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# **PHARMACIELO LTD.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED  
DECEMBER 31, 2021**

**(EXPRESSED IN CANADIAN DOLLARS)**

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# Management's Responsibility for Consolidated Financial Statements

The accompanying audited consolidated financial statements of PharmaCielo Ltd. ("PharmaCielo" or the "Company") were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Management is responsible for the presentation of the consolidated financial statements and believes that they fairly represent the Company's financial position and the results of its operations in accordance with IFRS. Management has included amounts in the Company's consolidated financial statements based on estimates, judgments, and policies that it believes reasonable in the circumstances.

The consolidated financial statements were prepared by the management of the Company, reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance, at appropriate cost, that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately on the Company's books and records.

April 28, 2022

"Bill Petron"

William B. Petron

Chairman and Chief Executive Officer

"Ian D. Atacan"

Ian D. Atacan

Chief Financial Officer

To the Shareholders of PharmaCielo Ltd.:

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## Opinion

We have audited the consolidated financial statements of PharmaCielo Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, and the consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

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

## Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company has incurred a net loss during the year ended December 31, 2021. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Toronto, Ontario  
April 28, 2022

*MNP LLP*

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**

# PHARMACIELO LTD.

## Consolidated Statements of Financial Position (Expressed in Canadian Dollars)

		Year Ended	
	Note Reference	December 31, 2021	December 31, 2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		5,338,371	8,859,714
Trade receivables	3	277,048	352,674
Marketable securities	4	291,000	71,152
Investment - XPhyto Therapeutics Corp.	9	-	678,898
Prepaid expenses and other receivables	5	1,009,436	1,303,476
Inventory and biological assets	6	2,280,859	1,252,568
<b>Total current assets</b>		<b>9,196,714</b>	<b>12,518,482</b>
<b>Non-current assets</b>			
Property, plant, and equipment	7	25,189,968	29,754,630
Right-of-use assets	8	930,485	1,065,800
Investment in joint ventures	20	639,643	565,396
Intangible assets		-	120,113
<b>Total non-current assets</b>		<b>26,760,096</b>	<b>31,505,939</b>
<b>Total assets</b>		<b>35,956,810</b>	<b>44,024,421</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		7,732,631	11,708,396
Current portion of lease obligations	8	147,945	150,046
RSU obligations	15	111,780	105,258
Current portion of debt	10	79,330	92,804
<b>Total current liabilities</b>		<b>8,071,686</b>	<b>12,056,504</b>
<b>Non-current liabilities</b>			
Non-current portion of lease obligations	8	1,064,506	1,171,344
Non-current portion of debt	10	2,573,652	3,058,880
Debentures	11	4,564,646	-
Other non-current liabilities		-	997,689
Deferred income	9	356,378	493,010
<b>Total non-current liabilities</b>		<b>8,559,182</b>	<b>5,720,923</b>
<b>Total liabilities</b>		<b>16,630,868</b>	<b>17,777,427</b>
<b>Shareholders' Equity</b>			
Share capital	12	156,338,336	138,082,419
Shares to be issued	12	1,955,000	559,999
Reserves	13,14,15	35,136,180	31,456,069
Other comprehensive loss		(6,205,549)	(2,583,161)
Deficit		(167,898,025)	(141,268,332)
<b>Total shareholders' equity</b>		<b>19,325,942</b>	<b>26,246,994</b>
<b>Total liabilities and shareholders' equity</b>		<b>35,956,810</b>	<b>44,024,421</b>
<b>Nature of operations</b>	1		
<b>Going concern</b>	2		
<b>Commitments</b>	18		
<b>Subsequent events</b>	24		

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

On behalf of the Board

"William B. Petron"

"Douglas Bache"

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

	Note Reference	Year Ended	
		December 31, 2021	December 31, 2020
<b>Revenue:</b>			
Sale of cannabis derivative products		1,824,898	2,568,901
Revenue from telemedicine services		120,100	85,016
<b>Total revenue</b>		<b>1,944,998</b>	<b>2,653,917</b>
Cost of goods sold - Cannabis derivative products		2,944,656	1,687,396
Cost of goods sold - Telemedicine services		32,170	-
Cost of goods sold - Inventory impairment		1,880,266	5,298,598
<b>Gross loss before fair value adjustments</b>		<b>(2,912,094)</b>	<b>(4,332,077)</b>
<b>Realized fair value on inventory sold</b>	6	<b>(160,996)</b>	<b>(704,085)</b>
<b>Unrealized loss on fair value of biological assets</b>	6	<b>(1,235,275)</b>	<b>(1,599,649)</b>
<b>Gross loss</b>		<b>(4,308,365)</b>	<b>(6,635,811)</b>
<b>Operating expenses</b>			
Agricultural operating costs	6	219,578	163,227
<b>Selling, general, and administrative expenses</b>			
General and administrative			
Consulting fees (recover)		(1,532,470) <sup>(1)</sup>	5,054,328
Office and general		2,592,652	2,159,877
Professional fees		3,406,141	4,770,839
Salaries and wages		6,650,765	12,743,153
Travel and accommodation		135,589	256,534
Goodwill and Intangible impairment		-	1,250,852
Share-based compensation		6,820,003	6,482,297
Selling, marketing, and promotion		1,076,798	1,128,400
Amortization and depreciation	7,8	1,318,595	1,479,501
Expected credit losses		197,782	2,522,048
<b>Total selling, general, and administrative expenses</b>		<b>20,665,855</b>	<b>37,847,829</b>
<b>Other (income) expense</b>			
Bank charges and interest expense		561,294	272,730
Change in unrealized loss on marketable securities		426,500	75,297
Exchange loss (gain)		109,733	(469,950)
Other non-operating (income)		-	(304,888)
Interest income		(2,374)	(65,582)
Change in fair value of consideration payable		-	(11,949)
Amortization of deferred income	9	(136,632)	(644,145)
Change in unrealized loss (gain) on Xphyto investment	9	41,271	(357,469)
Realized gain on sale of marketable securities		(35,937)	(124,893)
Unrealized gain on Xphyto investment		-	717,347
Share of loss of investment in joint ventures	20	472,040	22,444
<b>Total other expense (income)</b>		<b>1,435,895</b>	<b>(891,058)</b>
<b>Net loss for the period</b>		<b>(26,629,693)</b>	<b>(43,755,809)</b>

<sup>(1)</sup> Reversal of settlement reserve from the year ended December 31, 2020

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

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

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	Note Reference	Year Ended	
		December 31, 2021	December 31, 2020
<b>Other comprehensive loss</b>			
Currency translation adjustment		<b>(3,622,388)</b>	(2,489,588)
<b>Net comprehensive loss</b>		<b>(30,252,081)</b>	(46,245,397)
<b>Basic and diluted loss per share</b>	16	<b>(0.18)</b>	(0.39)
<b>Weighted average number of common shares outstanding - basic and diluted</b>		<b>145,638,254</b>	112,539,538

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

## PHARMACIELO LTD.

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

	Note Reference	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated other comprehensive loss	Deficit	Total
<b>Balance at December 31, 2019</b>		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	12	50,000	62,724	-	(30,244)	-	-	32,480
Warrants exercised	13	172	864	-	(659)	-	-	205
Vested RSUs	12	671,500	3,125,690	559,999	(3,685,689)	-	-	-
Common shares issued pursuant to debt settlement	12	74,906	54,681	-	-	-	-	54,681
Shares issued pursuant to Special Warrants	13	12,578,002	7,211,889	-	-	-	-	7,211,889
Shares issued in private placement	13	6,388,940	3,930,898	-	129,184	-	-	4,060,082
Shares issued in private placement		20,000,000	6,821,940	-	1,923,116	-	-	8,745,056
Warrants	13	-	-	-	382,068	-	-	382,068
Share-based compensation		-	-	-	6,494,729	-	-	6,494,729
Currency translation adjustment for the period		-	-	-	-	(2,489,588)	-	(2,489,588)
Loss for the period		-	-	-	-	-	(43,755,809)	(43,755,809)
<b>Balance at December 31, 2020</b>		<b>138,747,660</b>	<b>138,082,419</b>	<b>559,999</b>	<b>31,456,069</b>	<b>(2,583,161)</b>	<b>(141,268,332)</b>	<b>26,246,994</b>
Options exercised	12	870,835	1,250,301	-	(580,264)	-	-	670,037
Warrants exercised	13	1,016,969	886,145	-	(225,115)	-	-	661,030
Vested RSUs	12	2,330,833	4,292,250	1,395,001	(5,687,251)	-	-	-
Issued DSUs	15	-	-	-	2,485,750	-	-	2,485,750
April 2021 issuance	12	6,301,866	13,549,012	-	-	-	-	13,549,012
Issuance costs for April 2021 equity financing	12	-	(1,721,793)	-	443,441	-	-	(1,278,352)
Warrants issued to Debentures	11	-	-	-	430,070	-	-	430,070
Share-based compensation		-	-	-	6,813,480	-	-	6,813,480
Currency translation adjustment for the period		-	-	-	-	(3,622,388)	-	(3,622,388)
Loss for the period		-	-	-	-	-	(26,629,693)	(26,629,693)
<b>Balance at December 31, 2021</b>		<b>149,268,163</b>	<b>156,338,335</b>	<b>1,955,000</b>	<b>35,136,180</b>	<b>(6,205,549)</b>	<b>(167,898,025)</b>	<b>19,325,942</b>

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



**PHARMACIELO LTD.****Consolidated Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**

	Note Reference	Year Ended	
		December 31, 2021	December 31, 2020
<b>Operating Activities</b>			
Net loss		(26,629,693)	(43,755,809)
Items not affecting cash:			
Amortization and depreciation	7,8	1,256,484	1,566,472
Expected credit losses		197,782	2,522,048
Unrealized loss on fair market value of biological assets	6	1,235,275	1,599,649
Unrealized loss (gain) on fair market value of XPhyto investment	9	41,271	(357,469)
Share of loss on investment in joint ventures	20	472,040	717,347
Amortization of deferred income	9	(136,632)	(644,145)
Fair value adjustment on sale of inventory	6	160,996	704,085
Change in fair value of consideration payable		-	(11,949)
Lease and loan interest expense		178,728	194,557
Non-cash salary expense		2,485,750	-
Share-based compensation		6,820,002	6,482,297
Inventory impairment		1,880,266	6,549,450
Exchange gain		(849,758)	(1,388,773)
Unrealized loss on marketable securities		426,500	75,297
Realized gain on marketable securities		(35,937)	(124,893)
Changes in non-cash working capital items			
Trade receivables	3	125,474	(1,985,716)
Prepaid expenses and other receivables	5	194,049	235,670
Inventory and biological assets	6	(3,422,820)	(4,717,528)
Accounts payable and accrued liabilities		(4,472,938)	9,775,196
<b>Net cash and cash equivalents used in operating activities</b>		<b>(20,073,161)</b>	<b>(22,564,214)</b>
<b>Investing Activities</b>			
Investment in joint ventures	20	(546,287)	(1,040,351)
Investment - XPhyto Therapeutics Corp.	9	-	(500,000)
Exercise of warrants held in Xphyto Therapeutics Corp.	9	(749,871)	-
Proceeds from sale of XPhyto marketable securities	9	777,089	1,402,313
Purchase of property, plant, and equipment	7	(1,138,009)	(5,433,780)
<b>Net cash and cash equivalents used in investing activities</b>		<b>(1,657,078)</b>	<b>(5,571,818)</b>
<b>Financing Activities</b>			
Options and warrants exercised	12,13	1,331,068	32,685
Cash received from Banco Agrario loans		-	3,151,684
Cash received from shares issued	12	13,549,012	20,360,971
Share issue costs	12	(1,278,353)	(1,884,974)
Cash received from warrants issued	13	-	2,199,090
Warrant issue costs	13	-	(275,974)
Warrants related to debentures	11	(5,284)	-
Cash received from Debentures issued	11	5,000,000	-
Loan principal payments	10	(79,330)	-
Lease payments	8	(308,217)	(261,035)
<b>Net cash and cash equivalents provided by financing activities</b>		<b>18,208,896</b>	<b>23,322,447</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,521,343)</b>	<b>(4,813,585)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>8,859,714</b>	<b>13,673,299</b>
<b>Cash and cash equivalents, end of period</b>		<b>5,338,371</b>	<b>8,859,714</b>

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

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 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 82 Richmond Street East, Toronto, Ontario, M5C 1P1.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of presentation*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2021.

#### *Basis of measurement*

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

#### *Principles of consolidation*

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, PharmaCielo Holdings Ltd., PharmaCielo Colombia Holdings S.A.S., and Ubiquo Telemedicina S.A.S ("Ubiquo"). The financial results of PharmaCielo's subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to benefit from its activities. In assessing control, potential voting rights that are currently exercisable are considered. All inter-company balances and transactions have been eliminated in preparing the consolidated financial statements.

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

<b>Company</b>	<b>Location</b>	<b>Principal activity</b>
PharmaCielo Ltd.	Toronto, Canada	Parent company
PharmaCielo Holdings Ltd. <sup>(1)</sup>	Toronto, Canada	Holding company
Ubiquo Telemedicina S.A.S. <sup>(2)</sup>	Medellin, Colombia	Telemedicine software company
PharmaCielo Colombia Holdings S.A.S. <sup>(2)</sup>	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.

#### Going concern

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

Management believes that the going concern assumption is appropriate for these consolidated financial statements and that the Company will be able to meet its budgeted administrative and development costs during the upcoming year and beyond when considering the Company's current financial forecast. PharmaCielo continues to enter into strategic agreements and finance offerings to source funds and maintain its operations. As outlined in Note 11, during December 2021, the Company entered into a private placement financing of non-brokered offering of units of the Company. Each Unit consists of \$1,000 principal amount of 11% secured debentures and 250 common share purchase warrants per Unit. The Company plans to issue up to 15,000 debenture units for aggregate gross proceeds of up to \$15,000,000. The Company closed the first tranche of its non-brokered private placement, consisting of an aggregate of 5,000 debenture units for proceeds of \$5,000,000. 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 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. The Company has incurred losses to date.

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

#### *Significant accounting judgments and estimates*

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

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

#### Deferred Taxes

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

#### Equity Transactions

The Company uses the Black-Scholes pricing model to estimate the fair value of the warrants and options granted at the grant date. This model requires the input of a number of assumptions including expected dividend yields, expected stock volatility, expected time until exercise, expected forfeitures, and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based upon market conditions generally outside the control of the Company. If other assumptions were used, stock-based compensation expense could be significantly impacted.

#### Convertible Debentures

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost. The determination of the fair value is also an area of significant judgment given that it is subject to various inputs, assumptions and estimates including contractual future cash flows, discount rates, credit spreads and volatility. Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds.

#### Biological Assets

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. These assumptions primarily relate to the costs required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets are discussed in Note 6.

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment in XPhyto Therapeutics Corp ("XPhyto")

As at December 31, 2021, the Company had converted all of its XPhyto debentures into shares; however, PharmaCielo still held warrants for which management is required to make a number of estimates to determine valuation. The warrants required a Black-Scholes pricing model that involved various estimates and assumptions. The fair value of investment in XPhyto is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of investment in XPhyto are discussed in Note 9.

#### Revenue

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

#### Cash and cash equivalents

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

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

#### Short-term investments

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

#### Financial instruments

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

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

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

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets

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

##### i. Financial assets recorded at FVTPL

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

##### ii. Amortized cost

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

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

#### Financial liabilities

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

##### i. Financial liabilities recorded at FVTPL

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

##### ii. Amortized cost

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

#### Transaction costs

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

#### Subsequent measurement

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

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derecognition

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

#### Expected credit loss impairment model

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

#### Property, plant and equipment

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

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

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

#### Goodwill and intangible assets

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

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

#### Impairment of assets

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

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

#### Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Notes 12, 13, 14, and 15.

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

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

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

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

#### Loss per share

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

#### Income taxes

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



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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

#### Foreign currency transactions

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

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

#### Revenue recognition

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

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

#### Inventory

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

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

Subsequent to harvest, all direct and overhead post-harvest costs are capitalized to inventory to the extent cost is less

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

than net realizable value. Direct and overhead costs include wages and benefits, facility costs, amortization, and other costs incurred to bring the inventory to its present location and condition.

#### Biological assets

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

#### Investment in joint ventures

Investments accounted for using the equity method include investments in associates, which are entities over which the Company exercises significant influence, and joint arrangements representing joint ventures.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company accounts for its investments in associates and joint ventures using the equity method of accounting. Under the equity method, investments in associates and joint ventures are initially recognized in the consolidated statements of financial position at cost, and subsequently adjusted for the Company's share of the net income (loss) and distributions of the investee. The carrying value is assessed for impairment at each statement of financial position date.

#### **New, amended and future IFRS pronouncements**

The following IFRS standards have been recently issued by the IASB 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 December 31, 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.

# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

### 3. TRADE RECEIVABLES

	December 31, 2021	December 31, 2020
For sale of cannabis derivative products	453,089	2,684,017
For revenue from telemedicine services	16,206	11,192
Expected credit loss	(192,247)	(2,342,535)
<b>Total trade receivables</b>	<b>\$ 277,048</b>	<b>\$ 352,674</b>

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. As at year December 31, 2021, the Company recorded an expected credit loss of \$192,247 (December 31, 2020 - \$2,342,535).

### 4. MARKETABLE SECURITIES

	Number of shares	Cost	Unrealized gain / (loss)	Fair value
<b>December 31, 2021</b>				
Khiron Life Sciences Corp. ("Khiron")	100,000	\$ 12,500	\$ 8,500	\$ 21,000
XPhyto Therapeutics Corp. (Note 9)	250,000	680,000	(410,000)	270,000
<b>Total marketable securities</b>		<b>\$ 692,500</b>	<b>\$ (401,500)</b>	<b>\$ 291,000</b>
<b>December 31, 2020</b>				
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
		<b>\$ 63,761</b>	<b>\$ 7,391</b>	<b>\$ 71,152</b>

### 5. PREPAID EXPENSES AND OTHER RECEIVABLES

	As at December 31, 2021	As at December 31, 2020
Prepaid expenses	721,296	732,075
Other receivables	288,140	571,401
<b>Total prepaid expenses and other receivables</b>	<b>\$ 1,009,436</b>	<b>\$ 1,303,476</b>

### 6. INVENTORY AND BIOLOGICAL ASSETS

#### Inventory

	As at December 31, 2021	As at December 31, 2020
Agricultural supplies and other	193,897	308,665
Work-in-progress	1,267,796	551,874
Finished products	819,166	392,029
<b>Closing balance</b>	<b>\$ 2,280,859</b>	<b>\$ 1,252,568</b>

During the year ended December 31, 2021, inventory recognized as cost of goods sold was \$4,985,918 (December 31, 2020 - \$7,690,079), consisting of \$2,944,656 (December 31, 2020 - \$1,687,396) of capitalized post-harvest costs expensed during the period as cannabis inventory is sold, \$1,880,266 (December 31, 2020 - \$5,298,598) in impairment costs reducing the inventory value to its net realizable value, and \$160,996 (December 31, 2020 - \$704,085) of realized fair value changes on inventory sold.

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 6. INVENTORY AND BIOLOGICAL ASSETS (continued)

#### Biological assets

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

The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at December 31, 2021:

- a. Selling prices – selling prices are based on the Company's expected selling price per kilogram based on selling history, adjusted for current market conditions. A selling price of \$1,233 per kilogram of CBD isolate was used to calculate the biological assets at December 31, 2021 (December 31, 2020 - \$796).
- 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 \$1,322 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 December 31, 2021 averaged 49% (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 0.63 grams of CBD isolate (December 31, 2020 - 3.66 grams).

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

<b>Carrying amount, December 31, 2020</b>	-
Production costs capitalized	2,204,283
Changes in fair value less costs to sell due to biological transformation	(1,235,278)
Transferred to inventory upon harvest	(969,005)
Effect of foreign currency exchange differences	-
<b>Balance, December 31, 2021</b>	-

As at December 31, 2021 the biological assets has been valued to be \$Nil (December 31, 2020 - \$Nil), therefore the Company has assessed the sensitivity analysis on selling price, yield and post-harvest costs to be immaterial to disclose.

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

Unrealized change in fair value of biological assets	(1,235,275)
Realized fair value on inventory sold	(160,996)

During the year ended December 31, 2021, the Company incurred \$219,578 in non-capital related agricultural operating costs at the Company's cultivation facility in Colombia (December 31, 2020 - \$163,227).

**PHARMACIELO LTD.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2021**  
**(Expressed in Canadian Dollars)**

**7. PROPERTY, PLANT AND EQUIPMENT**

<b>COST</b>	<b>Land</b>	<b>Construction in progress</b>	<b>Building</b>	<b>Machinery and equipment</b>	<b>Office furniture and fixtures</b>	<b>Computer and communication equipment</b>	<b>Vehicles</b>	<b>Equipment in transit</b>	<b>Total</b>
<b>Balance, December 31, 2019</b>	\$ 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)	-
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)
<b>Balance, December 31, 2020</b>	\$ 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	-	929,326	140,188	239,415	21,903	69,323	12,441	-	1,412,596
Reclassification	-	(9,389,518)	6,070,138	5,084,766	96,249	3,129	-	(1,864,764)	-
Disposals	(118,896)	(40,851)	-	(35,772)	-	(36,804)	(32,268)	(9,996)	(274,587)
Effect of foreign currency exchange differences	(734,361)	(1,445,707)	(268,647)	(1,429,837)	(40,622)	(154,777)	(19,223)	(52,965)	(4,146,139)
<b>Balance, December 31, 2021</b>	\$ 6,681,289	\$ 10,627	\$ 9,472,690	\$ 11,963,022	\$ 1,122,087	\$ 1,007,973	\$ 93,346	\$ 180,694	\$ 30,531,728
<b>ACCUMULATED DEPRECIATION</b>									
<b>Balance, December 31, 2019</b>	\$ -	\$ -	\$ 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
Effect of foreign currency exchange differences	-	-	(19,028)	(27,056)	(4,694)	(25,836)	(3,106)	-	(79,720)
<b>Balance, December 31, 2020</b>	\$ -	\$ -	\$ 1,111,358	\$ 1,275,592	\$ 503,241	\$ 808,522	\$ 86,515	\$ -	\$ 3,785,228
Additions	-	-	627,129	910,439	243,954	214,374	28,089	-	2,023,985
Disposals	-	-	-	-	-	(31,714)	(27,973)	-	(59,687)
Effect of foreign currency exchange differences	-	-	(99,986)	(144,447)	(30,638)	(120,128)	(12,567)	-	(407,766)
<b>Balance, December 31, 2021</b>	\$ -	\$ -	\$ 1,638,501	\$ 2,041,584	\$ 716,557	\$ 871,054	\$ 74,064	\$ -	\$ 5,341,760
<b>CARRYING AMOUNT</b>									
<b>Balance, December 31, 2020</b>	\$ 7,534,546	\$ 9,957,377	\$ 2,419,653	\$ 6,828,858	\$ 541,316	\$ 318,580	\$ 45,881	\$ 2,108,419	\$ 29,754,630
<b>Balance, December 31, 2021</b>	\$ 6,681,289	\$ 10,627	\$ 7,834,189	\$ 9,921,438	\$ 405,530	\$ 136,919	\$ 19,282	\$ 180,694	\$ 25,189,968

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 7. PROPERTY, PLANT AND EQUIPMENT (continued)

PharmaCielo Colombia Holdings S.A.S. owns a farm and a processing plant, located in Rio Negro, in the municipality of La Ceja (Antioquia), established for the purpose of cultivating and production of medicinal cannabis extracts. The farm includes greenhouses, offices, and agricultural areas, while the processing plant includes the extraction facility.

For the year ended December 31, 2021, depreciation costs of \$995,664 (December 31, 2020 - \$522,370) were capitalized to biological assets and inventory.

### 8. LEASES

#### Right-of-use assets

<b>Balance, December 31, 2020</b>	1,065,800
Remeasurement adjustment	50,672
Depreciation	(167,735)
Foreign exchange adjustment	(18,252)
<b>Balance, December 31, 2021</b>	<b>\$ 930,485</b>

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

<b>Balance, December 31, 2021</b>	
Less than one year	305,625
One to three years	788,396
Three to five years	496,158
More than five years	289,426
<b>Total undiscounted lease obligation</b>	<b>\$ 1,879,605</b>

#### 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.

# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

### 8. LEASES (continued)

The following table illustrates the lease agreements as at December 31, 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
Annual lease payments: CAD\$		
2021	\$ 246,345	\$ 56,837
2022	248,079	57,546
2023	248,079	58,878
2024	248,079	-
Interest rate	13.95%	10.71%

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

<b>Balance, January 1, 2021</b>	1,321,390
Remeasurement adjustment	50,672
Interest expense	174,432
Lease payments	(308,217)
Foreign exchange adjustment	(25,826)
<b>Balance, December 31, 2021</b>	\$ 1,212,451
<b>Balance, December 31, 2021</b>	
Lease obligations	1,212,451
Less current portion	(147,945)
<b>Non-current portion</b>	\$ 1,064,506

### 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 year ended December 31, 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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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

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### 9. XPHYTO AGREEMENT AND INVESTMENT (continued)

The following table illustrates the value at the transaction date and at December 31, 2021:

Supply agreement warrants	Warrants
Initial value	356,378
Unrealized gain/loss	(63,005)
Exercise	-
<b>Balance, December 31, 2020</b>	<b>293,373</b>
Balance, December 31, 2020	293,373
Unrealized gain/loss	(293,373)
Exercise	-
<b>Balance, December 31, 2021</b>	<b>\$ -</b>

#### Investment in 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 December 31, 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 December 31, 2021, the Company had converted all 500,000 warrants issued as part of the convertible debenture units into shares. As at December 31, 2021, the Company held 250,000 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, 2021, 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 year ended December 31, 2021.



# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

### 9. XPHYTO AGREEMENT AND INVESTMENT (continued)

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

	December 31, 2020	December 31, 2021
Convertible Debt (Debt Component)	-	-
Convertible Debt (Conversion Feature)	-	-
Convertible Debt	-	-
Warrants	385,525	-
<b>Total Valuation of Convertible Debt</b>	<b>385,525</b>	<b>-</b>

	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)
<b>Balance, December 31, 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 10. LOANS AND BORROWINGS

As at December 31, 2021 the company had the following loans and borrowings:

	Term loan	Revolving loan	Total
<b>Balance, December 31, 2020</b>	<b>\$ 2,966,076</b>	<b>\$ 185,608</b>	<b>\$ 3,151,684</b>
Accrued interest	-	-	-
Accretion	268,856	13,396	282,252
Principal payment	-	(79,330)	(79,330)
Interest payment	(266,530)	(11,427)	(277,957)
Foreign exchange adjustment	(436,007)	12,340	(423,667)
<b>Balance, December 31, 2021</b>	<b>2,532,395</b>	<b>120,587</b>	<b>2,652,982</b>
Current portion of debt	-	(79,330)	(79,330)
<b>Non-current portion of debt</b>	<b>\$ 2,532,395</b>	<b>\$ 41,257</b>	<b>\$ 2,573,652</b>

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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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

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### 11. DEBENTURES

In December 2021, the Company entered into a private placement financing of non-brokered offering of units of the Company. Each Unit consists of \$1,000 principal amount of 11% secured debentures and 250 common share purchase warrants per Unit. The Company plans to issue up to 15,000 debenture units for aggregate gross proceeds of up to \$15,000,000. The Company closed the first tranche of its non-brokered private placement, consisting of an aggregate of 5,000 debenture units for proceeds of \$5,000,000. The Debentures mature in December 2024 and will bear interest from the closing date at 11% per annum payable semi-annually.

As the debenture units contain purchase warrants, the equity and debt components of the debenture are required to be bifurcated to record the value of the debt and equity separately. The fair value of the liability was determined using the discounted cash flow model with an estimated market interest rate of equivalent debt of 20.7%. At initial recognition, the fair value of the debentures was calculated to be \$4,564,646 with \$435,354 being the residual allocated to warrants (Note 13) recorded as the Equity component of the debentures. Transactions costs totaled \$60,682, of which \$55,398 was allocated to the debenture liability and \$5,284 to the warrants. Subsequent to initial recognition, the debenture liability is measured using the effective interest method (14.8%), with the charge recorded as accretion expense in finance expense (income) in the consolidated statement of loss on the financial statements of the Company.

The following table is a summary of the Company's debentures as at December 31, 2021:

Balance as at December 31, 2020	\$	-
Proceeds received in December 2021		5,000,000
Value allocated to warrants		(435,354)
Balance as at December 31, 2021	\$	4,564,646
Accrued interest payable included in accounts payable and accrued liabilities		-
<b>Debentures</b>	<b>\$</b>	<b>4,564,646</b>

### 12. 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

149,268,163 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.

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 12. SHARE CAPITAL (continued)

- (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 December 31, 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).

#### For the year ended December 31, 2021

- (viii) During the year ended December 31, 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 1,016,969 Common Shares for cash proceeds of \$661,030 upon the exercise of warrants.
- (ix) During the year ended December 31, 2021, 3,464,834 RSUs were fully vested, which resulted in the issuance of 2,330,833 Common Shares including 666,666 RSUs vested in 2020 that were previously recorded as shares to be issued, with 1,791,667 shares pending issuance at December 31, 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.

# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

### 13. WARRANTS

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

	Number of warrants	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
<b>Balance, December 31, 2019</b>	37,054	2.06	1.19
April 15 Private Placement (i)(a)(b)(c)	190,212	-	0.65
November 20 Private Placement (i)(d)	10,000,000	-	0.65
November 20 Private Placement - Broker Warrants (i)(e)	1,000,000	-	0.50
Exercised (i)(f)	(172)	-	1.194
Expired	(27,882)	2.00	-
<b>Balance, December 31, 2020</b>	<b>11,199,212</b>	<b>2.25</b>	<b>0.64</b>
<b>Balance, December 31, 2020</b>	11,199,212	2.25	0.64
December 24 Debenture (ii)(a)	1,250,000	-	1.44
Exercised (ii)(b)	(1,016,969)	-	0.65
<b>Balance, December 31, 2021</b>	<b>11,432,243</b>	<b>2.25</b>	<b>0.64</b>

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

- a. As part of its private placement financing, on April 15, 2020 the Company issued 12,578,002 special warrants exercisable at \$0.65 per share.
- b. On May 20, 2020 in connection with the private placement financing on April 15, 2020, the Company forced the exercise of all 12,578,002 Special Warrants into Common Shares.
- c. 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.
- d. 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.
- e. 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.
- f. A total of 172 other warrants were exercised at an exercise price of \$1.194 each.

# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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### 13. WARRANTS (continued)

(ii) Warrants issued and exercised in the year ended December 31, 2021 include the following:

- a. As part of the December Non-Brokered Private Placement, the Company issued 1,250,000 warrants exercisable at \$1.44 per Warrant Share.
- b. A total of 1,016,969 warrants were exercised for cash proceeds for \$661,030.

The following table reflects the warrants issued and outstanding as at December 31, 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
9,135,200	-	0.65	November 20, 2022
9,000	2.25	-	December 15, 2022
1,250,000	-	1.44	December 24, 2022
11,432,243			

### 14. STOCK OPTIONS

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

	Number of options	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
<b>Balance, December 31, 2019</b>	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
<b>Balance, December 31, 2020</b>	<b>13,622,336</b>	<b>1.51</b>	<b>1.69</b>
<b>Balance, December 31, 2020</b>	13,622,336	1.51	1.69
Granted (ii)	2,806,748	-	1.80
Exercised	(870,835)	0.58	0.82
Expired/Forfeited	(925,000)	-	-
<b>Balance, December 31, 2021</b>	<b>14,633,249</b>	<b>1.75</b>	<b>1.68</b>

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

- a. On May 4, 2020, the Company granted incentive stock options to an officer of the Company of 1,500,000 Common Shares exercisable at a price of \$1.02 per Common Share on or before May 4, 2030. The options vest as follows: 500,000 immediately; 333,333 after the first anniversary of the date of grant; 333,333 after the second anniversary of the date of grant; and 333,334 after the third anniversary of the date of grant.

The fair value of each option has been estimated at \$0.85 as at the date of the grant using the Black-Scholes option pricing model. The following assumptions were used: share price - \$0.99; expected annualized volatility - 93.13%, risk-free rate - 0.57%; and an expected life of 10 years. During the year ended December 31, 2020, the Company recorded \$866,808 in share-based payments expense related to these stock options in the consolidated statements of loss and comprehensive loss.

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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### 14. STOCK OPTIONS (continued)

- 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 year ended December 31, 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 7<sup>th</sup> 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 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 year ended December 31, 2021,

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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### 14. STOCK OPTIONS (continued)

the Company recorded \$443,441 as share capital issuance cost related to these stock options in the consolidated statements of financial position.

- 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 year ended December 31, 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 year ended December 31, 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 year ended December 31, 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 year ended December 31, 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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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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### 14. STOCK OPTIONS (continued)

- g. On November 11, 2021, the Company granted a total of 500,000 incentive stock options to employees of the Company. Each option is exercisable for one Common Share at a price of \$1.10 on or before November 11, 2026. The options vest as follows: 166,667 on the grant date; 166,667 on the first anniversary of the grant date; 166,666 on the second anniversary of the grant date. The fair value of each option has been estimated at \$0.72 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$1.00, exercise price of \$1.10, expected stock price volatility of 100%, risk-free rate of 1.68%, and expected life of 5 years. During the year ended December 31, 2021, the Company recorded \$103,536 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.
- h. On December 20, 2021, the Company granted a total of 400,000 incentive stock options to a former Director of the Company. The options vested on the grant date. The fair value of each option has been estimated at \$0.61 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of \$0.89, exercise price of \$1.10, expected stock price volatility of 100%, risk-free rate of 1.38%, and expected life of 5 years. During the year ended December 31, 2021, the Company recorded \$245,946 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.



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**PHARMACIELO LTD.****Notes to the Consolidated Financial Statements**

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**14. STOCK OPTIONS (continued)**

Details of the stock options outstanding as at December 31, 2021 are as follows:

Number of options outstanding	Number of options exercisable	Exercise price (USD)	Exercise price (CAD)	Weighted-average life (years)	Expiry date
400,000	400,000	\$ 2.25	-	0.44	June 10, 2022
100,000	100,000	\$ 0.50	-	0.50	July 1, 2022
40,000	40,000	\$ 2.25	-	0.50	July 1, 2022
172,501	172,501	\$ -	0.72	0.51	July 2, 2022
10,000	10,000	\$ 2.25	-	0.75	September 30, 2022
75,000	75,000	\$ -	2.18	0.75	September 30, 2022
100,000	100,000	\$ 2.00	-	0.88	November 16, 2022
125,000	125,000	\$ 2.25	-	0.88	November 16, 2022
100,000	100,000	\$ 2.00	-	0.88	November 17, 2022
125,000	125,000	\$ 2.25	-	0.88	November 17, 2022
1,400,000	1,400,000	\$ -	1.02	0.88	November 17, 2022
200,000	200,000	\$ -	1.11	0.88	November 17, 2022
20,000	-	\$ -	2.10	0.88	November 17, 2022
300,000	300,000	\$ 2.25	-	0.92	November 30, 2022
150,000	150,000	\$ 1.00	-	1.00	December 31, 2022
625,000	625,000	\$ 2.25	-	1.00	December 31, 2022
710,000	710,000	\$ 2.25	-	3.08	January 29, 2025
24,000	24,000	\$ 2.25	-	3.09	February 4, 2025
50,000	50,000	\$ 0.25	-	3.38	May 15, 2025
50,000	50,000	\$ -	3.35	3.42	June 1, 2025
3,000,000	3,000,000	\$ -	0.63	3.89	November 20, 2025
314,163	314,163	\$ -	2.15	4.27	April 7, 2026
212,585	-	\$ -	1.47	4.33	April 29, 2026
650,000	-	\$ -	2.15	4.37	May 13, 2026
80,000	-	\$ -	2.10	4.44	June 10, 2026
550,000	-	\$ -	1.25	4.71	September 14, 2026
550,000	550,000	\$ -	3.10	4.85	November 5, 2026
500,000	108,000	\$ -	1.10	4.86	November 11, 2026
400,000	400,000	\$ -	1.10	4.97	December 20, 2026
300,000	300,000	\$ 1.00	-	5.01	January 2, 2027
100,000	100,000	\$ 1.00	-	5.08	January 27, 2027
850,000	850,000	\$ 1.00	-	5.42	June 1, 2027
100,000	100,000	\$ 2.00	-	5.51	July 5, 2027
2,250,000	2,250,000	\$ -	3.35	6.50	July 1, 2028
<b>14,633,249</b>	<b>12,728,664</b>	<b>1.75</b>	<b>1.68</b>	<b>3.72</b>	

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

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

	Number of unvested RSUs and DSUs outstanding
<b>Balance, December 31, 2020</b>	<b>1,639,834</b>
Granted (i) (ii) (iii) (iv) (v)	4,350,000
Vested (vi)	(3,464,834)
<b>Balance, December 31, 2021</b>	<b>2,525,000</b>

- (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. As the Company intends to settle the DSUs by issuance of shares, the DSUs have been treated as equity.
- (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) On December 20, 2021, the Company issued 750,000 RSUs to a former Director of the Company. 500,000 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.
- (vi) During the year ended December 31, 2021, 3,464,834 RSUs were fully vested, which resulted in the issuance of 2,330,833 Common Shares including 666,666 RSUs vested in 2020 that were previously recorded as shares to be issued, with 1,791,667 shares pending issuance at December 31, 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 December 31, 2021, there were 2,525,000 unvested RSUs and DSUs outstanding.

### 16. NET LOSS PER COMMON SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2021, was based on the net loss of \$26,629,693 (December 31, 2020 - \$43,455,809) and the weighted average number of Common Shares outstanding of 145,638,254 (December 31, 2020 – 112,539,538). Diluted loss per share is equal to basic diluted loss per share as any effects of the potential convertible securities would be anti-dilutive.

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

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### 17. TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2021, the Company had the following related party transactions:

- a) The Company incurred consulting fees of \$Nil (December 31, 2020 - \$75,000) from Konssult Assessoria Empresarial Ltda, a company controlled by a former Officer and Director of the Company. As of December 31, 2021, the amount of \$Nil (December 31, 2020 - \$Nil) is owing to Konssult Assessoria Empresarial Ltda.
- b) The Company incurred consulting fees of \$Nil (December 31, 2020 - \$29,400) from DHBache & Company Inc., a company controlled by a Director of the Company. As of December 31, 2021, the amount of \$Nil (December 31, 2020 - \$Nil) is owing to DHBache & Company Inc.
- c) The Company has issued Debentures to key management personnel and Directors of the Company of \$490,000 (December 31, 2020 - \$Nil).

### 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.

<b>For the year ended December 31,</b>	<b>2021</b>	<b>2020</b>
Management compensation	\$ 1,221,351	\$ 1,900,809
Termination payments	1,229,250	4,777,881
Directors' fees <sup>(1)</sup>	251,896	130,341
Share-based compensation <sup>(2)</sup>	5,179,936	5,166,139
<b>Total management compensation</b>	<b>\$ 7,882,434</b>	<b>\$ 11,975,170</b>

(1) Includes meeting fees and committee chair fees.

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

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

### 18. COMMITMENTS AND CONTINGENCIES

#### Commitments

- a) 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 \$2.5 million.
- b) 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.

# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

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### 19. 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	For the year ended December 31,	
	2021	2020
Canada	\$ 15,182,692	\$ 25,107,127
Colombia	11,447,001	18,648,682
Total	\$ 26,629,693	\$ 43,755,809

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

Total assets	December 31, 2021	December 31, 2020
Canada	\$ 10,873,965	\$ 12,728,282
Colombia	25,082,845	31,296,139
Total	\$ 35,956,810	\$ 44,024,421

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

Operating segment - December 31, 2021	Corporate	Cannabis	Total
Revenues	\$ -	\$ 1,944,998	\$ 1,944,998
Cost of sales	-	4,857,092	4,857,092
Loss for the period	15,182,690	11,447,003	26,629,693

Revenues by country	Cannabis	Total
United Kingdom	\$ 930,561	\$ 930,561
Argentina	311,673	311,673
Colombia	306,703	306,703
Paraguay	120,200	120,200
Czech Republic	129,368	129,368
Brasil	116,176	116,176
Switzerland	28,947	28,947
Mexico	1,370	1,370
Total Revenue	\$ 1,944,998	\$ 1,944,998

# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in Canadian Dollars)

### 19. 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 year ended December 31, 2021, one customer accounted for 100% of cannabis revenue in Europe, which represents 48% of total revenue.

### 20. 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 December 31, 2021 was \$639,643 (December 31, 2020 - \$565,396) and consisted of the following amounts:

<b>Balance, December 31, 2020</b>	<b>\$ 565,396</b>
Investment in joint ventures	546,287
Share of loss on investment in joint ventures	(472,040)
<b>Balance, December 31, 2021</b>	<b>\$ 639,643</b>

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

#### As at December 31, 2021

	PharmaCielo Italia SRL	PharmaCielo S.A. de C.V.
Cash and cash equivalents	\$ (351)	\$ 4,808
Other current assets	24,609	130,887
Total current assets	24,258	135,695
Non-current assets	333,744	-
Total assets	\$ 358,002	\$ 135,695
Current liabilities	195,280	74,730
Total liabilities	\$ 195,280	\$ 74,730
<b>Net assets<sup>(1)</sup></b>	<b>\$ 162,722</b>	<b>\$ 60,965</b>

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

#### For the year ended December 31, 2021

	PharmaCielo Italia SRL	PharmaCielo S.A. de C.V.
Selling, general, and administrative expenses	\$ 507,722	\$ 227,978
Other expense	3,780	-
<b>Net loss<sup>(1)</sup></b>	<b>511,502</b>	<b>227,978</b>

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

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### 21. COVID-19

In 2021, Colombia experienced four waves of COVID 19 with accumulation of five million cases by the end of December 2021. At the beginning of the year, the country started with the vaccination rollout and the national government simultaneously decided to carry out a social and economic reactivation, where biosafety measures and protocols were maintained to minimize the spread of this virus. The reopening encourages Pharmaciello to strengthen measures and allocate the necessary resources to guarantee the well-being and health of its employees and stakeholders. Day to day, programs, activities, and campaigns were performed and led by a Special Situation Committee ensuring social distancing, personal protection equipment's, regular hand washing, permanent use of masks, cleaning and disinfection in common areas, weekly inspections, capacity control in closed places adapting the infrastructure to fulfill biosafety standards.

In addition, an immunization day was promoted and held within the Company's facilities and permanent monitoring was carried out on positive cases by the in-house doctor.

Above mentioned countrywide and Company specific measures contributed to having a low infection rate (20%) without complex cases or fatalities. By the end of year, 95% of PharmaCielo employees were vaccinated.

The Ministry of Health, through Resolution 913 of 2021, decided to extend the health emergency measures until April 30, 2022. Accordingly, the Company will continue with the biosafety protocols following regulatory requirements in order to preserve the employees' health and the business continuity.

### 22. INCOME TAX

#### Reconciliation of effective tax rate

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2020 – 26.5%) to the effective tax rate is as follows:

<b>For the years ended December 31</b>	<b>2021</b>	<b>2020</b>
Net loss before taxes	<b>(26,629,693)</b>	(43,755,809)
Tax rate	<b>26.5%</b>	26.50%
Computed expected income taxes	<b>(7,056,870)</b>	(11,595,290)
Increase (decrease) in taxes:		
Difference in foreign tax rates	<b>(502,140)</b>	(860,300)
Tax rate changes and other adjustments	<b>(1,527,250)</b>	(264,430)
Share rebased compensation and non-deductible expenses	<b>1,779,410</b>	1,717,810
Other nondeductible expenses	<b>658,730</b>	677,590
Provision for DSU to be paid to employee	-	689,000
Financing fees booked to equity	<b>306,790</b>	(795,690)
Listing expense re RTO transaction	<b>(319,220)</b>	-
Unrealized foreign exchange	<b>2,010,630</b>	-
Change in tax benefits not recognized	<b>4,649,920</b>	10,431,310
<b>Total tax expense (recovery)</b>	<b>-</b>	-

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**PHARMACIELO LTD.****Notes to the Consolidated Financial Statements****December 31, 2021****(Expressed in Canadian Dollars)**

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**22. INCOME TAX (continued)**

The following table summarizes the components of deferred tax:

<b>Deferred tax assets</b>	<b>2021</b>	<b>2020</b>
Non-capital losses carried forward - Colombia	<b>115,370</b>	107,290
Investment JV – Canada	-	48,130
Non-capital losses carried forward - Canada	<b>281,500</b>	-
<b>Deferred tax liabilities</b>		
Warrants in compound debt - Canada	<b>(115,370)</b>	-
Marketable Securities	-	(5,400)
Investment in Xphyto	-	(42,730)
ROU asset - Colombia	<b>(26,760)</b>	(42,500)
Unrealized FX gain or losses - Colombia	<b>(11,140)</b>	(64,790)
Accounts receivable and payable - Colombia	<b>(243,597)</b>	-
Net deferred tax asset	-	-

**Unrecognized deferred tax assets**

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

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

<b>For the year ended December 31</b>	<b>2021</b>	<b>2020</b>
<b>Canada</b>		
Property, plant and equipment	<b>1,232,660</b>	720,470
Restructuring reserve	<b>1,627,000</b>	4,215,840
Investment JV	<b>1,626,910</b>	541,860
Deferred revenue from investment in Xphyto	<b>26,710</b>	163,340
ROU asset and lease liability	<b>263,970</b>	228,200
Cash-settled RSU	<b>111,780</b>	105,260
Share issuance costs - 20(1)(e )	<b>3,641,330</b>	4,239,230
Schedule 13 Reserves	-	-
Non-capital losses carried forward	<b>52,616,090</b>	44,778,170
<b>Colombia</b>		
Other assets	<b>2,238,360</b>	6,121,230
Property, plant and equipment	-	522,030
Non-capital losses carried forward	<b>32,671,810</b>	23,375,370
<b>Ubiquo</b>		
Property, plant and equipment	-	-
Intangible Assets	<b>445,960</b>	445,960
Non-capital losses carried forward	<b>902,970</b>	889,510
<b>Total</b>	<b>97,405,550</b>	86,346,470

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## PHARMACIELO LTD.

### Notes to the Consolidated Financial Statements

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#### 22. INCOME TAX (continued)

The Canadian non-capital loss carryforwards expire as noted in the table below. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits thereof.

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

<b>Year of expiry</b>	<b>Amount</b>
2035	1,858,390
2036	3,299,430
2037	8,419,310
2038	6,993,610
2039	10,954,550
2040	12,308,340
2041	8,782,450
<b>Total</b>	<b>52,616,080</b>

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

<b>Year of expiry</b>	<b>Amount</b>
2029	1,692,540
2030	2,387,310
2031	5,337,170
2032	10,906,540
2033	13,251,220
<b>Total</b>	<b>33,574,780</b>

#### 23. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

As of December 31, 2021, the Company's financial instruments consist of cash and cash equivalents, trades receivables, marketable securities, accounts payable and accrued liabilities, RSU obligations and lease liabilities.

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

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

A financial instrument is classified to the lowest level hierarchy for which a significant input has been used in measuring fair value. The carrying amounts for cash and cash equivalents, accounts receivable, due from related parties, and accounts payable and accrued liabilities approximate their respective fair values due to the short-term maturities of those instruments. The carrying amount of lease liabilities approximates its fair value as it is present valued using the discount rate implicit within the lease or the Company's incremental borrowing rate.



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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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### 23. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

#### Financial risk management

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

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. As at December 31, 2021, the Company's financial liabilities consist of accounts payable and accrued liabilities, debt, debentures, RSU obligations, deferred income, and lease liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it has sufficient cash resources in order to finance operations, funds capital expenditures, and to repay financial liabilities. The Company manages its liquidity risk by preparing and monitoring operating budgets, reviewing capital requirements, and coordinating and authorizing project expenditures. As at December 31, 2021, the Company had a working capital of \$847,840.

The following table details the contractual maturities of Pharmaciello's financial liabilities as at December 31, 2021 and 2020

		1 to 3		
<b>For the year ended December 31, 2021:</b>	<b>&lt;1 Year</b>	<b>Years</b>	<b>3+ Years</b>	<b>Total</b>
Accounts payable and accrued liabilities	7,732,631	-	-	7,732,631
Debt	79,328	2,494,324	-	2,573,652
Lease liabilities <sup>(1)</sup>	150,046	300,092	870,355	1,320,493
RSU obligations	105,258	-	-	105,258
Debentures	-	-	4,564,646	4,564,646
<b>Total</b>	<b>8,067,263</b>	<b>2,794,416</b>	<b>5,435,001</b>	<b>16,296,680</b>

  

		1 to 3		
<b>For the year ended December 31, 2020:</b>	<b>&lt;1 Year</b>	<b>Years</b>	<b>3+ Years</b>	<b>Total</b>
Accounts payable and accrued liabilities	11,708,396	-	-	11,708,396
Debt	185,608	1,057,235	5,060,525	6,303,368
Lease liabilities <sup>(1)</sup>	150,046	300,092	870,355	1,320,493
RSU obligations	105,258	-	-	105,258
Other non-current liabilities	-	997,689	-	997,689
<b>Total</b>	<b>12,149,308</b>	<b>2,355,016</b>	<b>5,930,880</b>	<b>20,435,204</b>

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

#### Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. All cash is held at Colombian Chartered Banks or is held in trust with legal counsel in which management believes that the risk of loss is minimal. However, the Company is subject to concentration of accounts receivables and credit.

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# PHARMACIELO LTD.

## Notes to the Consolidated Financial Statements

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### 23. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

#### Market risk

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

#### *Foreign Currency risk*

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently expects that sales from its subsidiaries will be denominated in Colombian pesos, USD and Euros and have sales in the currencies of additional countries in Europe and Latin America. 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.

#### *Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk only on cash and cash equivalents. Fluctuations of interest rates for the period ending December 31, 2021 would not have had a significant impact on these consolidated financial statements.

#### Capital management

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity, and flexibility to fund the Company's operations, growth, and ongoing developmental activities. The Company is dependent upon funding these activities through a combination of available cash, debt and equity, which it considers to be the components of its capital structure as there was no change in capital requirements during the year.

### 24. SUBSEQUENT EVENTS

In April 2022, the Company raised \$1,500,000 as part of the second tranche of its non-brokered private placement (see Note 11), consisting of an aggregate of 1,500 debenture units. The second tranche of the Debentures mature in April 2025 and have the same terms as the first tranche.