PHARMADRUG INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(EXPRESSED IN CANADIAN DOLLARS)

INDEPENDENT AUDITOR'S 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, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

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 Consolidated 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 those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern
We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of $13,260,802 during the year ended December 31, 2023. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Emphasis of Matter - *Material Uncertainty Related to Going Concern* section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report.

Impairment Testing of Goodwill and Intangible Assets

Description of the matter
As more fully described in Note 7, the Company's goodwill and intangible assets comprise one cash generating unit ("CGU"): Sairiyo Therapeutics Inc ("Sairiyo").

In accordance with IAS 36, *Impairment of Assets*, management is required to test goodwill and indefinite life intangible assets for impairment annually, and whenever there is an indication that the asset may be impaired. An impairment loss is recognized if the carrying amount of an asset, or its CGU, exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use ("VIU") and its fair value less costs of disposal ("FVLCTD").

In connection with the effective sale of 49% of Sairiyo on July 18, 2023, management determined an impairment indicator existed, and accordingly conducted an impairment test. Management estimated the recoverable amount with a FVLCTD approach, factoring the effective sale price for 49% of Sairiyo, and concluded impairment charges were required as a result of the testing performed. The Company recognized impairment on the Sairiyo CGU of $10,143,031 as of July 18, 2023.

Why the matter is a key audit matter
This matter represented an area of significant risk of material misstatement given the magnitude of the CGU and the high degree of estimation uncertainty in determining the recoverable amount. In addition, significant auditor judgement, knowledge and effort were required.

How the matter was addressed in the audit
The following were the primary procedures we performed to address this key audit matter:

- Evaluated reasonableness of judgments made in management's assessment of the CGU's and valuation methodology to test for impairment;
- We reviewed the relevant agreements involving effective sale of Sairiyo to identify and assess relevant terms and conditions;
- Evaluated reasonableness of key estimates/judgments used by management to determine recoverable amount of the CGU; including verifying the net assets of the CGU as at the effective sale date; calculation of proportional effective sale price; costs of disposal estimate; and tested the mathematical accuracy of calculations; and;
- We assessed the appropriateness and completeness of the related disclosures in the consolidated financial statements.

Acquisition of Securedose Synthetics Inc. ("Securedose")

Description of the matter
As more fully described in Note 4, on November 7, 2023, the Company acquired 100% of Securedose by issuing 31,500,000 common shares and 8,025,100 warrants of the Company. The Company determined Securedose did not meet the definition of a "Business" in accordance with IFRS 3, *Business Combinations*, and as such, accounted for the transaction as an asset acquisition.

The difference between the fair value of consideration paid and net identifiable assets acquired of $1,430,696 has been presented as an "acquisition cost" in the statements of loss and comprehensive loss.

Why the matter is a key audit matter
This matter represented an area of significant risk of material misstatement given the magnitude of the transaction. In addition, Management was required to exert judgment when: determining whether Securedose met the definition of a "Business", determining net identifiable assets and liabilities acquired and determining whether the transaction was more reliably measured with reference to the assets acquired or the shares and warrants issued as consideration. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence.

How the matter was addressed in the audit
The following were the primary procedures we performed to address this key audit matter:

- We reviewed the share purchase agreement to identify and assess relevant terms and conditions;
- Tested management's key assumptions in concluding the transaction was an asset acquisition; notably the lack of an organized workforce, assets acquired concentrated in cash and no substantive management or operational processes;
- Tested management's key assumptions in concluding no intangible assets, as defined in IAS 38, I*ntangible Assets*, were acquired; notably, as of the acquisition date, that it wasn't probable future economic benefits would flow to the Company; and
- We assessed the appropriateness and completeness of the related disclosures in the consolidated financial statements.

Measurement, Classification and Modification of Convertible Debentures

Description of the matter
As more fully described in Note 9(a), on November 14, 2023, the Company and certain debenture holders agreed to convert legacy loans to new convertible debentures ("Replacement Debentures #2"). The issuance of the Replacement Debentures #2 was considered a modification in accordance with IFRS 9, *Financial Instruments*, and accordingly a loss on extinguishment of $28,964 was recorded in the statements of loss and comprehensive loss.

The Replacement Debentures #2 were determined to be a compound financial instrument and management applied judgment in assessing the accounting treatment for the individual components of the Loan. Notably whether the conversion feature qualified as a derivative liability or equity instrument based on the "fixed-for-fixed" requirement in IAS 32*, Financial Instruments: Presentation*.

The fair value of the financial liability component at the time of issuance was calculated at the discounted cash flows, assuming a 25% discount rate. The initial value of the conversion feature was determined using the residual method and accordingly measured as the difference between the face value of the convertible debentures and the initial value of the financial liability component.

Why the matter is a key audit matter
This matter represented an area of significant risk of material misstatement given the magnitude of the value of the Replacement Debentures #2 and the high degree of estimation uncertainty in determining whether the Replacement Debentures #2 met the conditions of debt modification as per IFRS 9.

Management applied judgment in assessing the accounting treatment of the Replacement Debentures #2 including whether the conversion feature met the "fixed-for-fixed" requirement to be classified as equity and in determining the appropriate discount rate to apply. This in turn, led to a high degree of auditor judgement and effort in performing procedures to test management's assumptions.

How the matter was addressed in the audit
The following were the primary procedures we performed to address this key audit matter:

- We read the underlying agreements and evaluated whether management's interpretation in relation to accounting for the Replacement Debentures #2 was reasonable, markedly observing the fixed conversion price, as is a requirement for the "fixed-for-fixed" condition, being met;
- Performed quantitative assessment (the 10% test) and determined whether the debt restructuring constituted a substantial modification in accordance with IFRS 9;
- Compared discount rate applied by the Company to discount rates for comparable entities;

- Reviewed, recalculated and analyzed interest expense using effective interest rate method; and;
- Assessed the appropriateness and completeness of the related disclosures in the financial statements.

Measurement and Classification of Convertible Debentures

Description of the matter
As more fully described in Note 4, on April 14, 2023, the Company completed a convertible debentures financing (the Loan) for gross proceeds of $100,000. The Loan was determined to be a compound financial instrument and management applied judgment in assessing the accounting treatment for the individual components of the loan. Notably whether the conversion option qualified as an equity instrument based on the "fixed-for-fixed" requirement in IAS 32*, Financial Instruments: Presentation*.

The initial value of the financial liability component of the Loan was determined as the present value of the scheduled payments; using a discount rate appropriate for similar debt without a convertible feature, which management estimated at 25%.

The initial value of the conversion feature of the Loan, determined to be an equity instrument, was determined using the residual method and accordingly measured as the difference between the face value of the convertible debentures and the initial value of the financial liability component.

Why the matter is a key audit matter
This matter represented an area of significant risk of material misstatement given the magnitude of the value of the Loan and the high degree of estimation uncertainty in determining the initial measurement of the components of the Loan.

Management applied judgment in assessing the accounting treatment of the Loan including whether the conversion feature met the "fixed-for-fixed" requirement to be classified as equity and in determining the appropriate discount rate to apply. This in turn, led to a high degree of auditor judgement and effort in performing procedures to test management's assumptions.

How the matter was addressed in the audit
The following were the primary procedures we performed to address this key audit matter:

- We read the underlying agreements and evaluated whether management's interpretation of the agreements in relation to accounting for the Loan was reasonable, markedly observing the fixed conversion price, as is a requirement for the "fixed-for-fixed" condition.
- Compared discount rate applied by the Company to discount rates for comparable entities.
- Reviewed, recalculated and analyzed interest expense using effective interest rate method; and;
- Assessed the appropriateness and completeness of the related disclosures in the financial statements.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon
Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the consolidated financial statements and our auditor's report thereon.

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 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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 International Financial Reporting Standards, 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.

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 relating 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 scepticism 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.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Pat Kenney.

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
April 29, 2024

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

	As at December 31, 2023	As at December 31, 2022
	$	$
Assets		
Current Assets		
Cash	**411,122**	8,555
Restricted cash	**149,007**	-
Sales tax receivables	**19,153**	22,928
Note receivable (Note 5)	**-**	974,137
Prepaid expenses	**5,000**	13,677
Other investments (Note 6)	**11,939**	320,688
Total Current Assets	**596,221**	1,339,985
Intangible assets (Note 7)	**602,969**	4,529,600
Goodwill (Note 7)	**-**	6,242,616
Total Assets	**1,199,190**	12,112,201
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	**898,153**	773,953
Convertible debentures – current (Note 9)	**1,766,821**	1,422,648
Total Current Liabilities	**2,664,974**	2,196,601
Provisions (Note 20)	**-**	70,000
Deferred tax liabilities (Note 17)	**-**	1,010,344
Total Liabilities	**2,664,974**	3,276,945
Shareholders' (Deficit) Equity		
Share capital (Note 11)	**33,212,151**	31,217,524
Equity component of convertible debentures (Note 9)	**162,717**	248,945
Reserve for share-based payments (Note 12)	**2,369,116**	1,367,447
Reserve for warrants (Note 13)	**894,293**	1,144,599
Accumulated other comprehensive loss	**(45,604)**	(25,007)
Accumulated deficit	**(38,297,348)**	(25,118,252)
Non-controlling interest	**238,891**	-
Total Shareholders' (Deficit) Equity	**(1,465,784)**	8,835,256
Total Liabilities and Shareholders' (Deficit) Equity	**1,199,190**	12,112,201

Nature of operations and going concern (Note 1)
Contingencies (Note 20)
Subsequent events (Note 24)

Approved on behalf of the Board of Directors:

"Robert Steen" (signed)
Director

"David Kideckel" (signed)
Director

PHARMADRUG INC.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

	2023	2022
	$	$
Revenue		
Cost of goods sold	-	(2,263)
Gross Profit	-	(2,263)
Expenses		
Management salaries and consulting fees (Note 15)	237,826	560,016
Professional fees (Note 15)	510,738	545,054
Office and general	2,124	43,128
Amortization of intangible assets (Note 7)	26,216	-
Filing fees	72,848	65,095
Travel and promotion	25,489	126,701
Share-based compensation (Note 12,15)	332,484	344,756
Research expense	226,352	712,683
Depreciation on office equipment (Note 10)	-	11,956
Depreciation on right-of-use assets (Note 10)	-	9,072
	(1,434,077)	(2,418,461)
Loss before Other Income (Expenses)	(1,434,077)	(2,420,724)
Other Income (Expenses)		
Realized gain (loss) on disposals of investments (Note 6)	(177,222)	(17,561)
Fair value change in investments (Note 6)	122,271	(591,469)
Loss on impairment of note receivable (Note 5)	(974,137)	-
Finance costs (Note 22)	(334,346)	(223,314)
Impairment of intangible assets and goodwill (Note 7)	(10,143,031)	-
Gain on extinguishment of debt	45,531	-
Other income (expenses) (Note 23)	(1,380,993)	(9,212)
Gain on lease derecognition (Note 10)	-	6,416
Foreign exchange gain (loss)	3,232	1,777
	(12,838,695)	(833,363)
Net Loss before Income Taxes	(14,272,772)	(3,254,087)
Deferred income tax recovery (Note 17)	1,010,344	190,000
Net Loss from Continuing Operations	(13,262,428)	(3,064,087)
Discontinued Operations		
Loss from discontinued operations (Note 10)	-	(5,811,600)
Net Loss	(13,262,428)	(8,875,687)
Other Comprehensive Loss		
Exchange gain on translation of foreign operations	1,626	39,382
Comprehensive Loss	(13,260,802)	(8,836,305)

PHARMADRUG INC.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

	2023	2022
	$	$
Total Net Loss Attributable to:		
Shareholders of Pharmadrug Inc.	**(13,201,319)**	(8,875,687)
Non-Controlling Interest (Note 16)	**(61,109)**	-
Net Loss	**(13,262,428)**	(8,875,687)
Weighted Average Number of Outstanding Shares		
- Basic and diluted (Note 14) (i)	**56,487,713**	50,094,534
Loss per Share from Continuing Operations		
- Basic and diluted ($) (Note 14) (i)	**(0.234)**	(0.061)
Loss per Share from Discontinuing Operations		
- Basic and diluted ($) (Note 14) (i)	**-**	(0.116)

(i) Restated to reflect the 1 for 7 share consolidation completed October 24, 2023. (Note 11)

PHARMADRUG INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

	2023	2022
	$	$
Operating Activities		
Net loss for the year from continuing operations	**(13,262,428)**	(3,064,087)
Adjustments for non-cash items:		
Share-based compensation (Note 12)	**332,484**	344,756
Share-based acquisition cost (Note 4)	**1,408,272**	-
Impairment of intangible assets and goodwill (Note 7)	**10,143,031**	-
Depreciation on office equipment	-	11,956
Depreciation on right-of-use assets	-	9,072
Amortization of intangible assets	**26,216**	-
Gain on settlement of debt	**(45,532)**	-
Realized loss on disposals of investments (Note 6)	**177,222**	17,561
Unrealized (gain) loss on investments (Note 6)	**(122,271)**	591,469
Loss on impairment of note receivable	**974,137**	-
Loss on modification of convertible debenture	**28,964**	-
Gain on debenture interest payment (Note 9(b))	-	(41,799)
Loss on settlement of legal expenses	-	1,000
Amortization of debenture issuance cost (Note 9)	**38,177**	26,938
Finance costs (Note 22)	**296,156**	222,668
Gain on disposal of subsidiary (Note 10)	-	(558,150)
Deferred income tax recovery	**(1,010,344)**	(190,000)
Shares issue for release of GSA	**50,000**	-
Other income (Note 14)	**-**	(6,416)
	(965,916)	(2,635,032)
Net change in non-cash working capital items:		
Other receivables	**3,775**	(56,679)
Inventories	**-**	73,407
Prepaid expenses	**8,677**	29,168
Accounts payable and accrued liabilities (Note 8)	**351,584**	571,319
Provisions (Note 20)	**(70,000)**	70,000
Cash flows (used in) continuing operations	**(671,881)**	(1,947,817)
Cash flows (used in) discontinued operations	**-**	(309,344)
Net Cash Flows (used in) Operating Activities	**(671,881)**	(2,257,162)
Financing Activities		
Proceeds from issuance of debentures (Note 9(c))	**100,000**	650,000
Convertible debenture issue cost (Note 9(c))	**-**	(66,124)
Principal repayment made on debentures (Note 9(c))	**(96,000)**	(45,000)
Interest payment made on debentures (Note 9(c))	**(78,491)**	(39,208)
Proceeds from sale of shares of subsidiary (Notes 11, 16)	**300,000**	-
Proceeds from private placement financings (Note 11)	**-**	280,000
Shares issue cost on private placement (Note 11)	**-**	(1,600)
Lease payments	**-**	(3,196)
Proceeds from exercise of warrants (Note 13)	**-**	75,000
Proceeds from exercise of broker options (Note 13)	**-**	31,000
Cash flows provided by continuing operations	**225,509**	880,872
Cash flows (used by) discontinued operations	**-**	(37,625)
Net Cash Flows provided by Financing Activities	**225,509**	843,247

PHARMADRUG INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

	2023	2022
	$	$
Investing Activities		
Proceeds from disposals of investments (Note 6)	**253,498**	94,075
Cash received on acquisition of Securedose (Note 4)	**741,543**	-
Cash relinquished on divestiture (Note 10)	**-**	(12,162)
Cash flows from continuing operations	**995,041**	81,913
Cash flows from discontinued operations	**-**	(4,336)
Net Cash Flows provided by Investing Activities	**995,041**	77,577
Change in cash	**548,669**	(1,336,338)
Effects of foreign exchange on cash	**3,052**	386,909
Cash, beginning of year	**8,407**	957,984
Cash, end of year	**560,129**	8,555
Supplemental Information		
Interest expense on lease payable	**-**	140
Debts settled with issuance of common shares/units (Notes 11 and 13)	**227,658**	104,498
Cash paid for interest on secured convertible debentures (Note 9)	**78,489**	39,208

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

PHARMADRUG INC.

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2023 and 2022
(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, 2021	**48,688,055**	**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 11)	1,000,000	165,896	-	-	114,104	-	-	-	**280,000**
Share issue costs	-	(1,545)	-	-	(2,070)	-	-	-	**(3,615)**
Broker warrants issued on private placements	-	-	-	-	1,007	-	-	-	**1,007**
Shares issued for services (Note 11)	514,286	176,000	-	-	-	-	-	-	**176,000**
Shares issued for debt settlement (Note 11)	298,566	62,699	-	-	-	-	-	-	**62,699**
Share-based compensation (Note 12)	-	-	-	174,756	-	-	-	-	**174,756**
Expiry and cancellation of stock options (Note 12)	-	-	-	(49,584)	-	-	49,584	-	**-**
Exercise of warrants (Notes 11and 13)	302,857	207,505	-	-	(101,505)	-	-	-	**106,000**
Expiry of warrants (Note 13)	-	-	-	-	(3,169,059)	-	3,169,059	-	**-**
Warrants issued with convertible debentures	-	-	-	-	9,400	-	-	-	**9,400**
Exchange gain on translation of foreign operations	-	-	-	-	-	39,382	-	-	**39,382**
Net loss for the year	-	-	-		-	-	(8,875,686)	-	**(8,875,686)**
Reclass of subsidiary OCI on disposal	-	-	-	-	-	57,180	(57,180)	-	**-**
Balance, December 31, 2022	**50,803,764**	**31,217,524**	**248,945**	**1,367,447**	**1,144,599**	**(25,007)**	**(25,118,252)**	**-**	**8,835,257**
Balance, December 31, 2022	**50,803,764**	**31,217,524**	**248,945**	**1,367,447**	**1,144,599**	**(25,007)**	**(25,118,252)**	**-**	**8,835,256**
Shares and warrants issued on acquisition of Securedose (note 4)	31,500,000	1,732,500	-	-	417,315	-	-	-	2,149,815
Warrants issued with convertible debenture (Note 9)	-	-	-	-	1,564	-	-	-	1,564
Issue of replacement debenture	-	-	(86,228)	-	-	-	-	-	(86,228)
Shares issued for debt settlement (Note 11)	4,553,160	182,127	-	-	-	-	-	-	182,127
Share-based compensation (Note 12)	-	-	-	332,484	-	-	-	-	332,484
Expiry and cancellation of stock options (Note 12)	-	-	-		-	-		-	-
Shares issued on conversion of debenture	600,000	30,000	-	-	-	-	-	-	30,000
Expiry of warrants (Note 13)	-	-	-	669,185	(669,185)	-	-	-	-
Shares issued for release of GSA	714,286	50,000	-	-		-	-	-	50,000
Non-controlling interest transaction (Note 16)	-	-	-	-	-	-	-	300,000	300,000
Exchange gain on translation of foreign operations	-	-	-	-	-	1,626	-	-	1,626
Net loss for the year	-	-	-		-	-	(13,201,319)	(61,109)	(13,262,428)
Reclass of subsidiary OCI on disposal	-	-	-	-	-	(22,223)	22,223	-	-
Balance, December 31, 2023	**88,171,210**	**33,212,151**	**162,717**	**2,369,116**	**894,293**	**(45,604)**	**(38,297,348)**	**238,891**	**(1,465,784)**

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 and naturally derived approved drugs. The Company owns 51% 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 (see Notes 4 for more details). PharmaDrug also owns 100% of SecureDose Synthetics Inc. ("SecureDose"), a pharmaceutical research and development company focused on the development of synthetic formulations of currently existing drugs for potential commercialization and distribution (see Notes 15 for more details).

The Company completed the sale of Pharmadrug Production GmBH (“Pharmadrug Production”), a German medical cannabis distribution company that holds a Schedule 1 European Union narcotics license, on August 2, 2022 (see Notes 10 for more details).

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”. 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 these domains will be successfully initiated or implemented. Further, regulatory evolution and uncertainty may require the Company to alter its business plan to react to unforeseen changes.

For the year ended December 31, 2023, the Company incurred a net loss of $13,262,428 and negative cash flow from operations of $671,881, and as at December 31, 2023, the Company had an accumulated deficit of $38,297,348 (December 31, 2022 – deficit of $25,118,252). 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, and deferring repayment on convertible debentures due within the next 12 months. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions, and the unpredictability of the research, development and commercialization of natural medicines business, 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 April 29, 2024.

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% (inactive)
Interrobang Ltd.	Ontario, Canada	100% (inactive)
Sairiyo Therapeutics Inc.	Ontario, Canada	51%
Green Global Properties Inc.	Delaware, U.S.	100% (inactive)
Securedose Synthetics Inc.	Ontario, Canada	100%
Interrobang Tiel B.V.	Tiel, Netherlands	100% (inactive)

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"), Securedose Sythetics Inc. ("Securedose") and Sairiyo, (ii) U.S. dollar ("USD") for Green Global Properties Inc., Interrobang Online Ltd. ("Interrobang Online") and (iii) Euro ("€" or "EUR") for Interrobang Tiel B.V and Pharmadrug Production.

(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.

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates continued)

Items for which actual results may differ materially from these estimates are described as follows:

Going concern

At each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources, and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends, and are consistent with those used to evaluate the impairment of goodwill and intangible assets as at December 31, 2023. Management believes there is sufficient cash inflow 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.

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

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

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

Determination of cash generating units

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

Impairment

Long-lived assets, including property and equipment and intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is defined as the higher of: (i) value-in-use; or (ii) fair value less cost to sell ("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. Changes in these assumptions affect the fair value of the options and the amount of stock-based compensation to be recognized in profit or loss over the vesting period.

Valuation of promissory note receivable

The Company makes estimates and assumptions relating to the fair value measurement and disclosure of its promissory note receivable and assessment on its collectability.

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

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 ("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.

Functional currency

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which they operate. Determination of functional currency involves significant judgments and other entities may make different judgments based on similar facts. The Company reconsiders periodically the functional currency of its businesses if there is a change in the underlying transactions, events or conditions which determine its primary economic environment.

Convertible debentures

The Company makes estimates and assumptions relating to the fair value measurement and disclosure of its convertible debentures. The fair values are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, management's judgment is required to establish fair values.

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Management is required to make an estimate of the discount rate used in calculating the present value of the convertible debenture and related interest equal to the market rate that would be given for similar debt, without a conversion feature. Management determines this rate by assessing what rate the Company could borrow funds at from an unrelated party.

Shares issued for non-cash consideration

The Company measures equity-settled share-based payment transactions based on an estimate of the fair value of goods or services received, unless that fair value cannot be estimated reliably, in which case the Company measures the fair value of the goods or services received based on the fair value of the equity instruments granted.

3. Summary of Material Accounting Policies

(a) Cash

Cash in the consolidated statements of financial position comprises cash at chartered banks in Canada, which is available on demand.

(b) Revenue from Contracts with Customers (see discontinued operations)

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.

From the former German operations which had been disposed of (see Note 10 for details), the Company's contracts with customers for the distribution of cannabis and psychedelic products consisted 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 type. Payment is due immediately before the transfer of control.

(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.

3. Summary of Material Accounting Policies (continued)

(c) Financial Instruments (continued)

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 amount), note receivable and other investments. The Company's financial liabilities include its accounts payable 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, 2023 and 2022, 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
Note receivable	Amortized cost
Other investments	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost

3. Summary of Material 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 flow 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 financial liabilities 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 Material Accounting Policies (continued)

(d) 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.

(e) 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
Patents/licenses	Straight-line basis over useful life of 12 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.

(f) 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.

3. Summary of Material Accounting Policies (continued)

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.

(g) 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.

(h) 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.

(i) 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 Material Accounting Policies (continued)

(j) Share-Based Payments Transactions

The Company operates a stock option plan (the "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 is 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 contributed surplus in the period of which the cancellation or expiry occurs. Expired warrants are also transferred to contributed surplus.

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 are transferred to share capital.

(k) 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.

(l) 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 Material Accounting Policies (continued)

(m) 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.

(n) 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.

(o) Discontinued Operations

A discontinued operation is a component of the Company that has been disposed of and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statements of loss and comprehensive loss.

(p) Adoption of New Accounting Standards and Amendments

The Company adopted the following amendments effective January 1, 2023. These changes were made in accordance with the applicable transitional provisions. The Company had assessed that the adoption of these amendments did not have any material impact on the consolidated financial statements.

As at the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee had issued certain new pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2023. 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 1 – Presentation of Financial Statements ("IAS 1")

Disclosure of Accounting Policies (Amendments to IAS 1) continues the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include:

- requiring companies to disclose their material accounting policies instead of their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material.

These amendments are effective for annual periods beginning on or after January 1, 2023.

(Expressed in Canadian Dollars)

4. Business Acquisition of Securedose Synthetics Inc.

On October 27, 2023, Pharmadrug entered into an amalgamation agreement (the "Agreement") to acquire Securedose Synthetics Inc. ("SecureDose"), and on November 7, 2023, the Company completed the acquisition of Securedose (the "Securedose Acquisition"). Under the terms of the Agreement, each issued and outstanding share of SecureDose was exchanged for one common share in the capital of the Company resulting in the issuance of 31,500,000 PharmaDrug Shares. In addition, SecureDose had 7,500,000 common share purchase warrants and 525,100 finder warrants outstanding that were replaced with an equal number of PharmaDrug warrants and PharmaDrug finder warrants.

The PharmaDrug Warrants entitle the holders thereof to acquire one PharmaDrug Share at a price of $0.10 at any time on or before the September 22, 2025 and the PharmadDrug Finder Warrants entitle the holder thereof to acquire one PharmaDrug Share at a price of $0.10 at any time on or before September 22, 2025.

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

The acquisition of SecureDose does not constitute a business combination because Securedose did not meet the definition of a business under IFRS 3, Business Combinations. As a result, the transaction has been accounted for in accordance with IFRS 2 – Share-Based Payments ("IFRS 2"), and the transaction was measured with reference to the fair value of consideration paid, being the common shares and warrants issued, on the acquisition date.

Details of the SecureDose Transaction are presented as follows:

	$
Purchase Price Consideration Paid	
Fair value of common shares issued (i)	**1,732,500**
Fair value of warrants issued (ii)	**417,315**
	2,149,815
Net Identifiable Assets Acquired	
Cash	**741,543**
Accounts payable	**(22,424)**
Total Net Identifiable Assets Acquired	**719,119**
Unidentifiable Assets Acquired	**1,430,696**

The unidentifiable assets acquired are comprised of the value of the founders identifying the project, introducing the research and development team, and setting up the business plan. Securedose did not have inputs, outputs or a critical process of ability to develop inputs into outputs. Securedose was in the early stage of research and development, and as such, the unidentifiable assets did not meet the intangible asset criteria for capitalization. Accordingly, the Company expensed $1,430,696 in the consolidated statement of loss and comprehensive loss as "acquisition costs".

4. Business Acquisitions (continued)

SecureDose (continued)

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

(i) The fair value of the 31,500,000 common shares, issued to former SecureDose shareholders, was determined to be $1,732,500 based on the closing share price of Pharmadrug on the transaction closing date on November 7, 2023, being $0.055.

(ii) The estimated fair value of the 7,500,000 warrants and 525,100 broker warrants as consideration are based on Black-Scholes with the following assumptions: current stock price – $0.055 per share, expected dividend yield – 0%, expected volatility – 296%, risk-free interest rate – 4.44%, exercise price of $0.10, and an expected life of 1.88 years.

5. Note Receivable

On August 2, 2022, the Company received a promissory note (the "Promissory Note") issued by Khiron Life Science Corp. ("Khiron" or the "Buyer") as part of the consideration on the sale of Pharmadrug Production (see Note 10 for details).

The Promissory Note is non-interest-bearing and will be immediately due and payable by the Buyer on the first anniversary of the issue date (the "Promissory Note Maturity Date"). A principal amount of $974,137 (the "Principal Amount") will be payable by the Buyer in cash, unless the Buyer elects in its sole discretion and by written notice delivered to the Company at least two days prior to the Promissory Note Maturity Date, to convert the unpaid Principal Amount in full into such number of fully paid and non-assessable common shares of Khiron equal to the quotient obtained by dividing (i) the unpaid Principal Amount by (ii) the 10-day volume-weighted average of the trading price per common share of Khiron on the TSX Venture Exchange for the previous consecutive 10 trading days ending on (and including) the trading day immediately prior to the Promissory Note Maturity Date.

As at December 31, 2023, the Company assessed the collectability of the Promissory Note, and have recorded a provision for impairment of the full note receivable.

6. Other Investments

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, 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 December 31, 2023, the Company continued to hold the RLH Warrants, which were measured at a fair value of $1,290 (2022 - $45,798) using Black-Scholes with the following market inputs and assumptions: share price of $0.090, exercise price of $0.26, expected volatility of 86% based on historical share prices of the entity, expected dividend yield of 0%, risk-free interest rate of 4.99% and an estimated remaining life of 0.54 years. During the year ended December 31, 2023, the Company recorded an unrealized loss in the fair value of $44,507 (2022 - $291,589) on the RLH Warrants.

Khiron Life Sciences

On August 2, 2022, the Company closed the sale of Pharmadrug Production to Khiron, for which the Buyer issued 5,968,750 common shares in the capital of Khiron (the "Khiron Shares") as part consideration given to the Company (see Note 10 for details). The Khiron Shares were recorded at a fair value of $686,406 on initial recognition, based on Khiron's closing share price on the date of issuance. The Khiron Shares were classified at FVTPL.

In October 2022, the Company disposed of 970,750 Khiron Shares for total proceeds of $94,075. A realized loss of $17,561 and a fair value increase of $111,636 was recorded upon disposal.

During the year ended December 31, 2023, the Company disposed of 3,748,000 Khiron Shares for total proceeds of $253,798. A realized loss of $177,222 and a fair value increase of $166,778 were recorded upon disposal.

As at December 31, 2023, the Company continued to hold the remaining position of 1,250,000 Khiron Shares, which were valued at a fair value of $10,648. During the year ended December 31, 2023, an unrealized gain in the fair value of $166,778 was recorded on the Khiron Shares.

(Expressed in Canadian Dollars)

7. Intangible Assets and Goodwill

	Licenses, Permits & Patent	Supply Relationship	Software	Goodwill	Total
	$	**$**	**$**	**$**	**$**
Cost at:					
December 31, 2021	10,007,232	388,557	43,205	10,473,876	20,912,870
Effects of f/x on translation	(351,701)	(24,948)	2,952	(271,675)	(645,372)
Intangibles derecognized [(1)]	(5,125,931)	(363,609)	-	-	(5,489,540)
Intangible assets write off [(2)]	-	-	(46,157)	-	(46,157)
December 31, 2022 and December 31, 2023	**4,529,600**	**-**	-	**10,202,201**	**14,731,801**
Accumulated depreciation at:					
December 31, 2021	2,878,151	204,180	3,467	-	3,085,798
Amortization on intangible assets derecognized	528,922	37,519	-	-	566,441
Amortization on other intangible assets	-	-	8,643	-	8,643
Effects of f/x on translation	(201,124)	(14,268)	1,907	-	(213,485)
Impairment loss [(3)]	190,598	13,518	-	3,959,585	4,163,701
Intangibles derecognized [(1)]	(3,396,547)	(240,949)	-	-	(3,637,496)
Intangible assets write off [(2)]	-	-	(14,017)	-	(14,017)
December 31, 2022	**-**	**-**	-	**3,959,585**	**3,959,585**
Amortization	26,216	-	-	-	26,216
Impairment loss [(4)]	3,900,415	-	-	6,242,616	10,143,031
December 31, 2023	**3,926,631**	**-**	-	**10,202,201**	**14,128,832**
Net book value:					
December 31, 2022	4,529,600	-	**-**	6,242,616	10,772,216
December 31, 2023	**602,969**	**-**	-	**-**	**602,969**

On July 18, 2023, in connection with the sale of 49% of Sairiyo (see note 16), the Company reviewed Sairiyo's licensed patent for indicators of impairment. Management assessed all available external and internal sources of information, including the technological, market, economic and legal environment in which the Company operates. Management compared the carrying amount of Sairiyo to its FVLCS, based on the selling price of 49% of Sairiyo on July 18, 2023, less estimated costs of disposal in the amount of $62,500. Management determined that (based on the FMV from the sale) the recoverable amount of Sairiyo was less than its carrying value. As a result, an impairment has been recognized.

[1] Intangible assets derecognized relates to the non-current assets of Pharmadrug production which was disposed of on August 2, 2022 (note 10).

[2] Intangible assets write off relates to the software asset of Interrobang Online written off and fully amortized to the consolidated statements of loss, as the SlimWinkel webpage was no longer available for customers to place orders from Q4 2022.

[3] Impairment loss relates to the excess of the carrying value over the FVLCS for the net assets of Pharmadrug Production as at the date of disposal.

(Expressed in Canadian Dollars)

8. Accounts Payable and Accrued Liabilities

	December 31, 2023	December 31, 2022
	$	$
Trade payables	**449,573**	525,292
Accrued liabilities	**448,580**	248,661
	898,153	773,953

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

9. Convertible Debentures

(a) 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 12% convertible debentures (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 $0.35 per Unit ($0.05 per unit pre-share consolidation). Each Unit is comprised of one common share and one-half (1/2) of a Warrant exercisable into one common share at $0.49 ($0.07 per unit pre-share consolidation) 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, the principal amount of $134,802 of the Replacement Debentures were converted into 385,149 Units of the Company at a conversion price of $0.35 ($0.05 per unit pre-share consolidation) when the carrying of the liability was $115,047.

During the year ended December 31, 2022, the Company also settled the interest payment of $104,498 (2021 – $112,958) on the Replacement Debentures through the issuance of 298,566 common shares to certain creditors (see Note 16(h)) (2021 – $104,498) for a gain on settlement of $41,799.

9. Convertible Debentures (continued)

On November 14, 2023, the Company agreed with the holders of its Replacement Debentures that matured without payment on July 17, 2023, to exchange the outstanding indebtedness for new unsecured convertible debentures with an aggregate principal amount of $1,280,756 (“Replacement Debentures #2”). As at November 14, 2023, the derecognized Replacement Debentures have a debt host value of $1,002,847 and an equity component value of $162,717. The debentures mature one year from the date of issuance. The Company has the option to extend the maturity date up to two times for one-year extensions each time. If such option to extend is exercised, then at the extension time the principal of the debenture will be increased to reflect both any accrued and unpaid interest as well as a 5% renewal fee. The debentures will bear interest at a rate of 12% per annum payable quarterly. If the interest is not paid when due then interest will be charged on such outstanding interest at a rate of 15% per annum. The debentures may be converted into units ("**Units**") at a price of $0.35 per Unit with each Unit being comprised of one common share in the capital of the Company and one common share purchase warrant with each such warrant entitling the holder to acquire one common share in the capital of the Company at a price of $0.35 per share at any time on or before the three year anniversary of the issuance of the debentures. As a result of the fixed conversion price, the “fixed-for-fixed” condition was met, resulting in the conversion feature being accounted for as an equity instrument.

As at December 31, 2023, no interest has been paid. All accrued but unpaid interest will be payable by the Company, together with the principal, at the end of the term.

The conversion feature will not be exercisable by the holder if it would take their holdings of the Company above 10% of the outstanding common shares of the Company.

The Replacement Debentures #2 are compound financial instruments. The present value of the Replacement Debentures #2 was valued at $1,118,038. 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 25%. The issuance of the Replacement Debentures #2 was considered an extinguishment of the Replacement Debentures, and a loss on modification of $115,191 was recorded as other income on the statement of loss. Note 23.

The difference between the principal amount of the Replacement Debentures #2 and the liability 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 #2 are included in finance costs in the consolidated statements of loss and comprehensive loss. As a result of the modification of the equity component, a gain of $86,227 was recorded.

During the year ended December 31, 2023, the Company had recorded an interest and accretion expense of $177,264 (2022 – $179,540) on the Replacement Debentures and Replacement Debentures #2, which are included in finance costs on the consolidated statements of loss and comprehensive loss. During the year ended December 31, 2022, the Company also settled the interest payment of $104,498 on the Replacement Debentures through the issuance of 298,566 common shares to certain creditors (see Note 11(c)) for a gain on settlement of $41,799.

(b) Secured Convertible Debentures

On August 2, 2022, the Company closed a private placement offering of $650,000 on sale of debenture units (each a “Debenture Unit”). Each Debenture Unit is comprised of (i) a $1,000 principal amount secured convertible debenture (each a “Secured Debenture”) and (ii) 2,857 Warrants (20,000 warrant prior to 7:1 share consolidation). The Secured Debentures bear an interest rate of 15% per annum from the closing date and payable monthly in arrears. The Secured Debentures mature one year from the closing date, on August 2, 2023. Subsequent to the initial maturity date, the convertible debentures have been classified as payable on demand and interest accrued at 12% per annum as of December 31, 2023.

9. Convertible Debentures (continued)

Each Secured Debenture is secured by a general service agreement ("GSA") and rank pari passu with one another, and an unlimited corporate guarantee from Sairiyo (the "Guarantor"), security agreements creating a security interest in the Guarantor's present and after-acquired personal property and pledges of shares for the Guarantor (the "Security"). The Company shall have the right to repay or redeem a part or the entire principal amount of the 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 15 days and a maximum 60 days prior to the Redemption Date. Each subscriber is entitled to a closing fee in the amount of 8% of their aggregate subscription price which fee will be paid by way of a set off against the $1,000 Unit purchase price.

Each Debenture Unit will be convertible into 2,857 common shares (Post Consolidation) (the "Debenture Shares") at a conversion price of $0.35 ($0.05 per unit, pre-share consolidation) per Debenture Share at the option of the holder at any time while any portion of the principal amount or any accrued and unpaid interest on the Secured Debenture is outstanding.

Each Warrant entitles the holder to acquire a common share of the Company at any time on or before the 24-month anniversary of the issuance of the Warrant at an exercise price of $0.35 ($0.05 per unit, pre-share consolidation) per per Warrant.

The proceeds from the sale of any Khiron Shares or payment of the Promissory Note will be split equally between the Company's working capital and repayment of the Secured Debentures principal, and such split will remain in effect until the Secured Debenture is repaid in full.

The Secured 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 $640,600 using a discount rate of 18%. The total cost of issuance relating to this financing was $66,124, part of which was settled through the issuance of 4,082 (28,571 units, prior to the 7:1 share consolidation) common shares of the Company (see Note 11(d)), which resulted into a loss of $1,000 on settlement.

On November 7, 2023, the Company reached an agreement with the holders of its $609,000 remaining principal amount of secured convertible debentures to amend the conversion price of such debentures to $0.05 (from $0.35, adjusted in connection with the October 24, 2023 7:1 share consolidation). The 2,142,856 common share purchase warrants issued to such holders will also be amended such that their exercise prices will be $0.05 (reduced from $0.35).

During the year ended December 31, 2023, the Company had recorded an interest and accretion expense of $107,108 (2022 - $43,017) on the Secured Debentures, which are included in finance cost on the consolidated statements of loss and comprehensive loss. During the year ended December 31, 2023, the Company made a principal repayment of $96,000 (2022 - $45,000) and interest payments of $77,915 (2022 - $39,208) to holders of the Secured Debentures. $30,000 of the debentures were also converted into 600,000 common shares during the year ended December 31, 2023.

(c) 2023 Debentures

On April 14, 2023, the Company raised $100,000 through an issuance of new debenture units (each a "2023 Debenture"). Each 2023 Debenture is comprised of a $1,000 principal amount convertible secured debenture and 2,857 Warrants (20,000 warrants Prior to the 7:1 share consolidation). Each 2023 Debenture bears interest at a rate of 15% per annum payable monthly in arrears, matures August 2, 2023 and is convertible into common shares at a price of $0.35 . Each 2023 Debenture is secured by a GSA from the Company and Sairiyo. Subsequent to the original maturity date, the debenture has been classified as payable on demand, and interest accrued at 15% per annum as of December, 2023.

Each subscriber is entitled to a closing fee in the amount of 8% of their aggregate subscription price which fee was paid by way of a set off against the $1,000 Unit purchase price. Half of the proceeds realized from the consideration received from the Sale of Pharmadrug Production will also be paid to the holders of the debentures. The 2023 Debentures rank pari passu with the Secured Debentures issued by the Company in August 2022.

(Expressed in Canadian Dollars)

9. Convertible Debentures (continued)

Each $1,000 principal amount convertible debenture will be convertible into 2,857 (20,000, Prior to the 7:1 share consolidation) common shares at a conversion price of $0.35 per 2023 Debenture. Each Warrant entitles the holder to acquire one common share at a price of $0.35 per share for a period of two years following the date of issuance.

The 2023 Debentures are compound financial instruments. As a result of the fixed conversion price, the "fixed-for-fixed" condition was met resulting in the conversion feature being accounted for as an equity instrument. 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 $98,436 using a discount rate of 18%, with the balance of $1,564 recognized as the fair value of the associated Warrants.

During the year ended December 31, 2023, the Company had recorded an interest and accretion expense of $11,786 on the 2023 Debentures, which are included in finance cost on the consolidated statements of loss and comprehensive loss. During the year ended December 31, 2023, the Company made interest payments of $574 to holders of the 2023 Debentures.

The following table reflects the continuity of convertible debentures as at December 31, 2023 and 2022:

	$
Balance, December 31, 2021	**786,374**
Secured Convertible Debenture issued	640,600
Interest and accretion expense	222,557
Payment of interest on debentures – Cash payment	(39,208)
Payment of interest on debentures – Shares issuance	(104,498)
Principal repayment	(45,000)
Cost of issuance – Secured Convertible Debentures	(65,116)
Cost of issuance amortized	26,939
Balance, December 31, 2022	**1,422,648**
Replacement Debentures #2 issued	1,118,039
2023 debenture issued	98,436
Interest and accretion expense	296,156
Payment of interest on debentures – Cash payment	(78,489)
Extinguishment of Replacement Debentures	(1,002,846)
Principal repayment	(96,000)
Fair value true-up	700
Conversion of debentures	(30,000)
Cost of issuance amortized	38,177
Balance, December 31, 2023	**1,766,821**

10. Discontinued Operations

Pharmadrug Production

On February 27, 2019, the Company acquired 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"), retained 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 former German subsidiary to maintain appropriate levels of working capital.

On May 17, 2019, 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.

(Expressed in Canadian Dollars)

10. Discontinued Operations (continued)

On July 14, 2021, the Company acquired the 20% NCI (the "NCI Acquisition") in Pharmadrug Production, to obtain 100% ownership, for a purchase price consideration of €35,000 (approximately $52,879) payable in cash. On August 25, 2021, the Company completed the NCI Acquisition by transferring the purchase price consideration to Anquor.

On May 31, 2022, the Company entered into a share purchase agreement (the "SPA") to sell 100% of the securities of Pharmadrug Production, to Khiron, for consideration consisted of common shares in the capital of Khiron ("Consideration Shares") and a non-interest-bearing promissory note in the principal amount of $1,100,000 which will be payable one year from the date of issue. On August 2, 2022 (the "Closing Date"), the Company closed the sale of Pharmadrug Production (the "Sale"). Pursuant to the terms of the SPA, the Company received in consideration, 5,968,750 Consideration Shares and the Promissory Note in the Principal Amount of $974,137.

The Consideration Shares are subject to a lock-up agreement pursuant to which the Company agrees not to sell, transfer or otherwise dispose of an aggregate of 5,000,000 Consideration Shares received on closing (the "Lock-Up Restriction") for an initial period of 90 days following the Closing Date, following which a total of 1,250,000 Consideration Shares will be released from the Lock-Up Restriction; and after this initial period, the Lock-Up Restriction will be lifted every 90 days thereafter, in each case in respect of an additional 1,250,000 Consideration Shares, such that all Consideration Shares subject to Lock-Up Restriction will be released 360 days from the date of issue of the Consideration Shares.

As a result of the Sale, the results of operations and cash flows related to the German business have been presented as discontinued operations in the consolidated statements of loss and comprehensive loss and cash flows.

Financial information relating to the discontinued operations for Pharmadrug Production for the years ended December 31, 2023 and 2022 is set out below:

	2023	2022
	$	$
Revenue	-	210,573
Expenses	-	(1,200,214)
Operating loss	-	(989,641)
Finance costs	-	(62,040)
Gain on write-off of intercompany transactions with subsidiary	-	1,707,678
Group loss on sale of subsidiary	-	(2,268,214)
Impairment loss on remeasurement to FVLCS	-	(4,172,158)
Loss before tax from discontinued operations	-	(5,784,375)
Tax from ordinary activities for the period	-	178,319
Loss from Discontinued Operations	-	(5,606,056)

Details of the Sale of Pharmadrug Production are summarized below:

	$
Consideration Received	
Khiron Shares received	**686,406**
Promissory Note received	**974,137**
Total Consideration	**1,660,543**
Carrying amount of group net assets	**(3,928,757)**
Group Loss on Sale	**(2,268,214)**

(Expressed in Canadian Dollars)

10. Discontinued Operations (continued)

The carrying value of Pharmadrug Production's assets and liabilities as at August 2, 2022 were:

	$
Assets	
Intangible assets	**1,852,044**
Property and equipment	**76,735**
Deferred tax asset	**192,622**
Other receivables	**117,677**
Inventories	**11,835**
Prepaid expenses	**15,390**
Cash	**12,310**
Total Assets	**2,278,613**
Liabilities	
Accounts payable and accrued liabilities	**229,541**
Provisions	**83,128**
Loan payable to parent	**802,644**
Lease payable	**60,907**
Total Liabilities	**1,176,220**
Net Assets	**1,102,393**

Net cash flows incurred by Pharmadrug Production presented on the consolidated cash flows for the years ended December 31, 2023 and 2022 are summarized as follows:

	2023	2022
	$	$
Net cash flows (used in) operating activities	**-**	(217,009)
Net cash flows (used in) financing activities	**-**	(37,625)
Net cash flows (used in) investing activities	**-**	(4,336)
Net Decrease in Cash from Discontinued Operations	**-**	(258,970)

Interrobang Online

Following the sale of Pharmadrug Production and the ceasing of all operation in the Netherlands and Europe, the Board of the Company had also decided to wind down all operations within Interrobang Online in the U.S., as the Company had fully exited the psilocybin and functional mushroom business. As a result of the exit from the psilocybin and functional mushroom business, the results of operations and cash flows related to Interrobang Online have also been presented as discontinued operations in the consolidated statements of loss and comprehensive loss and cash flows.

Financial information relating to the discontinued operations for Interrobang Online for the years ended December 31, 2023 and 2022 is set out below:

	2023	2022
	$	$
Revenue	**-**	3,676
Expenses	**-**	(209,220)
Loss from Discontinued Operations	**-**	(205,544)

(Expressed in Canadian Dollars)

10. Discontinued Operations (continued)

Net cash flows incurred by Interrobang Online presented on the consolidated cash flows for the years ended December 31, 2023 and 2022 are summarized as follows:

	2023	2022
	$	$
Net cash flows (used in) operating activities	**-**	(92,335)
Net cash flows (used in) financing activities	**-**	-
Net cash flows (used in) investing activities	**-**	-
Net Decrease in Cash from Discontinued Operations	**-**	(92,335)

Property and equipment relating to the discontinued operations for Pharmadrug Production for the years ended December 31, 2023 and 2022 is set out below:

	Right-of-use assets	**Office equipment**	**Total**
	$	**$**	**$**
Cost at:			
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)**
Property and equipment derecognized [4]	(197,702)	(34,894)	**(232,596)**
December 31, 2022	**23,595**	**15,390**	**38,985**
Accumulated depreciation at:			
December 31, 2021	123,667	26,366	**150,033**
Depreciation on assets derecognized	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 [5]	7,347	1,110	**8,457**
Property and equipment derecognized [4]	(131,036)	(24,825)	**(155,861)**
December 31, 2022	**23,595**	**15,390**	**38,985**
Net book value:			
December 31, 2022	**-**	**-**	**-**

[4] Property and equipment derecognized relates to the non-current assets of the German business which was disposed of on August 2, 2022.

[5] Impairment loss relates to the excess of the carrying value over the FVLCS for the net assets of the German business as at the date the German business was disposed of.

(Expressed in Canadian Dollars)

10. Discontinued Operations (continued)

Leases relating to the discontinued operations for Pharmadrug Production for the years ended December 31, 2023 and 2022 is set out below:

	Buildings and leaseholds	Office equipment	Total
	$	$	$
Cost at:			
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)**
Property and Equipment derecognized (6)	(84,745)	(112,957)	**(197,702)**
December 31, 2022	-	**23,595**	**23,595**
Accumulated depreciation at:			
December 31, 2021	75,961	47,706	**123,667**
Depreciation on assets derecognized	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**
Property and Equipment derecognized (6)	(84,745)	(46,291)	**(131,036)**
December 31, 2022	-	**23,595**	**23,595**
Net book value:			
December 31, 2022	-	-	-

	$
Lease liabilities, December 31, 2021	**79,994**
Additions	**34,153**
Lease payments – lease liabilities derecognized	**(37,625)**
Lease payments – others	**(3,196)**
Interest on lease obligations – leases derecognized	**30**
Interest on lease obligations – others	**110**
Gain on lease derecognized – Tiel	**(6,416)**
Effects of foreign exchange	**(6,143)**
Lease liabilities derecognized [7]	**(60,907)**
Lease liabilities, December 31, 2022	**-**

[7] Lease liabilities derecognized relates to the carrying value of the German leases as at the date the German business was disposed of on August 2, 2022.

(Expressed in Canadian Dollars)

11. Share Capital

Authorized share capital

Effective October 24, 2023, the Company completed a consolidation of its common shares on the basis of 7 pre-consolidation common into 1 post-consolidation common shares. As a result, all outstanding common shares and stock option, and warrant information presented in these consolidated financial statements has been retroactively adjusted on this basis.

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

Common shares issued and outstanding as at December 31, 2023 and 2022 are as follows:

	Number of common shares	Amount
	#	$
Balance, December 31, 2021	**48,688,055**	**30,606,969**
Shares issued for services[(a)]	485,714	170,000
Shares issued on private placement[(b)]	1,000,000	165,896
Shares issued from exercise of warrants[(e)]	214,285	149,635
Shares issued from exercise of finder's warrants[(f)]	88,572	57,870
Shares issued for debt settlements[(c)]	298,566	62,699
Shares issued for services[(d)]	28,571	6,000
Shares issuance cost[(b)]	-	(1,545)
Balance, December 31, 2022	**50,803,763**	**31,217,524**
Balance, December 31, 2022	**50,803,763**	**31,217,524**
Shares issued for release of GSA[(g)]	714,286	50,000
Shares issued on acquisition of Securedose[(i)]	31,500,000	1,732,500
Shares issued on settlement of debt[(j)]	4,553,160	187,127
Shares issued on conversion of debenture[(k)]	600,000	30,000
Balance, December 31, 2023	**88,171,210**	**33,212,151**

Share capital transactions for the year ended December 31, 2022

(a) On January 18, 2022, the Company issued 485,714 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, and recorded as share-based compensation on the consolidated statements of loss and comprehensive loss.

11. Share Capital (continued)

Share capital transactions for the year ended December 31, 2022 (continued)

(b) On May 27, 2022, the Company closed a private placement (the "Private Placement") of 1,000,000 Units at a price of $0.28 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 $0.35 per share for a period of 24 months from closing. In connection with the Private Placement, the Company issued 5,714 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 $0.28 for a period of 24 months from closing (see Note 13 for details).

(c) On August 2, 2022, the Company issued 298,566 common shares to settle the interest and penalty debt settlement on the Replacement Debentures. These common shares were valued at $62,699 based on the closing share price on the day of issuance.

(d) On August 2, 2022, the Company issued 28,571 common shares to a service provider as part consideration for legal services provided by the vendor on the private placement of the Secured Debentures.

(e) During the year ended December 31, 2022, 214,285 common shares were issued as a result of the exercise of Warrants for cash proceeds of $75,000.

(f) During the year ended December 31, 2022, 88,572 common shares were issued as a result of the exercise of Finder's Warrants for cash proceeds of $31,000.

Share capital transactions for the year ended December 31, 2023

(g) On July 5, 2023, the Company reached an agreement with the holders of $650,000 principal amount of the Secured Debentures to terminate the GSA granted by Sairiyo. As consideration for agreeing to terminate the GSA, the Company issued an aggregate of 714,286 common shares in the capital of the Company to the debt holders on July 13, 2023. These common shares were valued at $50,000 based on the closing share price on the day of issuance.

(h) On July 18, 2023, the Company announced a strategic investment agreement with PharmaTher Inc. ("PharmaTher"), a wholly-owned subsidiary of PharmaTher Holdings Ltd., whereby PharmaTher subscribed for 144,117,647 common shares of Sairiyo for $300,000. Following the issuance, PharmaTher became a 49% shareholder of Sairiyo (note 16).

(i) On November 6, 2023, the Company issued 31,500,000 common shares on the acquisition of Securedose (note 4).

(j) On November 14, 2023, the Company issued 4,553,160 common shares to settle $227,658 of indebtedness with certain non-related service providers. The Common shares had a fair market value of $0.04 on the date of issuance, resulting in a gain on debt settlement of $45,352.

(k) On December 21, 2023, the Company issued 600,000 common shares on the partial conversion of the Secured Debentures Note 9(b). $30,000 was converted at a conversion price of $0.05.

12. Reserve for Share-Based Payments

The Company maintains 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 terms are determined at the discretion of the Board.

As at December 31, 2023, the Company had 8,817,121 common shares available for issuance under the Option Plan.

The following summarizes the stock option activity for the years ended December 31, 2023 and 2022:

(Expressed in Canadian Dollars)

12. Reserve for Share-Based Payments (continued)

	December 31, 2023		December 31, 2022	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**3,550,000**	**0.49**	3,157,143	0.63
Granted	**7,350,000**	**0.06**	535,715	0.35
Expired	**(2,964,286)**	**(0.51)**	-	-
Cancelled	**-**	**-**	(71,429)	0.35
Cancelled	**-**	**-**	(71,429)	0.595
Outstanding, end of year	**7,935,714**	**0.09**	3,550,000	0.49
Exercisable, end of year	**7,935,714**	**0.09**	3,550,000	0.49

Option grants for the year ended December 31, 2022

On January 18, 2022, the Company granted 428,571 options to a consultant for services provided at an exercise price of $0.35, 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 1.07%, forfeiture rate of 0% and an expected life of one year. The grant date fair value attributable to these options of $98,481 was recorded as the share-based compensation during the year ended December 31, 2022.

On January 18, 2022, the Company also granted 107,143 options to another consultant for services provided at an exercise price of $0.35, 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, 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 $30,762 was recorded as the share-based compensation during the year ended December 31, 2022.

Option grants for the year ended December 31, 2023

On November 8, 2023, the Company granted 6,250,000 options to directors, officers and a consultant at an exercise price of $0.055, expiring on November 7, 2028. 5,750,000 of the options were granted to directors and officers. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 175% based on historical share prices, expected dividend yield of 0%, risk-free rate of 3.81%, forfeiture rate of 0% and an expected life of five years. The grant date fair value attributable to these options of $297,600 was recorded as the share-based compensation during the year ended December 31, 2023.

On December 12, 2023, the Company granted 1,100,000 options to consultants an exercise price of $0.05, expiring on December 11, 2025. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 184% based on historical share prices, expected dividend yield of 0%, risk-free rate of 4.22%, forfeiture rate of 0% and an expected life of two years. The grant date fair value attributable to these options of $34,884 was recorded as the share-based compensation during the year ended December 31, 2023.

(Expressed in Canadian Dollars)

12. Reserve for Share-Based Payments (continued)

The following table summarizes information of stock options outstanding and exercisable as at December 31, 2023:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	$	Years
January 18, 2024	107,143	107,143	0.35	0.05
May 31, 2025	71,429	71,429	0.77	1.42
August 31, 2025	142,857	142,857	0.35	1.67
February 4, 2026	157,143	157,143	0.595	2.10
August 30, 2026	107,143	107,143	0.42	2.67
November 7, 2028	6,250,000	6,250,000	0.055	4.86
December 11, 2025	1,100,000	1,100,000	0.05	1.95
	7,935,714	**7,935,714**	**0.09**	**4.22**

13. Reserve for Warrants

The following summarizes the warrant activity for the years ended December 31, 2023 and 2022:

	December 31, 2023		December 31, 2022	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted Average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**7,664,618**	**0.42**	15,774,618	0.63
Issued on acquisition of Securedose (note 9)	**8,025,100**	**0.10**	-	-
Issued from private placement of units	**-**	**-**	1,000,000	0.35
Issued from private placement of units	**-**	**-**	5,714	0.28
Issued from exercise of broker option	**-**	**-**	44,286	0.35
Issued from private placement of debentures (note 4)	**285,714**	**0.35**	1,857,143	0.35
Exercised	**-**	**-**	(302,857)	0.35
Expired	**(3,087,475)**	**0.35**	(10,714,286)	0.70
Outstanding, end of year	**12,887,957**	**0.25**	7,664,618	0.42

(Expressed in Canadian Dollars)

13. Reserve for Warrants (continued)

Warrant issuances for the year ended December 31, 2022

On May 27, 2022, the Company issued 1,000,000 Warrants in connection with the Private Placement (see Note 11(b)). Each Warrant is exercisable at $0.35 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.

In connection with the Private Placement, the Company also issued 5,714 Finder's Warrants. Each Finder's Warrant is exercisable at $0.28 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.

On August 2, 2022, the Company closed the private placement offering on the Secured Debentures for $650,000, where each Debenture Unit is comprised of (i) a $1,000 principal amount and (ii) 2,857 Warrants. Each Warrant entitles the holder to acquire a common share at any time on or before the 24-month anniversary of the issuance of the Warrant at an exercise price of $0.35 per common shares. The grant date fair value of the Warrants issued was estimated to be $9,400, recognized as the difference between the principal amount and the fair value of the liability calculated as $640,600 (see Note 9(c)) for details).

During the year ended December 31, 2022, the Company also issued 44,286 Warrants as a result of exercise of brokers' options. Each Warrant is exercisable at $0.35 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 December 31, 2023:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	$	Years
May 27, 2024	1,000,000	0.35	0.41
May 27, 2024	5,714	0.28	0.41
July 16, 2024	514,286	0.56	0.55
July 16, 2024	1,200,000	0.91	0.55
August 2, 2024	1,857,143	0.35	0.59
April 14, 2025	285,714	0.35	1.29
September 22, 2025	8,025,100	0.10	1.73
	12,887,957	**0.25**	**1.29**

(Expressed in Canadian Dollars)

14. Basic and Diluted Loss per Share

The calculations of basic and diluted EPS for the year ended December 31, 2023 were based on the net loss from continuing operations of $13,362,428 (2022 – net loss of $3,064,087), the net loss from discontinued operations of $nil (2022 – net loss of $5,811,600), and the weighted average number of basic and diluted common shares outstanding of 56,487,713 (2022 – 50,094,534).

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

	2023	2022
	$	$
Net loss from continuing operations	**(13,262,428)**	(3,064,087)
Net loss from discontinued operations	**-**	(5,811,600)
Net loss for the year	**(13,262,428)**	(8,875,687)
	#	#
Basic weighted-average number of shares outstanding	**56,487,713**	50,094,534
Assumed conversion of dilutive stock options and warrants	**-**	-
Diluted weighted-average number of shares outstanding	**56,487,713**	50,094,534
	$	$
Basic and diluted loss per share from continuing operations	**(0.234)**	(0.061)
Basic and diluted loss per share from discontinued operations	**n/a**	(0.116)

15. 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 other members of key management personnel during the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
	$	$
Management salaries and consulting fees	**209,875**	441,129
Professional fees	**90,190**	122,650
Share-based compensation	**273,792**	45,513
	573,857	609,292

Effective September 6, 2023, Pharmadrug and the CEO entered into an executive agreement, whereas the Company agreed to pay a monthly fee of $3,000 for CEO services. During the year ended December 31, 2023, the Company recorded management salaries of $9,000 in relation to the CEO's consulting fees. As at December 31, 2023, a balance of $3,000 owing to the CEO was included in the accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

Effective October 20, 2023, Pharmadrug and the CFO entered into an executive agreement, whereas the Company agreed to pay a monthly fee of $3,000 for CFO services. During the year ended December 31, 2023, the Company recorded management salaries of $9,000 in relation to the CFO's consulting fees. As at December 31, 2023, a balance of $3,390 owing to the CFO was included in the accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

15. Related Party Transactions (continued)

On September 1, 2020, Pharmadrug and the former CEO (resigned on September 6, 2023) 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, 2023, the Company recorded management salaries of $90,000 (2022 – $120,000) in relation to the former CEO's employment compensation. As at December 31, 2023, a balance of $120,000 (December 31, 2022 – $30,000) owing to the CEO was included in the accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

On May 1, 2021, Pharmadrug and its Former Chief Scientific Officer ("Former CSO") entered into an executive employment agreement, whereas the Company agreed to pay an annual base salary of $140,000 for his services. The annual base salary shall be increased to $182,000, exclusive of bonuses, benefits and other compensation once the Company has raised a minimum of $2,000,000 in equity. During the year ended December 31, 2023, the Company recorded management salaries of $69,335 (2022 – $140,000) in relation to the CSO's employment compensation. As at December 31, 2023, a balance of $113,000 (December 31, 2022 – $17,500) owing to the Former CSO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand. See also subsequent events note 24.

On January 10, 2022, Pharmadrug and its Former Vice President of Clinical Development ("Former VP–Clinical Development") 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 year ended December 31, 2023, the Company recorded management salaries of $50,540 (2022 - $156,129 and the signing bonus of $25,000 in relation to the VP–Clinical Development's employment compensation). As at December 31, 2023, a balance of $38,200 (December 31, 2022 – $20,000) owing to the Former VP–Clinical Development was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand. See also subsequent events note 24.

During the year ended December 31, 2023, Branson Corporate Services Ltd. ("Branson"), where the Former Chief Financial Officer ("Former CFO") and Former Corporate Secretary of the Company is employed, charged fees of $72,190 (2022 – $122,650), for providing CFO services to the Company, as well as other accounting and administrative services. As at December 31, 2023, a balance of $nil (December 31, 2022 – $109,336) owed to Branson included in accounts payable and accrued liabilities). The amount outstanding is unsecured, non-interest bearing and due on demand. On November 14, 2023, Branson settled debt in the amount of $161,571 in exchange for the issuance of 3,231,418 common shares (note 11).

Share-based compensation

The Company granted a total of 5,750,000 options to various officers and directors in the 2023 financial year, which vested in 2023. During the year ended December 31, 2023, total stock-based compensation of $273,792 was recorded in connection with the vesting of these options.

The Company granted a total of 8,500,000 and 7,000,000 options to various officers and directors in the 2020 and 2021 financial years, respectively, which vested into the 2022 financial year. During the year ended December 31, 2022, total stock-based compensation of $45,513 was recorded in connection with the vesting of these options.

Other related party transactions

On June 28, 2022, the former CEO advanced an amount of $1,500 to the Company. The Company repaid this amount on July 25, 2022.

(Expressed in Canadian Dollars)

16. Non-Controlling Interest

On July 18, 2023, the Company sold 49% shareholdings of its subsidiary Sairiyo for $300,000. During the year ended December 31, 2023, the Company recorded a net loss of $61,110 attributable to the NCI.

17. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2022 – 26.5%) to the effective tax rate is as follows:

	2023	2022
	$	$
Net loss before recovery of income taxes provision:	**(14,272,772)**	(3,254,087)
Expected income tax recovery	**(3,782,285)**	(862,333)
Difference in foreign tax rates	**-**	(2,998)
Tax rate changes and other adjustments	**(452,702)**	(1,495,899)
Share-based compensation and non-deductible expenses	**3,004,240**	2,342,248
Change in tax benefits not recognized	**220,403**	(171,018)
Current income tax expense	**-**	-
Deferred income tax recovery	**(1,010,344)**	(190,000)
	(1,010,344)	(190,000)

Deferred tax

The following table summarizes the components of deferred tax:

	2023	2022
	$	$
Deferred Tax Assets		
Non-capital losses carried forward - Germany	**-**	-
Non-capital losses carried forward – Canada	**241,583**	400,000
Capital losses carried forward – Canada	**18,913**	48,161
Lease payable	**-**	19,049
Deferred Tax Liabilities		
Other investments	**(105,766)**	(105,766)
Intangibles	**(188,579)**	(1,416,632)
Property and equipment, including ROU assets	**-**	(11,611)
Convertible debentures	**33,849**	15,515
Movement in foreign exchange	**-**	40,941
Net deferred tax liabilities-	**-**	(1,010,344)

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.

Movement in net deferred liabilities:

	2023	2022
	$	$
Balance, beginning of year	**(1,010,344)**	(1,254,569)
Recognized in profit or loss	**1,010,344**	244,225
Effect of foreign exchange	**-**	-
Balance, end of year	-	(1,010,344)

(Expressed in Canadian Dollars)

17. 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:

	2023	2022
	$	$
Share issuance costs	**-**	**90,485**
Net operating losses carried forward – U.S.	**614,205**	**602,049**
Non-capital losses carried forward – Canada	**10,564,677**	**9,654,641**
Non-capital losses carried forward - Germany	**-**	**-**
Other temporary differences	**148,179**	**148,179**

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
2042	2,688,929
2043	1,524,778
	12,295,528

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

	$
2037	176,752
Indefinite	271,619
	448,371

18. 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.

18. Capital Management (continued)

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, 2023, the Company's capital consisted of equity attributable to the shareholders of Pharmadrug Inc. of $(1,704,675) (December 31, 2022 – equity attributable to the shareholders of Pharmadrug Inc. of $8,835,256).

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.

19. 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 a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, other receivables and note receivable, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash is held with a reputable chartered bank in Canada. which is closely monitored. Management also reviews on a periodic basis the collectability of its receivables balance. As at December 31, 2023, management believes that the credit risk concentration with respect to financial instruments included in cash, notes 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.

As at December 31, 2023, the Company had a cash balance of $560,129 (December 31, 2022 – $8,555), a note receivable balance of $nil (December 31, 2022 – $974,137), and liquid investments valued at $11,939 (December 31, 2022 – $320,688), to settle current liabilities of $2,664,974 (December 31, 2022 – $2,196,601).

19. Financial Risks (continued)

As at December 31, 2023, 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	898,153	-	-	**898,153**
Convertible debentures	1,766,821	-	-	**1,766,821**
Total	**2,664,974**	**-**	-	**2,664,974**

As at December 31, 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	773,953	-	-	**773,953**
Provisions	-	70,000	-	**70,000**
Convertible debentures	1,422,648	-	-	**1,422,648**
Total	**2,196,601**	**70,000**	-	**2,266,601**

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecasts 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 year-end, the Company raised an additional $326,000 to raise funds to meet short-term business obligations. 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 financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices. A 1% change in the closing price of the Company's other investments would impact net loss by approximately $120 (2022 - $3,207) based upon balances as at December 31, 2023.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's convertible debentures have fixed interest rates. As at December 31, 2023, 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 had operations in Europe (Germany and Netherlands) where there were financial instruments and transactions dominated in EUR, and in the U.S. where there are financial instruments and transactions denominated in 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.

(Expressed in Canadian Dollars)

19. Financial Risks (continued)

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), notes receivable, other investments, accounts payable, lease liabilities and convertible debentures.

The fair value of other receivables (excluding sales tax recoverable), notes receivable, other investments, and accounts 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.

	Level 1	Level 2	Level 3	Total
	$	**$**	**$**	**$**
Cash	560,129	-	-	**560,129**
Other investments	10,649	1,290	-	**11,939**

As at December 31, 2023, 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 1 (for investments in Khiron Shares) and Level 2 (for investments in RLH Warrants). There were no transfers between Levels 2 and 3 for recurring fair value measurements during the years ended December 31, 2023 and 2022.

20. Contingencies

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.

21. Segmented Information

As at December 31, 2023, the Company's operations comprised solely of the corporate division in Canada, as the retail Smart Shop in the Netherlands, and the Online Slim Winkel business in the U.S are no longer in operations.

Year ended December 31, 2022

	Canada	Germany	Netherlands	U.S.	Total
	$	**$**	**$**	**$**	**$**
Non-current assets	10,772,216	-	-	-	10,772,216
Revenue	-	210,573	-	3,676	214,249

(Expressed in Canadian Dollars)

22. Finance Costs

Finance costs incurred during the years ended December 31, 2023 and 2022 are comprised of the following:

	2023	2022
	$	$
Interest on lease liabilities	-	107
Interest on secured convertible debentures (Note 9 (c))	118,894	43,017
Interest on Replacement Debentures (Note 9 (b))	177,261	179,540
Interest income	-	(62,735)
Other interest expense	38,191	965
Interest expense from discontinued operations (Note 10)	-	62,040
	334,346	**222,934**

23. Other Expenses

Other expenses (income) incurred during the years ended December 31, 2023 and 2022 are comprised of the following:

	2023	2022
	$	$
Loss on convertible debenture modification	**28,964**	
Legal provision	-	70,000
Acquisition cost – Securedose (Note 4)	**1,430,696**	-
Gain on settlement of convertible debentures with common shares	**-**	(40,799)
Reversal of provision	**(70,000)**	
Other miscellaneous income	**(8,667)**	(19,989)
	1,380,993	**9,212**

24. Subsequent Events

Options

On January 18, 2024, 107,143 stock options previously granted on January 18, 2022, expired unexercised.

On April 12, 2024, the Company granted 1,200,000 stock options to a consultant, with an exercise price of $0.05 and an expiration date of April 12, 2026.

Financing

On February 8, 2024, the Company issued 6,520,000 units ("Units") at a purchase price of $0.05 per Unit for aggregate gross proceeds of up to $326,000. Each Unit is comprised of one common share in the capital of the Company (a "Common Share") and one-half of one Common Share purchase warrant (each whole warrant being referred to herein as a "Warrant"). Each Warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.10 at any time up to February 8, 2026.

Claim settlements

On January 19, 2024, the Company settled a claim in the amount of $38,200 from a former employee for wages owing.

On February 2, 2024, the Company settled a claim in the amount of $113,000 from a former employee for wages owing.

Conversion of debentures

Subsequent to the year-end, 10,000,000 shares were issued on the conversion of debentures at $0.05, resulting in a settlement of $500,000.