



**PharmaCielo Ltd.**

**Management's Discussion and Analysis**

**For the three months ended March 31, 2021**

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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 three months ended March 31, 2021. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2021, 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 May 28, 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 unaudited condensed interim consolidated financial statements and this MD&A have been reviewed by the Company's Audit Committee and were approved by the Board on May 28, 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](http://www.pharmacielo.com) or through the SEDAR website at [www.sedar.com](http://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.

### **2020 Highlights and Key First Quarter Developments**

We are pleased with our achievements and the results of our work in 2020 and the first quarter of 2021. Despite challenges, such as COVID-19 and its operational and economic impacts worldwide, we believe the Company enters 2021 in a better position to execute on our strategy, compared to the same quarter last year. Key highlights from the first quarter include:

- Revenue increased 31% to \$675 thousand compared to \$514 thousand, after a positive change of commercial model and with recurring orders from Q4 2020 customers, although COVID's second wave delayed stronger evolution.
- Strong first quarter growth in demand for PharmaCielo's products, as shown by increased volume and repeat sales of CBD isolate and more complex products such as Broad-Spectrum Distillate. This was accompanied by a continued interest in initiating GMP/EU GMP compliance audits, which we believe to be one indicator of future demand.
- SG&A expenses decreased by 17% compared to Q1 2020 as a consequence of ongoing cost reduction measures, streamlining of operations and organizational adjustments.
- By the end of March 31, 2021, the Company generated an adjusted EBITDA loss of \$3.3 million showing an improvement of 7% when compared to a \$3.5 million EBITDA loss for the three months ended March 31, 2020.
- Successful completion of Processing and Extraction Centre ("PEC") with complete installation and calibration of extracting and refining equipment, HVAC, and structures and processes implemented and documented.

### **COVID-19**

To protect the health of PharmaCielo's staff and the community amid the global outbreak of COVID-19, 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 new 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 led to reduced processing costs and eliminated the Company's 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 related 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 Protocols remain 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 fulfills the defined standards.

At the beginning of July 2020, PharmaCielo conducted a simulated employee positive case drill to validate that proper systems, procedures and measurements have been put in place. Additionally, several additional workplace safety investments have been carried out to ensure social distancing in common areas (i.e. dressing rooms and cafeteria) and additional stations for hand washing and sanitizing were installed on facility. Of note that COVID-19 infection rate in the company has been lower than 10% (May 2021), with no outbreaks in the facility itself, no serious illnesses or fatalities.

In addition, measures to reinforce prevention, raise awareness and promote good workplace hygiene practices, such as educational sessions with epidemiologists to clarify doubts and share best practices, have been carried out to help combat the third wave of the pandemic. Finally, PharmaCielo has continued with a rotating work schedule, to avoid occupational exposure during the peaks of the pandemic, while continuing to support the process needs, at all times.

Finally, the Committee implemented Gemba Walks to improve safety behavior and further encourage employee adherence to standards and protocols.

## Operations

As of the date of this MD&A, the building construction of PharmaCielo's 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 PEC production processes are in accordance with GMP and EU GMP guidelines. GMP and EU GMP validation by individual clients and certification process by different authorities have been initiated and will continue to occur throughout 2021. Management does not foresee significant additional investments in the PEC. During the audit process, some gaps were identified which, to Management's best knowledge, may require minor adjustments.

## Company Overview

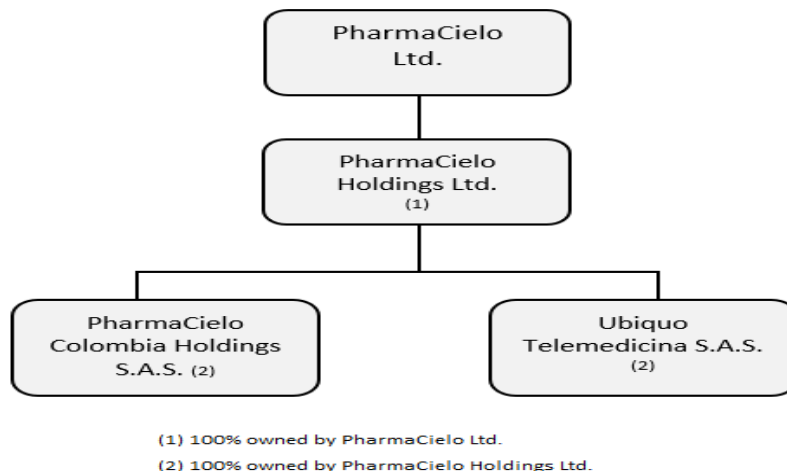
PharmaCielo is a public company and commenced trading on the TSX Venture Exchange (the "TSXV") on January 18, 2019 under the ticker symbol "PCLO". PharmaCielo is headquartered in Toronto, Ontario, Canada, with a focus on cultivating, processing, and supplying all natural medicinal-grade cannabis extracts 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 and a user interface that allows doctors and patients to communicate. Doctors or clinics can register with Ubiquo and provide patients with access to the Ubiquo platform, which is used as a communication tool. Doctors can communicate with patients on all regular medical matters, included, but not limited to medicinal cannabis. Medical professionals that use the Ubiquo services are not employees or contractors of Ubiquo, and are required to pay access fees to Ubiquo for using the platform. Patient access to the Ubiquo platform is free. Through its acquisition of

Ubiquo, PharmaCielo anticipates that it will be able to better facilitate the educational progress and knowledge of the possible uses, benefits, and risks of medicinal cannabis.

### Intercorporate Relationship



### 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; however, 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 cultivation and transformation of psychoactive cannabis for both (research?) and commercial purposes.

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

By means of resolution 0137 dated February 19, 2021, modified by resolution 0159 dated February 25, 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.

By means of resolution 0280 dated March 26, 2021, PharmaCielo was granted a quota allowing for the cultivation of 61,160 plants for research and development purposes including performing agronomic evaluation testing and plant breeding.

For the 2021 calendar year, PharmaCielo also applied to the Colombian Ministry of Health to obtain commercialization and non-commercialization purposes quotas 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. This was granted through Resolution 157 dated February 12, 2021 by the Ministry of Health. Additionally, through Resolution 156 dated February 12, 2021, PharmaCielo was also 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 reforms, with continued increase in the number of nations enabling the production and consumption of medicinal cannabis.

As a company that targets global markets, PharmaCielo is focussed on multiple areas and markets dedicated to medicinal cannabis supply.

A reflection of the global market evolution has been the continued expansion of the health and wellness market segment from primarily CBD to the inclusion of THC dominant strain extracts. PharmaCielo's management agrees that the 2021 receipt of a Colombian production and export quota for THC, combined with increased CBD contract cultivation and broader product range, have expanded the Company's market supply capacity. Simultaneously, there has been a corresponding increase in the volume of inquiries and discussions 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 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 on monthly basis.

The quality assurance and Good Manufacturing Practices are supported by two fully equipped Laboratories, tooled with the latest technology for Microbiology and Physicochemical analysis. A third Laboratory of Molecular Chemical Biology has also been constructed and is in the planning phase for equipment installation. This will enable PharmaCielo to comply with regulatory standards and the continuous monitoring and quality assurance of its products.

### **Agriculture**

During the three months ended March 31, 2021, 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, which 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.

**Condensed Interim Consolidated Statements of Financial Position**  
**(Expressed in Canadian Dollars)**  
**(unaudited)**

|   | As at<br>March 31, 2021 | As at<br>December 31,<br>2020 |
|---|-------------------------|-------------------------------|
| <b>ASSETS</b>                                     |                         |                               |
| <b>Current assets</b>                             |                         |                               |
| Cash and cash equivalents                         | 4,004,482               | 8,859,714                     |
| Trade receivables                                 | 470,802                 | 352,674                       |
| Marketable securities                             | 706,000                 | 71,152                        |
| Investment - XPhyto Therapeutics Corp.            | 510,370                 | 678,898                       |
| Prepaid expenses and other receivable             | 1,128,327               | 1,303,476                     |
| Inventory and Biological assets                   | 873,151                 | 1,252,568                     |
| <b>Total current assets</b>                       | <b>7,693,132</b>        | <b>12,518,482</b>             |
| <b>Non-current assets</b>                         |                         |                               |
| Property, plant, and equipment                    | 27,375,680              | 29,754,630                    |
| Right-of-use assets                               | 1,049,210               | 1,065,800                     |
| Investment in joint ventures                      | 649,924                 | 565,396                       |
| Intangible assets                                 | 39,440                  | 120,113                       |
| <b>Total non-current assets</b>                   | <b>29,114,254</b>       | <b>31,505,939</b>             |
| <b>Total assets</b>                               | <b>36,807,386</b>       | <b>44,024,421</b>             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                         |                               |
| <b>Current liabilities</b>                        |                         |                               |
| Accounts payable and accrued liabilities          | 11,699,673              | 11,708,396                    |
| Current portion of lease obligations              | 143,870                 | 150,046                       |
| RSU obligations                                   | 110,729                 | 105,258                       |
| Current portion of debt                           | 107,159                 | 92,804                        |
| <b>Total current liabilities</b>                  | <b>12,061,431</b>       | <b>12,056,504</b>             |
| <b>Non-current liabilities</b>                    |                         |                               |
| Non-current portion of lease obligations          | 1,164,359               | 1,171,344                     |
| Non-current portion of debt                       | 2,817,767               | 3,058,880                     |
| Other non-current liabilities                     | 332,137                 | 997,689                       |
| Deferred income                                   | 356,378                 | 493,010                       |
| <b>Total non-current liabilities</b>              | <b>4,670,641</b>        | <b>5,720,923</b>              |
| <b>Total liabilities</b>                          | <b>16,732,072</b>       | <b>17,777,427</b>             |
| <b>Shareholders' Equity</b>                       |                         |                               |
| Share capital                                     | 140,106,906             | 138,082,419                   |
| Shares to be issued                               | 559,999                 | 559,999                       |
| Reserves  | 32,132,867              | 31,456,069                    |
| Other comprehensive income (loss)                 | (4,914,070)             | (2,583,161)                   |
| Retained earnings (deficit)                       | (147,810,388)           | (141,268,332)                 |
| <b>Total shareholders' equity</b>                 | <b>20,075,314</b>       | <b>26,246,994</b>             |
| <b>Total liabilities and shareholders' equity</b> | <b>36,807,386</b>       | <b>44,024,421</b>             |

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

|   | <b>Three Months Ended</b> |                    |
|---|---------------------------|--------------------|
|   | <b>March 31,</b>          | <b>March 31,</b>   |
|   | <b>2021</b>               | <b>2020</b>        |
| <b>Revenue:</b>   |                           |                    |
| Sale of Cannabis derivative products  | 656,841                   | 494,032            |
| Revenue from Telemedicine services  | 18,423                    | 20,377             |
| <b>Total revenue</b>  | <b>675,264</b>            | <b>514,409</b>     |
| Cost of goods sold - Cannabis derivative products                               | 747,583                   | 461,235            |
| Cost of goods sold - Telemedicine services                                      | -                         | -                  |
| Cost of goods sold - Inventory impairment                                       | 607,512                   | -                  |
| <b>Gross profit before fair value adjustments</b>                               | <b>(679,831)</b>          | <b>53,174</b>      |
| <b>Realized fair value on inventory sold</b>                                    | <b>(63,211)</b>           | <b>(98,869)</b>    |
| <b>Unrealized gain (loss) on fair value of biological assets</b>                | <b>(112,567)</b>          | <b>(111,024)</b>   |
| <b>Gross profit</b>   | <b>(855,609)</b>          | <b>(156,719)</b>   |
| <b>Operating expenses</b>   |                           |                    |
| Agricultural operating costs  | 157,237                   | -                  |
| <b>Selling, general, and administrative expenses</b>                            |                           |                    |
| General and administrative  |                           |                    |
| Consulting fees   | 291,786                   | 388,264            |
| Office and general  | 644,628                   | 821,224            |
| Professional fees   | 1,072,277                 | 1,898,363          |
| Salaries and wages  | 1,397,034                 | 1,612,402          |
| Travel and accommodation  | 2,782                     | 221,882            |
| Share-based compensation  | 1,809,189                 | 1,715,755          |
| Selling, marketing, and promotion   | 309,484                   | 317,335            |
| Amortization and depreciation   | 463,620                   | 323,773            |
| Expected credit losses  | 43,308                    | -                  |
| <b>Total selling, general, and administrative expenses</b>                      | <b>6,034,108</b>          | <b>7,298,998</b>   |
| <b>Other (income) expense</b>   |                           |                    |
| Bank charges and interest expense   | 141,333                   | 42,419             |
| Change in unrealized (gain) loss on marketable securities                       | 11,500                    | 48,000             |
| Exchange (gain) loss  | (111,008)                 | (144,339)          |
| Other non-operating (income) expenses   | -                         | -                  |
| Interest income   | (1,411)                   | (11,497)           |
| Change in fair value of consideration payable                                   | -                         | (11,949)           |
| Amortization of deferred income   | (136,632)                 | -                  |
| Change in unrealized (gain) loss on Xphyto investment                           | (468,972)                 | -                  |
| Realized (gain) loss on sale of marketable securities                           | (35,937)                  | -                  |
| Unrealized gain on Xphyto investment  | -                         | (1,060,353)        |
| Share of (gain) loss of investment in joint ventures                            | 96,229                    | -                  |
| <b>Total other (income) expenses</b>  | <b>(504,898)</b>          | <b>(1,137,719)</b> |
| <b>Net income (loss) for the period</b>   | <b>(6,542,056)</b>        | <b>(6,317,998)</b> |
| <b>Other comprehensive income (loss)</b>  |                           |                    |
| Currency translation adjustment   | (2,330,909)               | (3,628,058)        |
| <b>Net comprehensive income (loss)</b>  | <b>(8,872,965)</b>        | <b>(9,946,056)</b> |
| <b>Basic and diluted loss per share</b>   | <b>(0.05)</b>             | <b>(0.06)</b>      |
| <b>Weighted average number of common shares outstanding - basic and diluted</b> |                           |                    |
|   | <b>139,419,735</b>        | <b>99,051,447</b>  |

## Assets by Geography

| Total assets as at | March 31, 2021 | December 31, 2020 |
|--------------------|----------------|-------------------|
| Canada             | \$ 11,083,839  | \$ 12,728,282     |
| Colombia           | 25,723,548     | 31,296,139        |
| Total              | \$ 36,807,387  | \$ 44,024,421     |

## Loss by Geography

| Net loss for the three months ended March 31, | 2021         | 2020         |
|---|--------------|--------------|
| Canada  | \$ 3,650,606 | \$ 4,313,706 |
| Colombia                                      | 2,891,450    | 2,004,292    |
| Total   | \$ 6,542,056 | \$ 6,317,998 |

## Operating Segment

| Operating segment - March 31, 2020 | Corporate | Cannabis   | Total      |
|------------------------------------|-----------|------------|------------|
| Revenues                           | \$ -      | \$ 514,409 | \$ 514,409 |
| Cost of sales                      | -         | 461,235    | 461,235    |
| Loss for the period                | 3,882,019 | 2,435,979  | 6,317,998  |

| Operating segment - March 31, 2021 | Corporate | Cannabis   | Total      |
|------------------------------------|-----------|------------|------------|
| Revenues                           | \$ -      | \$ 675,264 | \$ 675,264 |
| Cost of sales                      | -         | 747,583    | 747,583    |
| Loss for the period                | 3,650,606 | 2,891,450  | 6,542,056  |

## Revenue by Country

| Revenues by country | Cannabis   | Total      |
|---------------------|------------|------------|
| United Kingdom      | \$ 433,936 | \$ 433,936 |
| Czech Republic      | 129,172    | 129,172    |
| Paraguay            | 47,235     | 47,235     |
| Colombia            | 33,115     | 33,115     |
| Brazil              | 26,894     | 26,894     |
| Italy               | 3,034      | 3,034      |
| Canada              | 1,878      | 1,878      |
| Total Revenue       | \$ 675,264 | \$ 675,264 |

## Discussion of Operations

The Company's net loss totaled \$6.5 million for the three months ended March 31, 2021 (compared to \$6.3 million in the three months ended March 31, 2020).

This stability was achieved due to strong and responsible cost reduction and containment measures initiated in late 2020.

- **Reduction of Office and general fees by 22% as well as consulting fees by 25%** for the three months ended March 31, 2021 when compared to in the three months ended March 31, 2020.
- **Managed reduction of professional fees by 44%** representing \$1.1 million for the three months ended March 31, 2021 (compared to \$1.9 million in the three months ended March 31, 2020).

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

| Three months ended March 31, 2021 |                      |                      |                      | Three months ended March 31, 2020 |                      |                      |                      |
|-----------------------------------|----------------------|----------------------|----------------------|-----------------------------------|----------------------|----------------------|----------------------|
| Cost elements (COP)               | w MP & Cut           | Excl. MP & Cut       | Agri cost only       | Cost elements (COP)               | w MP & Cut           | Excl. MP & Cut       | Agri cost only       |
| Mother plants                     | 130,431,979          | -                    | -                    | Mother plants                     | 205,596,089          | -                    | -                    |
| Cuttings costs                    | 11,182,222           | -                    | -                    | Cuttings costs                    | 50,464,415           | -                    | -                    |
| Rooting cost                      | 451,539,798          | 451,539,798          | 451,539,798          | Rooting cost                      | 347,908,213          | 347,908,213          | 347,908,213          |
| Phytosanity cost                  | 139,159,466          | 139,159,466          | 139,159,466          | Phytosanity cost                  | 214,542,158          | 214,542,158          | 214,542,158          |
| Production cycle - 14 weeks       | 904,581,944          | 904,581,944          | 904,581,944          | Production cycle - 14 weeks       | 951,401,597          | 951,401,597          | 951,401,597          |
| Predried cycle - 2 weeks          | 330,188,545          | 330,188,545          | 330,188,545          | Predried cycle - 2 weeks          | 199,094,267          | 199,094,267          | 199,094,267          |
| Upstream                          | 275,868,098          | 275,868,098          | -                    | Upstream                          | 516,153,629          | 516,153,629          | -                    |
| <b>Total</b>                      | <b>2,242,952,052</b> | <b>2,101,337,851</b> | <b>1,825,469,753</b> | <b>Total</b>                      | <b>2,485,160,368</b> | <b>2,229,099,864</b> | <b>1,712,946,235</b> |
| Dried cannabis (kg)               | 13,858               | 13,858               | 13,858               | Dried cannabis (kg)               | 18,230               | 18,230               | 18,230               |
| Dried cannabis (g)                | 13,857,734           | 13,857,734           | 13,857,734           | Dried cannabis (g)                | 18,230,000           | 18,230,000           | 18,230,000           |
| COP Cost per (g)                  | 162                  | 152                  | 132                  | COP Cost per (g)                  | 136                  | 122                  | 94                   |
| <b>CAD\$ Cost per (g) (1)</b>     | <b>\$ 0.058</b>      | <b>\$ 0.054</b>      | <b>\$ 0.047</b>      | <b>CAD\$ Cost per (g) (1)</b>     | <b>\$ 0.049</b>      | <b>\$ 0.044</b>      | <b>\$ 0.033</b>      |

(1) Non-GAAP measure

During the three months ended March 31, 2021, the Company had an “All-in” operating cost of \$0.05 per gram to produce dried cannabis (compared to \$0.03 in the three months ended March 31, 2020). 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 March 31, |                  |
|---|--------------------------------------|------------------|
|   | 2021                                 | 2020             |
| In CAD\$ (000's)  |                                      |                  |
| <b>Net income (loss) for the period</b>                           | <b>\$(6,542)</b>                     | <b>\$(6,318)</b> |
| <b>Add back:</b>  |                                      |                  |
| Amortization of property, plant and equipment & intangible assets | 378                                  | 434              |
| Amortization expense included in production costs                 | 130                                  | 130              |
| <b>EBITDA</b>   | <b>\$(6,034)</b>                     | <b>\$(5,755)</b> |
| <b>Adjustments:</b>   |                                      |                  |
| Share based payments  | 1,809                                | 1,716            |
| Non-recurring expenses  | 651                                  | -                |
| Non-recurring Professional fees                                   | 275                                  | 490              |
| <b>Adjusted EBITDA</b>  | <b>\$(3,299)</b>                     | <b>\$(3,549)</b> |

During the three months ended March 31, 2021, the Company generated an adjusted EBITDA loss of \$3.3 million (three months ended March 31, 2020: \$3.5 million).

### Revenue

During the three months ended March 31, 2021, the Company generated net revenues of \$ 675,264 (three months ended March 31, 2020: \$ 514,409), an increase of 31%. Strong volume growth confirmed

acceptance and demand for PharmaCielo's high quality products in the global Cannabis space. A price decrease for CBD isolate during the quarter, however, resulted in less relative growth in the Company's revenue. Also, recurring orders for a more complex and value-added product, such as BS-Distillate, indicate a positive outlook for an enhanced product mix.

With existing customers placing recurring orders on a continuing basis, sales for Q1 2021 confirm the initial positive results from the Go To Market Strategy deployed in Q4 2020. While the company expected higher sales in the first quarter of 2021, the second wave of COVID-19 in Q4 2020 resulted in more restrictive measures being implemented by various governments, which adversely affected the Company's ability to expand its commercial activities in new markets and customers, as well as fulfill the demand from existing ones. This development slowed the pace of the Company's efforts to expand the current customer base within new markets.

In this new global industry, the process of establishing new markets and new customer relationships continues to be 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 and verification of product quality, final sales negotiation, and ultimately the delivery of commercial volumes of product.

Ubiquo Telemedicina S.A.S. generated net revenues of \$18,423 for the three months ended March 31, 2021 (three months ended March 31, 2020: \$20,377), mainly from support and maintenance contracts.

#### **Cost of goods sold**

During the three months ended March 31, 2021, inventory recognized as cost of goods sold was \$1.4 million (three months ended March 31, 2020 - \$461,235), consisting of \$63,211 (three months ended March 31, 2020 - \$98,869) of realized fair value changes on inventory sold, \$607,512 for impairment (three months ended March 31, 2020 - \$nil) and \$747,583 (three months ended March 31, 2020 \$461,235) 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 March 31, 2021:

- 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 \$633 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 \$1,606 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 March 31, 2021 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 0.51 grams of CBD isolate.

As at March 31, 2021, the Company’s biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

|   |             |
|---|-------------|
| <b>Carrying amount, December 31, 2020</b>                                 | -           |
| Production costs capitalized  | 533,066     |
| Changes in fair value less costs to sell due to biological transformation | (112,584)   |
| Transferred to inventory upon harvest                                     | (420,482)   |
| Effect of foreign currency exchange differences                           | -           |
| <b>Balance, March 31, 2021</b>  | <b>\$ -</b> |

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

|  |           |
|--|-----------|
| Unrealized change in fair value of biological assets | (112,567) |
| Realized fair value on inventory sold                | (63,211)  |

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 less than one year.

**Gross profit excluding fair value items**

Gross profit excluding fair value items, for the three months ended March 31, 2021 was \$(673,831) (three months ended March 31, 2020: \$53,174). Cannabis gross profit excluding fair value items was \$(698,254) for the three months ended March 31, 2021 (three months ended March 31, 2020: \$32,797).

Ubiquo Telemedicina S.A.S. gross profit was \$18,423 for the three months ended March 31, 2021 (three months ended March 31, 2020: \$20,377).

## **SG&A - Selling, general and administrative expenses**

Selling, general and administrative expenses include the following:

| <b>Selling, general and administrative expenses</b>       |                            |                 |                 |                |
|---|----------------------------|-----------------|-----------------|----------------|
| In CAD\$ (000's)  | For the three months ended |                 |                 |                |
|   | March 31,                  |                 |                 |                |
|   | <u>2021</u>                | <u>2020</u>     | <u>B/(W) \$</u> | <u>B/(W) %</u> |
| General and administrative                                |                            |                 |                 |                |
| Consulting fees   | 292                        | 388             | 96              | 24.8%          |
| Office and general  | 645                        | 821             | 177             | 21.5%          |
| Professional fees   | 1,072                      | 1,898           | 826             | 43.5%          |
| Salaries and wages  | 1,397                      | 1,612           | 215             | 13.4%          |
| Travel and accommodation                                  | 3                          | 222             | 219             | 98.7%          |
| Share-based compensation                                  | 1,809                      | 1,716           | (93)            | (5.4)%         |
| Selling, marketing and promotion                          | 309                        | 317             | 8               | 2.5%           |
| Amortization and depreciation                             | 464                        | 324             | (140)           | (43.2)%        |
| Expected credit losses                                    | 43                         | 0               | (43)            | nm             |
| <b>Total selling, general and administrative expenses</b> | <b>\$ 6,034</b>            | <b>\$ 7,299</b> | <b>\$1,265</b>  | <b>17.3%</b>   |

### **Consulting fees**

Consulting fees were \$291,786 for the three months ended March 31, 2021, compared to \$388,264 in the three months ended March 31, 2020 representing a 25% reduction.

### **Office and general**

Office and general expenses were \$644,628 for the three months ended March 31, 2021, compared to \$821,224 in the three months ended March 31, 2020 representing a 22% reduction.

### **Professional fees**

Professional fees were \$1.1 million for the three months ended March 31, 2021, compared to \$1.9 million in the three months ended March 31, 2020 representing a 44% reduction.

### **Salaries and wages**

Salaries and wages expenses were \$1.4 million for the three months ended March 31, 2021, compared to \$1.6 million in the three months ended March 31, 2020.

### **Travel and accommodation**

Travel and accommodation expenses were \$2,782 the three months ended March 31, 2021, compared to \$221,882 in the three months ended March 31, 2020. The decrease is due to tighter cost control on discretionary expenses and the impact of COVID-19 travel restrictions, resulting in a 99% reduction year over year.



### **Share-based compensation**

Share-based compensation expenses were \$1.8 million for the three months ended March 31, 2021, compared to \$1.7 million in the three months ended March 31, 2020.

### **Selling, marketing and promotion**

Selling, marketing and promotion expenses were \$309,484 for the three months ended March 31, 2021, compared to \$317,335 in the three months ended March 31, 2020.

### **Amortization and depreciation**

Amortization and depreciation expenses were \$463,620 for the three months ended March 31, 2021, compared to \$323,773 million in the three months ended March 31, 2020. The increase is due to 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.

## **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 and continued in Q1 2021. The Company believes that the resulting volume growth in CBD Isolate and the continuous improvement of the product mix with initial sales of BS-Distillate, are important positive signs for our strategy of positioning the Company as a global player in the cannabis market.

The Company believes that the increase in the sales of its products will not be linear, with lower sales expected in the first two quarters of 2021 due to limited access to new clients and continued anticipated logistical issues associated with COVID-19. The first two quarters are expected to be followed by 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. If the Company were to have no or minimal sales, inventories could be kept 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 first quarter.

## Summary of Quarterly Results

The following table outlines certain unaudited quarterly information for the last 8 completed fiscal quarters of the Company up to and including the three months ended March 31, 2021. The financial information was prepared in accordance with IFRS.

| <b>PharmaCielo Ltd.</b>                              |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
| <b>Selected Quarterly Information</b>                |                |                |                |                |
| <b>In CAD\$ (000's)</b>                              | <b>Q1 2021</b> | <b>Q4 2020</b> | <b>Q3 2020</b> | <b>Q2 2020</b> |
| Sales  | \$ 675         | \$ 881         | \$ 26          | \$ 1,233       |
| COGS   | 1,355          | 2,536          | 3,317          | 672            |
| Gross profit before fair value adjustments           | (680)          | (1,655)        | (3,291)        | 561            |
| Realized fair value on inventory sold                | (63)           | (233)          | 2              | (374)          |
| Unrealized gain (loss) on biological assets          | (113)          | (378)          | (1,076)        | (34)           |
| Operating Expenses                                   | 157            | 40             | 50             | 73             |
| SG&A   | 6,034          | 16,687         | 6,086          | 7,776          |
| Net income (loss)                                    | (6,542)        | (19,901)       | (9,794)        | (7,720)        |
| Net Comprehensive income (loss)                      | (8,873)        | (18,043)       | (11,391)       | (6,843)        |
| Weighted average number of common shares outstanding | 139,419,735    | 127,640,845    | 118,082,282    | 104,856,355    |
| Net income (loss) per common share                   | \$ (0.05)      | \$ (0.16)      | \$ (0.08)      | \$ (0.07)      |
| <b>In CAD\$ (000's)</b>                              | <b>Q1 2020</b> | <b>Q4 2019</b> | <b>Q3 2019</b> | <b>Q2 2019</b> |
| Sales  | \$ 514         | \$ 657         | \$ 130         | \$ -           |
| COGS   | 461            | 672            | 70             | -              |
| Gross profit before fair value adjustments           | 53             | (15)           | 60             | -              |
| Realized fair value on inventory sold                | (99)           | (159)          | -              | -              |
| Unrealized gain (loss) on biological assets          | (111)          | (1,315)        | 2,073          | -              |
| Operating Expenses                                   | -              | (121)          | 121            | 1,397          |
| SG&A   | 7,299          | 10,482         | 6,124          | 8,774          |
| Net income (loss)                                    | (6,318)        | (12,423)       | (3,820)        | (10,686)       |
| Net Comprehensive income (loss)                      | (9,946)        | (14,574)       | (2,221)        | (11,469)       |
| Weighted average number of common shares outstanding | 99,051,447     | 98,196,739     | 96,666,354     | 96,264,358     |
| Net income (loss) per common share                   | \$ (0.06)      | \$ (0.13)      | \$ (0.04)      | \$ (0.11)      |

## 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 March 31, 2021, the Company had 140,290,664 Common Shares issued and outstanding, 12,861,501 options outstanding that could raise approximately \$19.8 million, and 10,632,043 warrants that could raise approximately \$7.3 million, if exercised in full.

Accounts payable and accrued liabilities decreased by \$675,861 as at March 31, 2021 (compared to a \$2.0 million increase as at December 31, 2020) and consists of amounts that are to be extinguished in due course. The Company’s cash and cash equivalents as of March 31, 2021 are sufficient to pay the cash portion of these liabilities.

As at March 31, 2021, the Company has working capital of \$(4.3) million (compared to \$461,978 as at December 31, 2020) and the Company has cash and cash equivalents of \$4.0 million (compared to \$8.9 million as at December 31, 2020).

Net cash used in operating activities was \$5.1 million for the three months ended March 31, 2021 (compared to \$4.9 million net cash used for the three months ended March 31, 2020). Operating activities were affected by a net decrease in non-cash working capital balances of \$712,321 for the three months ended March 31, 2021 (compared to an increase \$136,142 for the three months ended March 31, 2020). This was due to a decrease in accounts payable and accrued liabilities of \$675,861 for the three months ended March 31, 2021 (compared to a increase of \$2.0 million for the three months ended March 31, 2020), an decrease trade receivables of \$118,565 for the three months ended March 31, 2021 (compared to \$589,929 for the three months ended March 31, 2020), and an increase in inventory and biological assets of \$403,890 for the three months ended March 31, 2021 (compared to an increase of \$1.6 million for the three months ended March 31, 2020). The Company also recorded share-based compensation of \$1.8 million for the three months ended March 31, 2021 (compared to \$1.7 million for the three months ended March 31, 2020), amortization and depreciation of \$556,834 for the three months ended March 31, 2021 (compared to \$433,811 for the three months ended March 31, 2020), and exchange gain of \$612,847 for the three months ended March 31, 2021 (compared to a gain of \$73,533 for the three months ended March 31, 2020).

Net cash used in investing activities was \$581,248 million during the three months ended March 31, 2021 (compared to \$2.3 million net cash used for the three months ended March 31, 2020), as a result of investment in property and equipment of \$427,580 for the three months ended March 31, 2021 (compared to \$1.3 million for the three months ended March 31, 2020), an investment in XPhyto Therapeutics of \$750,000 for the three months ended March 31, 2021 (compared to \$500,00 for the three months ended March 31, 2020), an investment in joint ventures of \$18,757 for the three months ended March 31, 2021 (compared to \$Nil for the three months ended March 31, 2020), and the proceeds on sale of XPhyto marketable securities of \$777,089 for the three months ended March 31, 2021 (compared to \$Nil for the three months ended March 31, 2020).

Net cash provided by financing activities was \$820,640 during the three months ended March 31, 2021 (compared to \$39,050 net cash used for the three months ended March 31, 2020), options and warrants exercised of \$933,568 for the three months ended March 31, 2021 (compared to \$32,685 for the three months ended March 31, 2020), and less share cost to issue of \$36,000 for the three months ended March 31, 2021 (compared to \$Nil for the three months ended March 31, 2020).

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 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.

| <b>Proceeds of Offering</b>                        |                     |
|--|---------------------|
| Base offering                                      | \$12,000,010        |
| Overallotment option                               | 1,549,002           |
|  | <b>\$13,549,012</b> |
| Less: Commissions                                  | (675,851)           |
| <b>Gross Proceeds to the Company</b>               | <b>\$12,873,161</b> |
| Less:  |                     |
| Offering and the Prospectus Qualification expenses | (530,638)           |
| <b>Net Proceeds to the Company</b>                 | <b>\$12,342,524</b> |

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 first 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 \$851,525 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 \$1.5 million. In addition, the company had a commitment to issue 1.25 million Deferred Stock Units (“DSU”) once a DSU plan has been approved. As of the date of this MD&A, accounts payable and accrued liabilities include a liability of \$2.6M relating to the DSU commitment.

## Transactions with Related Parties

During the three months ended March 31, 2021, the Company has the following related party transactions:

- i. The Company incurred consulting fees of \$1,500 (compared to the three months ended March 31, 2020 of \$1,500) from Laitinen Consulting Inc., a company controlled by the Company’s Chief Financial Officer, Scott Laitinen. As of March 31, 2021, the amount of \$500 (December 31, 2020 - \$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.
- ii. The Company incurred consulting fees of \$Nil (compared to the three months ended March 31, 2020 of \$50,000) from Konssult Assessoria Empresarial Ltda, a company controlled by the CEO of the Company, Henning von Koss. As of March 31, 2021, the amount of \$Nil (December 31, 2020 - \$Nil) is owing to Konssult Assessoria Empresarial Ltda.

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 three months ended March 31, |              |
|--------------------------------------|--------------------------------------|--------------|
|                                      | 2021                                 | 2020         |
| Management compensation              | \$ 187                               | \$ 356       |
| Directors’ fees (1)                  | 28                                   | -            |
| Share-based compensation (2)         | 803                                  | 1,506        |
| <b>Total management compensation</b> | <b>1,017</b>                         | <b>1,861</b> |

(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 unaudited condensed interim consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The amounts owing to related parties are non-interest bearing and due on demand.

## Discussion of first quarter

The Company's net loss totaled \$6.5 million for the three months ended March 31, 2021 (compared to \$6.3 million in the three months ended March 31, 2020).

The net loss was primarily due to an inventory impairment (COGS) of \$607,512 for the three months ended March 31, 2021 (compared to \$Nil for the three months ended March 31, 2020), higher amortization and depreciation of \$447,799 for the three months ended March 31, 2021 (compared to \$323,773 in the three months ended March 31, 2020), lower other (income) expenses of \$(594,888) for the three months ended March 31, 2021 (compared to \$(1.1) million in the three months ended March 31, 2020), higher share-based compensation expense of \$1.8 million for the three months ended March 31, 2021 (compared to \$1.7 million in the three months ended March 31, 2020), and expected credit losses of \$43,308 for the three months ended March 31, 2021 (compared to \$Nil in the three months ended March 31, 2020). This net loss was partially offset due to higher revenue of \$675,264 for the three months ended March 31, 2021 (compared to \$514,409 for the three months ended March 31, 2020), lower consulting fees of \$291,786 for the three months ended March 31, 2021 (compared to \$388,264 in the three months ended March 31, 2020), lower office and general of \$644,628 for the three months ended March 31, 2021 (compared to \$821,224 in the three months ended March 31, 2020), lower professional fees of \$1.1 million for the three months ended March 31, 2021 (compared to \$1.9 million in the three months ended March 31, 2020), lower salaries and wages of \$1.4 million for the three months ended March 31, 2021 (compared to \$1.4 million in the three months ended March 31, 2020), and lower travel and accommodation fees of \$2,782 for the three months ended March 31, 2021 (compared to \$221,882 in the three months ended March 31, 2020).

## 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 March 31, 2021, 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. 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 consisted of: (i) \$1,000 principal amount of 8.0% unsecured convertible debenture and (ii) 1,000 common share purchase warrants. The debenture bore interest at 8.0% per annum, calculated and payable semi-annually, and was scheduled to mature two years following the date of issuance. The debenture was 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 could 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") exceeded \$2.50 per share. Each warrant was 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 March 31, 2021, the Company had sold all 500,000 of the XPhyto shares obtained through debenture conversion for proceeds of \$1,456,070.



During the three months ended March 31, 2021, the Company converted all 500,000 warrants issued as part of the convertible debenture units into shares. As at March 31, 2021, the Company had sold 250,000 shares for proceeds of \$723,332 and held 250,000 XPhyto shares (see note 4).

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 was deferred and recognized into income over the life of each component of the investment. Because all debentures had been converted and all related warrants had been exercised at March 31, 2021, they had no remaining life and full recognition of their associated remaining deferred income amounts is appropriate. The Company recognized the remaining \$136,632 of deferred income as income in the consolidated statements of loss and comprehensive loss during the three months ended March 31, 2021.

The following table illustrates the valuation at the grant date and as at March 31, 2021.

|  | Initial value    | March 31, 2021 |
|--|------------------|----------------|
| Convertible Debenture Investment (Receivable Component)    | 438,271          | -              |
| Convertible Debenture Investment (Conversion Component)    | 428,727          | -              |
| Total Value  | 866,998          | -              |
| Warrants   | 413,779          | -              |
| <b>Total Valuation of Convertible Debenture Investment</b> | <b>1,280,777</b> | <b>-</b>       |

|                                      | Convertible debt -<br>receivable component | Convertible<br>debt - conversion<br>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) |
| Exercise of warrants                 |  |   | (385,525) | (385,525)   |
| <b>Balance, March 31, 2021</b>       | <b>-</b>                                   | <b>-</b>                                    | <b>-</b>  | <b>-</b>    |

## 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:

- 146,919,730 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
- 9,257,800 Common Share purchase warrants.

Refer to subsequent events for additional information post closing the first 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 U.S. Securities Exchange Act of 1934 (the "Securities Exchange Act") against Defendants. Plaintiffs contend that the market price of the Company's securities were artificially inflated due to misrepresentations Plaintiffs allege were 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.

On May 21, 2021, Plaintiffs filed an amended complaint alleging substantially the same violations of the Securities Exchange Act and seeking the same relief. As of the date hereof, no penalties or sanctions have been imposed against the Company by a court or regulatory body and the Company has not entered into any settlement agreements before a court relating to securities legislation or with a securities regulatory authority.

The Company believes the class action to be without merit and intends to vigorously defend against it.

### **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.

**Warrants exercised**

As of the date of this MD&A, 327,200 warrants were exercised resulting in proceeds of \$212,680 and the issuance of 327,200 Common Shares, subsequent to March 31, 2021.

**Options granted**

On May 13, 2021, the Board approved and granted 200,000 Stock Options to certain board members. The Stock Option is exercisable to acquire one Common Share of the Company at a price of \$2.15 per Common Share. The Stock Options granted are subject to a three year vesting period and expire on the date that is five years from the Grant Date.

**Options and RSUs granted to nominee for Chairman of the Board**

On May 13, 2021, the Board approved and granted 500,000 Stock Options and 500,000 Restricted Share Units (“RSUs”) to the nominee for Chairman of the Board effective as of the date of the Company’s Annual General and Special Meeting of Shareholders, to be held on June 10, 2021 and subject to the nominee receiving applicable TSX Venture Exchange (the “TSXV”) and Company shareholder approvals to join the Board.

The stock options are each exercisable to acquire one common share of the Company at a price of \$2.15 per Common Share. The stock options conditionally granted are subject to a three year vesting period and expire on the date that is five years from the Grant Date.

The RSUs conditionally granted are also subject to a three year vesting period and expire on the date that is five years from the Grant Date. Each RSU entitles the holder to receive one Common Share upon vesting.

**RSUs vested**

As of the date of this MD&A, a total of 799,167 RSUs fully vested and the Common Shares had not been issued, subsequent to March 31, 2021.