PharmaCielo Ltd.

Management's Discussion and Analysis

For the year ended December 31, 2019

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Introduction

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

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of PharmaCielo constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2019. This discussion should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). Information contained herein is presented as of April 23, 2020, unless otherwise indicated.

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

The audited consolidated financial statements and this MD&A have been reviewed by the Company's Audit Committee and was approved by the Board on April 23, 2020.

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

Caution Regarding Forward-Looking Statements

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

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

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

Key Developments

Highlights

- On December 2, 2019, the Company announced that it has qualified to trade on the OTCQX® Best Market in the United States and secured Depository Trust Company ("DTC") eligibility. PharmaCielo's shares were previously traded on the OTC Markets' Pink® Market under the ticker "PHCEF" and have begun trading on the top tier OTCQX® Best Market under an updated ticker symbol of "PCLOF".

- On January 20, 2020, it was announced that PharmaCielo Colombia Holdings S.A.S. has received the global Good Agricultural Practices (GAP) certification for its propagation, flowering and medical cannabis production operations in Colombia. The Good Agricultural Practices (GAP) certification is testament to safe and sustainable cultivation practices; supportive of Good Manufacturing Practices (GMP) designation continuum and international market sales. The GAP skill set evidenced by cultivar registration of additional 10 unique strains; total of 30 unique and proprietary strains now registered for commercial use.

- On January 22, 2020, the Company is pleased to announce that it has been included in the newly created S&P/TSX Cannabis Index (XCAN). The XCAN is composed of a select group of issuers traded on the TSX and TSX Venture Exchanges, each of which has been vetted by the TSX Market Intelligence Group.

- On January 24, 2020, the Company announces it has signed a three-year pan-European distribution agreement (the "Agreement"), in which the Company's high-grade CBD isolate and broad-spectrum CBD oil will be sold to wholesalers and medicinal CPG product manufacturers through GMP certified lab owner, CBD Export Global. The Agreement with the Quebec, Canada-based CBD Export Global expands PharmaCielo's distribution network in Europe with shipments into the EU to commence in 2020 with increased volumes during the duration of the agreement as B2B markets are expanded. A minimum target volume of 2,000 kg has been agreed to in the first year of the three-year performance-based Agreement, allowing for confirmation of individual market regulatory approvals and enabling increased sales volume expansion in subsequent years.

- 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.

- 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").

Operations

- 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.
- The Company expanded the land area under active cultivation, now at 12.1 hectares (capable in annual cultivation in excess of 0.48 million kg) from 5.3 hectares at the beginning of the year, with additional cultivation expansion throughout 2019.

- The Company is currently constructing a Processing and Extraction Centre (“PEC”), formerly known as the research technology and processing center (“RTC”) and is nearing the completion of construction. Once completed, PharmaCielo will be able to further expand its extraction processing capacity to 265 tones of dried flower to meet anticipated global demand for its high-grade medicinal cannabis oils, feeding international supply channels and product production lines. The PEC is expected to be completed in 3rd quarter. The Company has spent approximately USD$14.8 million so far as of the date of this MD&A and expects to spend another USD$2.5 million to complete.

Reverse Takeover

On January 15, 2019, the Company completed a reverse takeover (“RTO”) transaction with AAJ Capital 1 Corp. ("AAJ"). Pursuant to the RTO:

- AAJ consolidated its then outstanding 4,640,000 common shares of AAJ (“AAJ Common Shares”) on a 1:11.94 basis;

- Pursuant to the terms of an agreement dated August 17, 2018 in respect of a plan of arrangement (the “Arrangement”) between AAJ, 10949469 Canada Inc. (“AAJ Sub”), a private company incorporated under the Canada Business Corporations Act (the “CBCA”) and a wholly owned subsidiary of AAJ created for the purposes of the Arrangement, and 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 Common Shares”) and indirectly, PharmaCielo Colombia, PharmaCielo Holdings Ltd.’s wholly owned Colombian operating subsidiary from the holders of PharmaCielo Common Shares in exchange for an aggregate of 81,747,811 AAJ Common Shares. In addition, 11,815,416 subscription receipts of PharmaCielo Holdings Ltd. were converted into PharmaCielo Common Shares and then immediately converted into common shares in the capital of the Company (the “Common Shares”) on a one for one basis for gross proceeds of $39,581,643.60;

- PharmaCielo Holdings Ltd. and the AAJ Sub amalgamated and continued as a wholly owned subsidiary of AAJ; and

- AAJ changed its name to "PharmaCielo Ltd." upon completion of the RTO on January 15, 2019.

Proposed Acquisition of Creso Pharma Limited

On June 6, 2019, PharmaCielo announced that it entered into a scheme implementation agreement (the “Implementation Agreement”) pursuant to which PharmaCielo agreed to acquire all of the issued and outstanding shares (the “Share Scheme”) and listed options of Creso Pharma (ASX:CPH) by way of a scheme of arrangement (the “Scheme of Arrangement”). Creso Pharma is a global medicinal cannabis company that specializes in research, development and production of therapeutic, nutraceutical and animal health products. PharmaCielo had agreed to pay A$0.63 per ordinary share of Creso Pharma (each a “Creso Pharma Share”). The purchase price for the Creso Pharma Shares was to be satisfied by the issuance of Common Shares priced at $7.6166 per Common Share being the 3-day volume weighted average trading price for the Common Shares, representing an exchange ratio of a 0.0775 Common Shares per each Creso Pharma share. The Implementation Agreement and related transactions were unanimously approved by each of the Board and board of directors of Creso Pharma

On November 5, 2019, the Company announced the termination of the Implementation Agreement.

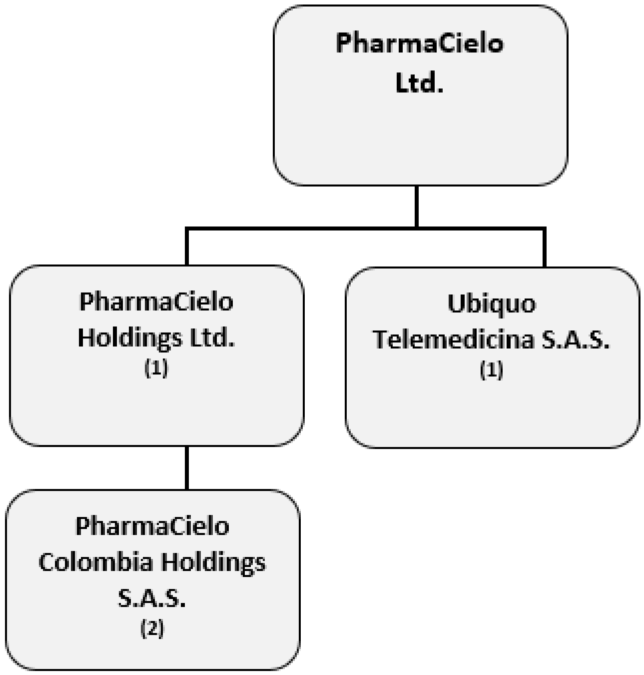
On December 5, 2019, the Company announced that Creso Pharma Limited ("Creso") (ASX:CPH) has repaid in full, all principal and interest owing to the Company in the amount of approximately CAD$3.9 million under the secured bridge loan by PharmaCielo to Creso that was made pursuant to an amendment to Creso's existing loan deed, originally entered into with an arm's length party to Creso on April 26, 2019 (the "Secured Bridge Loan").

Company Overview

PharmaCielo is a public company and commenced trading on the TSX Venture Exchange (the "TSXV") on January 18, 2019 under the ticker symbol "PCLO". PharmaCielo is headquartered in Toronto, Ontario, Canada, with a focus on cultivating, processing, and supplying all natural medicinal-grade cannabis oil extracts to large channel distributors, such as pharmacies, medical clinics, and cosmetic companies. PharmaCielo Ltd. 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 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." Both PharmaCielo's registered office and head office are located at 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2E3.

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

Intercorporate Relationship



(1) 100% owned by PharmaCielo Ltd.

(2) 100% owned by PharmaCielo Holdings Ltd.

Production Licenses

PharmaCielo Colombia holds the following licenses granted by the Colombian government: (i) the Cannabis Psychoactive License, granted on October 19, 2017; (ii) the Cannabis Non-Psychoactive Cultivation License, granted on October 19, 2017; and (iii) the Cannabis Manufacturing License, granted on April 16, 2018 and amended on January 30, 2019, all as described herein.

(i) Cannabis Psychoactive Cultivation License

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

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

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

The Ministry of Justice granted PharmaCielo Colombia a crop quota for the Cannabis Psychoactive Cultivation License for the 2019 calendar year for: (a) production and (b) scientific purposes. PharmaCielo Colombia has already requested all necessary quotas for 2020.

(ii) Cannabis Non-Psychoactive Cultivation License

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

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

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

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

(iii) Cannabis Manufacturing License

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

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

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

On January 30, 2019, the Ministry of Health approved an amendment to PharmaCielo Colombia's Cannabis Manufacturing License, authorizing PharmaCielo's new Rionegro facility to be the location of the licensed activities pursuant to Resolution 227.

With respect to this license, the Ministry of Health granted PharmaCielo Colombia a manufacturing quota for the year 2019 for scientific purposes. PharmaCielo Colombia has already requested all necessary quotas for 2020.

Duration of Licenses

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

Industry Overview

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

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

Operations

Facilities

PharmaCielo's nursery and propagation center, located in the municipality of Rionegro in the department of Antioquia, consists of 12 hectares of open-air greenhouses situated on a 26.3 hectare property, along with a manmade lake (natural water reservoir), ample cold storage, and industrial "plugging" systems customized to handle large-scale cutting operations. Each hectare of greenhouse contains 180 planting beds, each bed is 40.5 square meters (1.35 m x 30 m). The total bedding area per hectare is 7,290 square meters and the entire nursery and propagation center contains approximately 1.3 million square feet of planting beds. This nursery and propagation center is capable of producing on a weekly basis, significantly more than 12 million cuttings (e.g., clones) that would be required to supply 600 hectares of contract cultivation. The nursery and propagation centre ensures optimum biological and cultural control strategies. This enables the Company to efficiently maintain pathogens and pests at levels that exceed agricultural standards.

PharmaCielo is also currently constructing a Processing and Extraction Centre ("PEC"), with the anticipated completion of construction in mid-2020 due to delays in the construction plan for COVD19 contingency and on-site work restrictions. The designs and engineering for the construction process are contemplated the highest regulatory standards The PEC will contain facilities to: (i) dry flowers naturally and by using drying machines; (ii) a milling area; (iii) extraction areas; and (iv) an area designed for testing for levels of THC and CBD levels in cannabis as well as for general compliance. As of December 31, 2019, the PEC costs have been USD$13.1 million and management projects that the completion of facility will require an additional USD$4.2 million and a total cost of USD$17.3 million.

Production

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

These outbound cuttings, destined for contract cultivation, are hand-culled from populations of mother plants, that will occupy a percentage of approximately 75% of the overall nursery and propagation center's open-air greenhouse planting capacity. The mother plants supply all the feeder stock cannabis cuttings to be delivered to and cultivated by PharmaCielo's highly experienced network of contract

cultivation and harvest farms. Not only do the mother plants supply genetically stable varieties of cuttings, they themselves also originated as harvested cuttings from grandmother plants. Since the cloning process perfectly replicates plant genetics, the genetics of the mother plants mirror those of the grandmother plants from which they were harvested.

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

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2019	As at December 31, 2018 (Restated)	As at January 1, 2018 (Restated)
ASSETS			
Current assets			
Cash and cash equivalents	$ 13,673,299	$ 7,350,170	$ 15,984,352
Restricted cash	-	38,323,900	-
Trade receivables	709,493	-	-
Short-term investments	-	215,001	-
Marketable securities	106,000	153,000	12,500
Prepaid expenses and other receivables	1,539,146	623,254	377,216
Inventory	3,465,748	84,580	-
Biological Assets	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	27,275,868	19,513,158	14,941,059
Right-of-use assets	1,445,598	-	-
Goodwill	1,162,885	-	-
Intangible Assets	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	$ 2,900,441	$ 3,019,522	$ 2,065,519
Lease obligations	147,597	-	-
RSU obligations	117,690	-	-
Consideration payable	140,483	-	-
Total current liabilities	3,306,211	3,019,522	2,065,519
Non-current liabilities			
Lease obligations	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	116,827,833	64,316,562	50,949,160
Shares to be issued	-	35,450,938	3,469,686
Reserves	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

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

	For the Year Ended December 31, 2019	2018 (Restated)
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	757,640	-
Gross profit	643,477	-
Operating expenses		
Agricultural pre-operational costs	$ 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	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	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	-	(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 income (loss) for the year	$(36,595,512)	$(29,996,520)

Consolidated Statements of Loss and Comprehensive Loss (Expressed in Canadian Dollars)		
(Continued)		
	2019	**2018**
Basic and diluted net income (loss) per common share	**$ (0.36)**	$ (0.40)
Weighted average number of common shares outstanding - basic and diluted	**96,050,430**	78,191,617

Assets by Geography

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

Loss by Geography

Net loss for the year ended	**December 31, 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

Operating Segment

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

Revenue by Geography

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

Discussion of Operations

The Company's net loss totaled $34.7 million for the year ended December 31, 2019 (compared to $31.6 million in the year ended December 31, 2018), with a basic loss per share of $0.36 for the year ended December 31, 2019 versus a basic loss per share of $0.40 in the year ended December 31, 2018.

This net loss was primarily due to higher professional fees of $5.7 million for the year ended December 31, 2019 (compared to $3 million in the year ended December 31, 2018), higher salaries and wages of $4.9 million for the year ended December 31, 2019 (compared to $1.2 million in the year ended December 31, 2018), higher consulting fees of $3.0 million for the year ended December 31, 2019 (compared to $1.6 million in the year ended December 31, 2018) and listing expense of $2.4 million for the year ended December 31, 2019 (compared to $Nil million in the year ended December 31, 2018). The net loss was partially offset by lower share-based compensation expense of $11.3 million for the year ended December 31, 2019 (compared to $18.8 million in the year ended December 31, 2018).

Professional fees of $2 million were incurred as a result of the Creso transaction and contributed to the increase in 2019. Other increases in professional fees included audit fees and other public company costs for the first time of approximately $0.5 million as this was the first year as a public company.

Salaries and wages increased in 2019 as the Canadian office was expanded from 3 staff for the last quarter of 2018 to 7 staff for the year in 2019 to support finance and regulatory requirements. Canadian salaries increased from $0.3 million to $2.2 million. In Colombia, administrative functions were expanded in procurement, human resources, health and safety and product management. Also, in Q4 $0.5 million of selling and marketing expenses were reclassified to salaries and wages. Total salaries in Colombia increased from $1.0 million to $2.7 million.

Consulting fees increased $0.7 million for support of the Creso transaction. The balance of the $1.4 million increase coming from SAP ERP project of $0.4 million, capital markets consulting $0.3 million and the balance in cannabis grow and extraction consulting.

The bulk of the cannabis generated revenue was derived from a purchase order for 300 kgs of isolate shipped to the US at year end. Subsequent to this shipment, the price of isolate has declined dramatically in the US leading to the Company limiting its revenue exposure in the US. As well, the legal costs to get regulatory approval are a deterrent at the current US price points. Any US opportunity will be reviewed based on it's individual opportunity and with the regulatory approval cost and risk assessed prior to proceeding.

The company has had inquiries for product in the EU which has maintained its pricing structure and are more lucrative. The Company will enter these markets once approval from the TSXV is obtained.

In 2019, cash raised from financing was invested in the operations in Colombia to continue the construction of the processing and extraction centre. This has shifted the asset mix to Colombia and the Company's cash assets were deployed to the fixed assets in Colombia.

The Company's pre agriculture costs include the cuttings and mother plants and were expensed as costs incurred. Now that the Company is growing and producing for sale, the cuttings and mother plants are expensed within the Cost of Goods Sold. All agriculture grown for harvesting are capitalized in biological assets and inventory. This has grown to $3.6 million from negligible at the start of the year as the Company ramped up processing in its temporary facility.

Q3			
Cost elements	w MP & Cut	Excl. MP & Cut	Agri cost only
Mother plants	109,074,551	-	-
Cuttings costs	15,430,123	-	-
Rooting cost	253,095,105	253,095,105	253,095,105
Phytosanity cost	309,525,665	309,525,665	309,525,665
Production cycle - 14 weeks	1,392,557,807	1,392,557,807	1,392,557,807
Predried cycle - 2 weeks	92,837,187	92,837,187	92,837,187
Upstream	282,586,090	282,586,090	-
Total	2,455,106,529	2,330,601,854	2,048,015,764
Predried (kg)	20,196	20,196	20,196
Predried (g)	20,196,000	20,196,000	20,196,000
COP Cost per (g)	122	115	101
CAD Cost per (g)	**$ 0.047**	**$ 0.045**	**$ 0.040**

Q4			
Cost elements	w MP & Cut	Excl. MP & Cut	Agri cost only
Mother plants	129,999,456	-	-
Cuttings costs	31,077,188	-	-
Rooting cost	391,362,879	391,362,879	391,362,879
Phytosanity cost	216,490,077	216,490,077	216,490,077
Production cycle - 14 weeks	1,267,333,328	1,267,333,328	1,267,333,328
Predried cycle - 2 weeks	84,488,889	84,488,889	84,488,889
Upstream	486,903,674	486,903,674	-
Total	2,607,655,491	2,446,578,847	1,959,675,173
Predried (kg)	21,659	21,659	21,659
Predried (g)	21,658,900	21,658,900	21,658,900
COP Cost per (g)	120	113	90
CAD Cost per (g)	**$ 0.047**	**$ 0.044**	**$ 0.035**

With an "All-in" operating cost per gram to produce dried cannabis at $0.04 this creates an exceptional competitive advantage for the company although PharmaCielo business model only sells extracts, oils and isolate. These are costs prior to any final processing to finished oils and isolate.

Summary of Quarterly Results

PharmaCielo Ltd.
Selected Quarterly Information

In Cdn $ (000's)	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19
Sales	$ 657	$ 130	$ -	$ -
COGS	672	70	-	-
Gross Margin	(15)	60	-	-
Unrealized Gain on biological asset value	(1,474)	2,073		
Operating Expenses	(121)	121	1,397	906
SG&A	10,482	6,124	8,774	4,763
Net Loss	(12,423)	(3,820)	(10,686)	(7,738)
Net Comprehensive Loss	(14,574)	(2,221)	(11,469)	(8,332)
Weighted average number of common shares outstanding	98,196,739	96,666,354	96,264,358	92,782,399
Net loss per common share	$ (0.13)	$ (0.04)	$ (0.11)	$ (0.08)

In Cdn $ (000's)	31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18
Sales	$ -	$ -	$ -	$ -
COGS	-	-	-	-
Gross Margin	-	-	-	-
Unrealized Gain on biological asset value	-	-	-	
Operating Expenses	828	618	529	332
SG&A	5,905	10,307	3,152	9,558
Net Loss	(8,265)	(9,497)	(3,818)	(10,047)
Net Comprehensive Loss	(8,339)	(9,559)	(4,592)	(9,137)
Weighted average number of common shares outstanding	80,161,732	77,906,560	77,792,185	77,133,903
Net loss per common share	$ (0.11)	$ (0.12)	$ (0.05)	$ (0.13)

In 2018, PharmaCielo was pre revenue and had just started growing crops after receiving approval to plant in December 2017. To reward this milestone, PharmaCielo issued stock options to Officers, Directors and Operational employees in Q1 2018. This increased SG&A in Q1 due to share based payments. Share based payments also increased in Q3 as executive were hired as the Company was preparing for going public. These executives were granted options to join the company.

In 2019, the Company was ramping up cultivation and the resources to support regulatory requirements in the Canadian office. Salaries and wages increased from $1.2 million in 2018 to $4.9 million in 2019, gradually increasing quarter over quarter. Other SG&A expenses were incurred in the Creso transaction which ultimately was not consummated. Total Creso costs were approximately $2.8 million. Other SG&A costs increased with the increase in staffing.

2019 also had the Company record it's first revenue. Although small, it was a milestone. Of the $772 thousand in revenue, $630 thousand was from our shipment to the US.

Liquidity and Capital Resources

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

The Company is generating operating revenues but, has not achieved commercial production levels and therefore must utilize its current cash reserves, and funds obtained from the issuance of share capital to maintain its capacity to meet ongoing operating activities. As of December 31, 2019, the Company's working capital is $16.4 million (compared to $43.7 million as of December 31, 2018 and $14.3 million as of January 1, 2018). As of December 31, 2019, the Company had 98,965,173 Common Shares issued and outstanding, 12,606,000 options outstanding that could raise approximately $32.8 million, and 37,045 warrants that could raise approximately $0.1 million if exercised in full.

Accounts payable and accrued liabilities increased by $451,832 as at December 31, 2019 (compared to a $954,003 increase as at December 31, 2018) and consists of amounts that are to be extinguished in due course. The Company's cash and cash equivalents as of December 31, 2019 are sufficient to pay these liabilities.

As at December 31, 2019, the Company had working capital of $16.4 million (compared to $43.7 million as at December 31, 2018 and $14.3 million as of January 1, 2018) as the Company had cash and cash equivalents of $13.7 million (compared to $45.7 million as at December 31, 2018 and $16.0 million as of January 1, 2018).

Net cash used in operating activities was $25.2 million for the year ended December 31, 2019 (compared to $11.3 million net cash used for the year ended December 31, 2018). Operating activities were affected by a net decrease in non-cash working capital balances of $4.5 million for the year ended December 31, 2019 (compared to an increase of $631,540 for the year ended December 31, 2018) due to an increase in prepaid expenses and other receivable of $984,868 for the year ended December 31, 2019 (compared to an increase of $246,038 for the year ended December 31, 2018), an increase in inventory and biological assets of $2.7 million for the year ended December 31, 2019 (compared to an increase of $84,580 for the year ended December 31, 2018), an increase in trade receivables of $709,493 for the year ended December 31, 2019 (compared to $Nil for the year ended December 31, 2018), and a decrease in accounts payable and accrued liabilities of $451,832 for the year ended December 31, 2019 (compared to an decrease of $954,003 for the year ended December 31, 2018). The Company also recorded share-based compensation of $11.3 million for the year ended December 31, 2019 (compared to share-based compensation of $18.8 million for the year ended December 31, 2018), and recorded a RTO listing expense of $2.4 million for the year ended December 31, 2019 (compared to $Nil for the year ended December 31, 2018). Net cash used in investing activities was $11.3 million during the year ended December 31, 2019 (compared to $4.1 million net cash used for the year ended December 31, 2018), as a result of investment in property and equipment of $10.1 million for the year ended December 31, 2019 (compared to $4.1 million for the year ended December 31, 2018).

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

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

Commitments

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 agreement is for two years and royalties will be paid on a quarterly basis. Royalties are calculated based on a fixed fee (USD$) per kilogram of oil processed with the Technology-enabled process scale chromatography and Technology-enabled process scale crystallization.

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's subsidiary, 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 fee 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.

v. On December 31, 2019, a director of the Company’s subsidiary, 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 subsidiary.

	Years ended December 31, 2019	2018
	$	$
Management compensation	1,440,628	726,167
Directors' fees (1)	77,500	-
Share-based compensation (2)	9,674,812	14,696,391
Total management compensation	11,192,940	15,422,559

(1) Includes meeting fees and committee 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 non-interest bearing and due on demand.

Fourth Quarter

Selling, general and administrative expenses	FY 19	FY 18	Inc/(dcr)	Q4 19	Q4 18	Inc/(dcr)	Q3 19	Inc/(dcr)
General and administrative								
Consulting fees	2,998,822	1,640,354	1,358,468	935,072	350,115	584,957	758,980	176,092
Office and general	2,356,613	1,691,927	664,686	267,509	443,939	(176,430)	814,507	(546,998)
Professional fees	5,672,144	2,876,358	2,795,786	2,418,373	1,104,978	1,313,395	1,945,951	472,422
Salaries and wages	4,856,088	1,230,084	3,626,004	2,015,269	616,735	1,398,534	1,002,666	1,012,603
Travel and accommodation	1,134,351	983,993	150,358	282,965	388,970	(106,005)	219,871	63,094
Share-based compensation	11,310,592	18,830,254	(7,519,662)	4,268,969	2,375,695	1,893,274	844,168	3,424,801
Selling, marketing and promotion	900,658	1,312,668	(412,010)	(138,210)	514,572	(652,782)	391,126	(529,336)
Amortization and depreciation	914,148	356,396	557,752	431,564	109,428	322,136	147,551	284,013
Total selling, general and administrative expenses	30,143,416	28,922,034	1,221,382	10,481,511	5,904,432	4,577,079	6,124,820	4,356,691

The Company had initiated a transaction to purchase Creso Pharma in June 2019. With the decline in the Cannabis capital markets, it was decided in November that the transaction was no longer viable. The Company had provided a loan of $3.6 million to Creso to operate during the transaction negotiation. Once the transaction was not complete, we received the repayment of the loan in the fourth quarter for $3.9 million which constituted a repayment of principal and interest.

In the fourth quarter, the Company also had cannabis sales of $657 thousand, the most material sales so far. The Company also invested $2.7 million in property, plant and equipment in the continued build of the processing and extraction facility.

Consulting fees

Consulting fees were in the fourth quarter of fiscal 2019 was $935,072, as compared to $350,115 in the fourth quarter of fiscal 2018. The increase is due to

- $0.2 million for Creso
- $0.15 million for SAP implementation
- The balance in other cannabis consultants

Office and general

Office and general expenses were in the fourth quarter of fiscal 2019 was $267,509, as compared to $443,939 in the fourth quarter of fiscal 2018. The decrease is due to

- New Toronto and Medellin offices
- IT

Professional fees

Professional fees were in the fourth quarter of fiscal 2019 was $2.4 million, as compared to $1.1 million in the fourth quarter of fiscal 2018. The increase is due to

- $0.8 million Legal fees for Creso
- $0.4 million being a public Co and associated expenses

Salaries and wages

Salaries and wages expense were in the fourth quarter of fiscal 2019 was $2 million, as compared to $616,735 in the fourth quarter of fiscal 2018. The increase is due to

- Canadian team increase from 3 to 7FTE
- FTE growth in Colombia in administration, for Human Resources, Procurement, Finance, Health and Safety
- Colombia transfer from selling and marketing expenses of $0.5

Travel and accommodation

Travel and accommodation expense were in the fourth quarter of fiscal 2019 was $282,965, as compared to $388,970 in the fourth quarter of fiscal 2018. The decrease is due to

- Lower in quarter vs 2018, tighter cost control on discretionary expense

Share-based compensation

Share-based compensation expense in the fourth quarter of fiscal 2019 was $4.3 million, as compared to $2.4 million in the fourth quarter of fiscal 2018. The increase is due to

- Options issued to 2 consultants and RSU's of 25,000 issued to a Director of the Company
- RSU accounting adjustment, changed from cash or equity based to equity only vesting of RSU's

Selling, marketing and promotion

Selling, marketing and promotion expense were in the fourth quarter of fiscal 2019 was $(138,210), as compared to $514,572 in the fourth quarter of fiscal 2018. The decrease is due to

- In fourth quarter, expenses were reclassified from selling and marketing to salaries and wages of $0.5 million

Amortization and depreciation

Amortization and depreciation expense were in the fourth quarter of fiscal 2019 was $431,564, as compared to $109,428 in the fourth quarter of fiscal 2018. The increase is due to

- $0.2 million Office leases amortization
- $0.2 million Intangible amortization

Change in Accounting Policy

Change in Functional currency

The Company changed its functional currency from US dollars to Canadian dollars as of January 1, 2019. The change in functional currency is due to financings denominated in Canadian dollars which were denominated in US dollars before. All assets, liabilities, share capital and other components of shareholders' equity were converted 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 presentation currency using the exchange rate of $1.245 as at January 1, 2018.

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

The functional currency of PharmaCielo S.A. de C.V. is the Mexican Peso.

Capital Resources

The Company has raised capital in the private markets to fund its capital expenditures. The Company has yet to generate sufficient revenue and as such relies on capital raises to fund its expenses. The Company believes it will be able to raise capital as required in the long term but recognizes there are risks to this pre-revenue. The Company has enough funds to finance its immediate capital needs for the PEC which requires USD$2.5 million to complete the facility. The Company also will be investing $1 million in the build and expansion of the first contract grower location.

Financial instruments

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

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As at December 31, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year.

Foreign currency risk

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

Off-Balance-Sheet Arrangements

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

Share Capital

As of the date of this MD&A, the Company had 99,149,218 Common Shares issued and outstanding.

As of the date of this MD&A, the Company has 12,556,000 stock options exercisable to purchase Common Shares issued and outstanding.

As of the date of this MD&A, the Company has 677,000 RSUs issued and outstanding that can be settled in Common Shares.

As of the date of this MD&A, the Company has 36,882 Common Share purchase warrants issued and outstanding.

Risk Factors

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

Business Risks

Limited Operating History

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

Regulatory Compliance Risks

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

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

Reliance on Licenses and Authorizations

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

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

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

Risks Inherent in Agricultural

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

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

Risks Inherent in Rural Real Estate

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

Supply of Cannabis Seeds

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

Risks Related to Investment in a Colombian Company

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

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

Economic and Political Developments in Colombia

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

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

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

Operational Risks

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

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

Inflation in Colombia

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

Financial and Accounting Risks

Foreign Sales

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently expects that sales will be denominated in Colombian pesos and may, in the future, have sales denominated in the currencies of additional countries in which it establishes sales offices. In addition, PharmaCielo incurs most of its operating expenses in Colombia Pesos. In the future, the proportion of PharmaCielo's sales that are international may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact the

PharmaCielo's business, financial condition and results of operations. PharmaCielo has not previously engaged in foreign currency hedging. If PharmaCielo decides to hedge its foreign currency exposure, it may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide PharmaCielo from foreign currency fluctuations and can themselves result in losses.

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 nonessential 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.

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., a leading provider of telemedicine services in Colombia. 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 (the "Qualification Date"); 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

The company settled an outstanding debt in the amount of $54,681.38 with two former Medical Advisory Board members. As a result, the Company issued an aggregate of 74,906 Common Shares at a deemed price of $0.73 per Common Share, with all such issued Common Share being subject to a statutory hold period of four months plus a day from the date of issuance. The Company recorded a reserve in its December 31, 2019 financial statements.