



**PHARMACIELO LTD.
CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2020
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)**

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

	As at September 30, 2020	As at December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	3,241,883	13,673,299
Trade receivables (Note 4)	633,974	709,493
Marketable securities (Note 5)	92,472	106,000
Prepaid expenses and other receivable (Note 6)	1,259,181	1,539,146
Inventory (Note 7)	5,880,554	3,465,748
Biological assets (Note 8)	405,855	178,526
Total current assets	11,513,919	19,672,212
Non-current assets		
Property, plant, and equipment (Note 9)	26,937,133	27,275,868
Right-of-use assets (Note 10)	1,246,074	1,445,598
Investment - XPhyto Therapeutics Corp. (Note 11)	1,370,421	-
Investment in joint ventures (Note 20)	646,996	-
Goodwill (Note 21)	1,031,328	1,162,885
Intangible Assets (Note 21)	340,836	639,799
Total non-current assets	31,572,788	30,524,150
Total assets	43,086,707	50,196,362
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	3,843,643	2,900,441
Lease obligations (Note 10)	158,865	147,597
RSU obligations (Note 15)	97,390	117,690
Consideration payable	-	140,483
Total current liabilities	4,099,898	3,306,211
Non-current liabilities		
Lease obligations (Note 10)	1,253,138	1,424,850
Deferred income	405,748	-
Total non-current liabilities	1,658,886	1,424,850
Total liabilities	5,758,784	4,731,061
Shareholders' Equity		
Share capital (Note 12)	130,932,957	116,827,833
Reserves (Notes 13, 14, and 15)	28,498,415	26,243,564
Other comprehensive income (loss)	(4,441,153)	(93,573)
Retained earnings (deficit)	(117,662,296)	(97,512,523)
Total shareholders' equity	37,327,923	45,465,301
Total liabilities and shareholders' equity	43,086,707	50,196,362

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

Nature of operations (Note 1)

Commitments (Note 18)

Events after the reporting period (Note 23)

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue:				
Sale of Cannabis derivative products	5,085	60,843	1,708,092	60,843
Revenue from Telemedicine services	20,828	69,287	64,771	69,287
Total revenue	25,913	130,130	1,772,863	130,130
Cost of goods sold - Cannabis derivative products	1,253	67,183	1,134,256	67,183
Cost of goods sold - Telemedicine services	-	3,159	-	3,159
Gross profit before fair value adjustments	24,660	59,788	638,607	59,788
Realized fair value on inventory sold	2,258	-	(470,761)	-
Unrealized gain (loss) on fair value of biological assets (Note 8)	(709,739)	2,073,214	(854,917)	2,073,214
Gross profit	(682,821)	2,133,002	(687,071)	2,133,002
Operating expenses				
Agricultural operating costs (Note 8)	49,988	121,491	123,056	2,424,525
Selling, general, and administrative expenses				
General and administrative				
Consulting fees	518,394	706,180	1,927,837	2,063,750
Office and general	617,001	867,307	1,618,094	2,089,104
Professional fees	615,745	1,945,951	3,548,384	3,253,771
Salaries and wages	1,729,488	1,002,666	5,062,974	2,840,819
Travel and accommodation	16,917	219,871	258,429	851,386
Share-based compensation	1,229,490	844,168	5,107,353	7,041,623
Selling, marketing, and promotion	174,359	391,126	565,947	1,038,868
Amortization and depreciation (Notes 9 and 10)	368,536	147,551	1,206,867	482,584
Expected credit losses	816,412	-	1,865,189	-
Total selling, general, and administrative expenses	6,086,342	6,124,820	21,161,074	19,661,905
Other (income) expense				
Bank charges and interest expense	70,051	20,144	168,223	118,702
Unrealized (gain) loss on marketable securities	23,602	108,000	53,977	33,000
Exchange (gain) loss	(401,693)	(298,009)	(629,587)	(244,188)
Other non-operating (income) expenses	213,854	102,688	82,947	223,849
Listing expense	-	-	-	2,433,687
Interest income	(53,293)	(243,264)	(66,208)	(291,314)
Change in fair value of consideration payable	-	17,089	(11,949)	17,089
Amortization of deferred income	(568,745)	-	(731,407)	-
Unrealized (gain) loss on Xphyto investment (Note 11)	(137,227)	-	(1,048,992)	-
Realized (gain) loss on sale of marketable securities	(58,124)	-	(124,893)	-
Share of (gain) loss of investment in joint ventures (Note 20)	204,336	-	486,461	-
Total other (income) expenses	(707,239)	(293,352)	(1,821,428)	2,290,825
Net income (loss) for the period	(6,111,912)	(3,819,957)	(20,149,773)	(22,244,253)

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

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2020	2019	2020	2019
Other comprehensive income (loss)				
Currency translation adjustment	(1,596,601)	1,599,048	(4,347,580)	2,975,626
Net comprehensive income (loss)	(7,708,513)	(2,220,909)	(24,497,353)	(19,268,627)
Basic and diluted loss per share (Note 16)	(0.05)	(0.04)	(0.19)	(0.23)
Weighted average number of common shares				
outstanding - basic and diluted	118,082,282	96,666,354	107,369,270	95,414,153

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

PHARMACIELO LTD.

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

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Operating Activities		
Net income (loss)	(20,149,773)	(22,244,253)
Items not affecting cash:		
Amortization and depreciation	1,679,112	1,071,601
Expected credit losses	1,865,189	-
Unrealized (gain) loss on fair market value of biological assets	854,917	(2,073,214)
Unrealized (gain) loss on fair market value of XPhyto investment	(1,048,992)	-
Share of (gain) loss on investment in joint ventures	486,461	-
Amortization of deferred income	(731,407)	-
Fair value adjustment on sale of inventory	470,761	-
Change in fair value of consideration payable	(11,949)	257,895
Lease interest expense	148,312	129,400
Share-based compensation	5,107,353	7,041,623
Exchange (gain) loss	(1,625,180)	(244,188)
Unrealized (gain) loss on marketable securities	(124,893)	33,000
Realized (gain)/loss on marketable securities	53,977	-
Listing expense	-	2,406,476
Changes in non-cash working capital items		
Trade receivables	(1,723,781)	(13,044)
Prepaid expenses and other receivables	279,965	(4,427,818)
Inventory	(2,233,786)	(1,274,650)
Biological assets	(1,733,612)	(1,045,701)
Accounts payable and accrued liabilities	913,664	(788,913)
Net cash and cash equivalents (used in) provided by operating activities	(17,523,662)	(21,171,786)
Investing Activities		
Cash acquired on RTO	-	183,729
Cash acquired on acquisition of Ubiquo Telemedicina	-	562
Property, plant and equipment acquired on acquisition of Ubiquo Telemedicina	-	267,174
Purchase of Ubiquo Telemedicina	-	(754,240)
Investment in joint ventures	(891,066)	-
Investment - XPhyto Therapeutics Corp.	(500,000)	-
Proceeds on sale of XPhyto marketable securities	1,402,313	-
Purchase of property, plant, and equipment	(3,803,463)	(7,290,969)
Purchase of short-term investments	-	(16,002,794)
Net cash and cash equivalents (used in) provided by investing activities	(3,792,216)	(23,596,538)

PHARMACIELO LTD.

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

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Financing Activities		
Options and warrants exercised	32,685	4,230,915
Cash received for shares issued	12,560,060	-
Share issue costs	(1,460,987)	(577,302)
Lease payments	(247,296)	(184,474)
Capital contribution from non-controlling interest	-	86,510
Net cash and cash equivalents (used in) provided by financing activities	10,884,462	3,555,649
Net increase (decrease) in cash and cash equivalents	(10,431,416)	(41,212,675)
Cash and cash equivalents, beginning of period	13,673,299	45,674,069
Cash and cash equivalents, end of period	3,241,883	4,461,394

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

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

	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Non- controlling interest	Total
Balance at December 31, 2018	81,747,811	64,355,186	35,556,574	23,932,929	2,244,032	(62,845,180)	-	63,243,541
Securities issued pursuant to the RTO (Note 3)	413,735	2,043,850	-	224,440	-	-	-	2,268,290
Shares issued pursuant to private placement at price of \$3.35 per share (Note 12(b)(i))	11,815,416	39,581,644	(39,581,644)	-	-	-	-	-
Options exercised (Note 12(b)(ii))	2,615,889	4,032,232	(226,450)	(2,033,616)	-	-	-	1,772,166
Warrants exercised (Note 12(b)(iii))	764,455	3,644,339	-	(1,185,590)	-	-	-	2,458,749
Common shares issued related to the acquisition of Ubiquo (Note 12(b)(iv))	132,716	583,657	-	-	-	-	-	583,657
Cost of issue	-	(4,828,822)	4,251,520	-	-	-	-	(577,302)
Share-based compensation	-	-	-	3,435,038	-	-	-	3,435,038
Non-controlling interest	-	-	-	-	-	-	130,241	130,241
Currency translation adjustment for the period	-	-	-	-	(2,975,626)	-	-	(2,975,626)
Net income (loss) for the period	-	-	-	-	-	(22,244,253)	-	(22,244,253)
Balance at September 30, 2019	97,490,022	109,412,086	-	24,373,201	(731,594)	(85,089,433)	130,241	48,094,501

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

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

	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total
Balance at December 31, 2019	98,965,173	116,827,833	-	26,243,564	(93,573)	(97,512,523)	45,465,301
Common shares issued related to the acquisition of Ubiquo (Note 12(b)(v))	18,967	45,900	-	-	-	-	45,900
Options exercised (Note 12(b)(vi))	50,000	62,724	-	(30,244)	-	-	32,480
Warrants exercised (Note 12(b)(vi))	172	864	-	(659)	-	-	205
Vested RSUs (Note 12(b)(vii))	640,000	2,912,902	-	(2,892,599)	-	-	20,303
Common shares issued pursuant to debt settlement (Note 12(b)(viii))	74,906	54,681	-	-	-	-	54,681
Shares issued pursuant to Special Warrants at price of \$0.65 per share (Note 12(b)(ix))	12,578,002	6,996,900	-	-	-	-	6,996,900
Shares issued in private placement at \$0.72 per share (Note 12(b)(x))	6,388,940	4,031,153	-	-	-	-	4,031,153
Warrants (Note 13)	-	-	-	71,000	-	-	71,000
Share-based compensation	-	-	-	5,107,353	-	-	5,107,353
Currency translation adjustment for the period	-	-	-	-	(4,347,580)	-	(4,347,580)
Net income (loss) for the period	-	-	-	-	-	(20,149,773)	(20,149,773)
Balance at September 30, 2020	118,716,160	130,932,957	-	28,498,415	(4,441,153)	(117,662,296)	37,327,923

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

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

1. Nature of operations

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

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 2V6.

Through the Company's wholly-owned subsidiary, PharmaCielo Colombia Holdings S.A.S. ("PharmaCielo Colombia"), the Company is licensed by the Colombian Ministry of Health and Social Protection and the Colombian Ministry of Justice and Law 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 unaudited condensed interim consolidated financial statements of the Company have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS' issued and outstanding as at November 26, 2020, the date the Board of Directors approved these unaudited condensed interim consolidated financial statements.

The unaudited condensed interim consolidated financial statements are presented in Canadian dollars and are prepared in accordance with the same accounting policies, critical estimates and methods described in the Company's annual consolidated financial statements for the year ended December 31, 2019, except as noted below. Given that certain information and footnote disclosures, which are included in the annual audited consolidated financial statements, have been condensed or excluded in accordance with IAS 34, these unaudited condensed interim consolidated financial statements should be read in conjunction with our annual audited consolidated financial statements as at and for the year ended December 31, 2019, including the accompanying notes thereto.

Basis of measurement

These unaudited condensed interim 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 unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Principles of consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, PharmaCielo Holdings Ltd., PharmaCielo Colombia Holdings S.A.S., and Ubiquo Telemedicina S.A.S ("Ubiquo").

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

The financial results of PharmaCielo's subsidiaries are included in the unaudited condensed interim consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to benefit from its activities. In assessing control, potential voting rights that are currently exercisable are considered. All inter-company balances and transactions have been eliminated in preparing unaudited condensed interim consolidated financial statements.

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

Company	Location	Principal activity
PharmaCielo Ltd.	Toronto, Canada	Parent company
PharmaCielo Holdings Ltd. ⁽¹⁾	Toronto, Canada	Holding company
Ubiquo Telemedicina S.A.S. ⁽²⁾	Medellin, Colombia	Telemedicine software company
PharmaCielo Colombia Holdings S.A.S. ⁽²⁾	Medellin, Colombia	Cultivation and processing company

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

(2) 100% owned by PharmaCielo Holdings Ltd.

Significant accounting judgments and estimates

The preparation of unaudited condensed interim 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 disclosures.

Judgment is used mainly in determining how a balance or transaction should be recognized in the unaudited condensed interim consolidated financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. Estimates and judgements made by management in the preparation of these financial statements are subject to a higher degree of measurement uncertainty due to the impacts of COVID-19.

Going concern

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing these unaudited condensed interim consolidated financial statements. Management prepares the unaudited condensed interim 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 believes that the going concern assumption is appropriate for these unaudited condensed interim consolidated financial statements and that the Company will be able to meet its budgeted administrative and development costs during the upcoming year and beyond when considering the Company's current financial forecast. PharmaCielo continues to enter into strategic agreements and finance offerings to source funds and maintain its operations. As outlined in Note 23, subsequent to the nine months ended September 30, 2020, the Company announced a private placement offering of \$10 million. This was an upsizing of the original offering amount of \$5 million due to high initial demand.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

The Company may need to seek further financing in the future to maintain its current level of activity. To date, PharmaCielo has been successful in raising funds to sustain operations. However, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company.

Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these unaudited condensed interim consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities.

Equity Transactions

The Company uses the Black-Scholes 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. 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. 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 8.

Investment in XPhyto Therapeutics Corp ("XPhyto")

As at September 30, 2020, the Company had converted all of its XPhyto debentures into shares; however, PharmaCielo still held warrants for which management is required to make a number of estimates to determine valuation. The warrants required a Black-Scholes pricing model that involved various estimates and assumptions. The fair value of investment in XPhyto is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of investment in XPhyto are discussed in Note 11.

New accounting policies

Investment in joint ventures

Investments accounted for using the equity method include investments in associates, which are entities over which the Company exercises significant influence, and joint arrangements representing joint ventures.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company accounts for its investments in associates and joint ventures using the equity method of accounting. Under the equity method, investments in associates and joint ventures are initially recognized in the unaudited condensed interim consolidated statements of financial position at cost, and subsequently adjusted for the Company's share of the net income (loss) and distributions of the investee. The carrying value is assessed for impairment at each statement of financial position date.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and are all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional. The Company's trade receivables do not contain significant financing components. The Company holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

New standards adopted

IFRS 3, Business Combinations ("IFRS 3")

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The adoption of the amendments had no impact on the Company's unaudited condensed interim consolidated financial statements.

IAS 1, Presentation of Financial Statements ("IAS 1")

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments had no impact on the Company's unaudited condensed interim consolidated financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments had no impact on the Company's unaudited condensed interim consolidated financial statements.

3. Reverse Take-over

On January 15, 2019, the Company completed a reverse takeover ("RTO") transaction with AAJ. Pursuant to the terms of an agreement dated August 17, 2018 in respect of a plan of arrangement (the "Arrangement") between AAJ, 10949469 Canada Inc. ("AAJ Sub"), a private company incorporated under the Canada Business Corporations Act (the "CBCA") and a wholly owned subsidiary of AAJ created for the purposes of the Arrangement, and PharmaCielo Holdings Ltd., a private corporation incorporated under the CBCA, AAJ acquired all of the issued and outstanding common shares of PharmaCielo Holdings Ltd. (the "PharmaCielo Shares") and indirectly, PharmaCielo Colombia Holdings S.A.S., the Company's wholly owned Colombian operating subsidiary from the holders of PharmaCielo Shares. Consequently, these unaudited condensed interim consolidated financial statements reflect the continuation of PharmaCielo and the deemed acquisition of AAJ Capital on January 15, 2019. Following the completion of the RTO on January 15, 2019, AAJ changed its name to PharmaCielo Ltd. Prior to closing, AAJ had 4,640,000 common shares issued and outstanding. As part of the transaction, a 11.94:1 share consolidation was completed which resulted

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

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 11(b)(i) - Share Capital for further details.

4. Trade receivables

	As at September 30, 2020	As at December 31, 2019
For sale of cannabis derivative products	2,416,524	709,493
For revenue from telemedicine services	16,750	-
Allowance for doubtful accounts	(1,799,300)	-
Total trade receivables	\$ 633,974	\$ 709,493

The majority of the Company's sales consist of bulk cannabis products sold internationally to various customers. Some of these companies may have been operational for a short period of time, and may have limited working capital and have limited credit history. As such, the Company has considered these factors in establishing an expected credit loss.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

5. Marketable securities

	Number of shares	Cost	Unrealized gain/(loss)	Fair value
September 30, 2020				
Khiron Life Sciences Corp. ("Khiron")	100,000	\$ 12,500	\$ 32,000	\$ 44,500
XPhyto Therapeutics Corp. (Note 11)	107,200	51,261	(3,289)	47,972
Total marketable securities		\$ 63,761	\$ 28,711	\$ 92,472
December 31, 2019				
Khiron	100,000	\$ 12,500	\$ 93,500	\$ 106,000

6. Prepaid expenses and other receivables

	As at September 30, 2020	As at December 31, 2019
Prepaid expenses	787,859	426,619
Other receivables	471,322	1,112,527
Total prepaid expenses and other receivables	\$ 1,259,181	\$ 1,539,146

7. Inventory

	As at September 30, 2020	As at December 31, 2019
Agricultural supplies and other	302,116	287,093
Work-in-process	2,357,877	1,969,582
Finished products	3,220,561	1,209,073
Closing balance	\$ 5,880,554	\$ 3,465,748

During the three and nine months ended September 30, 2020, inventory recognized as cost of goods sold was (\$1,005) and \$1,605,017, respectively (three and nine months ended September 30, 2019 - \$67,183), consisting of (\$2,258) and \$470,761 (three and nine months ended September 30, 2019 - \$nil) of realized fair value changes on inventory sold, \$nil impairment costs (three and nine months ended September 30, 2019 - \$nil) and \$1,253 and \$1,134,256, respectively (three and nine months ended September 30, 2019 - \$67,183) of capitalized post-harvest costs expensed during the period as cannabis inventory is sold.

8. 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 September 30, 2020:

- 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 \$1,936 per kilogram of CBD isolate was used to calculate the biological assets at quarter end.

PHARMACIELO LTD.**Notes to Condensed Interim Consolidated Financial Statements****September 30, 2020****(Expressed in Canadian Dollars)****(Unaudited)**

- 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 \$1,486 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 September 30, 2020 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 1.51 grams of CBD isolate.

As at September 30, 2020, 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, 2019	178,526
Production costs capitalized	1,831,435
Changes in fair value less costs to sell due to biological transformation	(854,917)
Transferred to inventory upon harvest	(749,605)
Effect of foreign currency exchange differences	416
Balance, September 30, 2020	\$ 405,855

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 \$414,663. 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 \$160,819. Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by \$107,191.

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

Unrealized change in fair value of biological assets	(854,917)
Realized fair value on inventory sold	(470,761)

During the three and nine months ended September 30, 2020, the Company incurred \$49,988 and \$123,056 in agricultural operating costs respectively (three and nine months ended September 30, 2019 - \$121,491 and \$2,424,525 respectively).

PHARMACIELO LTD.**Notes to Condensed Interim Consolidated Financial Statements September 30, 2020**

(Expressed in Canadian Dollars)

(Unaudited)

9. Property, plant and equipment

COST	Land	Construction in progress	Building	Machinery and equipment	Office furniture and fixtures	Computer and communication equipment	Vehicles	Equipment in transit	Total
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
Additions	-	1,836,544	40,078	1,079,038	66,601	115,529	-	665,673	3,803,463
Reclassification	-	415,845	-	109,518	-	-	-	(525,363)	-
Disposals	-	-	-	-	-	-	-	-	-
Effect of foreign currency exchange differences	(699,362)	(823,127)	(249,869)	(955,768)	(36,661)	(130,182)	(18,305)	(293,359)	(3,206,633)
Balance, September 30, 2020	\$ 7,169,141	\$ 7,775,364	\$ 3,397,337	\$ 7,601,555	\$ 1,024,343	\$ 1,050,088	\$ 122,832	\$ 2,094,563	\$ 30,235,223

ACCUMULATED DEPRECIATION

Balance, December 31, 2019			\$ 876,528	\$ 708,297	\$ 227,302	\$ 481,612	\$ 60,370		\$ 2,354,109
Additions			270,179	441,912	209,156	274,469	22,083		1,217,799
Reclassification									-
Disposals									-
Effect of foreign currency exchange differences			(53,801)	(114,125)	(17,000)	(79,767)	(9,125)		(273,818)
Balance, September 30, 2020	\$ -	\$ -	\$ 1,092,906	\$ 1,036,084	\$ 419,458	\$ 676,314	\$ 73,328	\$ -	\$ 3,298,090

CARRYING AMOUNT

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
Balance, September 30, 2020	\$ 7,169,141	\$ 7,775,364	\$ 2,304,431	\$ 6,565,471	\$ 604,885	\$ 373,774	\$ 49,504	\$ 2,094,563	\$ 26,937,133

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

PharmaCielo Colombia Holdings S.A.S. is developing a farm and a processing plant, located in Rio Negro in 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.

For the three and nine months ended September 30, 2020, agricultural operating costs include depreciation expenses of \$nil (three and nine months ended September 30, 2019 - \$156,584 and \$353,214, respectively) in the unaudited condensed interim consolidated statement of loss.

For the three and nine months ended September 30, 2020, depreciation costs of \$229,869 and \$501,030, respectively (three and nine months ended September 30, 2019 - \$nil) was capitalized to biological assets and inventory.

10. Leases

Right-of-use assets

Balance, December 31, 2019	1,445,598
Depreciation	(160,370)
Foreign exchange adjustment	(39,154)
Balance, September 30, 2020	\$ 1,246,074

Right-of-use assets consist of office spaces. Right-of-use assets are depreciated over 47 to 122 months.

Maturity analysis - contractual undiscounted cash flows

As at September 30, 2020

Less than one year	340,986
One to three years	879,132
Three to five years	716,765
More than five years	338,473
Total undiscounted lease obligation	\$ 2,275,356

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%.

Upon initial recognition of a lease liability and right-of-use asset, the Company has elected to use the practical expedient not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

The following table illustrates the lease agreements as at September 30, 2020:

	PharmaCielo Ltd.	PharmaCielo Colombia Holding S.A.S.		
Country	Canada	Colombia		
City	Toronto	Bogotá	Rionegro	Medellín
Initial contract period	March 1, 2019 to February 29, 2024	January 2019 to December 2019	March 1, 2016 to February 28, 2017	October 1, 2018 to September 30, 2021
Auto renewal	No	Yes	Yes	Yes
Monthly lease payments: CAD\$				
2020	\$ 19,910	\$ 1,233	\$ 1,887	\$ 6,036
2021	19,910	1,303	1,973	6,218
2022	19,910	1,342	2,052	6,522
2023	19,910	1,342	2,065	6,637
2024	19,910	1,342	2,065	6,637
Interest rate	13.95%	10.10%	10.71%	10.71%

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

Balance, December 31, 2019	1,572,447
Interest expense	148,312
Lease payments	(247,296)
Foreign exchange adjustment	(61,460)
Balance, September 30, 2020	\$ 1,412,003

As at September 30, 2020

Lease obligations	\$ 1,412,003
Less current portion	(158,865)
Non-current portion	\$ 1,253,138

11. XPhyto agreement and investment

Supply agreement with XPhyto

On January 27, 2020, the Company entered into a three-year agreement (the "Agreement") with XPhyto, 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.

As part of the Supply Agreement, on January 31, 2020 XPhyto granted the Company 500,000 Warrants with an exercise price of \$2.00 per Common Share. The warrants were valued at \$356,378 on the grant date using the Black-Scholes pricing model. The following assumptions were used: share price - \$1.59; expected annualized volatility - 95%, risk-free rate - 1.47%; and an expected life of 2 years.

Because no consideration was paid to XPhyto for the warrants, the Company recognized an initial gain of the full value of the warrants of \$356,378. As required under IFRS 9, this initial gain has been deferred and is being recognized into income over the term of the agreement. During the nine months ended September 30, 2020, the Company recorded \$118,793 as amortization on deferred income in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

The following table illustrates the value at transaction date and September 30, 2020.

Supply agreement warrants	Warrants
Initial value	356,378
Unrealized gain/loss	268,423
Exercise	-
Balance, September 30, 2020	624,801

Investment with XPhyto

On January 31, 2020, the Company purchased 500 convertible debenture units of XPhyto for \$500,000. Each debenture unit consists of: (i) \$1,000 principal amount of 8.0% unsecured convertible debenture and (ii) 1,000 common share purchase warrants. The debenture bears interest at 8.0% per annum, calculated and payable semi-annually, and matures two years following the date of issuance. The debenture is convertible at the option of the Company into common shares of XPhyto (the "XPhyto shares") at a conversion price of \$1.00 per XPhyto share. Conversion of the debenture may be forced in part or in whole at the option of XPhyto if the 15-day volume-weighted average price of the XPhyto shares on the Canadian Securities Exchange ("CSE") exceeds \$2.50 per share. Each warrant is exercisable to acquire one XPhyto share at an exercise price of \$1.50 per share until January 31, 2022.

The initial fair value of the convertible debenture investment was calculated using a discounted cashflow model with a discount rate of 16%. The conversion feature and warrants were initially valued at January 31, 2020 using a Black-Scholes pricing model with a share price of \$1.59, risk free rate of 1.47%, 2 year conversion period and volatility of 95%.

On June 4, 2020, the Company converted 250 of the convertible debentures into 250,000 XPhyto shares at a fair value of \$599,784. On July 23, 2020, the Company converted the remaining 250 debentures into 250,000 XPhyto shares at a fair value of \$715,942. At September 30, 2020, the Company had sold 482,100 of the XPhyto shares for proceeds of \$1,402,313. As at September 30, 2020, the Company has 17,900 XPhyto shares (see note 5).

As at September 30, 2020, the fair value of the warrants has been revalued at \$745,620, using the Black-Scholes pricing model. The following assumptions were used: share price - \$2.68; expected annualized volatility – 84%, risk-free rate – 0.25%; and an expected life of 1.33 years.

Based on the initial valuation of the debenture investment, conversion option, and warrants the Company recognized an initial gain of \$780,777. As required under IFRS 9, this initial gain has been deferred and is being recognized into income over the life of each component of the investment. During the three and nine months ended September 30, 2020, the Company amortized \$40,238 and \$202,900 respectively of deferred income and recorded it as amortization of deferred income in the unaudited condensed interim consolidated statements of loss and comprehensive loss. The Company also recorded as amortization of deferred income an additional \$409,714 of the deferred income balance, which represents the portion pertaining to the convertible debenture and its conversion option. Because the debentures had been fully converted to XPhyto shares as at September 30, 2020, they have no remaining life and full recognition of their associated deferred income amounts as amortization of deferred income is appropriate.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

The following table illustrates the valuation at the grant date and as at September 30, 2020.

	Initial value	September 30, 2020
Convertible Debenture Investment (Receivable Component)	438,271	-
Convertible Debenture Investment (Conversion Component)	428,727	-
Total Value	866,998	-
Warrants	413,779	745,620
Total Valuation of Convertible Debenture Investment	1,280,777	745,620

	Convertible debt - receivable component	Convertible debt - conversion feature	Warrants	Total
Initial value	438,271	428,727	413,779	1,280,777
Unrealized gain/loss	11,213	437,515	331,841	780,569
Conversion of convertible debentures	(449,484)	(866,242)	-	(1,315,726)
Balance, September 30, 2020	-	-	745,620	745,620

12. Share capital

a) Authorized share capital

The authorized share capital consists 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

118,716,160 Common Shares (December 31, 2019 - 98,965,173 Common Shares)

For the nine months ended September 30, 2019

- (i) 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 become 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.
- (ii) As at December 31, 2018, cash proceeds for \$226,450 were received towards 587,180 options that were exercised. Subsequently, 587,180 Common Shares were issued during the nine months ended September 30, 2019. In addition, the Company issued 38,776 Common Shares at a price of \$1.194 per Common Share, 125,000 Common Shares at a price of US\$0.25 per Common Share and 950,000 Common Shares at a price of US\$1.00 per Common Share upon the exercise of options.
- (iii) The Company issued 83,645 Common Shares at a price of US\$2.00 per Common Share, 657,436 Common Shares at a price of \$3.35 per Common Share, 3,759 Common Shares at a price of US\$2.25 per Common Share and 19,615 Common Shares at a price of \$1.194 per Common Share upon the exercise of warrants.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

- (iv) 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. On July 31, 2019, the Company issued 132,649 Common Shares pursuant to the share purchase agreement, with the remaining shares held back for a period of six months for any adjustments to the purchase price that may be required.

For the nine months ended September 30, 2020

- (v) On February 19, 2020, the Company issued the remaining 18,967 Common Shares owed on the Ubiquo Telemedicina S.A.S transaction issued at a price of \$2.42 per share.
- (vi) On January 3, 2020, cash proceeds for \$32,480 (USD\$25,000) were received towards 50,000 options that were exercised, resulting in the issuance of 50,000 Common Shares. In addition, the Company issued 172 Common Shares for net proceeds of \$205 upon the exercise of warrants.
- (vii) During the nine months ended September 30, 2020, 649,000 RSUs were fully vested, which resulted in the issuance of 640,000 Common Shares, with the remaining 9,000 RSUs to be settled in cash.
- (viii) On April 15, 2020, the Company settled an outstanding debt in the amount of \$54,681 with two former Medical Advisory Board members. As a result, the Company issued an aggregate of 74,906 Common Shares at a fair value of \$0.73 per Common Share, with all such issued Common Shares being subject to a statutory hold period of four months plus a day from the date of issuance.
- (ix) On April 15, 2020, the Company closed its private placement financing by issuing 12,578,002 special warrants of the Company (the "Special Warrants") at \$0.65 per Special Warrant. Each Special Warrant entitled the holder thereof to receive one Common Share upon exercise. The Company issued 12,246,190 Special Warrants for cash, raising gross proceeds of \$7,960,024. The Company incurred related costs of \$1,178,780, including 181,812 Special Warrants issued as agents' fees (valued at \$118,178) and 150,000 Special Warrants as a finder's fee (valued at \$97,500). On May 20, 2020, all 12,578,002 Special Warrants were converted to Common Shares by the Company.
- (x) On July 3, 2020, the Company closed its private placement financing by issuing 6,388,940 Common Shares of the Company at a price of \$0.72 per Common Share, raising gross proceeds of \$4,600,037. The Company incurred related costs of \$568,884.

13. Warrants

The following table reflects the continuity of warrants for the periods ended September 30, 2020 and 2019:

	Number of warrants	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2018	781,722	2.03	3.35
Issued pursuant to the RTO	20,938	-	1.19
Exercised	(764,455)	2.01	3.27
Balance, September 30, 2019	38,205	2.06	1.19
Balance, December 31, 2019	37,054	2.06	1.19
Issued (i)	12,768,214	-	0.65
Exercised (ii)	(12,578,174)	-	0.65
Expired	(27,882)	2.00	-
Balance, September 30, 2020	199,212	2.25	0.65

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

(i) Warrants issued in the nine months ended September 30, 2020 include the following:

- a. As part of its private placement financing, on April 15, 2020 the Company issued 12,578,002 special warrants exercisable at \$0.65 per share.
- b. The Company paid a portion of the broker fees on the Special Warrants in the form of 190,212 broker warrants (the "Broker Warrants"). The Broker Warrants are separate instruments from the Special Warrants. As at September 30, 2020, none of them had been exercised.

(ii) Warrants exercised in the nine months ended September 30, 2020 include the following:

- a. In connection with the private placement financing, on April 15, 2020 the Company forced the exercise of all 12,578,002 Special Warrants into Common Shares.
- b. A total of 172 other warrants were exercised at an exercise price of \$1.194 each.

The following table reflects the warrants issued and outstanding as at September 30, 2020:

Number of warrants outstanding	Exercise price (USD)	Exercise price (CAD)	Expiry date
190,212	-	0.65	April 15, 2022
9,000	2.25	-	December 15, 2022
199,212			

14. Stock options

The following table reflects the continuity of options for the periods ended September 30, 2020 and 2019:

	Number of options	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2018	15,655,180	1.18	3.35
Issued pursuant to the RTO	38,776	-	1.194
Exercised	(2,615,956)	0.74	1.194
Balance, September 30, 2019	13,078,000	1.28	3.35
Balance, December 31, 2019	12,606,000	1.28	3.35
Granted (i)	1,500,000	-	1.02
Exercised	(50,000)	0.50	-
Balance, September 30, 2020	14,056,000	1.49	2.87

(i) On May 4, 2020, the Company granted incentive stock options to a director of the Company of 1,500,000 Common Shares exercisable at a price of \$1.02 per Common Share on or before May 4, 2030. The options vest as follows: 500,000 immediately; 333,333 after the first anniversary of the date of grant; 333,333 after the second anniversary of the date of grant; and 333,334 after the third anniversary of the date of grant. The fair value of each option has been estimated at \$0.85 as at the date of the grant using the Black-Scholes option pricing model. The following assumptions were used: share price - \$0.99; expected annualized volatility - 93.13%, risk-free rate - 0.57%; and an expected life of 10 years. During the nine months ended September 30, 2020, the Company recorded \$638,946 in share-based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

Details of the stock options outstanding as at September 30, 2020 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	2.90	August 25, 2023
2,455,000	2,455,000	2.25	-	4.33	January 29, 2025
81,000	81,000	2.25	-	4.34	February 4, 2025
1,045,000	1,045,000	0.25	-	4.63	May 15, 2025
75,000	75,000	0.50	-	5.08	October 27, 2025
250,000	250,000	0.50	-	5.21	December 17, 2025
1,050,000	1,050,000	1.00	-	5.76	July 4, 2026
50,000	50,000	1.00	-	5.92	September 1, 2026
400,000	400,000	1.00	-	5.84	August 1, 2026
550,000	183,333	-	3.10	6.10	November 5, 2026
150,000	150,000	1.00	-	6.23	December 23, 2026
500,000	500,000	2.25	-	6.23	December 23, 2026
100,000	100,000	1.00	-	6.33	January 27, 2027
300,000	300,000	2.00	-	6.76	July 5, 2027
4,750,000	3,750,000	-	3.35	7.75	July 1, 2028
750,000	750,000	-	3.35	7.79	July 15, 2028
1,500,000	500,000	-	1.02	9.59	May 4, 2030
14,056,000	11,689,333	1.49	2.87	6.65	

15. Restricted share units ("RSUs")

	Number of unvested RSUs outstanding
Balance, December 31, 2019	702,000
Granted	315,000
Vested(i)	(649,000)
Balance, September 30, 2020	368,000

- (i) During the nine months ended September 30, 2020, 649,000 RSUs were fully vested, which resulted in the issuance of 640,000 common shares. The remaining 9,000 vested RSUs are to be settled in cash. The Company has recorded this liability under RSU obligations.

As at September 30, 2020, there were 368,000 unvested RSUs outstanding.

16. Net loss per Common Share

The calculation of basic and diluted loss per share for the three and nine months ended September 30, 2020 was based on the net loss of \$6,111,912 and \$20,149,773, respectively (three and nine months ended September 30, 2019 - \$3,819,957 and \$22,244,253, respectively) and the weighted average number of Common Shares outstanding of 118,082,282 and 107,369,720, respectively (three and nine months ended September 30, 2019 - 96,666,354 and 95,414,153 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.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

17. Transactions with related parties

During the three and nine months ended September 30, 2020, the Company had the following related party transactions:

- (i) The Company incurred contract grower expenses of \$205,244 and \$205,244, respectively (compared to the three and nine months ended September 30, 2019 of \$6,114 and \$19,243, respectively) from Tahami & Cultiflores SA en Reorganización, a company controlled by a former director of the Company's subsidiary, Federico Cock-Correa. As at September 30, 2020, the amount of \$Nil (September 30, 2019 - \$Nil) is owing to Tahami & Cultiflores SA en Reorganización
- (ii) The Company incurred consulting fees of \$Nil and \$Nil, respectively (compared to the three and nine months ended September 30, 2019 of \$Nil and \$53,174, respectively) from Grupo Jaque, a company controlled by the Company's former Chief Executive Officer, Anthony Wile. As at September 30, 2020, the amount of \$Nil (September 30, 2019 - \$Nil) is owing to Mr. Wile. Mr. Wile also received \$90,000 and \$269,144 fee during the three and nine months ended September 30, 2020, respectively.
- (iii) The Company incurred consulting fees of \$1,500 and \$4,500, respectively (compared to the three and nine months ended September 30, 2019 of \$1,500 and \$4,500, respectively) from Laitinen Consulting Inc., a company controlled by the Company's Chief Financial Officer, Scott Laitinen. As at September 30, 2020, the amount of \$Nil (September 30, 2019 - \$500) is owing to Laitinen Consulting Inc. Mr. Laitinen was employed early in 2019, and since then his remuneration is included as part of Management salaries. Laitinen Consulting Inc. continues to provide payroll services, T4 processing & filing, and government remuneration for the payroll in Canada.
- (iv) The Company incurred consulting fees of \$Nil and \$29,400, respectively (compared to the three and nine months ended September 30, 2019 of \$Nil and \$Nil, respectively) from DHBache & Company Inc., a company controlled by a director of the Company, Douglas Bache. As at September 30, 2020, the amount of \$Nil (September 30, 2019 - \$Nil) is owing to DHBache & Company Inc.
- (v) During the three and nine month period ended in September 30, 2020, the Company included in expenses \$97,948 and \$303,192, respectively, for certain expenses paid to Tahami & Cultiflores SA en Reorganización, a company controlled by a former director of the Company's subsidiary, Federico Cock-Correa in connection to subcontracting Tahami as a grower with the cancelation of the current contract growers agreement and the negotiation of a new agreement. The total also included \$16,897 that was part of other receivables as at December 31, 2019.
- (vi) The Company included in other receivables \$Nil for September 30, 2020 (December 31, 2019 - \$35,979) for certain expenses paid on behalf of Flores El Capiro S.A. ("El Capiro"), a company controlled by a former director of the Company, Carlos Uribe in connection to subcontracting El Capiro as a grower. During the three and nine month period ended in September 30, 2020, the other receivable amount of \$35,979 was expensed with the cancelation of the current contract growers agreement.
- (vii) 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 the Board of Directors, as well as certain key officers and board members of the Company's subsidiary.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Management compensation	\$ 525,425	\$ 373,344	\$ 1,431,066	\$ 1,059,122
Directors' fees ⁽¹⁾	-	-	84,091	-
Share-based compensation ⁽²⁾	999,803	3,831,808	4,822,170	7,353,066
Total management compensation	\$ 1,525,228	\$ 4,205,152	\$ 6,337,327	\$ 8,412,188

(1) Includes meeting fees and commitment chair fees.

(2) Share-based compensation represents the fair value of options and RSUs granted and vested to key management personnel and directors of the Company under the Company's share-based compensation plans.

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

18. Commitments

- (i) The Company had an agreement with CNV Construcciones S.A.S. ("CNV"), a Colombian construction company, to complete the facilities in the Processing and Extraction Centre ("PEC"). In October 2019, additional funding was approved by the Board of Directors to cover structural changes in order to meet the needs of the extraction technologies yet to be developed. The scope of the agreement with CNV was expanded and, in order to complete GMP facilities target, Construhigenica ("CHG", clean facilities experts) joined the construction team. The building construction of the PEC has reached completion in the third quarter, as previously anticipated. The facility is ready to install processing equipment and then to initiate GMP certification process. In July 2020, to accommodate current advanced processing technologies not previously identified or available, necessitated alignment changes in the scope of the building construction. As at the date of these condensed interim consolidated financial statements, CHG has completed the committed activities and was paid \$378,783 with \$26,966 to be paid. CNV has completed the committed activities and pending the results of a due diligence audit, the final balance will be paid per the agreement, and the remaining balance to be paid is \$29,551.
- (ii) The Company has a technology license 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.
- (iii) The Company has a supply agreement with Tahami & Cultiflores SA en Reorganización to supply destemmed and pre-dried cannabis flower from their non-psychoactive cannabis crops. The Company will pay to Tahami & Cultiflores SA en Reorganización a set price per kilogram of plant material that will be delivered to the Company. The agreement is for one year and the total cost of the contract is estimated to be \$1.7 million. As at the date of these unaudited condensed interim consolidated financial statements, the company has paid Tahami & Cultiflores SA en Reorganización \$205,244 for the supply of plant material.

19. 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

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

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 and Colombia, as well as being a non-controlling partner in joint ventures in Italy and Mexico.

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

Net loss for the period ended	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Canada	\$ 2,667,313	\$ 4,272,229	\$ 12,179,833	\$ 17,718,140
Colombia	3,444,599	(536,395)	7,969,940	4,441,990
Italy	-	-	-	-
Mexico	-	84,123	-	84,123
Total	\$ 6,111,912	\$ 3,819,957	\$ 20,149,773	\$ 22,244,253

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

Total assets	September 30, 2020	December 31, 2019
Canada	\$ 11,105,197	\$ 19,400,160
Colombia	31,981,510	30,601,401
Italy	-	60,325
Mexico	-	134,476
Total	\$ 43,086,707	\$ 50,196,362

Operating segment - September 30, 2019	Corporate	Cannabis	Total
Revenues	\$ -	\$ 130,130	\$ 130,130
Cost of sales	-	70,342	70,342
Loss for the period	17,820,769	4,423,484	22,244,253

Operating segment - September 30, 2020	Corporate	Cannabis	Total
Revenues	\$ -	\$ 1,772,863	\$ 1,772,863
Cost of sales	-	1,134,256	1,134,256
Loss for the period	12,179,833	7,969,940	20,149,773

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

Revenues by country	Cannabis	Total
United States	1,660,528	1,660,528
Czech Republic	23,441	23,441
Colombia	79,049	79,049
Paraguay	5,205	5,205
United Kingdom	3,466	3,466
Canada	1,174	1,174
Total Revenue	\$ 1,772,863	\$ 1,772,863

Revenue Concentration

The Company's business is such that, at any given time, it sells its services to a relatively small number of customers. During the nine months ended September 30, 2020, two customers accounted for approximately 100% of cannabis revenue in the United States, as well as 93% of total revenue and 98% of gross trade receivables.

20. Investment in joint ventures

The Company has two investments in Italy and Mexico, PharmaCielo Italia S.R.L. (70% owned) ("Italia") and PharmaCielo S.A. de C.V. (50% owned).

Management assessed that the Company's investment in Italia and PharmaCielo S.A. de C.V., was a joint venture in accordance with IFRS 11 - Joint Arrangements. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venturer recognizes its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with IAS 28 - Investments in Associates and Joint Ventures.

Investment in joint ventures at September 30, 2020 was \$646,996 (December 31, 2019 - \$nil) and consisted of the following amounts:

Balance, December 31, 2019	\$	-
Investment in joint ventures		1,321,241
Prior year share of loss on investment in joint ventures		(187,784)
Share of loss on investment in joint ventures		(486,461)
Balance, September 30, 2020	\$	646,996

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

The following tables summarize the financial information of Italia and PharmaCielo S.A. de C.V. joint ventures:

As at September 30, 2020

	PharmaCielo Italia SRL	PharmaCielo S.A. de C.V.
Cash and cash equivalents	\$ 46,213	\$ 63,805
Other current assets	81,400	22,454
Total current assets	127,613	86,259
Non-current assets	-	5,539
Total assets	\$ 127,613	\$ 91,798
Current liabilities	5,948	33,141
Total liabilities	\$ 5,948	\$ 33,141
Net assets⁽¹⁾	\$ 121,665	\$ 58,657

(1) Balances represent 100% share of Italia and PharmaCielo S.A. de C.V.

For the nine months ending September 30, 2020

	PharmaCielo Italia SRL	PharmaCielo S.A. de C.V.
Selling, general, and administrative expenses	\$ 463,371	\$ 322,609
Other expense	1,140	-
Net loss⁽¹⁾	464,511	322,609

(1) Balances represent 100% share of Italia and PharmaCielo S.A. de C.V.

21. 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 (denominated in Colombian pesos but expressed in Canadian dollars in these financial statements) payable to Ubiquo shareholders.

	Number of Shares	Value of Shares	Cash consideration	Total
Total consideration payable - July 26, 2019	151,616	\$ 651,652	\$ 817,430	\$ 1,469,082
Paid as at December 31, 2019	(132,649)	(583,656)	(733,259)	(1,316,915)
Change in fair value of shares payable	-	(10,147)	-	(10,147)
Foreign exchange (gain)/loss	-	-	(1,537)	(1,537)
Consideration payable at December 31, 2019	18,967	\$ 57,849	\$ 82,634	\$ 140,483
Final payment, February 19, 2020	(18,967)	\$ (45,900)	\$ (83,388)	\$ (129,288)
Change in fair value of shares payable	-	(11,949)	\$ -	\$ (11,949)
Foreign exchange (gain)/loss	-	-	754	754
Consideration payable at September 30, 2020	-	\$ -	\$ -	\$ -

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

Allocation of purchase price	Value
Cash	\$ 562
Amounts receivable and other assets	66,974
Property, plant, and equipment	267,175
Intangible Assets - Brand	27,000
Intangible Assets - Software	188,000
Amounts payable and other liabilities	(309,424)
Net assets acquired	240,287
Goodwill on acquisition	1,228,795

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

The consideration transferred was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition.

Goodwill Continuity

Balance, January 1, 2019	-
Additions using preliminary figures	1,308,816
Foreign exchange adjustment	(145,931)
Balance, December 31, 2019	\$ 1,162,885
Balance, January 1, 2020	\$ 1,162,885
Adjustment to goodwill based on finalized purchase price allocation	(80,021)
Foreign exchange adjustment	(51,536)
Balance, September 30, 2020	\$ 1,031,328

22. COVID-19

During the nine months ended September 30, 2020, PharmaCielo initiated adjustments to operations at the Rionegro, Colombia complex location of PharmaCielo Colombia which were announced on April 1, 2020, to protect the health of PharmaCielo's staff and the community due to the global outbreak of COVID-19. The measures supported President Duque and the Colombian government's proactive COVID-19 mitigation efforts. The new workplace procedures reflected the Colombian government's nation-wide essential business policy (Decree 457), that came into effect at 12:00 am on March 25, 2020 requiring certain quarantining measures (the "Decree"). While as an agricultural enterprise PharmaCielo Colombia is excluded from the Decree, all agronomic operations at the greenhouses, lab and processing facility that include breeding, tissue culture, propagation, cultivation, harvest, drying, separation and storage continued to operate in rotating shifts with reduced staff and onsite adjustments to enable the important practice of social distancing. Voluntarily PharmaCielo Colombia temporarily ceased activities at the processing facility, and temporarily halted construction of the processing and extraction centre in the interests of employee health in the enclosed facilities. These decisions took into consideration the ability to minimize losses and to ensure a fast recovery of normal operation. The reduction in ethanol use reduced processing costs and eliminated the Company use of a commodity required for the production of hand sanitizers by the health industry. As a result, the monthly burn rate for expenses declined.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

Since initiation of reduced activity, and as consistent with the allowances of the decree, the company has sought to gradually increase operations within the agriculture and industrial teams, while maintaining proper safety measures and being mindful of employee health and wellness. While operations have returned to normal levels, COVID-19 pandemic lockdowns in individual countries could reduce the quantity of product produced by the Company and / or limit the Company's ability to ship product to end customers. International border shutdowns have affected international shipping to/from various markets and the Company is assessing the impact of potential delays in both equipment import and product export.

Following the COVID-19 pandemic, PharmaCielo's Health Safety Protocol remains in line with the national guidelines Decree. Furthermore, the Special Situation Committee continues to review and update actions around the COVID protocol, providing resources to ensure social distancing, delivery of appropriate personal protection equipment and infrastructure that fulfill defined standards.

At the beginning of July, PharmaCielo conducted a simulated employee positive case drill in order to validate that proper systems, procedures and measurements have been put in place. Finally, the Committee implemented Gemba Walks in order to improve safety behavior and further encourage employee adherence to standards and protocols.

23. Events after the reporting period

PharmaCielo announced the intention to expand Board Depth and Expertise with Appointment of Marc Lustig as Lead Director and Strengthens Capital Position with Private Placement Offering

On November 2, 2020, the Company, announced that Marc Lustig, the highly successful cannabis industry leader with expertise in both capital markets and health sciences, has agreed to join the Company's board of directors (the "Board") as Lead Director, subject to gross proceeds of \$5.0 million being raised under the Offering (as defined below).

Subject to all necessary regulatory approvals, the Company is also undertaking a private placement of units of the Company ("Units") at a price of \$0.50 per Unit (the "Offering Price"). Each Unit will be comprised of (i) one common share (a "Common Share") of the Company; and (ii) one half of one Common Share purchase warrant (each whole warrant, a "Warrant") of the Company (the "Offering"), for gross proceeds of \$5.0 million, subject to the option of the Company to increase the size of the Offering to \$10.0 million. Each Warrant entitles the holder thereof to purchase one Common Share (a "Warrant Share") at a price of \$0.65 for a period of 24 months. Mr. Lustig has committed to acting as a lead investor in the Offering. Closing of the Offering is expected to occur on or about November 20, 2020 (the "Closing Date").

The Company intends to use the net proceeds from the Offering to finance working capital and general corporate purposes. Closing of the Offering is subject to regulatory approval including that of the TSX Venture Exchange (the "TSXV").

Concurrent with Mr. Lustig's appointment to the Board as Lead Director, the Company has agreed to grant Mr. Lustig 3,000,000 stock options ("Stock Options") exercisable for Common Shares at \$0.63 and 2,000,000 restricted share units ("RSUs", and together with the Stock Options, the "Incentive Securities"). The Incentive Securities shall vest on the earlier of (i) a Change of Control Event (as defined in the Stock Option and RSU plans); and (ii) in equal amounts on each of the grant date, the date that is six months from the grant date and the date that is twelve months from the grant date. The grant of the Incentive Securities to Mr. Lustig is subject to compliance with the Stock Option and RSU plans of the Company.

In connection with the Offering, the Company has agreed to pay Cormark Securities Inc. ("Cormark") a corporate advisory fee equal to 2.0% of the gross proceeds of the Offering and to issue broker warrants to purchase that number of Units equal to 5.0% of the number of Units issued under the Offering at the Offering Price. In addition, the Company may pay a commission or finder's fee to eligible persons from the gross proceeds raised under the Offering.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

PharmaCielo Announces Upsizing of Private Placement Offering

On November 3, 2020, the Company announced that due to high demand it has increased the size of its previously announced private placement offering from \$5.0 million to \$10.0 million (the "Upsized Offering"). Pursuant to the Upsized Offering, the Company will issue 20,000,000 units ("Units") of the Company at a price of \$0.50 per Unit.

Each Unit will be comprised of (i) one common share (a "Common Share") of the Company; and (ii) one half of one Common Share purchase warrant (each whole warrant, a "Warrant") of the Company. Each Warrant entitles the holder thereof to purchase one Common Share (a "Warrant Share") at a price of \$0.65 for a period of 24 months.

Closing of the Upsized Offering is expected to occur on or about November 20, 2020 (the "Closing Date"). Closing of the Upsized Offering is subject to regulatory approval including that of the TSX Venture Exchange (the "TSXV").

Company Begins Harvest of High-THC Cultivars for Extract Export

On November 5, 2020, the Company, the Canadian parent of PharmaCielo Colombia Holdings S.A.S., announced the first harvest cycle of six high-THC cultivars. The harvest from 5.5 hectares of open-air greenhouse at the company's Rionegro complex is expected to yield more than 10 tonnes of dry flower, which will be processed at PharmaCielo's operational processing and extraction centre (PEC) and destined for export.

Harvest of the cultivars by hand will continue to year-end, with processing commencing in coming weeks. Each of the six cultivars is unique and proprietary, developed through the horticultural expertise of the PharmaCielo team, and registered with the Colombian government. Blending of the extracts of the cultivars delivers an unparalleled psychoactive product profile appropriate for medicinal application with the necessary and consistent high quality required.