



PHARMADRUG INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023

(EXPRESSED IN CANADIAN DOLLARS)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management of Pharmadrug Inc. The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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

	As at March 31, 2024	As at December 31, 2023
	\$	\$
<u>Assets</u>		
Current Assets		
Cash	206,280	411,122
Restricted cash	136,097	149,007
Sales tax receivables	65,819	19,153
Prepaid expenses	5,000	5,000
Other investments (Note 5)	11,939	11,939
Total Current Assets	425,135	596,221
Intangible assets (Note 6)	590,408	602,969
Total Assets	1,015,543	1,199,190
<u>Liabilities</u>		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	837,191	898,153
Convertible debentures – current (Note 8)	1,359,283	1,766,821
Total Current Liabilities	2,196,474	2,664,974
Total Liabilities	2,196,474	2,664,974
<u>Shareholders' (Deficit) Equity</u>		
Share capital (Note 9)	33,946,521	33,212,151
Equity component of convertible debentures (Note 8)	162,717	162,717
Reserve for share-based payments (Note 10)	2,369,116	2,369,116
Reserve for warrants (Note 11)	985,922	894,293
Accumulated other comprehensive loss	(45,604)	(45,604)
Accumulated deficit	(38,794,341)	(38,297,348)
Non-controlling interest	194,738	238,891
Total Shareholders' (Deficit) Equity	(1,180,931)	(1,465,784)
Total Liabilities and Shareholders' (Deficit) Equity	1,015,543	1,199,190

Nature of operations and going concern (Note 1)

Contingencies (Note 17)

Subsequent events (Note 19)

Approved on behalf of the Board of Directors:

“Robert Steen” (signed)
Director

“David Kideckel” (signed)
Director

PHARMADRUG INC.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Three Months Ended March 31, 2024 and 2023
(Expressed in Canadian Dollars)

	2024	2023
	\$	\$
<u>Expenses</u>		
Management salaries and consulting fees (Note 13)	18,000	89,373
Professional fees (Note 13)	57,170	91,721
Office and general	930	1,036
Amortization of intangible assets (Note 6)	12,561	-
Filing fees	5,861	17,644
Business development	289,898	1,528
Research expense	65,038	12,840
	(449,458)	(214,142)
Loss before Other Income (Expenses)	(449,458)	(214,142)
<u>Other Income (Expenses)</u>		
Realized gain (loss) on disposals of investments (Note 5)	-	(56,349)
Fair value change in investments (Note 5)	-	158,842
Finance costs (Note 18)	(92,462)	(71,330)
Other income (expenses)	774	7,376
Foreign exchange loss	-	(3,170)
	(91,688)	35,369
Net Loss before Income Taxes	(541,146)	(178,773)
Deferred income tax recovery	-	-
Net Loss	(541,146)	(178,773)
<u>Other Comprehensive Loss</u>		
Exchange gain on translation of foreign operations	-	33
Comprehensive Loss	(541,146)	(178,740)

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

PHARMADRUG INC.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Three Months Ended March 31, 2024 and 2023
(Expressed in Canadian Dollars)

	2024	2023
	\$	\$
Total Net Loss Attributable to:		
Shareholders of Pharmadrug Inc.	(496,993)	(178,740)
Non-Controlling Interest (Note 14)	(44,153)	-
Net Loss	(541,146)	(178,740)
Weighted Average Number of Outstanding Shares		
- Basic and diluted (Note 12) (i)	94,913,408	50,803,764
Loss per Share		
- Basic and diluted (\$) (Note 12) (i)	(0.006)	(0.004)

(i) Restated to reflect the 1 for 7 share consolidation completed October 24, 2023. (Note 9)

PHARMADRUG INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2024 and 2023
(Expressed in Canadian Dollars)

	2024	2023
	\$	\$
<u>Operating Activities</u>		
Net loss for the period	(541,146)	(178,773)
Adjustments for non-cash items:		
Amortization of intangible assets	12,561	-
Realized loss on disposals of investments (Note 5)	-	56,349
Unrealized (gain) loss on investments (Note 5)	-	(158,842)
Amortization of debenture issuance cost (Note 8)	-	16,056
Finance costs (Note 22)	92,462	71,366
	(436,123)	(193,844)
Net change in non-cash working capital items:		
Other receivables	(46,667)	13,654
Prepaid expenses	-	4,558
Accounts payable and accrued liabilities (Note 7)	(60,962)	83,370
Net Cash Flows (used in) Operating Activities	(543,752)	(92,262)
<u>Financing Activities</u>		
Proceeds from private placement (Note 9)	326,000	-
Principal repayment made on debentures (Note 8(c))	-	(96,000)
Interest payment made on debentures (Note 8(c))	-	(20,540)
Net Cash Flows provided by Financing Activities	326,000	(116,540)
<u>Investing Activities</u>		
Proceeds from disposals of investments (Note 5)	-	207,922
Net Cash Flows provided by Investing Activities	-	207,922
Change in cash	(217,752)	(880)
Effects of foreign exchange on cash	-	686
Cash, beginning of period	560,129	8,555
Cash, end of period	342,377	8,361
<u>Supplemental Information</u>		
Debts settled with issuance of common shares/units (Notes 8 and 9)	500,000	-

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

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2024
(Expressed in Canadian Dollars)

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. 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 Note 4 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 three months ended March 31, 2024, the Company incurred a net loss of \$541,146 and negative cash flow from operations of \$543,753, and as at March 31, 2024, the Company had an accumulated deficit of \$38,794,341 (December 31, 2023 – deficit of \$38,297,348). 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 unaudited condensed interim consolidated financial statements (the “consolidated financial statements”) have been prepared on the basis that the Company will continue as a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses, and classifications of statements of financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. Basis of Presentation

(a) Statement of Compliance

The Company’s unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 – Interim Financial Reporting.

These unaudited condensed interim consolidated financial statements were reviewed, approved and authorized for issuance by the Board of Directors (the “Board”) of the Company on May 27, 2024.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2024
(Expressed in Canadian Dollars)

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%
Sairiyo Therapeutics Australia Pty Ltd.	Australia	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 Synthetics Inc. (“Securedose”) and Sairiyo, (ii) U.S. dollar (“USD”) for Green Global Properties Inc., Interrobang Online Ltd. (“Interrobang Online”) (iii) Euro (“€” or “EUR”) for Interrobang Tiel B.V and Pharmadrug Production and (iv) Australian dollar for Sairiyo Therapeutics Pty Ltd.

(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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2024
(Expressed in Canadian Dollars)

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 the end of the period.

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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2024
(Expressed in Canadian Dollars)

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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2024
(Expressed in Canadian Dollars)

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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2024
(Expressed in Canadian Dollars)

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

The accounting policies applied by the Company in these unaudited condensed interim consolidated financial statements are the same as noted in the Company's audited consolidated financial statements for the year ended December 31, 2023, unless otherwise noted below.

Adoption of New Accounting Standards and Amendments

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, 2024. 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:

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 PharmaDrug 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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2024
(Expressed in Canadian Dollars)

4. Business Acquisition of Securedose Synthetics Inc. (continued)

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”.

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. 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.

PHARMADRUG INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2024
(Expressed in Canadian Dollars)

5. Other Investments (continued)

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 and March 31, 2024, the Company continued to hold the remaining position of 1,250,000 Khiron Shares, which were valued at a fair value of \$10,648.

6. Intangible Assets and Goodwill

	Licenses, Permits & Patent	Goodwill	Total
	\$	\$	\$
Cost at:			
December 31, 2022	4,529,600	10,202,201	14,731,801
December 31, 2023 and March 31, 2024	4,529,600	10,202,201	14,731,801
Accumulated depreciation at:			
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
Amortization	12,561	-	12,561
March 31, 2024	3,939,192	10,202,201	14,141,393
Net book value:			
December 31, 2023	602,969	-	602,969
March 31, 2024	590,408	-	590,408

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 had been recognized.

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7. Accounts Payable and Accrued Liabilities

	March 31, 2024	December 31, 2023
	\$	\$
Trade payables	440,423	525,292
Accrued liabilities	396,768	248,661
	837,191	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.

8. 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.

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8. 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 three months ended March 31, 2024, the Company had recorded an interest and accretion expense of \$73,897 (2023 – \$48,670) 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 three months ended March 31, 2024, \$225,000 of the Replacement Debentures were converted to 4,500,000 shares (being \$0.05 per share).

(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.

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8. 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 Saiyio (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 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 three months ended March 31, 2024, the Company had recorded an interest and accretion expense of \$14,228 (2023 - \$22,649) on the Secured Debentures, which are included in finance cost on the consolidated statements of loss and comprehensive loss. During the three months ended March 31, 2024, \$275,000 of the Replacement Debentures were converted to 5,500,000 shares (being \$0.05 per share).

(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 Saiyio. 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.

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8. 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 three months ended March 31, 2024, the Company had recorded an interest and accretion expense of \$4,338 on the 2023 Debentures, which are included in finance cost on the consolidated statements of loss and comprehensive loss.

The following table reflects the continuity of convertible debentures as at March 31, 2024 and December 31, 2023:

	\$
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
Interest and accretion	92,462
Conversion of debentures	(500,000)
Balance, March 31, 2024	1,359,283

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9. 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 March 31, 2024 and December 31, 2023 are as follows:

	Number of common shares	Amount
	#	\$
Balance, December 31, 2022	50,803,763	31,217,524
Shares issued for release of GSA ^(a)	714,286	50,000
Shares issued on acquisition of Securedose ^(c)	31,500,000	1,732,500
Shares issued on settlement of debt ^(d)	4,553,160	187,127
Shares issued on conversion of debenture ^(e)	600,000	30,000
Balance, December 31, 2023	88,171,210	33,212,151
Shares issued on private placement ^(f)	6,520,000	326,000
Valuation of warrants issue as part of private placement units	-	
Shares issued on conversion of debenture ^(g)	10,000,000	500,000
Balance, March 31, 2024	104,691,210	734,371

Share capital transactions for the year ended December 31, 2023

- (a) 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 Saiiryo. 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.
- (b) 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 Saiiryo for \$300,000. Following the issuance, PharmaTher became a 49% shareholder of Saiiryo (note 16).
- (c) On November 6, 2023, the Company issued 31,500,000 common shares on the acquisition of Securedose (note 4).
- (d) 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.
- (e) 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.

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9. Share Capital (continued)

Share capital transactions for the year ended December 31, 2023

- (f) 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. The warrants were valued at \$91,629 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 4.20%, forfeiture rate of 0% and an expected life of two years.
- (g) During the three months ended March 31, 2024, the Company issued 10,000,000 common shares on the partial conversion of the debentures Note 9(a&b). The debentures were converted at a conversion price of \$0.05.

10. 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 March 31, 2024, the Company had a maximum of 10,469,120 common shares available for issuance under the Option Plan.

The following summarizes the stock option activity for the three months ended March 31, 2024 and the year ended December 31, 2023:

	March 31, 2024		December 31, 2023	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of period	7,935,714	0.09	3,550,000	0.49
Granted	-	-	7,350,000	0.06
Expired	(107,143)	(0.35)	(2,964,286)	(0.51)
Cancelled	-	-	-	-
Cancelled	-	-	-	-
Outstanding, end of period	7,828,571	0.08	7,935,714	0.09
Exercisable, end of period	7,828,571	0.08	7,935,714	0.09

No options were granted during the three months ended March 31, 2024

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.

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10. Reserve for Share-Based Payments (continued)

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.

The following table summarizes information of stock options outstanding and exercisable as at March 31, 2024:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	\$	Years
May 31, 2025	71,429	71,429	0.77	1.17
August 31, 2025	142,857	142,857	0.35	1.42
February 4, 2026	157,143	157,143	0.595	1.85
August 30, 2026	107,143	107,143	0.42	2.42
November 7, 2028	6,250,000	6,250,000	0.055	4.61
December 11, 2025	1,100,000	1,100,000	0.05	1.70
	7,828,571	7,828,571	0.08	3.97

11. Reserve for Warrants

The following summarizes the warrant activity for the three months ended March 31, 2024 and the year ended December 31, 2023:

	March 31, 2024		December 31, 2023	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted Average exercise price
	#	\$	#	\$
Outstanding, beginning of period	12,887,957	0.25	7,664,618	0.42
Issued on acquisition of Securedose (note 9)	-	-	8,025,100	0.10
Issued from private placement of units	3,260,000	0.10	-	-
Issued from private placement of debentures (note 4)	-	-	285,714	0.35
Expired	-	-	(3,087,475)	0.35
Outstanding, end of period	16,147,957	0.22	12,887,957	0.25

The following table summarizes information of warrants outstanding as at March 31, 2024:

Date of expiry	Number of Warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	\$	Years
May 27, 2024	1,000,000	0.35	0.16
May 27, 2024	5,714	0.28	0.16
July 16, 2024	514,286	0.56	0.30
July 16, 2024	1,200,000	0.91	0.30
August 2, 2024	1,857,143	0.35	0.34
April 14, 2025	285,714	0.35	1.04
September 22, 2025	8,025,100	0.10	1.48
March 31, 2024	3,260,000	0.10	1.86
	12,887,957	0.22	1.21

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12. Basic and Diluted Loss per Share

The calculations of basic and diluted EPS for the three months ended March 31, 2024 were based on the net loss and the weighted average number of basic and diluted common shares outstanding as follows:

Three months ended March 31,	2024	2023
	\$	\$
Net loss for the period	(541,146)	(178,773)
	#	#
Basic weighted-average number of shares outstanding	94,913,408	50,803,764
Assumed conversion of dilutive stock options and warrants	-	-
Diluted weighted-average number of shares outstanding	94,913,408	50,803,764
	\$	\$
Basic and diluted loss per share from continuing operations	(0.006)	(0.004)

13. 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 three months ended March 31, 2024 and 2023 were as follows:

	2024	2023
	\$	\$
Management salaries and consulting fees	18,000	95,538
Professional fees	-	25,950
Share-based compensation	-	-
	-	121,488

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 three months ended March 31, 2024, the Company recorded management salaries of \$9,000 in relation to the CEO's consulting fees. As at March 31, 2024, a balance of \$3,000 (December 31, 2023 - \$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 three months ended March 31, 2024, the Company recorded management salaries of \$3,000 in relation to the CFO's consulting fees. As at March 31, 2024, a balance of \$3,390 (December 31, 2023 - \$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.

Claim settlements

On January 19, 2024, the Company settled a claim in the amount of \$38,200 from the former Vice President of Clinical Development for wages owing.

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

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13. Related Party Transactions (continued)

Related party transaction for the three months ended March 31, 2023

During the three months ended March 31, 2023, the Company recorded management salaries of \$30,000 in relation to the former Chief Executive Officers employment compensation.

During the three months ended March 31, 2023, the Company recorded management salaries of \$35,000 in relation to the former Chief Scientific Officer employment compensation.

During the three months ended March 31, 2023, the Company recorded management salaries of \$30,538 in relation to the former Vice President of Clinical Development employment compensation.

During the three months ended March 31, 2023, Branson Corporate Services Ltd., where the former Chief Financial Officer and former Corporate Secretary of Pharmadrug were employed, charged fees of \$25,950 for providing CFO services to the Company, as well as other accounting and administrative services.

14. Non-Controlling Interest

On July 18, 2023, the Company sold 49% shareholdings of its subsidiary Sairiyo for \$300,000. During the three months ended March 31, 2024, the Company recorded a net loss of \$44,153 attributable to the NCI.

15. Capital Management

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

The Company considers its capital to be shareholders' equity, which is comprised of share capital, equity component of convertible debentures, reserves for share-based payments and warrants, accumulated other comprehensive loss and accumulated deficit. As at March 31, 2024, the Company's capital consisted of equity attributable to the shareholders of Pharmadrug Inc. of \$(1,375,669) (December 31, 2023 – equity attributable to the shareholders of Pharmadrug Inc. of \$1,704,675).

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.

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16. 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 March 31, 2024, 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 March 31, 2024, the Company had a cash balance of \$342,377 (December 31, 2023 – \$560,129), and liquid investments valued at \$11,939 (December 31, 2023 – \$11,939), to settle current liabilities of \$2,196,474 (December 31, 2023 – \$2,664,974).

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 March 31, 2024, 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	837,191	-	-	837,191
Convertible debentures	1,359,283	-	-	1,359,283
Total	2,196,474	-	-	2,196,474

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.

Management understands that the Company will continue to raise funds going forward in order to fund its planned activities.

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16. Financial Risks (continued)

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 (December 31 - 2023 - \$120) based upon balances as at March 31, 2024.

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 March 31, 2024, 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's current operations are in Canada and in the U.S. where there are transactions denominated in USD. The Company's primary exposure to foreign exchange risk is that transactions denominated in USD may expose the Company to the risk of exchange rate fluctuations.

Fair value

Fair value estimates of financial instruments are made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The Company's financial instruments consist of cash, other receivables (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	342,377	-	-	342,377
Other investments	10,649	1,290	-	11,939

As at March 31, 2024, 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 three months ended March 31, 2024 and the year ended December 31, 2023.

17. 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.

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18. Finance Costs

Finance costs incurred during the three months ended March 31, 2024 are comprised of the following:

	2024	2023
	\$	\$
Interest on secured convertible debentures (Note 9 (c))	18,565	22,695
Interest on Replacement Debentures (Note 9 (b))	73,897	48,671
Interest income	-	(36)
	92,462	71,330

19. Subsequent Events

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.

Conversion of debentures

On May 9, 2024, 2,043,170 shares were issued on the conversion of debentures at \$0.05, resulting in a settlement of \$102,158.