PHARMACIELO LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED
MARCH 31, 2023

Dated May 29, 2023

PharmaCielo Ltd. Management's Discussion and Analysis

For the three months ended March 31, 2023

Introduction

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

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of PharmaCielo constitutes management's review of the factors that affected the Company's financial and operating performance for the three months ended March 31, 2023. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2023, together with the notes thereto, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). Information contained herein is presented as of May 29, 2023, unless otherwise indicated.

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

The unaudited condensed interim consolidated financial statements and this MD&A have been reviewed by the Company's Audit Committee and were approved by the Board on May 29, 2023.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators.

Additional information regarding PharmaCielo Ltd. is available on the Company website at www.pharmacielo.com or through the SEDAR website at www.sedar.com. Information contained in or otherwise accessible through the websites mentioned throughout this MD&A does not form part of this report.

Caution Regarding Forward-Looking Statements

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

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

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

Recent Developments

- On May 16, 2023, the Company announced that it has made an initial shipment of CBD Isolate to a specialty biotechnology company based in South Africa that specializes in offering GMP certified private label cannabinoid pharmaceutical products to customers in advanced medical cannabis markets globally, including the UK and Australia. PharmaCielo has shipped CBD Isolate as an Active Pharmaceutical Ingredient ("API") to facilitate pre-commercial testing prior to inclusion in the customer's private label products.
- During the period between April 1, 2023 to May 29, 2023, the Company issued a total of 500 debenture units as part of a non-brokered private placement (the "Offering"). The Units were issued at a price of $1,000 per Unit for aggregate gross proceeds of $500,000. Insiders, including directors and management, participated in the Offering.

Business Outlook

During the first quarter of 2023, PharmaCielo continued to execute on opportunities in its chosen key markets, mainly Latin America with a focus on Brazil, and Israel with PharmaCielo's ICANN certification, as well as in additional jurisdictions such as Australia and European Union ("EU") with its GACP certified dried cannabis flower, where potential demand exists for the Company's products. While the global cannabis and cannabis derivatives export market is still in its early days, PharmaCielo has established its international commercial team, and is making promising early progress in developing long-term relationships.

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

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

1. Moving toward EU-GMP certification of its CBD isolate, full and broad-spectrum CBD products, as well as THC distillates and full-spectrum products, which the Company expects to achieve in the second half of 2023. This will better position PharmaCielo to sign larger, longer-term supply agreements with global pharmaceutical and cosmetics customers; and
2. GACP certified dried cannabis flower export.

With the recently announced regulations related to the Colombian Government's Decree 811, which will pave the way for the export of dried flower for medical use and for veterinary use of cannabinoids, CBD food supplements, and hemp products, the Company is slated to become one of the largest exporters of psychoactive flower. With PharmaCielo's upstream and downstream scale and quality, the Company is uniquely positioned to be a formidable competitor with psychoactive flower currently being imported into the EU and other markets from Canada and other producing countries. PharmaCielo has already started dried flower trial shipments and expects to start commercial shipments in the second half of 2023. The Company has taken the necessary steps to ensure psychoactive flower and extract quotas are in place for 2023 and 2024 exports.

While PharmaCielo has built one of the world's largest cultivation and production complexes, the global import/export market for cannabinoids is still relatively early stage, and as a result, sales are unpredictable. We foresee current limited market conditions to continue in the first half of 2023 due to unfavourable global macroeconomic environment; starting to improve in the second half of 2023. The Company continues to rely on recurring orders for CBD isolate, with more complex and value-added products, such as CBD Full-Spectrum and THC Full Spectrum and Distillate, to be introduced in greater quantities to the product mix in late 2023. Having already established relationships and with test shipments already completed, commercial dried flower exports are expected begin later in the year. In addition, with the expectation that the Company will be able to enter into meaningful long-term contracts for cannabinoids in late 2023, PharmaCielo expects to build-on existing sales relationships by going deeper in current markets, while actively looking to add new relationships and markets during 2023.

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

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

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

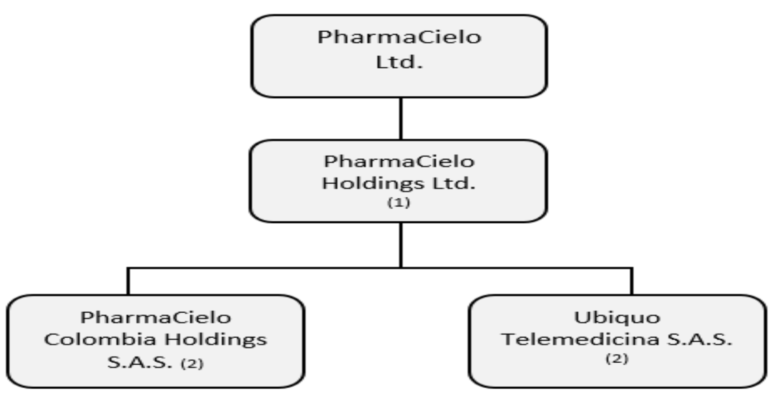
Company Overview

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

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

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

Intercorporate Relationship



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

Production Licenses

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

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

On May 04, 2022, PharmaCielo was granted with supplementary manufacturing and export quotas for 300 kg of extracts for commercial purposes, by the Ministry of Health.

Additionally, on September 7th, 2022, via Resolution 1687, the Ministry of Justice granted to PharmaCielo commercial quotas to export psychoactive cannabis flowers, permitting it to produce 5 tons of THC flower for direct exports.

Industry Overview

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

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

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

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

Operations

Facilities

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

Processing and Extraction Centre (“PEC”)

The Company’s Processing and Extraction Centre (“PEC”), consists of approximately 4,000 square meters of buildings and installations on approximately 3.6 hectares. The PEC includes processing areas that complies with EU-GMP Standards (upstream-downstream), quality control, analytical laboratories, and warehouses. The PEC is capable of upstream processing 20 tons of biomass monthly (30 Ton installed capacity), and downstream can deliver a variety of extracts that includes CBD Isolate (1,250 kg), Broad Spectrum Distillated, THC and CBD Full Spectrum, Distillated and Full Spectrum Diluted.

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

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

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

Agriculture

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

Cultivation

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

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

Discussion of Operations

Selected Financial Information

The following table summarizes results of operations of the Company for the previous three years.

(Expressed in Canadian Dollars, except as noted)

	Three Months Ended March 31, 2023	2022	2021
Revenue:			
Sale of Cannabis derivative products	**756,194**	1,185,186	656,841
Revenue from Telemedicine services	**30,304**	15,987	18,423
Total revenue	**786,498**	1,201,173	675,264
Cost of goods sold - Cannabis derivative products	**752,697**	739,606	747,583
Cost of goods sold - Telemedicine services	**-**	419	-
Cost of goods sold - Inventory impairment	**-**	-	607,512
Gross profit (loss) before fair value adjustments	**33,801**	461,148	(679,831)
Realized fair value on inventory sold	**-**	-	(63,211)
Unrealized loss on fair value of biological assets	**(227,260)**	(358,085)	(112,567)
Gross profit (loss)	**(193,459)**	103,063	(855,609)
Operating expenses			
Agricultural operating costs	**-**	43,416	157,237
Total selling, general, and administrative expenses	**2,900,566**	3,247,555	6,034,108
Total other (income) expense	**465,407**	(275,895)	(504,898)
Net loss for the period	**(3,559,432)**	(2,912,013)	(6,542,056)
Other comprehensive (gain) loss			
Currency translation adjustment	**609,363**	1,020,484	(2,330,909)
Net comprehensive loss	**(2,950,069)**	(1,891,529)	(8,872,965)
Basic and diluted loss per share	**(0.02)**	(0.02)	(0.05)
Weighted average number of common shares outstanding - basic and diluted	**155,115,565**	149,509,663	139,419,735

(Expressed in Canadian Dollars)

	As at March 31, 2023	As at December 31, 2022	As at December 31, 2021
Total assets	**25,263,574**	25,115,741	35,956,810
Total liabilities	**20,882,890**	18,723,753	16,630,868
Total shareholders' equity	**4,380,684**	6,391,988	19,325,942

The management's focus on cost reduction and containment measures initiated in the second half of 2021 have continued to payoff in 2023.

- **Reduction of consulting fees by $47,133** for the three months ended March 31, 2023, when compared to the three months ended March 31, 2022.
- **Reduction of office and general expenses by $32,639** for the three months ended March 31, 2023, when compared to the three months ended March 31, 2022.

- **Reduction of professional fees by $139,673** for the three months ended March 31, 2023, when compared to the three months ended March 31, 2022.

Revenue

During the three months ended March 31, 2023, the Company generated net revenues of $786,498 (2022: $1.2 million) composed of $756,194 Cannabis revenues (2022: $1.2 million) and $30,304 by Ubiquo (2022: $15,987, mainly from support and maintenance contracts.

The Company continues to position itself to take advantage of opportunities in Latin America, Europe, Israel and Australia. Due to regulatory requirements, the sales cycle is protracted in most of PharmaCielo target countries.

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

With the signing of Bill 811, we have already started psychoactive flower trial shipments. Due to our scale and growing conditions, we are uniquely positioned to be a formidable competitor to EU imports from Canada and other producing countries. We feel we have superior genetics and can be most competitive due to our significant scale. We expect flower exports to gain traction in the next three quarters and beyond.

Cost of goods sold

During the three months ended March 31, 2023, inventory recognized as cost of goods sold consisted of capitalized post-harvest costs expensed during the period as cannabis inventory is sold of $752,697 (2022: $739,606).

Gross profit (loss) excluding fair value items

Gross profit excluding fair value items, for the three months ended March 31, 2023, was $33,801 (2022: $461,148). Cannabis gross profit excluding fair value items was $3,497 (2022: $445,580).

Ubiquo Telemedicina S.A.S. gross profit for the three months ended March 31, 2023, was $30,801 (2022: $15,568).

Adjusted EBITDA

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

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

Adjusted EBITDA In CAD$ (000's)	For the three months ended March 31, 2023	 2022
Net loss for the period	**$(3,559)**	**$(2,912)**
Add back:		
Financing costs	553	235
Amortization of property, plant and equipment & intangible assets	85	179
Amortization expense included in production costs	248	311
EBITDA	$(2,673)	$(2,187)
Adjustments:		
Share based payments	797	540
Adjusted EBITDA	**$(1,876)**	**$(1,647)**

During the three months ended March 31, 2023, the Company generated an adjusted EBITDA loss of $1.9 million (2022: loss of $1.6 million).

Management continues to focus on reducing discretionary expenses to lower the Company's use of cash and ensure a leaner organization with a lower cost base, while continuing to invest in the sales team, to drive top line growth. PharmaCielo has recently initiated additional steps in this ongoing efficiency plan, which it expects will result in a reduction of its annualized fixed costs by approximately 25% compared to 2022.

SG&A - Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

Selling, general and administrative expenses In CAD$ (000's)	For the three months ended March 31, 2023	 2022	 B/(W) $	 B/(W) %
General and administrative				
Consulting fees	$ 58	$ 105	$ 47	44.7%
Office and general	355	388	33	8.4%
Professional fees	171	311	140	44.9%
Salaries and wages	1,176	1,357	181	13.3%
Travel and accommodation	26	69	43	62.8%
Share-based compensation	797	540	(257)	(47.6)%
Selling, marketing and promotion	228	276	48	17.4%
Amortization and depreciation	89	201	112	55.8%
Expected credit losses	-	-	-	nm
Total selling, general and administrative expenses	**$ 2,901**	**$ 3,248**	**$347**	**10.7%**

Consulting fees

Consulting fees were $58,273 for the three months ended March 31, 2023. Compared to $105,406 in the same period in 2022. Representing a 44.7% reduction for the three months ended March 31, 2022.

Office and general

Office and general expenses were $354,934 for the three months ended March 31, 2023. Compared to $387,573 in the same period in 2022. Representing a 8.4% reduction for the three months ended March 31, 2022.

Professional fees

Professional fees were $171,469 for the three months ended March 31, 2023. Compared to $311,142 in the same period in 2022. Representing a 44.9% reduction for the three months ended March 31, 2022.

Salaries and wages

Salaries and wages expenses were $1.2 million for the three months ended March 31, 2023. Compared to $1.4 million in the same period in 2022. Representing a 13.3% reduction for the three months ended March 31, 2022.

Travel and accommodation

Travel and accommodation expenses were $25,546 for the three months ended March 31, 2023. Compared to $68,696 in the same period in 2022.

Share-based compensation

Share-based compensation expenses were $797,404 for the three months ended March 31, 2023. Compared to $540,078 in the same period in 2022. The higher expense was the result of options granted during the three months ended March 31, 2023.

Selling, marketing and promotion

Selling, marketing and promotion expenses were $227,976 for the three months ended March 31, 2023. Compared to $276,103 in the same period in 2022. Representing a 17.4% decrease.

Amortization and depreciation

Amortization and depreciation expenses were $88,859 for the three months ended March 31, 2023. Compared to $201,260 in the same period in 2022.

Expected credit losses

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

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

Other expense

During the three months ended March 31, 2023, the Company recognized other expense of $465,407 (2022: income of $275,895) mainly due to higher financing costs of $553,049 for the three months ended March 31, 2023 (compared to $235,448 for the same period in 2022) as the result of an additional debentures being issued, amortization of deferred income of $Nil (2022:

$136,632), unrealized gain on XPhyto investment of $Nil (2022: $219,619), and other non-operating income of $89,175 for the three months ended March 31, 2023 (compared to income of $294,756 for the same period in 2022)

Summary of Quarterly Results

The following table outlines certain quarterly information for the last eight completed fiscal quarters of the Company up to and including the three months ended March 31, 2023. The financial information was prepared in accordance with IFRS.

PharmaCielo Ltd.
Selected Quarterly Information

In CAD$ (000's)	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Sales	$ 786	$ 1,513	$ 475	$ 2,119
COGS	753	977	575	1,283
Gross profit before fair value adjustments	34	536	(99)	836
Realized fair value on inventory sold	-	-	-	-
Unrealized gain on biological assets	(227)	(341)	(207)	(1)
Operating Expenses	-	31	35	36
SG&A	2,901	1,749	3,377	3,741
Net loss	(3,559)	(2,915)	(5,177)	(3,513)
Net Comprehensive loss	(2,950)	(4,379)	(5,806)	(4,926)
Weighted average number of common shares outstanding	155,115,565	152,490,986	151,205,366	150,667,191
Net loss per common share	$ (0.02)	$ (0.02)	$ (0.03)	$ (0.02)
In CAD$ (000's)	**Q1 2022**	**Q4 2021**	**Q3 2021**	**Q2 2021**
Sales	$ 1,201	$ 339	$ 485	$ 446
COGS	740	505	1,145	1,743
Gross profit before fair value adjustments	461	(166)	(660)	(1,297)
Realized fair value on inventory sold	-	2	(27)	(73)
Unrealized gain on biological assets	(358)	(392)	(663)	(68)
Operating Expenses	43	56	60	55
SG&A	3,248	2,995	6,719	4,918
Net loss	(2,912)	(4,113)	(8,751)	(7,224)
Net Comprehensive loss	(1,892)	(5,055)	(8,679)	(7,777)
Weighted average number of common shares outstanding	149,509,663	148,812,952	147,809,973	146,383,269
Net loss per common share	$ (0.02)	$ (0.03)	$ (0.06)	$ (0.05)

Liquidity

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

As at March 31, 2023, the Company had 155,237,787 Common Shares issued and outstanding, 16,938,363 options outstanding that could raise approximately $21.9 million and 12,025,950 warrants that could raise approximately $10.2 million, if exercised in full.

Accounts payable and accrued liabilities increased by $380,213 as at March 31, 2023 (compared to a $1.0 million decrease as at March 31, 2022) and consists of amounts that are to be extinguished in due course.

As at March 31, 2023, the Company's current liabilities exceeded its current assets by $3.8 million (compared to current assets exceeding its current liabilities by $2.9 million as at December 31, 2022) and the Company has cash of $461,187 (compared to $172,983 as at December 31, 2022).

Net cash used in operating activities was $1.1 million for the three months ended March 31, 2023. Operating activities were affected by a net increase in non-cash working capital balances of $593,357 for the three months ended March 31, 2023. This was due to a increase in accounts payable and accrued liabilities of $380,213 for the three months ended March 31, 2023, an investment in sublease of $54,029 for the three months ended March 31, 2023, increase in inventory and biological assets of $179,328 for the three months ended March 31, 2023, increase in prepaid expenses and other receivables of $69,805 for the three months ended March 31, 2023, and decrease in trade receivables of $408,248 for the three months ended March 31, 2023.

Net cash provided by investing activities was $166,893 during the three months ended March 31, 2023, as a result of investment in property and equipment of $12,187 for the three months ended March 31, 2023 and proceeds from sale of marketable securities of $179,080 for the three months ended March 31, 2023.

Net cash provided by financing activities was $1.2 million during the three months ended March 31, 2023, as a result of lease payments of $76,882 for the three months ended March 31, 2023, cash received from debentures of $1.3 million for the three months ended March 31, 2023 and loan principal payments of $14 for the three months ended March 31, 2023.

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 current year and beyond when considering the Company's current financial forecast. PharmaCielo continues to enter into strategic agreements and finance offerings to source funds and maintain its operations. The 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 March 31, 2023, 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 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.

See “Risk Factors” below and “Caution Regarding Forward-Looking Statements” above.

Commitments

Included in accounts payable and accrued liabilities are accruals for certain provisions, including termination related commitments to former officers, directors, and employees of $1.5 million.

The Company has lease commitments for office space rented in Toronto, Canada and Medellín, Colombia.

Included in accounts payable and accrued liabilities is $117,664 (80,000 EURO) of the $189,186 (132,000 EURO) settlement payment to PharmaCielo Italia S.R.L.

Discussion of first quarter

The Company’s net loss totaled $3.6 million for the three months ended March 31, 2023 (compared to $2.9 million loss in the three months ended March 31, 2022).

The first quarter net loss was primarily due to lower revenues from the sale of CBD products of $786,498 for the three months ended March 31, 2023 (compared to $1.2 million for the three months ended March 31, 2022), higher financing costs of $553,049 for the three months ended March 31, 2023 (compared to $235,448 in the three months ended March 31, 2022), higher share-based compensation of $797,404 for the three months ended March 31, 2023 (compared to $540,078 in the three months ended March 31, 2022), and lower other non-operating income of $89,175 for the three months ended March 31, 2023 (compared to $294,756 in the three months ended March 31, 2022). Partially offset by lower consulting fees of $58,273 for the three months ended March 31, 2023 (compared to $105,406 in the three months ended March 31, 2022), lower office and general of $354,934 for the three months ended March 31, 2023 (compared to $387,573 in the three months ended March 31, 2022), lower professional fees of $171,469 for the three months ended March 31, 2023 (compared to $311,142 in the three months ended March 31, 2022), lower salaries and wages of $1.2 million for the three months ended March 31, 2023 (compared to $1.4 million in the three months ended March 31, 2022), lower travel and accommodation of $25,546 for the three months ended March 31, 2023 (compared to $68,696 in the three months ended March 31, 2022) and lower selling, marketing and promotion expenses of $227,976 for the three months ended March 31, 2023 (compared to $276,103 in the three months ended March 31, 2022).

Financial instruments

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

Credit risk

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

Liquidity risk

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

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.

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

Foreign currency risk

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

Off-Balance-Sheet Arrangements

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

Share Capital

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

- 156,078,139 Common Shares;
- 16,938,363 stock options exercisable to purchase Common Shares;
- 3,005,533 RSUs to be settled in Common Shares;
- 666,667 RSUs vested still to be settled in Common Shares; and
- 12,025,950 Common Share purchase warrants.

Risk Factors

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

Business Risks

Limited Operating History

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

Regulatory Compliance Risks

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

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

Reliance on Licenses and Authorizations

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

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

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

Risks Inherent in Agriculture

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

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

Risks Inherent in Rural Real Estate

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

Risks of Litigation

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

Risks Related to Investment in a Colombian Company

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

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

Economic and Political Developments in Colombia

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

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

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

Operational Risks

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

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

Financial and Accounting Risks

Foreign Sales

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