PharmaCielo Ltd.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2021

Dated November 26, 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 and nine months ended September 30, 2021. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 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 November 26, 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 November 26, 2021.

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

Caution Regarding Forward-Looking Statements

This MD&A contains certain "forward-looking information" and "forward-looking statements" (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or

results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

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

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

Recent Developments

- On August 4, 2021, the Company announced that it has signed a sales agreement with a cannabis-focused pharmaceutical company in the Brazilian market, following an on-site visit by the Customer during July 2021. The Customer is present in many countries in South America, Europe and Asia, and is in the process of registering and seeking to distribute its cannabis products in these markets in the near-term.
- On August 19, 2021, Henning von Koss stepped down as Chief Executive Officer (“CEO”) and as a director of the Company. Bill Petron was appointed as the new CEO in addition to his role as the Chairman of the Board.
- On September 1, 2021, the Company announced that Bob DeGabrielle and Will Nicholas were added to the Company's board of directors.

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 this MD&A, there have been no complex cases or fatalities.

Business Outlook

PharmaCielo implemented a new go-to-market strategy in early 2021, which was focused on the United Kingdom, key markets in the EU, Latin America and the United States. PharmaCielo has continued to execute on opportunities in these markets, as well as in additional jurisdictions. PharmaCielo has grown its global business development organization; recruited Technical Business Developers in Europe and appointed a President of Sales, European Union (“EU”). While the global export market is still in its early days, the team is making promising early progress in developing long-term relationships.

While global demand for CBD Isolate remains strong, pricing has continued to decline as US producer volumes create ongoing pressure. PharmaCielo is addressing this ongoing market phenomenon in two primary ways:

1. Moving toward EU-GMP certification, which the Company expects to achieve in the first half of 2022. This will better position PharmaCielo to sign larger, longer term supply agreements with global pharmaceutical and cosmetics customers; and

2. Focusing development and sales efforts on PharmaCielo’s broader product portfolio beyond CBD isolate, including broad spectrum products and THC. These products are more differentiated by nature, and therefore higher margin, on average.

In July 2021, the Colombian Government signed Decree 811, which opened a pathway for the Company to become one of the largest exporters of psychoactive flower. With PharmaCielo’s upstream and downstream scale and quality, the Company is uniquely positioned to be a solid competitor with psychoactive flower currently being imported into the EU and other markets from Canada and other producing countries. PharmaCielo expects dried flower exports to begin in early 2022 and to grow throughout 2022. The Company has taken the necessary steps to ensure quotas are in place for 2022 exports.

While PharmaCielo has built one of the world’s largest cultivation and production complexes, the global import/export market for cannabinoids is still relatively early stage, and as a result, sales are unpredictable. The Company expects continued weakness through end of year, perking up into material long-term contracts being signed in 2022. With dried flower exports expected to begin in early 2022, as well as continued sales efforts on the Company’s extract products, PharmaCielo expects to see more meaningful sales growth in 2022. Also, recurring orders for a more complex and value-added product, such as BS-Distillate, indicate a positive outlook for an enhanced product mix.

The Company has completed all major growth capital expenditures at its Production and Extraction Centre (“PEC”) and does not expect to incur any material growth capital expenditures

during the remainder of 2021, or 2022. Cash outlays will be primarily related to operational and business development expenditures.

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.

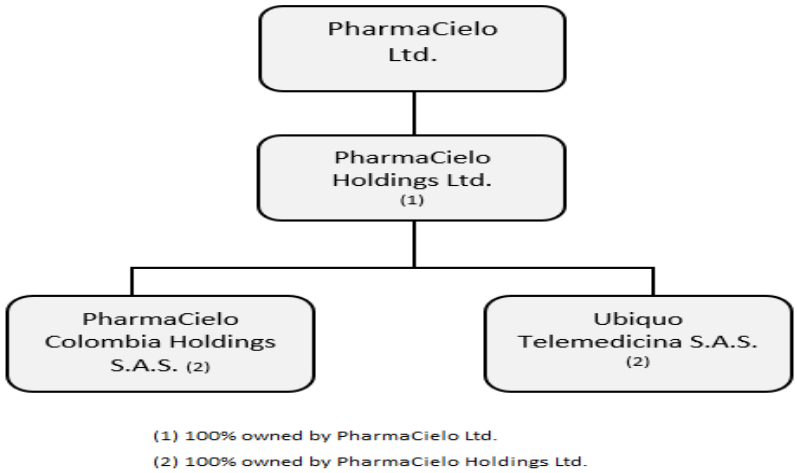
Company Overview

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 Ubique 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



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

Production Licenses

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

The Company's Cannabis Psychoactive Cultivation License and Cannabis Manufacturing License permit the cultivation and manufacturing of psychoactive cannabis; 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

The Company'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.

The Company's Processing and Extraction Centre ("PEC") is 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 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.

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 and 2022. Management does not foresee significant additional investments in the PEC.

Agriculture

During the nine months ended September 30, 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.

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.

Discussion of Operations

Selected Financial Information

The following table summarizes results of operations of the Company for the three and nine months ended September 30, 2021, and 2020.

(Expressed in Canadian Dollars)
(Unaudited)

	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	**(26,786)**	2,258	**(162,679)**	(470,761)
Unrealized gain (loss) on fair value of biological assets	**(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	**60,450**	49,988	**163,421**	123,056
Total selling, general, and administrative expenses	**6,718,602**	6,086,342	**17,670,783**	21,161,074
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)
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	**(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

(Expressed in Canadian Dollars)
(unaudited)

	As at September 30, 2021	**As at December 31, 2020**
Total assets	**37,277,280**	**44,024,421**
Total liabilities	**14,295,762**	**17,777,427**
Total shareholders' equity	**22,981,518**	**26,246,994**

The Company's net loss totaled $8.8 million and $22.5 million for the three and nine months ended September 30, 2021, respectively (compared to $9.8 million and $23.8 million in the three and nine months ended September 30, 2020, respectively).

Responsible cost reduction and containment measures initiated in late 2020 have continued to payoff in 2021.

- **Reduction of Consulting fees by 61.4%** for the nine months ended September 30, 2021 when compared to the nine months ended September 30, 2020.
- **Managed reduction of professional fees by 38.1%** representing a reduction of $1.4 million for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020.
- Various reductions will only be completely achieved in the first half of 2022 as contractual time for termination notices generated costs throughout 2021.

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 September 30,		For the nine months ended September 30,	
In CAD$ (000's)	2021	2020	2021	2020
Net income (loss) for the period	**$(8,751)**	**$(9,794)**	**$(22,517)**	**$(23,832)**
Add back:				
Amortization of property, plant and equipment & intangible assets	493	287	1,094	1,150
Amortization expense included in production costs	104	230	462	501
EBITDA	$(8,154)	$(9,277)	$(20,961)	$(22,181)
Adjustments:				
Share based payments	2,079	1,229	5,873	5,107
Non-recurring expenses	1,767	816	3,116	1,865
Non-recurring Professional fees	-	-	(275)	490
Adjusted EBITDA	**$(4,308)**	**$(7,232)**	**$(12,247)**	**$(14,719)**

During the three and nine months ended September 30, 2021, the Company generated an adjusted EBITDA loss of $4.3 million and $12.2 million, respectively (three and nine months ended September 30, 2020: $(7.2) and $(14.7) million, respectively).

Revenue

During the three and nine months ended September 30, 2021, the Company generated net revenues of $0.5 million and $1.6 million, respectively (2020: $25,913 and $1.8 million, respectively). Cannabis net revenues were $0.5 million and $1.6 million, respectively (2020: $5,085 and $1.7 million, respectively). Main factors to consider when comparing sales between 2021 and 2020:

- Higher volume in 2021 offset by rapid price decrease of main product sold, CBD Isolate.
- Initial sales of BS Distillate in addition to CBD Isolate.
- Monthly recurring sales in 2021 to higher number of clients versus sporadic sales in 2020.
- No collection issues in 2021 sales versus problematic clients in 2020 leading to full write off of account receivables and exclusion of clients from client base.

Ubiquo generated net revenues of $21,012 and $55,935 for the three and nine months ended September 30, 2021, respectively (three and nine months ended September 30, 2020: $20,828 and $64,771, respectively), mainly from support and maintenance contracts.

The Company continues to position itself with significant opportunities in the EU and Israel. Due to regulatory requirements, the sales cycle is protracted in countries like Germany, UK, Poland and others. The Company is working hard with Colombian regulatory officials to secure necessary export quotas of both psychoactive and non psychoactive products. In addition, we are working closely with customers to ensure that they have appropriate technical data sheets and certificates of analysis for import into their marketplace.

We continue to see an erosion of price for our CBD isolate products as many US producers are saturating the markets. As we move forward with our EU-GMP certification (estimated to be received in H1 2022) we will continue to focus our sales efforts of our products to large pharma and cosmetic customers. We feel that this will give us an opportunity to price our CBD products at a more attractive price level.

We do not see any significant capital expenditures in the coming quarters as our grow and manufacturing/production facilities have been completed and are now able to go into full production. Our efforts are focused on developing a robust sales team in the EU and Israel as we consider these markets as key to driving revenue in 2022 and beyond. We have made the required pivot in our production planning to introduce THC/CBD products to the marketplace as they provide higher margins and greater demand.

Upon the signing of Bill 811, we have positioned the Company for psychoactive flower exports in Q1 2022. Due to our scale and growing conditions, we are uniquely positioned to be a formidable competitor to EU imports from Canada and other producing countries. We feel we have superior genetics and can be most competitive due to our significant scale. We expect flower exports to increase dramatically throughout 2022 and we have already received significant quotas for all export opportunities.

Cost of goods sold

During the three and nine months ended September 30, 2021, inventory recognized as cost of goods sold was $1.2 million and $4.5 million, respectively (three and nine months ended September 30, 2020 - $3.3 million and $4.9 million 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 $1.9 million (three and nine months ended September 30, 2020 - $3.3 million and $3.3 million) in impairment costs reducing the inventory value to its net realizable value, and $566,541 and $2.5 million, respectively (three and nine months ended September 30, 2020 - $1,253 and $1.1 million, respectively) 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 September 30, 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 $550 per kilogram of CBD isolate was used to calculate the biological assets at quarter end (December 31, 2020 - $796).

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 $1,192 per kilogram of CBD isolate (December 31, 2020 - $1,683).

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 September 30, 2021 averaged 35% (December 31, 2020 - 42%).

IV. Expected yield – the expected yield per plant is based on the Company's historical adjusted average yield per plant.

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	$	-

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)

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 and nine months ended September 30, 2021 was $(659,913) and $(2.7) million, respectively (three and nine months ended September 30, 2020: $(3.3) million and $(2.7) million, respectively). Cannabis gross profit excluding fair value items was $(680,056) and $(2.8) million for the three and nine months ended September 30, 2021, respectively (three and nine months ended September 30, 2020: $(3.3) million and $(2.7) million, respectively).

Ubiquo gross profit was $20,143 and $54,620 for the three and nine months ended September 30, 2021, respectively (three and nine months ended September 30, 2020: $20,828 and $64,771, respectively).

SG&A - Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

Selling, general and administrative expenses In CAD$ (000's)	For the three months ended September 30,				For the nine months ended September 30,			
	2021	2020	B/(W) $	B/(W) %	2021	2020	B/(W) $	B/(W) %
General and administrative								
Consulting fees	$ 174	$ 518	$ 345	66.5%	$ 744	$ 1,928	$ 1,184	61.4%
Office and general	709	617	(92)	(14.9)%	1,825	1,618	(207)	(12.8)%
Professional fees	487	616	128	20.8%	2,195	3,548	1,354	38.1%
Salaries and wages	2,577	1,729	(847)	(49.0)%	4,999	5,063	64	1.3%
Travel and accommodation	34	17	(17)	(99.2)%	71	259	187	72.4%
Share-based compensation	2,079	1,230	(850)	(69.1)%	5,873	5,107	(765)	(15.0)%
Selling, marketing and promotion	275	174	(101)	(57.7)%	829	566	(263)	(46.5)%
Amortization and depreciation	344	369	24	6.6%	1,001	1,207	206	17.0%
Expected credit losses	40	816	777	95.2%	134	1,865	1,731	92.8%
Total selling, general and administrative expenses	**$ 6,719**	**$ 6,086**	**$(632)**	**(10.4)%**	**$ 17,671**	**$ 21,161**	**$ 3,490**	**16.5%**

Consulting fees

Consulting fees were $173,717 and $744,039 for the three and nine months ended September 30, 2021, respectively. Compared to $518,394 and $1.9 million in the three and nine months ended September 30, 2020, respectively, representing a 61.4% reduction for the nine months ending September 30, 2021.

Office and general

Office and general expenses were $708,861 and $1.8 million for the three and nine months ended September 30, 2021, respectively. Compared to $617,001 and $1.6 million in the three and nine months ended September 30, 2020, respectively. The increase for the three- and nine-months ending September 30, 2021 is driven by employee transportation costs in Colombia as result of COVID-19 safety protocols.

Professional fees

Professional fees were $487,406 and $2.2 million for the three and nine months ended September 30, 2021, respectively. Compared to $615,745 and $3.5 million in the three and nine months ended September 30, 2020, respectively, representing a 38.1% reduction for the nine months ending September 30, 2021.

Salaries and wages

Salaries and wages expenses were $2.6 million and $5.0 million for the three and nine months ended September 30, 2021, respectively. Compared to $1.7 million and $5.1 million in the three and nine months ended September 30, 2020, respectively.

Travel and accommodation

Travel and accommodation expenses were $33,701 and $71,231 for the three and nine months ended September 30, 2021, respectively. Compared to $16,917 and $258,429 in the three and

nine months ended September 30, 2020, respectively. The decrease for the nine months ending September 30, 2021 is due to tighter cost control on discretionary expenses and the impact of COVID-19 travel restrictions, resulting in an 72.4% reduction year over year.

Share-based compensation

Share-based compensation expenses were $2.1 million and $5.9 million for the three and nine months ended September 30, 2021, respectively. Compared to $1.2 million and $5.1 million in the three and nine months ended September 30, 2020, respectively.

Selling, marketing and promotion

Selling, marketing and promotion expenses were $274,976 and $829,319 for the three and nine months ended September 30, 2021, respectively. Compared to $174,359 and $565,947 in the three and nine months ended September 30, 2020, respectively. The increase for the three- and nine-months ending September 30, 2021 is due to the continued strategic implementation of the business development and sales management structure.

Amortization and depreciation

Amortization and depreciation expenses were $344,349 and $1.0 million for the three and nine months ended September 30, 2021, respectively. Compared to $368,536 and $1.2 million in the three and nine months ended September 30, 2020, respectively.

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.

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 and nine months ended September 30, 2021. The financial information was prepared in accordance with IFRS.

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

PharmaCielo Ltd. Selected Quarterly Information					
In CAD$ (000's)	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Sales	$ 485	$ 446	$ 675	$ 881	$ 26
COGS	1,145	1,743	1,464	2,536	3,317
Gross profit before fair value adjustments	(660)	(1,297)	(789)	(1,655)	(3,291)
Realized fair value on inventory sold	(27)	(73)	(63)	(233)	2
Unrealized gain (loss) on biological assets	(663)	(68)	(113)	(378)	(1,076)
Operating Expenses	60	55	48	40	50
SG&A	6,719	4,918	6,034	16,687	6,086
Net income (loss)	(8,751)	(7,224)	(6,542)	(19,901)	(9,794)
Net Comprehensive income (loss)	(8,679)	(7,777)	(8,741)	(18,043)	(11,391)
Weighted average number of common shares outstanding	147,809,973	146,383,269	139,419,735	127,640,845	118,082,282
Net income (loss) per common share	$ (0.06)	$ (0.05)	$ (0.05)	$ (0.16)	$ (0.08)
In CAD$ (000's)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Sales	$ 26	$ 1,233	$ 514	$ 657	$ 130
COGS	3,317	672	461	672	70
Gross profit before fair value adjustments	(3,291)	561	53	(15)	60
Realized fair value on inventory sold	2	(374)	(99)	(159)	-
Unrealized gain (loss) on biological assets	(1,076)	(34)	(111)	(1,315)	2,073
Operating Expenses	50	73	-	(121)	121
SG&A	6,086	7,776	7,299	10,482	6,124
Net income (loss)	(9,794)	(7,720)	(6,318)	(12,423)	(3,820)
Net Comprehensive income (loss)	(11,391)	(6,843)	(9,946)	(14,574)	(2,221)
Weighted average number of common shares outstanding	118,082,282	104,856,355	99,051,447	98,196,739	96,666,354
Net income (loss) per common share	$ (0.08)	$ (0.07)	$ (0.06)	$ (0.13)	$ (0.04)

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 September 30, 2021, the Company had 148,734,363 Common Shares issued and outstanding, 14,658,249 options outstanding that could raise approximately $23.1 million, and 10,216,042 warrants that could raise approximately $6.5 million, if exercised in full.

Accounts payable and accrued liabilities decreased by $2.1 million as at September 30, 2021 (compared to a $913,664 increase as at September 30, 2020) and consists of amounts that are to be extinguished in due course. The Company's cash and cash equivalents as of September 30, 2021 are sufficient to pay the cash portion of these liabilities.

As at September 30, 2021, the Company has working capital of $(925,070) (compared to $461,978 as at December 31, 2020) and the Company has cash and cash equivalents of $6.0 million (compared to $8.9 million as at December 31, 2020).

Net cash used in operating activities was $14.9 million for the nine months ended September 30, 2021. Operating activities were affected by a net decrease in non-cash working capital balances of $4.9 million for the nine months ended September 30, 2021. This was due to a decrease in accounts payable and accrued liabilities of $2.6 million for the nine months ended September 30, 2021, decrease in prepaid expenses and other receivables of $498,625 for the nine months ended September 30, 2021, increase in trade receivables of $111,446 for the nine months ended September 30, 2021, and an increase in inventory and biological assets of $2.7 million for the nine months ended September 30, 2021. The Company also recorded share-based compensation of $5.9 million for the nine months ended September 30, 2021, amortization and depreciation of $1.0 million for the nine months ended September 30, 2021, exchange gain of $579,618 for the nine months ended September 30, 2021, non-cash salary expense of $2.5 million for the nine months ended September 30, 2021, inventory impairment of $1.9 million for the nine months ended September 30, 2021, expected credit losses of $133,797 for the nine months ended September 30, 2021, and unrealized (gain) loss on fair market value of XPhyto investment of $(1,173) for the nine months ended September 30, 2021.

Net cash used in investing activities was $1.2 million during the nine months ended September 30, 2021, as a result of investment in property and equipment of $716,882 for the nine months ended September 30, 2021, an exercise of warrants held in XPhyto Therapeutics of $750,000 for the nine months ended September 30, 2021, an investment in XPhyto Therapeutics of $Nil for the nine months ended September 30, 2021, an investment in joint ventures of $540,855 for the nine months ended September 30, 2021, and the proceeds on sale of XPhyto marketable securities of $777,089 for the nine months ended September 30, 2021.

Net cash provided by financing activities was $13.3 million during the nine months ended September 30, 2021, as a result of cash received for shares issued of $13.5 million for the nine months ended September 30, 2021, options and warrants exercised of $1.3 million for the nine months ended September 30, 2021, lease payments of $233,884 for the nine months ended September 30, 2021, loan principle payments of $41,301 for the nine months ended September 30, 2021, and less share cost to issue of $1.3 million for the nine months ended September 30, 2021.

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.

Proceeds of Offering	
Base offering	$12,000,010
Overallotment option	1,549,002
	$13,549,012
Less: Commissions	(675,851)
Gross Proceeds to the Company	**$12,873,161**
Less:	
Offering and the Prospectus Qualification expenses	(602,500)
Net Proceeds to the Company	**$12,270,661**

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

Refer to subsequent events for additional information post closing the third 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. 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.

ii. 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. 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 this MD&A, 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.

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, directors and employees of approximately $2.4 million.

iv. 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 in the unaudited condensed interim consolidated financial statements of the Company.

Discussion of third quarter

The Company's net loss totaled $8.8 million for the three months ended September 30, 2021 (compared to $9.8 million in the three months ended September 30, 2020).

The third quarter net loss improvement was primarily due to higher revenue of $485,165 for the three months ended September 30, 2021 (compared to $25,913 for the three months ended September 30, 2020), Lower inventory impairment (COGS) of $577,668 for the three months ended September 30, 2021 (compared to $3.3 million for the three months ended September 30, 2020), lower unrealized loss on fair value of biological assets of $662,851 for the three months ended September 30, 2021 (compared to $1.0 million in the three months ended September 30, 2020), lower consulting fees of $173,717 for the three months ended September 30, 2021 (compared to $518,394 in the three months ended September 30, 2020), lower professional fees of $487,406 for the three months ended September 30, 2021 (compared to $615,745 in the three months ended September 30, 2020), lower expected credit losses of $39,555 for the three months ended September 30, 2021 (compared to $816,412 in the three months ended September 30, 2020). Partially offset by higher office and general expenses of $708,861 for the three ended September 30, 2021 (compared to $617,001 in the three months ended September 30, 2020), higher salaries and wages of $2.6 million for the three months ended September 30, 2021 (compared to $1.7 million in the three months ended September 30, 2020), higher share-based compensation of $2.1 million for the three months ended September 30, 2021 (compared to $1.2 million in the three months ended September 30, 2020), higher selling, marketing and promotion expense of $274,976 for the three months ended September 30, 2021 (compared to $174,359 in the three months ended September 30, 2020), an exchange (gain) loss of $190,081 (compared to $(401,693) in the three months ended September 30, 2020), an amortization of deferred income of $Nil (compared to $568,745 in the three months ended September 30, 2020), and a change in unrealized (gain) loss on Xphyto investment of $109,666 for the three months ended September 30, 2021 (compared to $(137,227) in the three months ended September 30, 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 September 30, 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. 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.

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	-	-	-	-

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:

- 148,734,363 Common Shares;
- 11,966,331 stock options exercisable to purchase Common Shares;
- 1,416,667 RSUs to be settled in Common Shares;
- 1,525,000 DSUs to be settled in Common Shares or cash;
- 1,047,042 Common Share purchase broker warrants; and
- 9,169,000 Common Share purchase warrants.

Refer to subsequent events for additional information post closing the third 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 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. 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.

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.