PHARMACIELO LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

Dated October 28, 2022

PharmaCielo Ltd. Management's Discussion and Analysis
For the three and nine months ended September 30, 2022

Introduction

PharmaCielo Ltd. (the "Company" or "PharmaCielo") is a publicly traded corporation, incorporated in Canada, with its registered office and head office are at 82 Richmond Street East, Toronto, Ontario, M5C 1P1. Common shares of PharmaCielo trade on the TSX Venture Exchange ("TSXV") under the ticker symbol "PCLO" and on the OTC Markets under the symbol "PCLOF".

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of PharmaCielo constitutes management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2022. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2022, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). Information contained herein is presented as of October 28, 2022, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors ("the Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

The unaudited condensed interim consolidated financial statements and this MD&A have been reviewed by the Company's Audit Committee and were approved by the Board on October 28, 2022.

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

Caution Regarding Forward-Looking Statements

This MD&A contains certain "forward-looking information" and "forward-looking statements" (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

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

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

Recent Developments

- On August 25, 2022, the Company announced it has received ICANN G.A.P and GACP certifications following the completion of an audit conducted on-site in Rionegro, by the Institute of Quality and Control (IQC), the largest private certification body in Israel. The Company expects to be in a position to begin exporting dried flower to Israel in early 2023.
- On September 14, 2022, the Company announced it has received a five tonne quota to produce THC-dominant cannabis strains for export as dried flower. This quota will support PharmaCielo's sales efforts in additional global markets and enable the Company to fulfill shipments of dried cannabis flower to support current agreements. The Company expects to begin shipping commercial quantities of dried cannabis flower beginning in early 2023 with continued growth over the course of the year.
- On September 15, 2022, the Company announced that it has made its first shipment of THC-dominant dried cannabis flower to a customer in the Czech Republic, in the EU market. The customer is an established cannabinoid-focused pharmaceutical distributor and clinical research organization in the country. The customer currently imports cannabinoids from The Netherlands and Canada.
- On October 12, 2022, the Company announced that it has completed its second shipment of CBD Isolate to the Uruguayan subsidiary of a well-established Latin American pharmaceutical company, for additional pre-commercial testing.

Business Outlook

During the first nine months of 2022, PharmaCielo continued to execute on opportunities in its chosen key markets, mainly Latin America, Israel, Australia and European Union ("EU"), as well as in additional jurisdictions where demand continues for the Company's products. While the global cannabis and cannabis derivatives export market is still in its early days, PharmaCielo has established its international commercial team, and is making promising early progress in developing long-term relationships.

PharmaCielo is focusing on development and sales efforts on its broader product portfolio beyond CBD isolate, including psychoactive flower, full and broad spectrum products and THC distillates and derivatives. These products are more differentiated by nature, and therefore higher margin, on average. We believe that the whole plant (entourage affect) provides the greatest benefits to global medical patients.

PharmaCielo is implementing two major initiatives to remain agile in the burgeoning international cannabis markets:

1. Moving toward EU-GMP certification of its extraction and manufacturing facility, which the Company expects to achieve early 2023. This will better position PharmaCielo to sign longer term supply agreements with global pharmaceutical and cosmetics customers; and

2. Preparing for dried cannabis flower export.

Building on the recently announced regulations putting into motion the Colombian Government's Decree 811, the Company is slated to become one of the largest exporters of psychoactive flower. With PharmaCielo's upstream and downstream scale and quality, the Company is uniquely positioned to be a formidable competitor with psychoactive flower currently being imported into the EU and other markets from Canada and other producing countries. PharmaCielo has already started dried flower trial shipments and expects to start commercial shipments early 2023. The Company has taken the necessary steps to ensure psychoactive flower and extract quotas are in place for 2022 and 2023 exports.

While PharmaCielo has built one of the world's largest cultivation and production complexes, the global import/export market for cannabinoids is still relatively early stage, and as a result, sales are unpredictable. The Company expects continued weakness through 2022, perking up into material long-term contracts being signed before the end of 2022. With dried flower exports expected to begin in 2023, as well as continued sales efforts on the Company's extract products, PharmaCielo expects to continue with its sales growth in the last quarter of 2022 and early 2023. Also, recurring orders for more complex and value-added products, such as CBD Full-Spectrum, THC Full Spectrum and Distillate, indicate a positive outlook for an enhanced product mix.

The Company has completed all major growth capital expenditures at its Production and Extraction Centre ("PEC") and does not expect to incur any material growth capital expenditures during the remainder of 2022. Cash outlays will be primarily related to operational, EU-GMP certification, and business development expenditures.

The Company believes that it will be able to comfortably adjust production and inventory levels in response to both increases and decreases in its sales levels, providing the Company flexibility to manage cash outlays in proportion to revenue inflows.

From a cost of goods sold perspective, the Company's short lead times and small production batches reduce the need to maintain high inventories of finished and intermediate products.

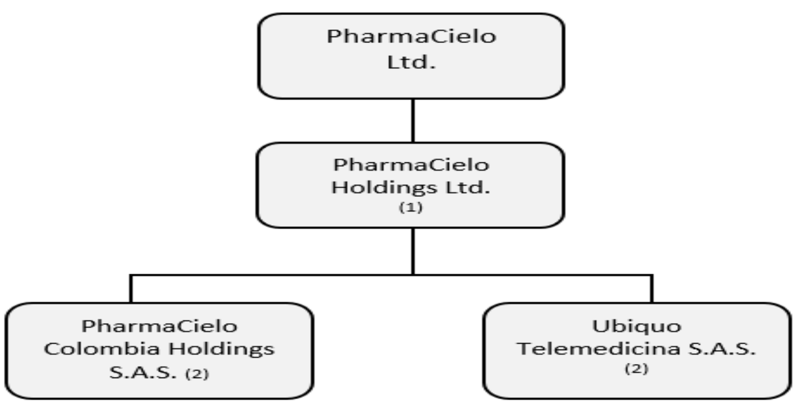
Company Overview

PharmaCielo is a public company and commenced trading on the TSX Venture Exchange (the "TSXV") on January 18, 2019, under the ticker symbol "PCLO". PharmaCielo is headquartered in Toronto, Ontario, Canada, with a focus on cultivating, processing, and supplying all natural medicinal-grade cannabis extracts to large channel distributors, such as health and wellness product manufacturers, pharmacies, medical clinics, and cosmetic companies. PharmaCielo Ltd. was incorporated pursuant to the Business Corporations Act (British Columbia) on May 30, 2017, under the name "AAJ Capital 1 Corp." Upon completion of its Qualifying Transaction (as such term is defined in Policy 2.4 – Capital Pool Companies of the TSXV Corporate Finance Manual ("Policy 2.4") in accordance with the policies of the TSXV on January 15, 2019), the Company changed its name to "PharmaCielo Ltd." Both PharmaCielo's registered office and head office are located at 82 Richmond Street East, Toronto, Ontario, M5C 1P1.

PharmaCielo has two operating subsidiaries, PharmaCielo Colombia Holdings S.A.S. ("PharmaCielo Colombia") and Ubiquo Telemedicina S.A.S. ("Ubiquo"). PharmaCielo Colombia cultivates and processes the Company's all-natural cannabis into standardized, medicinal-grade oil extracts and related products. PharmaCielo Colombia was incorporated under the laws of Colombia on July 28, 2014, and has its registered office at KM 4 Rionegro, La Ceja Vereda El Capiro Finca Sant Angelo, Rionegro, Antioquia, Colombia. In Colombia, PharmaCielo Colombia is a fully licensed cultivator, producer, and distributor of both TetraHydroCannabinol ("THC") and CBD medical cannabis for: (a) use in Colombia; (b) international export; and (c) research purposes. PharmaCielo's main growing and processing operations are located at its facility in Rionegro, Colombia.

Ubiquo is a knowledge management and medical consultation system that aims to create better access to healthcare for Colombians. Ubiquo is a technology platform and a user interface that allows doctors and patients to communicate. Doctors or clinics can register with Ubiquo and provide patients with access to the Ubiquo platform, which is used as a communication tool. Doctors can communicate with patients on all regular medical matters, included, but not limited to medicinal cannabis. Medical professionals that use the Ubiquo services are not employees or contractors of Ubiquo and are required to pay access fees to Ubiquo for using the platform. Patient access to the Ubique platform is free. Through its acquisition of Ubiquo, PharmaCielo anticipates that it will be able to better facilitate the educational progress and knowledge of the possible uses, benefits, and risks of medicinal cannabis.

Intercorporate Relationship



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

Production Licenses

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

The Company's Cannabis Psychoactive Cultivation License and Cannabis Manufacturing License permit the cultivation, exportation and manufacturing of psychoactive cannabis; however, quotas from the Ministry of Justice and Law (the "Ministry of Justice") and the Ministry of Health and Social Protection (the "Ministry of Health") are required for the cultivation and transformation of psychoactive cannabis for both research and commercial purposes.

For the year 2022, PharmaCielo has received commercial quotas for psychoactive cannabis flowers exportation, permitting it to produce 5 tons of THC flower for direct exportation. This quota was granted through Resolution 1687 dated September 7th, 2022 by the Ministry of Justice.

Additionally, on May 04, 2022, PharmaCielo was granted with manufacturing supplementary exportation quotas for 300kg of extracts for commercial purposes, granted by the Ministry of Health.

Industry Overview

The global cannabis industry is experiencing significant changes as various governments embrace regulatory reforms, with continued increase in the number of nations enabling the production and consumption of medicinal cannabis.

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

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

Management believes that the Company is competitively positioned on a global level to capitalize on its Colombian first-mover status and extensive cultivation and scientific processing capacity, to aggressively address global market demands for the highest quality medicinal product supply.

Operations

Facilities

In Colombia, the Company's agricultural facilities are located in the municipality of Rionegro in the department of Antioquia, it consists of 12 hectares of open-air greenhouses situated on a 26.3-hectare property, along with a natural water reservoir, a high-end tissue culture laboratory to preserve the uniformity of the genetics and an industrial scale clonal propagation system customized to handle large-scale cutting operations. Each hectare of greenhouse contains 180 planting beds, each bed in average is 40.5 square meter (1.35 m x 30m). The total bedding area per hectare is 7,290 square meters and the entire agricultural facilities contains approximately 1.3 million square feet of planting beds. The tissue culture laboratory supplies clonal and clean plants directly to the field or mother stock; with this, the nursery and propagation areas can produce, on a weekly basis, a significant volume of cuttings (e.g., ‘clones’). The tissue culture laboratory along with the nursery and propagation center ensure uniform and traceable cultivars for flower production, after planting, biological and cultural control strategies are implemented to efficiently maintain pathogens and pests at minimum levels that exceed agricultural standards. Also, the Company´s post-harvest is fully equipped to process the collected flowers for the following industrial processes.

Processing and Extraction Centre (“PEC”)

The Company’s Processing and Extraction Centre (“PEC”), consists of approximately 4,000 square meters of buildings and installations on approximately 3.6 hectares. The PEC includes processing areas that complies with EUGMP Standards (upstream-downstream), quality control, analytical laboratories, and warehouses. The PEC is capable of upstream processing 20 tons of biomass monthly (30 Ton installed capacity), and downstream can deliver a variety of extracts that includes CBD Isolate (1250 kg), Broad Spectrum Distillated, THC and CBD Full Spectrum, Distillated and Full Spectrum Diluted.

The PEC production processes are in accordance with GMP and EU GMP guidelines. GMP and EUGMP validation by individual clients and supplier certification process have been initiated and the Company expects to achieve EUGMP certification by end Q1 2023.

The quality assurance and Good Manufacturing Practices are supported by two fully equipped laboratories, tooled with the latest technology for Microbiology and Physicochemical analysis. This will enable PharmaCielo to comply with regulatory standards and the continuous monitoring and quality assurance of its products.

The Company received confirmation of Colombian Phytotherapeutics GMP Certification by Invima on September 10th, 2021, this certification covers products manufactured with PharmaCielo’s extracts and proprietary cultivars.

Agriculture

The Company has been actively optimizing yield volumes based on cultivation density, plants per square meter, as considered against overall cultivation/processing costs. Also, it has been developing its Colombian genetics and production procedures, envisioning the potential exportation of flowers as a final product according to the international standards.

Cultivation

Complying the GACP certified standards and procedures, the Company has most of its production dedicated on CBD flowers for extraction. Because of the Company’s product strategy and the short-term potential to sell dried flower into several markets globally, the company has been audited by IQC in July and has been given the ICANN Certification on August 10th, 2022.

The Company has been developing the production of the best cultivars for exportation, this framed under the final regulatory framework in Colombia, released on February 18th, 2022, and this new regulation allows Colombia to export psychoactive flowers as a final product, the company has already been assigned new quotas by the government, enabling the Company to export up to 5 tons of THC flowers.

Discussion of Operations

Selected Financial Information

The following table summarizes results of operations of the Company for the three and nine months ended September 30, 2022 and 2021.

(Expressed in Canadian Dollars)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue:				
Sale of Cannabis derivative products	**457,484**	464,153	**3,734,393**	1,550,445
Revenue from Telemedicine services	**17,839**	21,012	**60,897**	55,935
Total revenue	**475,323**	485,165	**3,795,290**	1,606,380
Cost of goods sold - Cannabis derivative products	**574,510**	566,541	**2,596,708**	2,451,306
Cost of goods sold - Telemedicine services	**-**	869	**421**	1,315
Cost of goods sold - Inventory impairment	**-**	577,668	**-**	1,899,924
Gross (loss) profit before fair value adjustments	**(99,187)**	(659,913)	**1,198,161**	(2,746,165)
Realized fair value on inventory sold	**-**	(26,786)	**-**	(162,679)
Unrealized loss on fair value of biological assets	**(206,663)**	(662,851)	**(566,134)**	(843,689)
Gross (loss) profit	**(305,850)**	(1,349,550)	**632,027**	(3,752,533)
Operating expenses				
Agricultural operating costs	**35,408**	60,450	**114,767**	163,421
Total selling, general, and administrative expenses	**3,377,485**	6,718,602	**10,366,218**	17,670,783
Total other expense	**1,458,023**	622,125	**1,752,714**	930,426
Net loss for the period	**(5,176,766)**	(8,750,727)	**(11,601,672)**	(22,517,163)
Other comprehensive loss				
Currency translation adjustment	**(629,296)**	71,667	**(1,021,617)**	(2,679,829)
Net comprehensive loss	**(5,806,062)**	(8,679,060)	**(12,623,289)**	(25,196,992)
Basic and diluted loss per share	**(0.03)**	(0.06)	**(0.08)**	(0.16)
Weighted average number of common shares outstanding - basic and diluted	**151,205,366**	147,809,973	**150,466,951**	144,568,392

(Expressed in Canadian Dollars)
(unaudited)

	As at September 30, 2022	As at December 31, 2021
Total assets	**27,106,805**	35,956,810
Total liabilities	**17,944,030**	16,630,868
Total shareholders' equity	**9,162,775**	19,325,942

The Company's net loss totaled $5.2 million and $11.6 million for the three and nine months ended September 30, 2022, respectively (2021: net loss of $8.8 million and $22.5 million, respectively).

The new management's focus on cost reduction and containment measures initiated in the second half of 2021 have continued to payoff in 2022.

- **Reduction of consulting fees by 61%** for the nine months ended September 30, 2022, when compared to the nine months ended September 30, 2021.
- **Reduction of professional fees by 60%** representing a reduction of $896,294 for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021.
- Various additional projects aiming wide range of cost reductions will be completed in the second half of 2022.

Adjusted EBITDA

Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization). The term Adjusted EBITDA does not have any standardized meaning under IFRS. Therefore, it may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of net loss to adjusted EBITDA:

Adjusted EBITDA	For the three months ended September 30,		For the nine months ended September 30,	
In CAD$ (000's)	2022	2021	2022	2021
Net income (loss) for the period	**$(5,177)**	**$(8,751)**	**$(11,602)**	**$(22,517)**
Add back:				
Interest expense	419	79	874	215
Amortization of property, plant and equipment & intangible assets	280	493	1,245	1,094
Amortization expense included in production costs	343	104	884	462
EBITDA	$(4,135)	$(8,075)	$(8,599)	$(20,746)
Adjustments:				
Share based payments	673	2,079	1,611	5,873
Non-recurring expenses	993	1,767	993	3,116
Non-recurring Professional fees	-	-	-	(275)
Adjusted EBITDA	**$(2,469)**	**$(4,229)**	**$(5,994)**	**$(12,032)**

During the three and nine months ended September 30, 2022, the Company generated an adjusted EBITDA loss of $2.5 million and $6.0 million, respectively (2021: loss of $4.2 million and $12.0 million, respectively).

Revenue

During the three and nine months ended September 30, 2022, the Company generated net revenues of $475,323 and $3.8 million, respectively (2021: $485,165 and $1.6 million, respectively). Cannabis revenues generated were $457,484 and $3.7 million for the three and nine months ended September 30, 2022 (2021: $464,153 and $1.6 million, respectively). Ubiquo generated net revenues of $17,839 and $60,897 for the three and nine months ended September 30, 2022 (2021: $21,012 and $55,935, respectively), mainly from support and maintenance contracts.

The Company continues to position itself to take advantage of significant opportunities in Latin America, Europe, and Israel. Due to regulatory requirements, the sales cycle is protracted in most of PharmaCielo target countries. The Company has secured necessary export quotas of both psychoactive and non-psychoactive products. In addition, we are working closely with customers to ensure that they have appropriate technical data sheets and certificates of analysis for import into their marketplace.

As we move forward with our EU-GMP certification we will continue to focus our sales efforts of our products to large pharma and cosmetic customers. We expect that EU-GMP certification will enable PharmaCielo to price our CBD products at attractive price levels.

We do not see any significant capital expenditures in the coming quarters as our grow and manufacturing/production facilities have been completed and are now able to go into full production. Our efforts are focused on developing a robust sales team in the EU and Israel as we consider these markets as key to driving revenue in 2023 and beyond. We have made the required pivot in our production planning to introduce a wide range of THC and CBD products to the marketplace as they provide higher margins and greater demand.

With the signing of Bill 811, we have already started psychoactive flower trial shipments. Due to our scale and growing conditions, we are uniquely positioned to be a formidable competitor to EU imports from Canada and other producing countries. We feel we have superior genetics and can be most competitive due to our significant scale. We expect flower exports to increase dramatically throughout 2023 and we have already received proper quotas for all export opportunities.

Cost of goods sold

During the three and nine months ended September 30, 2022, inventory recognized as cost of goods sold was $574,510 and $2.6 million, respectively (2021 - $1,170,995 and $4.5 million, respectively), consisting of realized fair value changes on inventory sold of $Nil (2021 – $26,786 and $162,679, respectively), impairment costs reducing the inventory value to its net realizable value of $Nil (2021 - $577,668 and $1.9 million, respectively), and capitalized post-harvest costs expensed during the period as cannabis inventory is sold of $574,510 and $2.6 million, respectively (2021 - $566,541 and $2.5 million, respectively).

Gross profit (loss) excluding fair value items

Gross profit excluding fair value items, for the three and nine months ended September 30, 2022, was $(99,187) and $(1.2) million, respectively (2021 – $(659,913) and $(2.7) million, respectively). Cannabis gross profit excluding fair value items was $(117,026) and $(1.1) million, respectively (2021 - $(680,056) and $(2.8) million, respectively).

Ubiquo Telemedicina S.A.S. gross profit was for the three and nine months ended September 30, 2022, $17,839 and $60,476, respectively (2021 - $20,143 and $54,620).

SG&A - Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

Selling, general and administrative expenses In CAD$ (000's)	For the three months ended September 30, 2022	2021	B/(W) $	B/(W) %	For the nine months ended September 30, 2022	2021	B/(W) $	B/(W) %
General and administrative								
Consulting fees	$ 84	$ 174	$ 90	51.6%	$ 288	$ 744	$ 457	61.4%
Office and general	323	709	386	54.4%	1,212	1,825	613	33.6%
Professional fees	227	487	260	53.4%	873	2,195	1,322	60.2%
Salaries and wages	1,443	2,577	1,134	44.0%	4,103	4,999	896	17.9%
Travel and accommodation	37	34	(3)	(8.7)%	163	71	(92)	(128.6)%
Share-based compensation	673	2,079	1,406	67.6%	1,611	5,873	4,261	72.6%
Selling, marketing and promotion	214	275	61	22.2%	871	829	(42)	(5.1)%
Amortization and depreciation	377	344	(32)	(9.4)%	1,245	1,001	(244)	(24.3)%
Expected credit losses	-	40	40	100.0%	1	134	133	99.1%
Total selling, general and administrative expenses	**$ 3,377**	**$ 6,719**	**$3,341**	**49.7%**	**$ 10,366**	**$ 17,671**	**$7,305**	**41.3%**

Consulting fees

Consulting fees were $84,026 and $287,506 for the three and nine months ended September 30, 2022, respectively. Compared to $173,717 and $744,039 in the same periods in 2021, respectively, representing a 61.4% reduction for the nine months ending September 30, 2022.

Office and general

Office and general expenses were $323,164 and $1.2 million for the three and nine months ended September 30, 2022, respectively. Compared to $708,861 and $1.8 million in the same periods in 2021, respectively. Representing a 34% reduction for the nine months ending September 30, 2022.

Professional fees

Professional fees were $227,360 and $872,703 for the three and nine months ended September 30, 2022, respectively. Compared to $487,406 and $2.2 million in the same periods in 2021, respectively, representing a 60.2% reduction for the nine months ending September 30, 2022.

Salaries and wages

Salaries and wages expenses were $1.4 million and $4.1 million for the three and nine months ended September 30, 2022, respectively. Compared to $2.6 million and $5.0 million in the same periods in 2021, respectively.

Travel and accommodation

Travel and accommodation expenses were $36,647 and $162,803 for the three and nine months ended September 30, 2022, respectively. Compared to $33,701 and $71,231 in the same periods in 2021, respectively. The increase is due to the removal of COVID-19 related travel restrictions that were implemented in 2021.

Share-based compensation

Share-based compensation expenses were $672,992 and $1.6 million for the three and nine months ended September 30, 2022, respectively. Compared to $2.1 million and $5.9 million in the same periods in 2021, respectively representing a 72.6% decrease.

Selling, marketing and promotion

Selling, marketing and promotion expenses were $213,952 and $871,370 for the three and nine months ended September 30, 2022, respectively. Compared to $274,976 and $829,319 in the same periods in 2021 , respectively. The increase for the three and nine months ending September 30, 2022, is due to the continued strategic implementation of the sales and account management structure.

Amortization and depreciation

Amortization and depreciation expenses were $376,734 and $1.2 million for the three and nine months ended September 30, 2022, respectively. Compared to $344,349 and $1.0 million in the same periods in 2021, respectively.

Expected credit losses

The Company has built a provision for expected credit losses on accounts receivable based on the following:

I. The Company sales have been to companies in the bulk cannabis sales segment which is a relatively new segment in the cannabis industry.
II. In addition, some of these companies may have been operational for a short period of time and may have limited working capital and have limited credit history.

Other expense

During the three and nine months ended September 30, 2022, the Company recognized other expense of $1.5 million and $1.8 million, respectively (2021 - $622,125 and $930,426, respectively) higher than 2021, mainly due to higher interest charges of $359,064 and $874,263 for the three and nine months ended September 30, 2022 (compared to $112,001 and $348,408 for the same period in 2021 respectively), higher other non-operating (income) expense of $145,028 and $(66,297) for the three and nine months ended September 30, 2022 (compared to $Nil in 2021) and higher share of loss on investment in joint ventures of $838,425 and $846,503 for the three and nine months ended September 30, 2022 (compared to $107,314 and $308,086 for the same periods in 2021), which were partially offset by lower unrealized loss on marketable securities of $42,000 and $184,000 for the three and nine months ended September 30, 2022 (compared to $89,000 and $340,000 for the same periods in 2021).

Summary of Quarterly Results

The following table outlines certain unaudited quarterly information for the last eight completed fiscal quarters of the Company up to and including the three and nine months ended September 30, 2022. The financial information was prepared in accordance with IFRS.

PharmaCielo Ltd. Selected Quarterly Information				
In CAD$ (000's)	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Sales	$ 475	$ 2,119	$ 1,201	$ 339
COGS	575	1,283	740	505
Gross profit before fair value adjustments	(99)	836	461	(166)
Realized fair value on inventory sold	-	-	-	2
Unrealized gain on biological assets	(207)	(1)	(358)	(392)
Operating Expenses	35	36	43	56
SG&A	3,377	3,745	3,248	2,995
Net loss	(5,177)	(3,517)	(2,912)	(4,113)
Net Comprehensive loss	(5,806)	(4,929)	(1,892)	(5,055)
Weighted average number of common shares outstanding	151,205,366	150,667,191	149,509,663	147,180,819
Net loss per common share	$ (0.03)	$ (0.02)	$ (0.02)	$ (0.03)
In CAD$ (000's)	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Sales	$ 485	$ 446	$ 675	$ 881
COGS	1,145	1,113	1,464	2,536
Gross profit before fair value adjustments	(660)	(667)	(789)	(1,655)
Realized fair value on inventory sold	(27)	(73)	(63)	(233)
Unrealized gain on biological assets	(663)	(68)	(113)	(378)
Operating Expenses	60	685	48	40
SG&A	6,719	4,918	6,034	16,687
Net loss	(8,751)	(7,224)	(6,542)	(19,901)
Net Comprehensive loss	(8,679)	(7,777)	(8,741)	(18,043)
Weighted average number of common shares outstanding	147,809,973	146,383,269	139,419,735	127,640,845
Net loss per common share	$ (0.06)	$ (0.05)	$ (0.05)	$ (0.16)

Liquidity

The principal focus of the Company is cultivating, processing, and supplying all-natural medicinal-grade cannabis extracts to the Colombian market. These activities are financed through equity offerings of securities of the Company on an ongoing basis. There is no assurance that future equity capital will be available to the Company in the amounts or at the times desired by the Company or on terms that are acceptable, if at all. See “Risk Factors” below.

As at September 30, 2022, the Company had 151,411,888 Common Shares issued and outstanding, 15,281,948 options outstanding that could raise approximately $25.6 million, and 12,321,200 warrants that could raise approximately $9.7 million, if exercised in full.

Accounts payable and accrued liabilities decreased by $1.1 million as at September 30, 2022 (compared to a $2.6 million decrease as at September 30, 2021) and consists of amounts that are to be extinguished in due course. The Company’s cash and cash equivalents as of September 30, 2022 are sufficient to pay the cash portion of these liabilities.

As at September 30, 2022, the Company has working capital deficit of $(3.4) million (compared to $1.1 million as at December 31, 2021) and the Company has cash and cash equivalents of $425,837 (compared to $5.3 million as at December 31, 2021).

Net cash used in operating activities was $8.1 million for the nine months ended September 30, 2022. Operating activities were affected by a net decrease in non-cash working capital balances of $1.1 million for the nine months ended September 30, 2022. This was due to a decrease in accounts payable and accrued liabilities of $1.1 million for the nine months ended September 30, 2022, an investment in sublease of $321,149 for the nine months ended September 30, 2022, increase in inventory and biological assets of $19,580 for the nine months ended September 30, 2022, increase in prepaid expenses and other receivables of $49,004 for the nine months ended September 30, 2022, and increase in trade receivables of $253,766 for the nine months ended September 30, 2022.The Company also recorded share-based compensation of $1.6 million for the nine months ended September 30, 2022, amortization and depreciation of $1.2 million for the nine months ended September 30, 2022, exchange loss of $112,757 for the nine months ended September 30, 2022, unrealized loss on fair market value of biological assets of $566,134 for the nine months ended September 30, 2022, unrealized gain on fair market value of XPhyto investment of $219,449 for the nine months ended September 30, 2022, gain on revaluation of sublease of $250,449 for the nine months ended September 30, 2022, unrealized loss on marketable securities of $184,000 for the nine months ended September 30, 2022, remeasurement adjustment of ROU asset of $1.1 million for the nine months ended September 30, 2022, remeasurement adjustment of lease liability of $(652,900) for the nine months ended September 30, 2022, and interest expense of $463,564 for the nine months ended September 30, 2022.

Net cash used in investing activities was $761,420 during the nine months ended September 30, 2022, as a result of investment in property and equipment of $459,460 for the nine months ended September 30, 2022 and a long-term investment of $301,960 for the nine months ended September 30, 2022.

Net cash provided by financing activities was $3.9 million during the nine months ended September 30, 2022, as a result of options and warrants exercised of $83,199 for the nine months ended September 30, 2022, lease payments of $229,280 for the nine months ended September 30, 2022, cash received from debentures of $4.2 million for the nine months ended September 30, 2022, and loan principal payments of $151,596 for the nine months ended September 30, 2022.

The Company is generating operating revenues but has not achieved full commercial production levels and therefore must utilize its current cash reserves and funds obtained from the issuance of debentures and share capital to maintain its capacity to meet ongoing operating activities. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company. See “Risk Factors” below and “Caution Regarding Forward-Looking Statements” above.

Commitments

Included in accounts payable and accrued liabilities are accruals for certain provisions, including termination related commitments to former officers, directors, and employees of $1.7 million.

The Company has lease commitments for office space rented in Toronto, Canada and Medellín, Colombia. Payments occur on a monthly basis in accordance with the table presented in Note 8 in the unaudited condensed interim consolidated financial statements of the Company.

Included in accounts payable and accrued liabilities is $128,133 (75,000 GBP) of the $301,960 in long-term investment and $110,514 (80,000 EURO) of the $182,036 (132,000 EURO) settlement payment to PharmaCielo Italia S.R.L.

Discussion of third quarter

The Company's net loss totaled $5.2 million for the three months ended September 30, 2022 (compared to $8.8 million loss in the three months ended September 30, 2021).

The second quarter net loss improvement was primarily due to lower inventory impairment (COGS) of $Nil for the three months ended September 30, 2022 (compared to $577,668 for the three months ended September 30, 2021), lower unrealized loss on fair value of biological assets of $206,663 for the three months ended September 30, 2022 (compared to $662,851 for the three months ended September 30, 2021), lower consulting fees of $84,026 for the three months ended September 30, 2022 (compared to $173,717 in the three months ended September 30, 2021), lower office and general of $323,164 for the three months ended September 30, 2022 (compared to $708,861 in the three months ended September 30, 2021), lower professional fees of $227,360 for the three months ended September 30, 2022 (compared to $487,406 in the three months ended September 30, 2021), lower salaries and ages of $1.4 million for the three months ended September 30, 2022 (compared to $2.6 million in the three months ended September 30, 2021), lower share-based compensation of $672,992 for the three months ended September 30, 2022 (compared to $2.1 million in the three months ended September 30, 2021), and lower exchange loss of $61,678 for the three months ended September 30, 2022 (compared to $190,081 in the three months ended September 30, 2021). Partially offset by higher interest expense of $359,064 for the three months ended September 30, 2022 (compared to $112,001 in the three months ended September 30, 2021), higher other non-operating expenses of $145,028 for the three months ended September 30, 2022 (compared to $Nil in the three months ended September 30, 2021), and share of loss on investment in joint ventures of $838,425 for the three months ended September 30, 2022 (compared to a gain of $107,314 in the three months ended September 30, 2021).

Financial instruments

The Company has exposure to the following risks from its use of financial instruments:

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As of the date of this MD&A, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year.

Management believes that the going concern assumption is appropriate for these consolidated financial statements and that the Company will be able to meet its budgeted administrative and development costs during the upcoming year and beyond when considering the Company's current financial forecast. PharmaCielo continues to enter into strategic agreements and finance offerings to source funds and maintain its operations. The assessment of the appropriateness of the going concern assumption includes significant judgements. From the Company's perspective this includes the assumption that warrant and option holders will continue to exercise their instruments during the year and that if the Company were required to limit its variable costs on cultivation and production, it would be able to do so in a short time frame with limited additional restructuring costs. The Company may need to seek further financing in the future to maintain its current level of activity. To date, PharmaCielo has been successful in raising funds to sustain operations. However, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company.

Foreign currency risk

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently expects that sales will be denominated in Colombian pesos and may, in the future, have sales denominated in the currencies of additional countries in which it establishes sales offices. In addition, PharmaCielo incurs most of its operating expenses in Colombia Pesos. In the future, the proportion of PharmaCielo's sales that are international may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Company's business, financial condition, and results of operations. PharmaCielo has not previously engaged in foreign currency hedging. If the Company decides to hedge its foreign currency exposure, it may not be able to do so effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide from foreign currency fluctuations and can themselves result in losses.

Off-Balance-Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

Share Capital

As of the date of this MD&A, the Company had issued and outstanding:

- 151,411,888 Common Shares;
- 12,844,094 stock options exercisable to purchase Common Shares;
- 666,667 RSUs to be settled in Common Shares;
- 1,525,000 DSUs to be settled in Common Shares or cash;
- 1,009,000 Common Share purchase broker warrants; and

- 11,312,200 Common Share purchase warrants.

Risk Factors

Where used in this "Risk Factors" section, "PharmaCielo" refers to either PharmaCielo Ltd. or PharmaCielo Colombia, as the context may require. Due to the nature of PharmaCielo's business, the legal and economic climate in which it operates and its present stage of development, PharmaCielo is subject to significant risks. The risks presented below should not be considered exhaustive and may not be all the risks that PharmaCielo may face. Additional risks and uncertainties not presently known to PharmaCielo or that PharmaCielo currently considers immaterial may also impair the business and operations of PharmaCielo and cause the value of the Common Shares to decline. If any of the following risks or any other risks occur, PharmaCielo's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event, the trading price of the Common shares could decline, and investors could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

Business Risks

Limited Operating History

PharmaCielo is an early-stage company having been founded in 2014 and, as a result, it has a limited operating history upon which its business and future prospects may be evaluated. PharmaCielo will be subject to all the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its operating goals. For PharmaCielo to meet future operating and debt service requirements, PharmaCielo will need to be successful in its growing, marketing and sales efforts. Additionally, where PharmaCielo experiences increased sales, PharmaCielo's current operational infrastructure may require changes to scale PharmaCielo's business efficiently and effectively to keep pace with demand and to achieve long-term profitability. If PharmaCielo's products and services are not accepted by the customer market, PharmaCielo's operating results may be materially and adversely affected.

Regulatory Compliance Risks

Achievement of PharmaCielo's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. PharmaCielo may not be able to obtain or maintain the necessary licences, permits, quotas, authorizations or accreditations, or may only be able to do so at great cost, to operate its business. PharmaCielo cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by local governmental authorities. To date, PharmaCielo has received the licences relating to both the psychoactive and non-psychoactive cultivation of cannabis from the Colombian government. The impact of the compliance regime, any delays in obtaining, or failure to obtain or keep the regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of PharmaCielo.

The officers and directors of PharmaCielo must rely, to a great extent, on PharmaCielo's Colombian legal counsel and local consultants retained by PharmaCielo in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect

PharmaCielo's business operations, and to assist PharmaCielo with its governmental relations. PharmaCielo must rely, to some extent, on those members of management and the Board who have previous experience working and conducting business in Colombia in order to enhance its understanding of and appreciation for the local business culture and practices in Colombia. PharmaCielo also relies on the advice of local experts and professionals in connection with current and new regulations that develop with respect to banking, financing and tax matters in Colombia. Any developments or changes in such legal, regulatory, or governmental requirements or in local business practices in Colombia are beyond the control of PharmaCielo and may adversely affect its business. The impact of the compliance regime, any delays in obtaining, or failure to obtain or keep the regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of PharmaCielo.

Reliance on Licenses and Authorizations

PharmaCielo's ability to grow, store and sell cannabis in Colombia is dependent on PharmaCielo's ability to sustain and/or obtain the necessary licences and authorizations from certain authorities in Colombia.

The licences and authorizations are subject to ongoing compliance and reporting requirements and the ability of PharmaCielo to obtain, sustain or renew any such licences and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. Failure to comply with the requirements of the licences or authorizations or any failure to maintain the licences or authorizations would have a material adverse impact on the business, financial condition, and operating results of PharmaCielo.

Although PharmaCielo believes that it will meet the requirements to obtain, sustain or renew the necessary licences and authorizations, there can be no guarantee that the applicable authorities will issue these licences or authorizations. Should the authorities fail to issue the necessary licences or authorizations, PharmaCielo may be curtailed or prohibited from the production and/or distribution of cannabis or from proceeding with the development of its operations as currently proposed and the business, financial condition, and results of the operation of PharmaCielo may be materially adversely affected.

Risks Inherent in Agriculture

PharmaCielo's business involves the growing of cannabis, which is an agricultural product. Medicinal cannabis is grown in open air greenhouses. The occurrence of severe adverse weather conditions, especially droughts, hail, floods or frost, is unpredictable and may have a potentially devastating impact on agricultural production and may otherwise adversely affect the supply of cannabis. Adverse weather conditions may be exacerbated by the effects of climate change and may result in the introduction and increased frequency of pests and diseases. The effects of severe adverse weather conditions may reduce PharmaCielo's yields or require PharmaCielo to increase its level of investment to maintain yields. Additionally, higher than average temperatures and rainfall can contribute to an increased presence of insects and pests, which could negatively affect cannabis crops. Future droughts could reduce the yield and quality of PharmaCielo's cannabis production, which could materially and adversely affect PharmaCielo's business, financial condition and results of operations.

The occurrence and effects of plant disease, insects and pests can be unpredictable and devastating to agriculture, potentially rendering all or a substantial portion of the affected harvests unsuitable for sale. Although some plant diseases are treatable, the cost of treatment can be high, and such events could adversely affect PharmaCielo's operating results and financial condition. Furthermore, if PharmaCielo fails to control a given plant disease and the production is threatened, PharmaCielo may be unable to supply its customers, which could adversely affect its business, financial condition and results of operations. There can be no assurance that natural elements will not have a material adverse effect on any such production.

Risks Inherent in Rural Real Estate

The Colombian constitution protects the right to own private property and related rights acquired in compliance with civil regulations. According to the Colombian constitution, legally acquired private property ownership rights cannot be affected if the owner is following applicable laws. Except in the case of public necessity or social interest, subject to due process and the payment of an indemnification, expropriations without just cause or on a discriminatory basis are restricted.

Risks of Litigation

From time to time, the Company and/or its subsidiaries may become involved in legal proceedings or be subject to claims, some of which arise in the ordinary course of our business. Litigation is inherently uncertain and there can be no assurances that favorable outcomes will be obtained. The Company may need to settle litigation and disputes on terms that are unfavorable to the Company, or the Company may be subject to an unfavorable judgment that may not be reversible upon appeal. Any adverse outcomes could negatively affect the Company's business, results of operations, financial condition, brand and/or the trading price of the Common Shares. In addition, litigation can involve significant management time and attention and be expensive, regardless of outcome. During the course of litigation, there may be announcements of the results of hearings and motions and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the trading price of the Common Shares may decline. In addition, the Company evaluates these litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, the Company may establish reserves or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from the Company's current assessments and estimates.

Risks Related to Investment in a Colombian Company

Economic Risks Inherent in Investments in an Emerging Market Country such as Colombia

Investing in emerging market countries such as Colombia carries economic risks. Economic instability in Latin American and emerging market countries has been caused by many different factors, including high interest rates, changes in currency values, high levels of inflation, exchange controls, wage and price controls, changes in economic or tax policies, the imposition of trade barriers, and internal security issues. Any of these factors may adversely affect the value of the Common Shares.

Economic and Political Developments in Colombia

PharmaCielo's operations are in Colombia. Consequently, PharmaCielo is dependent upon Colombia's economic and political developments. As a result, PharmaCielo's business, financial position and results of operations may be affected by the general conditions of these economies, price instabilities, currency fluctuations, inflation, interest rates, regulation, taxation, social instabilities, political unrest and other developments in or affecting Colombia, over which PharmaCielo has no control.

In the past, Colombia has experienced periods of weak economic activity and deterioration in economic conditions. PharmaCielo cannot predict that such conditions will not return or that such conditions will not have a material adverse effect on PharmaCielo's business, financial condition or results of operations.

As in all global markets, legislative changes may have an adverse impact on PharmaCielo's operations and performance, including any changes to tax legislation. Changes in tax-related laws and regulations, and interpretations thereof, can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions, and eliminating tax-based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than PharmaCielo does, which could result in tax litigation, associated costs and penalties. Such legislative changes may have an adverse impact on PharmaCielo's business, financial condition and results of operations.

Operational Risks

Operations in Colombia are subject to risk due to the potential for social, political, economic, legal and fiscal instability. The government in Colombia faces ongoing problems including but not limited to unemployment and inequitable income distribution. Colombia has been home to South America's largest and longest running insurgency, and regional portions of the countryside are under guerrilla influence. In addition, Colombia has experienced narcotics-related violence, a prevalence of kidnapping and extortionist activities and civil unrest in certain areas of the country. The region of Rionegro, where the PharmaCielo core operation is based, and the City of Medellin, where corporate offices are located have been largely excluded from such circumstances. However, were such instability to engage these areas it may require PharmaCielo to suspend operations on its properties.

Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities and Colombia has never imposed such restrictions. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future. Exchange control regulations require that any proceeds in foreign currency originated on exports of goods from Colombia be repatriated to Colombia. However, purchase of foreign currency is allowed through any Colombian authorized financial entities for purposes of payments to foreign suppliers, repayment of foreign debt, payment of dividends to foreign stockholders and other foreign expenses.

Financial and Accounting Risks

Foreign Sales

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently have sales denominated in various currencies. PharmaCielo incurs most of its operating expenses in Colombia Pesos. In the future, the proportion of PharmaCielo's sales that are international may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Company's business, financial condition and results of operations. PharmaCielo has not previously engaged in foreign currency hedging. If the Company decides to hedge its foreign currency exposure, it may not be able to do so effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide from foreign currency fluctuations and can themselves result in losses.