PharmaCielo Ltd.

Management's Discussion and Analysis

For the three months ended March 31, 2020

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Introduction

PharmaCielo Ltd. (the "Company" or "PharmaCielo") is a publicly traded corporation, incorporated in Canada, with its head office located at 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2E3. 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, 2020. 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, 2020, 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 27, 2020, 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 27, 2020.

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

Caution Regarding Forward-Looking Statements

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

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

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

Key Developments

COVID-19

The global outbreak of COVID-19 (coronavirus) has had a significant impact on businesses through the restrictions put in place by the Canadian federal, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, the extent of the impact of the COVID-19 outbreak is unknown. A fuller understanding will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently in place or may be forthcoming in Canada and in other countries.

During the three months ending March 31, 2020, PharmaCielo initiated adjustments to operations at the Rionegro, Colombia complex location of PharmaCielo Colombia Holdings S.A.S. ("PharmaCielo Colombia") which were announced on April 1, 2020, to protect the health of PharmaCielo's staff and the community due to the global outbreak of COVID-19. The measures supported President Duque and the Colombian government's proactive COVID-19 mitigation efforts. The new workplace procedures reflect the Colombian government's nation-wide essential business policy (Decree 457), that came into effect at 12:00 am on March 25, 2020 requiring certain quarantining measures (the "Decree"). All agronomic operations at the greenhouses, lab and processing facility that include breeding, tissue culture, propagation, cultivation, harvest, drying, separation and storage continue to operate in rotating shifts with reduced staff and onsite adjustments to enable the important practice of social distancing. While as an agricultural enterprise PharmaCielo Colombia is excluded from the Decree, PharmaCielo Colombia has voluntarily ceased cannabis processing temporarily at the processing facility, and temporarily halted construction of the processing and extraction centre. This decision took into consideration the ability to minimize losses and to ensure a fast recovery of normal operation. The reduction in ethanol use managed costs down and eliminated the Company use of a commodity being used in the production of hand sanitizers. As a result, the monthly burn rate for expenses is expected to decline.

Since initiation of reduced activity, and as consistent with the allowances of the decree the company has sought to gradually increase operations within the agriculture and industrial teams, while maintaining proper safety measures and being mindful of employee health and wellness. As previously discussed, the industrial section was largely impacted by reduced operations, and current operations are increasing within both sections.

A prolonged global lock-down due to COVID-19 could reduce the quantity of product produced by the Company and / or limit the Company's ability to ship product to end customers. Additionally, current international border shutdowns are affecting international shipping to various markets and the Company is assessing the impact of potential delays in both equipment import and product export.

While the Company will manage down nonessential costs, any prolonged delay in the reopening of the global economy will put the Company's revenues and liquidity at risk.

Operations

The Company is currently constructing a Processing and Extraction Centre ("PEC"), formerly known as the research technology and processing center ("RTC") which is nearing completion. Once completed, PharmaCielo will be able to further expand its extraction processing capacity to 265 tones of dried flower to meet anticipated global demand for its high-grade medicinal cannabis oils, feeding international supply channels and product production lines. The PEC is expected to be completed in the 3rd quarter of 2020. The Company has spent approximately USD$14.8 million so far as of the date of this MD&A and expects to spend another USD$2.5 million to complete.

Reverse Takeover

On January 15, 2019, the Company completed a reverse takeover ("RTO") transaction with AAJ Capital 1 Corp. ("AAJ"). Pursuant to the RTO:

- AAJ consolidated its then outstanding 4,640,000 common shares of AAJ ("AAJ Common Shares") on a 1:11.94 basis;
- Pursuant to the terms of an agreement dated August 17, 2018 in respect of a plan of arrangement (the "Arrangement") between AAJ, 10949469 Canada Inc. ("AAJ Sub"), a private company incorporated under the Canada Business Corporations Act (the "CBCA") and a wholly owned subsidiary of AAJ created for the purposes of the Arrangement, and PharmaCielo Holdings Ltd., a private corporation incorporated under the CBCA, AAJ acquired all of the issued and outstanding common shares of PharmaCielo Holdings Ltd. (the "PharmaCielo Common Shares") and indirectly, PharmaCielo Colombia, PharmaCielo Holdings Ltd.'s wholly owned Colombian operating subsidiary from the holders of PharmaCielo Common Shares in exchange for an aggregate of 81,747,811 AAJ Common Shares. In addition, 11,815,416 subscription receipts of PharmaCielo Holdings Ltd. were converted into PharmaCielo Common Shares and then immediately converted into common shares in the capital of the Company (the "Common Shares") on a one for one basis for gross proceeds of $39,581,643.60;
- PharmaCielo Holdings Ltd. and the AAJ Sub amalgamated and continued as a wholly owned subsidiary of AAJ; and

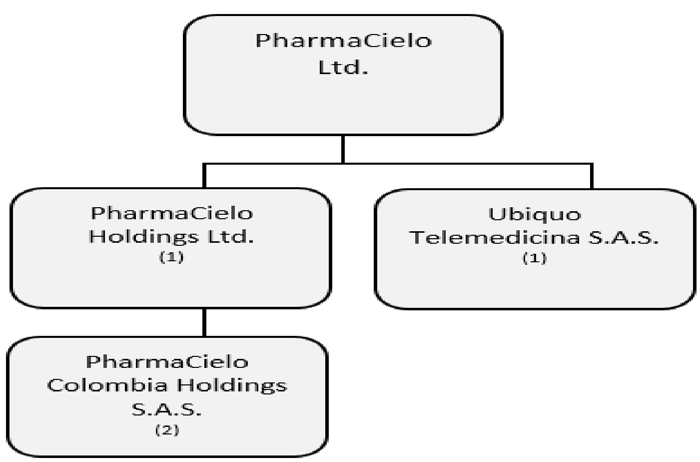
- AAJ changed its name to "PharmaCielo Ltd." upon completion of the RTO on January 15, 2019.

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 oil extracts to large channel distributors, such as 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 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2E3.

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

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 License, granted on October 19, 2017; (ii) the Cannabis Non-Psychoactive Cultivation License, granted on October 19, 2017; and (iii) the Cannabis Manufacturing License, granted on April 16, 2018 and amended on January 30, 2019, all as described herein.

(i) Cannabis Psychoactive Cultivation License

This license is granted by the Colombian Ministry of Justice and Law ("Ministry of Justice") and authorizes production of cannabis seed for cultivation, production of grain, fabrication, storage, commercialization, distribution or transportation of psychoactive cannabis and cultivation for scientific purposes. The applicant must comply with the specific requirements contemplated in article 2.8.11.2.4.2 of Decree 613 of 2017 (the "Decree").

PharmaCielo Colombia has held this license since October 19, 2017.

The Cannabis Psychoactive Cultivation License grants PharmaCielo Colombia the right to cultivate psychoactive cannabis plants for: (a) seed sowing production, (i.e. cultivation to produce sowing seeds); (b) cultivation from sowing to harvest; and (c) scientific purposes.

The Ministry of Justice granted PharmaCielo Colombia a crop quota for the Cannabis Psychoactive Cultivation License for the 2019 calendar year for: (a) production and (b) scientific purposes. PharmaCielo Colombia has already requested all necessary quotas for 2020.

(ii) Cannabis Non-Psychoactive Cultivation License

This license is granted by the Ministry of Justice and is intended for authorizing production and cultivation of cannabis grain, derivatives fabrication, industrial or scientific purposes, or for storage and final disposition. The applicant must comply with the specific requirements contemplated in article 2.8.11.2.5.2 of the Decree.

PharmaCielo Colombia has held this license since October 19, 2017.

The Cannabis Non-Psychoactive Cultivation License grants PharmaCielo Colombia the right to cultivate non-psychoactive cannabis plants for: (a) seed sowing production; (b) crops; and (c) scientific purposes.

The Cannabis Non-Psychoactive Cultivation License does not require a quota.

(iii) Cannabis Manufacturing License

The Cannabis Manufacturing License is granted by the Colombian Ministry of Health and Social Protection ("Ministry of Health") and contains an authorization to manufacture derivatives of psychoactive cannabis for use inside Colombian territory, for scientific purposes or for exportation. The applicant must comply with the specific requirements provided by article 2.8.11.2.2.2 of the Decree.

PharmaCielo Colombia has held this license since April 16, 2018.

The Cannabis Manufacturing License grants PharmaCielo Colombia the right to produce and manufacture cannabis derivatives on the Sant Angelo/la Margarita estate for: (a) use within Colombia; (b) foreign export; and (c) scientific purposes.

On January 30, 2019, the Ministry of Health approved an amendment to PharmaCielo Colombia's Cannabis Manufacturing License, authorizing PharmaCielo's new Rionegro facility to be the location of the licensed activities pursuant to Resolution 227.

With respect to this license, the Ministry of Health granted PharmaCielo Colombia a manufacturing quota for the year 2019 for scientific purposes. PharmaCielo Colombia has already requested all necessary quotas for 2020.

Duration of Licenses

All the licenses are valid for up to five (5) years. The Colombian government maintains the right to monitor the activities performed by the corresponding licensee.

Industry Overview

The global cannabis industry is experiencing significant changes as various governments embrace regulatory reform, with many nations liberalizing the production and consumption of cannabis. It is possible that foreign corporations may enter the Colombian market as a result of Colombia's regulatory regime, creating the prospect of Colombia becoming a hub for future industry development.

There are comparatively more producers of CBD dominant cannabis strains than THC strains as the production of CBD cannabis is not subject to the quota system in Colombia, thereby allowing for higher levels of unregulated production. Although competition in the market is growing, management of PharmaCielo believes the Company is competitively positioned to capitalize on its first mover status and to satisfy a significant portion of the market's demand for medicinal cannabis. PharmaCielo's management expects that its fundamental understanding of Colombia's regulatory framework, and its experience with the agricultural and scientific processes necessary to develop high quality and consistent medicinal cannabis products, will allow the Company to be a leader in the Colombian and global medicinal cannabis marketplace.

Operations

Facilities

PharmaCielo's nursery and propagation center, located in the municipality of Rionegro in the department of Antioquia, consists of 12 hectares of open-air greenhouses situated on a 26.3 hectare property, along with a manmade lake (natural water reservoir), ample cold storage, and industrial "plugging" systems customized to handle large-scale cutting operations. Each hectare of greenhouse contains 180 planting beds, each bed is 40.5 square metre (1.35 m x 30 m). The total bedding area per hectare is 7,290 square metre and the entire nursery and propagation center contains approximately 1.3 million square feet of planting beds. This nursery and propagation center is capable of producing on a weekly basis, significantly more than 12 million cuttings (e.g., clones) that would be required to supply 600 hectares of contract cultivation. The nursery and propagation centre ensures optimum biological and cultural control strategies. This enables the Company to efficiently maintain pathogens and pests at levels that exceed agricultural standards.

PharmaCielo is also currently constructing a Processing and Extraction Centre ("PEC"), with the anticipated completion of construction in mid-2020 due to delays in the construction plan for COVD19 contingency and on-site work restrictions. The designs and engineering for the construction process are contemplated the highest regulatory standards. The PEC will contain facilities to: (i) dry flowers naturally and by using drying machines; (ii) a milling area; (iii) extraction areas; and (iv) an area designed for testing of THC and CBD levels in cannabis, as well as for general compliance. As of the date of this MD&A, the construction of the PEC has cost USD $14.8 million. Management projects that the completion of facility will require an additional USD $2.5 million, for a total cost of USD $17.3 million.

Agriculture

During the three months ending March 31, 2020, the Company has been actively testing individual plant extract yield volumes based on cultivation density, per square metre, as considered against overall cultivation/processing costs. As of March 31, 2020, a reduction in density from 24 to 8 plants per square metre is expected to generate increased extract yield per plant to the approximate equivalence of the previous period, at lower costs.

Overall flower/cultivar volume in the quarter is also reduced based on withholding cultivation on 3 hectares of greenhouse in anticipation of psychoactive THC cultivar propagation quota approval, allowing the expansion of the commercial extract product range.

Production

The nursery and propagation center have one primary function: to develop and propagate a steady stream of genetically stable cuttings, i.e. clones, that can supply a scalable 600 hectare network of contracted cultivation centers. In turn, these cultivations centers will root and cultivate the cuttings into flowering plants that will eventually yield the harvested cannabis flower, which can be sent for processing into standardized, medicinal grade oil extracts. This last step will take place at PharmaCielo's planned state-of-the-art oil processing center. The 600-hectare contract cultivation network will, conservatively, require a weekly supply of approximately 12.2 million fresh cuttings from PharmaCielo's nursery and propagation center, which can be comfortably supplied at approximately 86% operating capacity.

The outbound cuttings, destined for contract cultivation, are hand-culled from populations of mother plants, that will occupy a percentage of approximately 75% of the overall nursery and propagation center's open-air greenhouse planting capacity. The mother plants supply all the feeder stock cannabis cuttings to be delivered to and cultivated by PharmaCielo's highly experienced network of contract cultivation and harvest farms. Not only do the mother plants supply genetically stable varieties of cuttings, they themselves also originated as harvested cuttings from grandmother plants. Since the cloning process perfectly replicates plant genetics, the genetics of the mother plants mirror those of the grandmother plants from which they were harvested.

After extensive laboratory and field propagation testing, only a select few plants that have been determined to possess superior genetics are selected to be grandmothers. To ensure the genetic consistency of future generations of grandmother plants (and by extension future mother plants), tissue culture harvested from the grandmother plants is stored in an onsite tissue culture lab. In other words, when the entire population of grandmother plants needs to be replaced with new grandmothers (required approximately every six months), it is replaced with its own genetic offspring via tissue culture propagation.

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

		As at March 31, 2020		As at December 31, 2019
ASSETS				
Current assets				
Cash and cash equivalents	$	6,039,908	$	13,673,299
Trade receivables		1,299,422		709,493
Marketable securities		58,000		106,000
Prepaid expenses and other receivables		1,823,333		1,539,146
Inventory		4,091,499		3,465,748
Biological Assets		118,872		178,526
Total current assets		13,431,034		19,672,212
Non-current assets				
Property, plant and equipment		25,514,857		27,275,868
Right-of-use assets		1,349,614		1,445,598
Investment - XPhyto Therapeutics Corp.		500,000		-
Goodwill		1,048,704		1,162,885
Intangible Assets		531,126		639,799
Total non-current assets		28,944,301		30,524,150
Total assets	$	42,375,335	$	50,196,362
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	4,355,983	$	2,900,441
Lease obligations		144,277		147,597
RSU obligations		127,934		117,690
Consideration payable		-		140,483
Total current liabilities		4,628,194		3,306,211
Non-current liabilities				
Lease obligations		1,353,397		1,424,850
Total non-current liabilities		1,353,397		1,424,850
Total liabilities		5,981,591		4,731,061
Shareholders' equity				
Share capital		117,073,686		116,827,833
Reserves		27,300,061		26,243,564
Other comprehensive income (loss)		(3,608,596)		(93,573)
Deficit		(104,371,407)		(97,512,523)
Total shareholders' equity		36,393,744		45,465,301
Total liabilities and shareholders' equity	$	42,375,335	$	50,196,362

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

	Three Months Ended March 31, 2020	March 31, 2019
Revenue		
Sale of Cannabis derivative products	$ 494,032	$ -
Revenue from Telemedicine services	20,377	-
Total revenue	514,409	-
Cost of goods sold - Cannabis derivative products	461,235	-
Gross Profit before fair value adjustments	53,174	-
Realized fair value on inventory sold	(98,870)	-
Unrealized gain on fair value of biological assets	(111,024)	-
Gross profit	(156,720)	-
Operating expenses		
Agricultural pre-operational costs	$ -	$ 906,225
Selling, general and administrative expenses		
General and administrative		
Consulting fees	388,264	323,343
Office and general	821,224	550,793
Professional fees	1,898,363	707,168
Salaries and wages	1,612,402	850,403
Travel and accommodation	221,882	404,725
Share-based compensation	1,196,444	1,381,181
Selling, marketing and promotion	317,335	403,023
Amortization and depreciation	323,773	141,955
Total selling, general and administrative expenses	6,779,687	4,762,591
Other expenses (income)		
Bank charges and interest expense	42,421	28,189
Unrealized loss (gain) on marketable securities	48,000	(240,000)
Exchange loss (gain)	(136,904)	(202,788)
Other non-operating expenses	-	50,475
Listing expense	-	2,433,687
Interest Income	(11,497)	-
Change in fair value of consideration payable	(19,543)	-
Total other expenses	(77,523)	2,069,563
Loss before tax	(6,858,884)	(7,738,379)
Net income (loss) for the period	$ (6,858,884)	$ (7,738,379)
Other comprehensive gain (loss) for the period:		
Currency translation adjustment for the period	(3,515,023)	(593,823)
Net comprehensive income (loss) for the period	$(10,373,907)	$ (8,332,202)
Basic and diluted net income (loss) per common share	$ (0.07)	$ (0.08)
Weighted average number of common shares outstanding - basic and diluted	99,051,447	92,782,399

Assets by Geography

Total assets	March 31, 2020	March 31, 2019
Canada	$ 11,927,715	$ 46,168,059
Colombia	30,144,577	18,407,367
Italy	63,356	15,002
Mexico	239,687	-
Total	$ 42,375,335	$ 50,196,362

Loss by Geography

	March 31,	
Net loss for the period ended	**2020**	**2019**
Canada	**$ 4,422,905**	$ 5,742,409
Colombia	**2,004,292**	1,995,970
Italy	**313,724**	-
Mexico	**117,963**	-
Total	**$ 6,858,884**	$ 7,738,379

Operating Segment

Operating segment	Corporate	Cannabis	Total
Revenues	$ -	$ 514,409	$ 514,409
Cost of Sales	-	461,235	461,235
Net loss for the period	$ 4,422,905	$ 2,435,979	$ 6,858,884

Revenue by Country

Revenues by country	Cannabis	Total
Colombia	20,377	20,377
United States	494,032	494,032
Total Revenue	$ 514,409	$ 514,409

Discussion of Operations

The Company's net loss totaled $6.9 million for the three-months ended March 31, 2020 (compared to $7.7 million in the three-months ended March 31, 2019), with a basic loss per share of $0.07 for the three-months ended March 31, 2020 versus a basic loss per share of $0.08 in the three-months ended March 31, 2019.

This net loss was primarily due to higher professional fees of $1.9 million for the three-months ended March 31, 2020 (compared to $707,168 in the three-months ended March 31, 2019), higher salaries and wages of $1.6 million for the three-months ended March 31, 2020 (compared to $850,403 in the three-months ended March 31, 2019), higher office and general of $821,224 for the three-months ended March 31, 2020 (compared to $550,793 in the three-months ended March 31, 2019). The net loss was partially offset by lower share-based compensation expense of $1.2 million for the three-months ended March 31, 2020 (compared to $1.4 million in the three-months ended March 31, 2019).

“All-in” Operating cost to produce dried cannabis / gram

Q1 '20			
Cost elements (COP)	w MP & Cut	Excl. MP & Cut	Agri cost only
Mother plants	205,596,089	-	-
Cuttings costs	50,464,415	-	-
Rooting cost	347,908,213	347,908,213	347,908,213
Phytosanity cost	214,542,158	214,542,158	214,542,158
Production cycle - 14 weeks	951,401,597	951,401,597	951,401,597
Predried cycle - 2 weeks	199,094,267	199,094,267	199,094,267
Upstream	516,153,629	516,153,629	-
Total	2,485,160,368	2,229,099,864	1,712,946,235
Predried (kg)	18,230	18,230	18,230
Predried (g)	18,230,000	18,230,000	18,230,000
COP Cost per (g)	136	122	94
CAD$ Cost per (g) (1)	$ 0.052	$ 0.047	$ 0.036

Q4 '19			
Cost elements (COP)	w MP & Cut	Excl. MP & Cut	Agri cost only
Mother plants	129,999,456	-	-
Cuttings costs	31,077,188	-	-
Rooting cost	391,362,879	391,362,879	391,362,879
Phytosanity cost	216,490,077	216,490,077	216,490,077
Production cycle - 14 weeks	1,267,333,328	1,267,333,328	1,267,333,328
Predried cycle - 2 weeks	84,488,889	84,488,889	84,488,889
Upstream	486,903,674	486,903,674	-
Total	2,607,655,491	2,446,578,847	1,959,675,173
Predried (kg)	21,659	21,659	21,659
Predried (g)	21,658,900	21,658,900	21,658,900
COP Cost per (g)	120	113	90
CAD$ Cost per (g) (1)	$ 0.047	$ 0.044	$ 0.035

(1) Non-GAAP measure

During the three months ended March 31, 2020, The Company had an “All-in” operating cost of $0.04 per gram to produce dried cannabis. While these costs are prior to any additional processing, PharmaCielo’s business model is focused only on extracts, oils and isolate.

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 000's)	Q1 2020	Q1 2019
Net Loss	**$(6,859)**	**$(7,738)**
Add back:		
Amortization of property, plant and equipment & intangible assets	434	142
Amortization expense included in production costs	130	197
EBITDA	$(6,295)	$(7,400)
Adjustments:		
Share based payments	1,196	1,381
Listing expenses	-	2,434
Non-recurring Legal expenses	490	-
Adjusted EBITDA	**$(4,609)**	**$(3,585)**

During the three months ended March 31, 2020, the Company generated an Adjusted EBITDA loss of $4.6 million (March 31, 2019: $3.6 million).

Revenue

During the three months ended March 31, 2020, the Company generated net revenues of $514,409 (March 31, 2019: $Nil). Cannabis revenues generated were $494,032, derived from a purchase order for 276 kgs of isolate shipped to the United States in early January.

Ubiquo Telemedicina S.A.S. generated net revenues of $20,377 (March 31, 2019: $Nil), mainly from support and maintenance contracts.

Cost of goods sold

During the three months ended March 31, 2020, inventory recognized as expense was $516,837 (March 31, 2019: $nil), consisting of $98,869 of realized fair value changes on inventory sold (March 31, 2019: $nil) and $417,968 of capitalized post-harvest costs expensed during the period as cannabis inventory is sold (March 31, 2019: $nil).

The Company values biological assets byway of multiplying the expected yield of finished goods from the plants harvested by the selling price expected to be achieved by the Company. The value of biological assets is then reduced by the percentage of completion of the harvest and the estimated post-harvest costs and cost to complete. The Company estimates that fair value of the cannabis plants approximates the stage of completion of the cannabis plants based on approximately linear costs incurred during the growth stage.

The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at March 31, 2020:

I. Selling prices – selling prices are based on the Company's expected selling price per kilogram based on selling history, adjusted for current market conditions. A selling price of $2,007 per kilogram of CBD isolate was used to calculate the biological assets at quarter end.

II. Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, extracting, testing and packaging activities incurred in the period, including overhead allocations for these activities. Post-harvest processing costs averaged $1,514 per kilogram of CBD isolate.

III. The stage of plant growth – the stage of plant growth is estimated by comparing the number of days into the growing stage against the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at March 31, 2020 averaged 41%.

IV. Expected yield – the expected yield per plant is based on the Company’s historical adjusted average yield per plant. Expected yield per plant is 0.91 grams of CBD isolate.

As at March 31, 2020, the Company’s biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

Carrying amount, December 31, 2019	**$**	**178,526**
Production costs capitalized		530,152
Changes in fair value less costs to sell due to biological transformation		(111,024)
Transferred to inventory upon harvest		(478,782)
Balance, March 31, 2020	**$**	**118,872**

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

Unrealized change in fair value of biological assets	$	(111,024)
Realized fair value on inventory sold		(98,870)

Prior to July 1, 2019, the Company expensed all agricultural expenses to pre-operational costs, as it was related to the costs incurred in the agricultural facilities pre-commercial stage. During the year ended

2019, once the Company obtained the full commercial cannabis licenses, it started the valuation of biological assets, and as such, it capitalized and will continue to capitalize all the direct and indirect costs as incurred, related to the biological transformation of the biological assets. The Company expenses all costs related to mother plants and cuttings. These are included as part of Production costs because the life cycle of these plants is under one year.

Gross margin excluding fair value items

Gross margin excluding fair value items, for the three months ended March 31, 2020 was $53,174 (March 31, 2019: $Nil). Cannabis gross margin excluding fair value items was $32,797.

Ubiquo Telemedicina S.A.S. gross margin was $20,377 (March 31, 2019: $Nil).

Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

Selling, general and administrative expenses	For the three months ended			
General and administrative	March 31, 2020	March 31, 2019	Change $	Change %
Consulting fees	$ 388,264	$ 323,343	$ 64,921	20%
Office and general	821,224	550,793	270,431	49%
Professional fees	1,898,363	707,168	1,191,195	168%
Salaries and wages	1,612,402	850,403	761,999	90%
Travel and accommodation	221,882	404,725	(182,843)	(45)%
Share-based compensation	1,196,444	1,381,181	(184,737)	(13)%
Selling, marketing and promotion	317,335	403,023	(85,688)	(21)%
Amortization and depreciation	323,773	141,955	181,818	128%
Total selling, general and administrative expenses	**$6,779,687**	**$4,762,591**	**$2,017,096**	**42%**

Consulting fees

Consulting fees were $388,264 for the three-months ended March 31, 2020, compared to $323,434 in the three-months ended March 31, 2019. The increase of $64,921 is due to fees related to capital markets consulting and fees associated with cannabis growth and extraction.

Office and general

Office and general expenses were $821,224 for the three-months ended March 31, 2020, compared to $550,793 in the three-months ended March 31, 2019. The increase of $270,431 is due to expanded office footprint in Toronto, Medellín, Mexico City and Milan.

Professional fees

Professional fees were $1.8 million for the three-months ended March 31, 2020, compared to $707,168 in the three-months ended March 31, 2019. The increase of $1.2 million is due to legal fees related to the short-sellers report of $455,000, general corporate legal matters of $205,000 and executive search services of $363,000.

Salaries and wages

Salaries and wages expenses were $1.6 million for the three-months ended March 31, 2020, compared to $850,403 in the three-months ended March 31, 2019. The increase of $761,999 is due to the growth of FTEs in Colombia within Administration, Human Resources, Procurement, Finance, Health and Safety, Agricultural and Industrial areas. The Canadian team increase by 1 to 7 FTE.

Travel and accommodation

Travel and accommodation expenses were $221,882 for the three-months ended March 31, 2020, compared to $404,725 in the three-months ended March 31, 2019. The decrease of 182,843 is due to tighter cost control on discretionary expenses and the impact of Covid-19 travel restrictions.

Share-based compensation

Share-based compensation expenses were $1.2 million for the three-months ended March 31, 2020, compared to $1.4 million in the three-months ended March 31, 2019. The decrease of $184,737 is due few options issued in fiscal 2019 and prior years options were fully expensed.

Selling, marketing and promotion

Selling, marketing and promotion expenses were $317,335 for the three-months ended March 31, 2020, compared to $403,023 in the three-months ended March 31, 2019. The decrease of $85,688 is due to lower investor and media services.

Amortization and depreciation

Amortization and depreciation expenses were $323,773 for the three-months ended March 31, 2020, compared to $141,955 in the three-months ended March 31, 2019. The increase of $181,818 is due to office leases and improvements of $151,488.

Summary of Quarterly Results

The following table outlines certain unaudited quarterly information for the last 8 completed fiscal quarters of the Company up to and including the three months ended March 31, 2020. The financial information was prepared in accordance with IFRS.

PharmaCielo Ltd. Selected Quarterly Information				
In Cdn $ (000's)	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Sales	$ 514	$ 657	$ 130	$ -
COGS	461	672	70	-
Gross Margin	53	(15)	60	-
Unrealized Gain/(Loss) on biological assets	(210)	(1,474)	2,073	
Operating Expenses	-	(121)	121	1,397
SG&A	6,780	10,482	6,124	8,774
Net Loss	(6,878)	(12,423)	(3,820)	(10,686)
Net Comprehensive Loss	(10,374)	(14,574)	(2,221)	(11,469)
Weighted average number of common shares outstanding	99,051,447	98,196,739	96,666,354	96,264,358
Net loss per common share	$ (0.07)	$ (0.13)	$ (0.04)	$ (0.11)
In Cdn $ (000's)	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Sales	$ -	$ -	$ -	$ -
COGS	-	-	-	-
Gross Margin	-	-	-	-
Unrealized Gain/(Loss) on biological assets		-	-	-
Operating Expenses	906	828	618	529
SG&A	4,763	5,905	10,307	3,152
Net Loss	(7,738)	(8,265)	(9,497)	(3,818)
Net Comprehensive Loss	(8,332)	(8,339)	(9,559)	(4,592)
Weighted average number of common shares outstanding	92,782,399	80,161,732	77,906,560	77,792,185
Net loss per common share	$ (0.08)	$ (0.11)	$ (0.12)	$ (0.05)

The quarterly variances in operating results has been discussed above in the Discussion of Operations for the three months ended March 31, 2020 and 2019.

Liquidity

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

As of March 31, 2020, the Company had 99,074,312 Common Shares issued and outstanding, 12,556,000 options outstanding that could raise approximately $32.7 million, and 36,882 warrants that could raise approximately $0.1 million if exercised in full.

Accounts payable and accrued liabilities increased by $1.5 million as at March 31, 2020 (compared to a $906,349 decrease recorded between December 31, 2018 and March 31, 2019) and consists of amounts that are to be extinguished in due course. The Company's cash and cash equivalents as of March 31, 2020 are sufficient to pay these liabilities.

As at March 31, 2020, the Company had working capital of $8.8 million (compared to $16.4 million as at December 31, 2019) and the Company had cash and cash equivalents of $6.0 million (compared to $13.7 million as at December 31, 2019).

Net cash used in operating activities was $5.1 million for the three-months ended March 31, 2020 (compared to $5.5 million net cash used for the three-months ended March 31, 2019). Operating activities were affected by a net decrease in non-cash working capital balances of $973,023 for the three-months ended March 31, 2020 (compared to an increase of $1.0 million for the three-months ended March 31, 2019). This was due to an increase in prepaid expenses and other receivable of $284,187 for the three-months ended March 31, 2020 (compared to an increase of $67,565 for the three-months ended March 31, 2019), an increase in inventory and biological assets of $1.6 million for the three-months ended March 31, 2020 (compared to an increase of $47,803 for the three-months ended March 31, 2019), an increase in trade receivables of $589,929 for the three-months ended March 31, 2020 (compared to $Nil for the three-months ended March 31, 2019), and an increase in accounts payable and accrued liabilities of $1.5 million for the three-months ended March 31, 2020 (compared to a decrease of $906,349 for the three-months ended March 31, 2019). The Company also recorded share-based compensation of $1.2 million for the three-months ended March 31, 2020 (compared to share-based compensation of $1.4 million for the three-months ended March 31, 2019). Net cash used in investing activities was $2.4 million during the three-months ended March 31, 2020 (compared to $18.1 million net cash used for the three-months ended March 31, 2019), as a result of investment in property and equipment of $1.9 million for the three-months ended March 31, 2020 (compared to $2.4 million for the three-months ended March 31, 2019), the investment in XPhyto Therapeutics property and equipment of $500,000 for the three-months ended March 31, 2020 (compared to $Nil for the three-months ended March 31, 2019) and the purchase of short-term investments of $Nil for the three-months ended March 31, 2020 (compared to $16.0 million for the three-months ended March 31, 2019).

The Company's liquidity risk from financial instruments is minimal as excess cash is held in current bank accounts.

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

Capital Resources

On April 15, 2020, the Company announced that it has closed its previously announced "best efforts" private placement financing of 12,578,002 special warrants of the Company (the "Special Warrants") (inclusive of the Broker Special Warrants). An aggregate of 12,428,002 Special Warrants were issued to purchasers on a best-efforts private placement basis at a price of $0.65 per Special Warrant (the "Offering Price") for aggregate gross proceeds of approximately $8 million (the "Offering"), and an aggregate of 150,000 Special Warrants (the "Finder's Fee Special Warrants") were issued for services rendered in connection with the Offering.

Proceeds of Offering	
Price to the Public	**$8,078,201**
Agents' Fee	123,638
Gross Proceeds to the Company	**$7,954,564**
Less:	
Offering and the Prospectus Qualification expenses (estimated)	375,000
Finder's Fee	263,700
Net Proceeds to the Company	**$7,315,863**

The net proceeds of the Offering shall be used to support the anticipated processing capacity expansion ($2.5MM), to commence ramping up of the Company's contract growing operations ($1.0MM), for working capital and for general corporate purposes ($3.8MM).

Commitments

i. The Company has an agreement with CNV Construcciones S.A.S. ("CNV"), a Colombian construction company, to complete the construction of the Processing and Extraction Centre ("PEC"). In October 2019, the work outlined in the original agreement was completed and CNV was paid. Additional funding was approved by the Board of Directors to cover structural changes in order to meet the needs of the extraction technologies yet to be developed. The scope of the agreement with CNV was expanded and the Company agreed to pay an additional USD $370,385 to complete the main construction activities at the PEC. As of March 31, 2020, the Company had spent $102,385. The construction of the PEC is progressing with the anticipated completion in the 3rd quarter of 2020.

ii. The Company has a technology licence agreement with Harmony Grove Services, LLC, to exploit the extraction technology on biomass. The Company will pay to Harmony Grove Services, LLC a royalty fee for cannabis oil processed with the Technology-enabled process scale chromatography and Technology-enabled process scale crystallization. The agreement is for two years and royalties will be paid on a quarterly basis. Royalties are calculated based on a fixed fee (USD$) per kilogram of oil processed with the Technology-enabled process scale chromatography and Technology-enabled process scale crystallization.

Transactions with Related Parties

During the three months ended March 31, 2020, the Company has the following related party transactions:

i. The Company incurred subcontractor expenses of $Nil (compared to the three months ended March 31, 2019 of $8,199) from Tahami & Cultiflores S.A.C.I, a company controlled by a director of the Company's subsidiary, Federico Cock-Correa. As of March 31, 2020, the amount of $Nil (March 31, 2019 - $Nil) is owing to Tahami & Cultiflores S.A.C.I. and is recorded in accounts payable and accrued liabilities.

ii. The Company incurred consulting fees of $Nil (compared to the three months ended March 31, 2019 of $53,174) to Grupo Jaque, a company controlled by the Company's former Chief Executive Officer, Anthony Wile. As of March 31, 2020, the amount of $Nil (March 31, 2019 - $Nil) is owing and recorded in accounts payable and accrued liabilities. Mr. Wile also received $47,711 as fee during the three months ended March 31, 2020.

iii. The Company incurred consulting fees of $1,500 (compared to the three months ended March 31, 2019 of $1,500) to Laitinen Consulting Inc., a company controlled by the Company's Chief Financial Officer, Scott Laitinen. As of March 31, 2020, the amount of $Nil (March 31, 2019 - $Nil) is owing and recorded in accounts payable and accrued liabilities. Mr. Laitinen was employed early in 2019, and since then his remuneration is included as part of Management salaries.

iv. The Company included in other receivables $18,452 for certain expenses paid on behalf of Tahami & Cultiflores S.A.C.I (Tahami) a company controlled by a director of the Company's subsidiary, Federico Cock-Correa in connection to subcontracting Tahami as a grower.

v. The Company included in other receivables $39,290 for certain expenses paid on behalf of Flores El Capiro S.A.(El Capiro), a company controlled by a director of the Company, Carlos Uribe in connection to subcontracting El Capiro as a grower.

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

	For the three months ended March 31,	
	2020	2019
	$	$
Management compensation	355,518	343,082
Directors' fees (1)	-	-
Share-based compensation (2)	1,079,800	1,411,078
Total management compensation	1,435,318	1,754,160

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

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

Financial instruments

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

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As at March 31, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year.

Foreign currency risk

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently expects that sales will be denominated in Colombian pesos and may, in the future, have sales denominated in the currencies of additional countries in which it establishes sales offices. In addition, PharmaCielo incurs most of its operating expenses in Colombia Pesos. In the future, the proportion of PharmaCielo's sales that are international may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Company's business, financial condition and results of operations. PharmaCielo has not previously engaged in foreign currency hedging. If the Company decides to hedge its foreign currency exposure, it may not be able to hedge 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 111,727,220 Common Shares issued and outstanding.

As of the date of this MD&A, the Company has 14,056,000 stock options exercisable to purchase Common Shares issued and outstanding.

As of the date of this MD&A, the Company has 671,000 RSUs issued and outstanding to be settled in Common Shares.

As of the date of this MD&A, the Company has 227,094 Common Share purchase warrants issued and outstanding.

Risk Factors

Where used in this “Risk Factors” section, “PharmaCielo” refers to either to PharmaCielo Ltd., 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 the 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 new customers, 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 by 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 Agricultural

PharmaCielo's business involves the growing of cannabis, which is an agricultural product. Medicinal cannabis will be 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. Even when only a portion of the production is damaged, PharmaCielo's results of operations could be adversely affected because all or a substantial portion of the production costs may have been incurred in the process. 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 Related to Investment in a Colombian Company

Economic Risks Inherent in any Investment 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.

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.

<u>Operational Risks</u>

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 is also home to South America's largest and longest running insurgency and large swaths of the countryside are under guerrilla influence. In addition, Colombia experiences narcotics-related violence, a prevalence of kidnapping and extortionist activities and civil unrest in certain areas of the country. Such instability may require PharmaCielo to suspend operations on its properties. Although PharmaCielo is not presently aware of any circumstances or facts which may cause the above to occur, other risks may involve matters arising out of the evolving laws and policies in Colombia, any future imposition of special taxes or similar charges, as well as foreign exchange fluctuations and currency convertibility and controls, the unenforceability of contractual rights or the taking or nationalization of property without fair compensation, restrictions on the use of expatriates in PharmaCielo's operations, or other matters. PharmaCielo also bears the risk that changes can occur in the government of Colombia and a new government may void or change the laws and regulations that PharmaCielo is relying upon.

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

<u>Foreign Sales</u>

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently expects that sales will be denominated in Colombian pesos and may, in the future, have sales denominated in the currencies of additional countries in which it establishes sales offices. In addition, PharmaCielo incurs most of its operating expenses in Colombia Pesos. In the future, the proportion of PharmaCielo's sales that are international may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact PharmaCielo's business, financial condition and results of operations. PharmaCielo has not previously engaged in foreign currency hedging. If PharmaCielo decides to hedge its foreign currency exposure, it may not be able to hedge 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.

Events after the reporting period

Former Medical Advisory Board members settlement

On April 15, 2020, the Company settled an outstanding debt in the amount of $54,681.38 with two former Medical Advisory Board members. As a result, the Company issued an aggregate of 74,906 Common Shares at a deemed price of $0.73 per Common Share, with all such issued Common Shares being subject to a statutory hold period of four months plus a day from the date of issuance. The Company recorded a reserve in its March 31, 2020 financial statements.

Closing of $8 Million Private Placement Financing

On April 15, 2020, the Company announced that it has closed its previously announced "best efforts" private placement financing of 12,578,002 special warrants of the Company (the "Special Warrants") (inclusive of the Broker Special Warrants). An aggregate of 12,428,002 Special Warrants were issued to purchasers on a best-efforts private placement basis at a price of $0.65 per Special Warrant (the "Offering Price") for aggregate gross proceeds of approximately $8 million (the "Offering"), and an aggregate of 150,000 Special Warrants (the "Finder's Fee Special Warrants") were issued for services rendered in connection with the Offering.

In consideration for their services, the Agents received a cash commission of $123,637.74, a portion of which was satisfied by the issuance of an aggregate of 181,812 Special Warrants at the Offering Price and an aggregate of 190,212 broker warrants (the "Broker Warrants"). Each Broker Warrant is exercisable to purchase one Common Share at the Offering Price for two years from the date hereof.

The Company paid a finder's fee of 7%, in a combination of cash and securities of the Company, in consideration for certain placements in connection with subscriptions from certain subscribers introduced by finder's at arm's length to the Company.

On May 15, 2020, the Company announced it has obtained a receipt for the Company's final short form prospectus dated May 15, 2020 (the "Prospectus"), filed with the securities regulatory authorities in the provinces of British Columbia, Ontario, and Québec. The Prospectus qualifies the distribution of 12,578,002 common shares (the "Special Warrant Shares") of the Company issuable upon the exercise or deemed exercise of 12,578,002 previously issued special warrants (the "Special Warrants"), including 12,428,002 Special Warrants issued pursuant to a best effort private placement.

On May 20, 2020, the Company issued 12,578,002 Common shares.

PharmaCielo Adds Experienced Senior Leader to Executive Team

On May 4, 2020, the Company announced the appointment of Mr. Henning von Koss to the new role of President, overseeing all day-to-day operations and project development with immediate effect. Mr. von Koss will remain on the board of directors of PharmaCielo.

In relation to his appointment as President, Mr. von Koss was granted 1,500,000 stock options ("Stock Options") each exercisable for one common share ("Common Share") of the Company at an exercise price of $1.02, subject to the rules of the TSX Venture Exchange and the Company's Stock Option Plan. 500,000 of the Stock Options vest immediately and 1,000,000 will vest subject to the Company's achievement of certain milestones to be determined by the Board of Directors. The Common Shares underlying the Stock Options are subject to a four month hold period.

PharmaCielo Welcomes Dr. Claudia Jiménez to Board of Directors

On May 12, 2020, the Company was pleased to welcome Dr. Claudia Jiménez (Ph.D.) to its board of directors. As a board member, Dr. Jiménez will also serve on the Company's Audit, Nominating and Corporate Governance committees. Dr. Jiménez's appointment is effective June 1, 2020.

Vesting of Restricted Share Units

On May 23, 2020, a total of 125,000 RSUs fully vested but Common Shares have not been issued.