

PharmaCielo™

 Made in Colombia

**PHARMACIELO LTD.
CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED JUNE 30, 2019
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)**

PHARMACIELO LTD.

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

	As at June 30, 2019	As at December 31, 2018	As at January 1, 2018
(Restated note 17) (Restated note 17)			
ASSETS			
Current assets			
Cash and cash equivalents	\$ 17,021,835	\$ 7,350,169	\$ 15,984,352
Restricted cash (note 8(b(v)))	-	38,323,900	-
Short-term investments (note 4)	16,215,000	215,001	-
Marketable securities (note 5)	228,000	153,000	12,500
Prepaid expenses and other receivables	810,522	623,254	377,216
Supplies	245,326	84,580	-
Total current assets	34,520,683	46,749,904	16,374,068
Non-current assets			
Other assets	-	-	8,169
Property, plant and equipment (note 6)	22,714,582	19,513,159	14,941,059
Right-of-use assets (note 7)	1,361,190	-	-
Total non-current assets	24,075,772	19,513,159	14,949,228
Total assets	\$ 58,596,455	\$ 66,263,063	\$ 31,323,296
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (note 13)	\$ 1,703,395	\$ 3,019,522	\$ 2,065,519
Lease obligations (note 7)	129,894	-	-
RSU obligations (note 11)	2,854,598	-	-
Total current liabilities	4,687,887	3,019,522	2,065,519
Non-current liabilities			
Lease obligations (note 7)	1,292,682	-	-
RSU obligations (note 11)	559,862	-	-
Total non-current liabilities	1,852,544	-	-
Total liabilities	6,540,431	3,019,522	2,065,519
Shareholders' equity			
Share capital (note 8(a)(b))	107,940,200	64,355,186	50,949,160
Shares to be issued (note 8(b))	88,831	35,556,574	3,464,686
Reserves (notes and 9, 10 and 11)	24,425,270	23,932,929	5,712,795
Other comprehensive loss	867,454	2,244,032	349,055
Deficit	(81,269,476)	(62,845,180)	(31,217,919)
Total attributable to parent	52,052,279	63,243,541	29,257,777
Non-controlling interest (note 16)	3,745	-	-
Total shareholders' equity	52,056,024	63,243,541	29,257,777
Total liabilities and shareholders' equity	\$ 58,596,455	\$ 66,263,063	\$ 31,323,296

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

Nature of operations (note 1)

Commitments (note 14)

Events after the reporting period (note 19)

PHARMACIELO LTD.**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating expenses				
Agricultural pre-operational costs (note 6)	\$ 1,396,809	\$ 529,389	\$ 2,303,034	\$ 861,155
Selling, general and administrative expenses				
General and administrative				
Consulting fees	640,897	375,040	964,240	816,144
Consulting fees - Creso Pharma Acquisition	393,330	-	393,330	-
Office and general	608,523	360,329	1,116,710	738,540
Professional fees	600,652	1,169,126	1,307,820	1,793,631
Salaries and wages	987,750	206,415	1,838,153	378,478
Travel and accommodation	226,790	209,767	631,515	376,929
Rent and lease payments	62,481	25,428	105,087	40,638
Share-based compensation	4,816,274	394,810	6,197,455	7,954,151
Selling, marketing and promotion	244,719	326,603	647,742	452,011
Amortization and depreciation (notes 6 and 7)	193,078	84,975	335,033	160,000
Total selling, general and administrative expenses	8,774,494	3,152,493	13,537,085	12,710,522
Other expenses				
Bank charges and interest expense	22,319	30,144	50,508	30,960
Unrealized loss (gain) on marketable securities	165,000	-	(75,000)	-
Exchange loss	256,609	105,549	53,821	262,422
Other non-operating expenses	70,686	-	121,161	-
Listing expense (note 3)	-	-	2,433,687	-
Total other expenses	514,614	135,693	2,584,177	293,382
Net loss for the period	\$ 10,685,917	\$ 3,817,575	\$ 18,424,296	\$ 13,865,059
Other comprehensive loss for the period:				
Currency translation adjustment for the period	782,755	774,558	1,376,578	(136,123)
Net comprehensive loss for the period	\$ 11,468,672	\$ 4,592,133	\$ 19,800,874	\$ 13,728,936
Basic and diluted net loss per common share (note 12)	\$ (0.11)	\$ (0.05)	\$ (0.19)	\$ (0.18)
Weighted average number of common shares outstanding - basic and diluted	96,264,358	77,792,185	94,503,683	77,460,802

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

PHARMACIELO LTD.

Condensed Interim Consolidated Statements of Cash Flows (Expressed in Canadian Dollars) (Unaudited)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating activities		
Net loss for the period	\$ (18,424,296)	\$(13,865,059)
Items not affecting cash:		
Depreciation (note 6 and 7)	688,247	160,000
Interest expense	81,710	-
Share-based payments	6,197,455	7,954,151
Exchange gain	(517,728)	(30,672)
Unrealized gain on marketable securities	(75,000)	-
Listing expense	2,098,638	-
Changes in non-cash working capital items:		
Prepaid expenses and other receivables	(187,268)	64,680
Supplies	(160,746)	39,050
Other assets	-	-
Accounts payable and accrued liabilities	(1,330,204)	(279,302)
Net cash and cash equivalents used in operating activities	(11,629,192)	(5,957,152)
Investing activities		
Cash acquired on RTO (note 3)	183,729	-
Purchase of property, plant and equipment	(4,655,507)	(2,279,114)
Purchase of short-term investments	(15,999,999)	-
Non-controlling interest	3,745	-
Net cash and cash equivalents used in investing activities	(20,468,032)	(2,279,114)
Financing activities		
Options and warrants exercised	4,046,798	181,469
Cash received for shares to be issued	88,831	-
Share issue costs	(577,302)	-
Lease payments	(113,337)	-
Net cash and cash equivalents provided by financing activities	3,444,990	181,469
Net change in cash and cash equivalents	(28,652,234)	(8,054,797)
Cash and cash equivalents, beginning of period	45,674,069	15,984,352
Cash and cash equivalents, end of period	\$ 17,021,835	\$ 7,929,555
Cash and cash equivalents	\$ 17,021,835	\$ 7,929,555
Restricted cash	-	-
Cash and cash equivalents for cash flow purposes	\$ 17,021,835	\$ 7,929,555

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

PHARMACIELO LTD.**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars, Unless Otherwise Indicated)
(Unaudited)**

	Number of common shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income	Deficit	Total attributable to parent	Non- controlling interest	Total equity
Balance, December 31, 2017	76,118,863	\$ 50,949,160	\$ 3,464,686	\$ 5,712,795	\$ 349,055	\$(31,217,919)	\$ 29,257,777	\$ -	\$ 29,257,777
Common shares issued for services (note 8(b)(i))	1,000,000	2,894,625	(2,894,625)	-	-	-	-	-	-
Common shares issued for land acquisition (note 8(b)(ii))	201,000	570,061	(570,061)	-	-	-	-	-	-
Warrants exercised (note 8(b)(iii))	385,610	143,189	-	(54,400)	-	-	88,789	-	88,789
Options exercised (note 8(b)(iv))	100,000	185,703	-	(93,023)	-	-	92,680	-	92,680
Share-based compensation	-	-	-	7,954,151	-	-	7,954,151	-	7,954,151
Currency translation adjustment for the period	-	-	-	-	136,123	-	136,123	-	136,123
Net loss for the period	-	-	-	-	-	(13,865,059)	(13,865,059)	-	(13,865,059)
Balance, June 30, 2018	77,805,473	\$ 54,742,738	\$ -	\$ 13,519,523	\$ 485,178	\$(45,082,978)	\$ 23,664,461	\$ -	\$ 23,664,461

PHARMACIELO LTD.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Continued)
(Expressed in Canadian Dollars, Unless Otherwise Indicated)
(Unaudited)

	Number of common shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total attributable to parent	Non- controlling interest	Total equity
Balance, December 31, 2018	81,747,811	\$ 64,355,186	\$ 35,556,574	\$ 23,932,929	\$ 2,244,032	\$(62,845,180)	\$ 63,243,541	\$ -	\$ 63,243,541
Securities issued pursuant to the RTO (note 3)	413,735	2,043,850	-	224,440	-	-	2,268,290	-	2,268,290
Shares issued pursuant to private placement at price of \$3.35 per share (note 8(b)(v))	11,815,416	39,581,644	(39,581,644)	-	-	-	-	-	-
Options exercised (note 8(b)(vi))	1,700,956	3,144,003	(226,450)	(1,329,504)	-	-	1,588,049	-	1,588,049
Exercise of warrants (note 8(b)(vii))	764,455	3,644,339	-	(1,185,590)	-	-	2,458,749	-	2,458,749
Shares to be issued for exercise of options (note 8(b)(viii))	-	-	88,831	-	-	-	88,831	-	88,831
Cost of issue	-	(4,828,822)	4,251,520	-	-	-	(577,302)	-	(577,302)
Share-based compensation	-	-	-	2,782,995	-	-	2,782,995	-	2,782,995
Non-controlling interest	-	-	-	-	-	-	-	3,745	3,745
Currency translation adjustment for the period	-	-	-	-	(1,376,578)	-	(1,376,578)	-	(1,376,578)
Net loss for the period	-	-	-	-	-	(18,424,296)	(18,424,296)	-	(18,424,296)
Balance, June 30, 2019	96,442,373	\$107,940,200	\$ 88,831	\$ 24,425,270	\$ 867,454	\$(81,269,476)	\$ 52,052,279	\$ 3,745	\$ 52,056,024

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

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

1. Nature of operations

PharmaCielo Ltd. ("PharmaCielo" or the "Company") was incorporated pursuant to the *Business Corporations Act* (British Columbia) on May 30, 2017 under the name "AAJ Capital 1 Corp.". Upon completion of its Qualifying Transaction (as such term is defined in Policy 2.4 – *Capital Pool Companies* of the TSX Venture Exchange ("TSXV") Corporate Finance Manual ("Policy 2.4")) in accordance with the policies of the TSXV on January 15, 2019, the Company changed its name to "PharmaCielo Ltd." The Company carries on business under the name "PharmaCielo Ltd.". Refer to note 3 for further details of the Company's completed Qualifying Transaction with AAJ Capital 1 Corp. ("AAJ").

On January 18, 2019, PharmaCielo's common shares (the "Common Shares") started trading on the TSXV under the symbol "PCLO". On June 21, 2019, Common Shares started trading on the OTC Markets under the symbol "PHCEF". The head office is located at 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2E3.

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

2. Significant accounting policies

Statement of Compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations issued by the IFRS Interpretations Committee ("IFRIC"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS' issued and outstanding as of August 22, 2019, the date the Board of Directors approved these unaudited condensed interim consolidated financial statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2018, except as noted below. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2019 could result in the restatement of these unaudited condensed interim consolidated financial statements.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries.

The financial statements of the subsidiaries are included in the unaudited condensed interim 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.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

2. Significant accounting policies (continued)

Basis of consolidation (continued)

The following companies have been consolidated within the unaudited condensed interim consolidated financial statements:

Company	Location	Principal activity
PharmaCielo Ltd.	Toronto, Canada	Parent company
PharmaCielo Holdings Ltd. ⁽¹⁾	Toronto, Canada	Subsidiary of parent company
PharmaCielo Colombia Holdings S.A.S. ⁽¹⁾	Medellin, Colombia	Cultivation and processing company
PharmaCielo Italia S.r.l. ⁽²⁾	Milan, Italy	Product development and delivery
PharmaCielo S.A. de C.V. ⁽³⁾	Mexico City, Mexico	Product development and delivery

⁽¹⁾ 100% owned by PharmaCielo Ltd.

⁽²⁾ 70% owned by PharmaCielo Ltd. There were no activities carried since incorporation. Activities are expected to commence in Q4 2019, subject to obtaining the requisite registrations and licences. The Company's ability to carry out the contemplated business will be subject to the approval of the TSXV.

⁽³⁾ 50% owned by PharmaCielo Ltd. There were no activities carried since incorporation. Activities are expected to commence in Q4 2019, subject to obtaining the requisite registrations and licences. The Company's ability to carry out the contemplated business will be subject to the approval of the TSXV.

Change in functional currency

The Company changed its functional currency from US dollars to Canadian dollars as of January 1, 2019. The change in functional currency is due to financings denominated in Canadian dollars while there were denominated in US dollars before. All assets, liabilities, share capital and other components of shareholders' equity were translated into Canadian dollars at the exchange rate of \$1.3642 as at the date of change. These changes have been accounted for prospectively. Prior period comparable information is restated to reflect the change in the presentation currency using an exchange rate of \$1.245 at January 1, 2018 (see note 17).

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

New accounting policies

(a) Leases and right-of-use assets

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), replacing IAS 17 - Leases ("IAS 17"). IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity's lease obligations.

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

2. Significant accounting policies (continued)

New accounting policies (continued)

(a) Leases and right-of-use assets (continued)

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonably certain to exercise that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

See note 7 - *Leases* for further details.

(b) On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. At January 1, 2019, the Company adopted this standard and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

2. Significant accounting policies (continued)

New accounting policies (continued)

(c) Non-controlling interest

Non-controlling interest represents the minority shareholders' interest in the Company's less than wholly-owned subsidiary. On initial recognition, non-controlling interest is measured at its proportionate share of the acquisition-date fair value of identifiable net assets of the related subsidiary acquired by the Company. Subsequent to the acquisition date, adjustments are made to the carrying amount of non-controlling interest for the minority shareholders' share of changes to the subsidiary's equity. Changes in the Company's ownership interest that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent.

3. Reverse Take-over

On January 15, 2019, the Company completed a reverse takeover ("RTO") transaction with AAJ. 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 PharmaCielo Holdings Ltd., a private corporation incorporated under the CBCA, AAJ acquired all of the issued and outstanding common shares of PharmaCielo Holdings Ltd. (the "PharmaCielo Shares") and indirectly, PharmaCielo Colombia Holdings S.A.S., the Company's wholly owned Colombian operating subsidiary from the holders of PharmaCielo Shares. Consequently, these unaudited condensed interim consolidated financial statements reflect the continuation of PharmaCielo and the deemed acquisition of AAJ Capital on January 15, 2019. Following the completion of the RTO on January 15, 2019, AAJ changed its name to PharmaCielo Ltd. Prior to closing, AAJ had 4,640,000 common shares issued and outstanding. As part of the transaction, a 11.94:1 share consolidation was completed which resulted in 388,609 shares issued and outstanding immediately prior to closing. The 463,000 stock options were converted to 38,776 options which were ascribed a fair value of \$3.72 on the transaction date using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; share price of \$4.94; expected volatility of 90%; risk free interest rate of 1.89%; and expected maturity of 1 year. The 250,000 warrants were converted to 20,938 warrants which were ascribed a fair value of \$3.83 on the transaction date using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; share price of \$4.94; expected volatility of 92.06%; risk free interest rate of 1.89%; and expected maturity of 1.04 years. The Common Shares started trading at \$4.94 on the TSXV on January 18, 2019, therefore, \$4.94 per Common Share is considered the fair value of the Common Shares as at the RTO date of January 15, 2019. The RTO of AAJ did not meet the definition of a business combination under IFRS 3 - Business Combinations, and accordingly was accounted for in accordance with IFRS 2 - Share-based Payments. The transaction resulted in a listing expense of \$2,433,687 representing the difference between the fair value of the securities issued for \$2,268,290, in addition \$335,049 of expenses were incurred towards the RTO and the fair value of AAJ's net assets on the closing date as follows:

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

3. Reverse Takeover (Continued)

Net assets of AAJ acquired

Cash	\$	183,729
Accounts payable and accrued liabilities		(14,077)
	\$	169,652

Consideration paid

388,609 common shares deemed issued to AAJ's existing shareholders (i)	\$	1,919,728
25,126 common shares deemed issued as finder's fee (i)		124,122
38,776 stock options deemed issued to AAJ's existing option holders		144,247
20,938 warrants deemed issued to AAJ's existing warrant holders		80,193
Other listing costs		335,049
	\$	2,603,339
Listing expense	\$	2,433,687

(i) For the purpose of determining the value of the purchase price consideration, the 388,609 and 25,126 Common Shares were valued at \$4.94 per share based on the Company's opening price as at January 18, 2019.

In addition, 11,815,416 subscription receipts of the Company were converted into PharmaCielo Shares and immediately into Common Shares on a one for one basis for gross proceeds of \$39,581,644. Refer to note 8(b)(v) - *Share Capital* for further details.

Certain of the Common Shares are subject to escrow restrictions including: (i) 179,229 Common Shares subject to an 18 month staged release pursuant to an escrow agreement entered into by certain insiders of the Company pursuant to Policy 2.4, with a first release of 10% on January 15, 2019; (ii) 18,867,500 Common Shares and 10,755,000 stock options exercisable for Common Shares subject to an 18 month staged release under the Form 5D Escrow Agreement, with a first release of 10% on January 15, 2019; (iii) 3,963,700 Common Shares subject to an 18 month staged release with a first release of 25% on January 15, 2019; and (iv) 535,610 Common 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 Common Shares are subject to the provisions of lock-up agreements for a period of 120 days from the closing of the Qualifying Transaction.

4. Short-term investments

Short-term investments consist of term deposits in Canadian banks with maturity dates between August 31, 2019 and February 27, 2020 and interest rates between 1.30% to 2.65%.

5. Marketable securities

	Number of shares	Cost	Unrealized gain	Fair value
June 30, 2019				
Khiron Life Sciences Corp. ("Khiron")	100,000	\$ 12,500	\$ 215,500	\$ 228,000
December 31, 2018				
Khiron	100,000	\$ 12,500	\$ 140,500	\$ 153,000

PHARMACIELO LTD.**Notes to Condensed Interim Consolidated Financial Statements**

June 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

6. Property, plant and equipment

	Land	Building	Machinery and equipment	Office furnitures and fixtures	Computer and communication equipment	Vehicles	Equipment in transit	Total
COST								
Balance, December 31, 2018	\$ 8,251,772	\$ 4,106,457	\$ 4,561,540	\$ 179,886	\$ 631,396	\$ 144,298	\$ 3,066,880	\$20,942,229
Additions	-	30,189	628,301	754,494	184,869	-	3,057,654	4,655,507
Reclassifications	-	(21,914)	783,777	4,333	-	-	(1,114,777)	(348,581)
Effect of foreign currency exchange differences	(220,059)	(144,319)	(324,749)	134,292	(38,324)	(7,906)	(144,003)	(745,068)
Balance, June 30, 2019	\$ 8,031,713	\$ 3,970,413	\$ 5,648,869	\$ 1,073,005	\$ 777,941	\$ 136,392	\$ 4,865,754	\$24,504,087
ACCUMULATED DEPRECIATION								
Balance, December 31, 2018	\$ -	\$ 630,491	\$ 485,572	\$ 65,911	\$ 224,521	\$ 22,575	\$ -	\$ 1,429,070
Depreciation	-	149,365	215,485	72,790	134,359	15,871	-	587,870
Effect of foreign currency exchange differences	-	(61,748)	(131,101)	(6,661)	(23,265)	(4,660)	-	(227,435)
Balance, June 30, 2019	\$ -	\$ 718,108	\$ 569,956	\$ 132,040	\$ 335,615	\$ 33,786	\$ -	\$ 1,789,505
CARRYING AMOUNT								
Balance, December 31, 2018	\$ 8,251,772	\$ 3,475,966	\$ 4,075,968	\$ 113,975	\$ 406,875	\$ 121,723	\$ 3,066,880	\$19,513,159
Balance, June 30, 2019	\$ 8,031,713	\$ 3,252,305	\$ 5,078,913	\$ 940,965	\$ 442,326	\$ 102,606	\$ 4,865,754	\$22,714,582

PHARMACIELO LTD.

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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 June 30, 2019, the construction and assets in transit balance of \$4,865,754 (December 31, 2018 - \$3,066,880) represents the developing activities that have not yet been completed.

For the three and six months ended June 30, 2019, depreciation expenses of \$156,584 and \$353,214, respectively (three and six months ended June 30, 2018 - \$nil) is included in the unaudited condensed interim consolidated statement of loss as agricultural pre-operational costs.

7. Leases

Right-of-use assets

Balance, January 1, 2019	\$ -
Additions	1,466,374
Depreciation	(100,377)
Foreign exchange adjustment	(4,807)
Balance, June 30, 2019	\$ 1,361,190

Right-of-use assets consist of office spaces. Right-of-use assets are depreciated over 33 to 122 months.

Maturity analysis - contractual undiscounted cash flows

As at June 30, 2019

Less than one year	\$ 315,452
One to three years	579,576
Three to five years	477,844
More than five years	1,114,968
Total undiscounted lease obligation	\$ 2,487,840

Lease obligations

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 \$13,008, increasing to \$13,875 starting March 1, 2021. In addition to the base rent, the Company must pay its proportionate share of utilities, maintenance and other related costs for the leased premises. Lease payments are discounted over 122 months using an interest rate of 13.95%.

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 \$5,278, for the term of the lease. In addition to the base rent, the Company must pay its proportionate share of utilities, maintenance and other related costs for the leased premises. At the commencement date of the lease, the lease liability was measured at the present value of the lease payments that were not paid at that date. Lease payments are discounted over 33 months using an interest rate of 14.39%.

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7. Leases (Continued)

The continuity of the lease liability is presented in the table below:

Balance, January 1, 2019	\$ -
Additions	1,466,374
Interest expense	81,710
Lease payments	(113,337)
Foreign exchange adjustment	(12,171)
Balance, June 30, 2019	\$ 1,422,576

As at June 30, 2019	
Lease obligations	\$ 1,422,576
Less current portion	(129,894)
Non-current portion	\$ 1,292,682

The Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

8. 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 currently issued and outstanding Common Shares are fully paid.

b) Common Shares issued and outstanding

96,442,373 Common Shares (December 31, 2018 - 81,747,811 Common Shares)

For the six months ended June 30, 2018

(i) In December 2017, the Company agreed 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 Common Shares to be issued was driven by the recent private placement at US\$2.25 per Common Share. The Common Shares were issued during the six months ended June 30, 2018.

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

- Amount of Colombia Peso 1,244,275,500 (about \$533,000 measured at August 30, 2017 exchange rate) to be paid in cash; and
- By the issuance of 201,000 PharmaCielo Shares.

The deal was completed, and the property acquired on August 30, 2017 with the with the cash payment and 201,000 Common Shares fair valued at US\$2.25 (price of recent private placement) were issued during the six months ended June 30, 2018 in compliance with the agreement. The fair value of the Common Shares to be issued of \$570,061 was capitalized as part of the acquisition cost of the land.

(iii) As at December 31, 2017 cash proceeds for \$5,000 were received towards 50,000 warrants that were exercised. Those Common Share were issued during the six months ended June 30, 2018. In addition, the Company issued 335,610 Common Shares at a price of US\$0.50 upon exercise of 50,000 warrants.

(iv) During the six months ended June 30, 2018 the Company issued 100,000 Common Shares at a price of US\$0.25 per Common Share upon the exercise of 100,000 stock options.

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8. Share capital (continued)

b) Common shares issued (continued)

For the six months ended June 30, 2019

(v) During June and July 2018, the Company issued subscriptions receipts for the issuance of 11,815,416 Common Shares at a price of \$3.35 per Common Share raising gross proceeds of \$39,581,644 and incurring related costs for \$4,251,520. The net cash proceeds were placed in escrow account awaiting PharmaCielo Holdings Ltd. to complete the RTO and becoming a public company. This cash was 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 and Common Shares were issued. Refer to note 3 - *Reverse Takeover* for further details.

(vi) As at December 31, 2018, cash proceeds for \$226,450 were received towards 587,180 options that were exercised. Consequently, 587,180 Common Shares were issued during the six months ended June 30, 2019. In addition, the Company issued 38,776 Common Shares at a price of \$1.194 per Common Share, 125,000 Common Shares at a price of US\$0.25 per Common Share and 950,000 Common Shares at a price of US\$1.00 per Common Share upon the exercise of 587,180 options.

(vii) The Company issued 83,645 Common Shares at a price of US\$2.00 per Common Share, 657,436 Common Shares at a price of \$3.35 per Common Share, 3,759 Common Shares at a price of US\$2.25 per Common Share and 19,615 Common Shares at a price of \$1.194 per Common Share upon the exercise of 83,645 warrants.

(viii) As at June 30, 2019, cash proceeds for \$88,831 were received towards 265,000 options with an exercise price of US\$0.25 that will be exercised subsequent to June 30, 2019.

9. Warrants

The following table reflects the continuity of warrants for the periods ended June 30, 2019 and 2018:

	Number of warrants	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2017	609,896	0.73	-
Exercised	(285,610)	0.50	-
Balance, June 30, 2018	324,286	0.93	-
Balance, December 31, 2018	781,722	2.03	3.35
Issued pursuant to the RTO (note 3)	20,938	-	1.194
Exercised	(764,455)	2.01	3.27
Balance, June 30, 2019	38,205	2.06	1.194

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9. Warrants (continued)

The following table reflects the warrants issued and outstanding as of June 30, 2019:

Number of warrants outstanding	Fair value (\$)	Exercise price (USD)	Exercise price (CAD)	Expiry date
1,323	2,994	-	1.194	January 30, 2020
27,882	51,449	2.00	-	June 16, 2020
9,000	26,900	2.25	-	December 10, 2022
38,205	81,343	2.06	1.194	

10. Stock options

The following table reflects the continuity of options for the periods ended June 30, 2019 and 2018:

	Number of options	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2017	7,760,000	0.69	-
Granted (i)(ii)(iii)(iv)(v)(vi)	4,108,000	1.80	3.35
Exercised	(100,000)	0.25	-
Balance, June 30, 2018	11,768,000	1.06	3.35
Balance, December 31, 2018	15,655,180	1.18	3.35
Issued pursuant to the RTO (note 3)	38,776	-	1.194
Exercised	(1,700,956)	0.74	1.194
Balance, June 30, 2019	13,993,000	1.28	3.35

For the six months ended June 30, 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 US\$2.25 per Common 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 US\$1.72 as of the date of the grant using the Black-Scholes option pricing model. During the three and six months ended June 30, 2018, the Company recorded \$23,183 and \$3,533,153, respectively in share-based payments expense related to these stock options in the unaudited condensed interim 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 US\$2.25 per Common 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 US\$1.73 as of the date of the grant using the Black-Scholes option pricing model. During the three and six months ended June 30, 2018, the Company recorded \$nil and \$1,693,661, respectively in share-based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

PHARMACIELO LTD.

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10. Stock options (continued)

For the six months ended June 30, 2018 (continued)

(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 US\$2.25 per Common 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 US\$1.73 as of the date of the grant using the Black-Scholes option pricing model. During the three and six months ended June 30, 2018, the Company recorded \$17,766 and \$83,238, respectively in share-based payments expense related to these stock options in the unaudited condensed interim 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 US\$2.25 per Common 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 US\$1.81 as of the date of the grant using the Black-Scholes option pricing model. During the three and six months ended June 30, 2018, the Company recorded \$nil and \$2,288,238, respectively in share-based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

(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 Common Share on or before December 23, 2026. The options vest as follows: 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 three and six months ended June 30, 2018, the Company recorded \$245,373 in share-based payments expense related to these stock options in the unaudited condensed interim 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 Common Share on or before May 24, 2023. The options vest as follows: 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 three and six months ended June 30, 2018, the Company recorded \$29,595 in share based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

(vii) The portion of the estimated fair value of options granted in the prior periods and vested during the three and six months ended June 30, 2019, amounted to \$1,401,814 and \$2,782,995, respectively (three and six month ended June 30, 2018 - \$nil).

(viii) The fair value of the various options granted during the six months ended June 30, 2018 was estimated using the Black-Scholes option pricing model with the following estimated assumptions:

Risk-free interest rate	2.17% - 2.23%
Dividend yield	0%
Volatility	87%
Expected life	5-8 years
Forfeiture rate	0%

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10. Stock options (continued)

Details of the stock options outstanding as at June 30, 2019 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	-	0.50	2,468,070	December 31, 2019
775,000	775,000	2.25	-	5.59	1,826,765	January 29, 2025
1,690,000	1,600,000	2.25	-	5.59	3,887,233	January 29, 2025
93,000	25,000	2.25	-	5.60	146,684	February 4, 2025
1,360,000	1,360,000	0.25	-	5.88	435,825	May 15, 2025
50,000	50,000	-	3.35	5.93	53,175	June 1, 2025
75,000	75,000	0.50	-	6.33	46,915	October 27, 2025
250,000	250,000	0.50	-	6.47	156,250	December 17, 2025
50,000	50,000	0.50	-	6.58	31,257	January 25, 2026
1,150,000	172,500	1.00	-	7.02	1,265,698	July 4, 2026
500,000	500,000	1.00	-	7.04	624,663	July 14, 2026
400,000	400,000	1.00	-	7.09	493,378	August 1, 2026
50,000	50,000	1.00	-	7.18	-	September 1, 2026
150,000	150,000	1.00	-	7.49	186,212	December 23, 2026
500,000	166,667	2.25	-	7.49	517,828	December 23, 2026
100,000	100,000	1.00	-	7.58	124,340	January 27, 2027
300,000	300,000	2.00	-	8.02	739,012	July 5, 2027
5,500,000	2,500,000	-	3.35	9.01	11,384,896	July 1, 2028
13,993,000	9,524,167	1.28	3.35	7.00	24,388,201	

11. Restricted share unit ("RSU")

On April 17, 2019, pursuant to the restricted share unit ("RSU") plan of the Company (the "RSU Plan"), the Company granted 1,008,000 RSUs to certain directors, employees and consultants of the Company. Each RSU vests over 1 or 2 years and may be settled in Common Shares. During the three and six months ended June 30, 2019, the Company recorded \$3,285,974 in share based payments expense related to these RSUs in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

On May 24, 2019, pursuant to the RSU Plan, the Company granted 250,000 RSUs to an officer of the Company. Each RSU vests over 2 years and may be settled in Common Shares. During the three and six months ended June 30, 2019, the Company recorded \$128,486 in share based payments expense related to these RSUs in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

The RSUs can be settled in cash or equity at the option of the holder.

As at June 30, 2019, there were 1,258,000 RSUs outstanding of which nil RSUs are fully vested.

12. Net loss per common share

The calculation of basic and diluted loss per share for the three and six months ended June 30, 2019 was based on the loss attributable to common shareholders of \$10,685,917 and \$18,424,296, respectively, (three and six months ended June 30, 2018 - \$3,817,575 and \$13,865,059, respectively) and the weighted average number of Common Shares outstanding of 96,264,358 and 94,503,683, respectively (three and six months ended June 30, 2018 - 77,792,185 and 77,460,802, respectively). Diluted loss per share for the periods presented did not include the effect of 38,205 warrants (period ended June 30, 2018 - 324,286 warrants), 13,993,000 stock options (period ended June 30, 2018 - 11,218,000 stock options) and 1,258,000 RSU (period ended June 30, 2018 - nil) as they are anti-dilutive.

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13. Related party transactions

During the three and six months ended June 30, 2019, the Company has the following related party transactions:

(i) Incurred subcontractor expense of \$6,692 and \$15,001, respectively (three and six months ended June 30, 2018 - \$14,455 and \$30,753, respectively) from Tahami & Cultiflores S.A.C.I a company controlled by a director of the Company, Federico Cock-Correa. As of June 30, 2019, amount of \$Nil (December 31, 2018 - \$Nil) is owing to Tahami & Cultiflores S.A.C.I. and recorded in accounts payable and accrued liabilities.

(ii) Management fee of \$Nil and \$Nil, respectively (three and six months ended June 30, 2018 - \$1,082,766 and \$1,158,270, respectively) to the Company's former Chief Executive Officer. As of June 30, 2019, the amount of \$Nil (December 31, 2018 - \$Nil) is owing and recorded in accounts payable and accrued liabilities.

(iii) Consulting fees (Grupo Jaque) of \$Nil and \$53,174, respectively (three and six months ended June 30, 2018 - \$77,887 and \$158,863, respectively) to the Company's former Chief Executive Officer. As of June 30, 2019, the amount of \$Nil (December 31, 2018 - \$Nil) is owing and recorded in accounts payable and accrued liabilities.

(iv) Consulting fees (Laitinen Consulting Inc) of \$1,000 and \$2,500, respectively (three and six months ended June 30, 2018 - \$75,000 and \$150,000, respectively) to an officer of the Company. As of June 30, 2019, the amount of \$Nil (December 31, 2018 - \$Nil) is owing and recorded in accounts payable and accrued liabilities.

(v) \$884,095 and \$995,423, respectively (three and six months ended June 30, 2018 - \$271,205 and \$7,001,611, respectively) of share-based payment expense for the stock options and RSUs issued to certain Company officers, directors and key management personnel.

These transactions are in the normal course of operations and have been valued in these unaudited condensed interim 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.

14. Commitments

On April 12, 2018, the Company signed a non binding letter of intent to purchase the assets of Ubiquo Telemedicina S.A.S. ("Ubiquo Telemedicina"). Ubiquo Telemedicina is the only telemedicine 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 US\$1 million to complete the construction of the Research Technology and Processing Centre in 2019. The construction of the Research Technology and Processing Centre is progressing with the anticipated completion of construction in late 2019. Once completed, the Research Technology and Processing Centre must be certified by INVIMA in order to ensure that it meets GMP Standards.

On June 6, in connection with, and subject to entering into the Implementation Agreement, PharmaCielo has agreed to advance Creso Pharma a \$3,500,000 secured bridge loan (the "Secured Bridge Loan") that may be increased by an additional \$1,500,000 at PharmaCielo's sole discretion, all pursuant to an amendment to Creso Pharma's existing loan trust deed, originally entered into with an arm's length party to Creso Pharma on April 26, 2019. The Secured Bridge Loan will be secured by a general security agreement over the assets of Creso Pharma and a pledge by Creso Pharma to PharmaCielo, of the shares of Mernova Medicinal Inc., a subsidiary of Creso Pharma. The Secured Bridge Loan will bear interest at a rate of 15% per annum and will mature on November 30, 2019. In the event that the Share Scheme is not approved by shareholders of Creso Pharma, the Secured Bridge Loan will mature on the date that is four (4) months after the date of the meeting of the Creso Pharma Shareholders. The proceeds of the Secured Bridge Loan are expected to be used by Creso Pharma for its general working capital requirements. The Secured Bridge Loan is subject to the approval of the TSXV and the completion of a definitive loan amendment and security agreements.

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15. 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, Colombia, Italy, and Mexico. The commencement of operations in Italy and Mexico are subject to approval from the TSXV. 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	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Canada	\$ 7,703,502	\$ 2,531,842	\$ 13,445,911	\$ 11,620,078
Colombia	2,982,415	1,285,733	4,978,385	2,244,981
Total	\$ 10,685,917	\$ 3,817,575	\$ 18,424,296	\$ 13,865,059

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

Total assets	June 30, 2019	December 31, 2018
Canada	\$ 39,067,770	\$ 49,028,742
Colombia	19,513,798	17,234,321
Italy	14,887	-
Total	\$ 58,596,455	\$ 66,263,063

16. Non-controlling interest

On March 13, 2019, an initial equity contribution of \$11,257 (€7,000) was made to PharmaCielo Italia S.r.l. ("Italia") Under the agreement between the Company with Italian-based Eugene S.r.l. the Company has 70% ownership and Eugene owns 30%.

Summarized information on the financial position and results of operations relating to the 30% non-controlling interest in Italia before inter-company eliminations is set out below:

As at June 30, 2019

Current assets	\$ 14,887
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PHARMACIELO LTD.

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17. Change in functional currency

For comparative purposes, the unaudited condensed interim consolidated statements of financial position as at January 1, 2018 and December 31, 2017 includes adjustments to reflect the change in the accounting policy resulting from the change in functional currency to the Canadian dollar. The amounts previously reported in US dollars as shown below have been translated into Canadian dollars at the January 1, 2018 and December 31, 2018 exchange rates (note 2). The effect of the translation is as follows:

As at January 1, 2018	Previously reported (US \$)	Translated (CAD \$)
Current assets	\$ 13,052,266	\$ 16,374,068
Non-current assets	11,916,483	14,949,228
Total assets	\$ 24,968,749	\$ 31,323,296
Current liabilities	\$ 1,646,488	\$ 2,065,519
Total liabilities	\$ 1,646,488	\$ 2,065,519

As at December 31, 2018	Previously reported (US \$)	Translated (CAD \$)
Current assets	\$ 34,269,099	\$ 46,749,904
Non-current assets	14,303,737	19,513,159
Total assets	\$ 48,572,836	\$ 66,263,063
Current liabilities	\$ 2,213,401	\$ 3,019,522
Total liabilities	\$ 2,213,401	\$ 3,019,522

18. Proposed acquisition

On June 6, 2019, PharmaCielo announced that it entered into a scheme implementation agreement (the "Implementation Agreement") pursuant to which PharmaCielo has agreed to acquire all of the issued and outstanding shares and listed options of Creso Pharma Ltd. ("Creso Pharma") (ASX:CPH) (the "Acquisition"). Creso Pharma is a global medicinal cannabis company that specializes in research, development and production of therapeutic, nutraceutical and animal health products. PharmaCielo will pay A\$0.63 per Creso Pharma share. The purchase price for the Creso Pharma shares will be satisfied by the issuance of Common Shares ("Common Shares") priced at \$7.6166 per Common Share being the 3-day volume weighted average trading price for the Common Shares representing an exchange ratio of a 0.0775 Common Shares per each Creso Pharma share.

The Implementation Agreement and related transactions have been unanimously approved by the board of directors of each of PharmaCielo and Creso Pharma.

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18. Proposed acquisition (continued)

Pursuant to the Implementation Agreement, PharmaCielo and Creso Pharma have agreed to implement a share scheme (the "Share Scheme") and an option scheme (the "Option Scheme") whereby:

- Creso Pharma shareholders will receive 0.0775 Common Shares for each Creso Pharma share held, representing a price of A\$0.63 per Creso Pharma share.
- Each holder of listed Creso Pharma options will receive 0.0185 Common Shares for each listed Creso Pharma option held, reflecting a price of A\$0.15 per Creso Pharma listed option.
- Holders of vested unlisted Creso Pharma options with an exercise price equal to A\$0.80 will receive 0.0185 Common Shares for each unlisted Creso Pharma option held, reflecting a price of A\$0.15 per Creso Pharma unlisted option.
- Holders of vested unlisted Creso Pharma options with an exercise price below A\$0.63 will receive an amount of Common Shares with a value equal to the difference between A\$0.63 and the exercise price of their respective unlisted Creso Pharma options multiplied by the number of their respective unlisted Creso Pharma Options.
- The Share Scheme will require approval by at least 75% of the number of votes casts and 50% of the number of voting shareholders at the meeting of Creso Pharma shareholders. The Option Scheme will require approval by at least 75% of the number of votes cast at the meeting of Creso Pharma option holders.
- The Share Scheme and Option Scheme are further subject to Australian Court approval and the approval of Australian Securities and Investments Commission.
- The Acquisition and the issuance of Common Shares are subject to the approval of the TSXV. Approval of PharmaCielo shareholders is not required.
- In connection with, and subject to entering into the Implementation Agreement, PharmaCielo has agreed to advance Creso Pharma a \$3,500,000 secured bridge loan (the "Secured Bridge Loan") that may be increased by an additional \$1,500,000 at PharmaCielo's sole discretion, all pursuant to an amendment to Creso Pharma's existing loan trust deed, originally entered into with an arm's length party to Creso Pharma on April 26, 2019. The Secured Bridge Loan will be secured by a general security agreement over the assets of Creso Pharma and a pledge by Creso Pharma to PharmaCielo, of the shares of Mernova Medicinal Inc., a subsidiary of Creso Pharma. The Secured Bridge Loan will bear interest at a rate of 15% per annum and will mature on November 30, 2019. In the event that the Share Scheme is not approved by shareholders of Creso Pharma, the Secured Bridge Loan will mature on the date that is four (4) months after the date of the meeting of the Creso Pharma Shareholders. The proceeds of the Secured Bridge Loan are expected to be used by Creso Pharma for its general working capital requirements. The Secured Bridge Loan is subject to the approval of the TSXV and the completion of a definitive loan amendment and security agreements.

The Implementation Agreement contains customary deal protections including a non-solicitation provision of alternative transactions by Creso Pharma and provides for, among other things, the Creso Pharma board of directors being able to consider a superior proposal in certain circumstances and a right for PharmaCielo to match any such superior proposal. The Implementation Agreement also provides for the payment by Creso Pharma of a termination fee of A\$1,200,000 to PharmaCielo in certain circumstances. If the Share Scheme is not approved by Creso Pharma shareholders, Creso Pharma must reimburse PharmaCielo A\$450,000. In addition, the Implementation Agreement provides that where the Acquisition is not completed because of a failure to perform by PharmaCielo, PharmaCielo would be required to pay a reverse break fee to Creso Pharma in the amount of A\$1,200,000.

Subject to receipt of all regulatory, court, shareholder and other approvals, and the satisfaction or waiver of all conditions, it is anticipated that the acquisition of Creso will be completed in late 2019.

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Notes to Condensed Interim Consolidated Financial Statements

June 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

19. Events after the reporting period

(i) Subsequent to June 30, 2019, a total of 865,000 options were exercised for gross proceeds of US\$666,250.

(ii) The Company agreed to advance Creso Pharma a secured bridge loan. The following amounts has been advanced to Creso Pharma:

- July 8, 2019 - A\$1,500,000 (\$1,403,285); and
- Aug 8, 2019 - A\$1,000,000 (\$926,213).

(iii) On July 15, 2019, a total of 300,000 RSU fully vested but Common Shares have not been issued.

(iv) On July 26, 2019, PharmaCielo completed acquisition of Ubiquo Telemedicina, a leading provider of telemedicine services in Colombia.