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# **PHARMACIELO LTD.**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED  
JUNE 30, 2022**

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

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### **Notice to Reader**

The accompanying unaudited condensed interim consolidated financial statements of Pharmacielo Ltd. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed interim unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

# Management's Comments on Unaudited Condensed Interim Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of PharmaCielo Ltd. (the "Company" or "PharmaCielo") for the three and six months ended June 30, 2022, and 2021 have been prepared by the management of PharmaCielo, reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

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

August 29, 2022

*"Bill Petron"*

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William B. Petron  
Chairman and Chief Executive Officer

*"Ian Atacan"*

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Ian D. Atacan  
Director and Chief Financial Officer

# PHARMACIELO LTD.

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

	Note Reference	As at June 30, 2022	As at December 31, 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,017,352	5,338,371
Trade receivables	3	798,340	277,048
Marketable securities	4	149,000	291,000
Prepaid expenses and other receivables	5	1,105,181	1,009,436
Inventory and Biological assets	6	2,293,338	2,280,859
<b>Total current assets</b>		<b>5,363,211</b>	<b>9,196,714</b>
<b>Non-current assets</b>			
Property, plant, and equipment	7	23,376,748	25,189,968
Investment in sublease	8	371,558	-
Right-of-use assets	8	53,792	930,485
Investment in joint ventures	19	631,565	639,643
Long-term Investment	20	313,362	-
<b>Total non-current assets</b>		<b>24,747,025</b>	<b>26,760,096</b>
<b>Total assets</b>		<b>30,110,236</b>	<b>35,956,810</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		5,975,056	7,732,631
Current portion of lease obligations	8	265,440	147,945
RSU obligations	14	18,900	111,780
Current portion of debt	9	308,657	79,330
Current portion of debentures	10	65,322	-
<b>Total current liabilities</b>		<b>6,633,375</b>	<b>8,071,686</b>
<b>Non-current liabilities</b>			
Non-current portion of lease obligations	8	173,241	1,064,506
Non-current portion of debt	9	2,253,995	2,573,652
Non-current portion of debentures	10	6,909,461	4,564,646
Deferred income		-	356,378
<b>Total non-current liabilities</b>		<b>9,336,695</b>	<b>8,559,182</b>
<b>Total liabilities</b>		<b>15,970,070</b>	<b>16,630,868</b>
<b>Shareholders' Equity</b>			
Share capital	11	158,382,360	156,338,336
Shares to be issued	11	560,000	1,955,000
Reserves	12,13,14	36,122,316	35,136,180
Other comprehensive loss		(6,597,870)	(6,205,549)
Retained earnings		(174,326,640)	(167,898,025)
<b>Total shareholders' equity</b>		<b>14,140,166</b>	<b>19,325,942</b>
<b>Total liabilities and shareholders' equity</b>		<b>30,110,236</b>	<b>35,956,810</b>

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

Nature of operations	1
Going concern	2
Commitments	17
Subsequent events	22

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

	Note Reference	Three Months Ended		Six Months Ended	
		June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
<b>Revenue:</b>					
Sale of Cannabis derivative products		2,091,723	429,451	3,276,909	1,086,292
Revenue from Telemedicine services		27,071	16,500	43,058	34,923
<b>Total revenue</b>		<b>2,118,794</b>	<b>445,951</b>	<b>3,319,967</b>	<b>1,121,215</b>
Cost of goods sold - Cannabis derivative products		1,282,592	397,508	2,022,198	1,145,091
Cost of goods sold - Telemedicine services		2	446	421	446
Cost of goods sold - Inventory impairment		-	714,744	-	1,322,256
<b>Gross profit (loss) before fair value adjustments</b>		<b>836,200</b>	<b>(666,747)</b>	<b>1,297,348</b>	<b>(1,346,578)</b>
<b>Realized fair value on inventory sold</b>		<b>-</b>	<b>(72,682)</b>	<b>-</b>	<b>(135,893)</b>
<b>Unrealized loss on fair value of biological assets</b>	6	<b>(1,386)</b>	<b>(68,271)</b>	<b>(359,471)</b>	<b>(180,838)</b>
<b>Gross profit (loss)</b>		<b>834,814</b>	<b>(807,700)</b>	<b>937,877</b>	<b>(1,663,309)</b>
<b>Operating expenses</b>					
Agricultural operating costs	6	35,943	685,408	79,359	842,645
<b>Selling, general, and administrative expenses</b>					
General and administrative					
Consulting fees		98,074	278,536	203,480	570,322
Office and general		504,812	471,388	892,385	1,116,016
Professional fees		334,201	635,008	645,343	1,707,285
Salaries and wages		1,302,780	1,025,221	2,660,077	2,422,255
Travel and accommodation		57,460	34,748	126,156	37,530
Share-based compensation		398,115	1,983,992	938,193	3,793,181
Selling, marketing, and promotion		381,315	244,859	657,418	554,343
Amortization and depreciation	7,8	666,990	193,387	868,250	657,007
Expected credit losses		1,138	50,934	1,138	94,242
<b>Total selling, general, and administrative expenses</b>		<b>3,744,885</b>	<b>4,918,073</b>	<b>6,992,440</b>	<b>10,952,181</b>
<b>Other (income) expense</b>					
Bank charges and interest expense		297,864	130,843	548,246	272,176
Change in unrealized loss on marketable securities		88,500	239,500	142,000	251,000
Exchange (gain) loss		100,791	(19,633)	163,943	(130,641)
Other non-operating (income) expenses		83,431	(187)	(211,325)	(1,598)
Amortization of deferred income		-	-	(136,632)	(136,632)
Change in unrealized (gain) loss on Xphyto investment		-	358,133	(219,619)	(110,839)
Realized gain on sale of marketable securities		-	-	-	(35,937)
Share of (gain) loss of investment in joint ventures	19	(9)	104,543	8,078	200,772
<b>Total other expense</b>		<b>570,577</b>	<b>813,199</b>	<b>294,691</b>	<b>308,301</b>
<b>Net loss for the period</b>		<b>(3,516,591)</b>	<b>(7,224,380)</b>	<b>(6,428,613)</b>	<b>(13,766,436)</b>

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

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

		Three Months Ended		Six Months Ended	
	Note Reference	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
<b>Other comprehensive loss</b>					
Currency translation adjustment		<b>(1,412,805)</b>	(420,587)	<b>(392,321)</b>	(2,751,496)
<b>Net comprehensive loss</b>		<b>(4,929,396)</b>	(7,644,967)	<b>(6,820,934)</b>	(16,517,932)
<b>Basic and diluted loss per share</b>	15	<b>(0.02)</b>	(0.05)	<b>(0.04)</b>	(0.10)
<b>Weighted average number of common shares outstanding - basic and diluted</b>		<b>150,667,191</b>	146,383,269	<b>150,091,625</b>	142,920,738

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

## PHARMACIELO LTD.

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

	Note Reference	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	Retained earnings	Total
<b>Balance at December 31, 2020</b>		138,747,660	138,082,419	559,999	31,456,069	(2,583,161)	(141,268,332)	26,246,994
Options exercised	13	760,835	1,056,818	-	(491,909)	-	-	564,909
Warrants exercised	12	944,369	822,989	-	(209,149)	-	-	613,840
Vested RSUs	14	347,500	1,443,250	811,667	(2,254,917)	-	-	-
Issued DSUs					2,037,500			2,037,500
April 2021 issuance	11	6,301,866	13,549,012	-	-	-	-	13,549,012
Issuance costs for April 2021 equity financing			(1,278,351)					(1,278,351)
Share-based compensation	11,12,13,14	-	-	-	3,786,657	-	-	3,786,657
Currency translation adjustment for the period		-	-	-	-	(2,751,496)	-	(2,751,496)
Net loss for the period		-	-	-	-	-	(13,766,436)	(13,766,436)
<b>Balance at June 30, 2021</b>		<b>147,102,230</b>	<b>153,676,137</b>	<b>1,371,666</b>	<b>34,324,251</b>	<b>(5,334,657)</b>	<b>(155,034,768)</b>	<b>29,002,629</b>
<b>Balance at December 31, 2021</b>		<b>149,268,163</b>	<b>156,338,334</b>	<b>1,955,000</b>	<b>35,136,180</b>	<b>(6,205,549)</b>	<b>(167,898,025)</b>	<b>19,325,941</b>
Warrants exercised	12	128,000	111,656	-	(28,455)	-	-	83,201
Vested RSUs	14	1,291,667	1,666,667	(1,395,000)	(271,667)	-	-	-
Share-based compensation	11,12,13,14	-	-	-	1,031,073	-	-	1,031,073
Warrants issued		-	-	-	255,185	-	-	255,185
Shares issued for debenture interest payment	11	474,058	265,703	-	-	-	-	265,703
Currency translation adjustment for the period		-	-	-	-	(392,321)	-	(392,321)
Net loss for the period		-	-	-	-	-	(6,428,613)	(6,428,613)
<b>Balance at June 30, 2022</b>		<b>151,161,888</b>	<b>158,382,360</b>	<b>560,000</b>	<b>36,122,316</b>	<b>(6,597,870)</b>	<b>(174,326,640)</b>	<b>14,140,166</b>

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

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

	Note Reference	Six Months Ended	
		June 30, 2022	June 30, 2021
<b>Operating Activities</b>			
Net loss		(6,428,613)	(13,766,436)
Items not affecting cash:			
Amortization and depreciation	7,8	964,531	657,007
Disposal of property, plant and equipment	7	206,535	-
Expected credit losses		1,138	94,242
Unrealized loss on fair market value of biological assets	6	359,471	180,838
Unrealized gain on fair market value of XPhyto investment		(219,619)	(110,839)
Gain on revaluation of sublease		(250,449)	-
Share of loss on investment in joint ventures	19	8,078	200,772
Amortization of deferred income		(136,632)	(136,632)
Interest expense		102,028	90,299
Non-cash salary expense		-	(562,500)
Share-based compensation		938,193	3,793,181
Inventory impairment		-	1,322,256
Exchange gain (loss)		56,515	(633,193)
Unrealized loss on marketable securities		142,000	251,000
Remeasurement adjustment- ROU asset	8	1,089,007	-
Remeasurement adjustment- Lease liability	8	(652,900)	-
Realized gain on marketable securities		-	(35,937)
Changes in non-cash working capital items			
Trade receivables	3	(496,304)	(32,809)
Prepaid expenses and other receivables	5	(114,974)	196,323
Inventory and biological assets	6	56,419	(1,319,620)
Investment in sublease	8	(371,558)	-
Accounts payable and accrued liabilities		(1,522,742)	(203,620)
<b>Net cash and cash equivalents used in operating activities</b>		<b>(6,269,876)</b>	<b>(9,879,775)</b>
<b>Investing Activities</b>			
Investment in joint ventures		-	(515,093)
Exercise warrants held in Xphyto Therapeutics Corp.		-	(750,000)
Long-term Investment	20	(313,362)	-
Proceeds from sale of XPhyto marketable securities		-	777,089
Purchase of property, plant, and equipment	7	(140,307)	(718,912)
<b>Net cash and cash equivalents used in investing activities</b>		<b>(453,669)</b>	<b>(1,206,916)</b>
<b>Financing Activities</b>			
Options and warrants exercised	12,13	83,199	1,178,749
Cash received from debentures	10	2,600,000	-
Cash received from shares issued		-	13,549,012
Share issue costs		-	(1,278,351)
Loan principal payments	9	(126,979)	(41,619)
Lease payments	8	(153,694)	(159,072)
<b>Net cash and cash equivalents provided by financing activities</b>		<b>2,402,526</b>	<b>13,248,719</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(4,321,019)</b>	<b>2,162,028</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>5,338,371</b>	<b>8,859,714</b>
<b>Cash and cash equivalents, end of period</b>		<b>1,017,352</b>	<b>11,021,742</b>

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

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# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

(Unaudited)

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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*

The unaudited condensed interim consolidated financial statements of the Company have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS' issued and outstanding as of August 29, 2022, the date the Board of Directors approved these unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements follow the same accounting policies and method of computation as the Company's annual audited consolidated financial statements for the year ended December 31, 2021, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2021.

#### *Basis of measurement*

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

#### *Principles of consolidation*

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



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# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

(Unaudited)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

As at June 30, 2022, the following companies have been included within the unaudited condensed interim consolidated financial statements:

Company	Location	Principal activity
PharmaCielo Ltd.	Toronto, Canada	Parent company
PharmaCielo Holdings Ltd. <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

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

<sup>(2)</sup> 100% owned by PharmaCielo Holdings Ltd.

#### *Significant accounting judgments and estimates*

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

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

These unaudited condensed interim consolidated financial statements follow the same significant accounting judgments and estimates as the Company's annual audited consolidated financial statements for the year ended December 31, 2021. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2021.

#### *Going concern*

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

Management believes that the going concern assumption is appropriate for these unaudited condensed interim consolidated financial statements and that the Company will be able to meet its budgeted administrative and development costs during the upcoming year and beyond when considering the Company's current financial forecast. PharmaCielo continues to enter into strategic agreements and finance offerings to source funds and maintain its operations. 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.

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# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

(Unaudited)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company may need to seek further financing in the future to maintain its current level of activity. To date, PharmaCielo has been successful in raising funds to sustain operations. However, there can be no assurance that adequate funding will be available in the future, or under terms favorable to the Company.

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

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

The following IFRS standards have been recently issued by the IASB but are not yet effective. The Company has assessed the impact of these new standards and found they do not have a material impact on the financial statements of the Company as at June 30, 2022.

##### ***Amendments to IFRS 9: Financial Instruments***

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

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

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

##### ***Amendments to IAS 41: Agriculture***

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IAS 41. The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flow when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

(Unaudited)

### 3. TRADE RECEIVABLES

	June 30, 2022	December 31, 2021
For sale of cannabis derivative products	970,821	453,089
For revenue from telemedicine services	7,398	16,206
Expected credit loss	(179,879)	(192,247)
<b>Total trade receivables</b>	<b>\$ 798,340</b>	<b>\$ 277,048</b>

Most 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 of June 30, 2022, the Company recorded an expected credit loss of \$179,879 (December 31, 2021- \$192,247).

### 4. MARKETABLE SECURITIES

	Number of shares	Cost	Unrealized gain / (loss)	Fair value
<b>June 30, 2022</b>				
Khiron Life Sciences Corp. ("Khiron")	100,000	\$ 12,500	\$ (1,000)	\$ 11,500
XPhyto Therapeutics Corp.	250,000	680,000	(542,500)	137,500
<b>Total marketable securities</b>		<b>\$ 692,500</b>	<b>\$ (543,500)</b>	<b>\$ 149,000</b>
<b>December 31, 2021</b>				
Khiron Life Sciences Corp. ("Khiron")	100,000	\$ 12,500	\$ 8,500	\$ 21,000
XPhyto Therapeutics Corp.	250,000	680,000	(410,000)	270,000
		<b>\$ 692,500</b>	<b>\$ (401,500)</b>	<b>\$ 291,000</b>

### 5. PREPAID EXPENSES AND OTHER RECEIVABLES

	As at June 30, 2022	As at December 31, 2021
Prepaid expenses	(5,930,480)	721,296
Other receivables	7,035,661	288,140
<b>Total prepaid expenses and other receivables</b>	<b>\$ 1,105,181</b>	<b>\$ 1,009,436</b>

### 6. INVENTORY AND BIOLOGICAL ASSETS

#### Inventory

	As at June 30, 2022	As at December 31, 2021
Agricultural supplies and other	118,359	193,897
Work-in-progress	1,860,249	1,267,796
Finished products	314,730	819,166
<b>Closing balance</b>	<b>\$ 2,293,338</b>	<b>\$ 2,280,859</b>

During the three and six months ended June 30, 2022, inventory recognized as cost of goods sold was \$1,282,592 and \$2,022,198, respectively (three and six months ended June 30, 2021 - \$1,184,934 and \$2,603,240, respectively), consisting of realized fair value changes on inventory sold of \$Nil (three and six months ended June 30, 2021 - \$72,682 and \$135,893, respectively), impairment costs reducing the inventory value to its net realizable value of \$Nil (three and six months ended June 30, 2021 - \$714,744 and \$1,322,256, respectively), and capitalized post-harvest costs expensed during the period as cannabis inventory is sold of \$1,282,592 and \$2,022,198, respectively (three and six months ended June 30, 2021 - \$397,508 and \$1,145,091, respectively).

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# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

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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 June 30, 2022:

- 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 \$1,472 per kilogram of CBD isolate was used to calculate the biological assets at June 30, 2022 (December 31, 2021 - \$1,233).
- 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 \$597 per kilogram of CBD isolate (December 31, 2021 - \$1,322).
- 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 June 30, 2022 averaged 0% (December 31, 2021 - 49%).
- 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 0.67 grams of CBD isolate (December 31, 2021 - 0.63 grams).

As at June 30, 2022, 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, 2021</b>	-
Production costs capitalized	637,927
Changes in fair value less costs to sell due to biological transformation	(359,471)
Transferred to inventory upon harvest	(279,842)
Effect of foreign currency exchange differences	1,386
<b>Balance, June 30, 2022</b>	<b>\$ -</b>

As at June 30, 2022 the biological assets has been valued to be \$Nil (December 31, 2021 - \$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	(359,471)
Realized fair value on inventory sold	-

During the three and six months ended June 30, 2022, the Company incurred \$35,943 and \$79,359, respectively, in non-capital related agricultural operating costs at the Company's cultivation facility in Colombia (three and six months ended June 30, 2021 - \$685,408 and \$842,645, respectively).

**PHARMACIELO LTD.**  
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**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, 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
Additions	-	115,581	-	23,126	-	1,600	-	-	140,307
Reclassification	-	(102,826)	75,413	41,445	(3,077)	(25,715)	(23,107)	-	(37,867)
Disposals	-	(22,175)	-	(222,874)	(164,775)	(116,610)	(892)	(177,794)	(705,120)
Effect of foreign currency exchange differences	(63,010)	(159)	(116,768)	(179,081)	(5,355)	(14,062)	(1,399)	(2,900)	(382,734)
<b>Balance, June 30, 2022</b>	\$ 6,618,279	\$ 1,048	\$ 9,431,335	\$ 11,625,638	\$ 948,880	\$ 853,186	\$ 67,948	\$ -	\$ 29,546,314
<b>ACCUMULATED DEPRECIATION</b>									
<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
Additions	-	-	293,901	1,034,531	83,602	55,223	71	-	1,467,328
Disposals	-	-	(857)	(216,767)	(167,202)	(146,350)	(5,276)	-	(536,452)
Effect of foreign currency exchange differences	-	-	(23,104)	(61,788)	(4,337)	(12,930)	(911)	-	(103,070)
<b>Balance, June 30, 2022</b>	\$ -	\$ -	\$ 1,908,441	\$ 2,797,560	\$ 628,620	\$ 766,997	\$ 67,948	\$ -	\$ 6,169,566
<b>CARRYING AMOUNT</b>									
<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
<b>Balance, June 30, 2022</b>	\$ 6,618,279	\$ 1,048	\$ 7,522,894	\$ 8,828,078	\$ 320,260	\$ 86,189	\$ -	\$ -	\$ 23,376,748

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# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

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

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

For the three and six months ended June 30, 2022, depreciation costs of \$229,566 and \$540,639, respectively (three and six months ended June 30, 2021 - \$179,278 and \$364,834, respectively) was capitalized to biological assets and inventory.

### 8. LEASES

#### Right-of-use assets

<b>Balance as at December 31, 2021</b>	930,485
Lease revaluation	(652,900)
Transfer to recognition of investment in sublease	(436,107)
Gain on revaluation of sublease	250,449
Depreciation	(37,842)
Foreign exchange adjustment	(293)
<b>Balance, June 30, 2022</b>	<b>\$ 53,792</b>

Right-of-use assets consist of office spaces. Right-of-use assets are depreciated over 12 to 48 months.

#### Maturity analysis - contractual undiscounted cash flows

#### Balance, June 30, 2022

Less than one year	308,700
One to three years	181,927
<b>Total undiscounted lease obligation</b>	<b>\$ 490,627</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.

On March 1, 2022, the Company entered into a sublease agreement for the Toronto office space, mentioned above. As a result of the sublease, the Company has revalued the lease obligation due to a reduction in the lease term from 10 to 5 years, derecognized the Right-of-use asset, and recognized an investment in sublease.

# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 8. LEASES (continued)

The following table illustrates the lease agreements as at June 30, 2022:

	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\$		
2023	\$ 251,142	\$ 43,261
2024	41,857	-
Interest rate	13.95%	10.75%

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

Lease liability continuity

<b>Balance as at December 31, 2021</b>	1,212,451
Lease revaluation	(652,900)
Interest expense	34,379
Lease payments	(153,694)
Foreign exchange adjustment	(1,555)
<b>Balance, June 30, 2022</b>	\$ 438,681
<b>Balance, June 30, 2022</b>	
Lease obligations	438,681
Less current portion	(265,440)
<b>Non-current portion</b>	\$ 173,241

### 9. LOANS AND BORROWINGS

As at June 30, 2022 the company had the following loans and borrowings:

	Term loan	Revolving loan	Total
<b>Balance, December 31, 2021</b>	\$ 2,500,515	\$ 195,353	\$ 2,695,868
Accrued interest	-	-	-
Accretion	129,251	5,360	134,611
Principal payment	-	(126,979)	(126,979)
Interest payment	(129,251)	(3,033)	(132,284)
Foreign exchange adjustment	(8,234)	(329)	(8,563)
<b>Balance, June 30, 2022</b>	2,492,281	70,372	2,562,653
Current portion of debt	-	(308,657)	(308,657)
<b>Non-current portion of debt</b>	\$ 2,492,281	\$ (238,286)	\$ 2,253,995

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# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 9. LOANS AND BORROWINGS (continued)

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.

### 10. DEBENTURES

The following table is a summary of the Company's debentures as at June 30, 2022:

<b>Balance as at December 31, 2021</b>	\$	5,000,000
Proceeds received as at June 30, 2022		2,600,000
Value allocated to warrants		(690,539)
<b>Balance as at June 30, 2022</b>	\$	6,909,461
Accrued interest payable included in accounts payable and accrued liabilities		(65,322)
<b>Debentures balance, June 30, 2022</b>	\$	<b>6,844,139</b>
Current portion of the Debentures		65,322
<b>Non current portion of the Debentures</b>	\$	<b>6,778,817</b>

### 11. SHARE CAPITAL

#### a) Authorized share capital

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

#### b) Common Shares issued and outstanding

151,161,888 Common Shares (December 31, 2020 - 149,268,163 Common Shares).

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

- (i) 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.
- (ii) 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.
- (iii) During April 2021, the Company completed an overnight marketed offering of Common Shares by issuing 6,301,866



# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 11. SHARE CAPITAL (continued)

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.

For the six months ended June 30, 2022

- (iv) During the six months ended June 30, 2022, the Company issued 128,000 Common Shares for cash proceeds of \$83,200 upon the exercise of warrants.
- (v) During the six months ended June 30, 2022, 166,667 RSUs were fully vested, which resulted in the issuance of 1,291,667 Common Shares including 1,125,000 RSUs vested in 2021 that were previously recorded as shares to be issued, with 666,667 shares pending issuance at June 30, 2022 and recorded as shares to be issued in the statement of changes in shareholders' equity.
- (vi) During the six months ended June 30, 2022, the Company issued 474,058 Debenture shares for interest payments.

### 12. WARRANTS

The following table reflects the continuity of warrants for the periods ended June 30, 2022 and December 31, 2021:

	Number of warrants	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
<b>Balance, December 31, 2020</b>	11,199,212	2.25	0.64
December 24 Debenture (i)(a)	1,250,000	-	1.44
Exercised (i)(b)	(1,016,969)	-	0.65
<b>Balance, December 31, 2021</b>	<b>11,432,243</b>	<b>2.25</b>	<b>0.73</b>
<b>Balance, December 31, 2021</b>	11,432,243	2.25	0.73
Issued (ii)(a)	650,000	-	1.44
Exercised (ii)(b)	(128,000)	-	0.65
Expired (ii)(c)	(38,043)	-	0.65
<b>Balance, June 30, 2022</b>	<b>11,916,200</b>	<b>2.25</b>	<b>0.87</b>

(i) Warrants issued 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.

(ii) Warrants exercised in the six months ended June 30, 2022 include the following:

- a. As part of the December 24, 2021 Non-Brokered Private Placement, the Company issued 650,000 warrants exercisable at \$1.44 per Warrant Share.
- b. A total of 128,000 warrants were exercised for cash proceeds for \$83,200.
- c. A total of 38,043 warrants were expired at an exercise price of \$0.65.

# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 12. WARRANTS (continued)

The following table reflects the warrants issued and outstanding as at June 30, 2022:

Number of warrants outstanding	Exercise price (USD)	Exercise price (CAD)	Expiry date
1,000,000	-	0.50	November 20, 2022
9,007,200	-	0.65	November 20, 2022
9,000	2.25	-	December 15, 2022
1,250,000	-	1.44	December 24, 2022
375,000	-	1.44	April 4, 2025
87,500	-	1.44	May 13, 2025
187,500	-	1.44	June 15, 2025
11,916,200			

### 13. STOCK OPTIONS

The following table reflects the continuity of options for the periods ended June 30, 2022 and December 31, 2021:

	Number of options	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
<b>Balance, December 31, 2020</b>	13,622,336	<b>1.51</b>	<b>1.69</b>
Granted (i)	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>1.78</b>
<b>Balance, December 31, 2021</b>	14,633,249	1.75	1.78
Expired/Forfeited	(580,000)	-	-
<b>Balance, June 30, 2022</b>	<b>14,053,249</b>	<b>1.75</b>	<b>1.78</b>

- (i) Options granted, exercised or expired/forfeited in the year ended December 31, 2021 include the following:
- On April 7, 2021, the Company granted a total of 314,163 incentive stock options as broker options, issued as part of the April 7th capital raise. Each option is exercisable for one Common Share at a price of \$2.15 on or before April 7, 2026. All options vest immediately. The fair value of each option has been estimated 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, the Company recorded \$443,441 as share capital issuance cost related to these stock options in the consolidated statements of financial position.
  - 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

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# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 13. STOCK OPTIONS (continued)

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.
- 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.

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### 13. STOCK OPTIONS (continued)

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.

(ii) During the six months ended June 30, 2022 the Company cancelled 580,000 stock options.

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

	Number of unvested RSUs and DSUs outstanding
Balance, December 31, 2021	2,525,000
Vested	(166,667)
Balance, June 30, 2022	2,358,333

As at June 30, 2022, there were 2,358,333 unvested RSUs and DSUs outstanding.

### 15. NET LOSS PER COMMON SHARE

The calculation of basic and diluted loss per share for the three and six months ended June 30, 2022 was based on the loss attributable to common shareholders of \$3,516,591 and \$6,428,613, respectively (three and six months ended June 30, 2021 - \$7,224,380 and \$13,766,436, respectively) and the weighted average number of Common Shares outstanding of 150,667,191 and 150,091,625 (three and six months ended June 30, 2021- 146,383,269 and 142,920,738). Diluted loss per share is equal to basic diluted loss per share as any effects of the potential convertible securities would be anti-dilutive.

### 16. TRANSACTIONS WITH RELATED PARTIES

#### Compensation of Key Management

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

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Management compensation	\$ 342,519	\$ 254,605	\$ 618,674	\$ 502,817
Directors' fees <sup>(1)</sup>	40,625	46,195	94,375	73,695
Share-based compensation <sup>(2)</sup>	361,430	1,743,041	761,344	3,011,440
Total management compensation	\$ 744,574	\$ 2,043,841	\$ 1,474,393	\$ 3,587,952

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

# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

### 17. 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 \$1.8 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.
- c) \$128,133 (75,000 GBP) of the \$313,362 long-term investment (Note. 20) remains payable and is recorded in accounts payable and accrued liabilities.

### 18. SEGMENTED INFORMATION

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

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

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

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

Net loss for the period ended	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Canada	\$ 1,813,557	\$ 4,448,912	\$ 3,120,536	\$ 8,099,518
Colombia	1,703,034	2,775,468	3,308,077	5,666,918
Total	\$ 3,516,591	\$ 7,224,380	\$ 6,428,613	\$ 13,766,436

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

Total assets	June 30, 2022	June 30, 2021
Canada	\$ 5,581,642	\$ 10,873,965
Colombia	24,528,594	25,082,845
Total	\$ 30,110,236	\$ 35,956,810

Operating segment - June 30, 2021	Corporate	Cannabis	Total
Revenues	\$ -	\$ 1,121,215	\$ 1,121,215
Cost of sales	-	1,133,003	1,133,003
Loss for the period	8,099,518	5,666,918	13,766,436

Operating segment - June 30, 2022	Corporate	Cannabis	Total
Revenues	\$ -	\$ 3,319,967	\$ 3,319,967
Cost of sales	-	2,022,619	2,022,619
Loss for the period	3,120,536	3,308,077	6,428,613

Revenues by continent	Cannabis	Total
Americas	\$ 2,970,256	\$ 2,970,256
Europe	349,712	\$ 349,712
Total Revenue	\$ 3,319,967	\$ 3,319,967

# PHARMACIELO LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 18. SEGMENTED INFORMATION (continued)

#### Revenue Concentration

The Company's business is such that, at any given time, it sells its products and services to a relatively small number of customers. During the year ended June 30, 2022, one customer accounted for 94% of cannabis revenue in Americas, which represents 84% of total revenue.

### 19. INVESTMENT IN JOINT VENTURES

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

Investment in joint ventures as at June 30, 2022, was \$631,565 (December 31, 2021 - \$639,643) as follows:

<b>Balance, December 31, 2021</b>	<b>\$ 639,643</b>
Share of loss on investment in joint ventures	(8,078)
<b>Balance, June 30, 2022</b>	<b>\$ 631,565</b>

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

#### As at June 30, 2022

	<b>PharmaCielo Italia SRL</b>	<b>PharmaCielo S.A. de C.V.</b>
Cash and cash equivalents	\$ 61	\$ 2,927
Other current assets	22,606	135,150
Total current assets	22,667	138,077
Non-current assets	312,316	-
Total assets	\$ 334,983	\$ 138,077
Current liabilities	345,605	77,004
Total liabilities	\$ 345,605	\$ 77,004
<b>Net assets/Equity<sup>(1)</sup></b>	<b>\$ (10,622)</b>	<b>\$ 61,073</b>

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

#### For the six months ended June 30, 2022

	<b>PharmaCielo Italia SRL</b>	<b>PharmaCielo S.A. de C.V.</b>
Selling, general, and administrative expenses	\$ 9,922	\$ 1,714
Other expense	188	-
<b>Net loss<sup>(1)</sup></b>	<b>10,110</b>	<b>1,714</b>

### 20. LONG-TERM INVESTMENT

During the six months ended June 30, 2022, the Company signed an investment agreement with Soteria Holdings Limited, a UK based portfolio company of Artemis Growth Partners. Under the terms of the Agreement, Soteria's Polish operating subsidiary will apply for a number of licenses to import and wholesale the Company's medical cannabis flower and extracts in the Polish market. In addition, Soteria's Polish subsidiary will support a group of the country's leading medical cannabis professionals to provide education and training programs to doctors in Poland looking to prescribe medical cannabis to their patients.

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#### 20. LONG-TERM INVESTMENT (continued)

Investment in Soteria Holdings Limited as at June 30, 2022, was \$313,362 (December 31, 2021 - \$Nil), as follows:

<b>Balance, December 31, 2021</b>	<b>\$ -</b>
Investment in Soteria Holdings	313,362
<b>Balance, June 30, 2022</b>	<b>\$ 313,362</b>

#### 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 PharmaCielo 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. Currently, according to official figures more than 83% of Colombians have a dose, more than 70% have completed their schemes and 36% have already has applied the first reinforcement, which has contributed to the return to normality and the economic recovery of this crisis.

Finally, on June 30th the president of Colombia, Iván Duque announced the end of the health emergency in the country. This was a temporary measure that was implemented to deal with the pandemic of Covid-19; 840 days passed where the most vulnerable population was protected, guaranteeing the protection of life, the physical integrity and health of the inhabitants of the national territory.

#### 22. SUBSEQUENT EVENTS

In July 2022, the Company raised \$1.5 million as part of the second tranche of its non-brokered private placement, consisting of an aggregate of 1,500 debenture units. This tranche of the Debentures has the same terms as the first tranche.

On August 29, 2022, the Company settled \$1 million of debt owed to a former Officer of the Company, through the issuance of an aggregate amount of 2,173,913 common shares of the Company (the "Payment Shares") at a deemed price of \$0.46 per Payment Share. All the Payment Shares issued in connection with the settlement are subject to a statutory hold period of four months plus a day from the date of issuance, in accordance with applicable securities legislation.

On August 29, 2022, the Board approved 1,626,200 Stock Options and 2,672,200 Restricted Share Units ("RSUs") to Directors and Officers of the Company. Each Stock Option is exercisable to acquire one Common Share of the Company at a price of \$0.46 per Common Share. The Stock Options granted are subject to a two-year vesting period and expire on the date that is five years from the Grant Date. The RSUs granted are also subject to a two-year vesting period and expire on the date that is five years from the Grant Date. Each RSU entitles the holder to receive one Common Share upon vesting.

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# **PHARMACIELO LTD.**

## **Notes to the Condensed Interim Consolidated Financial Statements**

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### **22. SUBSEQUENT EVENTS (continued)**

On August 29, 2022, the Company signed subscription agreements for an additional 6,000 debenture units, representing an additional \$6 million in committed funds having the same terms as the first tranche. Closing of the latest commitments will be in equal instalments over the next 4 months and is subject to regulatory approval including that of the TSX Venture Exchange. Certain officers and directors of the Company have subscribed for debenture units in an aggregate principal amount totaling \$6 million.