



PHARMACIELO LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2021**

**(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)**

Management's Comments on Unaudited Condensed Interim Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of PharmaCielo Ltd. (the "Company" or "PharmaCielo") for the three and nine months ended September 30, 2021, and 2020 have been prepared by the management of Pharmacielo, reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that the accompanying unaudited interim consolidated financial statements have been reviewed by an auditor.

November 26, 2021

"Bill Petron"

William B. Petron
Chairman and Chief Executive Officer

"Ian D. Atacan"

Ian D. Atacan
Chief Financial Officer

PHARMACIELO LTD.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

(unaudited)

	Note Reference	As at September 30, 2021	As at December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		6,033,064	8,859,714
Trade receivables	3	507,607	352,674
Marketable securities	4	377,500	71,152
Investment - XPhyto Therapeutics Corp.	9	42,572	678,898
Prepaid expenses and other receivables	5	732,634	1,303,476
Inventory and Biological assets	6	1,370,308	1,252,568
Total current assets		9,063,685	12,518,482
Non-current assets			
Property, plant, and equipment	7	26,468,449	29,754,630
Right-of-use assets	8	946,981	1,065,800
Investment in joint ventures	19	798,165	565,396
Intangible assets		-	120,113
Total non-current assets		28,213,595	31,505,939
Total assets		37,277,280	44,024,421
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		9,647,435	11,708,396
Current portion of lease obligations	8	146,939	150,046
RSU obligations	14	111,780	105,258
Current portion of debt	10	82,601	92,804
Total current liabilities		9,988,755	12,056,504
Non-current liabilities			
Non-current portion of lease obligations	8	1,076,826	1,171,344
Non-current portion of debt	10	2,790,769	3,058,880
Other non-current liabilities		83,034	997,689
Deferred income	9	356,378	493,010
Total non-current liabilities		4,307,007	5,720,923
Total liabilities		14,295,762	17,777,427
Shareholders' Equity			
Share capital	11	156,307,372	138,082,419
Shares to be issued	11	1,395,000	559,999
Reserves	12,13,14	34,327,632	31,456,069
Other comprehensive income (loss)		(5,262,991)	(2,583,161)
Retained earnings		(163,785,495)	(141,268,332)
Total shareholders' equity		22,981,518	26,246,994
Total liabilities and shareholders' equity		37,277,280	44,024,421

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

Nature of operations (Note 1)

Going concern (Note 2)

Commitments (Note 16)

Subsequent events (Note 21)

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

	Note Reference	Three Months Ended		Nine Months Ended	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue:					
Sale of Cannabis derivative products		464,153	5,085	1,550,445	1,708,092
Revenue from Telemedicine services		21,012	20,828	55,935	64,771
Total revenue		485,165	25,913	1,606,380	1,772,863
Cost of goods sold - Cannabis derivative products		566,541	1,253	2,451,306	1,134,256
Cost of goods sold - Telemedicine services		869	-	1,315	-
Cost of goods sold - Inventory impairment		577,668	3,315,523	1,899,924	3,315,523
Gross profit before fair value adjustments		(659,913)	(3,290,863)	(2,746,165)	(2,676,916)
Realized fair value on inventory sold	6	(26,786)	2,258	(162,679)	(470,761)
Unrealized gain (loss) on fair value of biological assets	6	(662,851)	(1,076,425)	(843,689)	(1,221,603)
Gross profit		(1,349,550)	(4,365,030)	(3,752,533)	(4,369,280)
Operating expenses					
Agricultural operating costs	6	60,450	49,988	163,421	123,056
Selling, general, and administrative expenses					
General and administrative					
Consulting fees		173,717	518,394	744,039	1,927,837
Office and general		708,861	617,001	1,824,877	1,618,094
Professional fees		487,406	615,745	2,194,691	3,548,384
Salaries and wages		2,576,686	1,729,488	4,998,941	5,062,974
Travel and accommodation		33,701	16,917	71,231	258,429
Share-based compensation		2,079,351	1,229,490	5,872,532	5,107,353
Selling, marketing, and promotion		274,976	174,359	829,319	565,947
Amortization and depreciation	7,8	344,349	368,536	1,001,356	1,206,867
Expected credit losses		39,555	816,412	133,797	1,865,189
Total selling, general, and administrative expenses		6,718,602	6,086,342	17,670,783	21,161,074
Other (income) expense					
Bank charges and interest expense		126,666	70,051	398,842	168,223
Change in unrealized (gain) loss on marketable securities		89,000	23,602	340,000	53,977
Exchange (gain) loss		190,081	(401,693)	59,440	(629,587)
Other non-operating (income) expenses		-	213,854	-	82,947
Interest income		(602)	(53,293)	(2,200)	(66,208)
Change in fair value of consideration payable		-	-	-	(11,949)
Amortization of deferred income	9	-	(568,745)	(136,632)	(731,407)
Change in unrealized (gain) loss on Xphyto investment	9	109,666	(137,227)	(1,173)	(1,048,992)
Realized (gain) loss on sale of marketable securities		-	(58,124)	(35,937)	(124,893)
Share of (gain) loss of investment in joint ventures	19	107,314	204,336	308,086	486,461
Total other (income) expenses		622,125	(707,239)	930,426	(1,821,428)
Net loss for the period		(8,750,727)	(9,794,121)	(22,517,163)	(23,831,982)

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

PHARMACIELO LTD.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (continued)

(Expressed in Canadian Dollars)

(Unaudited)

		Three Months Ended		Nine Months Ended	
	Note	September 30,	September 30,	September 30,	September 30,
	Reference	2021	2020	2021	2020
Other comprehensive loss					
Currency translation adjustment		71,667	(1,596,601)	(2,679,829)	(4,347,580)
Net comprehensive loss		(8,679,060)	(11,390,722)	(25,196,992)	(28,179,562)
Basic and diluted loss per share	15	(0.06)	(0.08)	(0.16)	(0.22)
Weighted average number of common shares outstanding - basic and diluted		147,809,973	118,082,282	144,568,392	107,369,270

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

PHARMACIELO LTD.

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

	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated other comprehsi ve income (loss)	Retained earnings	Total
Balance at December 31, 2019	98,965,173	116,827,833	-	26,243,564	(93,573)	(97,512,523)	45,465,301
Common shares issued related to the acquisition of Ubiquo	18,967	45,900	-	-	-	-	45,900
Options exercised	50,000	62,724	-	(30,244)	-	-	32,480
Exercise of warrants	172	864	-	(659)	-	-	205
Vested RSUs	640,000	2,912,902	-	(2,892,599)	-	-	20,303
Common shares issued pursuant to debt settlement	74,906	54,681	-	-	-	-	54,681
Shares issued pursuant to Special Warrants at price of \$0.65 per share	12,578,002	6,996,900	-	-	-	-	6,996,900
Shares issued in private placement at price of \$0.72 per share	6,388,940	4,031,153	-	-	-	-	4,031,153
Warrants	-	-	-	71,000	-	-	71,000
Share-based compensation	-	-	-	5,107,353	-	-	5,107,353
Currency translation adjustment for the period	-	-	-	-	(4,347,580)	-	(4,347,580)
Net income (loss) for the period	-	-	-	-	-	(23,831,982)	(23,831,982)
Balance at September 30, 2020	118,716,160	130,932,957	-	28,498,415	(4,441,153)	(121,344,505)	33,645,714

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

	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated other comprehsi ve income (loss)	Retained earnings	Total
Balance at December 31, 2020	138,747,660	138,082,419	559,999	31,456,069	(2,583,161)	(141,268,332)	26,246,994
Options exercised (Note 11(b)(vii))	870,835	1,250,301	-	(580,264)	-	-	670,037
Warrants exercised (Note 12(ii))	983,169	856,742	-	(217,682)	-	-	639,060
Vested RSUs (Note 11(b)(ix))	1,830,833	3,847,250	835,001	(4,682,251)	-	-	-
Issued DSUs (Note 14(iii))	-	-	-	2,485,750	-	-	2,485,750
April 2021 issuance (Note 11(b)(x))	6,301,866	13,549,012	-	-	-	-	13,549,012
Issuance costs for April 2021 equity financing (Note 11(b)(x))	-	(1,278,352)	-	-	-	-	(1,278,352)
Share-based compensation	-	-	-	5,866,009	-	-	5,866,009
Currency translation adjustment for the period	-	-	-	-	(2,679,830)	-	(2,679,830)
Net income (loss) for the period	-	-	-	-	-	(22,517,163)	(22,517,163)
Balance at September 30, 2021	148,734,363	156,307,372	1,395,000	34,327,632	(5,262,991)	(163,785,495)	22,981,518

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

PHARMACIELO LTD.

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

		Nine Months Ended	
	Note Reference	September 30, 2021	September 30, 2020
Operating Activities			
Net income (loss)		(22,517,163)	(23,831,982)
Items not affecting cash:			
Amortization and depreciation	7,8	980,860	1,679,112
Expected credit losses		133,797	1,865,189
Unrealized (gain) loss on fair market value of biological assets	6	843,689	1,221,603
Unrealized (gain) loss on fair market value of XPhyto investment	9	(1,173)	(1,048,992)
Share of (gain) loss on investment in joint ventures	19	308,086	486,461
Amortization of deferred income	9	(136,632)	(731,407)
Fair value adjustment on sale of inventory	6	162,679	470,761
Change in fair value of consideration payable		-	(11,949)
Lease and loan interest expense		208,180	148,312
Non-cash salary expense		2,485,750	-
Share-based compensation		5,872,531	5,107,353
Inventory impairment		1,899,924	3,315,523
Exchange (gain) loss		(579,617)	(1,625,180)
Unrealized (gain) loss on marketable securities		340,000	(124,893)
Realized (gain)/loss on marketable securities		(35,937)	53,977
Changes in non-cash working capital items			
Trade receivables	3	(111,446)	(1,723,781)
Prepaid expenses and other receivables	5	498,625	279,965
Inventory and biological assets	6	(2,675,636)	(3,967,398)
Accounts payable and accrued liabilities		(2,577,091)	913,664
Net cash and cash equivalents used in operating activities		(14,900,574)	(17,523,662)
Investing Activities			
Investment in joint ventures	19	(540,855)	(891,066)
Investment - XPhyto Therapeutics Corp.	9	-	(500,000)
Exercise warrants held in Xphyto Therapeutics Corp.	9	(750,000)	-
Proceeds on sale of XPhyto marketable securities	9	777,089	1,402,313
Purchase of property, plant, and equipment	7	(716,882)	(3,803,463)
Net cash and cash equivalents used in investing activities		(1,230,648)	(3,792,216)
Financing Activities			
Options and warrants exercised	11,12	1,309,097	32,685
Cash received for shares issued	11	13,549,012	12,560,060
Share issue costs	11	(1,278,352)	(1,460,987)
Loan principal payments	10	(41,301)	-
Lease payments	8	(233,884)	(247,296)
Net cash and cash equivalents provided by financing activities		13,304,572	10,884,462
Net decrease in cash and cash equivalents		(2,826,650)	(10,431,416)
Cash and cash equivalents, beginning of period		8,859,714	13,673,299
Cash and cash equivalents, end of period		6,033,064	3,241,883

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

PHARMACIELO LTD.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021

(Expressed in Canadian Dollars)

(Unaudited)

1. NATURE OF OPERATIONS

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

On January 18, 2019, PharmaCielo's common shares (the "Common Shares") started trading on the TSXV under the symbol "PCLO". On June 21, 2019, Common Shares started trading on the OTC Markets under the symbol "PCLOF". The head office is located at 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2V6.

Through the Company's wholly owned subsidiary, PharmaCielo Colombia Holdings S.A.S. ("PharmaCielo Colombia"), the Company is licensed by the Colombian Ministry of Health and Social Protection and the Colombian Ministry of Justice and Law to cultivate, produce, and distribute (domestically and internationally) both THC (tetrahydrocannabinol) and CBD (cannabidiol) medicinal cannabis extracts.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited condensed interim consolidated financial statements of the Company have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS' issued and outstanding as of November 26, 2021, the date the Board of Directors approved these unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements follow the same accounting policies and method of computation as the Company's annual audited consolidated financial statements for the year ended December 31, 2020, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2020.

Basis of measurement

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

Principles of consolidation

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Subsidiaries are included in the consolidated financial results of the Company from the date of acquisition up to the date of disposition or loss of control. All intercompany balances and transactions are eliminated upon consolidation in preparing these financial statements.

PHARMACIELO LTD.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

As at September 30, 2021, the following companies have been included within the unaudited condensed interim consolidated financial statements:

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

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

⁽²⁾ 100% owned by PharmaCielo Holdings Ltd.

Significant accounting judgments and estimates

The preparation of these unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and related disclosures.

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

These unaudited condensed interim consolidated financial statements follow the same significant accounting judgments and estimates as the Company's annual audited consolidated financial statements for the year ended December 31, 2020. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2020.

Going concern

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

Management believes that the going concern assumption is appropriate for these unaudited condensed interim consolidated financial statements and that the Company will be able to meet its budgeted administrative and development costs during the upcoming year and beyond when considering the Company's current financial forecast. PharmaCielo continues to enter into strategic agreements and finance offerings to source funds and maintain its operations. As outlined in Note 11, during April 2021, the Company completed an overnight marketed offering of Common Shares for aggregate gross proceeds of \$13,549,012. The assessment of the appropriateness of the going concern assumption includes significant judgements. From the Company's perspective this includes the assumption that a portion of warrant and option holders will continue to exercise their instruments during the year and also that if the Company were required to limit its variable costs on cultivation and production, it would be able to do so in a short time

PHARMACIELO LTD.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021

(Expressed in Canadian Dollars)

(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 favorable to the Company.

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

New, amended and future IFRS pronouncements

The following IFRS standards have been recently issued by the IASB but are not yet effective. The Company has assessed the impact of these new standards, and found they do not have a material impact on the financial statements of the Company as at September 30, 2021.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

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

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

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

3. TRADE RECEIVABLES

	September 30, 2021	December 31, 2020
For sale of cannabis derivative products	3,013,008	2,684,017
For revenue from telemedicine services	13,130	11,192
Allowance for doubtful accounts	(2,518,531)	(2,342,535)
Total trade receivables	\$ 507,607	\$ 352,674

The majority of the Company's sales consist of bulk cannabis products sold internationally to various customers. Some of these companies may have been operational for a short period of time and may have limited working capital and have limited credit history. As such, the Company has considered these factors in establishing an expected credit loss. During the three and nine months ended September 30, 2021, the Company recorded an expected credit loss of \$39,555 and \$133,797 respectively (three and nine months ended September 30, 2020 - \$816,412 and \$1,865,189. This amount is included within the allowance for doubtful accounts. The remaining balance in the allowance for doubtful accounts relates to expected credit losses recorded in prior years.

PHARMACIELO LTD.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021

(Expressed in Canadian Dollars)

(Unaudited)

4. MARKETABLE SECURITIES

	Number of shares	Cost	Unrealized gain / (loss)	Fair value
September 30, 2021				
Khiron Life Sciences Corp. ("Khiron")	100,000	\$ 12,500	\$ 15,000	\$ 27,500
XPhyto Therapeutics Corp. (Note 9)	250,000	680,000	(330,000)	350,000
Total marketable securities		\$ 692,500	\$ (315,000)	\$ 377,500
December 31, 2020				
Khiron Life Sciences Corp. ("Khiron")	100,000	\$ 12,500	\$ 25,000	\$ 37,500
XPhyto Therapeutics Corp. (Note 13)	17,900	51,261	(17,609)	33,652
		\$ 63,761	\$ 7,391	\$ 71,152

5. PREPAID EXPENSES AND OTHER RECEIVABLES

	As at September 30, 2021	As at December 31, 2020
Prepaid expenses	465,961	732,075
Other receivables	266,673	571,401
Total prepaid expenses and other receivables	\$ 732,634	\$ 1,303,476

6. INVENTORY

	As at September 30, 2021	As at December 31, 2020
Agricultural supplies and other	369,616	308,665
Work-in-progress	837,512	551,874
Finished products	163,180	392,029
Closing balance	1,370,308	\$ 1,252,568

During the three and nine months ended September 30, 2021, inventory recognized as cost of goods sold was \$1,170,995 and \$4,513,909, respectively (three and nine months ended September 30, 2020 - \$3,314,518 and \$4,920,540 respectively), consisting of \$26,786 and \$162,679 (three and nine months ended September 30, 2020 - \$(2,258) and \$470,761 respectively) of realized fair value changes on inventory sold, \$577,668 and \$1,899,924 (three and nine months ended September 30, 2020 - \$3,315,523 and \$3,315,523) in impairment costs reducing the inventory value to its net realizable value, and \$566,541 and \$2,451,306, respectively (three and nine months ended September 30, 2020 - \$1,253 and \$1,134,256 respectively) of capitalized post-harvest costs expensed during the period as cannabis inventory is sold.

Biological assets

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy.

The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at September 30, 2021:

- 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 \$550 per kilogram of CBD isolate was used to calculate the biological assets at September 30, 2021 (December 31, 2020 - \$796).

PHARMACIELO LTD.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2021

(Expressed in Canadian Dollars)

(Unaudited)

6. INVENTORY (continued)

- b. Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, extracting, testing and packaging activities incurred in the period, including overhead allocations for these activities. Post-harvest processing costs averaged \$1,192 per kilogram of CBD isolate (December 31, 2020 - \$1,683).
- c. The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at September 30, 2021 averaged 35% (December 31, 2020 - 42%).
- d. Expected yield – the expected yield per plant is based on the Company's historical adjusted average yield per plant. Expected yield per plant is 1.17 grams of CBD isolate (December 31, 2020 - 3.66 grams).

As at September 30, 2021, the Company's biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

Carrying amount, December 31, 2020	-
Production costs capitalized	1,715,010
Changes in fair value less costs to sell due to biological transformation	(843,689)
Transferred to inventory upon harvest	(871,321)
Effect of foreign currency exchange differences	-
Balance, September 30, 2021	\$ -

The Company expects that a 10% increase or decrease in the selling price per kilogram of dried cannabis would increase or decrease the fair value of biological assets by \$254,211. A 10% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by \$125,053. Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by \$126,725.

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

Unrealized change in fair value of biological assets	(843,689)
Realized fair value on inventory sold	(162,679)

During the three and nine months ended September 30, 2021, the Company incurred \$60,450 and \$163,421 in non-capital related agricultural operating costs at the Company's cultivation facility in Colombia (three and nine months ended September 30, 2020 - \$49,988 and \$123,056).

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7. PROPERTY, PLANT AND EQUIPMENT

COST	Land	Construction in progress	Building	Machinery and equipment	Office furniture and fixtures	Computer and communication equipment	Vehicles	Equipment in transit	Total
Balance, December 31, 2019	\$ 7,868,503	\$ 6,346,102	\$ 3,607,128	\$ 7,368,767	\$ 994,403	\$ 1,064,741	\$ 141,137	\$ 2,247,612	\$ 29,638,393
Additions	-	3,322,558	43,199	1,074,030	67,659	124,525	-	801,809	5,433,780
Reclassification	-	681,772	-	118,047	-	-	-	(799,819)	-
Disposals	-	-	-	-	-	-	-	-	-
Effect of foreign currency exchange differences	(333,957)	(393,055)	(119,316)	(456,394)	(17,505)	(62,164)	(8,741)	(141,183)	(1,532,315)
Balance, December 31, 2020	\$ 7,534,546	\$ 9,957,377	\$ 3,531,011	\$ 8,104,450	\$ 1,044,557	\$ 1,127,102	\$ 132,396	\$ 2,108,419	\$ 33,539,858
Additions	-	408,148	329,770	121,734	-	30,309	-	-	889,961
Reclassification	-	(7,808,613)	5,684,046	3,993,928	(424)	294	-	(1,869,231)	-
Disposals	-	(23,876)	-	(1,961)	-	(3,402)	(33,599)	-	(62,838)
Impairment	-	-	-	(106,174)	-	(3,635)	(432)	-	(110,241)
Effect of foreign currency exchange differences	(556,059)	(1,094,691)	(203,419)	(1,082,674)	(30,759)	(117,197)	(14,555)	(40,104)	(3,139,458)
Balance, September 30, 2021	\$ 6,978,487	\$ 1,438,345	\$ 9,341,408	\$ 11,029,303	\$ 1,013,374	\$ 1,033,471	\$ 83,810	\$ 199,084	\$ 31,117,282

ACCUMULATED DEPRECIATION

Balance, December 31, 2019	\$ -	\$ -	\$ 876,528	\$ 708,297	\$ 227,302	\$ 481,612	\$ 60,370	\$ -	\$ 2,354,109
Additions	-	-	253,858	594,351	280,633	352,746	29,251	-	1,510,839
Reclassification	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-
Effect of foreign currency exchange differences	-	-	(19,028)	(27,056)	(4,694)	(25,836)	(3,106)	-	(79,720)
Balance, December 31, 2020	\$ -	\$ -	\$ 1,111,358	\$ 1,275,592	\$ 503,241	\$ 808,522	\$ 86,515	\$ -	\$ 3,785,228
Additions	-	-	330,496	539,984	176,073	153,869	13,236	-	1,213,658
Reclassification	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	10,662	-	-	(28,708)	-	(18,046)
Effect of foreign currency exchange differences	-	-	(60,794)	(153,340)	(20,900)	(87,829)	(9,144)	-	(332,007)
Balance, September 30, 2021	\$ -	\$ -	\$ 1,381,060	\$ 1,672,898	\$ 658,414	\$ 874,562	\$ 61,899	\$ -	\$ 4,648,833

CARRYING AMOUNT

Balance, December 31, 2020	\$ 7,534,546	\$ 9,957,377	\$ 2,419,653	\$ 6,828,858	\$ 541,316	\$ 318,580	\$ 45,881	\$ 2,108,419	\$ 29,754,630
Balance, September 30, 2021	\$ 6,978,487	\$ 1,438,345	\$ 7,960,348	\$ 9,356,405	\$ 354,960	\$ 158,909	\$ 21,911	\$ 199,084	\$ 26,468,449

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7. PROPERTY, PLANT AND EQUIPMENT (continued)

PharmaCielo Colombia Holdings S.A.S. farm and processing plant, located in Rio Negro in the municipality of La Cieja (Antioquia), for the purpose of cultivating and sowing, as well as assembly of the cannabis oil. The farm includes greenhouses, offices, and agricultural areas.

For the three and nine months ended September 30, 2021, disposal cost of \$29,239 and \$62,838 respectively (three and nine months ended September 30, 2020 - \$Nil) and impairment cost of \$110,241 and \$110,241 respectively (three and nine months ended September 30, 2020 - \$Nil) was included in property, plant and equipment.

For the three and nine months ended September 30, 2021, depreciation costs of \$103,637 and \$462,052 respectively (three and nine months ended September 30, 2020 - \$229,869 and \$501,030 respectively) was capitalized to biological assets and inventory.

8. LEASES

Right-of-use assets

Balance, December 31, 2020	1,065,800
Remeasurement adjustment	19,800
Depreciation	(127,186)
Foreign exchange adjustment	(11,433)
Balance, September 30, 2021	\$ 946,981

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

Maturity analysis - contractual undiscounted cash flows

As at September 30, 2021

Less than one year	306,608
One to three years	773,940
Three to five years	496,158
More than five years	351,445
Total undiscounted lease obligation	\$ 1,928,151

Lease obligations

On August 24, 2018, the Company entered into a sixty-month lease agreement (plus extension periods) for new office space to serve as our corporate headquarters in Toronto, Ontario, commencing on January 1, 2019. Under the lease, the Company is required to pay a base rent of \$13,875 per month. In addition to the base rent, the Company must pay its proportionate share of utilities, maintenance and other related costs for the leased premises. Lease payments are discounted over 122 months using an interest rate of 13.95%.

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

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8. LEASES (continued)

The following table illustrates the lease agreements as at September 30, 2021:

	PharmaCielo Ltd.	PharmaCielo Colombia Holding S.A.S
Country	Canada	Colombia
City	Toronto	Medellín
Initial contract period	March 1, 2019 to February 29, 2024	October 1, 2018 to September 30, 2021
Auto renewal	No	Yes
Monthly lease payments: CAD\$		
2021	\$ 20,529	\$ 4,085
2022	20,673	4,609
2023	20,673	4,982
2024	20,673	-
Interest rate	13.95%	10.71%

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

Balance, January 1, 2021	1,321,390
Remeasurement adjustment	19,800
Interest expense	132,568
Lease payments	(233,884)
Foreign exchange adjustment	(16,109)
Balance, September 30, 2021	\$ 1,223,765
As at September 30, 2021	
Lease obligations	1,223,765
Less current portion	146,939
Non-current portion	\$ 1,076,826

9. XPHYTO AGREEMENT AND INVESTMENT

Supply agreement with XPhyto

On January 27, 2020, the Company entered into a three-year agreement (the "Agreement") with XPhyto, whereby PharmaCielo will supply medicinal-quality cannabis extract oils and isolates, including those containing THC, to XPhyto for analysis, further processing, product development and manufacturing at its European Union Good Manufacturing Practice-certified ("EU GMP") facility in Biberach in the state of Baden-Württemberg, and thereafter for sale into the German market.

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

Because no consideration was paid to XPhyto for the warrants, the Company recognized an initial gain of the full value of the warrants of \$356,378. As required under IFRS 9, this initial gain has been deferred and will be recognized into income based on kilograms delivered under the Supply Agreement. During the nine months ended September 30, 2021, no product had yet been delivered to XPhyto, and therefore no deferred income was recognized in the statements of loss and comprehensive loss.

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9. XPHYTO AGREEMENT AND INVESTMENT (continued)

The following table illustrates the value at the transaction date and at September 30, 2021:

Supply agreement warrants	Warrants
Initial value	356,378
Unrealized gain/loss	(63,005)
Exercise	-
Balance, December 31, 2020	293,373
Balance, December 31, 2020	293,373
Unrealized gain/loss	(250,801)
Exercise	-
Balance, September 30, 2021	\$ 42,572

Investment with XPhyto

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. As at September 30, 2021, the Company had sold all 500,000 of the XPhyto shares obtained through the conversion of the convertible debenture for proceeds of \$1,456,070.

As at September 30, 2021, the Company had converted all 500,000 warrants issued as part of the convertible debenture units into shares. As at September 30, 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. As at December 31, 2020, the amount remaining in deferred income associated with the debenture investment and related warrants was \$136,632, as \$644,145 had been amortized in the statements of loss and comprehensive loss during the year ended December 31, 2020. Since all of the debentures and related warrants have been converted and exercised for shares, the Company recognized the remaining \$136,632 of deferred income as income in the consolidated statements of loss and comprehensive loss during the nine months ended September 30, 2021.

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9. XPHYTO AGREEMENT AND INVESTMENT (continued)

The following table illustrates the valuation at the grant date and as at September 30, 2021.

	Initial value	September 30, 2021
Convertible Debt (Debt Component)	438,271	-
Convertible Debt (Conversion Feature)	428,727	-
Convertible Debt	866,998	-
Warrants	413,779	-
Total Valuation of Convertible Debt	1,280,777	-

	Convertible debt - debt component	Convertible debt - conversion feature	Warrants	Total
Initial value	438,271	428,727	413,779	1,280,777
Unrealized gain/loss	11,213	437,515	(28,254)	420,474
Conversion of convertible debentures	(449,484)	(866,242)	-	(1,315,726)
Exercise of warrants	-	-	(385,525)	(385,525)
Balance, September 30, 2021	-	-	-	-

10. LOANS AND BORROWINGS

As at September 30, 2021 the company had the following loans and borrowings:

	Term loan	Revolving loan	Total
Balance, December 31, 2020	\$ 2,966,076	\$ 185,608	\$ 3,151,684
Accrued interest	-	-	-
Accretion	204,351	10,199	214,550
Principal payment	-	(41,301)	(41,301)
Interest payment	(132,328)	(6,610)	(138,938)
Foreign exchange adjustment	(333,162)	20,537	(312,625)
Balance, September 30, 2021	2,704,937	168,433	2,873,370
Current portion of debt	-	(82,601)	(82,601)
Non-current portion of debt	\$ 2,704,937	\$ 85,832	\$ 2,790,769

In December 2020, the Company entered into a loan agreement with Banco Agrario de Colombia S.A. ("Banco Agrario"), consisting of term and revolving components for a total value of \$8,500,000,000 COP (\$3,151,684 CAD). The term loan is for seven (7) years and makes up \$8,000,000,000 COP (\$2,966,076 CAD) of the initial loan proceeds received. Per the details of the agreement, the term loan bears interest at a variable rate of IBR + 7.85%, payable semi-annually during the first 24 months, and quarterly thereafter. The term loan is subject to a capital amortization grace period of up to 24-months. The revolving loan consists of \$500,000,000 COP (\$185,608 CAD) available to be drawn down by the Company. As at December 31, 2020, the Company had drawn the full amount down. The revolving loan is payable semi-annually, over a period of 24 months. The revolving loan bears interest at a variable rate of IBR + 6%, payable semi-annually. There are certain externally imposed capital requirements as a result of the loan. The Loan is secured against part of the Company's La Margarita property. La Margarita is the location of the Company's nursery and propagation center consisting of 12 hectares of open-air greenhouses situated on a 26.3-hectare property, located in the municipality of Rio Negro in the department of Antioquia, Colombia.

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11. SHARE CAPITAL

a) Authorized share capital

The authorized share capital consists of an unlimited number of Common Shares. The Common Shares do not have a par value. All currently issued and outstanding Common Shares are fully paid.

b) Common Shares issued and outstanding

148,734,363 Common Shares (December 31, 2020 - 138,747,660 Common Shares).

For the year ended December 31, 2020

- (i) On February 19, 2020, the Company issued the remaining 18,967 Common Shares owed on the Ubiquo Telemedicina S.A.S transaction issued at a price of \$2.42 per share.
- (ii) On January 3, 2020, cash proceeds for \$32,480 (USD\$25,000) were received towards 50,000 options that were exercised, resulting in the issuance of 50,000 Common Shares. In addition, the Company issued 172 Common Shares for net proceeds of \$205 upon the exercise of warrants.
- (iii) During the year ended December 31, 2020, 1,347,166 RSUs were fully vested, which resulted in the issuance of 671,500 Common Shares, with 666,666 shares pending issuance at year end and the remaining 9,000 RSUs to be settled in cash. As at September 30, 2021, the 666,666 shares were issued and no longer recorded as shares to be issued in the statement of changes in shareholders' equity.
- (iv) On April 15, 2020, the Company settled an outstanding debt in the amount of \$54,681 with two former Medical Advisory Board members. As a result, the Company issued an aggregate of 74,906 Common Shares at a fair value of \$0.73 per Common Share, with all such issued Common Shares being subject to a statutory hold period of four months plus a day from the date of issuance.
- (v) On April 15, 2020, the Company closed its first 2020 private placement financing by issuing 12,578,002 special warrants of the Company (the "Special Warrants") at \$0.65 per Special Warrant. Each Special Warrant entitled the holder thereof to receive one Common Share upon exercise. The Company issued 12,246,190 Special Warrants for cash, raising gross proceeds of \$7,960,024. The Company incurred related costs of \$1,178,780, including 181,812 Special Warrants issued as agents' fees (valued at \$118,178) and 150,000 Special Warrants as a finder's fee (valued at \$97,500). On May 20, 2020, all 12,578,002 Special Warrants were converted to Common Shares by the Company.
- (vi) On July 3, 2020, the Company closed its second 2020 private placement financing by issuing 6,388,940 Common Shares of the Company at a price of \$0.72 per Common Share, raising gross proceeds of \$4,600,037. The Company incurred related costs of \$568,884.
- (vii) On November 20, 2020, the Company closed its third 2020 private placement financing by issuing 20,000,000 units at a price of \$0.50 per unit, raising gross proceeds of \$10,000,000. Each unit consists of one Common Share and one-half a warrant with an exercise price of \$0.65 and a life of 2 years. The warrant fair value was determined based on a Black-Scholes model (see note 12(i)(c)). The Company has allocated \$7,800,910 of the private placement to share capital and \$2,199,090 to warrants. Related issuance costs of \$1,254,946, including 1,000,000 broker warrants to purchase one unit each at a price of \$0.50 issued as agents' fees (valued at \$250,418), were allocated to share capital (\$978,972) and warrants (275,974).

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11. SHARE CAPITAL (continued)

For the nine months ended September 30, 2021

- (viii) During the nine months ended September 30, 2021, cash proceeds of \$670,037 were received towards 870,835 options that were exercised, resulting in the issuance of 870,035 Common Shares. In addition, the Company issued 983,169 Common Shares for cash proceeds of \$639,060 upon the exercise of warrants.
- (ix) During the nine months ended September 30, 2021, 2,298,167 RSUs were fully vested, which resulted in the issuance of 1,830,833 Common Shares including 666,666 RSUs vested in 2020 that were previously recorded as shares to be issued, with 1,125,000 shares pending issuance at September 30, 2021 and recorded as shares to be issued in the statement of changes in shareholders' equity, and the remaining 9,000 RSUs to be settled in cash.
- (x) During April 2021, the Company completed an overnight marketed offering of Common Shares by issuing 6,301,866 shares at a stock price of \$2.15 for aggregate gross proceeds of \$13,549,012. The Company incurred related costs of \$1,278,352.

12. WARRANTS

The following table reflects the continuity of warrants for the periods ended September 30, 2021 and December 31, 2020:

	Number of warrants	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2019	37,054	2.06	1.19
April 15 Private Placement (i)(a)	190,212	-	0.65
November 20 Private Placement (i)(b)	10,000,000	-	0.65
November 20 Private Placement - Broker Warrants (i)(c)	1,000,000	-	0.50
Exercised (i)(d)	(172)	-	1.194
Expired	(27,882)	2.00	-
Balance, December 31, 2020	11,199,212	2.25	0.64
Balance, December 31, 2020	11,199,212	2.25	0.64
Exercised (ii)(a)	(983,169)	-	0.65
Balance, September 30, 2021	10,216,043	2.25	0.64

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

- a. The Company paid a portion of the broker fees on the Special Warrants in the form of 190,212 broker warrants (the "Broker Warrants"). The Broker Warrants are separate instruments from the Special Warrants. Each Broker Warrant is exercisable for one Common Share at an exercise price of \$0.65 for a period of 24 months. The Broker Warrants were valued using a Black-Scholes pricing model with the following assumptions: share price of \$0.73, exercise price of \$0.65, expected stock price volatility of 91%, expected dividend yield of 0%, risk-free interest rate of 0.33%, and term of 24 months. As at December 31, 2020, none of the Broker Warrants had been exercised.
- b. As part of the November private placement, the Company issued 10,000,000 warrants exercisable at \$0.65 per warrant. The Company used a Black-Scholes pricing model to value the warrants, with the following assumptions: share price of \$0.84, exercise price of \$0.65, expected stock price volatility of 95%, expected dividend yield of 0%, risk-free interest rate of 0.69%, and term of 24 months.

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12. WARRANTS (continued)

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

d. A total of 172 other warrants were exercised at an exercise price of \$1.194 each.

(ii) Warrants exercised in the nine months ended September 30, 2021 include the following:

a. A total of 983,169 warrants were exercised for cash proceeds for \$639,060.

The following table reflects the warrants issued and outstanding as at September 30, 2021:

Number of warrants outstanding	Exercise price (USD)	Exercise price (CAD)	Expiry date
38,043	-	0.65	April 15, 2022
1,000,000	-	0.50	November 20, 2022
9,169,000	-	0.65	November 20, 2022
9,000	2.25	-	December 15, 2022
10,216,043			

13. STOCK OPTIONS

The following table reflects the continuity of options for the periods ended September 30, 2021 and December 31, 2020:

	Number of options	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2019	12,606,000	1.18	3.33
Granted (i)	5,183,336	-	0.80
Exercised	(50,000)	0.50	-
Expired/Forfeited	(4,117,000)	1.32	3.350
Balance, December 31, 2020	13,622,336	1.51	1.69
Balance, December 31, 2020	13,622,336	1.51	1.69
Granted (ii)	1,906,748	-	1.80
Exercised	(870,835)	0.58	0.82
Balance, September 30, 2021	14,658,249	1.61	1.74

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

a. On May 4, 2020, the Company granted incentive stock options to an officer of the Company of 1,500,000 Common Shares exercisable at a price of \$1.02 per Common Share on or before May 4, 2030. The options vest as follows: 500,000 immediately; 333,333 after the first anniversary of the date of grant; 333,333 after the second anniversary of the date of grant; and 333,334 after the third anniversary of the date of grant. The fair value of each option has been estimated at \$0.85 as at the date of the grant using the Black-Scholes option pricing model. The following assumptions were used: share price - \$0.99; expected

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13. STOCK OPTIONS (continued)

annualized volatility – 93.13%, risk-free rate – 0.57%; and an expected life of 10 years. During the year ended December 31, 2020, the Company recorded \$866,808 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

- b. On July 2, 2020, the Company granted a total of 383,336 compensation stock options (the “Compensation Options”) to the underwriters of the July 2, 2020 private placement. Each option is exercisable for one Common Share at a price of \$0.72 on or before July 2, 2022. All options vest immediately. The fair value of each option has been estimated at \$0.34 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$0.71, exercise price of \$0.72, expected stock price volatility of 90%, risk-free rate of 0.56%, and expected life of 24 months. During the year ended December 31, 2020, the Company recorded \$129,184 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.
- c. On November 20, 2020, the Company granted a total of 3,000,000 incentive stock options to a director of the Company. Each option is exercisable for one Common Share at a price of \$0.63 on or before November 20, 2025. The options vest as follows: 1,000,000 immediately; 1,000,000 on the six-month anniversary of the grant date; and the remaining 1,000,000 on the one-year anniversary of the grant date. The fair value of each option has been estimated at \$0.63 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$0.84, exercise price of \$0.63, expected stock price volatility of 95%, risk-free rate of 0.56%, and expected life of 5 years. During the year ended December 31, 2020, the Company recorded \$847,891 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.
- d. On December 2, 2020, the Company granted a total of 200,000 incentive stock options to an officer of the Company. Each option is exercisable for one Common Share at a price of \$1.11 on or before December 2, 2030. All options vest immediately. The fair value of each option has been estimated at \$1.19 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$1.23, exercise price of \$1.11, expected stock price volatility of 101%, risk-free rate of 0.76%, and expected life of 10 years. During the year ended December 31, 2020, the Company recorded \$237,942 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.
- e. On December 17, 2020, the Company granted a total of 100,000 incentive stock options to a consultant of the Company. Each option is exercisable for one Common Share at a price of \$2.18 on or before December 17, 2023. The options vest as follows: 25,000 immediately; 25,000 on the four-month anniversary of the grant date; 25,000 on the eight-month anniversary of the grant date, and the remaining 25,000 on the one-year anniversary of the grant date. The fair value of each option has been estimated at \$1.44 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$2.18, exercise price of \$2.18, expected stock price volatility of 103%, risk-free rate of 0.74%, and expected life of 3 years. During the year ended December 31, 2020, the Company recorded \$43,549 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.

(ii) Options issued in the nine months ended September 30, 2021 include the following:

- a. On April 7, 2021, the Company granted a total of 314,163 incentive stock options as broker options, issued as part of the April 7th capital raise. Each option is exercisable for one Common Share at a price of \$2.15 on or before April 7, 2026. All options vest immediately. The fair value of each option has been estimated

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13. STOCK OPTIONS (continued)

at \$1.41 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$1.90, exercise price of \$2.15, expected stock price volatility of 103%, risk-free rate of 1.50%, and expected life of 5 years. During the nine months ended September 30, 2021, the Company recorded \$443,441 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.

- b. On April 29, 2021, the Company granted a total of 212,585 incentive stock options to a consulting company as part of their agreement. Each option is exercisable for one Common Share at a price of \$1.47 on or before April 29, 2026. The options vest as follows: 70,862 on the first anniversary of the grant date; 70,862 on the second anniversary of the grant date; 70,862 on the third anniversary of the grant date. The fair value of each option has been estimated at \$1.17 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$1.54, exercise price of \$1.47, expected stock price volatility of 102%, risk-free rate of 1.56%, and expected life of 5 years. During the nine months ended September 30, 2021, the Company recorded \$64,236 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.
- c. On May 13, 2021, the Company granted a total of 200,000 incentive stock options to the Board of Directors. Each option is exercisable for one Common Share at a price of \$2.15 on or before May 13, 2026. The options vest as follows: 66,667 on the first anniversary of the grant date; 66,667 on the second anniversary of the grant date; 66,666 on the third anniversary of the grant date. The fair value of each option has been estimated at \$1.05 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$1.49, exercise price of \$2.15, expected stock price volatility of 101%, risk-free rate of 1.56%, and expected life of 5 years. During the nine months ended September 30, 2021, the Company recorded \$49,205 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.
- d. On June 10, 2021, the Company granted a total of 620,000 incentive stock options to the Board of Directors. Each option is exercisable for one Common Share at a price of \$2.10 on or before June 10, 2026. The options vest as follows: 206,667 on the first anniversary of the grant date; 206,667 on the second anniversary of the grant date; 206,666 on the third anniversary of the grant date. The fair value of each option has been estimated at \$1.16 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$1.63, exercise price of \$2.10, expected stock price volatility of 100%, risk-free rate of 1.38%, and expected life of 5 years. During the nine months ended September 30, 2021, the Company recorded \$149,186 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.
- e. On July 2, 2021, the Company reinstated 10,000 stock options held by a consultant of the Company, previously cancelled December 31, 2020.
- f. On September 14, 2021, the Company granted a total of 550,000 incentive stock options to a Director and employee of the Company. Each option is exercisable for one Common Share at a price of \$1.25 on or before September 14, 2026. The options vest as follows: 183,334 on the first anniversary of the grant date; 183,334 on the second anniversary of the grant date; 183,332 on the third anniversary of the grant date. The fair value of each option has been estimated at \$0.91 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$1.24, exercise price of \$1.17, expected stock price volatility of 100%, risk-free rate of 1.38%, and expected life of 5 years. During the nine months ended September 30, 2021, the Company recorded \$13,388 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.

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13. STOCK OPTIONS (continued)

Details of the stock options outstanding as at September 30, 2021 are as follows:

Number of options outstanding	Number of options exercisable	Exercise price (USD)	Exercise price (CAD)	Weighted- average life (years)	Expiry date
500,000	500,000	0.25	-	0.25	December 31, 2021
400,000	400,000	2.25	-	0.69	June 10, 2022
172,501	172,501	-	0.72	0.76	July 2, 2022
100,000	100,000	0.50	-	0.83	July 31, 2022
40,000	40,000	2.25	-	0.83	July 31, 2022
1,400,000	1,400,000	-	1.02	1.13	November 17, 2022
200,000	200,000	-	1.11	1.13	November 17, 2022
20,000	-	-	2.10	1.13	November 17, 2022
100,000	100,000	2.00	-	1.13	November 17, 2022
125,000	125,000	2.25	-	1.13	November 17, 2022
150,000	150,000	1.00	-	1.25	December 31, 2022
300,000	300,000	2.25	-	1.17	November 30, 2022
625,000	625,000	2.25	-	1.25	December 31, 2022
100,000	75,000	-	2.18	2.21	December 17, 2023
1,085,000	1,085,000	2.25	-	3.33	January 29, 2025
39,000	39,000	2.25	-	3.34	February 4, 2025
50,000	50,000	-	3.35	3.67	June 1, 2025
50,000	50,000	0.25	-	3.63	May 15, 2025
25,000	25,000	0.50	-	4.08	October 27, 2025
3,000,000	2,000,000	-	0.63	4.14	November 20, 2025
314,163	314,163	-	2.15	4.52	April 7, 2026
212,585	-	-	1.47	4.58	April 29, 2026
700,000	-	-	2.15	4.62	May 13, 2026
100,000	-	-	2.10	4.69	June 10, 2026
50,000	50,000	1.00	-	4.92	September 1, 2026
550,000	-	-	1.25	4.96	September 14, 2026
550,000	366,667	-	3.10	5.10	November 5, 2026
300,000	300,000	1.00	-	5.26	January 2, 2027
100,000	100,000	1.00	-	5.33	January 27, 2027
850,000	850,000	1.00	-	5.67	June 1, 2027
200,000	200,000	2.00	-	5.76	July 5, 2027
2,250,000	2,250,000	-	3.35	6.75	July 1, 2028
14,658,249	11,867,331	1.61	1.74	3.82	

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14. RESTRICTED SHARE UNITS (“RSUs”) and DEFERRED SHARE UNITS (“DSUs”)

	Number of unvested RSUs and DSUs outstanding
Balance, December 31, 2020	1,639,834
Granted (i) (ii) (iii) (iv)	3,600,000
Vested (v)	(2,298,167)
Balance, September 30, 2021	2,941,667

- (i) On February 1, 2021, the Company issued 200,000 RSUs to a consultant of the company. The RSUs vested immediately as of the grant date.
- (ii) On June 10, 2021, the Company issued 500,000 RSUs to the newly appointed Chairman of the Board. The RSUs vest as follows: 166,667 on the first anniversary of the grant date; 166,667 on the second anniversary of the grant date; 166,666 on the third anniversary of the grant date.
- (iii) On June 10, 2021, the Company approved a DSU plan and issued 1,525,000 DSUs to former Officers of the Company. The DSUs settle on the business day following the termination date of an at-will consulting agreement entered into with the former Officers. The Company has the option to settle the DSUs as a cash payment of an amount equal to the number of DSUs multiplied by the closing market price of the common share of the Company, or by issuing a number of common shares equal to the number of DSUs at the time of settlement, net of any applicable withholding tax.
- (iv) On September 14, 2021, the Company issued 1,375,000 RSUs to newly appointed Directors and an Officer of the Company. 1,175,000 of the RSUs vested immediately as of the grant date and the remaining 250,000 RSUs vest on the first anniversary of the grant date.
- (v) During the nine months ended September 30, 2021, 2,298,167 RSUs were fully vested which resulted in the issuance of 1,164,167 Common Shares, with 1,250,000 shares pending issuance as at September 30, 2021 and recorded as shares to be issued in the statement of changes in shareholders' equity and the remaining 9,000 RSUs to be settled in cash.

As at September 30, 2021, there were 2,941,667 unvested RSUs and DSUs outstanding.

15. NET LOSS PER COMMON SHARE

The calculation of basic and diluted loss per share for the three and nine months ended September 30, 2021 was based on the loss attributable to common shareholders of \$8,750,727 and \$22,517,163, respectively (three and nine months ended September 30, 2020 - \$9,794,121 and \$23,831,982, respectively) and the weighted average number of Common Shares outstanding of 147,809,973 and 144,568,392, respectively (three and nine months ended September 30, 2020 - 118,082,282 and 107,369,270 respectively). Diluted loss per share is equal to basic diluted loss per share as any effects of the potential convertible securities would be anti-dilutive.

16. TRANSACTIONS WITH RELATED PARTIES

During the three and nine months ended September 30, 2021, the Company had the following related party transactions:

- a) The Company incurred consulting fees of \$Nil (compared to the three and nine months ended September 30, 2020 of \$75,000) from Konssult Assessoria Empresarial Ltda, a company controlled by a former Officer and Director of the Company. As of September 30, 2021, the amount of \$Nil (September 30, 2020 - \$Nil) is owing to Konssult Assessoria Empresarial Ltda.
- b) The Company incurred consulting fees of \$Nil (compared to the three and nine months ended September 30, 2020

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16. TRANSACTIONS WITH RELATED PARTIES (continued)

of \$29,400) from DHBache & Company Inc., a company controlled by a Director of the Company. As of September 30, 2021, the amount of \$Nil (September 30, 2020 - \$Nil) is owing to DHBache & Company Inc.

Compensation of Key Management

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and the Board of Directors, as well as certain key officers and board members of the Company's subsidiary.

	For the three months ended September 30		For the nine months ended September 30	
	2021	2020	2021	2020
Management compensation	\$ 336,717	\$ 525,425	\$ 837,270	\$ 1,431,066
Termination payments	1,050,000	-	1,050,000	-
Directors' fees ⁽¹⁾	84,321	-	160,442	84,091
Share-based compensation ⁽²⁾	2,169,967	871,339	4,609,561	4,186,079
Total management compensation	\$ 3,641,005	\$ 1,396,764	\$ 6,657,273	\$ 5,701,236

(1) Includes meeting fees and commitment chair fees.

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

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

17. COMMITMENTS AND CONTINGENCIES

Commitments

- 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. On July 1, 2021, Harmony Grove Services, LLC gave notice to the Company that it is terminating the License Agreement. Termination will be effective as of January 1, 2022.
- 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 be 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 these Financial Statements, the supply agreement with Tahami & Cultiflores SA en Reorganización has been extended to and will be terminated on December 31, 2021. Also, the company has paid Tahami & Cultiflores SA en Reorganización \$1.5 million for the supply of plant material.
- The Company has a 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.

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17. COMMITMENTS AND CONTINGENCIES (continued)

The agreement dated July 27, 2020 has been extended to and will be terminated on December 31, 2021. Tahami & Cultiflores SA en Reorganización ended the cuttings plantation in their greenhouses as of September 30, 2021 and will make the last shipments of non-psychoactive destemmed and pre-dried cannabis flower in January 2022. As of the date of these Financial Statements, the company has paid Tahami & Cultiflores SA en Reorganización a total of USD\$1.3 million for the supply of plant material from a total estimated cost of the contract to be USD\$1.7 million.

- d) Included in accounts payable and accrued liabilities, and other non-current liabilities are accruals for certain provisions, including termination related commitments to former officers, directors and employees of approximately \$2.4 million.
- e) The Company has lease commitments for office space rented in Toronto, Canada and Medellín, Colombia. Payments occur on a monthly basis in accordance with the table presented in Note 8.

Legal

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

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

On March 6, 2020 and April 24, 2020, two proposed securities class actions were filed against the Company, David Attard and Scott Laitinen in the United States District Court for the Central District of California (the "Court"). In June 2020, the Court consolidated the two lawsuits into one case and assigned lead plaintiffs ("Plaintiffs") and lead counsel to represent the proposed class in the litigation. On August 21, 2020, Plaintiffs filed an amended complaint and named David Gordon and Andres Botero as additional defendants (together with the Company, David Attard, and Scott Laitinen, "Defendants"). The proposed class action is comprised of stockholders who purchased or acquired publicly-traded PCLO securities from June 21, 2019 to March 2, 2020. The amended complaint alleges violations of the 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 a second amended complaint alleging substantially the same violations of the Securities Exchange Act and seeking the same relief. On July 30, 2021, Defendants filed motions to dismiss the second amended complaint. Plaintiffs opposed those motions on October 4, 2021, and Defendants replies are due on November 15, 2021.

The Company believes the class action to be without merit.

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18. SEGMENTED INFORMATION

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

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

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

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

Net loss for the period ended	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Canada	\$ 5,489,460	\$ 2,667,313	\$ 13,588,978	\$ 12,179,833
Colombia	3,261,267	7,126,808	8,928,185	11,652,149
Italy	-	-	-	-
Mexico	-	-	-	-
Total	\$ 8,750,727	\$ 9,794,121	\$ 22,517,163	\$ 23,831,982

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

Total assets	September 30, 2021	December 31, 2020
Canada	\$ 11,413,160	\$ 12,728,282
Colombia	25,864,120	31,296,139
Italy	-	-
Mexico	-	-
Total	\$ 37,277,280	\$ 44,024,421

Operating segment - September 30, 2020	Corporate	Cannabis	Total
Revenues	\$ -	\$ 1,772,863	\$ 1,772,863
Cost of sales	-	4,449,779	4,449,779
Loss for the period	12,179,833	11,652,149	23,831,982

Operating segment - September 30, 2021	Corporate	Cannabis	Total
Revenues	\$ -	\$ 1,606,380	\$ 1,606,380
Cost of sales	-	4,352,545	4,352,545
Loss for the period	13,588,978	8,928,185	22,517,163

Revenues by country	Cannabis	Total
United Kingdom	\$ 918,989	\$ 918,989
Colombia	234,210	234,210
Czech Republic	125,530	125,530
Paraguay	121,805	121,805
Brazil	116,183	116,183
Argentina	57,557	57,557
Switzerland	29,613	29,613
Mexico	1,295	1,295
Canada	1,198	1,198
Total Revenue	\$ 1,606,380	\$ 1,606,380

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18. SEGMENTED INFORMATION (continued)

Revenue Concentration

The Company's business is such that, at any given time, it sells its products and services to a relatively small number of customers. During the three and nine months ended September 30, 2021, one customer accounted for 100% of cannabis revenue in the United Kingdom, which represents 57% of total revenue.

19. INVESTMENT IN JOINT VENTURES

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

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

Investment in joint ventures at September 30, 2021 was \$798,165 (December 31, 2020 - \$565,396) and consisted of the following amounts:

Balance, December 31, 2020	\$ 565,396
Investment in joint ventures	540,855
Share of loss on investment in joint ventures	(308,086)
Balance, September 30, 2021	\$ 798,165

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

As at September 30, 2021

	PharmaCielo Italia SRL	PharmaCielo S.A. de C.V.
Cash and cash equivalents	\$ 455	\$ 1,671
Other current assets	18,948	122,826
Total current assets	19,403	124,497
Non-current assets	458,107	-
Total assets	\$ 477,510	\$ 124,497
Current liabilities	109,017	12,305
Total liabilities	\$ 109,017	\$ 12,305
Net assets⁽¹⁾	\$ 368,493	\$ 112,192

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

For the nine months ended September 30, 2021

	PharmaCielo Italia SRL	PharmaCielo S.A. de C.V.
Selling, general, and administrative expenses	\$ 312,022	\$ 178,146
Other expense	853	-
Net loss⁽¹⁾	312,875	178,146

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20. COVID-19

Throughout 2021, Colombia experienced several waves of COVID 19, with the accumulation of five million cases at the end of September 2021. The Ministry of Health, through Resolution 1315 of 2021 decided to extend the health emergency measures caused by this pandemic until November 30, 2021. During the vaccination rollout in Colombia the national government simultaneously decided to carry out a social and economic reactivation where biosafety measures and protocols were implemented to help minimize the spread of this virus.

Accordingly, the Company has allocated the necessary resources to guarantee the well-being and health of its employees and interested parties. It has implemented measures aligned with regulations, such as a health specialist reach-out program that targeted 100% of the employees. In addition, the Company promoted vaccinations as a measure to achieve herd immunity. As a result, several campaigns were conducted among the employees, including an immunization day held within the Company's facilities. Through Q3, 2021 82% of our personnel are vaccinated.

PharmaCielo is focused on business continuity, accordingly, the health and safety of all interested parties in our day-to-day activities is paramount. Consequently, previously implemented practices have been preserved, such as, the weekly report of health conditions, regular hand washing, social distancing, permanent use of masks, cleaning and disinfection in common areas, awareness campaigns, and capacity control in closed places. These measures have been successful, resulting in no outbreaks during 2021. Finally, it is important to highlight that the infection rate in the Company has been low; and, as of the date of these Financial Statements, there have been no complex cases or fatalities.

21. SUBSEQUENT EVENTS

On November 11, 2021, the Board approved and granted 500,000 Stock Options to certain employees and consultants of the Company. Each Stock Option is exercisable to acquire one Common Share of the Company at a price of \$1.10 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.