



**PHARMACIELO LTD.
CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED
JUNE 30, 2020
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)**

PHARMACIELO LTD.

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

	As at June 30, 2020	As at December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,067,835	\$ 13,673,299
Trade receivables (note 3)	1,335,387	709,493
Marketable securities (note 4)	322,000	106,000
Prepaid expenses and other receivables (note 5)	1,442,656	1,539,146
Inventory (note 6)	4,453,669	3,465,748
Biological Assets (note 7)	479,448	178,526
Total current assets	13,100,995	19,672,212
Non-current assets		
Property, plant and equipment (note 8)	29,132,410	27,275,868
Right-of-use assets (note 9)	1,310,258	1,445,598
Investment - XPhyto Therapeutics Corp. (note 10)	1,959,948	-
Advances for property and equipment	72,478	-
Investment in joint ventures (note 19)	605,938	-
Goodwill (note 20)	1,085,212	1,162,885
Intangible Assets (note 20)	440,099	639,799
Total non-current assets	34,606,343	30,524,150
Total assets	\$ 47,707,338	\$ 50,196,362
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 17)	\$ 5,205,281	\$ 2,900,441
Lease obligations (note 9)	156,736	147,597
RSU obligations (note 14)	98,252	117,690
Consideration payable	-	140,483
Total current liabilities	5,460,269	3,306,211
Non-current liabilities		
Lease obligations (note 9)	1,302,323	1,424,850
Deferred income	974,493	-
Total non-current liabilities	2,276,816	1,424,850
Total liabilities	7,737,085	4,731,061
Shareholders' equity		
Share capital (note 11)	125,678,127	116,827,833
Reserves (notes 12, 13 and 14)	28,687,062	26,243,564
Other comprehensive loss	(2,844,552)	(93,573)
Deficit	(111,550,384)	(97,512,523)
Total Shareholder's equity	39,970,253	45,465,301
Total liabilities and shareholders' equity	\$ 47,707,338	\$ 50,196,362

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

Nature of operations (note 1)

Commitments (note 17)

Events after the reporting period (note 22)

PHARMACIELO LTD.

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

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenue				
Sale of Cannabis derivative products	\$ 1,208,975	\$ -	\$ 1,703,007	\$ -
Revenue from Telemedicine services	23,566	-	43,943	-
Total revenue	1,232,541	-	1,746,950	-
Cost of goods sold - Cannabis derivative products	671,768	-	1,133,003	-
Gross profit before fair value adjustments	560,773	-	613,947	-
Realized fair value on inventory sold	(374,150)	-	(473,019)	-
Unrealized loss on fair value of biological assets (note 7)	(34,154)	-	(145,178)	-
Gross profit	152,469	-	(4,250)	-
Operating expenses				
Agricultural pre-operational costs (note 7)	73,068	1,396,809	73,068	2,303,034
Selling, general and administrative expenses				
General and administrative				
Consulting fees	1,021,179	1,034,227	1,409,443	1,357,570
Office and general	179,869	671,004	1,001,093	1,221,797
Professional fees	1,034,276	600,652	2,932,639	1,307,820
Salaries and wages	1,721,084	987,750	3,333,486	1,838,153
Travel and accommodation	19,630	226,790	241,512	631,515
Share-based compensation	2,162,108	4,816,274	3,877,863	6,197,455
Selling, marketing and promotion	74,253	244,719	391,588	647,742
Amortization and depreciation (notes 8 and 9)	514,558	193,078	838,331	335,033
Expected credit losses	1,048,777	-	1,048,777	-
Total selling, general and administrative expenses	7,775,734	8,774,494	15,074,732	13,537,085
Other (income) expense				
Bank charges and interest expense	55,753	22,319	98,172	50,508
Unrealized (gain) loss on marketable securities	(17,625)	165,000	30,375	(75,000)
Exchange (gain) loss	(83,555)	256,609	(227,894)	53,821
Other non-operating (income) expenses	(130,907)	70,686	(130,907)	121,161
Listing expense	-	-	-	2,433,687
Interest income	(1,418)	-	(12,915)	-
Change in fair value of consideration payable	-	-	(11,949)	-
Amortization of deferred revenue	(97,597)	-	(162,662)	-
Unrealized loss (gain) on				
XPhyto investment (note 10)	83,523	-	(911,765)	-
Realized gain on sale of marketable securities	(66,769)	-	(66,769)	-
Share of loss of investment in joint ventures (note 19)	282,125	-	282,125	-
Total other (income) expenses	23,530	514,614	(1,114,189)	2,584,177
Net loss for the period	\$ (7,719,863)	\$ (10,685,917)	\$ (14,037,861)	\$ (18,424,296)

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

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2020	2019	2020	2019
Net loss for the period	\$ (7,719,863)	\$ (10,685,917)	\$ (14,037,861)	\$ (18,424,296)
Other comprehensive loss for the period:				
Currency translation adjustment for the period	877,079	(782,755)	(2,750,979)	(1,376,578)
Net comprehensive loss for the period	\$ (6,842,784)	\$ (11,468,672)	\$ (16,788,840)	\$ (19,800,874)
Basic and diluted loss per share (note 15)	\$ (0.07)	\$ (0.11)	\$ (0.14)	\$ (0.19)
Weighted average number of common shares outstanding - basic and diluted	104,856,355	96,264,358	101,953,901	94,503,683

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

PHARMACIELO LTD.

Condensed Interim Consolidated Statements of Cash Flows (Expressed in Canadian Dollars) (Unaudited)

	Six Months Ended	
	June 30, 2020	June 30, 2019
Operating activities		
Net loss for the period	\$ (14,037,861)	\$(18,424,296)
Items not affecting cash:		
Depreciation (note 8)	609,950	688,247
Amortization of Right-of-use assets	107,471	-
Amortization of intangibles	182,494	-
Expected credit losses	1,048,777	-
Unrealized loss on fair market value of biological assets	145,178	-
Unrealized gain on fair market value of XPhyto Investment	(911,765)	-
Share of loss on investment in joint ventures	282,125	-
Amortization of deferred revenue	(162,662)	-
Fair value adjustment on sale of inventory	473,019	-
Change in fair value of consideration payable	(11,949)	-
Lease interest expense	100,085	81,710
Share-based compensation	3,877,863	6,197,455
Exchange (gain)/loss	(1,040,184)	(517,728)
Unrealized (gain)/loss on marketable securities	30,375	(75,000)
Listing expense	-	2,098,638
Changes in non-cash working capital items:		
Trades receivables	(1,674,671)	-
Prepaid expenses and other receivables	96,490	(187,268)
Inventory	(809,159)	-
Supplies	-	(160,746)
Biological assets	(884,333)	-
Accounts payable and accrued liabilities	2,275,301	(1,330,204)
Net cash and cash equivalents used in operating activities	(10,303,456)	(11,629,192)
Investing activities		
Cash acquired on RTO	-	183,729
Investment in joint ventures	(645,671)	-
Investment - XPhyto Therapeutics Corp.	(500,000)	-
Proceeds on sale of XPhyto marketable securities	409,366	-
Purchase of property, plant and equipment	(4,620,925)	(4,655,507)
Advances for property, plant and equipment	(72,478)	-
Purchase of short-term investments	-	(15,999,999)
Non-controlling interest	-	3,745
Net cash and cash equivalents used in investing activities	(5,429,708)	(20,468,032)

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

	Six Months Ended	
	June 30,	June 30,
	2020	2019
Financing activities		
Options and warrants exercised	\$ 32,685	\$ 4,046,798
Cash received for shares to be issued	-	88,831
Cash received for shares issued	8,078,201	-
Share issue costs	(814,976)	(577,302)
Lease payments	(168,210)	(113,337)
Net cash and cash equivalents (used in) provided by financing activities	7,127,700	3,444,990
Net change in cash and cash equivalents	(8,605,464)	(28,652,234)
Cash and cash equivalents, beginning of period	13,673,299	45,674,069
Cash and cash equivalents, end of period	\$ 5,067,835	\$ 17,021,835
Cash and cash equivalents	\$ 5,067,835	\$ 17,021,835
Cash and cash equivalents for cash flow purposes	\$ 5,067,835	\$ 17,021,835

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

PHARMACIELO LTD.**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity****(Expressed in Canadian Dollars)****(Unaudited)**

	Number of common shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income	Deficit	Total shareholder's equity
Balance, December 31, 2018	81,747,811	\$ 64,355,186	\$ 35,556,574	\$ 23,932,929	\$ 2,244,032	\$(62,845,180)	\$ 63,243,541
Securities issued pursuant to the RTO (note 3)	413,735	2,043,850	-	224,440	-	-	2,268,290
Options exercised (note 11(b)(ii))	1,700,956	3,144,003	(226,450)	(1,329,504)	-	-	1,588,049
Shares issued pursuant to private placement at price of \$3.35 per share (note 11(b)(i))	11,815,416	39,581,644	(39,581,644)	-	-	-	-
Shares to be issued for exercise of options (note 11(b)(iv))	-	-	88,831	-	-	-	88,831
Cost of issue	-	(4,828,822)	4,251,520	-	-	-	(577,302)
Warrants exercised (note 11(b)(iii))	764,455	3,644,339	-	(1,185,590)	-	-	2,458,749
Share-based compensation	-	-	-	2,782,995	-	-	2,782,995
Currency translation adjustment for the period	-	-	-	-	(1,376,578)	-	(1,376,578)
Net loss for the period	-	-	-	-	-	(18,424,296)	(18,424,296)
Balance, June 30, 2019	96,442,373	\$107,940,200	\$ 88,831	\$ 24,425,270	\$ 867,454	\$(81,269,476)	\$ 52,052,279

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

PHARMACIELO LTD.**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Continued)****(Expressed in Canadian Dollars)****(Unaudited)**

	Number of common shares	Share capital	Reserves	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
Balance, December 31, 2019	98,965,173	\$116,827,833	\$ 26,243,564	\$ (93,573)	\$(97,512,523)	\$ 45,465,301
Common shares issued related to the acquisition of Ubiquo (note 11(b)(v))	18,967	45,900	-	-	-	45,900
Shares issued pursuant to Special Warrants at price of \$0.65 per share (note 11(b)(ix))	12,428,002	8,078,201	-	-	-	8,078,201
Common shares issued pursuant to debt settlement (note 11(b)(viii))	74,906	54,681	-	-	-	54,681
Options exercised (note 11(b)(vi))	50,000	62,724	(30,244)	-	-	32,480
Warrants exercised (note 11(b)(vi))	172	864	(659)	-	-	205
Vested RSUs (note 11(b)(vii))	190,000	1,493,900	(1,493,900)	-	-	-
Cost of issue (note 11(b)(ix))	150,000	(885,976)	71,000	-	-	(814,976)
Share-based compensation	-	-	3,897,301	-	-	3,897,301
Currency translation adjustment for the period	-	-	-	(2,750,979)	-	(2,750,979)
Net loss for the period	-	-	-	-	(14,037,861)	(14,037,861)
Balance, June 30, 2020	111,877,220	\$125,678,127	\$ 28,687,062	\$ (2,844,552)	\$(111,550,384)	\$ 39,970,253

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

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

1. Nature of operations

PharmaCielo Ltd. ("PharmaCielo" or the "Company") was incorporated pursuant to the *Business Corporations Act* (British Columbia) on May 30, 2017 under the name "AAJ Capital 1 Corp.". Upon completion of its Qualifying Transaction (as such term is defined in Policy 2.4 – *Capital Pool Companies* of the TSX Venture Exchange ("TSXV") Corporate Finance Manual ("Policy 2.4")) in accordance with the policies of the TSXV on January 15, 2019, the Company changed its name to "PharmaCielo Ltd." The Company carries on business under the name "PharmaCielo Ltd."

On January 18, 2019, PharmaCielo's common shares (the "Common Shares") started trading on the TSXV under the symbol "PCLO". On June 21, 2019, Common Shares started trading on the OTC Markets under the symbol "PCLOF". The head office is located at 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2V6.

Through the Company's wholly-owned subsidiary, PharmaCielo Colombia Holdings S.A.S., the Company is licensed by the Colombian Ministry of Social Health and Protection and the Colombian Ministry of Justice and Law to cultivate, produce, and distribute (domestically and internationally) both THC (tetrahydrocannabinol) and CBD (cannabidiol) medicinal cannabis extracts.

2. Significant accounting policies

Basis of presentation

The unaudited condensed interim consolidated financial statements of the Company have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS' issued and outstanding as of August 27, 2020 the date the Board of Directors approved these unaudited condensed interim consolidated financial statements. The unaudited condensed interim consolidated financial statements are presented in Canadian dollars and are prepared in accordance with the same accounting policies, critical estimates and methods described in the Company's annual consolidated financial statements for the year ended December 31, 2019, except as noted below. Given that certain information and footnote disclosures, which are included in the annual audited consolidated financial statements, have been condensed or excluded in accordance with IAS 34, these unaudited condensed interim consolidated financial statements should be read in conjunction with our annual audited consolidated financial statements as at and for the year ended December 31, 2019, including the accompanying notes thereto.

Basis of measurement

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

Principles of consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, PharmaCielo Colombia S.A.S. (incorporated on May 11, 2015), PharmaCielo Colombia Holdings S.A.S. (incorporated on August 8, 2014) and Ubiquo Telemedicina S.A.S.

The financial statements of PharmaCielo Colombia S.A.S. and PharmaCielo Colombia Holdings S.A.S. are included in the unaudited condensed interim consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are considered. All inter-company balances and transactions have been eliminated in preparing unaudited condensed interim consolidated financial statements.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

2. Significant accounting policies (continued)

Principles of consolidation (continued)

The following companies have been consolidated within the unaudited condensed interim consolidated financial statements:

Company	Location	Principal activity
PharmaCielo Ltd.	Toronto, Canada	Parent company
PharmaCielo Holdings Ltd. ⁽¹⁾	Toronto, Canada	Holding company
Ubiquo Telemedicina S.A.S. ⁽¹⁾	Medellin, Colombia	Telemedicine software company
PharmaCielo Colombia Holdings S.A.S. ⁽²⁾	Medellin, Colombia	Cultivation and processing company

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

⁽²⁾ 100% owned by PharmaCielo Holdings Ltd.

Significant accounting judgments and estimates

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

Judgment is used mainly in determining how a balance or transaction should be recognized in the unaudited condensed interim consolidated financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. Actual results may differ from these estimates.

Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

Going concern

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

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

2. Significant accounting policies (continued)

Significant accounting judgments and estimates (continued)

Equity Transactions

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

Biological Assets

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets are discussed in Note 7.

Investment in XPhyto Therapeutics Corp ("XPhyto")

Management is required to make a number of estimates when determining the valuation of its convertible debenture receivable. The convertible debenture receivable required discounted cash flow analyses and option pricing models (such as Black-Scholes) that involved various estimates and assumptions. The fair value of investment in XPhyto is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of investment in XPhyto are discussed in Note 10.

New accounting policies

Investment in joint ventures

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

Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and are all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional. The Company's trade receivables do not contain significant financing components. The Company holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

2. Significant accounting policies (continued)

New standards adopted

IFRS 3, Business Combinations ("IFRS 3")

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The adoption of the amendments had no impact on the Company's unaudited condensed interim consolidated financial statements.

IAS 1, Presentation of Financial Statements ("IAS 1")

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments had no impact on the Company's unaudited condensed interim consolidated financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments had no impact on the Company's unaudited condensed interim consolidated financial statements.

3. Trade receivables

	June 30, 2020	December 31, 2019
For sale of Cannabis derivative products	\$ 2,368,298	\$ 709,493
For Telemedicine services	15,866	-
Allowance for doubtful accounts	(1,048,777)	-
Total trade receivables	\$ 1,335,387	\$ 709,493

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

The Company sales have been into the bulk cannabis sales segment which is a relatively new segment in the cannabis industry. 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. As such, the Company has considered these factors in establishing an expected credit risk model.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

4. Marketable securities

	Number of shares	Cost	Unrealized gain	Fair value
June 30, 2020				
Khiron Life Sciences Corp. ("Khiron")	100,000	\$ 12,500	\$ 41,500	\$ 54,000
XPhyto Therapeutics Corp. (note 10)	107,200	257,188	10,812	268,000
Total marketable securities		\$ 269,688	\$ 52,312	\$ 322,000
December 31, 2019				
Khiron	100,000	\$ 12,500	\$ 93,500	\$ 106,000

5. Prepaid expenses and other receivables

	As at June 30, 2020	As at December 31, 2019
Prepaid expenses	\$ 545,514	\$ 426,619
Other receivables	897,142	1,112,527
Total prepaid expenses and other receivables	\$ 1,442,656	\$ 1,539,146

6. Inventory

	As at June 30, 2020	As at December 31, 2019
Agricultural supplies and other	\$ 327,016	\$ 287,093
Work-in-progress	2,692,654	1,969,582
Finished products	1,433,999	1,209,073
Closing balance	\$ 4,453,669	\$ 3,465,748

During the three and six months ended June 30, 2020, inventory recognized as cost of goods sold was \$1,103,190 and \$1,606,021, respectively (three and six months ended June 30, 2019 - \$nil), consisting of \$374,149 and \$473,019 (three and six months ended June 30, 2019 - \$nil) of realized fair value changes on inventory sold, \$nil impairment costs (three and six months ended June 30, 2019 - \$nil) and \$671,768 and \$1,133,003, respectively (three and six months ended June 30, 2019 - \$nil) of capitalized post-harvest costs expensed during the period as cannabis inventory is sold.

7. Biological assets

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy.

The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at June 30, 2020:

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

7. Biological assets (continued)

- a. Selling prices – selling prices are based on the Company's expected selling price per kilogram based on selling history, adjusted for current market conditions. A selling price of \$2,011 per kilogram of CBD isolate was used to calculate the biological assets at quarter end.
- b. Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, extracting, testing and packaging activities incurred in the period, including overhead allocations for these activities. Post-harvest processing costs averaged \$1,200 per kilogram of CBD isolate.
- c. The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at June 30, 2020 averaged 29%.
- d. Expected yield – the expected yield per plant is based on the Company's historical adjusted average yield per plant. Expected yield per plant is 3.01 grams of CBD isolate.

As at June 30, 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	1,119,859
Changes in fair value less costs to sell due to biological transformation	(145,178)
Transferred to inventory upon harvest	(651,781)
Effect of foreign currency exchange differences	(21,978)
Balance, June 30, 2020	\$ 479,448

The Company expects that a 10% increase or decrease in the wholesale market price per kilogram of dried cannabis would increase or decrease the fair value of biological assets by \$125,427. A 10% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by \$47,945. Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by \$77,482.

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

Unrealized change in fair value of biological assets	\$ (145,178)
Realized fair value on inventory sold	(473,019)

During the year ended 2019, the Company started the valuation of biological assets. For the three and six months ended June 30, 2020, the agricultural cost (pre-operative) was \$73,068 (three and six months ended June 30, 2019: \$1,396,809 and \$2,303,034 respectively), and it was related to the costs incurred in the agricultural facilities pre-commercial stage.

PHARMACIELO LTD.**Notes to Condensed Interim Consolidated Financial Statements**

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

8. Property, plant and equipment

	Land	Construction in progress	Building	Machinery and equipment	Office furniture and fixtures	Computer and communication equipment	Vehicles	Equipment in transit	Total
COST									
Balance, December 31, 2019	\$ 7,868,503	\$ 6,346,102	\$ 3,607,128	\$ 7,368,767	\$ 994,403	\$ 1,064,741	\$ 141,137	\$ 2,247,612	\$ 29,638,393
Additions	-	1,171,571	10,509	2,496,982	64,206	277,007	-	600,650	4,620,925
Reclassification	-	421,577	-	115,241	-	-	-	(536,818)	-
Effect of foreign currency exchange differences	(454,186)	(112,985)	(162,273)	(505,464)	(23,809)	(84,544)	(11,888)	(728,070)	(2,083,219)
Balance, June 30, 2020	\$ 7,414,317	\$ 7,826,265	\$ 3,455,364	\$ 9,475,526	\$ 1,034,800	\$ 1,257,204	\$ 129,249	\$ 1,583,374	\$ 32,176,099

ACCUMULATED DEPRECIATION

Balance, December 31, 2019	\$ -	\$ -	\$ 876,528	\$ 708,297	\$ 227,302	\$ 481,612	\$ 60,370	\$ -	\$ 2,354,109
Depreciation	-	-	188,726	292,887	138,537	210,429	14,897	-	845,476
Effect of foreign currency exchange differences	-	-	(32,141)	(62,104)	(9,612)	(46,634)	(5,405)	-	(155,896)
Balance, June 30, 2020	\$ -	\$ -	\$ 1,033,113	\$ 939,080	\$ 356,227	\$ 645,407	\$ 69,862	\$ -	\$ 3,043,689

CARRYING AMOUNT

Balance, December 31, 2019	\$ 7,868,503	\$ 6,346,102	\$ 2,730,600	\$ 6,652,054	\$ 767,101	\$ 583,129	\$ 80,767	\$ 2,247,612	\$ 27,275,868
Balance, June 30, 2020	\$ 7,414,317	\$ 7,826,265	\$ 2,422,251	\$ 8,536,446	\$ 678,573	\$ 611,797	\$ 59,387	\$ 1,583,374	\$ 29,132,410

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

8. Property, plant and equipment (continued)

PharmaCielo Colombia Holdings S.A.S. is developing a farm and a processing plant, located in Rio Negro the municipality of La Cieja (Antioquia), for the purpose of cultivating and sowing, as well as assembly of the cannabis oil. The farm includes greenhouses, offices and agricultural areas. As of June 30, 2020, the construction and assets in transit balance of \$7,826,265 (December 31, 2019 - \$6,346,102) represents the developing activities that have not yet been completed.

For the three and six months ended June 30, 2020, depreciation expenses of \$nil (three and six months ended June 30, 2019 - \$156,584 and \$353,214, respectively) is included in the unaudited condensed interim consolidated statement of loss as agricultural pre-operational costs.

For the three and six months ended June 30, 2020, depreciation costs of \$141,506 and \$271,161, respectively (three and six months ended June 30, 2019 - \$nil) was capitalized to biological assets and inventory.

9. Leases

Right-of-use assets

Balance, January 1, 2020	\$ 1,445,598
Depreciation	(107,471)
Foreign exchange adjustment	(27,869)
Balance, June 30, 2020	\$ 1,310,258

Right-of-use assets consist of office spaces. Right-of-use assets are depreciated over 33 to 122 months.

Maturity analysis - contractual undiscounted cash flows

As at June 30, 2020

Less than one year	\$ 343,064
One to three years	915,796
Three to five years	716,765
More than five years	398,203
Total undiscounted lease obligation	\$ 2,373,828

Lease obligations

On August 24, 2018, the Company entered into a sixty month lease agreement (plus extension periods) for new office space to serve as our corporate headquarters in Toronto, Ontario, commencing on January 1, 2019. Under the lease, the Company is required to pay a base rent of \$13,008, increasing to \$13,875 starting March 1, 2021. In addition to the base rent, the Company must pay its proportionate share of utilities, maintenance and other related costs for the leased premises. Lease payments are discounted over 122 months using an interest rate of 13.95%.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

9. Leases (Continued)

The following table illustrates the lease agreements as of June 30, 2020:

Country	PharmaCielo Ltd.	PharmaCielo Colombia Holding S.A.S		
	Canada	Colombia		
City	Toronto	Bogotá	Rionegro	Medellín
Initial contract period	March 1, 2019 to February 29, 2014	January 2019 to December 2019	March 1, 2016 to February 28, 2017	October 1, 2018 to September 30, 2021
Auto renewal	No	Yes	Yes	Yes
Monthly Lease Payments: CAD\$				
2020	\$19,910	\$1,248	\$1,910	\$6,110
2021	\$19,910	\$1,319	\$1,997	\$6,295
2022	\$19,910	\$1,358	\$2,077	\$6,602
2023	\$19,910	\$1,358	\$2,091	\$6,719
2024	\$19,910	\$1,358	\$2,091	\$6,719
Interest rate	13.95%	10.71%	10.71%	10.71%

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

Balance, January 1, 2020	\$ 1,572,447
Interest expense	100,085
Lease payments	(168,210)
Foreign exchange adjustment	(45,263)
Balance, June 30, 2020	\$ 1,459,059

As at June 30, 2020

Lease obligations	\$ 1,459,059
Less current portion	(156,736)
Non-current portion	\$ 1,302,323

10. Supply agreement with XPhyto

Supply agreement with XPhyto

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

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

10. Supply agreement with XPhyto (continued)

Investment with XPhyto

On January 31, 2020, the Company purchased 500 convertible debenture units of XPhyto for \$500,000. Each debenture unit consists of: (i) \$1,000 principal amount of 8.0% unsecured convertible debenture and (ii) 1,000 common share purchase warrants. The debenture bears interest at 8.0% per annum, calculated and payable semi-annually and mature two years following date of issuance. The debenture is convertible at the option of the Company into common shares of XPhyto at a conversion price of \$1.00 per common share. Conversion of the debenture may be forced in part or in whole at the option of XPhyto if the 15-day volume weighted average price of the common shares on the Canadian Securities Exchange ("CSE") exceeds \$2.50 per share. Each warrant is exercisable to acquire one common share at an exercise price of \$1.50 per share until January 31, 2022. XPhyto granted the Company 500,000 Warrants with an exercise price of \$1.50 per Common Share.

As part of the Supply Agreement, XPhyto also granted the Company an additional 500,000 Warrants with an exercise price of \$1.50 per Common Share. As of January 27, 2020, the fair value of the warrants has been estimated at \$356,378, as at the date of the grant using the Black-Scholes pricing model. The following assumptions were used: share price - \$1.59; expected annualized volatility – 95%, risk-free rate – 1.47%; and an expected life of 2 years.

On June 4, 2020, the Company had converted 250 of the convertible debentures into 250,000 shares. The fair value of these shares were \$599,784. As of June 30, 2020, the Company had sold 142,800 of these shares for proceeds of \$409,366. As of June 30, 2020, the Company has 107,200 shares of XPhyto (see note 4).

As at June 30, 2020, the fair value of the warrants has been revalued at \$626,671, using the Black-Scholes pricing model. The following assumptions were used: share price - \$2.50; expected annualized volatility – 92%, risk-free rate – 0.28%; and an expected life of 1.59 years.

Based on the initial valuation of the debenture, conversion options and warrants the Company recognized an initial gain of \$1,137,155. As required under IFRS 9, this initial gain has been deferred and is being recognized into income over the term of the agreement. During the three and six months ended June 30, 2020, the Company recorded \$97,597 and \$162,622, respectively as amortization on deferred revenue in the unaudited condensed interim consolidation statements of loss and comprehensive loss.

The following table illustrates the valuation at transaction date and June 30, 2020.

	Initial Value	June 30, 2020
Convertible Debt (Debt Component)	\$ 438,271	\$ 233,012
Convertible Debt (Conversion Feature)	428,727	375,000
Convertible Debt	866,998	608,012
Warrants	770,157	1,351,936
Total Valuation of Convertible Debt	\$ 1,637,155	\$ 1,959,948

	Convertible debt - debt component	Convertible debt - conversion feature	Warrants	Total
Initial value	\$ 438,271	\$ 428,727	\$ 770,157	\$ 1,637,155
Unrealized gain/loss	19,525	321,273	581,779	922,577
Conversion of convertible debentures	(224,784)	(375,000)	-	(599,784)
Balance, June 30, 2020	\$ 233,012	\$ 375,000	\$ 1,351,936	\$ 1,959,948

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

10. Supply agreement with XPhyto (continued)

The debt component was present valued based on the coupon rate of 8% paid semi-annually over 2 years discounted at 16%.

The conversion feature was valued on January 31, 2020 based on share price of \$1.59, risk free rate of 1.47%, 2 year conversion period and volatility of 95%. The conversion feature was valued on June 30, 2020 based on share price of \$2.50, risk free rate of 0.28%, 1.59 years left of conversion period and volatility of 91.85%.

The warrants were valued using the Black-Scholes Valuation Model using a stock price of \$1.59, exercise price of \$1.50, risk free rate of 1.47%, 2 year expiry and 95% volatility. On June 30, 2020, a stock price of \$2.50, exercise price of \$1.50, 1.59 years left to expiry and 91.85% volatility was used to re-value the warrants.

11. Share capital

a) Authorized share capital

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

b) Common Shares issued and outstanding

111,877,220 Common Shares (December 31, 2019 - 98,965,173 Common Shares)

For the six months ended June 30, 2019

(i) During June and July 2018, the Company issued subscriptions receipts for the issuance of 11,815,416 Common Shares at a price of \$3.35 per Common Share raising gross proceeds of \$39,581,644 and incurring related costs for \$4,251,520. The net cash proceeds were placed in escrow account awaiting PharmaCielo Holdings Ltd. to complete the RTO and becoming a public company. This cash was included as restricted cash in the consolidated statement of financial position as at December 31, 2018. On January 15, 2019, the restricted cash was released to the Company and Common Shares were issued.

(ii) As at December 31, 2018, cash proceeds for \$226,450 were received towards 587,180 options that were exercised. Consequently, 587,180 Common Shares were issued during the six months ended June 30, 2019. In addition, the Company issued 38,776 Common Shares at a price of \$1.194 per Common Share, 125,000 Common Shares at a price of US\$0.25 per Common Share and 950,000 Common Shares at a price of US\$1.00 per Common Share upon the exercise of options.

(iii) The Company issued 83,645 Common Shares at a price of US\$2.00 per Common Share, 657,436 Common Shares at a price of \$3.35 per Common Share, 3,759 Common Shares at a price of US\$2.25 per Common Share and 19,615 Common Shares at a price of \$1.194 per Common Share upon the exercise of warrants.

(iv) As at June 30, 2019, cash proceeds for \$88,831 were received towards 265,000 options that will be exercised subsequent to June 30, 2019.

For the six months ended June 30, 2020

(v) On July 26, 2019, the Company acquired Ubiquo Telemedicina S.A.S. for cash and Common Shares. On February 19, 2020, the transaction was completed with the remaining 18,967 Common Shares issued at a price of \$4.40 per share.

(vi) On January 3, 2020, cash proceeds for \$32,480 (USD\$25,000) were received towards 50,000 options that were exercised. Consequently, 50,000 Common Shares were issued during the six months ended June 30, 2020. In addition, the Company issued 172 Common Shares for net proceeds of \$205 upon the exercise of warrants.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

11. Share capital (continued)

b) Common Shares issued and outstanding (continued)

For the six months ended June 30, 2020 (continued)

(vii) During the six months ended June 30, 2020, 190,000 RSUs were fully vested, which resulted in the issuance of 190,000 Common Shares.

(viii) On April 15, 2020, the Company settled an outstanding debt in the amount of \$54,681 with two former Medical Advisory Board members. As a result, the Company issued an aggregate of 74,906 Common Shares at a fair value 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.

(ix) During the six months ended June 30, 2020, the Company issued 12,578,002 Common Shares at a price of \$0.65, including 12,428,002 Common shares offered for cash (raising gross proceeds of \$8,078,201) and 150,000 Common shares as finder's fee (valued \$97,500 and included as cost to issue); and incurring related costs for \$814,958 and 190,212 broker warrants. On April 15, 2020, the Company closed its private placement financing of 12,428,002 Special Warrants of the Company at \$0.65 per Special Warrant. Each Special Warrant entitles the holder thereof to receive one common share of the Company on exercise thereof. Upon closing of its private placement, the Company also issued 150,000 Special Warrants as finders fees. On May 20, 2020, the Special Warrants were converted to common shares.

12. Warrants

The following table reflects the continuity of warrants for the periods ended June 30, 2020 and 2019:

	Number of warrants	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2018	781,722	2.03	3.35
Issued pursuant to the RTO	20,938	-	1.194
Exercised	(764,455)	2.01	3.27
Balance, June 30, 2019	38,205	2.06	1.194
Balance, December 31, 2019	37,054	2.06	1.194
Issued for Special Warrants (note 11(b)(ix))	190,212	-	0.65
Exercised	(172)	-	1.194
Expired	(27,882)	2.00	-
Balance, June 30, 2020	199,212	2.25	0.65

The following table reflects the warrants issued and outstanding as of June 30, 2020:

Number of warrants outstanding	Exercise price (USD)	Exercise price (CAD)	Expiry date
190,212	-	0.65	April 15, 2022
9,000	2.25	-	December 12, 2022
199,212	2.25	0.65	

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

13. Stock options

The following table reflects the continuity of options for the periods ended June 30, 2020 and 2019:

	Number of options	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2018	15,655,180	1.18	3.35
Issued pursuant to the RTO	38,776	-	1.194
Exercised	(1,700,956)	0.74	1.194
Balance, June 30, 2019	13,993,000	1.28	3.35
Balance, December 31, 2019	12,606,000	1.28	3.35
Granted (i)	1,500,000	-	1.02
Exercised	(50,000)	0.50	-
Balance, June 30, 2020	14,056,000	1.49	2.87

(i) On May 4, 2020, the Company granted incentive stock options to a director of the Company of 1,500,000 Common Shares exercisable at a price of \$1.02 per Common Share on or before January 29, 2025. The options vest as follows: 500,000 immediately; 333,333 after the first anniversary of the date of grant; 333,333 after the second anniversary of the date of grant; and 333,334 after the third anniversary of the date of grant. The fair value of the option has been estimated at \$0.85 as of the date of the grant using the Black-Scholes option pricing model. The following assumptions were used: share price - \$0.99; expected annualized volatility - 93.13%, risk-free rate - 0.57%; and an expected life of 10 years. During the six months ended June 30, 2020, the Company recorded \$507,627 in share-based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

Details of the stock options outstanding as at June 30, 2020 are as follows:

Number of options outstanding	Number of options exercisable	Exercise price (USD)	Exercise price (CAD)	Weighted average life (years)	Expiry date
50,000	50,000	3.35	-	3.16	August 25, 2023
2,455,000	2,455,000	2.25	-	4.59	January 29, 2025
1,500,000	500,000	-	1.02	4.59	January 29, 2025
81,000	81,000	2.25	-	4.61	February 4, 2025
1,045,000	1,045,000	0.25	-	4.88	May 15, 2025
75,000	75,000	0.50	-	5.33	October 27, 2025
250,000	250,000	0.50	-	5.47	December 17, 2025
1,050,000	1,050,000	1.00	-	6.02	July 4, 2026
50,000	50,000	1.00	-	6.18	September 1, 2026
400,000	400,000	1.00	-	6.09	August 1, 2026
550,000	183,333	-	3.10	6.36	November 5, 2026
150,000	150,000	1.00	-	6.49	December 23, 2026
500,000	500,000	2.25	-	6.49	December 23, 2026
100,000	100,000	1.00	-	6.58	January 27, 2027
300,000	300,000	2.00	-	7.02	July 5, 2027
4,750,000	2,750,000	-	3.35	8.01	July 1, 2028
750,000	750,000	-	3.35	8.05	July 15, 2028
14,056,000	10,689,333	1.49	2.87	6.34	

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

14. Restricted share unit ("RSU")

	Number of RSUs outstanding
Balance, December 31, 2019	702,000
Granted	15,000
Vested (i)	(199,000)
Balance, June 30, 2020	518,000

(i) During the six months ended June 30, 2020, 199,000 RSUs were fully vested, which resulted in the issuance of 199,000 common shares. The remaining 18,000 vested RSUs are to be settled in cash. The Company has recorded this liability under RSU obligations.

As at June 30, 2020, there were 518,000 RSUs outstanding.

15. Net loss per common share

The calculation of basic and diluted loss per share for the three and six months ended June 30, 2020 was based on the loss attributable to common shareholders of \$7,719,863 and \$14,037,861, respectively (three and six months ended June 30, 2019 - \$10,685,917 and \$18,424,296, respectively) and the weighted average number of Common Shares outstanding of 104,856,355 and 101,953,901, respectively (three and six months ended June 30, 2019 - 96,264,358 and 94,503,683 respectively). Diluted loss per share is equal to basic diluted loss per share as any effects of the potential convertible securities would be anti-dilutive.

16. Transactions with related parties

During the three and six months ended June 30, 2020, the Company has the following related party transactions:

(i) The Company incurred subcontractor expenses of \$Nil and \$Nil, respectively (compared to the three and six months ended June 30, 2019 of \$6,692 and \$14,891, respectively) from Tahami & Cultiflores S.A.C.I, a company controlled by a former director of the Company's subsidiary. As of June 30, 2020, the amount of \$Nil (December 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 and \$Nil, respectively (compared to the three and six months ended June 30, 2019 of \$nil and \$53,174, respectively) from Grupo Jaque, a company controlled by the Company's former Chief Executive Officer, Anthony Wile. As of June 30, 2020, the amount of \$Nil (December 31, 2019 - \$Nil) is owing and is recorded in accounts payable and accrued liabilities. Mr. Wile also received \$92,898 and \$179,144 as fee during the three and six months ended June 30, 2020, respectively.

(iii) The Company incurred consulting fees of \$1,500 and \$3,000, respectively (three and six months ended June 30, 2019 of \$1,000 and \$2,500, respectively) from Laitinen Consulting Inc., a company controlled by the Company's Chief Financial Officer, Scott Laitinen. As of June 30, 2020, the amount of \$565 (December 31, 2019 - \$500) is owing and recorded in accounts payable and accrued liabilities. Scott Laitinen was employed early in 2019 and since then his remuneration is included as part of Management salaries. Laitinen Consulting Inc. continues to provide payroll services, T4 processing and filing, and government remuneration for the payroll in Canada.

(iv) The Company incurred consulting fees of \$29,400 and \$29,400, respectively (compared to the three and six months ended June 30, 2019 of \$Nil and \$Nil, respectively) from DHBache & Company Inc., a company controlled by a director of the Company, Douglas Bache. As of June 30, 2020, the amount of \$Nil (June 30, 2019 - \$Nil) is owing and recorded in accounts payable and accrued liabilities.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

16. Transactions with related parties (continued)

(v) During the three and six month period ended in June 30, 2020, the Company included in expenses \$140,192 for certain expenses paid on behalf of Tahami & Cultiflores S.A.C.I (Tahami) a company controlled by a former director of the Company's subsidiary, Federico Cock-Correa in connection to subcontracting Tahami as a grower with the cancelation of the current contract growers agreement and the ongoing negotiation of a new agreement. The total also included \$16,897 that were part of other receivables as at December 31, 2019.

(vi) The Company included in other receivables \$Nil for June 30, 2020 (December 31, 2019 - \$35,979) for certain expenses paid on behalf of Flores El Capiro S.A.(El Capiro), a company controlled by a former director of the Company, Carlos Uribe in connection to subcontracting El Capiro as a grower. During the three and six month period ended in June 30, 2020, the other receivable amount of \$35,979 was expensed with the cancelation of the current contract growers agreement and the ongoing negotiation of a new agreement.

(vii) 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 Board of Directors as well as certain key officers and board members of the Company's subsidiary.

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Management compensation	\$ 492,279	\$ 340,633	\$ 961,124	\$ 681,266
Director's fees ⁽¹⁾	84,091	-	84,091	-
Share-based compensation ⁽²⁾	1,852,634	1,808,856	3,314,740	3,521,258
Total Management compensation	\$ 2,429,004	\$ 2,149,489	\$ 4,359,955	\$ 4,202,524

(1) Includes meeting fees and commitment chair fees.

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

The above related party transactions were in the normal course of operations and have been valued in these 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.

17. Commitments

i. The Company had an agreement with CNV Construcciones S.A.S. ("CNV"), a Colombian construction company, to complete the facilities in the Processing and Extraction Centre ("PEC"). In October 2019, 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, in order to complete GMP facilities target, Construhigenica ("CHG", clean facilities experts) joined the construction team. The building construction of the PEC is progressing with the anticipated completion in the 3rd quarter of 2020, when the facility will be ready to install processing equipment and then initiate GMP certification process. In July 2020, to accommodate current advanced processing technologies not previously identified/available and necessitating alignment changes in the scope of the building constructions. The budget was increased by USD\$346k which is amount to be paid to under the CHG contract. As of the date of this unaudited condensed interim consolidated financial statements, CHG has been paid USD \$Nil.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

17. Commitments (continued)

- ii. The Company has a technology license 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.

18. Segmented information

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

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

The Company is located and operates in Canada, Colombia, Italy, and Mexico. The commencement of operations in Italy and Mexico are subject to approval from the TSXV. The Company's suppliers are well diversified and no one supplier accounted for more than 10% of total sales, due to its business nature.

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

Net loss for the period ended	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Canada	\$ 5,198,814	\$ 7,703,502	\$ 9,512,520	\$ 13,445,911
Colombia	2,521,049	2,982,415	4,525,341	4,978,385
Total	\$ 7,719,863	\$ 10,685,917	\$ 14,037,861	\$ 18,424,296

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

Total assets	June 30, 2020	December 31, 2019
Canada	\$ 14,216,817	\$ 19,400,160
Colombia	33,490,521	30,601,401
Italy	-	60,325
Mexico	-	134,476
Total	\$ 47,707,338	\$ 50,196,362

Operating segment - June 30, 2019	Corporate	Cannabis	Total
Revenues	\$ -	\$ -	\$ -
Cost of Sales	-	-	-
Net loss for the period	\$ 9,512,520	\$ 4,525,341	\$ 18,424,296

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

18. Segmented information (continued)

Operating segment - June 30, 2020	Corporate	Cannabis	Total
Revenues	\$ -	\$ 1,746,950	\$ 1,746,950
Cost of Sales	-	1,133,003	1,133,003
Net loss for the period	\$ 9,512,520	\$ 4,525,341	\$ 14,037,861

Revenues by country	Cannabis	Total
Colombia	\$ 58,369	\$ 58,369
United States	1,680,941	1,680,941
Paraguay	5,269	5,269
Czech Republic	2,371	2,371
Total Revenue	\$ 1,746,950	\$ 1,746,950

Revenue Concentration

The Company's business is such that, at any given time, it sells its services to a relatively small number of customers. During the six months ended June 30, 2020, two customers accounted for approximately 100% of cannabis revenue in the United States (96% of total revenue) and 69% of trade accounts receivables.

19. Investment in joint ventures

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

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

Investment in associate at June 30, 2020 was \$605,938 (December 31, 2019 - \$nil) and consisted of the following amounts:

Balance, December 31, 2019	\$ -
Investment in joint ventures	1,075,846
Prior year share of loss of investment in joint ventures	(187,782)
Share of loss of investment in joint ventures	(282,126)
Balance, June 30, 2020	\$ 605,938

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

19. Investment in joint ventures (continued)

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

As at June 30, 2020

	Italia	PharmaCielo S.A. de C.V.
Cash and cash equivalents	\$ 167,373	\$ 56,181
Other current assets	15,865	65,547
Total current assets	183,238	121,728
Non-current assets	5,423	-
Total asset ⁽¹⁾	\$ 188,661	\$ 121,728
Current liabilities	\$ 52,149	\$ 5,833
Total liabilities ⁽¹⁾	\$ 52,149	\$ 5,833
Net assets ⁽¹⁾	\$ 136,512	\$ 115,895

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

For the six month period ending June 30, 2020

	Italia	PharmaCielo S.A. de C.V.
Selling, general and administrative expenses	\$ 235,492	\$ 233,570
Other expense	709	-
Net loss ⁽¹⁾	\$ 236,201	\$ 233,570

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

20. Acquisition

On July 26, 2019, the Company completed the acquisition of all of the shares of Ubiquo Telemedicina S.A.S., previously announced on April 20, 2018.

The aggregate purchase price for the Acquisition consisted of the issuance of common shares in addition to cash (expressed in Colombian pesos) payable to Ubiquo shareholders.

	Number of Shares	Amount in CAD
By issuance of Common Shares (i)	156,058	\$ 686,655
To be paid in cash		863,203
Total consideration		\$ 1,549,858

As at quarter end, the amounts below were paid to Ubiquo Telemedicina shareholders:

Paid as at December 31, 2019	Number of Shares	Amount in CAD
Issuance of Common Shares	132,649	\$ 583,656
Cash payment		735,937
Total consideration paid		\$ 1,319,593

Subsequent adjustment - Included as part of the initial consideration	Number of Shares	Amount in CAD
Issuance of Common Shares	(4,442)	\$ (19,545)
Cash payment		(43,046)
Total consideration adjustment		\$ (62,591)

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

20. Acquisition (continued)

Consideration Payable	Number of Shares	Amount in CAD
Issuance of Common Shares	18,967	\$ 67,997
Change in fair value of hold back consideration payable in shares	-	(10,148)
Cash consideration payable	-	84,220
Foreign exchange	-	(1,586)
Total consideration payable		\$ 140,483

Allocation of purchase price	Amount in CAD
Cash	\$ 578
Amounts receivable and other assets	68,976
Property, plant and equipment	275,162
Intangible Assets - Brand	27,000
Intangible Assets - Software	188,000
Amounts payable and other liabilities	(318,674)
Net assets acquired	\$ 241,042
Goodwill on acquisition	\$ 1,308,816

(i) For the purpose of determining the value of the purchase price consideration, the 156,058 common shares were valued at \$4.40 per share based on PharmaCielo's closing price as of July 26, 2019.

The goodwill resulting from the allocation of the purchase price to the total fair value of net assets represented the expected future growth potential of Ubiquo and expected synergies with the Company's existing cannabis distribution business.

The consideration transferred was allocated on a preliminary basis to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. As the acquisition is within the measurement period provided under IFRS 3, the fair values assigned to the net assets acquired are preliminary and may be revised by the Company within 12 months from the date of acquisition as additional information is received.

Goodwill Continuity

Balance, January 1, 2019	\$ -
Additions	1,308,816
Effect of foreign currency exchange differences	(145,931)
Balance, December 31, 2019	\$ 1,162,885
Balance, January 1, 2020	\$ 1,162,885
Effect of foreign currency exchange differences	(77,673)
Balance, June 30, 2020	\$ 1,085,212

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

21. COVID-19

During the six months ended June 30, 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 reflected 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"). While as an agricultural enterprise PharmaCielo Colombia is excluded from the Decree, all agronomic operations at the greenhouses, lab and processing facility that include breeding, tissue culture, propagation, cultivation, harvest, drying, separation and storage continued to operate in rotating shifts with reduced staff and onsite adjustments to enable the important practice of social distancing.. Voluntarily PharmaCielo Colombia temporarily ceased activities at the processing facility, and temporarily halted construction of the processing and extraction centre in the interests of employee health in the enclosed facilities. These decisions took into consideration the ability to minimize losses and to ensure a fast recovery of normal operation. The reduction in ethanol use reduced processing costs and eliminated the Company use of a commodity required for the production of hand sanitizers by the health industry. As a result, the monthly burn rate for expenses declined.

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. While operations are returning to normal levels, COVID-19 pandemic lockdowns in individual countries could reduce the quantity of product produced by the Company and / or limit the Company's ability to ship product to end customers. International border shutdowns have affected international shipping to/from various markets and the Company is assessing the impact of potential delays in both equipment import and product export.

Agricultural processes continue with ordinary activities. Industrial processes and PEC construction resumed activities in early May, completing full normalization of operations by the third week of May. Following the COVID-19 pandemic, PharmaCielo's Health Safety Protocol remains in line with the national guidelines Decree. Furthermore, the Special Situation Committee continues to review and update actions around the COVID protocol, providing resources to ensure social distancing, delivery of appropriate personal protection equipment and infrastructure that fulfill defined standards.

At the beginning of July, PharmaCielo conducted a simulated employee positive case drill in order to validate that proper systems, procedures and measurements have been put in place. Finally, the Committee implemented Gemba Walks in order to improve safety behavior and further encourage employee adherence to standards and protocols.

22. Events after the reporting period

Closes \$4.6 Million Bought Deal Offering

On July 3, 2020, the Company announced it had closed its previously announced "bought deal" offering (the "Offering") of common shares conducted by a syndicate of underwriters, co-led by Cormark Securities Inc. and Stifel GMP (collectively, the "Underwriters"). The Company issued 6,388,940 common shares at a price of \$0.72 per common share (the "Offering Price") for aggregate gross proceeds of \$4,600,036.80, including proceeds from the exercise in full of the Underwriters' over-allotment option to purchase 833,340 additional common shares.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

22. Events after the reporting period (continued)

The Company Receives Colombian Government Authorization for 10 Tonnes of High-THC Cultivation and Extract Production for Export

On July 8, 2020, the Company, the Canadian parent of PharmaCielo Colombia Holdings S.A.S., announced that the Colombian government granted the Company authorization for the 2020 commercial cultivation, production and export of high-THC medicinal cannabis extracts, in fulfilment of existing sales agreements.

The commercial quotas obtained from the ministries of Justice and Health, enable the Company to immediately begin cultivation and processing of 10 tonnes of THC-dominant dry flower.

Contract Growers

On August 13, 2020, the Company, the Canadian parent of PharmaCielo Colombia Holdings S.A.S., announced that it has activated its first external cultivation contract with a local grower. The contract, part of PharmaCielo's long-term external cultivation business growth strategy, provides the Company with a highly cost-efficient and flexible cultivation operation model which allows it to rapidly scale up production.

The initial external grower contract was granted to Tahami & Cultiflores S.A., an established horticultural grower led by PharmaCielo co-founder, former executive and director Federico Cock-Correa. The agreement sets a series of obligations for the grower based on supply to PharmaCielo of specified quantities of plant material that come from the process of planting, cultivating, harvesting, pre-drying and de-stemming cuttings. The agreement also allows inspections of the grower verifying compliance with contractual protocols, cultivation and quality standards and conformity with government regulatory requirements and certifications.