PharmaCielo Ltd.

Management's Discussion and Analysis

For the three months ended March 31, 2019

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Introduction

PharmaCielo Ltd. (the 'Company" or "PharmaCielo") is a publicly traded corporation, incorporated in Canada, with its head office located at 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2E3. Common shares of PharmaCielo trade on the TSX Venture Exchange ("TSXV") under the ticker symbol "PCLO".

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of PharmaCielo constitutes management's review of the factors that affected the Company's financial and operating performance for the three months ended March 31, 2019. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2019, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). Information contained herein is presented as of May 23, 2019, unless otherwise indicated

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

The unaudited condensed interim consolidated financial statements and this MD&A have been reviewed by the Company's Audit Committee and was approved by the Company's Board of Directors on May 23, 2019.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding PharmaCielo Ltd. is available on our website at www.pharmacielo.com or through the SEDAR website at www.sedar.com.

Caution Regarding Forward-Looking Statements

This MD&A contains certain "forward-looking information" and "forward-looking statements" (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. Please also refer to those risk factors referenced in the "Risk Factors" section below. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

Overview

Key developments

On January 15, 2019, the Company completed the RTO with AAJ Capital 1 Corp. ("AAJ"). Pursuant to the RTO:

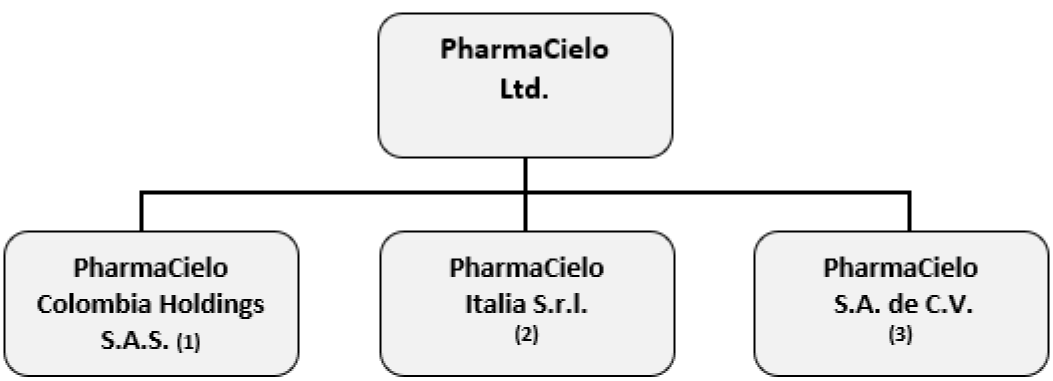
- AAJ consolidated its then outstanding 4,640,000 common shares of AAJ on a 1:11.94 basis;
- Pursuant to the terms of an agreement dated August 17, 2018 in respect of a plan of arrangement (the "Arrangement") between AAJ, 10949469 Canada Inc. ("AAJ Sub"), a private company incorporated under the Canada Business Corporations Act (the "CBCA") and a wholly owned subsidiary of AAJ created for the purposes of the Arrangement, and the Company, a private corporation incorporated under the CBCA, AAJ acquired all of the issued and outstanding common shares (the "PharmaCielo Common Shares") of the Company and indirectly, PharmaCielo Holdings S.A.S. ("PharmaCielo Holdings"), the Company's wholly owned Colombian operating subsidiary from the holders of PharmaCielo Common Shares in exchange for an aggregate of 81,747,811 AAJ Common Shares. In addition, 11,815,416 subscription receipts of the Company were converted into PharmaCielo Common Shares and immediately into Resulting Issuer Shares on a one for one basis for gross proceeds of $39,581,643.60;
- The Company and AAJ Sub amalgamated and continued as a wholly owned subsidiary of AAJ; and
- AAJ changed its name to "PharmaCielo Ltd.".

Description of the Business

PharmaCielo is a public company, headquartered in Toronto, Ontario, Canada, with a focus on cultivating, processing, and supplying all natural medicinal-grade cannabis oil extracts to large channel distributors, such as pharmacies, medical clinics, and cosmetic companies. PharmaCielo was incorporated pursuant to the provisions of the Canadian Business Corporations Act on July 14, 2014 under the name “Pan American Cannabis Inc.” and on September 1, 2014, the Company filed articles of amendment to change its name to “PharmaCielo Ltd.”. On October 31, 2014, PharmaCielo filed articles of amendment to change the province of its registered office from British Columbia to Ontario. On February 3, 2015, PharmaCielo filed articles of amendment to remove a prohibition against having more than fifty shareholders and prohibiting an invitation to the public to subscribe for securities of PharmaCielo. On February 6, 2017, PharmaCielo filed articles of amendment to provide for the appointment of additional directors and to limit the total number of directors that may be appointed between shareholder meetings to one third of the number of directors elected at the previous annual general meeting of shareholders. Both PharmaCielo’s registered office and head office are located at 82 Richmond Street East, Toronto, Ontario M5C 1P1.

PharmaCielo has one operating subsidiary, PharmaCielo Holdings, that cultivates and processes the Company’s all-natural cannabis into standardized, medicinal-grade oil extracts and related products. PharmaCielo Holdings was incorporated under the laws of Colombia on July 28, 2014 and has its registered office at KM 4 Rionegro, La Ceja Vereda El Capiro Finca Sant Angelo, Rionegro, Antioquia, Colombia. In Colombia, PharmaCielo Holdings is a fully licensed cultivator, producer, and distributor of both THC and cannabidiol (“CBD”) medical cannabis for: (a) use in Colombia; (b) international export; and (c) research purposes. PharmaCielo’s main growing and processing operations are located at its facility in Rionegro, Colombia.

Intercorporate Relationship



(1) 100% owned by PharmaCielo Ltd.

(2) 70% owned by PharmaCielo Ltd.

(3) 50% owned by PharmaCielo Ltd.

Production Licenses

PharmaCielo Holdings holds the following licenses granted by the Colombian government: (i) the Cannabis Psychoactive License, granted on October 19, 2017; (ii) the Cannabis Non-Psychoactive Cultivation License, granted on October 19, 2017; and (iii) the Cannabis Manufacturing License, granted on April 16, 2018, all as described herein.

(i) Cannabis Psychoactive Cultivation License

This license is granted by the Colombian Ministry of Justice and Law ("Ministry of Justice") and authorizes production of cannabis seed for cultivation, production of grain, fabrication, storage, commercialization, distribution or transportation of psychoactive cannabis and cultivation for scientific purposes. The applicant must comply with the specific requirements contemplated in article 2.8.11.2.4.2 of Decree 613 of 2017 (the "Decree").

PharmaCielo Holdings has held this license since October 19, 2017.

The Cannabis Psychoactive Cultivation License grants PharmaCielo Holdings the right to cultivate psychoactive cannabis plans for: (a) seed sowing production, (i.e., cultivation to produce sowing seeds); (b) cultivation from sowing to harvest; and (b) scientific purposes.

The Ministry of Justice granted PharmaCielo Holdings a crop and manufacturing quota for the Cannabis Psychoactive Cultivation License for the 2018 calendar year for: (a) production; and (b) scientific purposes. PharmaCielo Holdings intends to renew this quota for 2019.

(ii) Cannabis Non-Psychoactive Cultivation License

This license is granted by the Ministry of Justice and is intended for authorizing production and cultivation of cannabis grain, derivatives fabrication, industrial or scientific purposes, or for storage and final disposition. The applicant must comply with the specific requirements contemplated in article 2.8.11.2.5.2 of the Decree.

PharmaCielo Holdings has held this license since October 19, 2017.

The Cannabis Non-Psychoactive Cultivation License grants PharmaCielo Holdings the right to cultivate nonpsychoactive cannabis plans for: (a) seed sowing production; (b) crops; and (c) scientific purposes.

The Cannabis Non-Psychoactive Cultivation License does not require a quota.

(iii) Cannabis Manufacturing License

The Cannabis Manufacturing License is granted by the Colombian Ministry of Health and Social Protection ("Ministry of Health") and contains an authorization to manufacture derivatives of non-psychoactive cannabis for use inside Colombian territory, for scientific purposes or for exportation. The applicant must comply with the specific requirements provided by article 2.8.11.2.2.2 of the Decree.

PharmaCielo Holdings has held this license since April 16, 2018.

The Cannabis Manufacturing License grants PharmaCielo Holdings the right to produce and manufacture cannabis derivatives on the Sant Angelo/la Margarita estate for: (a) use within Colombia; (b) foreign export; and (c) scientific purposes.

With respect to this license, the Ministry of Justice granted PharmaCielo Holdings a crop and manufacturing quota for the year 2018 for scientific purposes. PharmaCielo Holdings intends to renew this quota for 2019.

Duration of Licenses

All the licenses are valid for up to five (5) years. The Colombian government maintains the right to monitor the activities performed by the corresponding licensee.

Industry Overview

The market for medicinal cannabis in Colombia is characterized by a structural shortage of supply, with few authorized producers of THC dominant cannabis strains. There are comparatively more producers of CBD dominant cannabis strains as the production of CBD cannabis is not subject to the quota system in Colombia thereby allowing for higher levels of unregulated production. Although competition in the market is growing, management of PharmaCielo believes the Company is competitively positioned to capitalize on its first mover status and satisfy a significant portion of the market's demand for medicinal cannabis. PharmaCielo's management expects that its fundamental understanding of Colombia's regulatory framework, and its experience with the agricultural and scientific processes necessary to develop high quality and consistent medicinal cannabis products, will allow the Company to be a leader in the Colombian medicinal cannabis marketplace.

More broadly, the global cannabis industry is experiencing significant changes as various governments embrace regulatory reform, with many nations liberalizing the production and consumption of cannabis. It is possible that foreign corporations may enter the Colombian market as a result of Colombia's regulatory regime, creating the prospect of Colombia becoming a hub for future industry development.

Operations

Facilities

PharmaCielo's nursery and propagation center, located in the municipality of Rionegro in the department of Antioquia, consists of 12 hectares of open-air greenhouses situated on a 27 hectare property, along with a manmade lake (natural water reservoir), ample cold storage, and industrial "plugging" systems customized to handle large-scale cutting operations. Each hectare of greenhouse contains 180 planting beds, each bed is 40.5 sq. meters (1.35 m x 30 m). The total bedding area per hectare is 7,290 sq. meters and the entire nursery and propagation center contains approximately 1.3 million square feet of planting beds. This nursery and propagation center is capable of producing on a weekly basis, significantly more than 12 million cuttings (e.g., clones) that would be required to supply 600 hectares of contract cultivation.

PharmaCielo is also currently constructing a research technology and processing center ("Research Technology and Processing Centre"), with the completion of construction targeted to be the second quarter of 2019. Once complete, the Colombian National Food and Drug Surveillance Institute ("INVIMA") must certify the center to ensure that it meets Colombian good and manufacturing standards. The Research Technology and Processing Centre will contain facilities to: (i) dry flowers naturally and by using drying machines; (ii) a milling area; (iii) extraction areas; and (iv) an area designed for testing for levels of THC and CBD levels in cannabis as well as for general compliance. To date, the

Research Technology and Processing Centre construction costs have been $1.1 million and management projects that the completion of construction will require an additional $3.6 million. The infrastructure frame of the building is complete; floors and exterior walls will be completed by the fourth quarter of 2018.

Production

The nursery and propagation center have one primary function, to develop and propagate a steady stream of genetically stable cuttings, i.e., clones, that could supply a scalable 600 hectare network of contracted cultivation centers. In turn, these cultivations centers will root and cultivate the cuttings into flowering plants that will eventually yield the harvested cannabis flower that is going to be sent for processing into standardized, medicinal grade oil extracts. This last step will take place at PharmaCielo's planned state-of-the-art oil processing center. The 600-hectare contract cultivation network will, conservatively, require a weekly supply of approximately 12.2 million fresh cuttings from PharmaCielo's nursery and propagation center, which can be comfortably supplied at approximately 86% operating capacity.

These outbound cuttings, destined for contract cultivation, are hand-culled from populations of mother plants, that will occupy a percentage of approximately 75% of the overall nursery and propagation center's open-air greenhouse planting capacity. The mother plants supply all the feeder stock cannabis cuttings to be delivered to and cultivated by PharmaCielo's highly experienced network of contract cultivation and harvest farms. Not only do the mother plants supply genetically stable varieties of cuttings, they themselves also originated as harvested cuttings from grandmother plants. Since the cloning process perfectly replicates plant genetics, the genetics of the mother plants mirror those of the grandmother plants from which they were harvested.

After extensive laboratory and field propagation testing, only a select few plants that have been determined to possess superior genetics are selected to be grandmothers. To ensure the genetic consistency of future generations of grandmother plants (and by extension future mother plants), tissue culture harvested from the grandmother plants is stored in an onsite tissue culture lab. In other words, when the entire population of grandmother plants needs to be replaced with new grandmothers, required approximately every six months, it is replaced with its own genetic offspring via tissue culture propagation.

PHARMACIELO LTD.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

	As at March 31, 2019	As at December 31, 2018	As at January 1, 2018
ASSETS			
Current assets			
Cash and cash equivalents	$ 24,572,145	$ 7,350,169	$ 15,984,352
Restricted cash	-	38,323,900	-
Short-term investments	16,215,000	215,001	-
Marketable securities	393,000	153,000	12,500
Prepaid expenses and other receivables	690,819	623,254	377,216
Supplies	132,383	84,580	-
Total current assets	42,003,347	46,749,904	16,374,068
Non-current assets			
Other assets	-	-	8,169
Property, plant and equipment	21,189,036	19,513,159	14,941,059
Right-of-use assets	1,398,045	-	-
Total non-current assets	22,587,081	19,513,159	14,949,228
Total assets	$ 64,590,428	$ 66,263,063	$ 31,323,296
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	$ 2,127,250	$ 3,019,522	$ 2,065,519
Lease obligations	120,109	-	-
Total current liabilities	2,247,359	3,019,522	2,065,519
Non-current liabilities			
Lease obligations	1,322,736	-	-
Total non-current liabilities	1,322,736	-	-
Total liabilities	3,570,095	3,019,522	2,065,519
Shareholders' equity			
Share capital	106,533,605	64,355,186	50,949,160
Shares to be issued	83,875	35,556,574	3,464,686
Reserves	23,332,458	23,932,929	5,712,795
Other comprehensive loss	1,650,209	2,244,032	349,055
Deficit	(70,583,559)	(62,845,180)	(31,217,919)
Total attributable to parent	61,016,588	63,243,541	29,257,777
Non-controlling interest	3,745	-	-
Total shareholders' equity	61,020,333	63,243,541	29,257,777
Total liabilities and shareholders' equity	$ 64,590,428	$ 66,263,063	$ 31,323,296

PHARMACIELO LTD.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

		Three Months Ended March 31, 2019		Three Months Ended March 31, 2018
Operating expenses				
Agricultural pre-operational costs	**$**	**906,225**	$	331,766
Selling, general and administrative expenses				
General and administrative				
Consulting fees		**323,343**		441,104
Office and general		**508,187**		378,211
Professional fees		**707,168**		624,505
Salaries and wages		**850,403**		172,063
Travel and accommodation		**404,725**		167,162
Rent and lease payments		**42,606**		15,210
Share-based compensation		**1,381,181**		7,559,341
Selling, marketing and promotion		**403,023**		125,408
Amortization and depreciation		**141,955**		75,025
Total selling, general and administrative expenses		**4,762,591**		9,558,029
Other expenses				
Bank charges and interest expense		**28,189**		816
Unrealized gain on marketable securities		**(240,000)**		-
Exchange (gain) loss		**(202,788)**		156,873
Other non-operating expenses		**50,475**		-
Listing expense		**2,433,687**		-
Total other expenses		**2,069,563**		157,689
Net loss for the period	**$**	**7,738,379**	$	10,047,484
Other comprehensive loss for the period:				
Currency translation adjustment for the period		**593,823**		(910,681)
Net comprehensive loss for the period	**$**	**8,332,202**	$	9,136,803
Basic and diluted net loss per common share	**$**	**(0.08)**	$	(0.13)
Weighted average number of common shares outstanding - basic and diluted		**92,782,399**		77,133,903

Assets by Geography

Total assets	March 31, 2019	December 31, 2018
Canada	$ 46,168,059	$ 49,028,742
Colombia	18,407,367	17,234,321
Italy	15,002	-
Total	$ 64,590,428	$ 66,263,063

Loss by Geography

Net loss for the period	Three months ended March 31, 2019	Three months ended March 31, 2018
Canada	5,742,409	9,088,236
Colombia	1,995,970	959,248
Total	7,738,379	10,047,484

Discussion of Operations

The Company's net loss totaled $7.7 million for the three-months ended March 31, 2019 (compared to $10.0 million for the three-months ended March 31, 2018), with a basic loss per share of $0.08 for the three-months ended March 31, 2019 versus a basic loss per share of $0.13 for the three-months ended March 31, 2018.

This net loss was primarily due to RTO listing expense of $2.4 million for the three-months ended March 31, 2019 (compared to $Nil in the three-months ended March 31, 2018), Share-based expense of $1.4 million for the three-months ended March 31, 2019 (compared to $7.6 million in the three-months ended March 31, 2018), Salaries and wages $850,403 for the three-months ended March 31, 2019 (compared to $172,063 in the three-months ended March 31, 2018), and Agricultural pre-operational costs of $906,225 for the three-months ended March 31, 2019 (compared to $331,766 in the three-months ended March 31, 2018. Other expenses were principally due to operating expenses to continue the construction of the Research Technology and Processing Centre.

Liquidity and Capital Resources

The principal focus of the Company is cultivating, processing, and supplying all-natural medicinal-grade cannabis oil extracts to the Colombian market. These activities are financed through equity offerings of securities of the Company on an ongoing basis. There is no assurance that future equity capital will be available to the Company in the amounts or at the times desired by the Company or on terms that are acceptable to it, if at all. See "Risk Factors" below.

The Company has no operating revenues and therefore must utilize its current cash reserves, and funds obtained from the issuance of share capital to maintain its capacity to meet ongoing operating activities. As of March 31, 2019, the Company's working capital is $39.8 million (compared to $43.7 million as of December 31, 2018 and $14.3 million as of January 1, 2018). As of March 31, 2019, the Company had 96,125,419 Common Shares issued and outstanding, 14,093,000 options outstanding that could raise approximately $24 million, and 255,159 warrants that could raise approximately $0.8 million if exercised in full. This is not anticipated in the immediate future.

Accounts payable and accrued liabilities decreased by $906,349 as at March 31, 2019 (compared to $932,335 decrease as at March 31, 2018) and consist of amounts that are to be extinguished in due course. The Company's cash and cash equivalents as of March 31, 2019 are sufficient to pay these liabilities.

At March 31, 2019, the Company had working capital of $39.8 million (compared to $43.7 million as at December 31, 2018 and $14.3 million as of January 1, 2018) as the Company had cash and short term investments of $40.8 million (compared to $45.9 million as at December 31, 2018 and $16.0 million as of January 1, 2018).

Net cash used in operating activities was $5.5 million for the three-months ended March 31, 2019 (compared to $3.4 million net cash used for the three-months ended March 31, 2018). Operating activities were affected by a net decrease in non-cash working capital balances of $1.0 million for the three-months ended March 31, 2019 (compared to a decrease of $941,049 for the three-months ended March 31, 2018) due to a decrease in accounts payable and accrued liabilities of $906,349 (compared to $932,335 for the three-months ended March 31, 2018), and an increase in accounts receivables of $67,565 (compared to a decrease of $31,996 for the three-months ended March 31, 2018). The Company also recorded share-based compensation of $1.4 million (compared to share-based compensation of $7.6 million for the three-months ended March 31, 2018), and recorded RTO listing expense $2.1 million (compared to $Nil for the three-months ended March 31, 2018). Net cash used in investing activities was $18.1 million during the three-months ended March 31, 2019 (compared to $576,859 million net cash used for the three-months ended March 31, 2018), as a result of investment in property and equipment of $2.2 million (compared to $576,859 for the three-months ended March 31, 2018) and the purchase of short-term investments $16.0 million (compared to $Nil for the three-months ended March 31, 2018). Short-term investments include an $8 million 1 year GIC at 2.50% and a $8 million 1 year GIC at 2.65%.

The Company's liquidity risk from financial instruments is minimal as excess cash is held in current bank accounts.

While the Company is not yet revenue producing, it believes it has sufficient cash resources to meet its future operating costs. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company. See "Risk Factors" below and "Caution Regarding Forward-Looking Statements" above.

Commitments

On April 12, 2018, the Company signed a nonbinding letter of intent to purchase the assets of Ubiquo Telemedicina. Ubiquo Telemedicina is the only telemed service in Colombia with over 400 medical practitioners and 80,000 patients using the service.

The Company has an agreement with CNV Construcciones S.A.S. ("CNV"), a Colombian construction company, to pay CNV $4 million to complete the construction of the Research Technology and Processing Centre in 2019. The construction of the Research Technology and Processing Centre is targeted for the second quarter of 2019. Once completed, the Research Technology and Processing Centre must be certified by INVIMA in order to ensure that it meets GMP Standards.

Transactions with Related Parties

During the three months ended March 31, 2019, the Company has the following related party transactions:

(i) Incurred subcontractor expense of $8,309 (three months ended March 31, 2018 - $16,298) from Tahami & Cultiflores S.A.C.I a company controlled by a director of the Company. As of March 31, 2019, amount of $Nil (December 31, 2018 - $Nil) is owing to Tahami & Cultiflores S.A.C.I. and recorded in accounts payable and accrued liabilities.

(ii) Management fee of $Nil (three months ended March 31, 2018 - $75,504) to the Company's former Chief Executive Officer. As of March 31, 2019, amount of $Nil (December 31, 2018 - $Nil) is owing and recorded in accounts payable and accrued liabilities.

(iii) Consulting fees of $53,174 (three months ended March 31, 2018 -$80,976) to the Company's former Chief Executive Officer. Amount of $Nil (December 31, 2018 - $Nil) is owing and recorded in accounts payable and accrued liabilities.

(iv) Consulting fees of $1,500 (three months ended March 31, 2018 - $75,000) to an officer of the Company. Amount of $Nil (December 31, 2018 - $Nil) is owing and recorded in accounts payable and accrued liabilities.

(v) $111,328 (three months ended March 31, 2018 - $6,730,406) of share-based payment expense for the stock options issued to related parties.

These transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The amounts owing to related parties are non-interest bearing and due on demand.

Change in Accounting Policy

Change in Functional currency

The Company changed its functional currency from US dollars to Canadian dollars as of January 1, 2019. The change in functional currency is due to financings denominated in Canadian dollars while there were denominated in US dollars before. All assets, liabilities, share capital and other components of shareholders' equity were translated into Canadian dollars at the exchange rate of $1.3642 at the date of change. These changes have been accounted for prospectively. Prior period comparable information is restated to reflect the change in presentation currency using exchange rate of $1.245 at January 1, 2018.

The functional currency of PharmaCielo Italia S.r.l. is the Euro.

Capital Resources

The Company has raised capital in the private markets to fund its capital expenditures. The Company has yet to generate revenue and as such relies on capital raises to fund its expenses. The Company believes it will be able to raise capital as required in the long term but recognizes there are risks to this pre-revenue. The Company has enough funds to finance its immediate capital needs for the Research Technology and Processing Centre which requires $4 million to complete the construction.

Financial risks

The Company has exposure to the following risks from its use of financial instruments:

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. All the Company's cash is held at financial institutions that are Colombian Chartered Banks or fund held in trust with legal counsel in which management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As at December 31, 2018, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year.

Foreign currency risk

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently expects that sales will be denominated in Colombian pesos and may, in the future, have sales denominated in the currencies of additional countries in which it establishes sales offices. In addition, PharmaCielo incurs most of its operating expenses in Colombia Pesos. In the future, the proportion of PharmaCielo's sales that are international may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Company's business, financial condition and results of operations. PharmaCielo has not previously engaged in foreign currency hedging. If the Resulting Issuer decides to hedge its foreign currency exposure, it may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide PharmaCielo from foreign currency fluctuations and can themselves result in losses.

Off-Balance-Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

Share Capital

As of the date of this MD&A, the Company had 96,442,373 Common Shares issued and outstanding.

As of the date of this MD&A, the Company has 13,993,000 stock options exercisable to purchase Common Shares issued and outstanding.

As of the date of this MD&A, the Company has 1,008,000 Restricted Share Units ("RSU") to purchase Common Shares issued and outstanding.

As of the date of this MD&A, the Company has 38,205 Common Share purchase warrants issued and outstanding.

Risk Factors

Where used in this “Risk Factors” section, “PharmaCielo” refers to either to PharmaCielo Ltd., PharmaCielo Holdings, as the context may require. Due to the nature of PharmaCielo’s business, the legal and economic climate in which it operates and its present stage of development, PharmaCielo is subject to significant risks. The risks presented below should not be considered exhaustive and may not be all the risks that the PharmaCielo may face. Additional risks and uncertainties not presently known to PharmaCielo or that PharmaCielo currently considers immaterial may also impair the business and operations of PharmaCielo and cause the value of PharmaCielo’s common shares to decline. If any of the following or other risks occur, PharmaCielo’s business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event, the trading price of PharmaCielo’s common shares could decline and investors could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

Business Risks

Limited Operating History

PharmaCielo is an early stage company having been founded in 2014 and, as a result, it has a limited operating history upon which its business and future prospects may be evaluated. PharmaCielo will be subject to all the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its operating goals. For PharmaCielo to meet future operating and debt service requirements, PharmaCielo will need to be successful in its growing, marketing and sales efforts. Additionally, where PharmaCielo experiences increased sales, PharmaCielo’s current operational infrastructure may require changes to scale PharmaCielo’s business efficiently and effectively to keep pace with demand and achieve long-term profitability. If PharmaCielo’s products and services are not accepted by new customers, PharmaCielo’s operating results may be materially and adversely affected.

Regulatory Compliance Risks

Achievement of PharmaCielo’s business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. PharmaCielo may not be able to obtain or maintain the necessary licences, permits, quotas, authorizations or accreditations, or may only be able to do so at great cost, to operate its business. PharmaCielo cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by local governmental authorities. To date, PharmaCielo has received the licences relating to both the psychoactive and non-psychoactive cultivation of cannabis from the Colombian government. The impact of the compliance regime, any delays in obtaining, or failure to obtain or keep the regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of PharmaCielo.

The officers and directors of PharmaCielo must rely, to a great extent, on PharmaCielo's Colombian legal counsel and local consultants retained by PharmaCielo in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect PharmaCielo's business operations, and to assist PharmaCielo with its governmental relations. PharmaCielo must rely, to some extent, on those members of management and the board who have previous experience working and conducting business in Colombia in order to enhance its understanding of and appreciation for the local business culture and practices in Colombia. PharmaCielo also relies on the advice of local experts and professionals in connection with current and new regulations that develop in respect of banking, financing and tax matters in Colombia. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices in Colombia are beyond the control of PharmaCielo and may adversely affect its business. The impact of the compliance regime, any delays in obtaining, or failure to obtain or keep the regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of PharmaCielo.

Reliance on Licenses and Authorizations

PharmaCielo's ability to grow, store and sell cannabis in Colombia is dependent on PharmaCielo's ability to sustain and/or obtain the necessary licences and authorizations by certain authorities in Colombia.

The licences and authorizations are subject to ongoing compliance and reporting requirements and the ability of PharmaCielo to obtain, sustain or renew any such licences and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. Failure to comply with the requirements of the licences or authorizations or any failure to maintain the licences or authorizations would have a material adverse impact on the business, financial condition and operating results of PharmaCielo.

Although PharmaCielo believes that it will meet the requirements to obtain, sustain or renew the necessary licences and authorizations, there can be no guarantee that the applicable authorities will issue these licences or authorizations. Should the authorities fail to issue the necessary licences or authorizations, PharmaCielo may be curtailed or prohibited from the production and/or distribution of cannabis or from proceeding with the development of its operations as currently proposed and the business, financial condition and results of the operation of PharmaCielo may be materially adversely affected.

Risks Inherent in Agricultural

PharmaCielo's business involves the growing of cannabis, which is an agricultural product. Medicinal cannabis will be grown in open air greenhouses. The occurrence of severe adverse weather conditions, especially droughts, hail, floods or frost, is unpredictable and may have a potentially devastating impact on agricultural production and may otherwise adversely affect the supply of cannabis. Adverse weather conditions may be exacerbated by the effects of climate change and may result in the introduction and increased frequency of pests and diseases. The effects of severe adverse weather conditions may reduce PharmaCielo's yields or require PharmaCielo to increase its level of investment to maintain yields. Additionally, higher than average temperatures and rainfall can contribute to an increased presence of insects and pests, which could negatively affect cannabis crops. Future droughts could reduce the yield and quality of PharmaCielo's cannabis production, which could materially and adversely affect PharmaCielo's business, financial condition and results of operations.

The occurrence and effects of plant disease, insects and pests can be unpredictable and devastating to agricultural, potentially rendering all or a substantial portion of the affected harvests unsuitable for sale. Even when only a portion of the production is damaged, PharmaCielo's results of operations could be adversely affected because all or a substantial portion of the production costs may have been incurred. Although some plant diseases are treatable, the cost of treatment can be high and such events could adversely affect PharmaCielo's operating results and financial condition. Furthermore, if PharmaCielo fails to control a given plant disease and the production is threatened, PharmaCielo may be unable to supply its customers, which could adversely affect its business, financial condition and results of operations. There can be no assurance that natural elements will not have a material adverse effect on any such production.

Risks Inherent in Rural Real Estate

The Colombian constitution protects the right to own private property and related rights acquired in compliance with civil regulations. According to the Colombian constitution, legally acquired private property ownership rights cannot be affected if the owner is following applicable laws. Except in the case of public necessity or social interest, subject to due process and the payment of an indemnification, expropriations without just cause or on a discriminatory basis are restricted.

Supply of Cannabis Seeds

If for any reason the supply of cannabis seeds is ceased or delayed, PharmaCielo would have to seek alternate suppliers and obtain all necessary authorization for the new seeds. If replacement seeds cannot be obtained at comparable prices, or at all, or if the necessary authorizations are not obtained, PharmaCielo's business, financial condition and results of operations would be materially and adversely affected.

Risks Related to Investment in a Colombian Company

Economic Risks Inherent in any Investment in an Emerging Market Country such as Colombia

Investing in emerging market countries such as Colombia carries economic risks. Economic instability in Latin American and emerging market countries has been caused by many different factors, including high interest rates, changes in currency values, high levels of inflation, exchange controls, wage and price controls, changes in economic or tax policies, the imposition of trade barriers, and internal security issues. Any of these factors may adversely affect the value of the Common Shares.

Economic and Political Developments in Colombia

PharmaCielo's operations are in Colombia. Consequently, PharmaCielo is dependent upon Colombia's economic and political developments. As a result, PharmaCielo's business, financial position and results of operations may be affected by the general conditions of these economies, price instabilities, currency fluctuations, inflation, interest rates, regulation, taxation, social instabilities, political unrest and other developments in or affecting Colombia, over which PharmaCielo has no control.

In the past, Colombia has experienced periods of weak economic activity and deterioration in economic conditions. PharmaCielo cannot predict that such conditions will not return or that such conditions will not have a material adverse effect on PharmaCielo's business, financial condition or results of operations.

Legislative changes may have an adverse impact on PharmaCielo's operations and performance, including any changes to tax legislation. Changes in tax-related laws and regulations, and interpretations thereof, can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions, and eliminating tax-based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than PharmaCielo does, which could result in tax litigation, associated costs and penalties. Such legislative changes may have an adverse impact on PharmaCielo's business, financial condition and results of operations.

Operational Risks

Operations in Colombia are subject to risk due to the potential for social, political, economic, legal and fiscal instability. The government in Colombia faces ongoing problems including but not limited to inflation, unemployment and inequitable income distribution. Colombia is also home to South America's largest and longest running insurgency and large swaths of the countryside are under guerrilla influence. In addition, Colombia experiences narcotics-related violence, a prevalence of kidnapping and extortionist activities and civil unrest in certain areas of the country. Such instability may require PharmaCielo to suspend operations on its properties. Although PharmaCielo is not presently aware of any circumstances or facts which may cause the following to occur, other risks may involve matters arising out of the evolving laws and policies in Colombia, any future imposition of special taxes or similar charges, as well as foreign exchange fluctuations and currency convertibility and controls, the unenforceability of contractual rights or the taking or nationalization of property without fair compensation, restrictions on the use of expatriates in PharmaCielo's operations, or other matters. PharmaCielo also bears the risk that changes can occur in the government of Colombia and a new government may void or change the laws and regulations that PharmaCielo is relying upon.

Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities and Colombia has never imposed such restrictions. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future. Exchange control regulations require that any proceeds in foreign currency originated on exports of goods from Colombia be repatriated to Colombia. However, purchase of foreign currency is allowed through any Colombian authorized financial entities for purposes of payments to foreign suppliers, repayment of foreign debt, payment of dividends to foreign stockholders and other foreign expenses.

Inflation in Colombia

Colombia has in the past experienced double-digit rates of inflation. If Colombia experiences substantial inflation in the future, PharmaCielo's costs in Colombian peso terms will increase significantly, subject to movements in applicable exchange rates. Inflationary pressures may also curtail PharmaCielo's ability to access global financial markets in the longer term and its ability to fund planned capital expenditures, and could materially adversely affect PharmaCielo's business, financial condition and results of operations. The Colombian government's response to inflation or other significant macro-economic pressures may include the introduction of policies or other measures that could increase PharmaCielo's costs, reduce operating margins and materially adversely affect its business, financial condition and results of operations.

Financial and Accounting Risks

Foreign Sales

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently expects that sales will be denominated in Colombian pesos and may, in the future, have sales denominated in the currencies of additional countries in which it establishes sales offices. In addition, PharmaCielo incurs most of its operating expenses in Colombia Pesos. In the future, the proportion of PharmaCielo's sales that are international may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Resulting Issuer's business, financial condition and results of operations. PharmaCielo has not previously engaged in foreign currency hedging. If the Resulting Issuer decides to hedge its foreign currency exposure, it may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide the Resulting Issuer from foreign currency fluctuations and can themselves result in losses.

Subsequent Events

i. On April 17, 2019, pursuant to the restricted share unit ("RSU") plan of the Company, the Company granted 1,008,000 RSU to certain directors, employees and consultants of the Company. Each RSU vest upon over 1 or 2 years and may be settled in common shares.

ii. Subsequent to March 31, 2019, a total of 216,954 warrants were exercised for gross proceeds of $726,796 and a total of 100,000 options were exercised for gross proceeds of US$100,000.