# PharmaCielo Ltd.

## Management's Discussion and Analysis

**For the three and six months ended June 30, 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 2V6. Common shares of PharmaCielo trade on the TSX Venture Exchange (“TSXV”) under the ticker symbol “PCLO” and on the OTC Markets under the symbol "PCLOF".

The following management’s discussion and analysis (“MD&A”) of the financial condition and results of the operations of PharmaCielo constitutes management’s review of the factors that affected the Company’s financial and operating performance for the three and six months ended June 30, 2020. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 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 August 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 August 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

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 Processing and Extraction Centre ("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.

**Operations**

The Company is currently in final stage construction of its Processing and Extraction Centre ("PEC"), formerly known as the research technology and processing centre ("RTC"). Completion of construction is scheduled for Q3 of 2020, allowing expanded installation of processing equipment for operational commencement (transfer of current machinery from interim facility has already begun and expanded capacity machinery is locally available for installation), with GMP certification processes to commence in Q4. The operational PEC will allow PharmaCielo to increase its processing capacity to 360 tonnes per year of dried flowers (biomass) and expand output of finished high-grade medicinal cannabis extracts. The product portfolio range enabled by the operational PEC will also increase and address both demand and regulatory requirements of individual markets globally. The expanded portfolio ranges from high quality singular cannabinoid extractions to a variety of distilled and diluted Full Spectrum, Broad Spectrum and Isolate formulations, including Water Soluble. Both non-psychoactive and psychoactive product formulations are included.

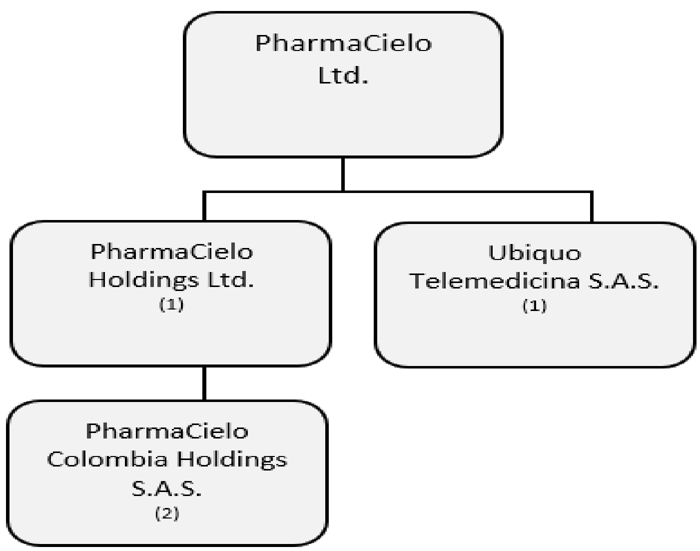
The Company has spent approximately USD $16.2 million as of the date of this MD&A, with a remaining investment of under $1.9 million to conclude the PEC construction for scheduled activation. In July 2020, to take advantage of a process improvement identified change while in the construction process, an additional USD $346 thousand dollars was added to the budget, representing a reasonable 2.5% budget deviation. Completion of the fully operational Processing and Extraction Centre, with a 360-tonne biomass input capacity, will be achieved for a total cost of USD $18.1 million.

## Company Overview

PharmaCielo is a public company and commenced trading on the TSX Venture Exchange (the "TSXV") on January 18, 2019 under the ticker symbol "PCLO". PharmaCielo is headquartered in Toronto, Ontario, Canada, with a focus on cultivating, processing, and supplying all natural medicinal-grade cannabis extracts to large channel distributors, such as health and wellness product manufacturers, pharmacies, medical clinics, and cosmetic companies. PharmaCielo Ltd. was incorporated pursuant to the *Business Corporations Act* (British Columbia) on May 30, 2017 under the name "AAJ Capital 1 Corp." Upon completion of its Qualifying Transaction (as such term is defined in Policy 2.4 – *Capital Pool Companies* of the TSXV Corporate Finance Manual ("Policy 2.4") in accordance with the policies of the TSXV on January 15, 2019), the Company changed its name to "PharmaCielo Ltd." Both PharmaCielo's registered office and head office are located at 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2V6.

PharmaCielo has two operating subsidiaries, PharmaCielo Colombia Holdings S.A.S. ("PharmaCielo Colombia") and Ubiquo Telemedicina S.A.S. ("Ubiquo"). PharmaCielo Colombia cultivates and processes the Company's all-natural cannabis into standardized, medicinal-grade oil extracts and related products. PharmaCielo Colombia was incorporated under the laws of Colombia on July 28, 2014 and has its registered office at KM 4 Rionegro, La Ceja Vereda El Capiro Finca Sant Angelo, Rionegro, Antioquia, Colombia. In Colombia, PharmaCielo Colombia is a fully licensed cultivator, producer, and distributor of both tetrahydrocannabinol ("THC") and CBD medical cannabis for: (a) use in Colombia; (b) international export; and (c) research purposes. PharmaCielo's main growing and processing operations are located at its facility in Rionegro, Colombia. Ubiquo is a knowledge management and medical consultation system that aims to create better access to healthcare for Colombians. Ubiquo is a technology platform or user interface that allows doctors and patients to communicate. Doctors or clinics register with Ubiquo and provide their patients access to the Ubiquo platform that is used as a communication tool. Doctors can communicate with patients on all medical matters, not just medical matters related to medicinal cannabis. Medical professionals that use Ubiquo are not employees or contractors of Ubiquo, but pay Ubiquo fees to access the platform. Patients of the doctors or clinics who use Ubiquo to communicate with medical professionals do not pay to access the Ubiquo platform. Through its acquisition of Ubiquo, PharmaCielo anticipates that it will be better able to facilitate the educational progress and knowledge about the possible uses, benefits, and risks of medicinal cannabis.

## Intercorporate Relationship




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

## Production Licenses

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

For the 2020 calendar year, PharmaCielo applied to the Colombian Ministry of Justice and Law (the "Ministry of Justice") for both a quota for non-commercialization purposes and commercialization purposes regarding the cultivation of psychoactive cannabis.

By means of resolution 0462 dated April 29, 2020, PharmaCielo was granted a quota for 2020 with respect to the cultivation of psychoactive cannabis to be used for non-commercialization purposes using the cannabis seed varieties that were approved by the Ministry of Justice; in the aforesaid resolution. By means of resolution 0351 dated March 17, 2020, PharmaCielo was granted a quota allowing for the cultivation of 44,850 plants for research and development purposes including performing agronomic evaluation testing and plant breeding. By means of resolution 0733 dated June 12, 2020, PharmaCielo was granted a supplementary quota for 2020 for the cultivation of psychoactive cannabis to be used for non-commercialization purposes using the cannabis seed varieties that were approved by the Ministry of Justice; in the aforesaid resolution.

The Company's Cultivation Cannabis Psychoactive License and Cannabis Manufacturing License permit the cultivation and manufacturing of psychoactive cannabis, but quotas from the Ministry of Justice and the Ministry of Health are required for commercial sales. The Company has received 2020 ordinary commercial quotas for psychoactive cannabis from the Colombian Ministry of Health and Social Protection and from the Ministry of Justice, permitting it to produce and extract 10.046 kg of dry flowers in order to export the corresponding cannabis derivatives. On the other hand, by means of resolution 0755 dated May 14, 2020, PharmaCielo was granted a manufacturing quota for research and development purposes and by means of Resolution 1027 dated June 13, 2020, PharmaCielo was granted a manufacturing supplementary quota for research and development purposes.

## Industry Overview

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

As a global market targeted supplier, PharmaCielo has focus in multiple areas and markets with dedication to medicinal supply.

A reflection of the global market evolution has been the continued expansion of the health and wellness market segment from CBD primary to inclusion of THC dominant strain extracts. PharmaCielo's management notes that the 2020 receipt of a Colombian production and export quota for THC, combined with increased CBD contract cultivation and product range, has expanded its capacity for market supply. There has been a corresponding increase in the volume of inquiries and discussion with individual export markets.

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

## Operations

**Facilities**

PharmaCielo's nursery and propagation centre, 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 centre contains approximately 1.3 million square feet of planting beds. This nursery and propagation centre is capable of producing on a weekly basis, a significant volume of cuttings (e.g. 'clones') generated from 'mother plants' with a capacity to supply much greater multiple of contract cultivators (several hundred hectare cultivation clone capacity dependent on contract needs). 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 completion of construction in Q3 of 2020 after addressing construction delays due to COVID-19 workplace management and restrictions. The designs and engineering for the construction process are contemplated the highest regulatory standards. The PEC will contain facilities to: (i) dry flowers using drying machines; (ii) a milling area; (iii) extraction areas; (iv) processing and refining of Cannabis extracts; and (v) an area designed for testing of THC and CBD levels in cannabis, as well as for general compliance.

**Agriculture**

During the six months ended June 30, 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**

With the expansion of cultivation capacity enabled by contract cultivation, over time the role of the nursery and propagation centre will evolve to have one primary function: to develop and propagate a steady stream of genetically stable, PharmaCielo proprietary cuttings, i.e. clones, that can supply a scalable multi-hectare network of contracted cultivation centre. In turn, these cultivations centre 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 Processing and Extraction Centre, which will have an initial minimum processing capacity of 360 tonnes of biomass annually. The multi-hectare contract cultivation network will, conservatively, require a weekly supply of multi-million fresh cuttings from PharmaCielo's nursery and propagation centre, which can be comfortably supplied within operating capacity without compromise

The outbound cuttings, destined for contract cultivation, are hand-culled from populations of mother plants, that will occupy approximately 75% of the overall nursery and propagation centre'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 and proprietary 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 cultures harvested from the grandmother plants are stored in an onsite tissue culture lab. As a result, 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 June 30, 2020 | As at December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 5,067,835 | $ 13,673,299 |
| Trade receivables | 1,335,387 | 709,493 |
| Marketable securities | 322,000 | 106,000 |
| Prepaid expenses and other receivables | 1,442,656 | 1,539,146 |
| Inventory | 4,453,669 | 3,465,748 |
| Biological Assets | 479,448 | 178,526 |
| **Total current assets** | 13,100,995 | 19,672,212 |
| **Non-current assets** | | |
| Property, plant and equipment | 29,132,410 | 27,275,868 |
| Right-of-use assets | 1,310,258 | 1,445,598 |
| Investment - XPhyto Therapeutics Corp. | 1,959,948 | - |
| Advances for property and equipment | 72,478 | - |
| Investment in joint ventures | 605,938 | - |
| Goodwill | 1,085,212 | 1,162,885 |
| Intangible Assets | 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 | $ 5,205,281 | $ 2,900,441 |
| Lease obligations | 156,736 | 147,597 |
| RSU obligations | 98,252 | 117,690 |
| Consideration payable | - | 140,483 |
| **Total current liabilities** | 5,460,269 | 3,306,211 |
| **Non-current liabilities** | | |
| Lease obligations | 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 | 125,678,127 | 116,827,833 |
| Reserves | 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 |

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

| | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2020 | Six Months Ended 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** | **(34,154)** | - | **(145,178)** | - |
| **Gross profit** | **152,469** | - | **(4,250)** | - |
| **Operating expenses** | | | | |
| Agricultural pre-operational costs | **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 | **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 | **83,523** | - | **(911,765)** | - |
| Realized gain on sale of marketable securities | **(66,769)** | - | **(66,769)** | - |
| Share of loss of investment in joint ventures | **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) |
| **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)** | $(19,800,874) |
| **Basic and diluted loss per share** | **$ (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 |

## Assets by Geography

| 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 |

## Loss by Geography

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| Net loss for the period ended | 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 |

## Operating Segment

| 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 |

| 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 |

## Revenue by Country

| 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 |

## Discussion of Operations

The Company's net loss totaled $7.7 million and $14.0 million for the three and six months ended June 30, 2020, respectively (compared to $10.7 million and $18.4 million in the three and six months ended June 30, 2019, respectively), with a basic loss per share of $0.07 and $0.14 for the three and six months ended June 30, 2020, respectively versus a basic loss per share of $0.11 and $0.19 in the three and six months ended June 30, 2019, respectively.

The net loss was primarily due to higher professional fees of $1.0 million and $2.9 million for the three and six months ended June 30, 2020, respectively (compared to $600,652 and $1.3 million the three and six months ended June 30, 2019, respectively), higher salaries and wages of $1.7 million and $3.3 million for the three and six months ended June 30, 2020, respectively (compared to $1.0 million and $1.8 million in the three and six months ended June 30, 2019, respectively), and expected credit losses of $1.0 million and $1.0 million for the three and six months ended June 30, 2020, respectively (compared to $Nil in the three and six months ended June 30, 2019, respectively) . This net loss was partially offset due lower office and general of $179,869 and $1.0 million for the three and six months ended June 30, 2020, respectively (compared to $671,004 and $1.2 million in the three and six months ended June 30, 2019, respectively ), unrealized gain on XPhyto investment of $(83,523) and $911,765 for the three and six months ended June 30, 2020, respectively (compared to $Nil in the three and six months ended June 30, 2019), and lower share-based compensation expense of $2.2 million and $3.9 million for the three and six months ended June 30, 2020, respectively (compared to $4.8 million and $6.2 million in the three and six months ended June 30, 2019 respectively).

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

| Three months ended June 30, 2020 | | | |
|---|---|---|---|
| Cost elements (COP) | w MP & Cut | Excl. MP & Cut | Agri cost only |
| Mother plants | 212,577,176 | - | - |
| Cuttings costs | 159,428,805 | - | - |
| Rooting cost | 542,172,663 | 542,172,663 | 542,172,663 |
| Phytosanity cost | 206,970,180 | 206,970,180 | 206,970,180 |
| Production cycle - 14 weeks | 760,782,468 | 760,782,468 | 760,782,468 |
| Predried cycle - 2 weeks | 195,417,172 | 195,417,172 | 195,417,172 |
| Upstream | 450,296,219 | 450,296,219 | - |
| Total | 2,527,644,683 | 2,155,638,702 | 1,705,342,483 |
| Dried cannabis (kg) | 12,646 | 12,646 | 12,646 |
| Dried cannabis (g) | 12,646,150 | 12,646,150 | 12,646,150 |
| COP Cost per (g) | 200 | 170 | 135 |
| **CAD$ Cost per (g) (1)** | **$ 0.074** | **$ 0.063** | **$ 0.050** |

| Six months ended June 30, 2020 | | | |
|---|---|---|---|
| Cost elements (COP) | w MP & Cut | Excl. MP & Cut | Agri cost only |
| Mother plants | 418,173,265 | - | - |
| Cuttings costs | 209,893,220 | - | - |
| Rooting cost | 890,080,876 | 890,080,876 | 890,080,876 |
| Phytosanity cost | 421,512,338 | 421,512,338 | 421,512,338 |
| Production cycle - 14 weeks | 1,712,184,065 | 1,712,184,065 | 1,712,184,065 |
| Predried cycle - 2 weeks | 394,511,439 | 394,511,439 | 394,511,439 |
| Upstream | 966,449,848 | 966,449,848 | - |
| Total | 5,012,805,051 | 4,384,738,566 | 3,418,288,718 |
| Dried cannabis (kg) | 30,876 | 30,876 | 30,876 |
| Dried cannabis (g) | 30,876,150 | 30,876,150 | 30,876,150 |
| COP Cost per (g) | 162 | 142 | 111 |
| **CAD$ Cost per (g) (1)** | **$ 0.060** | **$ 0.053** | **$ 0.041** |

(1) Non-GAAP measure

During the three and six months ended June 30, 2020, The Company had an “All-in” operating cost of $0.05 and $0.04 per gram to produce dried cannabis, respectively (compared to $Nil in the three and six months ended June 30, 2019). 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) | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Net Loss** | **$(7,720)** | **$(10,686)** | **$(14,038)** | **$(18,424)** |
| **Add back:** | | | | |
| Amortization of property, plant and equipment & intangible assets | 441 | 193 | 875 | 335 |
| Amortization expense included in production costs | 130 | 130 | 130 | 197 |
| **EBITDA** | $(7,149) | $(10,363) | $(13,033) | $(17,893) |
| **Adjustments:** | | | | |
| Share based payments | 2,162 | 4,816 | 3,878 | 6,197 |
| Listing expenses | - | 2,434 | - | 2,434 |
| Non-recurring Legal expenses | 175 | - | 665 | - |
| **Adjusted EBITDA** | **$(4,812)** | **$(3,113)** | **$(8,491)** | **$(9,261)** |

During the three and six months ended June 30, 2020, the Company generated an Adjusted EBITDA loss of $4.8 million and $8.5 million, respectively (three and six months ended June 30, 2019: $3.1 million and $9.3 million, respectively).

Revenue

During the three and six months ended June 30, 2020, the Company generated net revenues of $1.2 million and $1.7 million, respectively (three and six months ended June 30, 2019: $Nil). Cannabis revenues generated were $1.2 million and $1.7 million for the three and six months ended June 30, 2020, respectively, derived mainly from a purchase order for 600 kgs of isolate shipped to the United States in June.

Ubiquo Telemedicina S.A.S. generated net revenues of $23,566 and $43,943 for the three and six months ended June 30, 2020, respectively (three and six months ended June 30, 2019: $Nil), mainly from support and maintenance contracts.

Cost of goods sold

During the three and six months ended June 30, 2020, inventory recognized as cost of goods sold was $1.1 million and $1.6 million, 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 $1.1 million, respectively (three and six months ended June 30, 2019  $nil) of capitalized post-harvest costs expensed during the period as cannabis inventory is sold.

The Company values biological assets by way 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 June 30, 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 $2,011 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 $1,200 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 June 30, 2020 averaged 29%.

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 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** | **$** | **178,532** |
| Production costs capitalized | | 1,119,859 |
| Changes in fair value less costs to sell due to biological transformation | | (145,178) |
| Transferred to inventory upon harvest | | (651,781) |
| Foreign exchange adjustment | | (21,984) |
| **Balance, June 30, 2020** | **$** | **479,448** |

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) |

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 of 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 and six months ended June 30, 2020 was $560,773 and $613,947, respectively (three and six months ended June 30, 2019: $Nil). Cannabis gross margin excluding fair value items was $537,207 and $570,004 for the three and six months ended June 30, 2020, respectively.

Ubiquo Telemedicina S.A.S. gross margin was $23,566 and $43,943 for the three and six months ended June 30, 2020, respectively (three and six months ending June 30, 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 June 30,** | | | | **For the six months ended June 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| General and administrative | 2020 | 2019 | Change $ | Change % | 2020 | 2019 | Change $ | Change % |
| Consulting fees | $ 1,021,179 | $ 1,034,227 | $(13,048) | -1% | $ 1,409,443 | $ 1,357,570 | $51,873 | 4% |
| Office and general | 179,869 | 671,004 | -491,135 | -73% | 1,001,093 | 1,221,797 | -220,704 | -18% |
| Professional fees | 1,034,276 | 600,652 | 433,624 | 72% | 2,932,639 | 1,307,820 | 1,624,819 | 124% |
| Salaries and wages | 1,721,084 | 987,750 | 733,334 | 74% | 3,333,486 | 1,838,153 | 1,495,333 | 81% |
| Travel and accommodation | 19,630 | 226,790 | (207,160) | (91)% | 241,512 | 631,515 | (390,003) | (62)% |
| Share-based compensation | 2,162,108 | 4,816,274 | (2,654,166) | (55)% | 3,877,863 | 6,197,455 | (2,319,592) | (37)% |
| Selling, marketing and promotion | 74,253 | 244,719 | (170,466) | (70)% | 391,588 | 647,742 | (256,154) | (40)% |
| Amortization and depreciation | 514,558 | 193,078 | 321,480 | 167% | 838,331 | 335,033 | 503,298 | 150% |
| Expected credit losses | 1,048,777 | 0 | 1,048,777 | nm | 1,048,777 | 0 | 1,048,777 | nm |
| **Total selling, general and administrative expenses** | **$7,775,734** | **$8,774,494** | **$(998,760)** | **-11%** | **$15,074,732** | **$13,537,085** | **$1,537,647** | **11%** |

Consulting fees

Consulting fees were $1.0 million and $1.4 million for the three and six months ended June 30, 2020, respectively, compared to $1.0 million and $1.4 million in the three and six months ended June 30, 2019. The fees were flat for both the second quarter and year to date June 30, 2020 comparisons. The fees are related to capital markets consulting and fees associated with cannabis growth and extraction.

Office and general

Office and general expenses were $179,869 and $1.0 million for the three and six months ended June 30, 2020, respectively, compared to $671,004 and $1.2 million in the three and six months ended June 30, 2019. Lower due to the transfer of Mexico and Italy expenses $409,836 to a separate line.

Professional fees

Professional fees were $1.0 million and $2.9 million for the three and six months ended June 30, 2020, respectively, compared to $600,652 and $1.3 million in the three and six months ended June 30, 2019. The increase is due to legal fees related to the short-sellers report of $475,844, general corporate legal matters of $325,000, bought deal offering $175,000, accounting services $94,547, and executive search services of $363,000.

Salaries and wages

Salaries and wages expenses were $1.7 million and $3.3 million for the three and six months ended June 30, 2020, respectively, compared to $987,750 and $1.8 million in the three and six months ended June 30, 2019. The increase is due to the growth of FTEs in Colombia within Administration, Human Resources, Procurement, Finance, Health and Safety, Agricultural and Industrial areas.

Travel and accommodation

Travel and accommodation expenses were $19,630 and $241,512 for the three and six months ended June 30, 2020, respectively, compared to $226,790 and $631,515 in the three and six months ended June 3031, 2019. The decrease is due to tighter cost control on discretionary expenses and the impact of COVID-19 travel restrictions.

Share-based compensation

Share-based compensation expenses was $2.2 million and $3.9 million for the three and six months ended June 30, 2020, respectively, compared to $4.8 million and $6.2 million in the three and six months ended June 3031, 2019. The decrease was due to fewer options issued in the three and six months ended June 30, 2020 and in 2019.

Selling, marketing and promotion

Selling, marketing and promotion expenses were $74,253 and $391,588 for the three and six months ended June 30, 2020, respectively, compared to $244,719 and $647,742 in the three and six months ended June 3031, 2019. The decrease is due to lower investor and media services.

Amortization and depreciation

Amortization and depreciation expenses were $514,558 and $838,331 for the three and six months ended June 30, 2020, respectively, compared to $193,078 and $335,033 in the three and six months ended June 30, 2019. The increase due the amortization of intangible assets, the Canada office leasehold improvements, and investment in building and equipment in Colombia.

Expected credit losses

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.

## Projected Cash Flow

The Company expects that the ongoing COVID-19 pandemic will continue to have an impact on the number of commercial flights in and out of Colombia and, as such, the Company believes logistical delays may occur related to securing space on such flights for the Company's products. For clarity, the Company is not facing any logistical issues other than those caused by COVID-19.

In the prospectus of the Company dated June 29, 2020, the Company projected a cash burn rate for the month of June 2020 of approximately $2.9 million. The cash burn rate in June 2020 was $3.1 million. The Company's anticipated revenue for the month of June 2020 is approximately $0.1 million (being, collection of receivables from sales previously made). The Company made no collections for the month of June 2020. The Company's anticipated cash outlays for the month of June 2020 is approximately $3.0 million. The Company's cash outlays for the month of June 2020 was $3.1 million.

## 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 and six months ended June 30, 2020. The financial information was prepared in accordance with IFRS.

| PharmaCielo Ltd. Selected Quarterly Information | | | | |
|---|---|---|---|---|
| **In CAD$ (000's)** | **Q2 2020** | **Q1 2020** | **Q4 2019** | **Q3 2019** |
| Sales | $ 1,233 | $ 514 | $ 657 | $ 130 |
| COGS | 672 | 461 | 672 | 70 |
| Gross Margin | 561 | 53 | (15) | 60 |
| Unrealized Gain/(Loss) on biological assets | (408) | (210) | (1,474) | 2,073 |
| Operating Expenses | 73 | - | (121) | 121 |
| SG&A | 7,776 | 7,299 | 10,482 | 6,124 |
| Net Loss | (7,720) | (6,318) | (12,423) | (3,820) |
| Net Comprehensive Loss | (6,843) | (9,946) | (14,574) | (2,221) |
| Weighted average number of common shares outstanding | 104,856,355 | 99,051,447 | 98,196,739 | 96,666,354 |
| Net loss per common share | $ (0.07) | $ (0.06) | $ (0.13) | $ (0.04) |
| **In CAD$ (000's)** | **Q2 2019** | **Q1 2019** | **Q4 2018** | **Q3 2018** |
| Sales | $ - | $ - | $ - | $ - |
| COGS | - | - | - | - |
| Gross Margin | - | - | - | - |
| Unrealized Gain/(Loss) on biological assets | - | - | - | - |
| Operating Expenses | 1,397 | 906 | 828 | 618 |
| SG&A | 8,774 | 4,763 | 5,905 | 10,307 |
| Net Loss | (10,686) | (7,738) | (8,265) | (9,497) |
| Net Comprehensive Loss | (11,469) | (8,332) | (8,339) | (9,559) |
| Weighted average number of common shares outstanding | 96,264,358 | 92,782,399 | 80,161,732 | 77,906,560 |
| Net loss per common share | $ (0.11) | $ (0.08) | $ (0.10) | $ (0.12) |

The quarterly variances in operating results has been discussed above in the Discussion of Operations for the three and six months ended June 30, 2020 and 2019.

## Liquidity

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

As of June 30, 2020, the Company had 111,877,220 Common Shares issued and outstanding, 14,056,000 options outstanding that could raise approximately $35.1 million, and 199,212 warrants that could raise approximately $0.2 million, if exercised in full.

Accounts payable and accrued liabilities increased by $2.3 million as at June 30, 2020 (compared to a $1.3 million decrease as at June 30, 2019) and consists of amounts that are to be extinguished in due course. The increase in accounts payable and accrued liabilities is driven mainly by the PEC construction activities in Colombia. The Company's cash and cash equivalents as of June 30, 2020 are sufficient to pay these liabilities.

As at June 30, 2020, the Company has working capital of $7.6 million (compared to $16.4 million as at December 31, 2019) and the Company has cash and cash equivalents of $5.1 million (compared to $13.7 million as at December 31, 2019).

Net cash used in operating activities was $10.3 million for the six months ended June 30, 2020 (compared to $11.6 million net cash used for the six months ended June 30, 2019). Operating activities were affected by a net decrease in non-cash working capital balances of $1.0 million for the six months ended June 30, 2020 (compared to a decrease of $1.7 million for the six months ended June 30, 2019). This was due to an increase in trade receivables of $1.7 million for the six months ended June 30, 2020 (compared to $Nil for the six months ended June 30, 2019), an increase in inventory and biological assets of $1.7 million for the six months ended June 30, 2020 (compared to $Nil for the six months ended June 30, 2019), and an increase in accounts payable and accrued liabilities of $2.4 million for the six months ended June 30, 2020 (compared to a decrease of $1.3 million for the six months ended June 30, 2019). The Company also recorded share-based compensation of $3.9 million for the six months ended June 30, 2020 (compared to share-based compensation of $6.2 million for the six months ended June 30, 2019) and exchange gain of $1.0 million for the six months ended June 30, 2020 (compared to share-based compensation of $517,728 for the six months ended June 30, 2019). Net cash used in investing activities was $5.4 million during the six months ended June 30, 2020 (compared to $20.5 million net cash used for the six months ended June 30, 2019), as a result of investment in property and equipment of $4.6 million for the six months ended June 30, 2020 (compared to $4.7 million for the six months ended June 30, 2019), an investment in XPhyto Therapeutics of $500,000 for the six months ended June 30, 2020 (compared to $Nil for the six months ended June 30, 2019), an investment in joint ventures of $645,671 for the six months ended June 30, 2020 (compared to $Nil for the six months ended June 30, 2019), and the purchase of short-term investments of $Nil for the six months ended June 30, 2020 (compared to $16.0 million for the six months ended June 30, 2019).

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** | **$8,175,701** |
| Agents' Fee | 123,638 |
| **Gross Proceeds to the Company** | **$8,052,064** |
| Less: | |
| Offering and the Prospectus Qualification expenses | 421,852 |
| Finder's Fee | 361,200 |
| **Net Proceeds to the Company** | **$7,269,011** |

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).

On June 10, 2020, the Company announced that it entered into an agreement with a syndicate of investment dealers led by Cormark Securities Inc. and Stifel GMP (the "Lead Underwriters" and, collectively, the "Underwriters") pursuant to which the Underwriters have agreed to purchase 5,555,600 common shares (the "Common Shares") from the treasury of the Company, at a price of $0.72 ("the "Offering Price") per Common Share and offer them to the public by way of short form prospectus on a bought-deal basis for total gross proceeds of approximately $4,000,000 (the "Offering").

In addition, the Company granted the Underwriters an option (the "Over-Allotment Option") to purchase up to an additional 15.0% of the Common Shares of the Offering on the same terms exercisable at any time up to 30 days following the closing of the Offering, for market stabilization purposes and to cover over-allotments, if any.

On July 3, 2020, the Company closed the bought deal offering issuing 6,388,940 common shares at a price of $0.72 per common share 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.

| Proceeds of Offering | |
|---|---|
| Base offering | $4,000,032 |
| Overallotment option | 600,005 |
| | **$4,600,037** |
| Commission | 276,002 |
| **Gross Proceeds to the Company** | **$4,324,035** |
| Less: | |
| Offering and the Prospectus Qualification expenses | 274,271 |
| **Net Proceeds to the Company** | **$4,049,764** |

The net proceeds of the Offering will be used for non-operational payroll expenses of PharmaCielo Colombia S.A.S., non-operational payroll taxes of PharmaCielo Colombia, purchase of ethanol and $CO_2$ to be used for extraction purposes, and other working capital and general corporate purposes.

## 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 or available, necessitated alignment changes in the scope of the building construction. The budget was increased by USD$ 346 thousand dollars which is the commitment under the CHG contract. As of the date of this MD&A, CHG has been paid USD $Nil.

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.

## 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, Federico Cock-Correa. As of June 30, 2020, the amount of $Nil (June 30, 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 (June 30, 2019 - $Nil) is owing and recorded in accounts payable and accrued liabilities. Mr. Wile also received $92,898 and $179,144 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 (compared to the 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 $Nil (June 30, 2019 - $500) 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. Laitinen Consulting Inc. continues to provide payroll services, T4 processing & filing, and government renumeration 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.

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

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $ | $ | $ | $ |
| Management compensation | 492,279 | 340,633 | 961,124 | 681,266 |
| Directors' 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** | 2,429,005 | 2,149,489 | 4,359,956 | 4,202,523 |

(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 June 30, 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 do so effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide from foreign currency fluctuations and can themselves result in losses.

## Investing activities

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 was $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.

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** |

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.

## 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 118,266,160 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 518,000 RSUs issued and outstanding to be settled in Common Shares.

As of the date of this MD&A, the Company has 199,212 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 PharmaCielo may face. Additional risks and uncertainties not presently known to PharmaCielo or that PharmaCielo currently considers immaterial may also impair the business and operations of PharmaCielo and cause the value of the Common Shares to decline. If any of the following risks or any other risks occur, PharmaCielo's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event, the trading price of the Common shares could decline, and investors could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

## Business Risks

**Limited Operating History**

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

**Regulatory Compliance Risks**

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

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

**Reliance on Licenses and Authorizations**

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

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

**Risks Inherent in Rural Real Estate**

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

**Risks of Litigation**

From time to time, the Company and/or its subsidiaries may become involved in legal proceedings or be subject to claims, some of which arise in the ordinary course of our business. Litigation is inherently uncertain, and any adverse outcomes could negatively affect the Company's business, results of operations, financial condition, brand and/or the trading price of the Common Shares. In addition, litigation can involve significant management time and attention and be expensive, regardless of outcome. During the course of litigation, there may be announcements of the results of hearings and motions and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the trading price of the Common Shares may decline. In addition, the Company evaluates these litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, the Company may establish reserves or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from the Company's current assessments and estimates.

## Risks Related to Investment in a Colombian Company

**Economic Risks Inherent in 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.

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

**Operational Risks**

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

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

## Financial and Accounting Risks

**Foreign Sales**

PharmaCielo's functional currency is denominated in Canadian dollars. PharmaCielo currently expects that sales will be denominated in Colombian pesos and may, in the future, have sales denominated in the currencies of additional countries. 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 do so effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide from foreign currency fluctuations and can themselves result in losses.

## Putative class action

On March 6, 2020 and April 24, 2020, two proposed securities class actions were filed against the Company, David Attard and Scott Laitinen in the United States Central District of California.

In June 2020, the Court consolidated the two lawsuits into one case and assigned a lead plaintiff and lead counsel to represent the proposed class in the litigation. The proposed class is comprised of stockholders who purchased or acquired publicly-traded PCLO securities from June 21, 2019 to March 2, 2020.

The claim seeks damages allegedly caused by violations of the Securities Exchange Act of 1934 (the "**Securities Exchange Act**"). The complaint alleges that the market price of the Company's security was artificially inflated due to misrepresentations made by the Company and that the senior officers of the Company are liable due to their control and authority over the Company's public statements.

On August 21, 2020, the plaintiff filed an amended complaint and added David Gordon and Andres Botero as defendants to the proposed class action.

The proposed class action is at a very early stage. The Company, Mr. Attard, Mr. Laitinen, Mr. Gordon and Mr. Botero intend to contest this matter.

As of the date hereof, no penalties or sanctions have been imposed against the Company by a court or regulatory body and the Company did not enter into any settlement agreements before a court relating to securities legislation or with a securities regulatory authority during its last financial year.

## 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.

**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 announced the enactment of its first medical cannabis farming contract. The first phase of the contract will see PharmaCielo's cultivation immediately expanding by 32 percent to more than 1.6 million square feet (15 ha) with continued enlargement of the second phase growing cultivated land to a total of 2.6 million square feet (24 ha), pending receipt by the contracted grower of their technical licensing for the additional area. This represents a doubling of PharmaCielo's currently active 1.2 million square feet (12 h) cultivation, making it Colombia's largest combined medical cannabis grower and processor.

This expansion of cultivation capacity will be dedicated to the cultivation and harvest of a non-psychoactive CBD dominant PharmaCielo proprietary strain. As previously outlined, contract growers are provided with PharmaCielo's proprietary strain cuttings for cultivation and harvest on a 12-week cycle, allowing multiple annual harvests. PharmaCielo's agreements with contract cultivators will allow it the flexibility to continue to expand based on need.

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.