PHARMACIELO LTD.

CONSOLIDATED

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

(EXPRESSED IN CANADIAN 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, 2019, December 31, 2018 and January 1, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2019 and 2018, 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, 2019, December 31, 2018 and January 1, 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 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 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.

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.

MNP LLP

Toronto, Ontario
April 23, 2020

Chartered Professional Accountants
Licensed Public Accountants

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

	As at December 31, 2019	As at December 31, 2018 (Restated, note 21)	As at January 1, 2018 (Restated, note 21)
ASSETS			
Current assets			
Cash and cash equivalents	**$ 13,673,299**	$ 7,350,170	$ 15,984,352
Restricted cash (note 12(b(vi))	**-**	38,323,900	-
Trade receivables	**709,493**	-	-
Short-term investments	**-**	215,001	-
Marketable securities (note 6)	**106,000**	153,000	12,500
Prepaid expenses and other receivables (note 7)	**1,539,146**	623,254	377,216
Inventory (note 8)	**3,465,748**	84,580	-
Biological Assets (note 9)	**178,526**	-	-
Total current assets	**19,672,212**	46,749,905	16,374,068
Non-current assets			
Other assets	**-**	-	8,169
Property, plant and equipment (note 10)	**27,275,868**	19,513,158	14,941,059
Right-of-use assets (note 11)	**1,445,598**	-	-
Goodwill (note 22)	**1,162,885**	-	-
Intangible Assets (note 22)	**639,799**	-	-
Total non-current assets	**30,524,150**	19,513,158	14,949,228
Total assets	**$ 50,196,362**	$ 66,263,063	$ 31,323,296
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (note 19)	**$ 2,900,441**	$ 3,019,522	$ 2,065,519
Lease obligations (note 11)	**147,597**	-	-
RSU obligations (note 15)	**117,690**	-	-
Consideration payable (note 22)	**140,483**	-	-
Total current liabilities	**3,306,211**	3,019,522	2,065,519
Non-current liabilities			
Lease obligations (note 11)	**1,424,850**	-	-
Total non-current liabilities	**1,424,850**	-	-
Total liabilities	**4,731,061**	3,019,522	2,065,519
Shareholders' equity			
Share capital (note 12(a)(b))	**116,827,833**	64,316,562	50,949,160
Shares to be issued (note 12(b))	**-**	35,450,938	3,469,686
Reserves (notes and 13, 14 and 15)	**26,243,564**	24,486,625	5,852,995
Other comprehensive income (loss)	**(93,573)**	1,834,598	203,855
Deficit	**(97,512,523)**	(62,845,182)	(31,217,919)
Total shareholders' equity	**45,465,301**	63,243,541	29,257,777
Total liabilities and shareholders' equity	**$ 50,196,362**	$ 66,263,063	$ 31,323,296

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

Nature of operations (note 1)
Commitments (note 19)

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

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018 (Restated, note 21)
Revenue		
Sale of Cannabis derivative products	**$ 772,093**	$ -
Revenue from Telemedicine services	**14,808**	-
Total revenue	**786,901**	-
Cost of goods sold - Cannabis derivative products	**690,313**	-
Cost of Sales - Telemedicine services	**51,287**	-
Gross Profit before fair value adjustments	**45,301**	-
Realized fair value on inventory sold	**(159,464)**	**-**
Unrealized gain on fair value of biological assets (note 9)	**757,640**	-
Gross profit	**643,477**	-
Operating expenses		
Agricultural pre-operational costs (note 10)	**$ 2,303,034**	$ 2,307,431
Selling, general and administrative expenses		
General and administrative		
Consulting fees	**2,998,822**	1,640,354
Office and general	**2,356,613**	1,554,502
Professional fees	**5,672,144**	3,013,783
Salaries and wages	**4,856,088**	1,230,084
Travel and accommodation	**1,134,351**	983,993
Share-based compensation	**11,310,592**	18,830,254
Selling, marketing and promotion	**900,658**	1,312,668
Amortization and depreciation (notes 10 and 11)	**914,148**	356,396
Total selling, general and administrative expenses	**30,143,416**	28,922,034
Other expenses (income)		
Bank charges and interest expense	**173,843**	-
Unrealized loss (gain) on marketable securities	**47,000**	(140,406)
Exchange loss (gain)	**493,165**	739,044
Other non-operating expenses	**218,727**	-
Listing expense (note 5)	**2,433,687**	-
Interest Income	**(585,127)**	(213,534)
Change in fair value of consideration payable	**(10,148)**	-
Other Taxes	**93,221**	-
Total other expenses	**2,864,368**	385,104
Loss before tax	**(34,667,341)**	(31,614,569)
Income tax expense (note 17)	**-**	(12,694)
Net income (loss) for the year	**$(34,667,341)**	$(31,627,263)
Other comprehensive gain (loss) for the period:		
Currency translation adjustment for the period	**(1,928,171)**	1,630,743
Net comprehensive loss for the year	**$(36,595,512)**	$(29,996,520)

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

(Continued)

		2019		2018
Basic and diluted net income (loss) per common share (note 16)	**$**	**(0.36)**	$	(0.40)
Weighted average number of common shares outstanding - basic and diluted		**96,050,430**		78,191,617

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

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

For the year ended December 31,	2019	2018 (Restated, note 21)
Operating activities		
Net loss for the year	**$(34,667,341)**	$(31,627,263)
Items not affecting cash:		
Depreciation (note 10 and 11)	**1,281,057**	246,968
Property, plant and equipment written off	**126,100**	-
Unrealized gain on fair market value of biological assets	**(757,640)**	-
Fair value adjustment on sale of inventory	**159,464**	-
Change in fair value of holdback consideration payable	**(10,148)**	-
Lease Interest expense	**189,314**	-
Share-based payments	**11,310,593**	18,830,254
Exchange gain (loss)	**(288,507)**	739,044
Unrealized gain on marketable securities	**47,000**	(140,406)
Listing expense	**2,098,637**	-
Changes in non-cash working capital items:		
Trades receivables	**(709,493)**	-
Prepaid expenses and other receivables	**(984,868)**	(246,038)
Inventory and biological assets	**(2,720,972)**	(84,580)
Short-term investments	**215,001**	-
Other assets	**-**	8,169
Accounts payable and accrued liabilities	**(451,832)**	954,003
Net cash and cash equivalents used in operating activities	**(25,163,629)**	(11,319,849)
Investing activities		
Cash acquired on RTO (note 5)	**183,729**	-
Cash acquired on acquisition of Ubiquo Telemedicina (note 22)	**578**	-
Purchase of Ubiquo Telemedicina (note 22)	**(735,937)**	-
Purchase of property, plant and equipment	**(10,056,137)**	(4,068,401)
Purchase of intangibles	**(659,517)**	-
Net cash and cash equivalents used in investing activities	**(11,267,284)**	(4,068,401)
Financing activities		
Options and warrants exercised	**5,349,724**	1,267,979
Subscriptions receipts	**-**	39,581,644
Share issue costs	**(577,301)**	(3,396,894)
Lease payments	**(261,530)**	-
Net cash and cash equivalents provided by financing activities	**4,510,893**	37,452,729
Net change in cash and cash equivalents	**(31,920,020)**	22,064,479
Effect of exchange rate changes on cash held in foreign currencies	**(80,751)**	(2,965)
Cash and cash equivalents, beginning of year	**45,674,070**	15,984,352
Cash and cash equivalents, end of year	**$ 13,673,299**	$ 38,045,866
Cash and cash equivalents	**$ 13,673,299**	$ 7,350,170
Restricted cash	**-**	38,323,900
Cash and cash equivalents for cash flow purposes	**$ 13,673,299**	$ 45,674,070

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 Canadian Dollars, Unless Otherwise Indicated)

	Number of common shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income	Deficit	Total Shareholder's equity
Balance, December 31, 2017 (*)	**76,118,863**	**$ 50,949,160**	**$ 3,469,686**	**$ 5,852,995**	**$ 203,855**	**$(31,217,919)**	**$ 29,257,777**
Common shares issued for services (note 12(b)(i))	1,000,000	2,894,625	(2,894,625)	-	-	-	-
Common shares issued for land acquisition (note 12(b)(ii))	201,000	570,061	(570,061)	-	-	-	-
Warrants exercised (note 12(b)(iii))	335,610	301,306	(5,000)	(114,572)	-	-	181,734
Options exercised (note 12(b)(iv))	1,712,820	2,083,843	-	(1,042,314)	-	-	1,041,529
Subscription receipts (note 12(b)(v))	-	-	39,581,644	-	-	-	39,581,644
Shares issued pursuant to private placement at price of $3.35 per share (note 7(b)(vi))	2,244,049	7,517,567	-	-	-	-	7,517,567
Shares to be issued - options exercised	-	-	226,450	-	-	-	226,450
Cost of issue	135,469	-	(4,357,156)	960,262	-	-	(3,396,894)
Share-based compensation	-	-	-	18,830,254	-	-	18,830,254
Currency translation adjustment for the year	-	-	-	-	1,630,743	-	1,630,743
Net loss for the year	-	-	-	-	-	(31,627,263)	(31,627,263)
Balance, December 31, 2018 (*)	**81,747,811**	**$ 64,316,562**	**$ 35,450,938**	**$ 24,486,625**	**$ 1,834,598**	**$(62,845,182)**	**$ 63,243,541**

(*) Restated, note 21

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

PHARMACIELO LTD.

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

	Number of common shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	deficit	Total Shareholder's equity
Balance, December 31, 2018 (*)	**81,747,811**	**$ 64,316,562**	**$ 35,450,938**	**$ 24,486,625**	**$ 1,834,598**	**$(62,845,182)**	**$ 63,243,541**
Securities issued pursuant to the RTO (note 5)	413,735	2,043,850	-	224,439	-	-	2,268,289
Shares issued pursuant to private placement at price of $3.35 per share (note 12(b)(v))	11,815,416	39,581,644	(39,581,644)	-	-	-	-
Common shares issued pursuant to acquisition of Ubiquo (note 12(b)(x))	132,649	583,657	-	-	-	-	583,657
Options exercised - Money received in 2018 shares issued in 2019	587,180	226,450	(226,450)	-	-	-	-
Options exercised (note 12(b)(vi))	3,028,776	7,322,046	-	(4,432,445)	-	-	2,889,601
Exercise of warrants (note 12(b)(vii))	765,606	3,675,891	-	(1,215,768)	-	-	2,460,123
Exercise of RSU	474,000	4,012,190	-	(4,012,190)	-	-	-
Cost of issue	-	(4,934,457)	4,357,156	-	-	-	(577,301)
Share-based compensation	-	-	-	11,192,903	-	-	11,192,903
Currency translation adjustment for the year	-	-	-	-	(1,928,171)	-	(1,928,171)
Net loss for the year	-	-	-	-	-	(34,667,341)	(34,667,341)
Balance, December 31, 2019	**98,965,173**	**$116,827,833**	**$ -**	**$ 26,243,564**	**$ (93,573)**	**$(97,512,523)**	**$ 45,465,301**

(*) Restated, note 21

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 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 5 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 "PCLOF". 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

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, 2019.

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 subsidiaries, PharmaCielo Colombia S.A.S. (incorporated on May 11, 2015), PharmaCielo Colombia Holdings S.A.S. (incorporated on August 8, 2014) and Ubiquo Telemedicina S.A.S.

The financial statements of PharmaCielo Colombia S.A.S. and 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)

Basis of consolidation (continued)

The following companies have been consolidated within the consolidated financial statements:

Company	Location	Principal activity
PharmaCielo Ltd.	Toronto, Canada	Parent company
PharmaCielo Holdings Ltd. (1)	Toronto, Canada	Holding company
Ubiquo Telemedicina S.A.S. (1)	Medellin, Colombia	Telemedicine software company
PharmaCielo Colombia Holdings S.A.S. (1)	Medellin, Colombia	Cultivation and processing company

(1) 100% owned by PharmaCielo Ltd. and are controlled and consolidated by the parent company. Any intercompany transactions are eliminated on consolidation

In addition, the Company has two nominal investments in Italy and Mexico, PharmaCielo Italia S.r.l.(70% owned) and PharmaCielo S.A. de C.V (50% owned), respectively, with limited activities as of year-end.

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. Management considered events up to release date due to COVID-19, see note 24

2. Significant accounting policies (continued)

Significant accounting judgments and estimates (continued)

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 21).

The functional currency of Ubiquo Telemedicina SAS and Pharmacielo Colombia Holdings SAS is the Colombian Peso.

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.

Equity Transactions

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.

Biological Assets
Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets are discussed in Note 9.

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.

2. Significant accounting policies (continued)

Financial instruments

IFRS 9 - Financial Instruments ("IFRS 9") includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

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

Financial instruments	Category under IFRS 9
Cash and cash equivalents	FVTPL
Restricted cash	FVTPL
Short-term investments	FVTPL
Marketable securities	FVTPL
Trade receivables	Amortized cost
RSU Obligation	FVTPL
Consideration payable	FVTPL
Accounts payable and accrued liabilities	Amortized cost

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.

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 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.

2. Significant accounting policies (continued)

Financial instruments (continued)

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.

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

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.

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

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets and liabilities acquired at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Finite life intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

Brand and Software acquired are amortized over their estimated useful life of 5 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 13, 14 and 15.

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.

2. Significant accounting policies (continued)

Share-based payments (continued)

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.

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 subsidiaries 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.

Revenue Recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when the Company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the Company has delivered the product to customers.

Service revenues, including online medical services, are recognized over a period of time as performance obligations are completed. Payment of the transaction price for patient counselling is typically due prior to the services being rendered and therefore, the transaction price is recognized as a contract liability, or deferred revenue, when payment is received. Contract liabilities are subsequently recognized into revenue as or when the Company fulfills its performance obligation. Payment of the transaction price for design, engineering and consulting services are typically due upon completion of the performance-related milestone. The Company is engaged with telemedicine software services in the Latin American market.

Inventory

Inventories consist of dried cannabis, cannabis distillate crude oil, CBD isolate and supplies.

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost of the inventory. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Subsequent costs include materials, overhead, amortization, stock-based compensation of applicable employees and labour involved in packaging and quality assurance. The identified capitalized direct and indirect costs related to inventory are subsequently recorded within "cost of goods sold" on the statement of loss and comprehensive loss at the time the product is sold, with inventory sold which are recorded as a separate line within gross margin before depreciation. Net realizable ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

Subsequent to harvest all direct and overhead post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Direct and overhead costs include wages and benefits, facility costs, amortization and other costs incurred in bringing the inventory to the present location and condition. Net realizable value is determined as the estimated selling price less the estimated costs of completion and estimated selling costs. Cost is determined on a weighted average basis for each individual harvest.

2. Significant accounting policies (continued)

Biological assets

Biological assets, consisting of cannabis plants, are measured at fair value up to the point of harvest less costs to complete and sell.

The Company measures biological assets consisting of cannabis plants using the income approach at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, depreciation, overhead, quality and testing costs. The identified capitalized direct and direct costs of biological assets are subsequently recorded within the line item "costs of goods sold" on the statement of loss and comprehensive loss in the period that the related product is sold. Seeds are measured at fair value. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations and presented on a separate line of statement of comprehensive loss of the related period.

The company values biological assets by multiplying the expected yield of finished goods from the plants harvested by the selling price expected to be achieved by the Company. The value of biological assets is then reduced by the percentage of completion of the harvest and the estimated post-harvest costs and cost to complete. The Company estimates that fair value of the cannabis plants approximates the stage of completion of the cannabis plants based on approximately linear costs incurred during the growth stage.

Prior to July 1, 2019, the Company expensed all agricultural expenses to pre-operational costs, as it was related to the costs incurred in the agricultural facilities pre-commercial stage. During the year ended 2019, once the Company obtained the full commercial cannabis licenses, it started the valuation of biological assets and as such, it will capitalize all the direct and indirect costs as incurred related to the biological transformation of the biological assets. The Company expenses costs related to mother plants and cuttings which is included as part of Production costs, as the life cycle of these are under one year.

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.

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 amortized 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 amortized 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 amortized over the remaining (revised) lease term.

See note 11 - *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 consolidated financial statements.

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, 2019, the Company had cash and cash equivalents of $13,673,299 (December 31, 2018 - $7,350,170) and restricted cash for $Nil (December 31, 2018 - $38,323,900) to settle current liabilities of $3,306,211 (December 31, 2018 - $3,019,522). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms, other than its long term lease liabilities (see Note 11).

(iii) Interest rate risk

The Company has cash and cash equivalents and no floating interest-bearing debt. The Company believes it has no significant interest rate risk.

(Expressed in Canadian Dollars)

4. Financial instruments (continued)

Fair value hierarchy

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

	As at December 31, 2019	As at December 31, 2018
Financial assets:		
FVTPL		
Cash and cash equivalents	$ 13,673,299	$ 7,350,170
Restricted cash	-	38,323,900
Short-term investments	-	215,001
Marketable securities	106,000	153,000

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, 2019, the Company's financial instruments measured at fair value are cash and cash equivalents balance of $13,673,299 (December 31, 2018 - $7,350,170), restricted cash for $nil (December 31, 2018 - $38,323,900), short-term investments of $nil (December 31, 2018 - $215,001) and marketable securities of $106,000 (December 31, 2018 - $153,000) which is considered to be Level 1 instruments. As of December 31, 2019, the Company's fair value RSU held a balance of 117,690 (December 31, 2018 - $nil) which is considered to be Level 2 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.

(Expressed in Canadian Dollars)

5. 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 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, and $335,049 of expenses incurred towards the RTO and the fair value of AAJ's net assets on the closing date as follows:

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 12(b)(v) - *Share Capital* for further details.

(Expressed in Canadian Dollars)

6. Marketable securities

	Number of shares		Cost		Unrealized gain		Fair value
December 31, 2019							
Khiron Life Sciences Corp. ("Khiron")	**100,000**	**$**	**12,500**	**$**	**93,500**	**$**	**106,000**
December 31, 2018							
Khiron	100,000	$	12,500	$	140,500	$	153,000

7. Prepaid expenses and other receivables

		As at December 31, 2019		As at December 31, 2018
Prepaid expenses	**$**	**426,619**	$	185,926
Other receivables		**1,112,527**		437,328
	$	**1,539,146**	$	623,254

8. Inventory

		As at December 31, 2019		As at December 31, 2018
Agricultural supplies and other	**$**	**287,093**	$	84,580
Work-in-progress		**1,969,582**		-
Finished products		**1,209,073**		-
Closing balance, December 31, 2019	**$**	**3,465,748**	$	84,580

During the year ended December 31, 2019, inventory recognized as expense was $690,313 (December 31, 2018 - $nil), consisting of $159,464 (December 31, 2018 - $nil) of realized fair value changes on inventory sold or impaired and $500,542 (December 31, 2018 - $nil) of capitalized post-harvest costs expensed during the period as cannabis inventory is sold.

9. Biological Assets

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy.

The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at December 31, 2019:

(Expressed in Canadian Dollars)

9. Biological Assets (continued)

a. Selling prices – selling prices are based on the Company's expected selling price per kilogram based on selling history, adjusted for current market conditions. A selling price of $2,041 per kilogram of CBD isolate was used to calculate the biological assets at year end.

b. Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, extracting, testing and packaging activities incurred in the period, including overhead allocations for these activities. Post-harvest processing costs averaged $1,463 per kilogram of CBD isolate.

c. The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at December 31, 2019 averaged 49%.

d. Expected yield – the expected yield per plant is based on the Company's historical adjusted average yield per plant. Expected yield per plant is 0.68 grams of CBD isolate.

As at December 31, 2019, the Company's biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

Carrying amount, December 31, 2018	**$**	**-**
Production costs capitalized		1,522,830
Changes in fair value less costs to sell due to biological transformation		796,169
Transferred to inventory upon harvest		(2,140,473)
Balance, December 31, 2019	**$**	**178,526**

The Company expects that a 10% increase or decrease in the wholesale market price per kilogram of dried cannabis would increase or decrease the fair value of biological assets by $84,820. A 10% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by $58,956. Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by $60,957.

Net effect of changes in fair value of biological assets and inventory include:

Unrealized change in fair value of biological assets	$	757,640
Realized fair value on inventory sold		(159,464)

During the year ended 2019, the Company started the valuation of biological assets. For the year ended December 31, 2019, the agricultural cost (pre-operative) was $2,303,034 (for the year ended December 31, 2018: $2,307,431), and it was related to the costs incurred in the agricultural facilities pre-commercial stage.

(Expressed in Canadian Dollars)

10. Property, plant and equipment

	Land	Construction in Progress	Building	Machinery and equipment	Office furniture and fixtures	Computer and communication equipment	Vehicles	Equipment in transit	Total
COST									
Balance, December 31, 2017	**8,010,459**	**-**	**3,370,845**	**2,875,145**	**71,162**	**443,815**	**161,809**	**703,193**	
Additions	-	2,484,644	300,713	2,072,165	86,901	170,175	-	153,590	
Effect of foreign currency exchange differences	241,315	(212,549)	(25,725)	(177,264)	(7,434)	(14,558)	(34,129)	(13,139)	
Balance, December 31, 2018	**$ 8,251,774**	**$ 2,272,095**	**$ 3,645,833**	**$ 4,770,046**	**$ 150,629**	**$ 599,432**	**$ 127,680**	**$ 843,644**	**$ 20,661,133**
Additions	-	4,280,679	92,925	2,953,849	855,749	373,577	22,221	1,477,137	10,056,137
Additions from Ubiquo Acquisition	-	-	-	-	1,064	266,110	-	-	267,174
Disposals	-	-	-	-	(2,833)	(127,087)	-	-	(129,920)
Effect of foreign currency exchange differences	(383,271)	(206,672)	(131,630)	(355,128)	(10,206)	(47,291)	(8,764)	(73,169)	(1,216,131)
Balance, December 31, 2019	**$ 7,868,503**	**$ 6,346,102**	**$ 3,607,128**	**$ 7,368,767**	**$ 994,403**	**$ 1,064,741**	**$ 141,137**	**$ 2,247,612**	**$ 29,638,393**
ACCUMULATED DEPRECIATION									
Balance, December 31, 2017	**-**	**-**	**432,843**	**161,203**	**30,227**	**34,731**	**36,365**	**-**	**695,369**
Depreciation	-	-	296,010	308,923	36,378	193,780	11,842	-	846,933
Disposals	-	-	-	-	-	-	-	-	-
Effect of foreign currency exchange differences	-	-	(123,539)	(188,590)	(29,951)	(35,953)	(16,294)	-	(394,327)
Balance, December 31, 2018		**$ -**	**$ 605,314**	**$ 281,536**	**$ 36,654**	**$ 192,558**	**$ 31,913**	**$ -**	**$ 1,147,975**
Depreciation		-	245,312	354,138	181,604	253,355	24,080	-	1,058,489
Transfers		-	-	-	(3,180)	(640)	-	-	(3,820)
Effect of foreign currency exchange differences		-	25,902	72,623	12,224	36,339	4,377	-	151,465
Balance, December 31, 2019		**$ -**	**$ 876,528**	**$ 708,297**	**$ 227,302**	**$ 481,612**	**$ 60,370**	**$ -**	**$ 2,354,109**
CARRYING AMOUNT									
Balance, December 31, 2018	**$ 8,251,774**	**$ 2,272,095**	**$ 3,040,519**	**$ 4,488,510**	**$ 113,975**	**$ 406,874**	**$ 95,767**	**$ 843,644**	**$ 19,513,158**
Balance, December 31, 2019	**$ 7,868,503**	**$ 6,346,102**	**$ 2,730,600**	**$ 6,652,054**	**$ 767,101**	**$ 583,129**	**$ 80,767**	**$ 2,247,612**	**$ 27,275,868**

(Expressed in Canadian Dollars)

10. 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, 2019, the construction and assets in transit balance of $6,346,102 (December 31, 2018 - $2,272,095) represents the developing activities that have not yet been completed.

For the year ended December 31, 2019, depreciation expenses of $366,909 (year ended December 31, 2018 - $576,821) is included in the consolidated statement of loss as agricultural pre-operational costs.

For the year ended December 31, 2019, depreciation costs of $202,017 was capitalized to biological assets and inventory.

11. Leases

Right-of-use assets

Balance, January 1, 2019	**$**	**-**
Additions		1,557,868
Depreciation		(201,359)
Foreign exchange adjustment		89,089
Balance, December 31, 2019	**$**	**1,445,598**

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 December 31, 2019

Less than one year	$	344,578
One to three years		997,609
Three to five years		716,765
More than five years		517,664
Total undiscounted lease obligation	**$**	**2,576,616**

Lease obligations

On August 24, 2018, the Company entered into a sixty month lease agreement (plus extension periods) 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%.

(Expressed in Canadian Dollars)

11. Leases (Continued)

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

Balance, January 1, 2019	**$**	**-**
Additions		1,572,229
Interest expense		189,314
Lease payments		(275,891)
Foreign exchange adjustment		86,795
Balance, December 31, 2019	**$**	**1,572,447**

As at December 31, 2019		
Lease obligations	$	1,572,447
Less current portion		(147,597)
Non-current portion	$	1,424,850

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.

12. 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

98,965,173 Common Shares (December 31, 2018 - 81,747,811 Common Shares)

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

(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 year ended December 31, 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 year ended December 31, 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 year ended December 31, 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 year ended December 31, 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.

(Expressed in Canadian Dollars)

12. Share capital (continued)

b) Common shares issued (continued)

(v) 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 year ended December 31, 2019

(vi) 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 5 - *Reverse Takeover* for further details.

(vii) 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 year ended December 31, 2019. In addition, the Company issued 3,028,776 Common Shares for net proceeds of $2,889,601 upon the exercise of stock options.

(viii) The Company issued 765,606 Common Shares for net proceeds of $2,460,123 upon the exercise of warrants.

(ix) On July 26, 2019, the Company acquired Ubiquo Telemedicina S.A.S. for an aggregate of 156,058 Common Shares at a price of $4.40. Upon closing, an aggregate of 132,649 Common Shares were issued with the remaining shares held back for a period of six months for any adjustments to the purchase price that may be required.

13. Warrants

The following table reflects the continuity of warrants for the periods ended December 31, 2019 and 2018:

	Number of warrants	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2017	**609,896**	**0.73**	**-**
Issued for private placements	657,436	2.25	3.35
Exercised	(285,610)	0.50	-
Expired	(200,000)	0.25	0.10
Balance, December 31, 2018	**781,722**	**2.03**	**3.35**
Balance, December 31, 2018	**781,722**	**2.03**	**3.35**
Issued pursuant to the RTO (note 5)	20,938	-	1.194
Exercised	(765,606)	2.01	3.27
Balance, December 31, 2019	**37,054**	**2.06**	**1.194**

(Expressed in Canadian Dollars)

13. Warrants (continued)

The following table reflects the warrants issued and outstanding as of December 31, 2019:

Number of warrants outstanding	Exercise price (USD)	Exercise price (CAD)	Expiry date
172	-	1.194	January 30, 2020
27,882	2.00	-	June 16, 2020
9,000	2.25	-	December 12, 2022
37,054	2.06	1.194	

14. Stock options

The following table reflects the continuity of options for the periods ended December 31, 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	1.82	-
Granted (vii) (viii)	5,500,000	-	3.35
Exercised	(1,712,820)	0.25	-
Balance, December 31, 2018	**15,655,180**	**1.18**	**3.35**
Balance, December 31, 2018	**15,655,180**	**1.18**	**3.35**
Issued pursuant to the RTO (note 5)	38,777	-	1.194
Granted (ix)	550,000	-	3.35
Exercised	(3,615,957)	0.74	1.194
Cancelled	(22,000)	2.25	
Balance, December 31, 2019	**12,606,000**	**1.28**	**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 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.

(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.

(Expressed in Canadian Dollars)

14. Stock options (continued)

For the year ended December 31, 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.

(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.

(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 year ended
(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.

(vii) 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% - 2.23%
Dividend yield	0%
Volatility	80-87%
Expected life	5-10 years
Forfeiture rate	0%

viii) During the year ended December 31, 2018, the company recorded $18,830,254 as share-based expense in consolidated statement of loss and comprehensive loss.

For the year ended December 31, 2019

(ix) During November 2019, the Company granted incentive stock options to consultants to purchase up to 550,000 Common Shares exercisable at a price of US$3.10 per Common Share on or before May 15, 2025. The options fully vest on the day of grant. The fair value of the option has been estimated at US$2.08 as of the date of the grant using the Black-Scholes option pricing model. During the year ended December 31, 2019, the Company recorded $469,879 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

(Expressed in Canadian Dollars)

14. Stock options (continued)

For the year ended December 31, 2019 (continued)

On January 17, 2020, the company received $649,380 from a director of the Company, Federico Cock-Correa related to 1,000,000 options exercised on December 31, 2019. for a gross amount of $649,380. Due to strict Colombian banking laws the funds were received after December 31, 2019 and the Company recorded a receivable from related parties for $649,380. The funds since been received.

(x) The fair value of the various options granted during the year ended December 31, 2019 was estimated using the Black-Scholes option pricing model with the following estimated assumptions:

Risk-free interest rate	1.59%
Dividend yield	0%
Volatility	71%
Expected life	5-7 years
Forfeiture rate	0%

viii) During the year ended December 31, 2019, the company recorded $4,993,012 as share-based expense in consolidated statement of loss and comprehensive loss.

Details of the stock options outstanding as at December 31, 2019 are as follows:

Number of options outstanding	Number of options exercisable	Exercise price (USD)	Exercise price (CAD)	Weighted average life (years)	Expiry date
50,000	50,000	3.35	-	3.65	August 25, 2023
2,455,000	2,455,000	2.25	-	5.08	January 29, 2025
81,000	81,000	2.25	-	5.10	February 4, 2025
1,045,000	1,045,000	0.25	-	5.38	May 15, 2025
75,000	75,000	0.50	-	5.83	October 27, 2025
250,000	250,000	0.50	-	5.97	December 17, 2025
50,000	50,000	0.50	-	6.07	January 25, 2026
1,050,000	1,050,000	1.00	-	6.51	July 4, 2026
50,000	50,000	1.00	-	6.67	September 1, 2026
400,000	400,000	1.00	-	6.59	August 1, 2026
550,000	183,333	-	3.10	6.85	November 5, 2026
150,000	150,000	1.00	-	6.98	December 23, 2026
500,000	333,333	2.25	-	6.98	December 23, 2026
100,000	100,000	1.00	-	7.08	January 27, 2027
300,000	300,000	2.00	-	7.52	July 5, 2027
4,750,000	2,750,000	-	3.35	8.51	July 1, 2028
750,000	750,000	-	3.35	8.51	July 15, 2028
12,606,000	**10,072,666**	**1.49**	**3.33**	**7.04**	

15. 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 will be settled in Common Shares.
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 will be settled in Common Shares.

(Expressed in Canadian Dollars)

15. Restricted share unit ("RSU") (continued)

On April 1, 2019, pursuant to the restricted share unit ("RSU") plan of the Company (the "RSU Plan"), the Company granted 27,000 RSUs to certain directors, employees and consultants of the Company. Each RSU vests over 1 or 2 years and will be settled in Cash.
On June 11, 2019, pursuant to the RSU Plan, the Company granted 25,000 RSUs to a certain director of the Company. The RSU vested immediately and was settled in Common Shares.
As at December 31, 2019, there were 711,000 RSUs outstanding of which 9,000 RSUs are fully vested (but unsettled at year-end).

During the year ended December 31, 2019, the company recorded $6,317,580 as RSU expense in consolidated statement of loss and comprehensive loss

16. Net loss per common share

The calculation of basic and diluted loss per share for the year ended December 31, 2019 was based on the loss attributable to common shareholders of $(34,667,341), respectively, (year ended December 31, 2018 - $(31,627,263), respectively) and the weighted average number of Common Shares outstanding of 96,050,430, respectively (year ended December 31, 2018 - 78,191,617, respectively). Diluted loss per share is equal to basic diluted loss per share as any effects of the potential convertible securities would be anti-dilutive.

17. Income tax

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2018 - 26.5%) to the effective tax rate is as follows:

	Year ended December 31, 2019	**Year ended December 31, 2018**
Net loss before recovery of income taxes	**$ 34,667,341**	$ 31,614,569
Expected income tax (recovery) expense	**(9,186,850)**	(8,383,516)
Difference in foreign tax rates	**(279,850)**	(363,833)
Tax rate changes and other adjustments	**184,930**	28,635
Share based compensation	**2,966,120**	4,949,367
Other non-deductible expenses	**549,220**	309,315
Financing fee booked in equity	**(129,380)**	(756,132)
Listing expense re RTO transaction	**644,930**	-
Change in tax benefits not recognized	**5,250,880**	4,228,867
Income tax expense	**$ -**	$ 12,703

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

Current tax recovery	**$ -**	$ 12,703

(Expressed in Canadian Dollars)

17. Income tax (continued)

Deferred tax

The following table summarizes the components of deferred tax:

	2019	2018
Deferred tax assets		
Canada		
Non-capital losses carried forward	**$ 12,390**	$ 39,207
Colombia		
Non-capital losses carried forward	**$ 281,720**	$ -
Deferred tax liabilities		
Canada		
Marketable securities	**(12,390)**	(39,207)
Colombia		
Fair value gain on biological asset and inventory	**(179,450)**	-
Lease liability	**(101,050)**	-
Accounts payable	**(1,220)**	-
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, 2019	Year ended December 31, 2018
Canada:		
Property, plant and equipment	**580,160**	306,045
ROU asset and lease liability	**92,220**	-
Cash-settled RSU	**117,690**	-
Share issuance costs - 20(1)(e)	**$ 2,883,450**	$ 3,656,356
Schedule 13 Reserves	**218,730**	-
Non-capital losses carried forward	**32,746,240**	22,850,255
Colombia:		
Other assets	**5,538,690**	3,340,407
Non-capital losses carried forward	**10,532,710**	5,856,074
Ubiquo		
Property, plant and equipment	**164,990**	-
Intangible Assets	**259,510**	-
Non-capital losses carried forward	**728,080**	-
Other non-capital losses carried forward		
Non-capital losses carried forward	**332,600**	-

(Expressed in Canadian Dollars)

17. 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 2023.

The Italian losses may be carried forward indefinitely.

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

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

2035	$ 2,364,290
2036	3,299,430
2037	4,398,200
2038	4,021,110
2039	6,993,610
2040	11,669,600
	$ 32,746,240

The Company's Colombian non-capital income tax losses expire as follows:

Indefinite	$ 1,051,330
2029	1,217,940
2030	2,941,440
2031	6,050,080
	$ 11,260,790

18. Transactions with Related Parties

During the year ended December 31, 2019, the Company has the following related party transactions:

(i) The Company incurred subcontractor expenses of $21,735 (compared to the year ended December 31, 2018 of $140,753) from Tahami & Cultiflores S.A.C.I, a company controlled by a director of the Company, Federico Cock-Correa. As of December 31, 2019, the amount of $Nil (December 31, 2018 - $Nil) is owing to Tahami & Cultiflores S.A.C.I. and is recorded in accounts payable and accrued liabilities.

(ii) Severance and vacation of $Nil (compared to the year ended December 31, 2018 of $1,082,766; year ended July 31, 2017 - $Nil) to the Company's former Chief Executive Officer, Patricio Stocker the amount of $Nil (December 31, 2018 - $Nil) is owing and recorded in accounts payable and accrued liabilities.

(iii) The Company incurred consulting fees of $53,174 (compared to year ended December 31, 2018 of $342,483) to Grupo Jaque, a company controlled by the Company's former Chief Executive Officer, Anthony Wile. As of December 31, 2019, the amount of $Nil (December 31, 2018 - $Nil) is owing and recorded in accounts payable and accrued liabilities. Mr Wile also received $218,509 as fees during the year ended December 31, 2019

(iv) The Company incurred consulting fees of $6,000 (year ended December 31, 2018 of $200,000) to Laitinen Consulting Inc., a company controlled by the Company's Chief Financial Officer, Scott Laitinen. As of December 31, 2019, the amount of $500 (December 31, 2018 - $Nil) is owing and recorded in accounts payable and accrued liabilities. Scott Laitinen was employed early in 2019 and since them his remuneration is included as part of Management above indicated.

(Expressed in Canadian Dollars)

18. Transactions with Related Parties (continued)

(v) On December 31, 2019, a director of the Company, Federico Cock-Correa exercised 1,000,000 options for a gross amount of $649,380 and the shares were issued on that date. Due to strict Colombian banking laws the funds were received after December 31, 2019. The Company recorded a receivable from related parties for $649,380 in its December 31, 2019 financial statements. The funds have since been received.

(vi) The Company included in other receivables $18,452 for certain expenses paid on behalf of Tahami & Cultiflores S.A.C.I (Tahami) a company controlled by a director of the Company's subsidiary, Federico Cock-Correa in connection to subcontracting Tahami as grower.

(vii) The Company included in other receivables $ 39,290 for certain expenses paid on behalf of Flores El Capiro S.A.(El Capiro), a company controlled by a director of the Company, Carlos Uribe in connection to subcontracting the El Capiro as grower.

(viii) Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors as well as certain key officers and board members of the Company's subsidiaries.

		Year Ended December 31, 2019	2018
Management compensation	-	1,440,628	726,167
Director's fees (1)		77,500	-
Share-based compensation (2)		9,674,812	14,696,391
Total Management compensation		**$ 11,192,940**	**$ 15,422,558**

(1) Includes meeting fees and commitment chair fees.
(2) Share-based compensation represent the fair value of options granted and vested to key management personnel and directors of the Company under the Company's share-based compensation plans (note 15 and 16).

The above related party transactions were 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 noninterest bearing and due on demand.

19. Commitments

i. The Company has an agreement with CNV Construcciones S.A.S. ("CNV"), a Colombian construction company, to complete the construction of the Processing and Extraction Centre ("PEC"). In October 2019, the work outlined in the original agreement was completed and CNV was paid. Additional funding approved by the board, that covers structural changes to meet the needs of the extraction technologies to be developed, the scope of the agreement with CNV was expanded, the Company has an agreement to pay USD$370,385 to complete main construction activities of the PEC. The construction of the PEC is progressing with the anticipated completion of construction in the 3rd quarter.

ii. The Company has a technology licence agreement with Harmony Grove Services, LLC, to exploit the extraction technology on biomass. The Company will pay to Harmony Grove Services, LLC a royalty fee for cannabis oil processed with the Technology-enabled process scale chromatography and Technology-enabled process scale crystallization. The royalties will be paid on a quarterly basis.

(Expressed in Canadian Dollars)

20. Segmented Information

An operating segment is a component of the Company (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.

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:

	December 31,	
Net loss for the year ended	**2019**	**2018**
Canada	**$ 26,431,357**	$ 19,679,975
Colombia	**7,903,387**	11,947,288
Italy	**107,418**	-
Mexico	**225,179**	-
Total	**$ 34,667,341**	$ 31,627,263

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

Total assets	**December 31 2019**	**December 31, 2018**
Canada	$ 19,400,160	$ 49,028,742
Colombia	30,601,401	17,234,321
Italy	60,325	-
Mexico	134,476	-
Total	$ 50,196,362	$ 66,263,063

Operating segment	**Corporate**	**Cannabis**	**Total**
Revenues	$ -	$ 786,901	$ 786,901
Cost of Sales	-	741,600	741,600
Net loss for the year	$ 26,431,357	$ 8,235,984	$ 34,667,341

Total Revenues	**Corporate**	**Cannabis**	**Total**
Canada	$ -	$ -	$ -
Colombia	-	786,901	786,901
Italy	-	-	-
Mexico	-	-	-
Total Revenue	$ -	$ 786,901	$ 786,901

21. Change in functional currency

For comparative purposes, the 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 $)**	**Restated (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 $)**	**Restated (CAD $)**
Current assets	$ 34,269,100	$ 46,749,904
Non-current assets	14,303,737	19,513,159
Total assets	$ 48,572,837	$ 66,263,063
Current liabilities	$ 2,213,401	$ 3,019,522
Total liabilities	$ 2,213,401	$ 3,019,522

22. Acquisition

On July 26, 2019, the Company completed the acquisition of all of the shares of Ubiquo Telemedicina S.A.S., previously announced on April 20, 2018.

The aggregate purchase price for the Acquisition consisted of the issuance of common shares in addition to cash (expressed in Colombian pesos) payable to Ubiquo shareholders.

	Number of Shares	**Amount in CAD**
By issuance of Common Shares (i)	156,058	$ 686,655
To be paid in cash	-	863,203
Total consideration		**$ 1,549,858**

As at year end, the amounts below were paid to Ubiquo Telemedicina shareholders:

Paid as at December 31, 2019	**Number of Shares**	**Amount in CAD**
Issuance of Common Shares	132,649	$ 583,656
Cash payment	-	735,937
Total consideration paid		**$ 1,319,593**

The remaining shares and cash will be held back for a period of six months for any adjustments to the purchase price that may be required.

(Expressed in Canadian Dollars)

22. Acquisition (continued)

Subsequent adjustment - Included as part of the initial consideration	**Number of Shares**	**Amount in CAD**
Issuance of Common Shares	(4,442)	$ (19,545)
Cash payment	-	(43,046)
Total consideration adjustment		**$ (62,591)**

Consideration Payable	**Number of Shares**	**Amount in CAD**
Issuance of Common Shares	18,967	$ 67,997
Change in fair value of hold back consideration payable in shares	-	(10,148)
Cash consideration payable	-	84,220
Foreign exchange	-	(1,586)
Payable as at December 31, 2019		**$ 140,483**

Allocation of purchase price	**Amount in CAD**
Cash	$ 578
Amounts receivable and other assets	68,976
Property, plant and equipment	275,162
Intangible Assets - Brand	27,000
Intangible Assets - Software	188,000
Amounts payable and other liabilities	(318,674)
Net assets acquired	**$ 241,042**
Goodwill on acquisition	**$ 1,308,816**

(i) For the purpose of determining the value of the purchase price consideration, the 156,058 common shares were valued at $4.40 per share based on Pharmacielo's closing price as of July 26, 2019.

The goodwill resulting from the allocation of the purchase price to the total fair value of net assets represented the expected synergies with the Company's existing cannabis distribution business.

The consideration transferred was allocated on a preliminary basis to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. As the acquisition is within the measurement period provided under IFRS 3, the fair values assigned to the net assets acquired are preliminary and may be revised by the Company within 12 months from the date of acquisition as additional information is received.

Goodwill is required to be tested annually. Management performed this testing at year-end and no impairment was noted. Key assumptions include a discount of rate of 37.5% and the ability to realize the synergies with Pharmacielo's cannabis operations starting in 2021.

23. Proposed Acquisition of Creso Pharma Ltd. (Creso)

On June 6, 2019, PharmaCielo had entered into a scheme implementation agreement pursuant to which PharmaCielo agreed to acquire all of the issued and outstanding shares and listed options of Creso (An Australian listed company) by way of a scheme of arrangement. The agreement was terminated on November 5, 2019.

The Company provided Creso Pharma with a convertible loan in the amount of AUD$200,000 (approximately CAD$196,000) pursuant to a loan trust deed entered by both companies. The Convertible Loan bears an interest rate of 15% per annum and matured on November 30, 2019. Also, the Company advanced Creso Pharma a secured bridge loan for AUD$3.8 million (approximately CAD$3.57 million), which bears interest at a rate of 15% per annum. On December 5, 2019, Creso repaid in full, all principal and interest owing to the Company in the amount of approximately CAD$3.9 million including interest of approximately $267,000.

24. Events after the reporting period

COVID-19

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on PharmaCielo as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

PharmaCielo announced adjustments to the operations of PharmaCielo Colombia Holdings S.A.S. ("PharmaCielo Colombia") in its Rionegro, Colombia complex. The measures are in support of President Duque and the Colombian government's proactive COVID-19 mitigation efforts and to protect the health and safety of PharmaCielo's staff and the community. The new workplace procedures reflect the Colombian government's nation-wide essential business policy (Decree 457), that came into effect at 12:00 am on March 25 requiring certain quarantining measures (the "Decree"). All agronomic operations at the greenhouses, lab and processing facility that include breeding, tissue culture, propagation, cultivation, harvest, drying, separation and storage continue to operate. Operations are being carried out in rotating shifts with reduced staff and onsite adjustments to enable the important practice of social distancing. While PharmaCielo Colombia is excluded from the Decree, PharmaCielo Colombia has voluntarily temporarily ceased cannabis processing, at the processing facility and temporarily halted construction of the processing and extraction center. This decision also took into consideration the ability to minimize losses and ensure a fast recovery of our normal operation. The reduction in ethanol use managed costs down and eliminated the Company use of a commodity being used in the production of hand sanitizers. The monthly burn rate for expenses will be reduced. Also, the Colombian peso devalued significantly which enables the Company to operate at a lower Canadian dollar cost.

PharmaCielo will maintain this routine until May 11th and as long as the Decree is in effect. Additionally, current international border shutdowns are affecting international shipping to various markets and the Company is assessing the impact of potential delays in both equipment import and product export.

A prolonged global lock-down due to COVID-19 could reduce the quantity of product produced by the Company or limit the Company's ability to ship product to end customers. While the Company will manage down non essential costs, any prolonged delay in the reopening of the global economy will put the Company's revenues and liquidity at risk during the year.

Exercise of Options

Subsequent to December 31, 2019, a total of 50,000 options were exercised for gross proceeds of USD$25,000.

Exercise of Warrants

Subsequent to December 31, 2019, a total of 172 options were exercised for gross proceeds of $205.

Vesting of Restricted Share Units

Subsequent to December 31, 2019, a total of 40,000 Common Shares were issued for RSUs vested to date in 2020.

Supply agreement with XPhyto Therapeutics Corp.

On January 27, 2020, the Company announced that it has entered into a three-year agreement (the "Agreement") with XPhyto Therapeutics Corp. ("XPhyto") (CSE:XPHY; FSE:4XT), whereby PharmaCielo will supply medicinal-quality cannabis extract oils and isolates, including those containing THC, to XPhyto for analysis, further processing, product development and manufacturing at its European Union Good Manufacturing Practice-certified ("EU GMP") facility in

Biberach in the state of Baden-Württemberg, and thereafter for sale into the German market.

24. Events after the reporting period (continued)

Supply agreement with XPhyto Therapeutics Corp. (continued)

Pursuant to the Agreement, XPhyto granted PharmaCielo 500,000 Common Share purchase Warrants ("Warrants") with an exercise price of $2.00 per Common Share.

As a term of the Agreement, PharmaCielo will enter into an agreement (the "Purchase Agreement") to purchase CAD $500,000 of unsecured convertible debentures of XPhyto (the "Debentures"), to fund expansion of its processing capabilities. The Debentures mature two years from the date of issue and bear interest of 8.0% per annum. The Debentures will be convertible by PharmaCielo into 500,000 common shares of XPhyto subject to certain XPhyto acceleration rights. The purchase of the Debentures is subject to approval by the Canadian Securities Exchange (the "CSE"). XPhyto will also grant PharmaCielo 500,000 Warrants with an exercise price of $1.50 per Common Share.

Completion of the acquisition of Ubiquo Telemedicina S.A.S.

On February 21, 2020, the Company completed its final payment in the amount of $85,445 in cash and 18,967 common shares of PharmaCielo, in connection with its acquisition of Ubiquo Telemedicina S.A.S., which closed on July 26, 2019. The final payment was part of the agreed upon holdback portion of the purchase price for Ubiquo Telemedicina S.A.S.. The acquisition will enable the Company to expand its access to medicinal cannabis expertise among the Colombian medical community.

Closing of $8 Million Private Placement Financing

On April 15, 2020, the Company announced that it has closed its previously announced "best efforts" private placement financing of 12,428,002 special warrants of the Company (the "Special Warrants") (inclusive of the Broker Special Warrants) at $0.65 (the "Offering Price") per Special Warrant for aggregate gross proceeds of approximately $8 million (the "Offering"). The Offering was conducted by a syndicate of agents led by Cormark Securities Inc., Stifel GMP and Echelon Wealth Partners Inc. (collectively, the "Agents").

Each Special Warrant entitles the holder thereof to receive one common share (each, a "Common Share") of the Company on exercise thereof. Each Special Warrant will be automatically exercised on the earlier of: (i) the fifth business day after the Prospectus Qualification; and (ii) at 4:59 p.m. (EDT) on the date which is four months and a day following the date of closing.

The net proceeds of the Offering shall be used to support the anticipated processing capacity expansion, commence ramping up the Company's contract growing operations, working capital and general corporate purposes.
The closing of the Offering is subject to regulatory approval including that of the TSX Venture Exchange (the "TSXV").
Former Medical Advisory Board members settlement

Former Medical Advisory Board members settlement

The company settled an outstanding legal matter with two former Medical Advisory Board members. 74,906 Common Shares ($54,681) were issued to settle this matter. The Company recorded an accrual in its December 31, 2019 financial statements.