 2022, Pharmadrug and the Vice President of Clinical Development (“VP – Clinical Development”) of the Company entered into an employment agreement, whereas the Company agreed to pay an annual base salary of $160,000 for his services, and a one-time signing bonus of $25,000. The annual base salary shall be increased to $175,000, exclusive of bonuses, benefits and other compensation once the Company has raised a minimum of $3,000,000 in financing, and to $190,000 once the Company has raised a minimum of $5,000,000 in financing. During the six months ended June 30, 2022, the Company recorded management salaries of $76,129 and the signing bonus of $25,000 in relation to the VP – Clinical Development’s employment compensation. As at June 30, 2022, no balance was owed to the VP – Clinical Development.

During the year six months ended June 30, 2022, Branson Corporate Services Ltd. (“Branson”), where the Chief Financial Officer (“CFO”) and Corporate Secretary of the Company is employed, charged fees of $65,400 (2021 – $77,500), for providing CFO services to the Company, as well as other accounting and administrative services. As at June 30, 2022, $59,008 (December 2021 – $11,300) was owed to Branson and included in accounts payable and accrued liabilities). The amount outstanding is unsecured, non-interest bearing and due on demand.

Share-based compensation

On August 31, 2020, the Company granted 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 $239,486, of which $5,197 was recorded as share-based payments in connection with the vesting of these options during the six months ended June 30, 2022 (2021 – $59,579).

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 $8,771 was recorded as share-based compensation in connection with the vesting of these options during the six months ended June 30, 2022 (2021 – $228,757).

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 $18,481 was recorded as share-based compensation in connection with the vesting of these options during the six months ended June 30, 2022 (2021 – $53,279).

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 $10,472 was recorded as share-based compensation in connection with the vesting of these options during the six months ended June 30, 2022.

18. Related Party Transactions (continued)

Other related party transactions

On June 28, 2022, the CEO of the Company advanced an amount of $1,500 to the Company. Subsequent to period-end, the advance was repaid to the CEO by the Company.

19. 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. During the six months ended June 30, 2021, the Company recorded a net loss of $182,314 attributable to the NCI.

20. 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'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.

21. 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.

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.

21. Financial Risks (continued)

Liquidity risk (continued)

As at June 30, 2022, the Company had a cash balance of $19,282 (December 31, 2021 – $957,984) and liquid investments valued at $107,102 (December 31, 2021 – $337,387), to settle current liabilities of $972,616 (December 31, 2021 – $479,850).

As at June 30, 2022, 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	577,124	-	-	**577,124**
Convertible debentures	-	867,942	-	**867,942**
Total	**577,124**	**867,942**	-	**1,445,066**

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.

Subsequent to June 30, 2022, management raised additional funds through the issuance of convertible debentures and believes there will be sufficient capital to meet short-term business obligations, after taking into account cash flow requirements from operations, the Company's cash position, and its strategic financing plan over the next 12 months. Nevertheless, management understands that the Company will continue to raise funds going forward in order to fund its planned activities.

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 $10,700 based upon balances as at June 30, 2022.

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 notes payable and convertible debentures have fixed interest rates. As at June 30, 2022, 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.

(Expressed in Canadian Dollars)

21. Financial Risks (continued)

COVID-19 (continued)

The outbreak has spread throughout the world 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 COVID-19 lockdown restrictions are being gradually lifted, the extent to which the COVID-19 pandemic impacts the Company's financial results will depend on future developments, which remain highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and actions taken to contain it or its impact, among others.

These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place by Canada, Germany, the 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, accounts payables and loan payable are approximately equal to their carrying value due to their short-term nature. The fair values of the lease liabilities and convertible debentures approximate their carrying amounts as they were measured taking into consideration comparable instruments with similar risks in determining the rates at which to discount their amount in applying their respective measurement models.

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

The fair value hierarchy has the following levels:

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

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Cash	19,282	-	-	**19,282**
Other investments	-	107,102	-	**107,102**

As at June 30, 2022, 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 period ended June 30, 2022, and the year ended December 31, 2021.

(Expressed in Canadian Dollars)

22. Contingencies

The Company's cannabis operations are subject to a variety of local regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations in that specific state or local jurisdiction. In Germany, the legalization of medical cannabis in March 2017 gave rise to a formal medical cannabis program nationwide. However, Germany does not currently have a legally permissible adult-use, or recreational cannabis market. While management believes that the Company is in compliance with applicable local and state regulations as at June 30, 2022, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

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

As at June 30, 2022, 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 June 30, 2022, the Company had recorded a provision of approximately $70,000 (€52,000) for the estimated potential damages and liabilities that it expects to pay out. The amount has been included in the liabilities directly associated with the Assets HFS.

23. Segmented Information

As at June 30, 2022, 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 six months ended June 30, 2022 and 2021, the breakdown between operations in Canada, Germany, Netherlands and the U.S. are as follows:

As at and for the six months ended June 30, 2022

	Canada	Netherlands	U.S.	Total
	$	$	$	$
Non-current assets	10,772,216	-	37,538	10,809,754
Revenue	-	-	864	864

As at and for the six months ended June 30, 2021

	Canada	Germany	Netherlands	U.S.	Total
	$	$	$	$	$
Non-current assets	9,995,997	7,819,209	29,618	4,062	17,848,886
Revenue	-	248,262	1,034	221	249,517

(Expressed in Canadian Dollars)

24. Finance Costs

Finance costs during the six months ended June 30, 2022 and 2021 comprised of the following:

	2022	2021
	$	$
Interest on lease liabilities (Note 12)	110	-
Interest on Pharmadrug Debentures (Note 14(a))	-	8,460
Interest on Replacement Debentures (Note 14(b))	81,568	69,608
Interest income	(61,700)	(40,600)
Other interest (revenue)	206	(1,554)
	20,184	**35,914**

25. Subsequent Events

Shares and warrants

On August 2, 2022, the Company issued 2,089,963 common shares at $0.05 as consideration for interest and penalty debt settlement on the Replacement Debentures.

On August 2, 2022, the Company issued 200,000 common shares at a price of $0.025 per share to a vendor for legal services provided.

On August 2, 2022, 75,000,000 Warrants issued to warrant holders of Sairiyo in connection to the Sairiyo Acquisition, expired unexercised.

Convertible debentures financing

On August 2, 2022, the Company raised $650,000 through issuance of debenture units (each a “Debenture Unit”). Each Debenture Unit is comprised of a $1,000 principal amount convertible secured debenture and 20,000 Warrants. Each Debenture bears an interest rate of 15% per annum, matures one year from date of issue and is convertible into common shares of the Company at a price of $0.05. Each Warrant issued, totaling 13,000,000, is convertible to one common share at a price of $0.05 per share, for a period of two years from date of issuance.

Each Debenture is secured by a general security agreement from the Company and Sairiyo. The Company also agreed to use 50% of the proceeds realized from the sale of Pharmadrug Production to Khiron will be paid to the holders of the Debentures until such time the Debentures are repaid.

Sale of Pharmadrug Production

On August 2, 2022, the Company closed the sale of all the issued and outstanding securities of Pharmadrug Production to Khiron. In consideration for this sale, Khiron issued 5,500,000 of its common shares (“Khiron Shares”) to the Company at a deemed price of $0.16 per share, and an additional 468,750 Khiron Shares in connection with certain closing adjustments for a total of 5,968,750 Khiron Shares, as well as a non-interest bearing promissory note with a principal amount of $974,137. The promissory note is payable one year from the date of issue in cash or, at Khiron’s option, by the issuance of additional shares.