PharmaCielo™

Made in Colombia

PHARMACIELO LTD.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018,

5 MONTHS PERIOD ENDED DECEMBER 31, 2017 AND

THE YEAR ENDED JULY 31, 2017

(EXPRESSED IN UNITED STATES DOLLARS)

Independent Auditor's Report

To the Shareholders of PharmaCielo Ltd.:

Opinion

We have audited the consolidated financial statements of PharmaCielo Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended December 31, 2018 and for the 5-month period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended December 31, 2018 and for the 5-month period ended December 31, 2017, in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Matter

The consolidated financial statements for the year ended July 31, 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on November 24, 2017.

As part of our audit of the consolidated financial statements for the period ended December 31, 2017, we also audited the adjustments described in Note 15 that were applied to amend the prior year consolidated financial statements for the year ended July 31, 2017. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended July 31, 2017, other than with respect to these adjustments and, accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements as a whole.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Toronto, Ontario

April 17, 2019

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

MNP

PHARMACIELO LTD.
Consolidated Statements of Financial Position
(Expressed in U.S. Dollars)

	As at December 31, 2018	As at December 31, 2017	As at July 31, 2017 (Restated note 15)
ASSETS			
Current assets			
Cash and cash equivalents	**$ 5,387,898**	$ 12,741,612	$ 9,761,682
Restricted cash (note 7(b(v))	**28,092,582**	-	-
Short-term investments	**157,602**	-	-
Marketable securities (note 5)	**112,154**	9,964	-
Prepaid expenses and other receivables	**456,864**	300,690	367,660
Supplies	**62,000**	-	-
Total current assets	**34,269,100**	13,052,266	10,129,342
Non-current assets			
Other assets	**-**	6,512	424,983
Property, plant and equipment (note 6)	**14,303,737**	11,909,971	10,266,786
Total non-current assets	**14,303,737**	11,916,483	10,691,769
Total assets	**$ 48,572,837**	$ 24,968,749	$ 20,821,111
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (note 12)	**$ 2,213,401**	$ 1,646,488	$ 456,466
Total liabilities	**2,213,401**	1,646,488	456,466
Shareholders' equity			
Share capital (note 7(a)(b))	**50,876,014**	40,613,121	35,018,714
Shares to be issued (note 7(b))	**26,685,236**	2,706,336	-
Reserves (notes and 8 and 9)	**18,757,642**	4,553,842	4,481,715
Other comprehensive (loss) income	**(648,837)**	333,712	319,946
Deficit	**(49,310,619)**	(24,884,750)	(19,455,730)
Total shareholders' equity	**46,359,436**	23,322,261	20,364,645
Total liabilities and shareholders' equity	**$ 48,572,837**	$ 24,968,749	$ 20,821,111

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

Nature of operations (note 1)
Commitments (note 13)
Events after the reporting period (note 16)

Approved on behalf of the Board:

(Signed) "Douglas H. Bache" , Director

(Signed) "David Attard" , Director

PHARMACIELO LTD.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in U.S. Dollars)

	Year Ended December 31, 2018	5 Months Period Ended December 31, 2017	Year Ended July 31, 2017 (Restated note 15)
General and administrative expenses			
Agricultural pre-operational costs (Note 6)	**$ 1,782,039**	$ -	$ -
Administration	**299,992**	71,956	144,633
Amortization	**44,446**	-	-
Bank charges and interest expense (income)	**(164,913)**	10,828	12,747
Communication	**22,528**	-	67,967
Consulting	**1,266,852**	330,086	1,042,555
Depreciation (Note 6)	**230,800**	267,312	294,541
Filing and transfer agent fees	**86,463**	6,708	42,717
Exchange loss	**698,948**	118,755	6,352
Insurance	**13,032**	14,402	45,863
Investor relations	**11,577**	-	219,276
Lease payment	**106,134**	21,130	42,948
Maintenance	**36,644**	8,907	53,970
Management fees	**893,934**	389,348	480,320
Market development and research	**589,470**	-	-
Media services	**401,781**	88,340	114,560
Office and miscellaneous	**274,900**	128,886	454,481
Professional fees	**1,229,450**	3,133,850	472,828
Share-based payments	**14,414,503**	111,256	2,347,734
Subcontractors	**392,602**	19,418	423,597
Supplies	**-**	-	10,800
Taxes	**5,020**	81,201	113,375
Telephone	**6,014**	458	11,168
Travel and promotion	**759,942**	186,649	465,725
Unrealized gain on marketable securities	**(108,436)**	-	-
Wages	**949,999**	358,226	500,455
Web and database	**172,344**	81,304	218,749
Loss before tax	**24,416,065**	5,429,020	7,587,361
Income tax expense (note 11)	**9,804**	-	-
Net loss for the period	**$ 24,425,869**	$ 5,429,020	$ 7,587,361
Other comprehensive income for the period:			
Currency translation adjustment for the period	**(982,549)**	(13,766)	194,575
Net comprehensive loss for the period	**$ 23,443,320**	$ 5,415,254	$ 7,781,936
Basic and diluted net loss per common share (note 10)	**$ (0.31)**	$ (0.07)	$ (0.12)
Weighted average number of common shares outstanding - basic and diluted	**78,191,617**	73,557,552	65,891,765

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

PHARMACIELO LTD.
Consolidated Statements of Cash Flows
(Expressed in U.S. Dollars)

	Year Ended December 31, 2018	5 Months Ended December 31, 2017	Year Ended July 31, 2017 (Restated note 15)
Operating activities			
Net loss for the period	**$ (24,425,869)**	$ (5,429,020)	$ (7,587,361)
Items not affecting cash:			
Depreciation (Note 6)	**653,627**	267,312	294,541
Disposals	**-**	14,251	-
Shares received on settlement	**-**	(9,964)	-
Shares issued for services	**-**	2,250,000	-
Share-based payments	**14,414,503**	111,256	2,347,734
Exchange loss	**45,249**	(39,880)	90,978
Unrealized gain on marketable securities	**(108,436)**	-	-
Changes in non-cash working capital items:			
Prepaid expenses and other receivables	**(156,174)**	66,970	(207,723)
Supplies	**(62,000)**	-	-
Other assets	**6,512**	-	(424,983)
Accounts payable and accrued liabilities	**566,913**	1,190,022	(1,156,191)
Net cash and cash equivalents used in operating activities	**(9,065,675)**	(1,579,053)	(6,643,005)
Investing activities			
Purchase of property, plant and equipment	**(4,065,765)**	(1,002,969)	(3,317,506)
Purchase of short-term investments	**(157,602)**	-	-
Net cash and cash equivalents used in investing activities	**(4,223,367)**	(1,002,969)	(3,317,506)
Financing activities			
Repayment to related parties	**-**	-	(37,500)
Options and warrants exercised	**1,092,805**	99,336	3,673
Issuance of shares for cash	**5,778,297**	5,459,998	15,837,258
Cash received for shares to be issued	**29,747,214**	-	-
Share issue costs	**(2,587,226)**	-	-
Net cash and cash equivalents provided by financing activities	**34,031,090**	5,559,334	15,803,431
Net change in cash and cash equivalents	**20,742,048**	2,977,312	5,842,920
Effect of exchange rate changes on cash held in foreign currencies	**(3,180)**	2,618	-
Cash and cash equivalents, beginning of period	**12,741,612**	9,761,682	3,918,762
Cash and cash equivalents, end of period	**$ 33,480,480**	$ 12,741,612	$ 9,761,682
Cash and cash equivalents	**$ 5,387,898**	$ 12,741,612	$ 9,761,682
Restricted cash	**28,092,582**	-	-
Cash and cash equivalents for cash flow purposes	**$ 33,480,480**	$ 12,741,612	$ 9,761,682

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

PHARMACIELO LTD.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in U.S. Dollars, Unless Otherwise Indicated)

	Number of common shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive loss	Deficit	Total
Balance, July 31, 2016 as previously stated	**63,471,622**	**$ 19,328,371**	**$ -**	**$ 1,983,393**	**$ -**	**$ (11,742,998)**	**$ 9,568,766**
Reclassification (note 15)	-	-	-	-	125,371	(125,371)	-
Restated balance, July 31, 2016	**63,471,622**	**19,328,371**	**-**	**1,983,393**	**125,371**	**(11,868,369)**	**9,568,766**
Shares issued pursuant to private placement at price of $1.00 per share (note 7(b)(xiv))	1,536,000	1,536,000	-	-	-	-	1,536,000
Share issued pursuant to private placement at price of $2.00 per share (note 7(b)(xiv))	7,585,597	15,171,194	-	-	-	-	15,171,194
Share issue costs (note 7(b)(xiv))	-	(869,936)	-	-	-	-	(869,936)
Warrants issued	-	(150,854)	-	150,854	-	-	-
Warrants exercised (note 7(b)(xv))	50,000	3,939	-	(266)	-	-	3,673
Share-based payments	-	-	-	2,347,734	-	-	2,347,734
Currency translation adjustment for the year	-	-	-	-	194,575	-	194,575
Net loss for the year	-	-	-	-	-	(7,587,361)	(7,587,361)
Balance, July 31, 2017 (restated)	**72,643,219**	**$ 35,018,714**	**$ -**	**$ 4,481,715**	**$ 319,946**	**$ (19,455,730)**	**$ 20,364,645**
Shares issued pursuant to private placement at price of $2.25 per share (note 7(b)(vii))	2,560,644	5,761,449	-	-	-	-	5,761,449
Warrants issued for private placement (note 8)	-	(27,954)	-	27,954	-	-	-
Share issue costs	-	(301,421)	-	-	-	-	(301,421)
Options exercised (note 7(b)(x))	165,000	80,010	-	(38,760)	-	-	41,250
Warrants exercised (note 7(b)((viii)(ix)(xii))	750,000	63,271	4,086	(9,271)	-	-	58,086
Warrants expired	-	19,052	-	(19,052)	-	-	-
Shares to be issued for services (note 7(b)(xi))	-	-	2,250,000	-	-	-	2,250,000
Shares to be issued for land acquisition (note 7(b)(xiii))	-	-	452,250	-	-	-	452,250
Share-based payments	-	-	-	111,256	-	-	111,256
Currency translation adjustment for the period	-	-	-	-	13,766	-	13,766
Net loss for the period	-	-	-	-	-	(5,429,020)	(5,429,020)
Balance, December 31, 2017	**76,118,863**	**$ 40,613,121**	**$ 2,706,336**	**$ 4,553,842**	**$ 333,712**	**$ (24,884,750)**	**$ 23,322,261**

PHARMACIELO LTD.

Consolidated Statements of Changes in Shareholders' Equity (Continued)
(Expressed in U.S. Dollars, Unless Otherwise Indicated)

	Number of common shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive loss	Deficit	Total
Balance, December 31, 2017	**76,118,863**	**$ 40,613,121**	**$ 2,706,336**	**$ 4,553,842**	**$ 333,712**	**$ (24,884,750)**	**$ 23,322,261**
Common shares issued for services (note 7(b)(i))	1,000,000	2,250,000	(2,250,000)	-	-	-	-
Common shares issued for land acquisition (note 7(b)(ii))	201,000	452,250	(452,250)	-	-	-	-
Warrants exercised (note 7(b)(iii))	335,610	234,427	(4,086)	(87,536)	-	-	142,805
Options exercised (note 7(b)(iv))	1,712,820	1,630,286	-	(848,876)	-	-	781,410
Subscription receipts (note 7(b)(v))	-	-	29,747,214	-	-	-	29,747,214
Shares issued pursuant to private placement at price of CAD$3.35 per share (note 7(b)(vi))	2,244,049	5,778,297	-	-	-	-	5,778,297
Shares to be issued for exercise of options	-	-	168,590	-	-	-	168,590
Cost of issue	135,469	(82,367)	(3,230,568)	725,709	-	-	(2,587,226)
Share-based payments	-	-	-	14,414,503	-	-	14,414,503
Currency translation adjustment for the year	-	-	-	-	(982,549)	-	(982,549)
Net loss for the year	-	-	-	-	-	(24,425,869)	(24,425,869)
Balance, December 31, 2018	**81,747,811**	**$ 50,876,014**	**$ 26,685,236**	**$ 18,757,642**	**$ (648,837)**	**$ (49,310,619)**	**$ 46,359,436**

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

1. Nature of operations

PharmaCielo Ltd. ("PharmaCielo" or the "Company") was incorporated on July 14, 2014 under the Canada Business Corporations Act. On January 15, 2019, PharmaCielo's common shares started trading on the TSX Venture Exchange ("TSXV") under the symbol "PCLO". The primary office is located at The Canadian Venture Building, 82 Richmond Street East, Suite 200, Toronto, Ontario, M5C 1P1.

Through the Company's wholly-owned subsidiary, PharmaCielo Colombia Holdings SAS, the Company is licensed by the Ministry of Health and Ministry of Justice in Colombia to cultivate, produce, and distribute (domestically and internationally) both THC (tetrahydrocannabinol) and CBD (cannabidiol) medicinal cannabis extracts.

On January 18, 2019, the Company completed a reverse take-over ("RTO") (refer to note 16(i)).

These consolidated financial statements were approved by the Company's Board of Directors on April 17, 2019.

Change in year-end

During the five months ended December 31, 2017, the Company changed its fiscal year end to December 31, from July 31. The Company's transition period is the five months ended December 31, 2017. The comparative period is the five months ended December 31, 2017. The new financial year will align the Company with its peer group in the Cannabis sector and facilitate marketplace assessment of the Company's business performance.

2. Significant accounting policies

Basis of presentation

The consolidated 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 International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2018.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, with the exception of financial instruments classified at fair value through profit or loss ("FVTPL"). In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, PharmaCielo Colombia Holdings S.A.S. located in Medellin, Colombia.

The financial statements of PharmaCielo Colombia Holdings S.A.S. are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are considered. All inter-company balances and transactions have been eliminated in preparing consolidated financial statements.

2. Significant accounting policies (continued)

Significant accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and related disclosure.

Judgment is used mainly in determining how a balance or transaction should be recognized in the consolidated financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. Actual results may differ from these estimates.

Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

Significant areas where management's judgment has been applied include

Going concern

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing these consolidated financial statements. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The assessment of the Company's ability to execute its strategy and finance the operations through achieving positive cash flow from operations or by obtaining additional funding through debt or equity financing involves judgments. Management monitors future cash requirements to assess the Company's ability to realize assets and discharge its liabilities in the normal course of operations

Functional currency

The functional currency of PharmaCielo Ltd. is the United States dollar. The functional currency of PharmaCielo Colombia Holdings S.A.S. is the Colombian Peso. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, The Effect of Changes in Foreign Exchange Rates. The determination of functional currency involved certain judgments to determine the primary economic environment and an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions. The Company reconsiders the functional currency if there are changes in events and conditions of the factors used in the determination of the primary economic environment.

Significant areas requiring the use of management estimates and assumptions include

Deferred taxes

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

2. Significant accounting policies (continued)

Significant areas requiring the use of management estimates and assumptions include (continued)

Share-based payments

The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of the warrants and options granted at the grant date. This model requires the input of a number of assumptions including expected dividend yields, expected stock volatility, expected time until exercise, expected forfeitures, and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based upon market conditions generally outside the control of the Company. If other assumptions were used, stock-based compensation expense could be significantly impacted.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of three months or less.

Restricted cash is considered as cash for the purposes of the statement of cash flows.

Short-term investments

Short-term investments consist of investments with an original maturity of more than three months.

Financial instruments

IFRS 9 - Financial Instruments ("IFRS 9") replaced IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Company has assessed this new standard and there has been no impact to the consolidated financial statements from this adoption.

Financial assets within the scope of IFRS 9 are classified in the following measurement categories: amortized cost, FVTPL, or fair value through other comprehensive income ("FVTOCI"). Financial liabilities are classified in the following measurement categories: FVTPL, or amortized cost.

The following table summarizes the changes in the classification of the Company's financial instruments upon adoption of IFRS 9. The adoption of the new classification did not result in any changes in the measurement or carrying amount of the consolidated financial instruments.

Financial instruments	Category under IAS 39	Category under IFRS 9
Cash and cash equivalents	FVTPL	FVTPL
Restricted cash	FVTPL	FVTPL
Short-term investments	FVTPL	FVTPL
Marketable securities	FVTPL	FVTPL
Other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The accounting for these instruments and the line item in which they are included in the consolidated statements of financial position are unaffected by the adoption of IFRS 9, and no measurement adjustments are required to the Company's financial assets and liabilities. The adoption of IFRS 9 does not have a material impact on impairment of the Company's financial assets.

2. Significant accounting policies (continued)

Financial instruments (continued)

For other receivables, the Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Other receivables are written off when there is no reasonable expectation of recovery.

As a result of the adoption of IFRS 9, the accounting policy for financial instruments has been updated as follows:

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss. The Company's cash and cash equivalents, restricted cash, short-term investments and marketable securities are classified as financial assets measured at FVTPL.

ii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at FVTPL: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

The Company's other receivables are classified as financial assets measured at amortized cost.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

The Company's accounts payable and accrued liabilities and due to related party do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

ii. Financial liabilities recorded FVTPL

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Transaction costs

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

2. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Expected credit loss impairment model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's consolidated financial statements.

For other receivables, the Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Other receivables are written off when there is no reasonable expectation of recovery.

Biological assets

The Company's biological assets consist of medical cannabis plants and are valued using the income approach. Production costs are capitalized to biological assets and include all direct and indirect costs relating to biological transformation. The Company measures and adjusts the biological assets to the fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from the changes in fair value less cost to sell during the period are included in the results of operations for the related period.

The company is currently cultivating cannabis plants for the purpose of producing oil. Colombian law prohibits the cultivation of plants for flower. As the Company is currently in the process of constructing its GMP certified facility for the oil extraction, the potential sales value of the oil currently being extracted in a temporary non certified facility from the existing cannabis material being grown is expected to be nominal.

2. Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is recorded at cost and is amortized over their remaining estimated useful economic life as follows:

Class of property, plant and equipment	Amortization rate
Computer and communication equipment	Straight line method over 2 to 3 years
Machinery and equipment	Straight line method over 5 to 15 years
Office furniture and fixtures	Straight line method over 2 years
Vehicles	Straight line method over 5 years
Building	Straight line method over 25 years

Impairment of assets

At the end of each reporting period the carrying amounts of the Company' assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in income or loss.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in notes 8 and 9.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

2. Significant accounting policies (continued)

Share-based payments (continued)

The fair value of warrants issued to agents in connection with private placements ("Agent Warrants") is recognized on the date of issue as a share issue cost. The Company uses the Black-Scholes option pricing model to estimate the fair value of Agent Warrants issued.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest based on estimate of forfeiture rate.

Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as the outstanding options and warrants are anti-dilutive.

Income taxes

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

Income tax expense comprises current and deferred income tax. Income tax expense is recognized in the consolidated statement of loss and comprehensive loss except to the extent it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net loss and comprehensive loss or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

2. Significant accounting policies (continued)

Foreign currency transactions

Transactions in foreign currencies are initially recorded by the Company and its subsidiary at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the functional currency spot rate of exchange at the end of the reporting period. All differences are taken into the statement of operations and comprehensive loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The financial statement of the Company's subsidiary are translated into US dollars at each reporting period. All assets and liabilities are translated into US dollars at the period-end exchange rate and revenues and expenses are translated at the average exchange rate during the period in which they occur. The exchange differences arising on the translation are recognized in translation reserve.

Standards issued but not yet effective

The Company has not yet applied the following new standards, interpretations or amendments to standards that have been issued as at December 31, 2018 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations and intends to adopt those standards when they become effective.

The Company does not expect the impact of such changes on the consolidated financial statements to be material, unless otherwise stated.

IFRS 16 - Leases ("IFRS 16")

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatment for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 - Leases ("IAS 17") and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed from lease accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all lease by lessees (i.e. all on balance sheet) except for short-term leases and lease of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payment that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 1, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

This amendment is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The Company is evaluating the impact of the adoption of these standards.

3. Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its business to proprietary supply naturally grown, refined and processed medicinal-grade cannabis oils, extracts and related products. The Board of Directors 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.

The Company's primary source of capital is through the issuance of equity. The Company manages and adjusts its capital structure when changes in economic conditions occur. To maintain or adjust the capital structure, the Company may seek additional funding. The Company may require additional capital resources to meet its obligations in the long term. The Company believes it will be able to raise capital as required in the long term but recognizes there will be risks involved that may be beyond its control.

The capital structure of the Company consists of shareholder's equity, comprising issued capital and deficit. The Company is not exposed to any externally imposed requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

4. Financial instruments

The risks associated with financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents are subject to credit risk for a maximum of the amounts shown on the statements of financial position. The Company limits its exposure to credit risk on cash and cash equivalents by depositing only with reputable financial institutions. Management believes that the Company is subject to minimal credit risk.

(ii) 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 its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at December 31, 2018, the Company had cash and cash equivalents of $5,387,898 (December 31, 2017 - $12,741,612; July 31, 2017 - $9,761,682) and restricted cash for $28,092,582 (December 31, 2017 - $Nil; July 31, 2017 - $Nil) to settle accounts payable and accrued liabilities of $2,213,401 (December 31, 2017 - $1,646,488; July 31, 2017 - $456,466). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

(Expressed in U.S. Dollars Unless Otherwise Indicated)

4. Financial instruments (continued)

(iii) Interest rate risk

The Company has cash and cash equivalents, short-term investments and no interest-bearing debt. The Company believes it has no significant interest rate risk.

(iv) Currency risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional and reporting currency is United States dollars. The Company is exposed to currency risk through the financial assets and liabilities denominated in currencies other than United States Dollars. The Company currently does not use derivative instruments to hedge its exposure to the currency risk. As at December 31, 2018, the exposure of the Company's financial assets and financial liabilities to currency risk is summarized as follows:

	As at December 31, 2018	As at December 31, 2017	As at July 31, 2017
Financial assets:			
FVTPL			
Cash and cash equivalents	**$ 5,387,898**	$ 12,741,612	$ 9,761,682
Restricted cash	**28,092,582**	-	-
Short-term investments	**157,602**	-	-
Marketable securities	**112,154**	9,964	-

The carrying amount of the Company's foreign currency denominated monetary assets and liabilities are as follows:

	Canadian dollar in USD	Colombian Peso in USD
Financial assets:		
Cash and cash equivalents	**$ 1,797,720**	$ 832,728
Restricted cash	**25,516,093**	113,504
Short-term investments	**157,602**	-
Marketable securities	**112,154**	-
Other receivables	**148,130**	58,941
Financial liabilities:		
Accounts payable and accrued liabilities	**$ 1,796,843**	$ 416,203

A 1% strengthening in the United States dollar against Canadian dollar would have a before-tax effect of $276,746 increase in the net loss and deficit at the year end. A 1% strengthening in the United States dollar against Colombian Peso would have a before-tax effect of $5,890 decrease in accumulated other comprehensive income, based on amounts held at December 31, 2018.

(Expressed in U.S. Dollars Unless Otherwise Indicated)

4. Financial instruments (continued)

Fair value hierarchy

The following table summarizes the carrying values of the Company's financial instruments:

	As at December 31, 2018	As at December 31, 2017	As at July 31, 2017
Financial assets:			
FVTPL			
Cash and cash equivalents	**$ 5,387,898**	$ 12,741,612	$ 9,761,682
Restricted cash	**28,092,582**	-	-
Short-term investments	**157,602**	-	-
Marketable securities	**112,154**	9,964	-

The Company applied the following fair value hierarchy which prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels:

The three levels are defined as follows:

- Level 1 **-** inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 **-** inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 **-** inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As at December 31, 2018, the Company's financial instruments measured at fair value are cash and cash equivalents balance of $5,387,898 (December 31, 2017 - $12,741,612; July 31, 2017 - $9,761,682), restricted cash for $28,092,582 (December 31, 2017 - $Nil; July 31, 2017 - $Nil), short-term investments of $157,602 (December 31, 2017 - $Nil; July 31, 2017 - $Nil) and marketable securities of $112,154 (December 31, 2017 - $9,964; July 31, 2017 - $Nil) which is considered to be Level 1 instruments. The carrying value of other receivables, accounts payable and accrued liabilities approximates the fair value because of the short-term nature of these instruments.

5. Marketable securities

	Number of shares	Cost	Unrealized gain	Fair value
December 31, 2018				
Khiron Life Sciences Corp. ("Khiron")	**100,000**	**$ 9,964**	**$ 102,190**	**$ 112,154**
December 31, 2017				
Khiron	100,000	$ 9,964	$ -	$ 9,964
July 31, 2017				
Khiron	-	$ -	$ -	$ -

(Expressed in U.S. Dollars Unless Otherwise Indicated)

6. Property, plant and equipment

	Land	Construction in progress	Building	Machinery and equipment	Office furnitures and fixtures	Computer and communication equipment	Vehicles	Equipment in transit	Total
COST									
Balance, July 31, 2016	**$ 4,380,857**	**$ -**	**$ 1,367,843**	**$ 662,761**	**$ 20,878**	**$ 25,978**	**$ -**	**$ 719,926**	**$ 7,178,243**
Additions	1,096,044	476,446	553,779	515,524	30,595	-	127,997	533,127	3,333,512
Reclassifications	-	-	-	-	101	(101)	-	-	-
Effect of foreign currency exchange differences	21,459	1,867	7,529	4,617	202	101	502	4,910	41,187
Balance, July 31, 2017	**5,498,360**	**478,313**	**1,929,151**	**1,182,902**	**51,776**	**25,978**	**128,499**	**1,257,963**	**10,552,942**
Additions	874,094	(496,380)	903,611	1,253,694	4,268	6,555	-	(644,132)	1,901,710
Reclassifications	-	15,363	(146,113)	(143,019)	2,250	322,132	-	(50,613)	-
Disposals	-	(539)	-	(2,845)	(1,750)	-	-	(9,525)	(14,659)
Effect of foreign currency exchange differences	12,926	3,243	354	1,133	181	(887)	484	6,844	24,278
Balance, December 31, 2017	**6,385,380**	**-**	**2,687,003**	**2,291,865**	**56,725**	**353,778**	**128,983**	**560,537**	**12,464,271**
Additions	-	-	277,040	1,617,401	84,334	146,555	-	2,495,301	4,620,631
Reclassifications	-	-	-	-	-	-	-	(554,866)	(554,866)
Effect of foreign currency exchange differences	(336,586)	-	46,115	(565,518)	(9,197)	(37,500)	(23,208)	(252,856)	(1,178,750)
Balance, December 31, 2018	**$ 6,048,794**	**$ -**	**$ 3,010,158**	**$ 3,343,748**	**$ 131,862**	**$ 462,833**	**$ 105,775**	**$ 2,248,116**	**$15,351,286**

(Expressed in U.S. Dollars Unless Otherwise Indicated)

6. Property, plant and equipment (continued)

	Land	Construction in progress	Building	Machinery and equipment	Office furnitures and fixtures	Computer and communication equipment	Vehicles	Equipment in transit	Total
ACCUMULATED DEPRECIATION									
Balance, July 31, 2016	**$ -**	**$ -**	**$ 20,425**	**$ 6,260**	**$ 2,818**	**$ 9,652**	**$ -**	**$ -**	**$ 39,155**
Depreciation	-	-	211,891	39,815	20,886	(815)	22,764	-	294,541
Effect of foreign currency exchange differences	-	-	(33,097)	(6,564)	(3,377)	(1,259)	(3,243)	-	(47,540)
Balance, July 31, 2017	**-**	**-**	**199,219**	**39,511**	**20,327**	**7,578**	**19,521**	**-**	**286,156**
Depreciation	-	-	145,290	88,784	3,859	20,015	9,364	-	267,312
Disposals	-	-	-	(228)	(180)	-	-	-	(408)
Effect of foreign currency exchange differences	-	-	523	433	89	92	103	-	1,240
Balance, December 31, 2017	**-**	**-**	**345,032**	**128,500**	**24,095**	**27,685**	**28,988**	**-**	**554,300**
Depreciation	-	-	228,448	238,414	28,075	149,551	9,139	-	653,627
Effect of foreign currency exchange differences	-	-	(111,311)	(30,001)	(3,857)	(12,656)	(2,553)	-	(160,378)
Balance, December 31, 2018	**$ -**	**$ -**	**$ 462,169**	**$ 336,913**	**$ 48,313**	**$ 164,580**	**$ 35,574**	**$ -**	**$ 1,047,549**
CARRYING AMOUNT									
Balance, July 31, 2017	**$ 5,498,360**	**$ 478,313**	**$ 1,729,932**	**$ 1,143,391**	**$ 31,449**	**$ 18,400**	**$ 108,978**	**$ 1,257,963**	**$10,266,786**
Balance, December 31, 2017	**$ 6,385,380**	**$ -**	**$ 2,341,971**	**$ 2,163,365**	**$ 32,630**	**$ 326,093**	**$ 99,995**	**$ 560,537**	**$11,909,971**
Balance, December 31, 2018	**$ 6,048,794**	**$ -**	**$ 2,547,989**	**$ 3,006,835**	**$ 83,549**	**$ 298,253**	**$ 70,201**	**$ 2,248,116**	**$14,303,737**

6. Property, plant and equipment (continued)

PharmaCielo Colombia Holdings S.A.S. is developing a farm and a processing plant, located in Rio Negro the municipality of La Cieja (Antioquia), for the purpose of cultivating and sowing, as well as assembly of the cannabis oil. The farm includes greenhouses, offices and agricultural areas. As of December 31, 2018, the construction and assets in transit balance of $2,248,116 (December 31, 2017 - $560,537; July 31, 2017 - $1,736,276) represents the developing activities that have not yet been completed.

For the year ended December 31, 2018 depreciation expense for $422,827 is included in the consolidated statement of loss as agricultural pre-operational costs.

7. Share capital

a) Authorized share capital

The authorized share capital consisted of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

b) Common shares issued and outstanding

81,747,811 common shares (December 31, 2017 - 76,118,863 common shares)

<u>For the year ended December 31, 2018</u>

(i) In December 2017, the Company agrees to issue 1,000,000 common shares to a service provider in relation to services and assistance to obtain Cannabis related licenses in Colombia. The fair value attributed to the shares to be issued was driven by the recent private placement at $2.25 per share. The shares were issued during the year ended December 31, 2018.

(ii) On July 27, 2016, PharmaCielo Colombia Holding entered into an agreement to purchase a land called San Angel for the following consideration:

- Amount of Colombia Peso 1,244,275,500 (about $ 423,000 measured at August 30, 207 exchange rate) to be paid in cash; and
- By the issuance of 201,000 shares of the Company.

The deal was completed, and the property acquired on August 30, 2017 with the with the cash payment and 201,000 shares fair valued at $2.25 (price of recent private placement) were issued during the year ended December 31, 2018 in compliance with the agreement. The fair value of the shares to be issued of $452,250 was capitalized as part of the acquisition cost of the land.

(iii) As at December 31, 2017 cash proceeds for $4,086 were received towards 50,000 warrants that were exercised. Those shares were issued during the year ended December 31, 2018. In addition, the Company issued 285,610 common shares at a price of $0.50 upon exercise of warrants.

(iv) During the year ended December 31, 2018 the Company issued 300,000 common shares at a price of $0.25 and 1,412,820 common shares at a price of $0.50 upon the exercise of stock options.

(v) During June and July 2018, the Company issued subscriptions receipts for the issuance of 11,815,416 shares of the Company at a price of CAD$3.35 raising gross proceeds of $29,747,214 and incurring related costs for $3,230,568 of which $807,216 is included in accrued liabilities pending to RTO closing. As part of the financing the Company issued 657,436 broker warrants with fair value of $725,709. The net cash proceeds were placed in escrow account awaiting the Company to complete a RTO and becoming a public company. Cash may be returned if certain conditions are not met under the agreement. This cash is included as restricted cash in the consolidated statement of financial position as at December 31, 2018. On January 15, 2019, the restricted cash was released to the Company. Refer to note (vii) included in the Events after the reporting period.

7. Share capital (continued)

b) Common shares issued (continued)

For the year ended December 31, 2018 (continued)

(vi) During October 2018, the Company issued 2,244,049 shares of the Company at a price of CAD$3.35 raising gross proceeds of $5,778,297 and incurring related costs for $82,367. As part of the financing, the Company issued 135,469 shares as finders' fees with a fair value of $348,825.

For the five months period ended December 31, 2017

(vii) The Company issued 2,560,644 common shares at $2.25 per share pursuant to a private placement. In connection therewith, the Company paid a cash commission of $170,794 as finder’s fee and incurred additional cost to issue shares for $130,657.

(viii) The Company issued 650,000 common shares at a price of CAD$0.10 per share upon the exercise of agent warrants.

(ix) The Company issued 100,000 common shares at a price of $0.10 per share upon the exercise of agent warrants.

(x) The Company issued 165,000 common shares at a price of $0.25 upon the exercise of stock options.

(xi) In December 2017, the Company agrees to issue 1,000,000 common shares to a service provider in relation to services and assistance to obtain Cannabis related licenses in Colombia. The fair value attributed to the shares to be issued was driven by the recent private placement at $2.25 per share.

(xii) Cash proceeds for $4,086 were received towards 50,000 warrants that were exercised. Those shares were issued after December 31, 2017.

(xiii) During the period ended December 31, 2017, the Company issued 201,000 shares to purchase land (see note 7(b)(ii)).

For the year ended July 31, 2017

(xiv) The Company issued 7,585,597 common shares at $2.00 per share and 1,275,000 at $1.00 per share pursuant to two different private placements. In connection therewith, the Company paid a cash commission of $869,936 as finder’s fee.

(xv) The Company issued 50,000 common shares at a price of CAD$0.10 per share upon the exercise of agent warrants.

(Expressed in U.S. Dollars Unless Otherwise Indicated)

8. Warrants

The following table reflects the continuity of warrants for the periods ended December 31, 2018 and 2017:

	Number of warrants	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, July 31, 2016	**2,015,220**	**0.16**	**-**
Issued	111,527	2.00	-
Exercised	(50,000)	-	0.10
Balance, July 31, 2017	**2,076,747**	**0.28**	**-**
Issued for private placements	12,759	2.25	-
Exercised	(700,000)	-	0.10
Exercised	(100,000)	0.10	
Expired	(350,000)	-	0.10
Expired	(329,610)	0.10	-
Balance, December 31, 2017	**609,896**	**1.40**	**-**
Issued for private placements (note 7(b)(v))	657,436	-	3.35
Exercised	(285,610)	0.50	-
Expired	(200,000)	0.25	-
Balance, December 31, 2018	**781,722**	**2.03**	**3.35**

For the year ended December 31, 2018

The fair value of the broker warrants granted during the year ended December 31, 2018 was estimated using the Black-Scholes option pricing model with the following estimated assumptions:

Risk-free interest rate	2.17% - 2.33%
Dividend yield	0%
Volatility	78.99% - 79.43%
Expected life	2 years
Forfeiture rate	0%

For the five months period ended December 31, 2017

The Company issued 12,759 warrants, exercisable at $2,25 each with fair value of $27,954, as finder's fees in connection with a private placement and 800,000 warrants were exercised.

The fair value of the finder's fee warrants granted during the five months period ended December 31, 2017 was estimated using the Black-Scholes option pricing model with the following estimated assumptions:

Risk-free interest rate	1.55% - 1.86%
Dividend yield	0%
Volatility	84.88% - 86.66%
Expected life	3 and 10 years
Forfeiture rate	0%

(Expressed in U.S. Dollars Unless Otherwise Indicated)

8. Warrants (continued)

For the year ended July 31, 2017

The Company issued 111,527 warrants, with fair value of $150,854, as finder's fees in connection with private placements and 50,000 warrants were exercised.

The fair value of the various finder's fee warrants granted during the year ended July 31, 2017 was estimated using the Black-Scholes option pricing model with the following estimated assumptions:

Risk-free interest rate	0.96%
Dividend yield	0%
Volatility	112.80%
Expected life	3 years
Forfeiture rate	0%

The following table reflects the warrants issued and outstanding as of December 31, 2018:

Number of warrants outstanding	Fair value ($)	Exercise price (USD)	Exercise price (CAD)	Expiry date
	30,738			Expired warrants
111,527	150,854	2.00	-	June 16, 2020
3,759	8,236	2.25	-	November 23, 2020
9,000	19,718	2.25	-	December 10, 2027
509,797	562,738	-	3.35	June 22, 2020
147,639	162,971	-	3.35	July 26, 2020
781,722	935,255	2.03	3.35	

9. Stock options

The Company's Stock Options Plan (the "Plan") allows the directors to grant stock options to directors, officers, employees and consultants to purchase up to a total of 20% of the issued and outstanding common shares, provided that stock options in favour of any one individual may not exceed 5% of the issued and outstanding shares. No stock option granted under the Plan is transferable by the optionee other than by will or the laws of descent and distribution, and each stock option is exercisable during the lifetime of the optionee only by such optionee.

The exercise price of all stock options granted under the Plan must not be less than the Discounted Market Price (the last closing price of the listed shares before the date of the grant less the applicable discount), subject to a minimum price of CAD$0.05 per share, and the maximum term of each stock option may not exceed ten years. Vesting is provided at the discretion of the directors and once vested; options are exercisable at any time. Any shares issued at discount market price on the exercise of stock options must be subject to a four-month holding period commencing on the date the stock options were granted.

(Expressed in U.S. Dollars Unless Otherwise Indicated)

9. Stock options (continued)

The following table reflects the continuity of options for the periods ended December 31, 2018 and 2017:

	Number of options	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, July 31, 2016	**7,825,000**	**-**	**-**
Granted (xi)(xii)(xiii)(xiv)(xv)(xvi)	1,350,000	1.08	-
Terminated	(1,250,000)	0.45	-
Balance, July 31, 2017	**7,925,000**	**0.69**	**-**
Exercised	(165,000)	0.25	-
Balance, December 31, 2017	**7,760,000**	**0.69**	-
Granted (i)(ii)(iii)(iv)(v)(vi)	4,108,000	1.82	-
Granted (vii)	5,500,000	-	3.35
Exercised	(1,712,820)	0.46	-
Balance, December 31, 2018	**15,655,180**	**1.18**	**3.35**

For the year ended December 31, 2018

(i) During January 2018, the Company granted incentive stock options to consultants and employees to purchase up to 1,690,000 common shares exercisable at a price of $2.25 per share on or before January 29, 2025. 1,250,000 options vest immediately and 90,000 options vest on December 31, 2019. The fair value of the option has been estimated at $1.72 as of the date of the grant using the Black-Scholes option pricing model. During the year ended December 31, 2018, the Company recorded $2,831,519 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(ii) During January 2018, the Company granted incentive stock options to consultants, advisers, directors and employees to purchase up to 775,000 common shares exercisable at a price of $2.25 per share on or before January 29, 2025. The options fully vest on the day of grant. The fair value of the option has been estimated at $1.73 as of the date of the grant using the Black-Scholes option pricing model. During the year ended December 31, 2018, the Company recorded $1,339,074 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(iii) During February 2018, the Company granted incentive stock options to employees to purchase up to 93,000 common shares exercisable at a price of $2.25 per share on or before February 4, 2025. 25,000 options vest immediately and 68,000 options vest on December 31, 2019. The fair value of the option has been estimated at $1.73 as of the date of the grant using the Black-Scholes option pricing model. During the year ended December 31, 2018, the Company recorded $93,775 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(iv) During February 2018, the Company granted incentive stock options to directors to purchase up to 1,000,000 common shares exercisable at a price of $2.25 per share on or before December 31, 2019. The options fully vest on the day of grant. The fair value of the option has been estimated at $1.81 as of the date of the grant using the Black-Scholes option pricing model. During the year ended December 31, 2018, the Company recorded $1,809,170 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(Expressed in U.S. Dollars Unless Otherwise Indicated)

9. Stock options (continued)

For the year ended December 31, 2018 (continued)

(v) During May 2018, the Company granted incentive stock options to directors to purchase up to 500,000 common shares exercisable at a price of $2.25 per share on or before December 23, 2026. The options vest as follow: one-third immediately; one-third after the first anniversary of the date of grant; and one-third after the second anniversary of the date of grant. The fair value of the option has been estimated at $1.78 as of the date of the grant using the Black-Scholes option pricing model. During the year ended December 31, 2018, the Company recorded $317,968 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(vi) During May 2018, the Company granted incentive stock options to consultants to purchase up to 50,000 common shares exercisable at a price of $3.35 per share on or before May 24, 2023. The options vest as follow: one-sixth immediately upon issuance; and one-sixth on each monthly anniversary. The fair value of the option has been estimated at $1.38 as of the date of the grant using the Black-Scholes option pricing model. During the year ended December 31, 2018, the Company recorded $38,979 in share based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(vii) During July 2018, the Company granted incentive stock options to consultants, advisers, directors and employees to purchase up to 5,500,000 common shares exercisable at a price of CAD$3.35 per share on or before July 1, 2028. 2,500,000 options vest immediately and 3,000,000 options vest equally over 3 years. The fair value of the option has been estimated at CAD$2.81 as of the date of the grant using the Black-Scholes option pricing model. During the year ended December 31, 2018, the Company recorded $7,426,332 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(viii) The portion of the estimated fair value of options granted in the prior periods and vested during the year ended December 31, 2018, amounted to $557,686 (period ended December 31, 2017 - $111,256).

(ix) The fair value of the various options granted during the year ended December 31, 2018 was estimated using the Black-Scholes option pricing model with the following estimated assumptions:

Risk-free interest rate	2.17% - 2.33%
Dividend yield	0%
Volatility	80% - 87%
Expected life	5-10 years
Forfeiture rate	0%

For the five months period ended December 31, 2017

(x) During the 5 months period ended December 31, 2017, the Company did not issue options.

For the year ended July 31, 2017

(xi) During fiscal year ended July 31, 2017, the Company granted incentive stock options to a consultant to purchase up to 100,000 common shares exercisable at a price of $1.00 per share on or before January 2, 2022. The options vest 25% every 6 months with the first 25% having vested on July 2, 2017. The fair value of the option has been estimated at $0.77 as of the date of the grant using the Black-Scholes Option Pricing Model. During the year ended July 31, 2017, the Company recorded $43,237 in share based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(Expressed in U.S. Dollars Unless Otherwise Indicated)

9. Stock options (continued)

For the year ended July 31, 2017 (continued)

(xii) During the fiscal year ended July 31, 2017, the Company granted incentive stock options to 2 advisors in the Medical Advisory Committee to purchase up to 400,000 common shares exercisable at a price of $1.00 per share on or before August 1, 2026. The options vest 50% on February 1, 2017 and 50% on August 1, 2017. The fair value of the option has been estimated at $0.91 as of the date of the grant using the Black-Scholes Option Pricing Model. During the year ended July 31, 2017, the Company recorded $361,661 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(xiii) During fiscal year ended July 31, 2017, the Company granted incentive stock options to the CSO to purchase up to 250,000 common shares at a price of $1.00 per share on or before September 7, 2026. The options vest 25% every 6 months with the first 25% having vested on March 7, 2017. The fair value of the option has been estimated at $0.20 as of the date of the grant using the Black-Scholes Option Pricing Model. The options were terminated during the same year.

(xiv) During fiscal year ended July 31, 2017, the Company granted incentive stock options to a director and contract CFO to purchase up to 150,000 common shares at a price of $1.00 per share on or before December 23, 2026. The options vest 25% every 6 months with the first 25% having vested on June 23, 2017. The fair value of the option has been estimated at $0.91 as of the date of the grant using the Black-Scholes Option Pricing Model. During the year ended July 31, 2017, the Company recorded $79,069 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(xv) During fiscal year ended July 31, 2017, the Company granted incentive stock options to a director, vesting immediately to purchase up to 100,000 common shares exercisable at a price of $1.00 per share on or before January 27, 2027. The fair value of the option has been estimated at $0.91 as of the date of the grant using the Black-Scholes Option Pricing Model. During the year ended July 31, 2017, the Company recorded $91,145 in share based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(xvi) During fiscal year ended July 31, 2017, the Company granted incentive stock options to 3 directors, vesting immediately to purchase up to 100,000 common shares each for a total of 300,000 common shares exercisable at a price of $2.00 per share on or before July 5, 2027. The fair value of the option has been estimated at $1.81 as of the date of the grant using the Black-Scholes Option Pricing Model. During the year ended July 31, 2017, the Company recorded $541,718 in share based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(xvii) The fair value of the various options granted during the year ended December 31, 2017 was estimated using the Black-Scholes option pricing model with the following estimated assumptions:

Risk-free interest rate	0.63% - 1.80%
Dividend yield	0%
Volatility	76% - 127%
Expected life	5-10 years
Forfeiture rate	0%

(Expressed in U.S. Dollars Unless Otherwise Indicated)

9. Stock options (continued)

Details of the stock options outstanding as at December 31, 2018 are as follows:

Number of options outstanding	Number of options exercisable	Exercise price (USD)	Exercise price (CAD)	Weighted average life (years)	Fair value ($)	Expiry date
1,000,000	1,000,000	0.50	-	1.00	1,809,170	December 31, 2019
100,000	25,000	1.00	-	3.01	60,732	January 2, 2022
775,000	775,000	2.25	-	6.08	1,339,074	January 29, 2025
1,690,000	1,600,000	2.25	-	6.08	2,904,279	January 29, 2025
93,000	25,000	2.25	-	6.10	149,534	February 4, 2025
1,985,000	1,985,000	0.25	-	6.38	543,810	May 15, 2025
50,000	50,000	-	3.35	4.65	68,781	June 1, 2025
87,180	87,180	0.50	-	6.49	48,032	June 26, 2025
75,000	75,000	0.50	-	6.83	34,390	October 27, 2025
250,000	250,000	0.50	-	6.97	114,536	December 17, 2025
50,000	50,000	0.50	-	7.07	22,912	January 25, 2026
2,000,000	300,000	1.00	-	7.51	1,099,627	July 4, 2026
500,000	500,000	1.00	-	7.54	457,897	July 14, 2026
400,000	400,000	1.00	-	7.59	361,661	August 1, 2026
50,000	50,000	1.00	-	7.67	-	September 1, 2026
150,000	150,000	1.00	-	7.98	108,944	December 23, 2026
500,000	166,667	2.25	-	7.98	910,902	December 23, 2026
100,000	100,000	1.00	-	8.08	91,145	January 27, 2027
300,000	300,000	2.00	-	8.52	541,718	July 5, 2027
5,500,000	2,500,000	-	3.35	9.51	15,435,444	July 1, 2028
15,655,180	**10,388,847**	**1.18**	**3.35**	**7.41**	**26,102,588**	

10. Net loss per common share

The calculation of basic and diluted loss per share for the year ended December 31, 2018 was based on the loss attributable to common shareholders of $24,425,869, (period ended December 31, 2017 - $5,429,020; year ended July 31, 2017 - $7,587,361) and the weighted average number of common shares outstanding of 78,191,617 (period December 31, 2017 - 73,557,552; July 31, 2017 - 65,891,765). Diluted loss per share for the periods presented did not include the effect of 781,722 warrants (period ended December 31, 2017 - 609,896 warrants; year ended July 31, 2017 - 2,076,747 warrants) and 15,655,180 stock options (period ended December 31, 2017 - 7,760,000 stock options; year ended July 31, 2017 - 7,925,000 stock options) as they are anti-dilutive.

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11. Income tax

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2017 - 26.5%) to the effective tax rate is as follows:

	Year ended December 31, 2018	**5 months period ended December 31, 2017**
Net loss before recovery of income taxes	**$ (24,416,065)**	$ (5,429,019)
Expected income tax (recovery) expense	**(6,470,260)**	(1,438,690)
Difference in foreign tax rates	**(280,800)**	(72,040)
Tax rate changes and other adjustments	**22,100**	-
Share based compensation	**3,819,840**	-
Non deductible expenses - subsidiary expenses booked in parent	**-**	288,080
Other non-deductible expenses	**238,724**	42,690
Financing fee booked in equity	**(583,570)**	(79,880)
Change in tax benefits not recognized	**3,263,770**	1,259,840
Income tax expense	**$ 9,804**	$ -

The Company's income tax recovery is allocated as follows:

Current tax recovery	**$ 9,804**	$ -

Deferred tax

The following table summarizes the components of deferred tax:

	2018	**2017**
Deferred tax assets		
Non-capital losses carried forward	**$ 28,740**	$ -
Deferred tax liabilities		
Marketable securities	**(28,740)**	-
Net deferred tax asset	**$ -**	$ -

Unrecognized deferred tax assets

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

	Year ended December 31, 2018	**5 months period ended December 31, 2017**
Canada:		
Tax loss carry-forwards	**$ 16,749,930**	$ 11,424,440
Share issuance costs	**2,680,220**	1,970,813
Property, plant and equipment	**224,340**	-
Colombia:		
Property, plant and equipment	**-**	23,940
Other assets	**2,448,620**	136,785
Non-capital losses carried forward	**4,292,680**	2,048,813

(Expressed in U.S. Dollars Unless Otherwise Indicated)

11. Income tax (continued)

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

Share issue and financing costs will be fully amortized in 2022.

The Colombia losses can be carry forward indefinitely.

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

The Company's Canadian non-capital income tax losses expire in the following years:

Expires	2034	$ 5,640
	2035	1,891,240
	2036	2,546,440
	2037	3,394,460
	2038	5,433,930
		$ 13,271,710

12. Related party transactions

During the year ended December 31, 2018, five months period ended December 31, 2017 and year ended July 31, 2017, the Company has the following related party transactions:

(i) Incurred subcontractor expense of $102,881 (period ended December 31, 2017 - $65,218; year ended July 31, 2017 - $370,959) from Tahami & Cultiflores S.A.C.I a company controlled by a director. As of December 31, 2018, amount of $Nil (December 31, 2017 - $4,044; July 31, 2017 - $3,500) is owing to Tahami & Cultiflores S.A.C.I. and recorded in accounts payable and accrued liabilities.

(ii) Personnel expense of $Nil (period ended December 31, 2017 - $73,018; year ended July 31, 2017 - $120,000) to a director and his family members, who are also the executives of PharmaCielo Colombia Holdings S.A.S. As of December 31, 2018, amount of $Nil (December 31, 2017 - $2,091; July 31, 2017 - $Nil) is owing and recorded in accounts payable and accrued liabilities.

(iii) Management fee of $60,000 (period ended December 31, 2017 - $413,800; year ended July 31, 2017 - $480,000) to the Company's former Chief Executive Officer. As of December 31, 2018, amount of $Nil (December 31, 2017 - $240,000; July 31, 2017 - $Nil) is owing and recorded in accounts payable and accrued liabilities.

(iv) Severance of $840,000 and $7,500 in vacation pay (period ended December 31, 2017 - $Nil; year ended July 31, 2017 - $Nil) to the Company's former Chief Executive Officer. As of December 31, 2018, amount of $Nil (December 31, 2017 - $Nil; July 31, 2017 - $Nil) is owing and recorded in accounts payable and accrued liabilities.

(v) Consulting fees of $264,323 (period ended December 31, 2017 - $69,524; year ended July 31, 2017 - $61,906) to the Company's former Chief Executive Officer. Amount of $Nil (December 31, 2017 - $Nil; July 31, 2017 - $Nil) is owing and recorded in accounts payable and accrued liabilities.

(vi) Consulting fees of $237,967 (period ended December 31, 2017 - $75,345; year ended July 31, 2017 - $61,419) to an officer of the Company. Amount of $Nil (December 31, 2017 - $24,356; July 31, 2017 - $Nil) is owing and recorded in accounts payable and accrued liabilities.

12. Related party transactions (continued)

(vii) $10,059,559 (period ended December 31, 2017 - $93,761; year ended July 31, 2017 - $2,347,736) of share-based payment expense for the stock options issued to related parties.

(viii) Professional fees of $Nil (period ended December 31, 2017 - $Nil; year ended July 31, 2017 - $32,000) to the Company's former Chief Financial Officer.

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.

13. Commitments

On April 12, 2018, the Company signed a non binding 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 $3.6 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.

On August 24, 2018, the Company entered into a sixty month lease agreement for new office space to serve as our corporate headquarters in Toronto, Ontario, commencing on January 1, 2019. Under the lease, the Company is required to pay a base rent of $9,535, increasing to $10,171 starting March 1, 2021. In addition to the base rent, the Company must pay its proportionate share of utilities, property taxes, maintenance and other related costs for the leased premises.

The Company entered into a thirty-six month lease agreement for new office space to serve as a corporate office in Medellin, Colombia, commencing on October 1, 2018. Under the lease, the Company is required to pay a base rent of $4,432, for the term of the lease. In addition to the base rent, the Company must pay its proportionate share of utilities, property taxes, maintenance and other related costs for the leased premises.

On December 21, 2018, the Company entered into an agreement with Italian-based Eugene S.r.l., the patent-holding parent company of two unique Italian genetic research and technology-based companies. The incorporated new company called PharmaCielo Italia is operated by PharmaCielo. The company is expected to own a 70% equity stake and Eugene will own 30% equity stake. The company will supply its premium, medicinal-grade cannabis oil products for medicinal, therapeutic and cosmetic health and wellness products

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14. Geographic segment

The Company is considered to be operating in one segment based on its business nature and strategic decision-making method.

The Company is located and operates in Canada and Colombia. The Company's suppliers are well diversified and no one supplier accounted for more than 10% of total sales, due to its business nature.

The Company's net loss by geographic locations are as follows:

Net loss for the period	Year ended December 31, 2018	5 months period ended December 31, 2017	Year ended July 31, 2017
Canada	20,096,061	4,417,227	5,442,156
Colombia	4,329,808	1,011,793	2,145,205
Total	24,425,869	5,429,020	7,587,361

The Company's total assets by geographic locations are as follows:

Total assets	December 31, 2018	December 31, 2017	July 31, 2017
Canada	35,939,556	14,715,412	12,304,959
Colombia	12,633,281	10,253,337	8,516,152
Total	48,572,837	24,968,749	20,821,111

15. Correction of prior period balances

In the course of the preparation of the Company's consolidated financial statements for the 5 month period ended December 31, 2017, management identified historical errors in the accounting for intercompany cash transactions, foreign exchange gains and losses associated with its consolidation elimination entries, arithmetical errors, along with a revised classification of certain line items. As such, management conducted a review of the findings in order to record adjustments, and as a result, the Company has restated its consolidated financial statements for the year ended July 31, 2017

The following table summarizes the impact of the restatement adjustments on the company's previously reported consolidated financial statements:

Consolidated statement of financial position	As previously reported	Correction		As restated
Cash and cash equivalents	$ 9,206,667	$ 555,015	(i)	$ 9,761,682
Property, plant and equipment, net	10,626,090	(359,304)	(ii)	10,266,786
Deficit - opening	(11,742,998)	(125,371)	(iii)	(11,868,369)
Other comprehensive income - opening	-	125,371	(iv)	125,371
Other comprehensive income - for the period	-	(194,575)	(v)	(194,575)

Consolidated statement of cash flows	As previously reported	Correction		As restated
Operating activities	$ (6,733,983)	$ 90,978	(v)	$ (6,643,005)
Investing activities	(3,781,543)	464,037	(ii)(v)	(3,317,506)
Cash and cash equivalents - end of year	9,206,667	555,015	(i)	9,761,682

15. Correction of prior period balances (continued)

(i) Cash was understated by $555,015 due an amount being in transit from the parent company to the subsidiary as at July 31, 2017 that was unaccounted for as it was received in the bank on August 9, 2018 by the subsidiary.

(ii) Property, plant and equipment was overstated due to an intercompany transaction from the year ended July 31, 2016 that was overlooked by management in the July 31, 2017 consolidation process, which resulted in both the parent and the subsidiary recording the same amount.

(iii) Deficit and accumulated other comprehensive income have been presented separately.

(iv) As a result of all above, the net currency translation adjustment for the period was recalculated to be $(194,575).

(v) Other reclassifications were from a presentation perspective for comparison purposes.

16. Events after the reporting period

(i) 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.".

The board of directors and executive team of the Company now consists of: David Attard, Chief Executive Officer, President, and a Director; Scott Laitinen, Chief Financial Officer; David Gordon, Chief Corporate Officer; Simon Langelier, Chairman of the Board of Directors and a Director; Dr. Delon Human, Vice Chairman of the Board of Directors and a Director; Matteo Pellegrini, Director; Henning von Koss, Director; Federico Cock-Correa, Director; Carlos Manuel Uribe, Director; Doug Bache, Director; and Alex Bruvels Corporate Secretary.

As of the date hereof, the Company has issued and outstanding, a total of: (i) 93,976,962 Resulting Issuer Shares; (ii) 15,693,957 stock options exercisable to purchase Resulting Issuer Shares; and (iii) 802,660 brokers warrants exercisable to purchase Resulting Issuer Shares. The Company has a (i) stock option plan; (ii) restricted share unit plan (the “RSU Plan”); and (iii) deferred share unit plan (the “DSU Plan”). At this time, no deferred share units or restricted share units are outstanding under the DSU Plan and the RSU Plan respectively.

Certain of the Resulting Issuer Shares are subject to escrow restrictions including: (i) 179,229 Resulting Issuer Shares subject to an 18 month staged release under the CPC Escrow Agreement, with a first release of 10% on January 15, 2019; (ii) 18,867,500 Resulting Issuer Shares and 10,755,000 stock options exercisable for Resulting Issuer Shares subject to an 18 month staged release under the QT Escrow Agreement, with a first release of 10% on January 15, 2019; (iii) 3,963,700 Resulting Issuer Shares subject to an 18 month staged release with a first release of 25% on January 15, 2019; and (iv) 535,610 Resulting Issuer Shares subject to a one year staged release pursuant to TSXV seed share restrictions, with a first release of 20% at the closing of the Qualifying Transaction. In addition, the Directors and Officers of PharmaCielo as well holders of 5% or more of the Resulting Issuer Shares are subject to the provisions of Lock-Up Agreements for a period of 120 days from the closing of the Qualifying Transaction (all as defined in the Filing Statement).

16. Events after the reporting period (continued)

(ii) On January 18, 2019, the Company started trading on the TSXV under the symbol "PCLO".

(iii) On January 28, 2019, the Company announced its entry into the Mexican market through an agreement with MINO Labs S.A. de C.V., a specialty pharmaceutical company and medical supply distributor based in Mexico. Based on an agreement signed on January 25, 2019, PharmaCielo S.A. de C.V. was incorporated with 50% ownership by the Company. Cannabis oil delivery under the joint venture to the Mexican market is expected to commence in Q4 2019, subject to obtaining the requisite registrations and licences. The Company's ability to carry out the contemplated business under the agreement will be subject to the approval of the TSXV.

(iv) On February 6, 2019, the Company announced that its Colombian subsidiary received approval for the listing of 10 proprietary and unique tetrahydrocannabinol (THC) and cannabidiol (CBD) strains with the national cultivar registry. The Company can now proceed to commercial registration, production and sale of these strains within Colombia as well as for export to global markets.

(v) 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.

(vi) On March 13, 2019, an initial €7,000 was made to PharmaCielo Italia S.r.l. Under the agreement between the Company with Italian-based Eugene S.r.l. the Company will have 70% ownership and Eugene will own 30%.

(vii) The consolidated statement of financial position as at December 31, 2018 included $28,092,582 as restricted cash. The result of Company issued subscriptions receipts for the issuance of 11,815,416 shares of the Company. The net cash proceeds were placed in an escrow account awaiting the Company to complete a RTO and becoming a public company. On January 15, 2019, the RTO transaction was completed and the Company went public, as a result, the restricted cash was released to the Company.