PharmaCielo Ltd.

Management's Discussion and Analysis

For the twelve months ended December 31, 2021

Dated April 28, 2022

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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 82 Richmond Street East, Toronto, Ontario M5C 1P1. Common shares of PharmaCielo trade on the TSX Venture Exchange ("TSXV") under the ticker symbol "PCLO" and on the OTC Markets under the symbol "PCLOF".

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of PharmaCielo constitutes management's review of the factors that affected the Company's financial and operating performance for the twelve months ended December 31, 2021. This discussion should be read in conjunction with the audited consolidated financial statements of the Company for the twelve months ended December 31, 2021, 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 April 28, 2022, 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 audited consolidated financial statements and this MD&A have been reviewed by the Company's Audit Committee and were approved by the Board on April 28, 2022.

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.

Recent Developments

- On September 14, 2021, the Company announced that it has achieved Colombian GMP Certification for Phytotherapeutics manufactured with its extracts and proprietary cultivars from the Colombian National Food and Drug Surveillance Institute (Instituto Nacional de Vigilancia de Medicamentos y Alimentos, ("INVIMA").
- On December 31, 2021, the Company announced that it has closed the first tranche of its previously announced non-brokered private placement, consisting of an aggregate of 5,000 debenture units. The Units were issued at a price of $1,000 per Unit for aggregate proceeds of $5,000,000.
- On February 14, 2022, PharmaCielo announced signing a sales agreement with Greenstein to supply THC Final Products that will be commercialized through NOWEDA, a pharmaceutical wholesaler to all pharmacies across Germany
- In December 2021, and April 2022, the Company issued a total of 6,500 debenture units as part of a non-brokered private placement. The Units were issued at a price of $1,000 per Unit for aggregate gross proceeds of $6,500,000. Insiders, including directors and management, participated in the Offering.

COVID-19

In 2021, Colombia experienced four waves of COVID 19 with accumulation of five million cases by the end of December 2021. At the beginning of the year, the country started with the vaccination rollout and the national government simultaneously decided to carry out a social and economic reactivation, where biosafety measures and protocols were maintained to minimize the spread of this virus. The reopening encourages Pharmacielo to strengthen measures and allocate the necessary resources to guarantee the well-being and health of its employees and stakeholders. Day to day, programs, activities and campaigns were performed and led by a Special Situation Committee ensuring social distancing, personal protection equipment's, regular hand washing, permanent use of masks, cleaning and disinfection in common areas, weekly inspections, capacity control in closed places adapting the infrastructure to fulfill biosafety standards.

In addition, an immunization day was promoted and held within the Company's facilities and permanent monitoring was carried out on positive cases by the in-house doctor.

Above mentioned countrywide and Company specific measures contributed to having a low infection rate (20%) without complex cases or fatalities. By the end of year, 95% of PharmaCielo employees were vaccinated.

The Ministry of Health, through Resolution 913 of 2021, decided to extend the health emergency measures until April 30, 2022. Accordingly, the Company will continue with the biosafety protocols following regulatory requirements in order to preserve the employees' health and the business continuity.

Business Outlook

In 2021, PharmaCielo continued to execute on opportunities in its chosen key markets, such as U.K., European Union ("EU"), Israel, Latin America and Australia as well as in additional jurisdictions where demand continues for the Company's products. PharmaCielo has grown its global business development organization; recruited Technical Business Developers in Europe and appointed a Vice President, Sales. While the global export market is still in its early days, the team is making promising early progress in developing long-term relationships.

In 2021, the global demand for CBD Isolate remained strong, however in certain jurisdictions prices have continued to decline as US producer volumes create ongoing pressure. PharmaCielo is addressing this ongoing market phenomenon in two primary ways:

1. Moving toward EU-GMP certification, which the Company expects to achieve in second half of 2022. This will better position PharmaCielo to sign larger, longer term supply agreements with global pharmaceutical and cosmetics customers; and
2. Focusing development and sales efforts on PharmaCielo's broader product portfolio beyond CBD isolate, including psychoactive flower, broad spectrum products and THC distillates. These products are more differentiated by nature, and therefore higher margin, on average.

In July 2021, the Colombian Government signed Decree 811, which opened a pathway for the Company to become one of the largest exporters of psychoactive flower. With PharmaCielo's upstream and downstream scale and quality, the Company is uniquely positioned to be a solid competitor with psychoactive flower currently being imported into the EU and other markets from Canada and other producing countries. PharmaCielo expects dried flower trial shipments to begin in early 2022 and to grow throughout 2022. The Company has taken the necessary steps to ensure psychoactive flower and extract quotas are in place for 2022 exports.

While PharmaCielo has built one of the world's largest cultivation and production complexes, the global import/export market for cannabinoids is still relatively early stage, and as a result, sales are unpredictable. The Company expects continued weakness through the first three quarters of 2022, perking up into material long-term contracts being signed in the second half of 2022. With dried flower exports expected to begin in mid-2022, as well as continued sales efforts on the Company's extract products, PharmaCielo expects to see more meaningful sales growth in the last quarter of 2022. Also, recurring orders for more complex and value-added products, such as Broad Spectrum Distillate and THC Full Spectrum, indicate a positive outlook for an enhanced product mix.

The Company has completed all major growth capital expenditures at its Production and Extraction Centre ("PEC") and does not expect to incur any material growth capital expenditures during the remainder of 2022. Cash outlays will be primarily related to operational, EU-GMP certification, and business development expenditures.

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

From a cost of goods sold perspective, the Company's short lead times and small production batches reduce the need to maintain high inventories of finished and intermediate products. This, in turn, enables the Company to delay expenditures on costly products necessary for production, allowing the Company to optimize working capital. If the Company were to have no or minimal sales, inventories could be kept low and maintained as flowers and milled flowers, which require comparatively low capital expenditures to maintain.

Company Overview

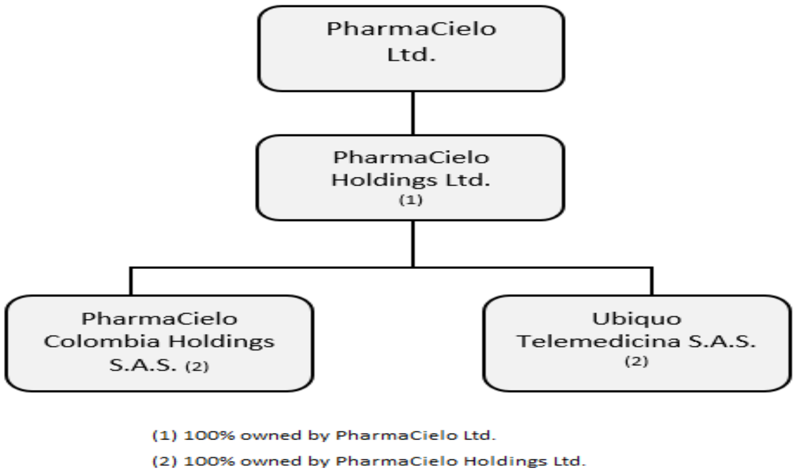
PharmaCielo is a public company and commenced trading on the TSX Venture Exchange (the "TSXV") on January 18, 2019 under the ticker symbol "PCLO". PharmaCielo is headquartered in Toronto, Ontario, Canada, with a focus on cultivating, processing, and supplying all natural medicinal-grade cannabis extracts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

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

Ubiquo is a knowledge management and medical consultation system that aims to create better access to healthcare for Colombians. Ubiquo is a technology platform and a user interface that allows doctors and patients to communicate. Doctors or clinics can register with Ubiquo and provide patients with access to the Ubiquo platform, which is used as a communication tool.

Doctors can communicate with patients on all regular medical matters, included, but not limited to medicinal cannabis. Medical professionals that use the Ubiquo services are not employees or contractors of Ubiquo and are required to pay access fees to Ubiquo for using the platform. Patient access to the Ubique platform is free. Through its acquisition of Ubiquo, PharmaCielo anticipates that it will be able to better facilitate the educational progress and knowledge of the possible uses, benefits, and risks of medicinal cannabis.

Intercorporate Relationship



Production Licenses

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

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

For the 2021 calendar year, PharmaCielo applied to the Colombian Ministry of Justice to obtain psychoactive cannabis cultivation quotas for both commercialization and non-commercialization purposes.

By means of resolution 0137 dated February 19, 2021, modified by resolution 0159 dated February 25, 2021, PharmaCielo was granted an ordinary quota for 2021 for the cultivation of psychoactive cannabis for commercialization and non-commercialization purposes, using the cannabis seed varieties that were approved by the Ministry of Justice.

By means of resolution 0280 dated March 26, 2021, PharmaCielo was granted a quota allowing for the cultivation of 61,160 plants for research and development purposes including performing agronomic evaluation testing and plant breeding.

For the 2021 calendar year, PharmaCielo also applied to the Colombian Ministry of Health to obtain commercialization and non-commercialization purposes quotas regarding the manufacturing and exportation of psychoactive cannabis.

PharmaCielo has received 2021 ordinary commercial quotas for psychoactive cannabis from the Colombian Ministry of Health, permitting it to produce and extract 50,220 Kg of dry flowers and to export the corresponding cannabis derivatives. This was granted through Resolution 157 dated February 12, 2021, by the Ministry of Health. Additionally, through Resolution 156 dated February 12, 2021, PharmaCielo was also granted a manufacturing ordinary quota for research and development purposes.

Industry Overview

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

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

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

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

Operations

Facilities

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

The Company's Processing and Extraction Centre ("PEC"), consists of approximately 4,000 square meters of buildings and installations on approximately 3.6 hectares. The PEC includes processing areas (upstream-downstream), quality control and analytical laboratories and warehouses. The PEC is capable of upstream processing 30 tons of biomass on a monthly basis (360 tons per year), and downstream is capable of delivering a variety of extracts that includes CBD Isolate (2,000 kg), Broad Spectrum Distillated (360 kg), Pharma Grade Water Soluble, THC and CBD Full Spectrum, Distillated and Full Spectrum Diluted.

Processing and Extraction Centre ("PEC")

The PEC production processes are in accordance with GMP and EU GMP guidelines. GMP and EU GMP validation by individual clients and supplier certification process have been initiated and the Company expects to achieve EU-GMP certification in 2022.

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

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

Agriculture

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

Cultivation

Complying the GACP certified standards and procedures, the Company has most of its production dedicated on THC flower quotas assigned by the government, one of the largest quotas ever given for psychoactive production.

Because of the Company's product strategy and the short-term potential to sell dried flower into several markets globally, the company has been developing the production of the best cultivars for exportation waiting for the final regulatory framework to be finalized by Q1/2022.

Discussion of Operations

Selected Financial Information

The following table summarizes results of operations of the Company for the twelve months ended December 31, 2021, and 2020.

(Expressed in Canadian Dollars)

		Year Ended	
	Note Reference	December 31, 2021	December 31, 2020
Revenue:			
Sale of Cannabis derivative products		**1,824,898**	2,568,901
Revenue from Telemedicine services		**120,100**	85,016
Total revenue		**1,944,998**	2,653,917
Cost of goods sold - Cannabis derivative products		**2,944,656**	1,687,396
Cost of goods sold - Telemedicine services		**32,170**	-
Cost of goods sold - Inventory impairment		**1,880,266**	5,298,598
Gross loss before fair value adjustments		**(2,912,094)**	(4,332,077)
Realized fair value on inventory sold	6	**(160,996)**	(704,085)
Unrealized loss on fair value of biological assets	6	**(1,235,275)**	(1,599,649)
Loss profit		**(4,308,365)**	**(6,635,811)**
Operating expenses			
Agricultural operating costs	6	**219,578**	163,227
Total selling, general, and administrative expenses		**20,665,855**	37,847,829
Total other expense (income)		**1,435,895**	(891,058)
Net loss for the period		**(26,629,693)**	(43,755,809)
Other comprehensive loss			
Currency translation adjustment		**(3,622,388)**	(2,489,588)
Net comprehensive loss		**(30,252,081)**	(46,245,397)
Basic and diluted loss per share	16	**(0.18)**	(0.39)
Weighted average number of common shares outstanding - basic and diluted		**145,638,254**	112,539,538

(Expressed in Canadian Dollars)	As at December 31, 2021	As at December 31, 2020
Total assets	**35,956,810**	44,024,421
Total liabilities	**16,630,868**	17,777,427
Total shareholders' equity	**19,325,942**	26,246,994

The Company's net loss totaled $26.6 million for the twelve months ended December 31, 2021, respectively (compared to $43.8 million in the twelve months ended December 31, 2020, respectively).

Responsible cost reduction and containment measures initiated in late 2020 have continued to payoff in 2021.

- **Managed reduction of professional fees by 29%** representing a reduction of $1.4 million for the twelve months ended December 31, 2021, compared to the year ended December 31, 2020.
- **Reduction of salaries and wages by 48%** representing a reduction of $6.1 million for the twelve months ended December 31, 2021, compared to the year ended December 31, 2020.
- Various reductions will only be completely achieved in the first half of 2022 as contractual time for termination notices generated costs throughout 2021.

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	For the three months ended December 31,		For the year ended December 31,	
In CAD$ (000's)	**2021**	**2020**	**2021**	**2020**
Net income (loss) for the period	**$(4,113)**	**$(19,901)**	**$(26,630)**	**$(43,756)**
Add back:				
Amortization of property, plant and equipment & intangible assets	141	361	981	1,512
Amortization expense included in production costs	534	130	996	130
EBITDA	$(3,438)	$(19,410)	$(24,653)	$(42,114)
Adjustments:				
Share based payments	947	4,269	6,820	6,482
Non-recurring expenses	(2,096)	9,314	1,001	11,179
Non-recurring Professional fees	-	-	-	899
Adjusted EBITDA	**$(4,587)**	**$(5,827)**	**$(16,832)**	**$(23,554)**

During the three and twelve months ended December 31, 2021, the Company generated an adjusted EBITDA loss of $4.6 million and $16.8 million, respectively (three and twelve months ended December 31, 2020: $(5.8) and $(23.6) million, respectively).

Revenue

During the year ended December 31, 2021, the Company generated net revenues of $1.9 million, respectively (year ended December 31, 2020: $2.7 million). Cannabis revenues generated were $1.8 million for the year ended December 31, 2021 (year ended December 31, 2020: $2.6 million). Ubiquo generated net revenues of $120,100 for the twelve months ended December 31, 2021 (twelve months ended December 31, 2020: $85,016), mainly from support and maintenance contracts.

The Company continues to position itself with significant opportunities in the EU, Australia and Israel. Due to regulatory requirements, the sales cycle is protracted in countries like Germany, UK, Poland and others. The Company is working with Colombian regulatory officials to secure necessary export quotas of both psychoactive and non psychoactive products. In addition, we are working closely with customers to ensure that they have appropriate technical data sheets and certificates of analysis for import into their marketplace.

We continue to see an erosion of price for our CBD isolate products as many US producers are saturating the markets. As we move forward with our EU-GMP certification (estimated to be received in Q32022) we will continue to focus our sales efforts of our products to large pharma and cosmetic customers. We feel that this will give us an opportunity to price our CBD products at a more attractive price level.

We do not see any significant capital expenditures in the coming quarters as our grow and manufacturing/production facilities have been completed and are now able to go into full production. Our efforts are focused on developing a robust sales team in the EU and Israel as we consider these markets as key to driving revenue in 2022 and beyond. We have made the required pivot in our production planning to introduce THC/CBD products to the marketplace as they provide higher margins and greater demand.

With the signing of Bill 811, we have positioned the Company for psychoactive flower exports in 2022. Due to our scale and growing conditions, we are uniquely positioned to be a formidable competitor to EU imports from Canada and other producing countries. We feel we have superior genetics and can be most competitive due to our significant scale. We expect flower exports to increase dramatically throughout 2022 and we have already received significant quotas for all export opportunities.

Cost of goods sold

During the year ended December 31, 2021, cost of goods sold including realized fair value on inventory sold was $4.9 million (year ended December 31, 2020 - $7.7 million), consisting of $2.9 million (year ended December 31, 2020 - $1.7 million) of capitalized post-harvest costs expensed during the period as cannabis inventory is sold, $1.9 million (year ended December 31, 2020 - $5.3 million) in impairment costs reducing the inventory value to its net realizable value, and $160,996 (year ended December 31, 2020 - $704,085) of realized fair value changes on inventory sold.

Gross profit excluding fair value items

Gross profit excluding fair value items, for the year ended December 31, 2021 was $(2.9) million (year ended December 31, 2020: $(4.3) million). Cannabis gross profit excluding fair value items was $(1.1) million for the year ended December 31, 2021, (year ended December 31, 2020: $(4.4) million).

Ubiquo Telemedicina S.A.S. gross profit was $87,930 for the year ended December 31, 2021 (year ended December 31, 2020: $85,016).

SG&A - Selling, general and administrative expenses

Selling, general and administrative expenses include the following:

Selling, general and administrative expenses **In CAD$ (000's)**	**For theyear ended December 31,**			
General and administrative	2021	2020	Change $	Change %
Consulting fees	$(1,532)	$ 5,054	$(6,586)	-130%
Office and general	2,593	2,160	433	20%
Professional fees	3,406	4,771	(1,365)	-29%
Salaries and wages	6,651	12,743	(6,092)	-48%
Travel and accommodation	135	257	(122)	-47%
Goodwill and Intangible Impairment	-	1,251	(1,251)	-100%
Share-based compensation	6,820	6,482	338	5%
Selling, marketing and promotion	1,077	1,128	(51)	-5%
Amortization and depreciation	1,319	1,480	(161)	-11%
Expected credit losses	197	2,522	(2,325)	-92%
Total selling, general and administrative expenses	**$ 20,666**	**$ 37,848**	**$(17,182)**	**-45%**

Consulting fees

Consulting fees were $(6.6) million lower mostly due to the reversal of a settlement reserve for 2.4 million. When excluding the reversed settlement, the decrease on the Consulting fees would have been 82% compared to year end December 31, 2020.

Office and general

Office and general expenses were $2.6 million for the year ended December 31, 2021. Compared to $2.1 million for the year ended December 31, 2020, representing a 20% increase for the year ended December 31, 2021. The increase for the year ended December 31, 2021 is driven by storage costs due to an increase in rental storage containers and electricity used in the Colombian operations.

Professional fees

Professional fees were $3.4 million for the year ended December 31, 2021. Compared to $4.7 million for the year ended December 31, 2020, representing a 29% reduction for the year ended December 31, 2021. The reduction for the year ended 31, 2021 is driven by one-time charges during 2021 that were ended in December 2021 and the termination of third-party professional fees.

Salaries and wages

Salaries and wages expenses were $6.6 million for the year ended December 31, 2021. Compared to $12.7 million for the year ended December 31, 2020, representing a 48% reduction for the year ended December 31, 2021 as Canada and Colombia continues to be resized for 2022.

Travel and accommodation

Travel and accommodation expenses were $135,589, for the year ended December 31, 2021. Compared to $256,534 for the year ended December 31, 2020. The decrease for the year ended December 31, 2021, is due to tighter cost control on discretionary expenses and the impact of COVID-19 travel restrictions, resulting in an 47% reduction year over year.

Share-based compensation

Share-based compensation expenses were $6.8 million for the year ended December 31, 2021. Compared to $6.4 for the year ended December 31, 2020, representing a 5% increase for the year ended December 31, 2021.

Selling, marketing and promotion

Selling, marketing and promotion expenses were $1 million for the year ended December 31, 2021. Compared to $1.1 million for the year ended December 31, 2020, representing a 5% reduction for the year ended December 31, 2021.

Amortization and depreciation

Amortization and depreciation expenses were $1.3 million for the year ended December 31, 2021. Compared to $1.5 for the year ended December 31, 2020, representing a 11% reduction for the year ended December 31, 2021.

Expected credit losses

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

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

Other expenses (income)

During the year ended December 31, 2021, the Company incurred other expenses of 1.4 million (year ended December 31, 2020 – $(891,058)) mainly driven due to higher bank charges and interest charges, loss from investment in joint ventures and unrealized loss in marketable securities.

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 year ended December 31, 2021. The financial information was prepared in accordance with IFRS.

Refer to subsequent events for additional information post closing the annual financial statements.

PharmaCielo Ltd. Selected Quarterly Information				
In CAD$ (000's)	**Q4 2021**	**Q3 2021**	**Q2 2021**	**Q1 2021**
Sales	$ 339	$ 485	$ 446	$ 675
COGS	505	1,145	1,743	1,464
Gross profit before fair value adjustments	(166)	(660)	(1,297)	(789)
Realized fair value on inventory sold	2	(27)	(73)	(63)
Unrealized gain (loss) on biological assets	(392)	(663)	(68)	(113)
Operating Expenses	56	60	55	48
SG&A	2,995	6,719	4,918	6,034
Net income (loss)	(4,113)	(8,751)	(7,224)	(6,542)
Net Comprehensive income (loss)	(5,055)	(8,679)	(7,777)	(8,741)
Weighted average number of common shares outstanding	147,180,819	147,809,973	146,383,269	139,419,735
Net income (loss) per common share	$ (0.028)	$ (0.059)	$ (0.049)	$ (0.047)
In CAD$ (000's)	**Q4 2020**	**Q3 2020**	**Q2 2020**	**Q1 2020**
Sales	$ 881	$ 26	$ 1,233	$ 514
COGS	2,536	3,317	672	461
Gross profit before fair value adjustments	(1,655)	(3,291)	561	53
Realized fair value on inventory sold	(233)	2	(374)	(99)
Unrealized gain (loss) on biological assets	(378)	(1,076)	(34)	(111)
Operating Expenses	40	50	73	-
SG&A	16,687	6,086	7,776	7,299
Net income (loss)	(19,901)	(9,794)	(7,720)	(6,318)
Net Comprehensive income (loss)	(18,043)	(11,391)	(6,843)	(9,946)
Weighted average number of common shares outstanding	127,640,845	118,082,282	104,856,355	99,051,447
Net income (loss) per common share	$ (0.156)	$ (0.083)	$ (0.074)	$ (0.064)

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 December 31, 2021, the Company had 149,268,163 Common Shares issued and outstanding, 12,728,664 options outstanding that could raise approximately $23.8 million, and 11,432,243 warrants that could raise approximately $8.3 million, if exercised in full.

Accounts payable and accrued liabilities decreased by $4.5 million as at December 31, 2021 (compared to a $9.8 million increase as at December 31, 2020) and consists of amounts that are to be extinguished in due course. The Company's cash and cash equivalents as of December 31, 2021 are sufficient to pay the cash portion of these liabilities.

As at December 31, 2021, the Company has working capital of $1.1 Million (compared to $461,978 as at December 31, 2020) and the Company has cash and cash equivalents of $5.3 million (compared to $8.9 million as at December 31, 2020).

Net cash used in operating activities was $20.1 million for the year ended December 31, 2021. Operating activities were affected by a net decrease in non-cash working capital balances of $7.6 million for the year ended December 31, 2021. This was due to a decrease in accounts payable and accrued liabilities of $4.5 million for the year ended December 31, 2021, increase in inventory and biological assets of $3.4 million for the year ended December 31, 2021, decrease in prepaid expenses and other receivables of $194,049 for the year ended December 31, 2021, decrease in trade receivables of $125,474 for the year ended December 31, 2021, and an unrealized loss on fair value of biological assets of $1.2 million for the year ended December 31, 2021. The Company also recorded share-based compensation of $6.8 million for the year ended December 31, 2021, amortization and depreciation of $1.3 million for the year ended December 31, 2021, exchange gain of $849,758 for the year ended December 31, 2021, non-cash salary expense of $2.5 million for the year ended December 31, 2021, inventory impairment of $1.9 million for the year ended December 31, 2021, and expected credit losses of $197,782 for the year ended December 31, 2021.

Net cash used in investing activities was $1.7 million during the year ended December 31, 2021, as a result of investment in property and equipment of $1.1 million for the year ended December 31, 2021, an exercise of warrants held in XPhyto Therapeutics of $749,871 for the year ended December 31, 2021, an investment in joint ventures of $546,287 for the year ended December 31, 2021, and the proceeds on sale of XPhyto marketable securities of $777,089 for the year ended December 31, 2021.

Net cash provided by financing activities was $18.2 million during the year ended December 31, 2021, as a result of cash received for shares issued of $13.5 million for the year ended December 31, 2021, options and warrants exercised of $1.3 million for the year ended December 31, 2021, lease payments of $308,217 for the year ended December 31, 2021, loan principle payments of $79,330 for the year ended December 31, 2021, cash received from debenture issued of $5.0 million for the year ended December 31, 2021, and less share cost to issue of $1.3 million for the year ended December 31, 2021.

The Company is generating operating revenues but has not achieved full 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 7, 2021, the Company closed an overnight marketed offering of Common Shares conducted through a syndicate of agents led by Cormark Securities Inc. and including Stifel GMP. The Company issued 6,301,866 Common Shares at a price of $2.15 per share pursuant to the offering, for aggregate gross proceeds of $13,549,012, inclusive of proceeds from the exercise in part of the agents' over-allotment option to purchase 840,698 additional Common Shares, and $50,000 from a non-brokered portion of the Offering.

Proceeds of Offering	
Base offering	$12,000,010
Overallotment option	1,549,002
	$13,549,012
Less: Commissions	(675,851)
Gross Proceeds to the Company	**$12,873,161**
Less:	
Offering and the Prospectus Qualification expenses	(602,500)
Net Proceeds to the Company	**$12,270,661**

The net proceeds of the April offering were used for working capital and general corporate purposes.

In December 2021, the Company entered into a private placement financing of non-brokered offering of units of the Company. Each Unit consist of $1,000 principal amount of 11% secured debentures and 250 common share purchase warrants per Unit. The Company plans to issue up to 15,000 debenture units for aggregate gross proceeds of up to $15,000,000. The Company closed the first tranche of its non-brokered private placement, consisting of an aggregate of 5,000 debenture units for proceeds of $5,000,000. The Debentures mature on December 24, 2024 and will bear interest from the closing date at 11% per annum payable semi-annually in cash or common shares of the Company, at the Company's selection.

As the debenture units contain purchase warrants. The equity and debt components of the debenture are required to be bifurcated to record the value of the debt and equity separately. The fair value of the liability was determined using the discounted cash flow model with an estimated market interest rate of equivalent debt of 20.7%. At initial recognition, the fair value of the debentures was calculated to be $4,564,646 with $435,354 allocated to warrants (Note 13) recorded as the Equity component of the debentures. Transactions costs totaled $60,682, of which $55,398 was allocated to the debenture liability and $5,284 to the warrants. Subsequent to initial recognition, the debenture liability is measured using the effective interest method, with the charge recorded as accretion expense in finance expense (income) in the consolidated statement of loss on the financial statements of the Company.

The following table is a summary of the Company's debentures as at December 31, 2021:

Balance as at December 31, 2020	$	-
Proceeds received in December 2021		5,000,000
Value allocated to warrants		(435,354)
Balance as at December 31, 2021	$	4,564,646
Accrued interest payable included in accounts payable and accrued liabilities		-
Debentures	**$**	**4,564,646**

Year-to-date in 2022, the Company raised $1,500,000 as part of the second tranche of its non-brokered private placement (see Capital Resources), consisting of an aggregate of 1,500 debenture units. The second tranche of the Debentures mature in April 2025 and have the same terms as the first tranche.

Commitments

i. Included in accounts payable and accrued liabilities, and other non-current liabilities are accruals for certain provisions, including termination related commitments to former officers, directors and employees of approximately $2.5 million.

ii. The Company has lease commitments for office space rented in Toronto, Canada and Medellín, Colombia. Payments occur on a monthly basis in accordance with the table presented in Note 8 in the audited consolidated financial statements of the Company.

Discussion of fourth quarter

The Company's net loss totaled $4.1 million for the three months ended December 21, 2021 (compared to $9.8 million in the three months ended December 31, 2020).

The third quarter net loss improvement was primarily due to lower inventory impairment (COGS) of $Nil for the three months ended December 31, 2021 (compared to $2.0 million for the three months ended December 31, 2020), lower consulting fees of $164,621 for the three months ended December 31, 2021 (compared to $3.1 million in the three months ended December 31, 2020), lower salaries and wages of $6.7 million for the three months ended December 31, 2021 (compared to $7.7 million in the three months December 31, 2020), lower expected credit losses of $63,985 for the three months ended December 31, 2021 (compared to $656,859 in the three months ended December 31, 2020), and other non-operating expenses of $(2.4) million for the three months ended December 31, 2021 (compared to $(387,835) for the three months ended December 31, 2020). Partially offset by lower revenue of $338,618 for the three months ended December 31, 2021 (compared to $881,054 for the three months ended December 31, 2020), and higher office and general expenses of $767,775 for the three ended December 31, 2021 (compared to $541,783 in the three months ended December 31, 2020).

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 December 31, 2021, 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.

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

Foreign currency risk

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

As part of the Supply Agreement, on January 31, 2020 XPhyto granted the Company 500,000 Warrants with an exercise price of $2.00 per Common Share. The warrants were valued at $356,378 on the grant date using the Black-Scholes pricing model. The following assumptions were used: share price - $1.59; expected annualized volatility – 95%, risk-free rate – 1.47%; and an expected life of 2 years.

Because no consideration was paid to XPhyto for the warrants, the Company recognized an initial gain of the full value of the warrants of $356,378. As required under IFRS 9, this initial gain has been deferred and will be recognized into income based on kilograms delivered under the Supply

Agreement. During the year ended December 31, 2021, no product had yet been delivered to XPhyto, and therefore no deferred income was recognized in the statements of loss and comprehensive loss.

The following table illustrates the value at the transaction date and at December 31, 2021:

Supply agreement warrants		**Warrants**
Initial value		356,378
Unrealized gain/loss		(63,005)
Exercise		-
Balance, December 31, 2020		**293,373**
Balance, December 31, 2020		293,373
Unrealized gain/loss		(293,373)
Exercise		-
Balance, December 31, 2021	**$**	**-**

<u>Investment with XPhyto</u>

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

The initial fair value of the convertible debenture investment was calculated using a discounted cashflow model with a discount rate of 16%. The conversion feature and warrants were initially valued at January 31, 2020 using a Black-Scholes pricing model with a share price of $1.59, risk free rate of 1.47%, 2-year conversion period and volatility of 95%.

On June 4, 2020, the Company converted 250 of the convertible debentures into 250,000 XPhyto shares at a fair value of $599,784. On July 23, 2020, the Company converted the remaining 250 debentures into 250,000 XPhyto shares at a fair value of $715,942. As at December 31, 2021, the Company had sold all 500,000 of the XPhyto shares obtained through the conversion of the convertible debenture for proceeds of $1,456,070.

As at December 31, 2021, the Company had converted all 500,000 warrants issued as part of the convertible debenture units into shares. As at December 31, 2021, the Company held 250,000 shares (see note 4).

Based on the initial valuation of the debenture investment, conversion option, and warrants the Company recognized an initial gain of $780,777. As required under IFRS 9, this initial gain was deferred and recognized into income over the life of each component of the investment. As at December 31, 2021, the amount remaining in deferred income associated with the debenture investment and related warrants was $136,632, as $644,145 had been amortized in the statements of loss and comprehensive loss during the year ended December 31, 2020. Since all of the debentures and related warrants have been converted and exercised for shares, the

Company recognized the remaining $136,632 of deferred income as income in the consolidated statements of loss and comprehensive loss during the year ended December 31, 2021.

The following table illustrates the valuation at the grant date and as at December 31, 2021.

	Initial value	December 31, 2021
Convertible Debt (Debt Component)	438,271	-
Convertible Debt (Conversion Feature)	428,727	-
Convertible Debt	866,998	-
Warrants	413,779	-
Total Valuation of Convertible Debt	1,280,777	-

	Convertible debt - debt component	Convertible debt - conversion feature	Warrants	Total
Initial value	438,271	428,727	413,779	1,280,777
Unrealized gain/loss	11,213	437,515	(28,254)	420,474
Conversion of convertible debentures	(449,484)	(866,242)	-	(1,315,726)
Exercise of warrants			(385,525)	(385,525)
Balance, December 31, 2021	-	-	-	-

Off-Balance-Sheet Arrangements

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

Share Capital

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

- 150,521,163 Common Shares;
- 12,628,664 stock options exercisable to purchase Common Shares;
- 1,000,000 RSUs to be settled in Common Shares;
- 1,525,000 DSUs to be settled in Common Shares or cash;
- 1,009,000 Common Share purchase broker warrants; and
- 10,257,200 Common Share purchase warrants.

Refer to subsequent events for additional information post closing the annual financial statements.

Risk Factors

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

Business Risks

Limited Operating History

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

Regulatory Compliance Risks

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

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

Reliance on Licenses and Authorizations

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

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

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

Risks Inherent in Agriculture

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

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

Risks Inherent in Rural Real Estate

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

Risks of Litigation

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

Risks Related to Investment in a Colombian Company

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

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

Economic and Political Developments in Colombia

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

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

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

Operational Risks

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

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

Financial and Accounting Risks

Foreign Sales

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