PharmaCielo Ltd.

Management's Discussion and Analysis

For the twelve months ended December 31, 2020

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Introduction

PharmaCielo Ltd. (the "Company" or "PharmaCielo") is a publicly traded corporation, incorporated in Canada, with its head office located at 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2V6. Common shares of PharmaCielo trade on the TSX Venture Exchange ("TSXV") under the ticker symbol "PCLO" and on the OTC Markets under the symbol "PCLOF".

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of PharmaCielo constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2020. This discussion should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2020, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). Information contained herein is presented as of April 29, 2021, unless otherwise indicated.

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

The audited consolidated financial statements and this MD&A have been reviewed by the Company's Audit Committee and were approved by the Board on April 29, 2021.

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

Caution Regarding Forward-Looking Statements

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

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

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

Key 2020 Developments & Highlights

We are pleased with our achievements and the results of our work in 2020. Despite challenges, such as COVID-19 and its operational and economic impacts worldwide, we believe we enter 2021 in a better position to execute on our strategy than when we entered 2020. Key highlights from the year include:

- our successful completion of the building construction of our new Processing and Extraction Centre ("PEC"), which gives PharmaCielo one of the largest current extraction footprints globally
- we refreshed our go-to-market strategy during Q3 2020, which contributed to our ability to begin developing a new client base in key geographical markets in Q4 2020. We believe this has positioned us well for future business development
- we launched our expanded product portfolio with initial shipments at the end of Q4 2020
- we welcomed a new board member and new CEO to drive the Company to what we believe will be a new chapter of Company growth and global market penetration
- we streamlined our operations and administration as part of our cost reduction program that has been in place since the end Q2 2020, with positive results
- we successfully completed financing rounds in April, July and November

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.

Operations

As of the date of this MD&A, the building construction of PharmaCielo Processing and Extraction Centre ("PEC") has been completed, allowing for expanded installation of processing equipment for operational commencement. The operational PEC will allow PharmaCielo to increase its processing capacity to 360 tonnes per year of dried flowers (biomass) and expand output of finished high-grade medicinal cannabis extracts. The product portfolio range enabled by the operational PEC will also increase and address both demand and regulatory requirements of individual markets globally. The expanded portfolio ranges from high quality singular cannabinoid extractions to a variety of distilled and diluted Full Spectrum, Broad Spectrum and Isolate formulations, including Water Soluble. Both non-psychoactive and psychoactive product formulations are included. The Company has completed constructing the PEC for a total cost of USD $17.7 million. PEC production process in accordance with GMP and EU GMP guidelines. Validation by individual clients and certification process by different authorities have been initiated and will continue to occur throughout 2021. We do not foresee significant additional investments as all activities were already completed. During the following audit processes some gaps could be identified by the auditors that will required to the best of our knowledge minor investments to adjust accordingly if finally needed. Regular Maintenance cost for the facility is expected as we run it accordingly to production plans and maintenance guidelines requirement.

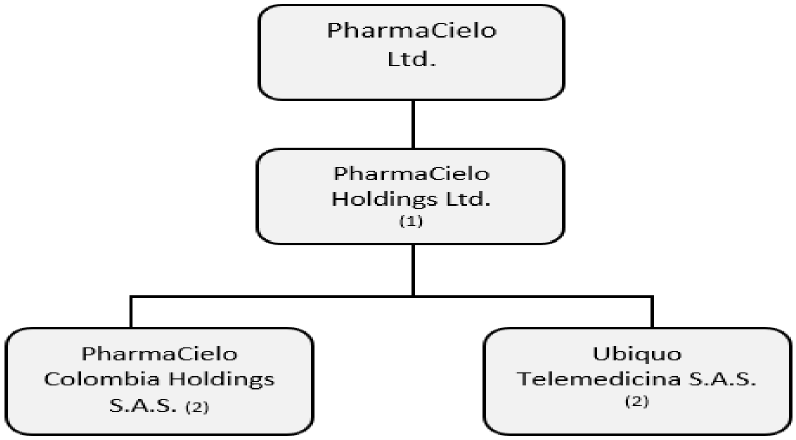
Company Overview

PharmaCielo is a public company and commenced trading on the TSX Venture Exchange (the "TSXV") on January 18, 2019 under the ticker symbol "PCLO". PharmaCielo is headquartered in Toronto, Ontario, Canada, with a focus on cultivating, processing, and supplying all natural medicinal-grade cannabis extracts to large channel distributors, such as health and wellness product manufacturers, pharmacies, medical clinics, and cosmetic companies. PharmaCielo Ltd. was incorporated pursuant to the *Business Corporations Act* (British Columbia) on May 30, 2017 under the name "AAJ Capital 1 Corp." Upon completion of its Qualifying Transaction (as such term is defined in Policy 2.4 – *Capital Pool Companies* of the TSXV Corporate Finance Manual ("Policy 2.4") in accordance with the policies of the TSXV on January 15, 2019), the Company changed its name to "PharmaCielo Ltd." Both PharmaCielo's registered office and head office are located at 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2V6.

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

Ubiquo is a knowledge management and medical consultation system that aims to create better access to healthcare for Colombians. Ubiquo is a technology platform or user interface that allows doctors and patients to communicate. Doctors or clinics register with Ubiquo and provide their patients access to the Ubiquo platform that is used as a communication tool. Doctors can communicate with patients on all medical matters, not just medical matters related to medicinal cannabis. Medical professionals that use Ubiquo are not employees or contractors of Ubiquo but pay Ubiquo fees to access the platform. Patients of the doctors or clinics who use Ubiquo to communicate with medical professionals do not pay to access the Ubiquo platform. Through its acquisition of Ubiquo, PharmaCielo anticipates that it will be better able to facilitate the educational progress and knowledge about the possible uses, benefits, and risks of medicinal cannabis.

Intercorporate Relationship



(1) 100% owned by PharmaCielo Ltd.
(2) 100% owned by PharmaCielo Holdings Ltd.

Production Licenses

PharmaCielo Colombia holds the following licenses granted by the Colombian government: (i) the Cannabis Psychoactive Cultivation License; (ii) the Cannabis Non-Psychoactive Cultivation License; and (iii) the Cannabis Manufacturing License.

The Company's Cannabis Psychoactive Cultivation License and Cannabis Manufacturing License permit the cultivation and manufacturing of psychoactive cannabis, but quotas from the Ministry of Justice and Law (the "Ministry of Justice") and the Ministry of Health and Social Protection (the "Ministry of Health") are required for the transformation of psychoactive cannabis for both investigative and commercial purposes.

For the 2021 calendar year, PharmaCielo applied to the Colombian Ministry of Justice for both a quota for non-commercialization purposes and commercialization purposes regarding the cultivation of psychoactive cannabis.

By means of resolution 0137 dated February 19, 2021, PharmaCielo was granted an ordinary quota for 2021 for the cultivation of psychoactive cannabis for commercialization and non-commercialization purposes, using the cannabis seed varieties that were approved by the Ministry of Justice.

For the 2021 calendar year, PharmaCielo also applied to the Colombian Ministry of Health for both a quota for non-commercialization purposes and commercialization purposes regarding the manufacturing and exportation of psychoactive cannabis.

PharmaCielo has received 2021 ordinary commercial quotas for psychoactive cannabis from the Colombian Ministry of Health, permitting it to produce and extract 50,220 kg of dry flowers and to export the corresponding cannabis derivatives. The aforementioned by means of Resolution 157 dated February 12, 2021 of the Ministry of Health. On the other hand, by means of Resolution 156 dated February 12, 2021, PharmaCielo was granted a manufacturing ordinary quota for research and development purposes.

Industry Overview

The global cannabis industry is experiencing significant changes as various governments embrace regulatory reform, with continued increase in the number of nations enabling the production and consumption of medicinal cannabis.

As a global market targeted supplier, PharmaCielo is focussed on multiple areas and markets dedicated to medicinal supply.

A reflection of the global market evolution has been the continued expansion of the health and wellness market segment from primarily CBD to inclusion of THC dominant strain extracts. PharmaCielo's management notes that the 2020 receipt of a Colombian production and export quota for THC, combined with increased CBD contract cultivation and product range, has expanded its capacity for market supply. There has been a corresponding increase in the volume of inquiries and discussion with individual export markets.

Management believes that the Company is competitively positioned on a global level to capitalize on its Colombian first-mover status and extensive cultivation and scientific processing capacity, to aggressively address global market demands for the highest quality medicinal product supply.

Operations

Facilities

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

PharmaCielo has completed the construction of the Processing and Extraction Centre ("PEC"). The machine installation has been completed at the PEC, the outfitted space will be equipped to: (i) dry flowers using drying machines; (ii) a milling area; (iii) extraction areas; (iv) processing and refining of Cannabis extracts; and (v) an area designed for testing of THC and CBD levels in cannabis, as well as for general compliance.

Processing and Extraction Centre (PEC)

The Company's Processing and Extraction Centre (PEC), located in Rionegro, Colombia consists of approximately 4.000 square meters of buildings and installations on approximately 3.6 hectares. The PEC includes processing areas (upstream-downstream), 3 laboratories, offices, utilities, services and warehouses. The PEC is capable of upstream processing 30 tons of biomass on a monthly basis (360 tons per year), and downstream is capable of delivering on monthly basis a variety of extracts that includes CBD Isolate (2,000 kg), Broad Spectrum Distillated and Broad Spectrum Oil (360 kg), Full Spectrum Diluted and Pharma Grade Water Soluble in various concentrations.

Its quality assurance and Good Manufacturing Practices are supported by two fully equipped Laboratories with the latest technology for Microbiology and Physicochemical analysis, a third Laboratory of Molecular Chemical Biology has also been constructed and in plans to be equipped. This will enable Pharmacielo to comply with regulatory standards and continuous monitoring and quality assurance of its products.

Agriculture

During the year ended December 31, 2020, the Company has been actively testing individual plant extract yield volumes based on cultivation density, per square metre, as considered against overall cultivation/processing costs. As of March 31, 2020, a reduction in density from 24 to 10 plants per square metre is expected to generate increased extract yield per plant to the approximate equivalence of the previous period, at lower costs.

Cultivation

With the expansion of cultivation capacity enabled by contract cultivation, over time the role of the nursery and propagation centre will evolve to have one primary function: to develop and propagate a steady stream of genetically stable, PharmaCielo proprietary cuttings, i.e. clones, that can supply a scalable multi-hectare network of contracted cultivation centres. In turn, these cultivations centres will root and cultivate the cuttings into flowering plants that will eventually yield the harvested cannabis flower, which can be sent for processing into standardized, medicinal grade oil extracts. This last step will take place at PharmaCielo's Processing and Extraction Centre, which will have an initial minimum processing capacity of 360 tonnes of biomass annually.

The outbound cuttings, destined for contract cultivation, are hand-culled from populations of mother plants, that will occupy approximately 30% of the overall nursery and propagation centre's open-air greenhouse planting capacity. The mother plants supply all the feeder stock cannabis cuttings to be delivered to and cultivated by PharmaCielo's highly experienced network of contract cultivation and harvest farms. Not only do the mother plants supply genetically stable and proprietary varieties of cuttings, they themselves also originated as invitro clones of grandmother plants. Since the cloning process perfectly replicates plant genetics, the genetics of the mother plants mirror those of the grandmother plants from which they were derived.

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

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2020	As at December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**8,859,714**	13,673,299
Trade receivables	**352,674**	709,493
Marketable securities	**71,152**	106,000
Investment - XPhyto Therapeutics Corp.	**678,898**	-
Prepaid expenses and other receivable	**1,303,476**	1,539,146
Inventory	**1,252,568**	3,465,748
Biological assets	**-**	178,526
Total current assets	**12,518,482**	19,672,212
Non-current assets		
Property, plant, and equipment	**29,754,630**	27,275,868
Right-of-use assets	**1,065,800**	1,445,598
Investment in joint ventures	**565,396**	-
Goodwill	**-**	1,162,885
Intangible assets	**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	**11,708,396**	2,900,441
Current portion of lease obligations	**150,046**	147,597
RSU obligations	**105,258**	117,690
Consideration payable	**-**	140,483
Current portion of debt	**92,804**	-
Total current liabilities	**12,056,504**	3,306,211
Non-current liabilities		
Non-current portion of lease obligations	**1,171,344**	1,424,850
Non-current portion of debt	**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	**138,082,419**	116,827,833
Shares to be issued	**559,999**	-
Reserves	**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

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	**(1,599,649)**	757,640
Gross profit	**(6,635,811)**	643,477
Operating expenses		
Agricultural operating costs	**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	**1,250,852**	-
Share-based compensation	**6,482,297**	11,310,592
Selling, marketing, and promotion	**1,128,400**	900,658
Amortization and depreciation	**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	**(357,469)**	-
Realized (gain) loss on sale of marketable securities	**(124,893)**	-
Share of (gain) loss of investment in joint ventures	**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)
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	**(0.39)**	(0.36)
Weighted average number of common shares outstanding - basic and diluted	**112,539,538**	96,050,430

Assets by Geography

Total assets	December 31, 2020	December 31, 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

Loss by Geography

	Year ended December 31	
Net loss for the period 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

Operating Segment

Operating segment - December 31, 2019	Corporate	Cannabis	Total
Revenues	$ -	$ 786,901	$ 786,901
Cost of sales	-	741,600	741,600
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

Revenue by Country

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

Discussion of Operations

The Company's net loss totaled $43.8 million for the year ended December 31, 2020 (compared to $34.7 million in the year ended December 31, 2019), with a basic loss per share of $0.39 for the year ended December 31, 2020 versus a basic loss per share of $0.36 in the year ended December 31, 2019.

The higher net loss in 2020 compared to the previous year was mainly related to the following:

PARTIALLY NON-RECURRING ADJUSTMENTS OF $11.2 Million

- **Goodwill and Intangible Impairment** of $1.3 million for the year ended December 31, 2020 (compared to $Nil in the year ended December 31, 2019)

- **Expected credit losses** of $2.5 million for the year ended December 31, 2020 (compared to $Nil in the year ended December 31, 2019) related to outstanding receivables from sales that happened in Q4 2019 and Q2 2020
- **Reserve included in consulting fees** of $2.6 million for the year ended December 31, 2020 (compared to $Nil in the year ended December 31, 2019) related to a reserve established for potential claim
- **Termination Payments** of $4.8 million for the year ended December 31, 2020 (compared to $Nil in the year ended December 31, 2019) included in salaries and wages, related to management change

INCREASED SALARIES AND WAGES

- **Higher salaries and wages** of $8.0 million for the year ended December 31, 2020 (compared to $4.9 million in the year ended December 31, 2019), related to the build-up of the organisational structure during 2020

PARTIALLY OFFSET BY THE FOLLOWING COST EXPENSES REDUCTION

- **Lower effective consulting fees** of $2.5 million for the year ended December 31, 2020 (compared to $3.0 million in the year ended December 31, 2019)
- **Lower professional fees** of $4.8 million for the year ended December 31, 2020 (compared to $5.7 million in the year ended December 31, 2019)
- **Amortization of deferred income** of $644,145 for the year ended December 31, 2020 (compared to $Nil in the year ended December 31, 2019)
- **Listing expense** of $Nil for the year ended December 31, 2020 (compared to $2.4 million in the year ended December 31, 2019)
- **Lower share-based compensation expense** of $6.5 million for the year ended December 31, 2020 (compared to $11.3 million in the year ended December 31, 2019)

“All-in” Operating cost to produce dried cannabis / gram

Three months ended December 31, 2020			
Cost elements (COP)	w MP & Cut	Excl. MP & Cut	Agri cost only
Mother plants	174,036,727	-	-
Cuttings costs	148,772	-	-
Rooting cost	435,351,627	435,351,627	435,351,627
Phytosanity cost	239,027,613	239,027,613	239,027,613
Production cycle - 14 weeks	848,532,664	848,532,664	848,532,664
Predried cycle - 2 weeks	1,266,764,190	1,266,764,190	1,266,764,190
Upstream	446,911,111	446,911,111	-
Total	3,410,772,703	3,236,587,204	2,789,676,093
Dried cannabis (kg)	22,179	22,179	22,179
Dried cannabis (g)	22,178,618	22,178,618	22,178,618
COP Cost per (g)	154	146	126
CAD$ Cost per (g) (1)	**$ 0.057**	**$ 0.054**	**$ 0.047**

Year ended December 31, 2020			
Cost elements (COP)	w MP & Cut	Excl. MP & Cut	Agri cost only
Mother plants	892,147,010	-	-
Cuttings costs	216,427,120	-	-
Rooting cost	1,945,224,679	1,945,224,679	1,945,224,679
Phytosanity cost	925,372,129	925,372,129	925,372,129
Production cycle - 14 weeks	3,658,225,011	3,658,225,011	3,658,225,011
Predried cycle - 2 weeks	1,981,247,268	1,981,247,268	1,981,247,268
Upstream	1,641,718,733	1,641,718,733	-
Total	11,260,361,950	10,151,787,820	8,510,069,087
Dried cannabis (kg)	71,786	71,786	71,786
Dried cannabis (g)	71,786,204	71,786,204	71,786,204
COP Cost per (g)	157	141	119
CAD$ Cost per (g) (1)	**$ 0.058**	**$ 0.052**	**$ 0.044**

(1) Non-GAAP measure

During the year ended December 31, 2020, The Company had an “All-in” operating cost of $0.04 per gram to produce dried cannabis (compared to $0.04 in the year ended December 31, 2019). While these costs are prior to any additional processing, PharmaCielo’s business model is focused only on extracts, oils and isolate.

Adjusted EBITDA

Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization). The term Adjusted EBITDA does not have any standardized meaning under IFRS. Therefore, it may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of net loss to adjusted EBITDA:

Adjusted EBITDA	For the three months ended December 31,		For the year ended December 31,	
In CAD$ (000's)	2020	2019	2020	2019
Net income (loss) for the period	**$(19,901)**	**$(12,423)**	**$(43,756)**	**$(34,667)**
Add back:				
Amortization of property, plant and equipment & intangible assets	361	208	1,512	1,280
Amortization expense included in production costs	130	130	130	197
EBITDA	$(19,411)	$(12,085)	$(42,114)	$(33,191)
Adjustments:				
Share based payments	4,269	7,042	6,482	11,311
Listing expenses	-	-	-	2,434
Non-recurring expenses	9,314	-	11,179	-
Non-recurring Professional fees	-	-	899	1,192
Adjusted EBITDA	**$(5,828)**	**$(5,043)**	**$(23,554)**	**$(18,255)**

During the year ended December 31, 2020, the Company generated an adjusted EBITDA loss of $23.6 million (year ended December 31, 2019: $18.3 million).

Revenue

During the year ended December 31, 2020, the Company generated net revenues of $2.7 million (year ended December 31, 2019: $786,901). Cannabis revenues generated were $2.6 million for the year ended December 31, 2020 (year ended December 31, 2019: $772,093). Revenue for 2020 was impacted by a number of factors, as discussed below.

The Company halted sales to existing clients in Q3 2020, due to challenges with account receivables collection. Following a review by the Company of its Go to Market strategy, it re-stablished sales with new customer relationships in new geographic markets generating approximately $800,000 in Q4 2020 which represented approximately one-third of the total year cannabis related sales.

Revenue in 2020 was negatively impacted in 2020 by the price volatility of CBD – Isolate at wholesales levels, which dropped by more than 40% in 2020 compared to 2019. This had a substantial impact on the Company's 2020 revenues since its sales in 2020 were still highly dependent on sales of CBD Isolate to wholesalers and brokers. The Company's new product portfolio and the implementation of its Go-to-Market strategy since the end of Q3 2020 has initiated a broadening of both its product and client mix.

In the new global industry, the establishment of new market and customer relationship processes are complex, and not consistent between individual markets or customers. The maturity period for each new client engagement may vary from three to six months. This can include the time to identify and address necessary market regulatory requirements, negotiation, shipment of samples for independent testing/verification of product quality, final sales negotiation, and ultimately the delivery of commercial volumes of product.

The second wave of COVID-19 in late Q4 2020 resulted in more restrictive containment measures by various governments than those in place earlier in the year, which adversely affected the Company's efforts to expand its commercial activities in new markets and customers, as well as the demand from existing ones. This slowed the pace of the Company's efforts to expand its customer base and markets, as well as the results of those efforts.

In January 2020, the Company entered into three-year supply agreements with each of Phyto Therapeutics Corp. ("XPhyto") and CBD Export Global ("CBD Export"). These agreements remain in place. There has been a delay in the Company's ability to deliver products under these agreements, particularly due to the delay in completing construction of the Company's cannabis oil processing and extraction facility., the PEC.

The Xphyto Agreement remains in effect. A series of events have, however, caused shipment of products by the Company to XPhyto in Germany to be delayed. To sell products to XPhyto in Germany, the Company's products must be produced in an EU GMP compliant facility. Given construction of the Processing and Extraction Centre was delayed, products were not EU GMP compliant and accordingly, XPhyto could not obtain necessary regulatory approvals in Germany to enable it to accept the Company's products.

The CBD Export Agreement remains in effect. A series of events have caused shipment of products by the Company to CBD Export to be delayed. Also, the delay is related to the postponement of completion of construction of the Processing and Extraction Centre which was completed as of the date of this MD&A. The Company initiated sales of its products to CBD Export in December 2020.

In November 2020, the Company entered a renewable, interim sales agreement with a UK based bulk distributor and white label manufacturer, with sales and distribution operations in the UK and the European Union.

Ubiquo Telemedicina S.A.S. generated net revenues of $85,016 for the year ended December 31, 2020 (year ended December 31, 2019: $14,808), mainly from support and maintenance contracts.

Cost of goods sold

During the year ended December 31, 2020, inventory recognized as cost of goods sold was $7.0 million (year ended December 31, 2019 - $741,600), consisting of $704,085 (year ended December 31, 2019 - $159.464) of realized fair value changes on inventory sold, $5.3 million for impairment (year ended December 31, 2019 - $nil) and $1.7 million (year ended December 31, 2019 $690,313) of capitalized post-harvest costs expensed during the period as cannabis inventory is sold.

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

The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at December 31, 2020:

I. 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.

II. 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.

III. The stage of plant growth – the stage of plant growth is estimated by comparing the number of days into the growing stage against the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at December 31, 2020 averaged 42%.

IV. 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.

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	$	-

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)

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

Gross profit excluding fair value items

Gross profit excluding fair value items, for the year ended December 31, 2020 was $(4.3) million (year ended December 31, 2019: $45,301). Cannabis gross profit excluding fair value items was $(4.4) million for the year ended December 31, 2020 (year ended December 31, 2019: $30,493).

Ubiquo Telemedicina S.A.S. gross profit was $85,016 for the year ended December 31, 2020 (year ended December 31, 2019: $(36,479)).

SG&A - Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

Selling, general and administrative expenses In CAD$ (000's)	For the three months ended December 31, 2020	2019	Change $	Change %	For the year ended December 31, 2020	2019	Change $	Change %
General and administrative								
Consulting fees	$ 3,126	$ 935	$2,191	234.4%	$ 5,054	$ 2,999	$2,056	68.5%
Office and general	542	268	274	102.5%	2,160	2,357	(197)	(8.3)%
Professional fees	1,222	2,418	(1,196)	(49.5)%	4,771	5,672	(901)	(15.9)%
Salaries and wages	7,680	2,015	5,665	281.1%	12,743	4,856	7,887	162.4%
Travel and accommodation	(2)	283	(285)	(100.7)%	257	1,134	(878)	(77.4)%
Goodwill and Intangible Impairment	1,251	-	1,251	nm	1,251	-	1,251	nm
Share-based compensation	1,375	4,269	(2,894)	(67.8)%	6,482	11,311	(4,828)	(42.7)%
Selling, marketing and promotion	562	(138)	701	nm	1,128	901	228	25.3%
Amortization and depreciation	273	432	(159)	(36.8)%	1,480	914	565	61.8%
Expected credit losses	657	-	657	nm	2,522	-	2,522	nm
Total selling, general and administrative expenses	**$ 16,687**	**$ 10,482**	**$6,205**	**59.2%**	**$ 37,848**	**$ 30,143**	**$7,704**	**25.6%**

As of Q2 2020, the company initiated a cost cutting, streamlining program to reduce its expenses in all areas. The impact of these measures is not seen in the summarized figures of the table above, as these include various exceptional partially non-recurring expenses as detailed below:

Consulting fees

Consulting fees were $5.1 million for the year ended December 31, 2020, compared to $3.0 million in the year ended December 31, 2019. Included is a reserve for a lawsuit claim for damages. Without this reserve consulting fees were $2.5 million in the year ended December 31, 2020 compared to $3.0 million in the year ended December 31, 2019, a reduction of approx. 17%.

Office and general

Office and general expenses were $2.2 million for the year ended December 31, 2020, compared to $2.4 million in the year ended December 31, 2019 representing a 10% reduction.

Professional fees

Professional fees were $4.8 million for the year ended December 31, 2020, compared to $5.7 million in the year ended December 31, 2019. They include $899,018 in costs related to non-recurring expenses. Excluding the non-recurring expenses, the reduction reaches almost 68%.

Salaries and wages

Salaries and wages expenses were $12.7 million for the year ended December 31, 2020, compared to $4.9 million in the year ended December 31, 2019. The increase is due to the growth of Full-time employees in Colombia within Administration, Human Resources, Procurement, Finance, Health and Safety, Agricultural and Industrial areas. Includes $4.8 million in termination payments as a result of a change in management.

Travel and accommodation

Travel and accommodation expenses were $256,534 the year ended December 31, 2020, compared to $1.1 million in the year ended December 31, 2019. The decrease is due to tighter cost control on discretionary expenses and the impact of COVID-19 travel restrictions.

Goodwill and Intangible Impairment

Goodwill and Intangible Impairment was $1.3 million for the year ended December 31, 2020, compared to $Nil in the year ended December 31, 2019.

Share-based compensation

Share-based compensation expenses were $6.3 million for the year ended December 31, 2020, compared to $11.3 million in the year ended December 31, 2019.

Selling, marketing and promotion

Selling, marketing and promotion expenses were $1.1 million for the year ended December 31, 2020, compared to $900,658 in the year ended December 31, 2019. These expenses tend to grow in line with Revenue growth.

Amortization and depreciation

Amortization and depreciation expenses were $1.5 million for the year ended December 31, 2020, compared to $914,148 in the year ended December 31, 2019. The increase due the amortization of intangible assets, the Canada office leasehold improvements, and investment in building and equipment in Colombia.

Expected credit losses

The Company has built a provision for expected credit losses on accounts receivable based on the following:

I. The Company sales have been to companies in the bulk cannabis sales segment which is a relatively new segment in the cannabis industry.
II. In addition, 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.

Re-established sales initiated in Q4 2020 do follow a stricter risk management policy related to client selection, evaluation, payment terms. As a positive consequence, accounts receivables are well under control

Business Outlook

The Company initiated a new go to market strategy in Q3 2020 focusing on the following key markets: The United Kingdom, Germany, Switzerland, Poland, and the United States. The strategy was successfully rolled out in Q4 2020. The Company expects that its continued focus on dedicated technical business development and sales organization in each of these regions will support its revenue growth strategy.

The Company's sales have been historically limited by the small number of markets willing to accept non-GMP certified products. In Q4 2020, the Company completed all investments into its Processing and Extraction Centre, which is now fully operational. Once the Processing and Extraction Centre receives GMP certification, anticipated to be in Q2 2021, the Company expects to have access to more and larger markets with GMP certified products.

The Company believes that the increase in the sales of its products will not be linear; with lower sales in first two quarters of 2021 due to limited access to new clients and continued anticipated logistical issues due to COVID followed by a stronger increase in sales in the second two quarters of 2021 due to a gradual return to economic and societal normalcy in key markets because of increased vaccination of their respective populations. The Company does not expect any logistical issues other than those related to COVID-19.

Company cash outlays will be primarily for operational and business development expenditures with minimal capital expenditures as all material investments in the Processing and Extraction Centre have been made.

The Company believes that it will be able to comfortably adjust production and inventory levels in response to both increases and decreases in its sales levels, providing the Company flexibility to manage cash outlays in proportion to revenue inflows.

From a cost of goods sold perspective, the Company's short lead times and small production batches reduce the need to maintain high inventories of finished and intermediate products . This, in turn, enables the Company to delay expenditures on costly products necessary for production, allowing the Company to optimize working capital. In the event the Company were to have no or minimal sales, inventories can be kept very low and maintained as flowers and milled flowers which require comparatively low capital expenditures to maintain.

Refer to subsequent events for additional information post closing the fourth quarter.

Summary of Quarterly Results

The following table outlines certain audited quarterly information for the last 8 completed fiscal quarters of the Company up to and including the year ended December 31, 2020. The financial information was prepared in accordance with IFRS.

PharmaCielo Ltd.
Selected Quarterly Information

In CAD$ (000's)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Sales	$ 881	$ 26	$ 1,233	$ 514
COGS	2,536	3,317	672	461
Gross profit before fair value adjustments	(1,655)	(3,291)	561	53
Realized fair value on inventory sold	(233)	2	(374)	(99)
Unrealized gain (loss) on biological assets	(378)	(1,076)	(34)	(111)
Operating Expenses	40	50	73	-
SG&A	16,687	6,086	7,776	7,299
Net income (loss)	(19,901)	(9,794)	(7,720)	(6,318)
Net Comprehensive income (loss)	(18,043)	(11,391)	(6,843)	(9,946)
Weighted average number of common shares outstanding	127,640,845	118,082,282	104,856,355	99,051,447
Net income (loss) per common share	$ (0.16)	$ (0.08)	$ (0.07)	$ (0.06)
In CAD$ (000's)	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**
Sales	$ 657	$ 130	$ -	$ -
COGS	672	70	-	-
Gross profit before fair value adjustments	(15)	60	-	-
Realized fair value on inventory sold	(159)	-	-	-
Unrealized gain (loss) on biological assets	(1,315)	2,073	-	-
Operating Expenses	(121)	121	1,397	906
SG&A	10,482	6,124	8,774	4,763
Net income (loss)	(12,423)	(3,820)	(10,686)	(7,738)
Net Comprehensive income (loss)	(14,574)	(2,221)	(11,469)	(8,332)
Weighted average number of common shares outstanding	98,196,739	96,666,354	96,264,358	92,782,399
Net income (loss) per common share	$ (0.13)	$ (0.04)	$ (0.11)	$ (0.08)

Liquidity

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

As of December 31, 2020, the Company had 138,747,660 Common Shares issued and outstanding, 13,622,336 options outstanding that could raise approximately $19.9 million, and 11,199,212 warrants that could raise approximately $7.3 million, if exercised in full.

Accounts payable and accrued liabilities increased by $9.8 million as at December 31, 2020 (compared to a $451,832 decrease as at December 31, 2019) and consists of amounts that are to be extinguished in due course. The increase in accounts payable and accrued liabilities is driven mainly by a reserve for a lawsuit claim for damages and $4.8 million in termination payments as a result of a change in management. The Company's cash and cash equivalents as of December 31, 2020 are sufficient to pay the cash portion of these liabilities.

As at December 31, 2020, the Company has working capital of $461,978 (compared to $16.4 million as at December 31, 2019) and the Company has cash and cash equivalents of $8.9 million (compared to $13.7 million as at December 31, 2019).

Net cash used in operating activities was $22.6 million for the year ended December 31, 2020 (compared to $25.2 million net cash used for the year ended December 31, 2019). Operating activities were affected by a net increase in non-cash working capital balances of $3.3 million for the year ended December 31, 2020 (compared to a decrease of $4.7 million for the year ended December 31, 2019). This was due to an increase in accounts payable and accrued liabilities of $9.8 million for the year ended December 31, 2020 (compared to a decrease of $451,832 for the year ended December 31, 2019), an increase trade receivables of $2.0 million for the year ended December 31, 2020 (compared to $709,493 for the year ended December 31, 2019), and an increase in inventory and biological assets of $4.7 million for the year ended December 31, 2020 (compared to an increase of $2.7 million for the year ended December 31, 2019). The Company also recorded share-based compensation of $6.5 million for the year ended December 31, 2020 (compared to $11.3 million for the year ended December 31, 2019), expected credit losses of $2.5 million for the year ended December 31, 2020 (compared to $Nil for the year ended December 31, 2019), impairment of $6.5 million for the year ended December 31, 2020 (compared to $Nil for the year ended December 31, 2019), unrealized loss on fair market value of biological assets of $1.6 million for the year ended December 31, 2020 (compared to a gain of $757,640 for the year ended December 31, 2019), amortization and depreciation of $1.6 million for the year ended December 31, 2020 (compared to $1.3 million for the year ended December 31, 2019), listing expense of $Nil for the year ended December 31, 2020 (compared to $2.1 million for the year ended December 31, 2019), and exchange gain of $1.4 million for the year ended December 31, 2020 (compared to a gain of $369,258 for the year ended December 31, 2019).

Net cash used in investing activities was $5.6 million during the year ended December 31, 2020 (compared to $11.3 million net cash used for the year ended December 31, 2019), as a result of investment in property and equipment of $5.4 million for the year ended December 31, 2020 (compared to $10.1 million for the year ended December 31, 2019), an investment in XPhyto Therapeutics of $500,000 for the year ended December 31, 2020 (compared to $Nil for the year ended December 31, 2019), an investment in joint ventures of $1.0 million for the year ended December 31, 2020 (compared to $Nil for the year ended December 31, 2019), and the proceeds on sale of XPhyto marketable securities of $1.4 million for the year ended December 31, 2020 (compared to $Nil for the year ended December 31, 2019).

Net cash used in financing activities was $23.3 million during the year ended December 31, 2020 (compared to $4.5 million net cash used for the year ended December 31, 2019), as a result of cash received from Banco Agrario loans of $3.2 million for the year ended December 31, 2020 (compared to $Nil for the year ended December 31, 2019), cash received from shares issued of $20.4 million for the year ended December 31, 2020 (compared to $Nil for the year ended December 31, 2019), cash received from warrants issued of $2.2 million for the year ended December 31, 2020 (compared to $Nil for the year ended December 31, 2019), less share cost to issue of $1.9 million for the year ended December 31, 2020 (compared to $577,301 for the year ended December 31, 2019), and options and warrants exercised of $43,685 for the year ended December 31, 2020 (compared to $5.3 million for the year ended December 31, 2019).

The Company is generating operating revenues but has not achieved full commercial production levels and therefore must utilize its current cash reserves and funds obtained from the issuance of share capital to maintain its capacity to meet ongoing operating activities. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company. See "*Risk Factors*" below and "*Caution Regarding Forward-Looking Statements*" above.

Capital Resources

On April 15, 2020, the Company closed a "best efforts" private placement financing of 12,578,002 special warrants of the Company (the "Special Warrants"), inclusive of the Broker Special Warrants. An aggregate of 12,428,002 Special Warrants were issued to purchasers on a best-efforts private placement basis at a price of $0.65 per Special Warrant (the "Offering Price") for aggregate gross proceeds of approximately $8 million, and an aggregate of 150,000 Broker Special Warrants (were issued for services rendered in connection with the offering.

Proceeds of Offering	
Price to the Public	**$8,175,701**
Agents' Fee	123,638
Gross Proceeds to the Company	**$8,052,064**
Less:	
Offering and the Prospectus Qualification expenses	421,852
Finder's Fee	361,200
Net Proceeds to the Company	**$7,269,011**

The net proceeds of the April offering were used to support the anticipated processing capacity expansion ($2.5MM), to commence ramping up of the Company's contract growing operations ($1.0MM), for working capital and for general corporate purposes ($3.8MM).

On July 3, 2020, the Company closed a "bought deal" offering with a syndicate of investment dealers led by Cormark Securities Inc. and Stifel GMP. The Company issued 6,388,940 Common Shares at a price of $0.72 per share pursuant to the offering, for aggregate gross proceeds of $4,600,036.80, including proceeds from the exercise in full by the underwriters of their over-allotment option to purchase 833,340 additional common shares.

Proceeds of Offering	
Base offering	$4,000,032
Overallotment option	600,005
	$4,600,037
Commission	276,002
Gross Proceeds to the Company	**$4,324,035**
Less:	
Offering and the Prospectus Qualification expenses	274,271
Net Proceeds to the Company	**$4,049,764**

The net proceeds of the July offering were used for non-operational payroll expenses of PharmaCielo Colombia S.A.S., non-operational payroll taxes of PharmaCielo Colombia, the purchase of ethanol and CO2 to be used for extraction purposes, and other working capital and general corporate purposes.

On November 20, 2020, the Company closed a private placement of units ("Units") of the Company for aggregate gross proceeds of $10.0 million (net proceeds of $9.3 million). Pursuant to the offering, the Company issued 20,000,000 units of the Company at a price of $0.50 per unit. Each Unit was comprised of (i) one Common Share, and (ii) one half of one Common Share purchase warrant. Each Warrant entitles the holder thereof to purchase one Common Share at a price of $0.65 until November 20, 2022. In connection with the November offering, the Company paid Cormark Securities Inc. a corporate advisory fee of $200,00 and issued to Cormark 1,000,000 non-transferrable broker warrants of the Company, each of which is exercisable to purchase one Unit until November 20, 2022 at the offering price of $0.50 per unit.

Proceeds of Offering	
Price to the Public	**$10,000,000**
Success Fee	200,000
Gross Proceeds to the Company	**$9,800,000**
Less:	
Offering expenses	266,307
Finder's Fee	261,800
Net Proceeds to the Company	**$9,271,893**

The net proceeds of the November offering were used for working capital and general corporate purposes.

Refer to subsequent events for additional information post closing the fourth quarter.

Commitments

i. 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 dated May 15, 2019 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.

ii. The Company has supply agreement with Tahami & Cultiflores SA en Reorganización to supply destemmed and pre-dried cannabis flower from their non-psychoactive Tahami & Cultiflores SA en Reorganización cannabis crops. The Company will pay to Tahami & Cultiflores SA en Reorganización a set price per kilogram of plant material that will supplied to the Company. The agreement dated July 27, 2020 is for one year and the total cost of the contract is estimated to be $1.7 million. As of the date of this MD&A, the company has paid Tahami & Cultiflores SA en Reorganización $733,478 for the supply of plant material.

iii. 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.

Transactions with Related Parties

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

i. 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.

ii. 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.

iii. 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.

iv. 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.

v. 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.

vi. 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.

vii. 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 contract growing agreement between his company, Tahami & Cultiflores SA en Reorganización, and the Company. The Company included $18,452 that was part of other receivables as at December 31, 2019.

viii. 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.

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.

In CAD$ (000's)	For the year ended December 31, 2020	2019
	$	$
Management compensation	1,901	1,441
Termination benefits	4,778	-
Directors' fees (1)	130	78
Share-based compensation (2)	5,166	9,675
Total management compensation	11,975	11,193

(1) Includes meeting fees and committee chair fees.

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

The above related party transactions were in the normal course of operations and have been valued in the audited 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.

Discussion of Fourth quarter

The Company's net loss totaled $19.1 million for the three months ended December 31, 2020 (compared to $12.4 million in the three months ended December 31, 2019).

The net loss was primarily due to an inventory impairment (COGS) of $2.0 million for the three months ended December 31, 2020 (compared to $Nil for the three months ended December 31, 2019), higher salaries and wages of $7.7 million for the three months ended December 31, 2020 (compared to $2.0 million in the three months ended December 31, 2019), higher consulting fees of $3.1 million for the three months ended December 31, 2020 (compared to $935,072 in the three months ended December 31, 2019), goodwill and intangible impairment of $1.3 million for the three months ended December 31, 2020 (compared to $Nil in the three months ended December 31, 2019), and expected credit losses of $656,859 for the three months ended December 31, 2020 (compared to $Nil in the three months ended December 31, 2019). This net loss was partially offset due to higher revenue of $881,054 for the three months ended December 31, 2020 (compared to $656,771 for the three months ended December 31, 2019), lower unrealized loss on fair value of biological assets of $378,046 for the three months ended December 31, 2020 (compared to a loss of $1.3 million for the three months ended December 31, 2019), lower professional fees of $1.2 million for the three months ended December 31, 2020 (compared to $2.4 million in the three months ended December 31, 2019), and lower share-based compensation expense of $1.4 million for the three months ended December 31, 2020 (compared to $4.3 million in the three months ended December 31, 2019).

Financial instruments

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

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. All 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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As at December 31, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year.

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. 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 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 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.

Foreign currency risk

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently expects that sales will be denominated in Colombian pesos and may, in the future, have sales denominated in the currencies of additional countries in which it establishes sales offices. In addition, PharmaCielo incurs most of its operating expenses in Colombia Pesos. In the future, the proportion of PharmaCielo's sales that are international may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Company's business, financial condition and results of operations. PharmaCielo has not previously engaged in foreign currency hedging. If the Company decides to hedge its foreign currency exposure, it may not be able to 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.

Investing activities

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.

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.

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**

Off-Balance-Sheet Arrangements

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

Share Capital

As of the date of this MD&A, the Company had issued and outstanding:

- 146,718,030 Common Shares;
- 12,861,501 stock options exercisable to purchase Common Shares;
- 1,624,834 RSUs to be settled in Common Shares;
- 1,047,042 Common Share purchase broker warrants; and
- 9,459,500 Common Share purchase warrants.

Refer to subsequent events for additional information post closing the fourth quarter.

Risk Factors

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

Business Risks

Limited Operating History

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

Regulatory Compliance Risks

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

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

Reliance on Licenses and Authorizations

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

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

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

Risks Inherent in Agriculture

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

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

Risks Inherent in Rural Real Estate

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

Risks of Litigation

From time to time, the Company and/or its subsidiaries may become involved in legal proceedings or be subject to claims, some of which arise in the ordinary course of our business. Litigation is inherently uncertain and there can be no assurances that favorable outcomes will be obtained. The Company may need to settle litigation and disputes on terms that are unfavorable to the Company, or the Company may be subject to an unfavorable judgment that may not be reversible upon appeal. Any adverse outcomes could negatively affect the Company's business, results of operations, financial condition, brand and/or the trading price of the Common Shares. In addition, litigation can involve significant management time and attention and be expensive, regardless of outcome. During the course of litigation, there may be announcements of the results of hearings and motions and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the trading price of the Common Shares may decline. In addition, the Company evaluates these litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, the Company may establish reserves or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from the Company's current assessments and estimates.

Risks Related to Investment in a Colombian Company

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

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

Economic and Political Developments in Colombia

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

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

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

Operational Risks

Operations in Colombia are subject to risk due to the potential for social, political, economic, legal and fiscal instability. The government in Colombia faces ongoing problems including but not limited to unemployment and inequitable income distribution. Colombia has been home to South America's largest and longest running insurgency, and regional portions of the countryside are under guerrilla influence. In addition, Colombia has experienced narcotics-related violence, a prevalence of kidnapping and extortionist activities and civil unrest in certain areas of the country. The region of Rionegro, where the PharmaCielo core operation is based, and the City of Medellin, where corporate offices are located have been largely excluded from such circumstances. However, were such instability to engage these areas it may require PharmaCielo to suspend operations on its properties.

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

Financial and Accounting Risks

Foreign Sales

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

Putative class action

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 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 of the date hereof, no penalties or sanctions have been imposed against the Company by a court or regulatory body and the Company did not enter into any settlement agreements before a court relating to securities legislation or with a securities regulatory authority during its last financial year.

Events after the reporting period

Overnight Marketed Equity Financing

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.

LITIGATION

Putative Class Action in United States

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.

Other Claims

Delon Human, a former director of the Company, and his company, Health Diplomats Pte Ltd. ("**HD**"), have filed a Statement of Claim in Ontario's Superior Court of Justice against the Company in connection with Mr. Human's alleged employment by the Company and the consulting relationship between the Company and HD. The Company filed a Statement of Defence on February 4, 2021. The reply of Mr. Human and HD was served on March 8, 2021. The Company intends to vigorously defend this matter.

Options and warrants exercised

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 proceeds of $368,660 and the issuance of 567,169 shares, subsequent to December 31, 2020.