PHARMACIELO LTD.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED
DECEMBER 31, 2020

(EXPRESSED IN CANADIAN DOLLARS)

Independent Auditor's Report

To the Shareholders of PharmaCielo Ltd.:

Opinion

We have audited the consolidated financial statements of PharmaCielo Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MNP LLP

Toronto, Ontario — Chartered Professional Accountants

May 2, 2021 — Licensed Public Accountants

PHARMACIELO LTD.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2020	As at December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**8,859,714**	13,673,299
Trade receivables (Note 4)	**352,674**	709,493
Marketable securities (Note 5)	**71,152**	106,000
Investment - XPhyto Therapeutics Corp. (Note 11)	**678,898**	-
Prepaid expenses and other receivable (Note 6)	**1,303,476**	1,539,146
Inventory (Note 7)	**1,252,568**	3,465,748
Biological assets (Note 8)	**-**	178,526
Total current assets	**12,518,482**	19,672,212
Non-current assets		
Property, plant, and equipment (Note 9)	**29,754,630**	27,275,868
Right-of-use assets (Note 10)	**1,065,800**	1,445,598
Investment in joint ventures (Note 22)	**565,396**	-
Goodwill (Note 23)	**-**	1,162,885
Intangible assets (Note 23)	**120,113**	639,799
Total non-current assets	**31,505,939**	30,524,150
Total assets	**44,024,421**	50,196,362
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 20)	**11,708,396**	2,900,441
Current portion of lease obligations (Note 10)	**150,046**	147,597
RSU obligations (Note 17)	**105,258**	117,690
Consideration payable	**-**	140,483
Current portion of debt (Note 13)	**92,804**	-
Total current liabilities	**12,056,504**	3,306,211
Non-current liabilities		
Non-current portion of lease obligations (Note 10)	**1,171,344**	1,424,850
Non-current portion of debt (Note 13)	**3,058,880**	-
Other non-current liabilities	**997,689**	-
Deferred income	**493,010**	-
Total non-current liabilities	**5,720,923**	1,424,850
Total liabilities	**17,777,427**	4,731,061
Shareholders' Equity		
Share capital (Note 14)	**138,082,419**	116,827,833
Shares to be issued	**559,999**	-
Reserves (Notes 15, 16, and 17)	**31,456,069**	26,243,564
Other comprehensive income (loss)	**(2,583,161)**	(93,573)
Retained earnings (deficit)	**(141,268,332)**	(97,512,523)
Total shareholders' equity	**26,246,994**	45,465,301
Total liabilities and shareholders' equity	**44,024,421**	50,196,362

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

Nature of operations (Note 1)
Commitments (Note 20)
Events after the reporting period (Note 27)

PHARMACIELO LTD.

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

	Year Ended	
	December 31, 2020	**December 31, 2019**
Revenue:		
Sale of Cannabis derivative products	**2,568,901**	772,093
Revenue from Telemedicine services	**85,016**	14,808
Total revenue	**2,653,917**	786,901
Cost of goods sold - Cannabis derivative products	**1,687,396**	690,313
Cost of goods sold - Telemedicine services	**-**	51,287
Cost of goods sold - Inventory impairment	**5,298,598**	-
Gross profit before fair value adjustments	**(4,332,077)**	45,301
Realized fair value on inventory sold	**(704,085)**	(159,464)
Unrealized gain (loss) on fair value of biological assets (Note 8)	**(1,599,649)**	757,640
Gross profit	**(6,635,811)**	643,477
Operating expenses		
Agricultural operating costs (Note 8)	**163,227**	2,303,034
Selling, general, and administrative expenses		
General and administrative		
Consulting fees	**5,054,328**	2,998,822
Office and general	**2,159,877**	2,356,613
Professional fees	**4,770,839**	5,672,144
Salaries and wages	**12,743,153**	4,856,088
Travel and accommodation	**256,534**	1,134,351
Goodwill and Intangible impairment(Note 12)	**1,250,852**	-
Share-based compensation	**6,482,297**	11,310,592
Selling, marketing, and promotion	**1,128,400**	900,658
Amortization and depreciation (Notes 9 and 10)	**1,479,501**	914,148
Expected credit losses	**2,522,048**	-
Total selling, general, and administrative expenses	**37,847,829**	30,143,416
Other (income) expense		
Bank charges and interest expense	**272,730**	173,843
Cahnge in unrealized (gain) loss on marketable securities	**75,297**	47,000
Exchange (gain) loss	**(469,950)**	493,165
Other non-operating (income) expenses	**(304,888)**	218,727
Listing expense	**-**	2,433,687
Interest income	**(65,582)**	(585,127)
Change in fair value of consideration payable	**(11,949)**	(10,148)
Amortization of deferred income	**(644,145)**	-
Change in unrealized (gain) loss on Xphyto investment (Note 11)	**(357,469)**	-
Realized (gain) loss on sale of marketable securities	**(124,893)**	-
Share of (gain) loss of investment in joint ventures (Note 22)	**717,347**	-
Other taxes	**22,444**	93,221
Total other (income) expenses	**(891,058)**	2,864,368
Net income (loss) for the period	**(43,755,809)**	(34,667,341)

PHARMACIELO LTD.

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

	Year Ended	
	December 31, 2020	**December 31, 2019**
Other comprehensive income (loss)		
Currency translation adjustment	**(2,489,588)**	(1,928,171)
Net comprehensive income (loss)	**(46,245,397)**	(36,595,512)
Basic and diluted loss per share (Note 18)	**(0.39)**	(0.36)
Weighted average number of common shares outstanding - basic and diluted	**112,539,538**	96,050,430

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

PHARMACIELO LTD.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total
Balance at December 31, 2018	81,747,811	64,316,562	35,450,938	24,486,625	1,834,598	(62,845,182)	63,243,541
Securities issued pursuant to the RTO (Note 3)	413,735	2,043,850	-	224,439	-	-	2,268,289
Shares issued pursuant to private placement at price of $3.35 per share (Note 14(b)(i))	11,815,416	39,581,644	(39,581,644)	-	-	-	-
Common shares issued related to the acquisition of Ubiquo (Note 14(b)(iv))	132,649	583,657					583,657
Options exercised - Money received in 2018 shares issued in 2019	587,180	226,450	(226,450)	-	-	-	-
Options exercised (Note 14(b)(ii))	3,028,776	7,322,046	-	(4,432,445)	-	-	2,889,601
Warrants exercised (Note 14(b)(iii))	765,606	3,675,891	-	(1,215,768)	-	-	2,460,123
Exercise of RSU	474,000	4,012,190		(4,012,190)	-	-	-
Cost of issue	-	(4,934,457)	4,357,156	-	-	-	(577,301)
Share-based compensation	-	-	-	11,192,903	-	-	11,192,903
Non-controlling interest	-	-	-	-	-	-	-
Currency translation adjustment for the period	-	-	-	-	(1,928,171)	-	(1,928,171)
Net income (loss) for the period	-	-	-	-	-	(34,667,341)	(34,667,341)
Balance at December 31, 2019	**98,965,173**	**116,827,833**	**-**	**26,243,564**	**(93,573)**	**(97,512,523)**	**45,465,301**

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

PHARMACIELO LTD.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	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 14(b)(v))	18,967	45,900			-	-	45,900
Options exercised (Note 14(b)(vi))	50,000	62,724		(30,244)	-	-	32,480
Warrants exercised (Note 14(b)(vi))	172	864		(659)	-	-	205
Vested RSUs (Note 14(b)(vii))	671,500	3,125,690	559,999	(3,685,689)	-	-	-
Common shares issued pursuant to debt settlement (Note 14(b)(viii))	74,906	54,681			-	-	54,681
Shares issued pursuant to Special Warrants at price of $0.65 per share (Note 14(b)(ix))	12,578,002	7,211,889			-	-	7,211,889
Shares issued in private placement at $0.72 per share (Note 14(b)(x))	6,388,940	3,930,898		129,184	-	-	4,060,082
Shares issued in private placement at $0.50 per share (Note 14(b)(xi))	20,000,000	6,821,940		1,923,116	-	-	8,745,056
Warrants (Note 15)	-			382,068	-	-	382,068
Share-based compensation	-			6,494,729	-	-	6,494,729
Currency translation adjustment for the period	-				(2,489,588)	-	(2,489,588)
Net income (loss) for the period	-				-	(43,755,809)	(43,755,809)
Balance at December 31, 2020	**138,747,660**	**138,082,419**	**559,999**	**31,456,069**	**(2,583,161)**	**(141,268,332)**	**26,246,994**

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

PHARMACIELO LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended	
	December 31, 2020	**December 31, 2019**
Operating Activities		
Net income (loss)	**(43,755,809)**	(34,667,341)
Items not affecting cash:		
Amortization and depreciation (Notes 9 and 10)	**1,566,472**	1,281,057
Expected credit losses	**2,522,048**	-
Property, plant and equipment written off	**-**	126,100
Unrealized (gain) loss on fair market value of biological assets	**1,599,649**	(757,640)
Unrealized (gain) loss on fair market value of XPhyto investment	**(357,469)**	
Share of (gain) loss on investment in joint ventures	**717,347**	
Amortization of deferred income	**(644,145)**	
Fair value adjustment on sale of inventory	**704,085**	159,464
Change in fair value of consideration payable	**(11,949)**	(10,148)
Lease interest expense	**194,557**	189,314
Share-based compensation	**6,482,297**	11,310,593
Impairment	**6,549,450**	
Exchange (gain) loss	**(1,388,773)**	(369,252)
Unrealized (gain) loss on marketable securities	**75,297**	47,000
Realized (gain)/loss on marketable securities	**(124,893)**	-
Listing expense	**-**	2,098,637
Changes in non-cash working capital items		
Trade receivables	**(1,985,716)**	(709,493)
Prepaid expenses and other receivables	**235,670**	(984,868)
Inventory and biological assets	**(4,717,528)**	(2,720,972)
Short-term investments	**-**	215,001
Accounts payable and accrued liabilities	**9,775,196**	(451,832)
Net cash and cash equivalents (used in) provided by operating activities	**(22,564,214)**	(25,244,380)
Investing Activities		
Cash acquired on RTO	**-**	183,729
Cash acquired on acquisition of Ubiquo Telemedicina	**-**	578
Property, plant and equipment acquired on acquisition of Ubiquo Telemedicina	**-**	
Purchase of Ubiquo Telemedicina	**-**	(735,937)
Investment in joint ventures	**(1,040,351)**	
Investment - XPhyto Therapeutics Corp.	**(500,000)**	
Proceeds on sale of XPhyto marketable securities	**1,402,313**	
Purchase of property, plant, and equipment	**(5,433,780)**	(10,056,137)
Purchase of intangibles	**-**	(659,517)
Net cash and cash equivalents (used in) provided by investing activities	**(5,571,818)**	(11,267,284)

PHARMACIELO LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended	
	December 31, 2020	**December 31, 2019**
Financing Activities		
Options and warrants exercised	**32,685**	5,349,724
Cash received from Banco Agrario loans	**3,151,684**	
Cash received for shares issued	**20,360,971**	-
Share issue costs	**(1,884,974)**	(577,301)
Cash received for warrants issued	**2,199,090**	
Warrant issue costs	**(275,974)**	
Lease payments	**(261,035)**	(261,530)
Net cash and cash equivalents (used in) provided by financing activities	**23,322,447**	4,510,893
Net increase (decrease) in cash and cash equivalents	**(4,813,585)**	(32,000,771)
Cash and cash equivalents, beginning of period	**13,673,299**	45,674,070
Cash and cash equivalents, end of period	**8,859,714**	13,673,299

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

1. Nature of operations

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

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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2020.

Basis of measurement

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

Principles of consolidation

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

The financial results of PharmaCielo's subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity 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 the consolidated financial statements.

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

Company	Location	Principal activity
PharmaCielo Ltd.	Toronto, Canada	Parent company
PharmaCielo Holdings Ltd. (1)	Toronto, Canada	Holding company
Ubiquo Telemedicina S.A.S. (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 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 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.

Significant areas where management's judgment has been applied include:

Going concern

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

Management believes that the going concern assumption is appropriate for these 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 27, subsequent to year end, the Company completed a private placement offering of $12 million. The assessment of the appropriateness of the going concern assumption includes significant judgements. From the Company's perspective this includes the assumption that a significant portion of warrant and option holders will continue to exercise their instruments during the year and also that if the Company were required to limit its variable costs on cultivation and production, it would be able to do so in a short time frame with limited additional restructuring costs. The construction in progress on the Company's facility was completed subsequent to year end.

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 consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities.

Deferred Taxes

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

Equity Transactions

The Company uses the Black-Scholes 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 costs 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 December 31, 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.

Revenue

As the Company is in an emerging industry with relatively new industry participants and new markets, the historical profile of some of these participants is limited. As such, the Company applies judgement in recognizing revenue to new customers, assessing the creditworthiness and ability of these customers to ultimately make payment. Please see Note 25 for additional discussion of revenue recognition

Cash and cash equivalents

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

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

Short-term investments

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

Financial instruments

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

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

Financial instruments	**Category under IFRS 9**
Cash and cash equivalents	FVTPL
Marketable securities and investments	FVTPL
Trade receivables	Amortized cost
RSU obligation	FVTPL
Consideration payable	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost

<u>Financial assets</u>

Financial assets are classified as either financial assets at FVTPL, amortized cost, or fair value through other comprehensive income ("FVTOCI"). The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

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

ii. Amortized cost

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

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

<u>Financial liabilities</u>

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

i. Financial liabilities recorded at FVTPL

Financial liabilities are classified as FVTPL if they fall into one of the following categories: 1) financial liabilities at FVTPL, 2) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, 3) financial guarantee contracts, 4) commitments to provide a loan at a below-market interest rate, or 5) contingent consideration recognized by an acquirer in a business combination.

ii. Amortized cost

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

Transaction costs

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

Subsequent measurement

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

Derecognition

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

Expected credit loss impairment model

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

Property, plant and equipment

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

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

The Company has certain assets that construction in progress or equipment that is in transit. Amortization will commence once the assets are available for use.

Goodwill and intangible assets

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

Brand and software intangible assets acquired are amortized over their estimated useful lives of 5 years.

Impairment of assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed for indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of 1) fair value less costs to sell and 2) value in use. Fair value is the price that would be received to sell the asset in an orderly transaction between market participants. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the current time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount, and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

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

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

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in notes 3, 14, and 17.

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

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

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

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

Loss per share

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

Income taxes

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

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

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

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

Foreign currency transactions

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

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

Revenue recognition

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

Service revenues, including online medical services, are recognized over a period of time as performance obligations are completed. The Company is engaged with telemedicine software services in the Latin American market.

Inventory

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

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

Subsequent to harvest, all direct and overhead post-harvest costs are capitalized to inventory to the extent cost is less than net realizable value. Direct and overhead costs include wages and benefits, facility costs, amortization, and other costs incurred to bring the inventory to its present location and condition.

Biological assets

Biological assets, consisting of cannabis plants, are measured at fair value up to the point of harvest less costs to complete and sell, which becomes the basis for the cost of finished goods inventories after harvest. The Company capitalizes all direct and indirect costs related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest, including labour-related costs, materials, consumables, utilities, facility costs, amortization, overhead, and quality assurance costs. Capitalized direct and indirect costs of biological assets are subsequently recorded as cost of goods sold on the statement of loss and comprehensive loss in the period in which the related product is sold. Seeds are measured at fair value. Unrealized gains or losses arising from changes in net realizable value during the period are included in the results of operations and presented as a separate line in the statement of comprehensive loss for the related period.

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 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.

New, amended and future IFRS pronouncements

The following IFRS standards have been recently issued by the IASB. The Company has assessed the impact of these new standards on future consolidated financial statements, and found they do not have a material impact on the financial statements of the Company as immaterial as at December 31, 2020.

Amendment to IFRS 3: Definition of a Business
In October 2018, the IASB issued “Definition of a Business (Amendments to IFRS 3)” (the “IFRS 3 Amendment”). The IFRS 3 Amendment clarifies the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The IFRS 3 Amendment provides an assessment framework to determine when a series of integrated activities is not a business. The IFRS 3 Amendment is effective for business

combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, however early application is permitted. The adoption of the amendments had no material impact on the Company's consolidated financial statements.

IAS 1: Presentation of Financial Statements & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
In October 2018, the IASB issued "Definition of Material", an amendment to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, to clarify the definition of material and to align the definition used in the Conceptual Framework and the standards themselves. Materiality is defined as "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." This amendment is effective for the annual period beginning January 1, 2020.

The following is a summary of new standards issued but not yet effective:

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current ("Amendments to IAS 1"). The Amendments to IAS 1 aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The Amendments to IAS 1 include clarifying the classification requirements for debt a company might settle by converting it into equity. The Amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract ("Amendments to IAS 37") amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022.

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

(Expressed in Canadian Dollars)

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

For the year ended December 31		**2020**		**2019**
For sale of cannabis derivative products		**2,684,017**		709,493
For revenue from telemedicine services		**11,192**		-
Allowance for doubtful accounts		**(2,342,535)**		-
Total trade receivables	**$**	**352,674**	$	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.

5. Marketable securities

	Number of shares		**Cost**		**Unrealized gain**		**Fair value**
December 31, 2020							
Khiron Life Sciences Corp. ("Khiron")	100,000	$	12,500	$	25,000	$	37,500
XPhyto Therapeutics Corp. (Note 11)	17,900		51,261		(17,609)		33,652
Total marketable securities		**$**	**63,761**	**$**	**7,391**	**$**	**71,152**
December 31, 2019							
Khiron	100,000	$	12,500	$	93,500	$	106,000

(Expressed in Canadian Dollars)

6. Prepaid expenses and other receivables

For the year ended December 31		2020		2019
Prepaid expenses		**732,075**		426,619
Other receivables		**571,401**		1,112,527
Total prepaid expenses and other receivables	**$**	**1,303,476**	$	1,539,146

7. Inventory

For the year ended December 31		2020		2019
Agricultural supplies and other		**308,665**		287,093
Work-in-process		**551,874**		1,969,582
Finished products		**392,029**		1,209,073
Closing balance	**$**	**1,252,568**	$	3,465,748

During the year ended December 31, 2020, inventory recognized as cost of goods sold was $7,690,079 (December 31, 2019 - $690,313), consisting of $704,085 (December 31, 2019 - $159,464) of realized fair value changes on inventory sold, $5,298,598 (December 31, 2019 - $nil) in impairment costs reducing the inventory value to its net realizable value, and $1,687,396 (year ended December 31, 2019 - $690,313) 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 December 31, 2020:

a. Selling prices – selling prices are based on the Company's expected selling price per kilogram based on selling history, adjusted for current market conditions. A selling price of $796 per kilogram of CBD isolate was used to calculate the biological assets at quarter end (December 31, 2019 - $2,041).

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 $1,683 per kilogram of CBD isolate (December 31, 2019 - $1,463).

c. The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at December 31, 2020 averaged 42% (December 31, 2019 - 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 3.66 grams of CBD isolate (December 31, 2019 - 0.68).

(Expressed in Canadian Dollars)

As at December 31, 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		2,423,968
Changes in fair value less costs to sell due to biological transformation		(1,599,649)
Transferred to inventory upon harvest		(975,449)
Effect of foreign currency exchange differences		(27,396)
Balance, December 31, 2020	**$**	**-**

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 $190,472. 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 $19,986. Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by $17,496.

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

Unrealized change in fair value of biological assets	(1,599,649)
Realized fair value on inventory sold	(704,085)

During the year ended December 31, 2020, the Company incurred $163,227 in agricultural operating costs (year ended December 31, 2019 - $2,303,034).

(Expressed in Canadian Dollars)

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, 2018	**$ 8,251,774**	**$ 2,272,095**	**$ 3,645,833**	**$ 4,770,046**	**$ 150,629**	**$ 599,432**	**$ 127,680**	**$ 843,644**	**$ 20,661,133**
Additions	-	4,280,679	92,925	2,953,849	855,749	373,577	22,221	1,477,137	10,056,137
Additions from Ubiquo Acquisition	-	-	-	-	1,064	266,110	-	-	267,174
Disposals	-	-	-	-	(2,833)	(127,087)	-	-	(129,920)
Effect of foreign currency exchange differences	(383,271)	(206,672)	(131,630)	(355,128)	(10,206)	(47,291)	(8,764)	(73,169)	(1,216,131)
Balance, December 31, 2019	**$ 7,868,503**	**$ 6,346,102**	**$ 3,607,128**	**$ 7,368,767**	**$ 994,403**	**$ 1,064,741**	**$ 141,137**	**$ 2,247,612**	**$ 29,638,393**
Additions	-	3,322,558	43,199	1,074,030	67,659	124,525	-	801,809	5,433,780
Reclassification	-	681,772	-	118,047	-	-	-	(799,819)	-
Disposals	-	-	-	-	-	-	-	-	-
Effect of foreign currency exchange differences	(333,957)	(393,055)	(119,316)	(456,394)	(17,505)	(62,164)	(8,741)	(141,183)	(1,532,315)
Balance, December 31, 2020	**$ 7,534,546**	**$ 9,957,377**	**$ 3,531,011**	**$ 8,104,450**	**$ 1,044,557**	**$ 1,127,102**	**$ 132,396**	**$ 2,108,419**	**$ 33,539,858**
ACCUMULATED DEPRECIATION									
Balance, December 31, 2018	**$ -**	**$ -**	**$ 605,314**	**$ 281,536**	**$ 36,654**	**$ 192,558**	**$ 31,913**	**$ -**	**$ 1,147,975**
Additions	-	-	245,312	354,138	181,604	253,355	24,080	-	1,058,489
Transfers	-	-	-	-	(3,180)	(640)	-	-	(3,820)
Effect of foreign currency exchange differences	-	-	25,902	72,623	12,224	36,339	4,377	-	151,465
Balance, December 31, 2019	**$ -**	**$ -**	**$ 876,528**	**$ 708,297**	**$ 227,302**	**$ 481,612**	**$ 60,370**	**$ -**	**$ 2,354,109**
Additions	-	-	253,858	594,351	280,633	352,746	29,251	-	1,510,839
Disposals	-	-	-	-	-	-	-	-	-
Effect of foreign currency exchange differences	-	-	(19,028)	(27,056)	(4,694)	(25,836)	(3,106)	-	(79,720)
Balance, December 31, 2020	**$ -**	**$ -**	**$ 1,111,358**	**$ 1,275,592**	**$ 503,241**	**$ 808,522**	**$ 86,515**	**$ -**	**$ 3,785,228**
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, December 31, 2020	**$ 7,534,546**	**$ 9,957,377**	**$ 2,419,653**	**$ 6,828,858**	**$ 541,316**	**$ 318,580**	**$ 45,881**	**$ 2,108,419**	**$ 29,754,630**

(Expressed in Canadian Dollars)

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.

The Construction in Process was completed subsequent to year end. No material commitments remain on this construction project. The Company continues to move forward on GMP certification for this facility.

For the year ended December 31, 2020, agricultural operating costs include depreciation expenses of $nil (year ended December 31, 2019 - $366,909) in the consolidated statement of loss.

For the year ended December 31, 2020, depreciation costs of $522,370 (year ended December 31, 2019 - $202,017) was capitalized to biological assets and inventory.

10. Leases

Right-of-use assets

Balance, December 31, 2019		1,445,598
Remeasurement adjustment		(146,203)
Depreciation		(211,744)
Foreign exchange adjustment		(21,851)
Balance, December 31, 2020	**$**	**1,065,800**

Right-of-use assets consist of office spaces. Right-of-use assets are depreciated over 48 to 122 months.

Maturity analysis - contractual undiscounted cash flows

As at December 31, 2020

Less than one year		320,449
One to three years		815,151
Three to five years		716,765
More than five years		278,742
Total undiscounted lease obligation	**$**	**2,131,107**

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 per month, 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 of13.95%.

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.

(Expressed in Canadian Dollars)

The following table illustrates the lease agreements as at December 31, 2020:

	PharmaCielo Ltd.	PharmaCielo Colombia Holding S.A.S	
Country	Canada	Colombia	
City	Toronto	Rionegro (1)	Medellín
Initial contract period	March 1, 2019 to February 29, 2024	March 1, 2016 to February 28, 2017	October 1, 2018 to September 30, 2021
Auto renewal	No	Yes	Yes
Monthly lease payments: CAD$			
2020	$ 19,910	$ 1,922	$ 6,176
2021	19,910	-	6,477
2022	19,910	-	6,592
2023	19,910	-	6,592
2024	19,910	-	6,592
Interest rate	13.95%	10.93%	10.71%

(1) The Rionegro lease will end March 31, 2021

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

Balance, December 31, 2019	1,572,447
Remeasurement adjustments	(147,113)
Interest expense	194,557
Lease payments	(261,034)
Foreign exchange adjustment	(37,467)
Balance, December 31, 2020	**$ 1,321,390**

As at December 31, 2020	
Lease obligations	1,321,390
Less current portion	(150,046)
Non-current portion	**$ 1,171,344**

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 will be recognized into income based on kilograms delivered under the Supply Agreement. During the year ended December 31, 2020, no product had yet been delivered to XPhyto, and therefore no deferred income was recognized.

(Expressed in Canadian Dollars)

The following table illustrates the value at the transaction date and at December 31, 2020:

Supply agreement warrants		**Warrants**
Initial value		356,378
Unrealized gain/loss		(63,005)
Exercise		-
Balance, December 31, 2020	**$**	**293,373**

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 December 31, 2020, the Company had sold 482,100 of the XPhyto shares for proceeds of $1,402,313. As at December 31, 2020, the Company has 17,900 XPhyto shares (see note 5).

As at December 31, 2020, the fair value of the warrants has been revalued at $385,525, using the Black-Scholes pricing model. The following assumptions were used: share price - $1.88; expected annualized volatility – 82%, risk-free rate – 0.67%; and an expected life of 1.08 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 year ended December 31, 2020, the Company amortized $234,431 of deferred income and recorded it as amortization of deferred income in the 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 for debt that was converted as at the balance sheet date. Because the debentures had been fully converted to XPhyto shares as at December 31, 2020, they have no remaining life and full recognition of their associated deferred income amounts as amortization of deferred income is appropriate.

(Expressed in Canadian Dollars)

The following table illustrates the valuation at the grant date and as at December 31, 2020.

	Initial value	December 31, 2020
Convertible Debenture Investment (Receivable Component)	438,271	-
Convertible Debenture Investment (Conversion Component)	428,727	-
Total Value	866,998	-
Warrants	413,779	**385,525**
Total Valuation of Convertible Debenture Investment	1,280,777	**385,525**

	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	(28,254)	420,474
Conversion of convertible debentures	(449,484)	(866,242)	-	(1,315,726)
Balance, December 31, 2020	**-**	**-**	**385,525**	**385,525**

12. Intangible assets and Goodwill

	Goodwill	Intangible Assets	Total
Balance, December 31, 2019	1,162,885	639,799	1,802,684
Adjustments based on finalization of purchase price allocation	(80,021)	-	(80,021)
Amortization	-	(366,259)	-
Foreign exchange adjustment	28,772	(14,211)	14,561
Impairment	(1,111,636)	(139,216)	(1,250,852)
Balance, December 31, 2020	**-**	**120,113**	**120,113**

As of December 31, 2020, the Company assessed whether there were events or changes in circumstances that would indicate that a Cash Generating Unit (“CGU”) or group of CGUs were impaired. The Company considers external and internal factors, including overall financial performance and relevant entity-specific factors, as part of this assessment.

The Company allocated goodwill to Ubiquo’s acquisition (Note 22), and therefore considers the assets and liabilities acquired as a separate CGU. Management concluded that the recoverable amount was lower than the carrying value of both goodwill and intangible assets related to Ubiquo’s acquisition. As of December 31, 2020, the Company recorded impairment losses of $1,111,636 and $139,216 for goodwill and intangible assets, respectively (as of December 31, 2019 - $nil and $nil).

The recoverable amount of Ubiquo’s CGU was determined based on the value in use (“VIU”) method using level 2 and level 3 inputs that were ultimately determined to be market participant assumptions. The recoverable amount was valued using a discounted cash flow (“DCF”) model, a variation of the income approach, and corroborated with value indications from certain market approaches, specifically the publicly traded guideline company method and the comparable transaction method. Based on a discounted cash flow analysis, the entire amount of goodwill was considered impaired as the CGU was projected to not generate positive EBITDA going forward.

The significant assumptions applied in the determination of the recoverable amount are described as follows:

a) Cash flows: Estimated cash flows were projected based on actual operating results from internal sources as well as industry and market trends. The forecasts were extended to a total of four years (with a terminal year thereafter) based on the relative immaturity of the industry.

(Expressed in Canadian Dollars)

b) Post-tax discount rate: The post-tax discount rate is reflective of the CGUs Weighted Average Cost of Capital ("WACC"). The WACC was estimated based on the risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a direct comparison approach, an unsystematic risk premium, and after-tax cost of debt based on corporate bond yields; the Company used WACC of 38% and

c) Tax rate: The tax rates used in determining the future cash flows were those effectively enacted based on jurisdiction at the respective valuation date.

13. Loans and Borrowings

As at December 31, 2020 the company had the following loans and borrowings:

	Term loan	Revolving Loan	Total
Balance, December 31, 2019	$ -	$ -	$ -
Additions	2,969,731	185,608	3,155,339
Transaction costs	(3,655)	-	(3,655)
Balance, December 31, 2020	2,966,076	185,608	3,151,684
Current portion of debt	-	(92,804)	(92,804)
Non-current portion of debt	**$ 2,966,076**	**$ 92,804**	**$ 3,058,880**

In December 2020, the Company entered into loan agreement with Banco Agrario de Colombia S.A. ("Banco Agrario"), consisting of term and revolving components for a total value of $8,500,000,000 COP ($3,155,339 CAD). The term loan is for seven (7) years and makes up $8,000,000,000 COP ($2,969,731 CAD) of the initial loan proceeds received. Per the details of the agreement, the term loan will bear interest at a variable rate of IBR + 7.85%, payable semi-annually during the first 24 months, and quarterly thereafter. The term loan is subject to a capital amortization grace period of up to 24-months. The revolving loan consists of $500,000,000 COP ($185,608 CAD) available to be drawn down by the Company. As at December 31, 2020, the Company had drawn the full amount down. The revolving loan is payable semi-annually, over a period of 24 months. The revolving loan bears interest at a variable rate of IBR + 6%, payable semi-annually. There are certain externally imposed capital requirements as a result of the loan. The Loan is secured against part of the Company's La Margarita property.

14. 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

138,747,660 Common Shares (December 31, 2019 - 98,965,173 Common Shares).

<u>For the year ended December 31, 2019</u>

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

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

(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.

<u>For the year ended December 31, 2020</u>

(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 Companyissued 172 Common Shares for net proceeds of $205 upon the exercise of warrants.

(vii) During the year ended December 31, 2020, 1,347,166 RSUs were fully vested, which resulted in the issuance of 671,500 Common Shares, with 666,666 shares pending issuance at year end and 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 first 2020 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 second 2020 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.

(xi) On November 20, 2020, the Company closed its third 2020 private placement financing by issuing 20,000,000 units at a price of $0.50 per unit, raising gross proceeds of $10,000,000. Each unit consists of one Common Share and one-half a warrant with an exercise price of $0.65 and a life of 2 years. The warrant fair value was determined based on a Black-Scholes model (see note 15(i)(c)). The Company has allocated $7,800,910 of the private placement to share capital and $2,199,090 to warrants. Related issuance costs of $1,254,946, including 1,000,000 broker warrants to purchase one unit each at a price of $0.50 issued as agents' fees (valued at $250,418), were allocated to share capital ($978,972) and warrants (275,974).

(Expressed in Canadian Dollars)

15. Warrants

The following table reflects the continuity of warrants for the periods ended December 31, 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	(765,606)	2.01	3.27
Balance, December 31, 2019	**37,054**	**2.06**	**1.19**
Balance, December 31, 2019	37,054	2.06	1.19
April 15 Private Placement (Note 14(b)(ix))	190,212	-	0.65
November 20 Private Placement (Note 14(b)(xi))	10,000,000	-	0.65
November 20 Private Placement - Broker Warrants(Note 14(b)(xi))	1,000,000	-	0.50
Exercised	(172)	-	1.194
Expired	(27,882)	2.00	-
Balance, December 31, 2020	**11,199,212**	**2.25**	**0.64**

(i) Warrants issued in the year ended December 31, 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. Each Broker Warrant is exercisable for one Common Share at an exercise price of $0.65 for a period of 24 months. The Broker Warrants were valued using a Black-Scholes pricing model with the following assumptions: share price of $0.73, exercise price of $0.65, expected stock price volatility of 91%, expected dividend yield of 0%, risk-free interest rate of 0.33%, and term of 24 months. As at December 31, 2020, none of the Broker Warrants had been exercised.

c. As part of the November private placement, the Company issued 10,000,000 warrants exercisable at $0.65 per warrant. The Company used a Black-Scholes pricing model to value the warrants, with the following assumptions: share price of $0.84, exercise price of $0.65, expected stock price volatility of 95%, expected dividend yield of 0%, risk-free interest rate of 0.69%, and term of 24 months.

d. Also as part of the November private placement, the Company issued 1,000,000 broker warrants exercisable at $0.50 per unit . Each warrant is exercisable for one unit, consisting of one Common Share and one half warrant, with each full warrant exercisable for one Common Share at an exercise price of $0.65 for a period of 24 months. The broker warrants were valued using a Black-Scholes pricing model, with the following assumptions: share price of $0.84, exercise price of $0.50, expected stock price volatility of 95%, expected dividend yield of 0%, risk-free interest rate of 0.69%, and term of 24 months.

(Expressed in Canadian Dollars)

(ii) Warrants exercised in the year ended December 31, 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 December 31, 2020:

Number of warrants outstanding	Exercise price (USD)	Exercise price (CAD)	Expiry date
190,212	-	0.65	April 15, 2022
11,000,000	-	0.65	November 20, 2022
9,000	2.25	-	December 15, 2022
11,199,212			

16. Stock options

The following table reflects the continuity of options for the periods ended December 31, 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	38,777	-	1.194
Granted	550,000	-	3.350
Exercised	(3,615,957)	0.74	1.194
Expired/Forfeited	(22,000)	2.25	-
Balance, December 31, 2019	**12,606,000**	**1.28**	**3.35**
Balance, December 31, 2019	12,606,000	1.28	3.35
Granted (i)	5,183,336	-	0.80
Exercised	(50,000)	0.50	-
Expired/Forfeited	(4,117,000)	1.32	3.35
Balance, December 31, 2020	**13,622,336**	**1.51**	**1.69**

(i) Options issued in the year ended December 31, 2020 include the following:

a. On May 4, 2020, the Company granted incentive stock options to an officer 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 year ended December 31, 2020, the Company recorded $866,808 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

b. On July 2, 2020, the Company granted a total of 383,336 compensation stock options (the "Compensation Options") to the underwriters of the July 2, 2020 private placement. Each option is exercisable for one Common Share at a price of $0.72 on or before July 2, 2022. All options vest immediately. The fair value of each option has been estimated at $0.34 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of $0.71, exercise price of $0.72, expected stock price volatility of 90%, risk-free rate of 0.56%, and expected life of 24 months. During the year ended December 31, 2020, the Company recorded $129,184 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

c. On November 20, 2020, the Company granted a total of 3,000,000 incentive stock options to a director of the Company. Each option is exercisable for one Common Share at a price of $0.63 on or before November 20, 2025. The options vest as follows: 1,000,000 immediately; 1,000,000 on the six-month anniversary of the grant date; and the remaining 1,000,000 on the one-year anniversary of the grant date. The fair value of each option has been estimated at $0.63 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of $0.84, exercise price of $0.63, expected stock price volatility of 95%, risk-free rate of 0.56%, and expected life of 5 years. During the year ended December 31, 2020, the Company recorded $847,891 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

d. On December 2, 2020, the Company granted a total of 200,000 incentive stock options to an officer of the Company. Each option is exercisable for one Common Share at a price of $1.11 on or before December 2, 2030. All options vest immediately. The fair value of each option has been estimated at $1.19 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of $1.23, exercise price of $1.11, expected stock price volatility of 101%, risk-free rate of 0.76%, and expected life of 10 years. During the year ended December 31, 2020, the Company recorded $237,942 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.

e. On December 17, 2020, the Company granted a total of 100,000 incentive stock options to a consultant of the Company. Each option is exercisable for one Common Share at a price of $2.18 on or before December 17, 2023. The options vest as follows: 25,000 immediately; 25,000 on the four-month anniversary of the grant date; 25,000 on the eight-month anniversary of the grant date, and the remaining 25,000 on the one-year anniversary of the grant date. The fair value of each option has been estimated at $1.44 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of $2.18, exercise price of $2.18, expected stock price volatility of 103%, risk-free rate of 0.74%, and expected life of 3 years. During the year ended December 31, 2020, the Company recorded $43,549 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.

(Expressed in Canadian Dollars)

Details of the stock options outstanding as at December 31, 2020 are as follows:

Number of options outstanding	Number of options exercisable	Exercise price (USD)	Exercise price (CAD)	Weighted-average life (years)	Expiry date
383,336	383,336	-	0.72	1.51	July 2, 2022
50,000	50,000	0.25	-	1.58	July 31, 2022
250,000	250,000	0.50	-	1.58	July 31, 2022
40,000	40,000	2.25	-	1.58	July 31, 2022
100,000	25,000	-	2.18	2.96	December 17, 2023
500,000	500,000	2.25	-	4.00	January 1, 2025
2,035,000	2,035,000	2.25	-	4.08	January 29, 2025
39,000	39,000	2.25	-	4.09	February 4, 2025
700,000	700,000	0.25	-	4.38	May 15, 2025
50,000	50,000	-	3.35	4.42	June 1, 2025
25,000	25,000	0.50	-	4.83	October 27, 2025
3,000,000	1,000,000	-	0.63	4.89	November 20, 2025
50,000	50,000	1.00	-	5.67	September 1, 2026
550,000	366,667	-	3.10	5.85	November 5, 2026
450,000	450,000	1.00	-	6.01	January 2, 2027
100,000	100,000	1.00	-	6.08	January 27, 2027
1,050,000	1,050,000	1.00	-	6.42	June 1, 2027
300,000	300,000	2.00	-	6.51	July 5, 2027
2,250,000	1,750,000	-	3.35	7.50	July 1, 2028
1,500,000	833,334	-	1.02	9.34	May 4, 2030
200,000	200,000	-	1.11	9.92	December 2, 2030
13,622,336	**10,197,337**	**1.51**	**1.69**	**5.75**	

17. Restricted share units ("RSUs")

	Number of unvested RSUs outstanding
Balance, December 31, 2019	**702,000**
Granted (i)	2,315,000
Vested (ii)	(1,347,166)
Forfeited (iii)	(30,000)
Balance, December 31, 2020	**1,639,834**

(i) On November 20, 2020, the Company issued 2,000,000 RSUs to a director of the company. The RSUs are vesting at a rate of 1/3 every 6 months, starting from the grant date.

(ii) During the year ended December 31, 2020, 1,347,166 RSUs were fully vested, which resulted in the issuance of 671,500 common shares, with an additional 666,666 shares pending issuance at December 31, 2020. The remaining 9,000 vested RSUs are to be settled in cash. The Company has recorded this liability under RSU obligations.

(iii) On October 1, 2020 30,000 RSUs were forfeited.

As at December 31, 2020, there were 1,639,834 unvested RSUs outstanding.

18. Net loss per Common Share

The calculation of basic and diluted loss per share for the year ended December 31, 2020 was based on the net loss of $43,755,809 (year ended December 31, 2019 - $34,667,341) and the weighted average number of Common Shares outstanding of 112,539,538 (year ended December 31, 2019 - 96,050,430). Diluted loss per share is equal to basic diluted loss per share as any effects of the potential convertible securities would be anti-dilutive.

19. Transactions with related parties

During the year ended December 31, 2020, the Company has the following related party transactions:

a) Federico Cock-Correa is a former director of the company. During 2020, Mr. Cock-Correa was no longer considered a related party but continued to have a consulting arrangement with the Company. In addition, Tahami & Cultiflores SA en Reorganización, a company controlled by Mr. Cock-Correa acted a contract grower for the Company. During 2019, the Company incurred contract grower expenses of $21,735.

b) The Company's former Chief Executive Officer, Anthony Wile and his company Grupo Jaque, were no longer considered related parties to the Company during 2020 but continued to have a consulting arrangement with the Company. The Company incurred consulting fees of during the year ended December 31, 2019 of $53,174 from Grupo Jaque, and Mr. Wile also received $218,509 in fees during the year ended December 31, 2019.

c) The Company incurred consulting fees of $6,000 (compared to the year ended December 31, 2019 of $6,000) from Laitinen Consulting Inc., a company controlled by the Company's Chief Financial Officer, Scott Laitinen. As of December 31, 2020, the amount of $500 (December 31, 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.

d) The Company incurred consulting fees of $29,400 (compared to the year ended December 31, 2019 of $nil) from DHBache & Company Inc., a company controlled by a director of the Company, Douglas Bache. As of December 31, 2020, the amount of $nil (December 31, 2019 - $nil) is owing to DHBache & Company Inc.

e) The Company incurred consulting fees of $75,000 (compared to the year ended December 31, 2019 of $nil) from Konssult Assessoria Empresarial Ltda, a company controlled by the CEO of the Company, Henning von Koss. As of December 31, 2020, the amount of $nil (December 31, 2019 - $nil) is owing to Konssult Assessoria Empresarial Ltda.

f) The Company incurred consulting fees of $70,000 (compared to the year ended December 31, 2019 of $nil) from L5 Capital Inc., a company controlled by the lead director of the Company, Marc Lustig. As of December 31, 2020, the amount of $70,000 (December 31, 2019 - $nil) is owing to L5 Capital Inc.

g) During the year ended December 31, 2020, the Company included in expenses $371,307 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 previous contract growers agreement and the negotiation of a new agreement. The total also included $18,452 that was part of other receivables as at December 31, 2019.

h) The Company included in other receivables $nil for December 31, 2020 (December 31, 2019 - $39,290) 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 year ended in December 31, 2020, the other receivable amount of $39,290 was expensed with the cancelation of the current contract growers agreement.

(Expressed in Canadian Dollars)

Compensation of Key Management

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.

For the year ended December 31	2020	2019
Management compensation	**$ 1,900,809**	$ 1,440,628
Termination payments	**4,777,881**	-
Directors' fees (1)	**130,341**	77,500
Share-based compensation (2)	**5,166,139**	9,674,812
Total management compensation	**$ 11,975,170**	$ 11,192,940

(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 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.

20. Commitments and Contingencies

Commitments

a) 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.

b) 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 of the date of these financial statements, the company has paid Tahami & Cultiflores SA en Reorganización $733,478 for the supply of plant material.

c) Included in accounts payable and accrued liabilities, and other non-current liabilities are accruals for certain provisions, including termination related commitments to former officers and directors of approximately $2.2 million. In addition, the company had a commitment to issue 1.25 million Deferred Stock Units ("DSU") once a DSU plan has been approved. At year-end, a liability of $2.6M was recorded in accounts payable and accruals relating to the DSU commitment based on the quoted price of the shares at year end.

Legal

The Company is involved in claims that arise in the ordinary course of business. Accruals for the claims are provided to the extent that losses are deemed both probable and estimable. Although the ultimate outcome of this claim or lawsuit cannot be ascertained, based on present information and advice received from counsel, the Company recognized a provision as of December 31, 2020 in accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

A former director of the Company, and his company have filed a Statement of Claim in Ontario's Superior Court of Justice against the Company in connection with the director's alleged employment by the Company and the consulting relationship between the Company and the director's company. The Company filed a Statement of Defence on February 4, 2021. The reply of the director and his company was served on March 8, 2021.

On March 6, 2020 and April 24, 2020, two proposed securities class actions were filed against the Company, David Attard and Scott Laitinen in the United States District Court for the Central District of California (the "Court"). In June 2020, the Court consolidated the two lawsuits into one case and assigned lead plaintiffs ("Plaintiffs") and lead counsel to represent the proposed class in the litigation. On August 21, 2020, Plaintiffs filed an amended complaint and named David Gordon and Andres Botero as additional defendants (together with the Company, David Attard, and Scott Laitinen, "Defendants"). The proposed class action is comprised of stockholders who purchased or acquired publicly-traded PCLO securities from June 21, 2019 to March 2, 2020. The amended complaint alleges violations of the Securities Exchange Act of 1934 (the "Securities Exchange Act") against Defendants. Plaintiffs contend that the market price of the Company's security was artificially inflated due to misrepresentations made by the Company and Defendants, and that the senior officers of the Company are liable due to their control and authority over the Company's public statements. The amended complaint seeks damages and an award of Plaintiffs' costs, including attorneys' fees and expenses. On October 22, 2020, Defendants filed a motion to dismiss the U.S. action. On December 21, 2020, Plaintiffs filed opposition to the motion to dismiss. On February 5, 2021, Defendants filed a reply in support of their motion to dismiss. On April 16, 2021, the Court issued an order granting the Defendants' motion to dismiss and granting the Plaintiffs leave to amend the complaint by May 21, 2021. As a result of the court granting an order to dismiss, the Company's judgement is that no provision is necessary at this time. The lead plaintiff has not yet filed an amended complaint and should they do so, the Company would reassess at that time.

The Company believes the class action to be without merit.

21. Segmented information

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

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

The Company is located and operates in Canada and Colombia, as well as having joint control over ventures in Italy and Mexico.

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

Net loss for the year ended	2020	2019
Canada	$ 25,107,127	$ 26,431,357
Colombia	18,648,682	7,903,387
Italy	-	107,418
Mexico	-	225,179
Total	$ 43,755,809	$ 34,667,341

(Expressed in Canadian Dollars)

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

Total assets as of December 31		**2020**		**2019**
Canada	$	12,728,282	$	19,400,160
Colombia		31,296,139		30,601,401
Italy		-		60,325
Mexico		-		134,476
Total	$	44,024,421	$	50,196,362

Operating segment - December 31, 2019		**Corporate**		**Cannabis**		**Total**
Revenues	$	-	$	786,901	$	786,901
Cost of sales		-		741,000		741,000
Loss for the period		26,431,357		8,235,984		34,667,341

Operating segment - December 31, 2020		**Corporate**		**Cannabis**		**Total**
Revenues	$	-	$	2,653,917	$	2,653,917
Cost of sales		-		1,687,396		1,687,396
Loss for the period		25,107,127		18,648,682		43,755,809

Revenues by country		**Cannabis**		**Total**
United States		1,649,136		1,649,136
Czech Republic		89,272		89,272
Colombia		104,366		104,366
Paraguay		765		765
United Kingdom		692,425		692,425
Switzerland		114,805		114,805
Mexico		1,982		1,982
Canada		1,166		1,166
Total Revenue	$	2,653,917	$	2,653,917

Revenue Concentration

The Company's business is such that, at any given time, it sells its products and services to a relatively small number of customers. During the year ended December 31, 2020, two customers accounted for approximately 100% of cannabis revenue in the United States, as well as 64% of total revenue and 84% of gross trade receivables.

22. 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.

(Expressed in Canadian Dollars)

Investment in joint ventures at December 31, 2020 was $565,396 (December 31, 2019 - $nil) and consisted of the following amounts:

Balance, December 31, 2019	**$**	**-**
Investment in joint ventures		1,470,526
Prior year share of loss on investment in joint ventures		(187,783)
Share of loss on investment in joint ventures		(717,347)
Balance, December 31, 2020	**$**	**565,396**

The amount invested during 2020 is $1,040,351.

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

As at December 31, 2020

		PharmaCielo Italia SRL		**PharmaCielo S.A. de C.V.**
Cash and cash equivalents	$	12,762	$	31,134
Other current assets		46,039		97,360
Total current assets		58,801		128,494
Non-current assets		4,148		-
Total assets	$	62,949	$	128,494
Current liabilities		207,204		3,321
Total liabilities	$	207,204	$	3,321
Net assets(1)	**$**	**(144,255)**	**$**	**125,173**

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

For the year ended December 31, 2020

		PharmaCielo Italia SRL		**PharmaCielo S.A. de C.V.**
Selling, general, and administrative expenses	$	742,790	$	393,480
Other expense		935		-
Net loss(1)		743,725		393,480

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

23. 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 December 31, 2020	-	$	-	$	-	**$**	**-**

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		28,772
Impairment		(1,111,636)
Balance, December 31, 2020	$	-

(Expressed in Canadian Dollars)

24. Income tax

Reconciliation of effective tax rate

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 – 26.5%) to the effective tax rate is as follows:

For the years ended December 31	2020	2019
Net income (loss) before taxes	(43,755,809)	(34,667,345)
Tax rate	26.50%	26.50%
Computed expected income taxes	(11,595,290)	(9,186,846)
Increase (decrease) in taxes:		
Difference in foreign tax rates	(860,300)	(279,850)
Tax rate changes and other adjustments	(264,430)	184,930
Sharebased compensation and non-deductible expenses	1,717,810	2,966,120
Provision for DSU to be paid to employee	689,000	-
Other nondeductible expenses	677,590	549,216
Financing fees booked to equity	(795,690)	(129,380)
Listing expense re RTO transaction	-	644,930
Change in tax benefits not recognized	10,431,310	5,250,880
Total tax expense (recovery)	-	-

Deferred tax

The following table summarizes the components of deferred tax:

Deferred tax assets	2020	2019
Canada		
Investment in JV	48,130	-
Non-capital losses carried forward	-	12,390
Colombia		
Non-capital losses carried forward	107,290	281,720
Deferred tax liabilities		
Canada		
Marketable Securities	(5,400)	(12,390)
Investment in Xphyto	(42,730)	-
Colombia		
FV gain on biological asset and inventory	-	(179,450)
ROU asset	(42,500)	(101,050)
Unrealized FX gain or losses	(64,790)	-
Accounts receivable and payable	-	(1,220)
Net deferred tax asset	-	-

(Expressed in Canadian Dollars)

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities.

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

For the year ended December 31	2020	2019
Canada		
Property, plant and equipment	**720,470**	580,160
Restructuring reserve	**4,215,840**	-
Investment in JV	**541,860**	-
Deferred revenue from investment in Xphyto	**163,340**	-
ROU asset and lease liability	**228,200**	92,220
Cash-settled RSU	**105,260**	117,690
Share issuance costs - 20(1)(e)	**4,239,230**	2,883,450
Schedule 13 Reserves	**-**	218,730
Non-capital losses carried forward	**44,778,170**	32,746,240
Colombia		
Other assets	**6,121,230**	5,538,690
Property, plant and equipment	**522,030**	-
Non-capital losses carried forward	**23,375,370**	10,532,710
Ubiquo		
Property, plant and equipment	**-**	164,990
Intangible Assets	**445,960**	259,510
Non-capital losses carried forward	**889,510**	728,080
Mexico		
Non-capital losses carried forward	**-**	225,180
Italy		
Non-capital losses carried forward	**-**	107,420
Total	**86,346,470**	54,195,070

The Canadian non-capital loss carry forwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2024. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

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

Year of expiry	Amount
2035	2,293,750
2036	3,299,430
2037	8,419,310
2038	6,993,610
2039	10,954,550
2040	12,817,520
Total	**44,778,170**

(Expressed in Canadian Dollars)

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

Year of expiry	Amount
Indefinite	191,510
2029	2,331,860
2030	2,734,760
2031	6,110,880
2032	12,895,870
Total	**24,264,880**

25. Revenue

In Q2 2020, the Company entered into an agreement to sell CBD isolate to a new customer. This customer represented 46% of revenue recorded during the year and was a company established in 2019.

In addition, another customer accounted for 18% of the revenue recognized during 2020 and 91% of the revenue recognized during 2019. Management recognized the revenue as the control of the product ownership had been transferred to these customers and, in management's view, the collectability of those receivables was probable. Based on the Company's information known at the time the new customers were active businesses in good standing, and it was anticipated to have a significant network within the hemp and cannabis sector, with an experienced management team. Management had a relationship with the principals in these companies who had significant experience in the cannabis and capital markets business. Based on this information, the Company expected to sell and collect all sales and was looking for an opportunity to build a long-term relationship for access to the US market.

As at the end of the year, the Company had received $26,802 of payments from these customers on sales of $1.7 million. The inventory sold initially to one of the customers was assumed, along with the receivable by the second customer. Management decided to take a full expected credit loss provision of $2.2 million based on a probability-based assessment of potential non-payment.

In anticipation of a long-term relationship, the Company also lent one of the customers USD$195,782 to help build the machinery to develop the products. The company also recorded a provision for expected credit loss to write off the balance of the outstanding loan. As a result of these events, management has undertaken stricter credit control policies prior to the recognition of revenue.

26. Financial risk management and financial instruments

As of December 31, 2020, the Company's financial instruments consist of cash and cash equivalents, trades receivables, marketable securities, accounts payable and accrued liabilities, RSU obligations and lease liabilities.

The Company characterizes its fair value measurements of financial instruments into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 - inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs other than quoted prices included within Level 1, that are observable for the assets or liabilities either directly or indirectly; and
- Level 3 - inputs are unobservable for the asset or liability

A financial instrument is classified to the lowest level hierarchy for which a significant input has been used in measuring fair value.

(Expressed in Canadian Dollars)

The carrying amounts for cash and cash equivalents, accounts receivable, due from related parties, and accounts payable and accrued liabilities approximate their respective fair values due to the short-term maturities of those instruments. The carrying amount of lease liabilities approximates its fair value as it is present valued using the discount rate implicit within the lease or the Company's incremental borrowing rate. The company has no Level 3 investments.

Financial risk management

The Company's activities are exposed to a variety of financial risks in the normal course of business. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize the Company's capital costs by using suitable means of financing and to manage and control the Company's financial risks effectively. The principal financial risks arising from financial instruments are liquidity risk, credit risk, and market risks.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. As at December 31, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, debt, RSU obligations, deferred income, and lease liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it has sufficient cash resources in order to finance operations, funds capital expenditures, and to repay financial liabilities. The Company manages its liquidity risk by preparing and monitoring operating budgets, reviewing capital requirements, and coordinating and authorizing project expenditures. As at December 31, 2020, the Company had a deficit working capital of $219,920.

The following table details the contractual maturities of Pharmacielo's financial liabilities as at December 31, 2020 and 2019:

For the year ended December 31, 2020:	<1 Year	1 to 3 Years	3+ Years	Total
Accounts payable and accrued liabilities	11,708,396	-	-	11,708,396
Debt	92,804	371,216	2,687,664	3,151,684
Lease liabilities[(1)]	150,046	300,092	870,355	1,320,493
RSU obligations	105,258	-	-	105,258
Debt	92,804	686,019	2,372,861	3,151,684
Other non-current liabilities	-	997,689	-	997,689
Total	**12,149,308**	**2,355,016**	**5,930,880**	**20,435,204**

For the year ended December 31, 2019:	<1 Year	1 to 3 Years	3+ Years	Total
Accounts payable and accrued liabilities	2,900,441	-	-	2,900,441
Lease liabilities[(1)]	147,597	295,194	1,129,656	1,572,447
Consideration payable	140,483	-	-	140,483

(1) These amounts include the notional principal and interest payments for the contractual lease term and does not consider the Company's options to extend or renew its leases or terminate them before the contractual lease ending date.

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 cash is held at Colombian Chartered Banks or is held in trust with legal counsel in which management believes that the risk of loss is minimal. However, the Company is subject to concentration of credit risk. See Note 25 for additional information on Revenue.

The Company's aging of trade receivables was as follows:

For the year ended December 31	2020	2019
0 to 90 days	**311,902**	701,835
91 to 180 days	**40,772**	7,658
181 days +	**2,342,535**	-
Allowance for doubtful accounts	**(2,342,535)**	-
Total trade receivables, net	**352,674**	**709,493**

Market risk

Market risk is the risk or uncertainty that changes in price, foreign exchange rates, and interest rates will affect the Company's net earnings and the value of financial instruments. Pharmacielo is exposed to two types of market risk, being foreign currency risk and interest rate risk as outlined below.

Foreign Currency risk

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently have sales denominated in various currencies. 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 do so effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide from foreign currency fluctuations and can themselves result in losses.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk only on cash and cash equivalents and debt. Fluctuations of interest rates for the period ending December 31, 2020 would not have had a significant impact on these consolidated financial statements.

Capital management

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity, and flexibility to fund the Company's operations, growth, and ongoing developmental activities. The Company is dependent upon funding these activities through a combination of available cash, debt and equity, which it considers to be the components of its capital structure as outlined below.

For the year ended December 31	2020	2019
Shareholders' equity	**26,246,994**	45,465,301
Debt	**3,151,684**	-
Working capital	**(216,920)**	16,366,001

27. COVID-19

In order to protect the health of PharmaCielo's staff and the community during the global outbreak of COVID-19, during 2020, PharmaCielo adjusted operations at the Rionegro, Colombia facilities of its subsidiary PharmaCielo Colombia Holdings S.A.S. ("PharmaCielo Colombia"). The Company's 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 the use of ethanol, 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.

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 Colombia or other 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. Thus, governmental health entities carried out a verification of the biosafety protocols adopted by the company in the facilities where 100% compliance with the measures generated by the government were evidenced. 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 2020, 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. It is important to mention that the rate of contagion in the company has been low, with no outbreaks in the processes, serious cases or fatalities. In addition, measures have been implemented to reinforce prevention, such as sessions with epidemiologists to clarify doubts and raise awareness about good practices to be implemented in order to combat the second wave of the disease.

28. Events after the reporting period

Overnight Marketed Equity Financing

Subsequent to year-end, On April 7, 2021, the Company closed an overnight marketed offering of Common Shares conducted through a syndicate of agents led by Cormark Securities Inc. and including Stifel GMP. The Company issued 6,301,866 Common Shares at a price of $2.15 per share pursuant to the offering, for aggregate gross proceeds of $13,549,012, inclusive of proceeds from the exercise in part of the agents' over-allotment option to purchase 840,698 additional Common Shares, and $50,000 from a non-brokered portion of the Offering.

As of the date of these Financial Statements 760,835 options were exercised resulting in proceeds of $564,909 and the issuance of 760,835 shares, subsequent to December 31, 2020.

As of the date of these Financial Statements 567,169 warrants were exercised resulting in the proceeds of $368,660 and the issuance of 567,169 shares, subsequent to December 31, 2020.