PHARMACIELO LTD.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED
DECEMBER 31, 2022

(EXPRESSED IN CANADIAN DOLLARS)

Management’s Responsibility for Consolidated Financial Statements

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

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

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

April 28, 2023

“Bill Petron”
William B. Petron
Chairman and Chief Executive Officer

“Ian D. Atacan”
Ian D. Atacan
Director and Chief Financial Officer

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Independent Auditor's Report

To the Shareholders of PharmaCielo Ltd.

Opinion

We have audited the consolidated financial statements of PharmaCielo Ltd. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRSs").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Group incurred a net loss of $14,516,351 during the year ended December 31, 2022 and, as of that date, the Group's current liabilities exceeded its current assets by $2,935,117. As stated in Note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Valuation of Biological Assets

Description of the key audit matter

At the end of each reporting date management measures biological assets, consisting of cannabis plants, at fair value up to the point of harvest less costs to complete and sell. This measurement involves judgment around various estimates and assumptions including selling prices, post-harvest costs, stage of plant growth and expected yield. We have therefore considered this a Key Audit Matter due to the judgment involved in the assessment of fair value.

Please refer to Note 3 to the consolidated financial statements for the Group's biological assets accounting policy and Note 7 which details the critical judgments applied in estimating the fair value of the biological assets.

How the key audit matter was addressed in the audit

Our approach in addressing this matter included the following procedures, among others:

- Obtaining and reviewing management's fair value estimate in accordance with IAS 41 - Agriculture;
- Obtaining an understanding over the measurement of biological assets;
- Involving our valuation professionals with specialized skills and knowledge in evaluating the assumptions and inputs applied in the valuation model; and
- Performing sensitivity analyses over the significant assumptions applied to determine the fair value of biological assets in order to assess the impact of variances in those assumptions on the Group's determination of fair value.

Net realizable value of finished goods inventories

Description of the key audit matter

Management values inventories, consisting of dried cannabis, cannabis distillate crude oil, CBD isolate, and supplies at the lower of their cost and net realizable value. Net realizable value refers to the value at which inventory can be sold to third parties in the ordinary course of business, less estimated costs to complete and to sell. This valuation is subject to judgment regarding estimates of the net realizable values. We have therefore considered this a Key Audit Matter due to the assumptions applied in the assessment of net realizable value.

Please refer to Note 3 to the consolidated financial statements for the Group's inventory accounting policy and Note 7 which details the critical judgments used in assessing the net realizable value of the inventories, including those related to harvested biological assets included in inventory.

How the key audit matter was addressed in the audit

Our approach in addressing this matter included the following procedures, among others:

- Obtaining and reviewing management's net realizable value assessment;
- Attending physical inventory counts and checking the physical condition of inventories; and
- Testing net realizable value by comparing carrying amount to relevant selling price data.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on April 28, 2022.

Other Information

Management is responsible for the other information, which comprises the information included in the Management's Discussion and Analysis for the twelve months ended December 31, 2022.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis for the twelve months ended December 31, 2022 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

BDO Canada LLP

Chartered Professional Accountants
Vancouver, British Columbia
April 28, 2023

PHARMACIELO LTD.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars, except as noted)

	Note Reference	As at December 31, 2022	As at December 31, 2021
ASSETS			
Current assets			
Cash		**172,983**	5,338,371
Trade receivables	4	**611,488**	277,048
Marketable securities	5	**153,000**	291,000
Prepaid expenses and other receivables	6	**948,369**	1,009,436
Inventory and Biological assets	7	**2,132,349**	2,280,859
Total current assets		**4,018,189**	**9,196,714**
Non-current assets			
Property, plant, and equipment	8	**20,595,637**	25,189,968
Investment in sublease	9	**268,962**	-
Right-of-use assets	9	**28,928**	930,485
Investment in joint ventures	21	**-**	639,643
Long-term Investment	22	**204,025**	-
Total non-current assets		**21,097,552**	26,760,096
Total assets		**25,115,741**	35,956,810
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**6,110,591**	7,732,631
Current portion of lease obligations	9	**265,318**	147,945
RSU obligations	16	**25,930**	111,780
Current portion of debt	11	**450,742**	79,330
Current portion of debentures	12	**100,725**	-
Total current liabilities		**6,953,306**	8,071,686
Non-current liabilities			
Non-current portion of lease obligations	9	**41,138**	1,064,506
Non-current portion of debt	11	**1,802,969**	2,573,652
Non-current portion of debentures	12	**9,926,340**	4,564,646
Deferred income	10	**-**	356,378
Total non-current liabilities		**11,770,447**	8,559,182
Total liabilities		**18,723,753**	16,630,868
Shareholders' Equity			
Share capital	13	**161,712,017**	156,338,336
Shares to be issued	13	**560,000**	1,955,000
Reserves	14,15,16	**35,226,154**	35,136,180
Accumulated other comprehensive loss		**(8,691,807)**	(6,205,549)
Deficit		**(182,414,376)**	(167,898,025)
Total shareholders' equity		**6,391,988**	19,325,942
Total liabilities and shareholders' equity		**25,115,741**	35,956,810
Nature of operations	1		
Going concern	1		
Commitments	19		
Subsequent events	25		

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

On behalf of the Board

"William B. Petron" *"Douglas Bache"*

PHARMACIELO LTD.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars, except as noted)

	Note Reference	Year Ended December 31, 2022	December 31, 2021
Revenue:			
Sale of Cannabis derivative products		**5,217,339**	1,824,898
Revenue from Telemedicine services		**91,178**	120,100
Total revenue		**5,308,517**	1,944,998
Cost of goods sold - Cannabis derivative products		**3,573,578**	2,944,656
Cost of goods sold - Telemedicine services		**409**	32,170
Cost of goods sold - Inventory impairment		**-**	1,880,266
Gross profit (loss) before fair value adjustments		**1,734,530**	(2,912,094)
Realized fair value on inventory sold		**-**	(160,996)
Unrealized loss on fair value of biological assets	7	**(907,471)**	(1,235,275)
Gross profit (loss)		**827,059**	(4,308,365)
Operating expenses			
Agricultural operating costs	7	**145,771**	219,578
Selling, general, and administrative expenses			
General and administrative			
Consulting fees		**395,207**	(1,532,470) (1)
Office and general		**1,662,777**	2,592,652
Professional fees		**1,136,416**	3,406,141
Salaries and wages		**5,300,159**	6,650,765
Travel and accommodation		**179,043**	135,589
Share-based compensation		**2,209,028**	6,820,003
Selling, marketing, and promotion		**779,190**	1,076,798
Amortization and depreciation	8,9	**452,739**	1,318,595
Expected credit losses		**1,106**	197,782
Total selling, general, and administrative expenses		**12,115,665**	20,665,855
Other (income) expense			
Bank charges		**58,853**	89,735
Financing costs	9,11,12	**1,535,851**	471,559
Unrealized loss on marketable securities		**138,000**	426,500
Loss on foreign exchange		**115,106**	109,733
Other non-operating income		**(516,882)**	-
Interest income		**(1,828)**	(2,374)
Amortization of deferred income	10	**(356,251)**	(136,632)
Unrealized loss on Xphyto investment		**-**	41,271
Realized gain on sale of marketable securities		**-**	(35,937)
Impairment expense	8	**1,268,055**	-
Loss on investment in joint ventures	21	**841,070**	472,040
Total other expense		**3,081,974**	1,435,895
Net loss for the period		**(14,516,351)**	(26,629,693)

(1) Recovery of settlement reserve from the year ended December 31, 2020

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

PHARMACIELO LTD.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars, except as noted)

	Note Reference	Year Ended December 31, 2022	Year Ended December 31, 2021
Other comprehensive loss			
Currency translation adjustment		**(2,486,258)**	(3,622,388)
Net comprehensive loss		**(17,002,609)**	(30,252,081)
Basic and diluted loss per share	17	**(0.10)**	(0.18)
Weighted average number of common shares outstanding - basic and diluted		**150,977,119**	145,638,254

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

PHARMACIELO LTD.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars, except share amounts)

	Note Reference	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated other comprehensive loss	Deficit	Total
Balance at December 31, 2020		138,747,660	138,082,419	559,999	31,456,069	(2,583,161)	(141,268,332)	26,246,994
Options exercised	15	870,835	1,250,301	-	(580,264)	-	-	670,037
Warrants exercised	14	1,016,969	886,145	-	(225,115)	-	-	661,030
Vested RSUs	16	2,330,833	4,292,250	1,395,001	(5,687,251)	-	-	-
Issued DSUs	16	-	-	-	2,485,750	-	-	2,485,750
April 2021 issuance	13	6,301,866	13,549,012	-	-	-	-	13,549,012
Issuance costs for April 2021 equity financing		-	(1,721,792)	-	443,441	-	-	(1,278,351)
Warrants issued for debentures		-	-	-	430,070	-	-	430,070
Share-based compensation	13,14,15,16	-	-	-	6,813,481	-	-	6,813,481
Currency translation adjustmen for the period		-	-	-	-	(3,622,388)	-	(3,622,388)
Net loss for the period		-	-	-	-	-	(26,629,693)	(26,629,693)
Balance at December 31, 2021		**149,268,163**	**156,338,335**	**1,955,000**	**35,136,181**	**(6,205,549)**	**(167,898,025)**	**19,325,942**
Warrants exercised	14	128,000	111,655	-	(28,455)	-	-	83,200
Vested RSUs	16	1,791,667	2,199,167	(1,395,000)	(804,167)	-	-	-
Settled DSUs	16	1,250,000	2,037,500	-	(2,037,500)	-	-	-
Warrants issued for debentures		-	-	-	665,217	-	-	665,217
Shares issued for debenture interest payment	13	1,823,014	765,360	-	-	-	-	765,360
Shares issued for debt settlement with former officer of the Company	13	701,943	260,000	-	-	-	-	260,000
Share-based compensation	13,14,15,16	-	-	-	2,294,878	-	-	2,294,878
Currency translation adjustment for the period		-	-	-	-	(2,486,258)	-	(2,486,258)
Net loss for the period		-	-	-	-	-	(14,516,351)	(14,516,351)
Balance at December 31, 2022		**154,962,787**	**161,712,017**	**560,000**	**35,226,154**	**(8,691,807)**	**(182,414,376)**	**6,391,988**

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

PHARMACIELO LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Note Reference	Year Ended December 31, 2022	December 31, 2021
Operating Activities			
Net loss		**(14,516,351)**	(26,629,693)
Items not affecting cash:			
Amortization and depreciation	8,9	**1,579,321**	1,256,484
Gain on disposal of property, plant and equipment	9	**(40,000)**	-
Expected credit losses		**1,106**	197,782
Unrealized loss on fair market value of biological assets	7	**907,471**	1,235,275
Unrealized gain on fair market value of XPhyto investment		**-**	41,271
Gain on lease modification		**(250,449)**	-
Loss on investment in joint ventures	21	**639,643**	472,040
Amortization of deferred income		**(356,251)**	(136,632)
Fair value adjustment on sale of inventory	7	**-**	160,996
Financing costs		**591,747**	178,728
Non-cash salary expense		**-**	2,485,750
Share-based compensation		**2,209,029**	6,820,002
Inventory impairment		**-**	1,880,266
Gain on foreign exchange		**(256,089)**	(849,758)
Unrealized loss on marketable securities		**138,000**	426,500
Realized gain on marketable securities		**-**	(35,937)
Impairment of property, plant and equipment	8	**1,268,055**	-
Changes in non-cash working capital items			
Trade receivables	4	**(399,800)**	125,474
Prepaid expenses and other receivables	6	**(32,842)**	194,049
Inventory and biological assets	7	**(1,008,597)**	(3,422,820)
Investment in sublease	9	**167,146**	-
Accounts payable and accrued liabilities		**(349,182)**	(4,472,938)
Net cash used in operating activities		**(9,708,043)**	(20,073,161)
Investing Activities			
Investment in joint ventures		**-**	(546,287)
Exercise warrants held in Xphyto Therapeutics Corp.		**-**	(749,871)
Long-term Investment	22	**(203,626)**	-
Proceeds from sale of XPhyto marketable securities		**-**	777,089
Purchase of property, plant, and equipment	8	**(521,862)**	(1,138,009)
Net cash used in investing activities		**(725,488)**	(1,657,078)
Financing Activities			
Warrants exercised	14	**83,200**	1,331,068
Cash received from debentures	12	**5,795,000**	5,000,000
Cash received from shares issued		**-**	13,549,012
Share issue costs		**-**	(1,278,353)
Warrants related to debentures	14	**-**	(5,284)
Proceeds received from sale of property, plant and equipment		**40,000**	-
Loan principal payments	11	**(319,224)**	(79,330)
Lease payments	9	**(302,739)**	(308,217)
Net cash provided by financing activities		**5,296,237**	18,208,896
Net decrease in cash		**(5,137,294)**	(3,521,343)
Effect of movements in exchange rates on cash held		**(28,094)**	-
Cash, beginning of year		**5,338,371**	8,859,714
Cash, end of year		**172,983**	5,338,371

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

1. NATURE OF OPERATIONS AND GOING CONCERN

PharmaCielo Ltd. ("PharmaCielo" or the "Company") was incorporated pursuant to the Business Corporations Act (British Columbia) on May 30, 2017. The Company's common shares (the "Common Shares") are listed on the TSXV under the symbol "PCLO" and 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.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to raise the necessary capital on terms acceptable to the Company and be able to realize its assets and satisfy its liabilities in the normal course of business for the foreseeable future.

As at December 31, 2022, the Company's cash was $172,983. The Company's current liabilities exceeded its current assets by $2,935,116, a net loss for the period ended December 31, 2022 of $14,516,351 and net cash used in operating activities of $9,612,072.

The Company has not yet been able to generate the sales volumes required to create positive cash flows from operations. Management believes that the Company will be able to meet its budgeted administrative and development costs during the upcoming year and beyond when considering the Company's current financial forecast. PharmaCielo continues to enter into strategic agreements and finance offerings to source funds and maintain its operations. As outlined in Note 12, the Company's private placement financing has been continuing since December 2021, up to aggregate gross proceeds of $15,000,000. The assessment of the appropriateness of the going concern assumption includes significant judgements. From the Company's perspective this includes the assumption that a portion of warrant and option holders will continue to exercise their instruments and also that if the Company were required to limit its costs on general management, cultivation and production, it would be able to do so in a short time frame with limited restructuring costs.

While the Company has been able to demonstrate the ability to raise capital to fund its operations, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company. Whether and when the Company can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due after December 31, 2022, is uncertain. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Company's ability to continue as a going concern. These consolidated financial statements do not include necessary adjustments to reflect the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2022.

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues, and expenses. See Note 3 for significant accounting judgement and estimates.

2. BASIS OF PRESENTATION (continued)

These consolidated financial statements as at and for the years ended December 31, 2022 and 2021 were approved by the Company's Board of Directors on April 28, 2023.

a) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss and biological assets, which are measured at their fair value. These consolidated financial statements are presented in Canadian dollars except where otherwise indicated.

b) Principles of consolidation

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

For the year ended December 31, 2022 and 2021, the following companies have been included within the consolidated financial statements:

Company	Location	Principal activity
PharmaCielo Ltd.	Toronto, Canada	Parent company
PharmaCielo Holdings Ltd.	Toronto, Canada	Subsidiary of Parent company
Ubiquo Telemedicina S.A.S.	Medellin, Colombia	Telemedicine software company
PharmaCielo Colombia Holdings S.A.S.	Medellin, Colombia	Cultivation and processing

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash

Cash consist of cash on hand, deposits in banks.

b) Revenue recognition

Revenue is recognized to depict the transfer of goods in an amount that reflects the consideration to which the entity expects to be entitled following five steps:

I. Identifying the contract with a customer
II. Identifying the performance obligations
III. Determining the transaction price
IV. Allocating the transaction price to the performance obligations
V. Recognizing revenue when (or as) performance obligation(s) are satisfied.

Revenue is recognized when control of goods is transferred to a customer. For the Company, control typically transfers at a point in time, when delivery is made of the goods is completed. Accordingly, revenue is then recognized only when the performance obligation is fulfilled. The Company will recognize the revenue upon satisfaction of following condition:

i. All parties to the contract have approved the contract and are committed to perform their respective obligations;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. Each party's rights in relation to the goods to be transferred can be identified;
iii. The payments can be identified;
iv. The contract has commercial substance (i.e., the entity expects the risks, timing or amount of the Company's future cash flows to change as a result of the contract); and
v. It is possible (i.e., more likely than not) that the Company will collect the consideration it is entitled to in exchange for the goods.

c) Financial instruments

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

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

Financial instruments	Category under IFRS 9
Cash	FVTPL
Marketable securities and long-term investments	FVTPL
Trade and other receivables	Amortized cost
RSU obligation	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Debt and debentures	Amortized cost
Embedded prepayment option	FVTPL

d) Financial assets

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

i. Financial assets recorded at FVTPL

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

ii. Amortized cost

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

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

e) Financial liabilities

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

i. Financial liabilities recorded at FVTPL

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii. Amortized cost

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

f) Transaction costs

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

g) Subsequent measurement of financial instruments

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

h) Derecognition of financial instruments

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

i) Expected credit loss impairment model

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

j) Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Impairment of property, plant and equipment

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

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

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

l) Share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Notes 13, 14, 15, and 16.

The fair values of restricted share units issued and options granted to purchase common shares, are measured based on the share price on the date of issuance or grant. The fair values of the stock options and warrants are estimated using the Black-Scholes option-pricing model.

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

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

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

m) Loss per share

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as the outstanding options and warrants are anti-dilutive.

n) Income taxes

Income taxes

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

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

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

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

o) Foreign currency transactions

Amounts included in these consolidated financial statements are expressed in Canadian dollars unless otherwise noted. The Canadian dollars is used as presentation currency in view of the Company's Canadian based public market listing and head office location.

The Company's subsidiaries measure the items in their financial statements in their functional currencies (the currency of the primary economic environment they operate in). The functional currency of the Company is the Canadian dollar. The functional currency of the operating subsidiaries in Colombia is the Colombian Peso.

Transaction in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the date of such transaction. At each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rate at the reporting date. Foreign exchange gains and losses are recognized in the statement of loss and comprehensive loss.

At the financial reporting date, the subsidiaries' assets and liabilities are translated at the reporting period exchange rate, while revenues, expenses and cash flows are translated at the average exchange rate for the period. Shareholders' equity is translated at the rate effective at the time of the transaction. The resulting translation adjustments are recognized in other comprehensive income (loss) ("OCL") and in accumulated OCL in shareholders' equity.

p) Inventory

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

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted-average method. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

q) Biological assets

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

r) Investment in joint ventures

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

Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed

sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

s) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

i. the contract involves the use of an identified asset;
ii. the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
iii. the Company has the right to direct the use of the asset.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-ofuse

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

A lease modification is accounted for as a separate lease from the original lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets; and the consideration for the lease increase by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract. If the lease modification merely extends the Company's right to use an existing leased asset to which it already has access, the modification is not accounted for as a separate lease. Instead, the Company recalculates the existing lease obligations on the effective date of the lease modification to include the lease payments until the end of the extended period and a corresponding adjustment is also made to the right of use asset. The additional right of use asset and lease obligations relating to the extended period are therefore recognized on the date of modification.

t) Significant accounting judgments and estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

<u>Property, plant and equipment impairment indicators</u>

The Company reviews the carrying amounts of its finite-life intangible assets and property, plant and equipment, carried at cost to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. As part of the impairment testing, estimations would be involved in establishing the recoverable amount, including but not limited to, cash flow forecasts.

<u>Biological Assets</u>

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

biological assets are discussed in Note 7.

Deferred Taxes

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

Share-based Compensation

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

Convertible Debentures

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

u) New, amended and future IFRS pronouncements

The Company plans to adopt all applicable IFRS standards issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

The following amendments are effective for the year beginning 1 January 2023:

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
Definition of Accounting Estimates (Amendments to IAS 8); and

Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The following amendments are effective for the year beginning 1 January 2024:

IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)

IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)

(Expressed in Canadian Dollars, except as noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

The Company is currently assessing the impact of these new accounting standards and amendments. The Company does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Company.

4. TRADE RECEIVABLES

		December 31, 2022		December 31, 2021
For sale of cannabis derivative products		669,427		453,089
For revenue from telemedicine services		22,184		16,206
Expected credit loss		(80,123)		(192,247)
Total trade receivables	$	611,488	$	277,048

Most of the Company's sales consist of bulk cannabis products sold internationally to various customers.

As of December 31, 2022, based on an assessment of the amounts due from the Company's specific clients, the Company recorded an expected credit loss of $80,123 (December 31, 2021- $192,247).

As at December 31, 2022, the Company had recorded the following expected credit loss:

Carrying amount, December 31, 2021		(192,247)
Increase or decrease during year		(17,026)
Unused amounts reversed		-
Receivables written off during the year as uncollectable		106,201
Effect of foreign exchange differences		22,949
Balance, December 31, 2022	$	(80,123)

5. MARKETABLE SECURITIES

	Number of shares		Cost		Unrealized gain / (loss)		Fair value
December 31, 2022							
Khiron Life Sciences Corp.	100,000	$	12,500	$	(7,000)	$	5,500
BioNxt Solutions Inc. (formerly XPhyto Therapeutics Corp.)	250,000		680,000		(532,500)		147,500
Total marketable securities		**$**	**692,500**	**$**	**(539,500)**	**$**	**153,000**
December 31, 2021							
Khiron Life Sciences Corp.	100,000	$	12,500	$	8,500	$	21,000
BioNxt Solutions Inc. (formerly XPhyto Therapeutics Corp.)	250,000		680,000		(410,000)		270,000
		$	**692,500**	**$**	**(401,500)**	**$**	**291,000**

Effective November 14, 2022, XPhyto Therapeutics Corp. (XPHY) changed its name to BioNxt Solutions Inc (BNXT).

(Expressed in Canadian Dollars, except as noted)

6. PREPAID EXPENSES AND OTHER RECEIVABLES

	As at December 31, 2022	As at December 31, 2021
Prepaid expenses	889,197	721,296
Other receivables	59,172	288,140
Total prepaid expenses and other receivables	$ 948,369	$ 1,009,436

7. INVENTORY AND BIOLOGICAL ASSETS

Inventory

	As at December 31, 2022	As at December 31, 2021
Agricultural supplies and other	122,366	193,897
Work-in-progress	1,527,263	1,267,796
Finished products	430,361	819,166
Closing balance	$ 2,079,989	$ 2,280,859

During the year ended December 31, 2022, inventory recognized as cost of goods sold was $3,573,578 (year ended December 31, 2021 - $ 4,985,918), consisting of realized fair value changes on inventory sold of $Nil (year ended December 31, 2021 – $160,996), impairment costs reducing the inventory carrying amount to its net realizable value of $Nil (year ended December 31, 2021 - $1,880,266), and fair value of biological assets at harvest plus capitalized post-harvest costs expensed during the year as cannabis inventory is sold of $3,573,578 (year ended December 31, 2021 - $2,944,656).

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 estimates and inputs used to assess the fair value of biological assets include the following assumptions as at December 31, 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. The selling price of $1,453 per kilogram of CBD isolate at December 31, 2022 (December 31, 2021 - $1,233). To calculate the fair value of the biological assets, the selling price of a kilogram of CBD isolate is not directly used, it’s used as an input to determine the estimated selling price of plants.

b. Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, extracting, testing and packaging activities incurred in the year, including overhead allocations for these activities. Post-harvest processing costs averaged $306 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 December 31, 2022 averaged 46% (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 1.09 grams of CBD isolate (December 31, 2021 - 0.63 grams).

As at December 31, 2022, the Company’s biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

(Expressed in Canadian Dollars, except as noted)

7. INVENTORY AND BIOLOGICAL ASSETS (continued)

Carrying amount, December 31, 2021		-
Production costs capitalized		1,228,304
Changes in fair value less costs to sell due to biological transformation		(907,471)
Transferred to inventory upon harvest		(279,842)
Effect of foreign exchange differences		11,369
Balance, December 31, 2022	$	52,360

The Company expects that a 10% increase or decrease in the wholesale market price per kilogram of CBD isolate would increase or decrease the fair value of biological assets by $10,842. A 10% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by $5,818. Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by $740.

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

Unrealized change in fair value of biological assets	$	(907,471)
Realized fair value on inventory sold	$	-

During the year ended December 31, 2022, the Company incurred $145,771, in non-capital related agricultural operating costs at the Company's cultivation facility in Colombia (year ended December 31, 2021 - $219,578).

(Expressed in Canadian Dollars)

8. PROPERTY, PLANT AND EQUIPMENT

COST	Land	Construction in progress	Building	Machinery and equipment	Office furniture and fixtures	Computer and communication equipment	Vehicles	Equipment in transit	Total
Balance, December 31, 2020	**$ 7,534,546**	**$ 9,957,377**	**$ 3,531,011**	**$ 8,104,450**	**$ 1,044,557**	**$ 1,127,102**	**$ 132,396**	**$ 2,108,419**	**$ 33,539,858**
Additions	-	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 exchange differences	(734,361)	(1,445,707)	(268,647)	(1,429,837)	(40,622)	(154,777)	(19,223)	(52,965)	(4,146,139)
Balance, December 31, 2021	**$ 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	-	437,499	808	40,964	2,288	36,132	4,171	-	521,862
Reclassification	-	(446,933)	395,633	97,144	(1,841)	(23,177)	(20,826)	-	-
Disposals	-	-	(808)	(204,403)	(167,063)	(233,924)	(4,975)	-	(611,173)
Impairment	-	-	-	(1,575,887)	-	-	-	(158,980)	(1,734,867)
Effect of foreign exchange differences	(471,799)	(1,193)	(874,322)	(1,340,904)	(40,094)	(105,292)	(10,474)	(21,714)	(2,865,792)
Balance, December 31, 2022	**$ 6,209,490**	**$ -**	**$ 8,994,001**	**$ 8,979,936**	**$ 915,377**	**$ 681,712**	**$ 61,242**	**$ -**	**$ 25,841,758**
ACCUMULATED DEPRECIATION									
Balance, December 31, 2020	**$ -**	**$ -**	**$ 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 exchange differences	-	-	(99,986)	(144,447)	(30,638)	(120,128)	(12,567)	-	(407,766)
Balance, December 31, 2021	**$ -**	**$ -**	**$ 1,638,501**	**$ 2,041,584**	**$ 716,557**	**$ 871,054**	**$ 74,064**	**$ -**	**$ 5,341,760**
Additions	-	-	466,826	810,461	152,892	91,085	68	-	1,521,332
Disposals	-	-	(808)	(204,403)	(167,063)	(233,924)	(4,975)	-	(611,173)
Impairment	-	-	-	(466,812)	-	-	-	-	(466,812)
Effect of foreign exchange differences	-	-	(133,151)	(281,047)	(28,923)	(87,950)	(7,915)	-	(538,986)
Balance, December 31, 2022	**$ -**	**$ -**	**$ 1,971,368**	**$ 1,899,783**	**$ 673,463**	**$ 640,265**	**$ 61,242**	**$ -**	**$ 5,246,121**
CARRYING AMOUNT									
Balance, December 31, 2021	$ 6,681,289	$ 10,627	$ 7,834,189	$ 9,921,438	$ 405,530	$ 136,919	$ 19,282	$ 180,694	$ 25,189,968
Balance, December 31, 2022	**$ 6,209,490**	**$ -**	**$ 7,022,633**	**$ 7,080,153**	**$ 241,914**	**$ 41,447**	**$ -**	**$ -**	**$ 20,595,637**

(Expressed in Canadian Dollars, except as noted)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

PharmaCielo Colombia Holdings S.A.S. farm and processing plant, located in Rio Negro in the municipality of La Ceja (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 year ended December 31, 2022, depreciation costs of $1,144,900 (year ended December 31, 2021 - $995,664) was capitalized to biological assets and inventory.

For the year ended December 31, 2022, property, plant and equipment included impairment expense of $1,268,055 (year ended December 31, 2021 - $Nil) for three machines deemed impaired.

9. LEASES

Investment in sublease

Balance as at December 31, 2021		-
Transfer in		436,108
Interest income		42,139
Rental income		(209,285)
Effect of foreign exchange differences		-
Balance, December 31, 2022	$	268,962

Investment in sublease consist of the office space in Toronto.

Right-of-use assets

Balance as at December 31, 2021		930,485
Lease revaluation		(652,742)
Transfer to recognition of investment in sublease		(436,108)
Gain on revaluation of sublease		250,449
Depreciation		(57,989)
Effect of foreign exchange differences		(5,167)
Balance, December 31, 2022	$	28,928

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, December 31, 2022

Less than one year		291,870
One to three years		41,857
Total undiscounted lease obligation	$	333,727

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%.

(Expressed in Canadian Dollars, except as noted)

9. LEASES (continued)

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.

The following table illustrates the lease agreements as at December 31, 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$		
2022	$ 251,142	$ 44,563
2023	251,142	37,494
2024	41,857	-
Interest rate	13.95%	20.25%

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

Lease liability continuity

Balance as at December 31, 2021	1,212,451
Lease revaluation	(652,742)
Interest expense	60,474
Lease payments	(302,739)
Effect of foreign exchange differences	(10,988)
Balance, December 31, 2022	$ 306,456

Balance, December 31, 2022	
Lease obligations	306,456
Less current portion	(265,318)
Non-current portion	$ 41,138

10. XPHYTO AGREEMENT

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

As part of the Supply Agreement, on January 31, 2020, XPhyto granted the Company 500,000 warrants with an exercise price of $2.00 per Common Share. The warrants were valued at $356,378 on the grant date using the Black-Scholes

(Expressed in Canadian Dollars, except as noted)

10. XPHYTO AGREEMENT (continued)

pricing model. The following assumptions were used: share price - $1.59; expected annualized volatility – 95%, risk-free rate – 1.47%; and an expected life of 2 years.

Because no consideration was paid to XPhyto for the warrants, the Company recognized an initial gain of the full value of the warrants of $356,378. As required under IFRS 9, this initial gain has been deferred and will be recognized into income based on kilograms delivered under the Supply Agreement. During the year ended December 31, 2021, no product had yet been delivered to XPhyto, and therefore no deferred income was recognized in the statements of loss and comprehensive loss. There were no purchase commitments included in the supply agreement after December 31, 2022.

During the year ended December 31, 2022, the remaining warrants XPhyto issued to the Company expired on January 31, 2022, no product had yet been delivered to XPhyto, and therefore the deferred income of $356,251 was recognized in the statements of loss and comprehensive loss.

11. LOANS AND BORROWINGS

The had the following loans and borrowings:

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

	Term loan	Revolving loan	Total
Balance, December 31, 2021	$ 2,532,395	$ 120,587	$ 2,652,982
Accrued interest	-	-	-
Interest expense	196,997	1,640	198,637
Principal payment	-	(120,587)	(120,587)
Interest payment	(196,997)	(1,640)	(198,637)
Effect of foreign exchange differences	(278,684)	-	(278,684)
Balance, December 31, 2022	2,253,711	-	2,253,711
Current portion of debt	(450,742)	-	(450,742)
Non-current portion of debt	**$ 1,802,969**	**$ -**	**$ 1,802,969**

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). The term loan is for seven (7) years and makes up $8,000,000,000 COP ($2,966,076) 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

(Expressed in Canadian Dollars, except as noted)

11. LOANS AND BORROWINGS

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) available to be drawn down by the Company. 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.

For the year ending December 31, 2022, the Company had drawn the full amount down on the term loan and paid in full the amount of the revolving loan.

12. DEBENTURES

The following table is a summary of the Company's debentures as at December 31, 2022:

Balance as at December 31, 2020	**$**	**-**
Debentures issued		5,000,000
Less: Fair value allocated to warrants		(435,354)
Accrued interest		-
Interest paid		-
Accretion		-
Balance as at December 31, 2021	**$**	**4,564,646**
Debentures issued		5,795,000
Less: Fair value allocated to warrants		(665,217)
Accrued interest		866,085
Interest paid		(765,360)
Accretion		231,911
Debentures balance, December 31, 2022	**$**	**10,027,065**
Current portion of the Debentures		100,725
Non current portion of the Debentures	**$**	**9,926,340**

On December 24, 2021, the Company issued debenture units in a non-brokered private placement. Each will Unit consist of $1,000 principal amount of 11% secured debentures and 250 non-transferable common share purchase warrants. Each Debenture Warrant will entitle the holder for a period of 36 months from the initial closing date to acquire one common share of the Company at an exercise price of $1.44. The Debentures will bear interest at a rate of 11.0% per annum, will mature on December 24, 2024, and will be guaranteed by PharmaCielo Colombia Holdings S.A.S (Holding's). Holdings' guarantee of the Debentures will be secured by mortgages on the real property of the Company and its subsidiaries.

The Company will have the right to redeem any or all of the Debentures from time to time at the following percentages of face value: (i) 105% at any time prior to the first anniversary of the initial closing date; (ii) 103% at any time on or after the first anniversary of the initial closing date and prior to the second anniversary of the initial closing date; and (iii) 101% thereafter, in each case together with accrued and unpaid interest to, but not including, the date of redemption.

The fair value of the warrants was determined by using an effective interest rate of 14.83% and a discount rate of 20.70%.

For the year ending December 31, 2022, the Company issued 10,795 debenture units for total proceeds of $10.8 million and the Company issued 2,698,750 warrants exercisable at $1.44 per Warrant Share (note 14).

13. 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.

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 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 year ended December 31, 2022

(iv) During the year ended December 31, 2022, the Company issued 128,000 Common Shares for cash proceeds of $83,200 upon the exercise of warrants.

(v) During the year ended December 31, 2022, 1,791,667 Common Shares were issued upon vesting of 666,667 RSUs and the conversion of 1,125,000 RSUs that vested in 2021 previously recorded as shares to be issued. As at December 31, 2022, 666,667 RSUs vested in 2021 were pending share issuance and $560,000 was recorded as shares to be issued in the statement of changes in shareholders' equity.

(vi) During the year ended December 31, 2022, 1,250,000 Common Shares were issued upon the settlement of 1,250,000 DSUs.

(vii) During the year ended December 31, 2022, the Company issued 1,823,014 shares for debenture interest payment of $765,360.

(viii) During the year ended December 31, 2022, the Company issued 701,943 shares for debt settlement of $260,000.

(Expressed in Canadian Dollars, except as noted)

14. WARRANTS

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

	Number of warrants	Weighted average exercise price (USD)	Weighted average exercise price
Balance, December 31, 2020	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
Balance, December 31, 2021	**11,432,243**	**2.25**	**0.64**
Balance, December 31, 2021	11,432,243	2.25	0.73
Issued (ii)(a)	1,448,750	-	1.44
Exercised (ii)(b)	(128,000)	-	0.65
Expired (ii)(c)	(1,047,043)	-	0.65
Balance, December 31, 2022	**11,705,950**	**-**	**0.83**

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

a. As part of the December Non-Brokered Private Placement, the Company issued 1,250,000 warrants exercisable at $1.44 per Warrant Share.

b. A total of 1,016,969 warrants were exercised for cash proceeds for $661,030.

(ii) Warrants issued, exercised or expired/forfeited in the year ended December 31, 2022 include the following:

a. As part of the December 24, 2021 Non-Brokered Private Placement, the Company issued 1,448,750 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 1,047,043 warrants were expired, consisting of 9,000 warrants at an exercise price of USD$2.25, 38,043 warrants at an exercise price $0.65, and 1,000,000 warrants at an exercise price of $0.50.

On November 22, 2022, the Company announced that the TSX Venture Exchange ("TSXV") approved the extension of 9,007,200 warrants originally issued on November 20, 2020 under the TSX-Venture Symbol PCLO.WT. In accordance with the TSXV's rules for warrant amendments set out in section 3 of Policy 4.1 of the TSXV's Corporate Finance Policies, amendments to warrants listed for trading are not permitted. As such, the Warrants were delisted from trading at market close on November 21, 2022, and will be exercisable until November 20, 2024.

The following table reflects the warrants issued and outstanding as at December 31, 2022:

Number of warrants outstanding	Exercise price	Expiry date
9,007,200	0.65	November 20, 2024
2,698,750	1.44	December 24, 2024
11,705,950		

(Expressed in Canadian Dollars, except as noted)

15. STOCK OPTIONS

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

	Number of options	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2020	13,622,336	**1.51**	**1.69**
Granted (i)	2,806,748	-	1.80
Exercised	(870,835)	0.58	0.82
Expired/Forfeited	(925,000)	-	-
Balance, December 31, 2021	**14,633,249**	**1.75**	**1.68**
Balance, December 31, 2021	14,633,249	1.75	1.68
Granted (ii)	1,626,200	-	0.46
Expired/Forfeited	(2,277,501)	-	-
Balance, December 31, 2022	**13,981,948**	**1.49**	**1.52**

(i) Options granted in the year ended December 31, 2021 include the following:

a. On April 7, 2021, the Company granted a total of 314,163 incentive stock options as broker options, issued as part of the April 7th capital rase. 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.

b. On April 29, 2021, the Company granted a total of 212,585 incentive stock options to a consulting company as part of their agreement. Each option is exercisable for one Common Share at a price of $1.47 on or before April 29, 2026. The options vest as follows: 70,862 on the first anniversary of the grant date; 70,862 on the second anniversary of the grant date; 70,862 on the third anniversary of the grant date. The fair value of each option has been estimated at $1.17 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of $1.54, exercise price of $1.47, expected stock price volatility of 102%, risk-free rate of 1.56%, and expected life of 5 years. During the year ended December 31, 2021, the Company recorded $64,236 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.

c. On May 13, 2021, the Company granted a total of 200,000 incentive stock options to the Board of Directors. Each option is exercisable for one Common Share at a price of $2.15 on or before May 13, 2026. The options vest as follows: 66,667 on the first anniversary of the grant date; 66,667 on the second anniversary of the grant date; 66,666 on the third anniversary of the grant date. The fair value of each option has been estimated at $1.05 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of $1.49, exercise price of $2.15, expected stock price volatility of 101%, risk-free rate of 1.56%, and expected life of 5 years. During the year ended December 31, 2021, the Company recorded $49,205 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.

15. STOCK OPTIONS (continued)

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.

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) Options granted in the year ended December 31, 2022 include the following:

a. On August 29, 2022, 2021, the Company granted a total of 1,626,200 incentive stock options to the Board of Directors and Officers of the Company. Each option is exercisable for one Common Share at a price of $0.46 on or before August 29, 2027. The options vest as follows: 542,066 immediately on the grant date; 542,066 on the first anniversary of the grant date; 542,068 on the second anniversary of the grant date.

(Expressed in Canadian Dollars, except as noted)

15. STOCK OPTIONS (continued)

The fair value of each option has been estimated at $0.33 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of $0.46, exercise price of $0.46, expected stock price volatility of 100%, risk-free rate of 3.02%, and expected life of 5 years. During the year ended December 31, 2022, the Company recorded $273,594 in share-based payments expense related to these stock options in the consolidated statement of loss and comprehensive loss.

Details of the stock options outstanding as at December 31, 2022 are as follows:

Number of options outstanding	Number of options exercisable	Exercise price (USD)	Exercise price (CAD)	Weighted-average life (years)	Expiry date
314,163	314,163	-	$ 2.15	0.27	April 7, 2023
100,000	100,000	$ 2.00	-	0.64	August 19, 2023
125,000	125,000	$ 2.25	-	0.64	August 19, 2023
1,400,000	1,400,000	-	$ 1.02	0.64	August 19, 2023
200,000	200,000	-	$ 1.11	0.64	August 19, 2023
20,000	6,667	-	$ 2.10	0.64	August 19, 2023
610,000	610,000	$ 2.25	-	2.08	January 29, 2025
14,000	14,000	$ 2.25	-	2.09	February 4, 2025
50,000	50,000	$ 0.25	-	2.38	May 15, 2025
50,000	50,000	-	$ 3.35	2.42	June 1, 2025
3,000,000	3,000,000	-	$ 0.63	2.89	November 20, 2025
212,585	70,862	-	$ 1.47	3.33	April 29, 2026
100,000	33,334	-	$ 2.15	3.37	May 13, 2026
560,000	186,668	-	$ 2.10	3.44	June 10, 2026
850,000	850,000	$ 1.00	-	3.51	July 4, 2026
550,000	183,334	-	$ 1.25	3.71	September 14, 2026
550,000	550,000	-	$ 3.10	3.85	November 5, 2026
500,000	270,666	-	$ 1.10	3.86	November 11, 2026
400,000	400,000	-	$ 1.10	3.97	December 20, 2026
300,000	300,000	$ 1.00	-	4.01	January 2, 2027
100,000	100,000	$ 1.00	-	4.08	January 27, 2027
100,000	100,000	$ 2.00	-	4.51	July 5, 2027
1,626,200	542,066	-	$ 0.46	4.66	August 29, 2027
2,250,000	2,250,000	-	$ 3.35	5.50	July 1, 2028
13,981,948	**11,706,760**	**$ 1.49**	**$ 1.52**	**3.37**	

16. RESTRICTED SHARE UNITS ("RSUs") and DEFERRED SHARE UNITS ("DSUs")

	Number of unvested RSUs and DSUs outstanding
Balance, December 31, 2021	**2,525,000**
Granted (i)	2,672,200
Vested RSUs (ii)	(666,667)
Settled DSUs (iii)	(1,250,000)
Balance, December 31, 2022	**3,280,533**

(Expressed in Canadian Dollars, except as noted)

16. RESTRICTED SHARE UNITS ("RSUs") and DEFERRED SHARE UNITS ("DSUs") (continued)

(i) On August 29, 2022, the Company granted 2,672,200 RSUs to Officers of the Company. 2,043,055 of the RSUs vest on the first anniversary of the grant date and the remaining 629,145 RSUs vest on the second anniversary of the grant date.

(ii) During the year ended December 31, 2022, 1,791,667 Common Shares were issued upon vesting of 666,667 RSUs and the conversion of 1,125,000 RSUs that vested in 2021 previously recorded as shares to be issued. As at December 31, 2022, 666,667 RSUs vested in 2021 were pending share issuance and were recorded as shares to be issued in the consolidated statement of changes in shareholders' equity.

(iii) During the year ended December 31, 2022, 1,250,000 Common Shares were issued upon the settlement of 1,250,000 vested DSUs.

As at December 31, 2022, there were 3,280,533 unvested RSUs and DSUs outstanding.

17. NET LOSS PER COMMON SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2022 was based on the loss attributable to common shareholders of $14,516,351 (year ended December 31, 2021 - $26,629,693 and the weighted average number of Common Shares outstanding of 150,977,119 (year ended December 31, 2021 - 145,638,254). Diluted loss per share is equal to basic diluted loss per share as any effects of the potential convertible securities would be anti-dilutive.

18. TRANSACTIONS WITH RELATED PARTIES

For the year ended December 31, 2022, certain directors and senior officers of the Company have units issued for non-brokered private placement of debenture units in an aggregate principal amount totaling $2.3 million (December 31, 2021 - $490,000). Each debenture unit consists of $1,000 principal amount of 11% secured debentures and 250 non-transferable warrants to purchase one common share of the Company at $1.44 per share (note 14). The debentures mature and the warrants expire on December 24, 2024.

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 year ended December 31,		2022		2021
Management compensation	$	1,302,034	$	1,221,351
Termination benefits		-		1,229,250
Directors' fees (1)		175,625		251,896
Share-based compensation (2)		1,792,486		5,179,936
Total management compensation	$	3,270,145	$	7,882,433

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

The above related party transactions were in the normal course of operations and have been valued in the consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the

(Expressed in Canadian Dollars, except as noted)

18. TRANSACTIONS WITH RELATED PARTIES (continued)

related parties. The amounts owing to related parties are non-interest bearing and due on demand, unless otherwise disclosed.

19. 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 $1.5 million.

b) The Company has lease commitments for office space rented in Toronto, Canada and Medellín, Colombia. Payments occur on a monthly basis in accordance with the table presented in Note 9.

c) $115,664 (EURO 80,000) of the $182,036 (EURO 132,000) settlement payment to PharmaCielo Italia S.R.L. (Note 21) remains payable and is recorded in accounts payable and accrued liabilities.

20. SEGMENTED INFORMATION

The Company is engaged in the growth, cultivation and development of medicinal cannabis with operations in Colombia. The Company is considered to be operating in one segment based on its business nature and strategic decision- making method. The Company has operations in Rionegro, Colombia, with corporate offices in Toronto, Canada and Medellín, Colombia.

Revenues by region - for the year ended December 31, 2022		
Americas	$	4,958,675
Europe		349,842
Total Revenue	$	5,308,517

Revenues by region - for the year ended December 31, 2021		
Americas	$	856,122
Europe		1,088,876
Total Revenue	$	1,944,998

The revenues by region is based on where the customer is located.

Revenue Concentration

The Company's business is currently such that, at any given time, it sells its products and services to a relatively small number of customers. During the year ended December 31, 2022, one customer accounted for 89% of cannabis revenue (During the year ended December 31, 2021, one customer accounted for 100% of cannabis revenue).

21. INVESTMENT IN JOINT VENTURES

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

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

(Expressed in Canadian Dollars, except as noted)

21. INVESTMENT IN JOINT VENTURES (continued)

On May 24, 2022, the Company and Mino Labs S.A. de C.V, the joint venture partner in PharmaCielo S.A. de C.V., mutually suspended the joint venture agreement executed between them.

On August 11, 2022, the Company terminated the joint venture agreement with Eugene S.r.l. and signed a settlement agreement. The Company agreed to pay Eugene S.r.l. $24,823 (EURO 18,000) and Pharmacielo Italia S.r.l. $182,036 (EURO 132,000) as part of the settlement agreement. $115,664 (EURO 80,000) of the $182,036 (EURO 132,000) settlement payment to PharmaCielo Italia S.R.L. remains payable and is recorded in the Company's accounts payable and accrued liabilities. The Company recorded $206,861 in loss on investment in joint ventures expense in the consolidated statement of loss and comprehensive loss.

During the year ended December 31, 2022, the Company recorded $631,565 in loss on investment in joint ventures expense in the consolidated statement of loss and comprehensive loss to write-off its investment in joint ventures.

Investment in joint ventures as at December 31, 2022, was $Nil (December 31, 2021 - $639,643) as follows:

Balance as at December 31, 2020	**$**	**565,396**
Investment in joint ventures		546,287
Loss on investment in joint ventures		(472,040)
Balance, December 31, 2021	**$**	**639,643**
Investment in joint ventures		-
Loss on investment in joint ventures		(8,078)
Write-off of investment in joint ventures		(631,565)
Balance, December 31, 2022	**$**	**-**

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

For the year ended December 31, 2021

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

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

The financial information as at December 31, 2021 is shown, as a result of the Company and Mino Labs S.A. de C.V mutually suspended the joint venture agreement and the Company terminated the joint venture agreement with Eugene S.r.l. during the year ended December 31, 2022.

(Expressed in Canadian Dollars, except as noted)

21. INVESTMENT IN JOINT VENTURES (continued)

For the year ended December 31, 2022	PharmaCielo Italia SRL	PharmaCielo S.A. de C.V.
Selling, general, and administrative expenses	$ 9,746	$ 1,840
Other expense	185	-
Net loss(1)	9,931	1,840

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

22. LONG-TERM INVESTMENT

During the year ended December 31, 2022, the Company purchased 69,446 shares at 1.80 GBP/share to gain a 4.63% share in Soteria Holdings Limited, ("Soteria") a UK based portfolio company of Artemis Growth Partners, under the terms of a term sheet. Soteria's Polish operating subsidiary is in the business of import and wholesale medical cannabis flower and extracts in the Polish market.

Investment in Soteria Holdings Limited as at December 31, 2022, was $204,025 (December 31, 2021 - $Nil), as follows:

Balance, December 31, 2021	**$ -**
Investment in Soteria Holdings	203,626
Effect of foreign exchange differences	399
Balance, December 31, 2022	**$ 204,025**

23. INCOME TAX

Reconciliation of effective tax rate

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

For the years ended December 31	2022	2021
Net loss before taxes	**$(14,516,351)**	$(26,629,693)
Tax rate	**26.50%**	26.50%
Computed expected income taxes	**(3,846,833)**	(7,056,870)
Increase (decrease) in taxes:		
Difference in foreign tax rates	**(545,974)**	(502,140)
Tax rate changes and other adjustments	**(89,198)**	(1,527,250)
Share based compensation	**585,392**	1,779,410
Provision for DSU to be paid to employee	**-**	658,730
Other non-deductible expenses	**126,583**	306,790
Financing fees booked in equity	**-**	(319,220)
Unrealized foreign exchange	**-**	2,010,630
Change in tax benefits not recognized	**3,770,030**	4,649,920
Total tax expense (recovery)	**$ -**	$ -

(Expressed in Canadian Dollars, except as noted)

23. INCOME TAX (continued)

The following table summarizes the components of deferred tax:

Deferred tax assets		**2022**		2021
Non-capital losses carried forward – Canada	**$**	**246,058**	$	115,370
Non-capital losses carried forward - Colombia		**(8,968)**		281,500
Deferred tax liabilities				
Warrants in compound debt - Canada		**(246,058)**		(115,370)
ROU asset - Colombia		**8,968**		(26,760)
Unrealized FX gain or losses – Colombia		-		(11,140)
Accounts receivable and payable – Colombia		-		(243,597)
Net deferred tax asset	**$**	**-**	$	-

Unrecognized deferred tax assets

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

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

For the years ended December 31		**2022**		2021
Property, plant and equipment	**$**	**917,123**	$	1,232,660
Restructuring reserve		-		1,627,000
Investment JV		**1,385,248**		1,626,910
Deferred revenue from investment in Xphyto		-		26,710
ROU asset and lease liability		**86,034**		263,970
Cash-settled RSU		**25,930**		111,780
Share issuance costs		-		3,641,330
Non-capital losses carried forward		**95,982,979**		86,190,870
Other assets		**854,840**		2,238,360
Intangible Assets		**445,960**		445,960
Total	**$**	**99,698,114**	$	97,405,550

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

(Expressed in Canadian Dollars, except as noted)

23. INCOME TAX (continued)

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

Year of expiry		Amount
2035	$	2,293,745
2036		3,299,425
2037		8,419,310
2038		6,993,614
2039		10,954,554
2040		12,308,340
2041		8,847,263
2042		6,974,598
Total	**$**	**60,090,849**

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

Year of expiry		Amount
2029	$	1,463,962
2030		2,120,968
2031		4,739,340
2032		10,001,497
2033		11,764,318
2034		5,802,045
Total	**$**	**35,892,130**

24. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

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

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

The Company is exposed to a number of market risks arising through the use of financial instruments in the ordinary course of business. Specifically, the Company is subject to financial risk management, liquidity risk, credit risk, market risk, foreign currency risk, and interest rate risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's management identifies and analyzes the risks faced by the Company and manages/monitors these

24. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

risks, including the impact of changes in market conditions and changes in the Company's activities.

For the year ended December 31, 2022	Risk			
			Market risks	
	Liquidity	Credit	Currency	Interest rate
Measured at cost or amortized cost				
Cash		X	X	
Trade and other receivables		X	X	
Accounts payable and accrued liabilities	X		X	
Lease obligation	X			
Debt	X			X

Financial risk management

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. As at December 31, 2022, the Company's financial liabilities consist of accounts payable and accrued liabilities, debt, debentures and RSU obligations. The Company's approach to managing liquidity is to ensure, as far as possible, that it has sufficient cash resources in order to finance operations, funds capital expenditures, and to repay financial liabilities. The Company manages its liquidity risk by preparing and monitoring operating budgets, reviewing capital requirements, and coordinating and authorizing project expenditures.

24. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

The following table details the contractual maturities of PharmaCielo's financial liabilities as at December 31, 2022 and 2021.

For the year ended December 31, 2022	<1 Year	1 to 3 Years	3+ Years	Total
Accounts payable and accrued liabilities	6,110,591	-	-	6,110,591
Debt	450,742	1,802,969	-	2,253,711
Lease Liabilities (1)	288,636	41,857	-	330,493
RSU obligations	25,930	-	-	25,930
Debentures	100,725	10,795,000	-	10,895,725
Total	**6,976,624**	**12,639,826**	**-**	**19,616,450**

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

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

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its contractual obligations. Financial instruments subject to credit risk include cash and other receivables. All of the Company's cash are held at reputable financial institutions, as such credit risk is deemed to be low on these instruments. The Company is subject to concentration of accounts receivables and credit. The Company also has trade receivables of $691,611 of which $80,123 has been provided for as potentially uncollectible, which represents all trade receivables aging greater than 90 days.

Market risk

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

Foreign Currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's functional and reporting currency is the Canadian dollar. However, some of the Company's business transactions and commitments occur in currencies other than Canadian dollars. The Colombian subsidiary sales transactions are negotiated in currencies other than the Colombian pesos and is exposed to the risk of fluctuations in foreign exchange rates between Colombian pesos and other currencies. The Colombian subsidiaries incur expenditures in Colombian pesos, which is their functional currency. Therefore, the Company is exposed to the risk of fluctuations in foreign exchange rates between Canadian dollars, Colombian pesos and other currencies.

24. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk on cash and debt. The debt is a loan agreement with Banco Agrario with interest at a variable rate of IBR + 7.85%. Fluctuations of interest rates for the year ending December 31, 2022 would not have had a significant impact on these consolidated financial statements.

Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company is reasonable. There have been no changes to the Company's capital management approach in the year. The Company considers its shareholders' equity as capital which as at December 31, 2022 is $6.6 million.

25. SUBSEQUENT EVENTS

During the period of January 1, 2023 to April 28, 2023, the Company raised $1,510,000 as part of the third tranche of its previously announced non-brokered private placement (the "Offering"), consisting of an aggregate of 1,510 debenture units (each a "Unit"). The Units were issued at a price of $1,000 per Unit for aggregate proceeds of $1,510,000.