PHARMACIELO LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FIFTEEN MONTHS ENDED MARCH 31, 2025,

and

YEAR ENDED DECEMBER 31, 2023

(EXPRESSED IN CANADIAN DOLLARS)

Management’s Responsibility for Consolidated Financial Statements

The accompanying audited consolidated financial statements of PharmaCielo Ltd. ("PharmaCielo" or the "Company") were prepared by management in accordance with IFRS Accounting Standards. Management is responsible for the presentation of the consolidated financial statements and believes that they fairly represent the Company’s financial position and the results of its operations in accordance with IFRS Accounting Standards. Management has included amounts in the Company’s consolidated financial statements based on estimates, judgments, and policies that it believes reasonable in the circumstances.

The consolidated financial statements were prepared by the management of the Company, reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance, at appropriate cost, that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately on the Company’s books and records.

September 30, 2025

“Marc Lustig”	*“Ian Atacan”*
Marc Lustig	Ian D. Atacan
Chairman and Chief Executive Officer	Director and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
PharmaCielo Ltd.

Opinion

We have audited the accompanying consolidated financial statements of PharmaCielo Ltd. (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2025 and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficit, and cash flows for the fifteen-months ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2025, and its financial performance and its cash flows for the fifteen-months ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of $11,369,716 during the fifteen-months ended March 31, 2025 and, as of that date, the Company's current liabilities exceeded its current assets by $20,986,750. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matters

The consolidated financial statements of PharmaCielo Ltd. for the year ended December 31, 2023 were audited by another auditor who expressed an unmodified opinion on those statements on June 28, 2024.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our auditor's report.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yu Li.

Davidson & Company LLP

Vancouver, Canada　　　　Chartered Professional Accountants

September 30, 2025

PHARMACIELO LTD.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars, except as noted)

	Note Reference		As at March 31, 2025		As at December 31, 2023
ASSETS					
Current assets					
Cash		**$**	**54,108**	$	62,179
Trade receivables	4		**469,511**		229,115
Prepaid expenses and other receivables	5		**519,661**		724,467
Inventory and Biological assets	6		**1,365,279**		2,311,130
Total current assets			**2,408,559**		3,326,891
Non-current assets					
Property, plant, and equipment	7		**16,119,293**		18,710,889
Investment in sublease	8		**-**		41,138
Long-term Investment	19		**-**		210,463
Total non-current assets			**16,119,293**		18,962,490
Total assets		**$**	**18,527,852**	$	22,289,381
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**5,759,889**	$	5,634,407
Current portion of lease obligations	8		**-**		41,138
RSU obligations	14		**25,930**		25,930
Current portion of debt	9		**4,340,437**		2,732,945
Current portion of debentures	10		**13,269,053**		12,981,176
Total current liabilities			**23,395,309**		21,415,596
Non-current liabilities					
Non-current portion of debentures	10		**4,622,849**		2,553,413
Total non-current liabilities			**4,622,849**		2,553,413
Total liabilities			**28,018,158**		23,969,009
Shareholders' deficit					
Share capital	11		**168,152,071**		165,984,895
Shares to be issued	11		**1,069,613**		786,540
Reserves	12,13,14		**36,975,137**		35,620,535
Accumulated other comprehensive loss			**(5,605,400)**		(5,359,587)
Deficit			**(210,081,727)**		(198,712,011)
Total shareholders' deficit			**(9,490,306)**		(1,679,628)
Total liabilities and shareholders' deficit		**$**	**18,527,852**	$	22,289,381
Nature of operations and Going concern	1				
Commitments	17				
Subsequent events	22				

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

"Marc Lustig" , Chairman

"Douglas Bache" , Director

PHARMACIELO LTD.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars, except as noted)

	Note Reference	15 Months Ended March 31, 2025	Year Ended December 31, 2023
Revenue:			
Sale of Cannabis derivative products		**$ 3,757,413**	$ 1,368,357
Revenue from Telemedicine services		**209,234**	173,392
Total revenue		**3,966,647**	1,541,749
Cost of goods sold - Cannabis derivative products		**3,078,992**	3,405,872
Cost of goods sold - Telemedicine services		**60,015**	18,291
Gross profit (loss) before fair value adjustments		**827,640**	(1,882,414)
Unrealized gain (loss) on fair value of biological assets	6	**(360,646)**	513,577
Gross profit (loss)		**466,994**	(1,368,837)
Selling, general, and administrative expenses			
General and administrative			
Consulting fees		**-**	159,446
Office and general		**710,308**	1,243,234
Professional fees		**1,110,721**	900,454
Salaries and wages		**3,394,250**	3,973,159
Travel and accommodation		**39,105**	83,091
Share-based compensation		**1,136,097**	1,536,098
Selling, marketing, and promotion		**1,169**	411,958
Amortization and depreciation	7,8	**233,956**	341,656
Impairment expense	7,19	**1,056,733**	4,234,784
Expected credit losses		**-**	24,663
Total selling, general, and administrative expenses		**7,682,339**	12,908,543
Other (income) expense			
Bank charges		**247,641**	170,359
Financing costs	8,9,10	**3,992,174**	2,694,202
(Gain) Loss on foreign exchange		**96,044**	(89,423)
Other non-operating loss (income)		**(40,131)**	-
Gain on investment in sublease	8	**(42,576)**	(274,460)
Gain on modification and settlement of debt	10	**-**	(211,321)
Gain on shares for debt settlement		**(48,755)**	(181,079)
Other revenue		**(258,749)**	(91,929)
Other expense		**208,735**	30,162
Interest income		**(12)**	(176)
Realized gain on sale of marketable securities		**-**	(26,080)
Total other expense		**4,154,371**	2,020,255
Loss before income taxes		**$ (11,369,716)**	$ (16,297,635)
Current income tax recovery		**-**	-
Deferred income tax recovery		**-**	-
Net loss		**$ (11,369,716)**	$ (16,297,635)

The accompanying notes are an integral part of these consolidated financial statements.

PHARMACIELO LTD.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars, except as noted)

	Note Reference		15 Months Ended March 31, 2025		Year Ended December 31, 2023
Other comprehensive gain (loss)					
Currency translation adjustment			**(245,813)**		3,332,220
Net comprehensive loss		**$**	**(11,615,529)**	$	(12,965,415)
Basic and diluted loss per share	15	**$**	**(0.065)**		(0.102)
Weighted average number of common shares outstanding - basic and diluted			**174,369,923**		160,080,901

The accompanying notes are an integral part of these consolidated financial statements.

PHARMACIELO LTD.

Consolidated Statements of Changes in Shareholders' Deficit
(Expressed in Canadian Dollars, except share amounts)

	Note Reference	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated other comprehensive loss	Deficit	Total
Balance at December 31, 2022		**154,962,787**	**$ 161,712,017**	**$ 560,000**	**$ 35,226,154**	**$ (8,691,807)**	**$ (182,414,376)**	**$ 6,391,988**
Shares issued for debenture interest payment	11	7,411,163	1,448,629	-	-	-	-	1,448,629
Shares issued for settlement of debt	11	4,075,664	759,267	-	-	-	-	759,267
Warrants issued for debentures	12	-	-	-	933,805	-	-	933,805
Vested RSUs	14	2,411,104	1,616,732	226,540	(1,843,272)			-
Settled DSUs	14	275,000	448,250	-	(448,250)	-	-	-
Share-based compensation	11,12,13,14	-	-	-	1,752,098	-	-	1,752,098
Currency translation adjustment for the period		-	-	-	-	3,332,220	-	3,332,220
Net loss for the period		-	-	-	-	-	(16,297,635)	(16,297,635)
Balance at December 31, 2023		**169,135,718**	**$ 165,984,895**	**$ 786,540**	**$ 35,620,535**	**$ (5,359,587)**	**$ (198,712,011)**	**$ (1,679,628)**
Balance at December 31, 2023		**169,135,718**	**$ 165,984,895**	**$ 786,540**	**$ 35,620,535**	**$ (5,359,587)**	**$ (198,712,011)**	**$ (1,679,628)**
Shares issued for debenture interest payment	11	16,238,537	1,921,854	-	-	-	-	1,921,854
Shares issued for settlement of debt	11	2,609,439	245,322	-	-	-	-	245,322
Warrants issued for debentures	12	-	-	-	161,469	-	-	161,469
Vested RSUs	14	-	-	283,073	(283,073)	-	-	-
Share-based compensation	11,12,13,14	-	-	-	1,476,206	-	-	1,476,206
Currency translation adjustment for the period		-	-	-	-	(245,813)	-	(245,813)
Net loss for the period		-	-	-	-	-	(11,369,716)	(11,369,716)
Balance at March 31, 2025		**187,983,694**	**$ 168,152,071**	**$ 1,069,613**	**$ 36,975,137**	**$ (5,605,400)**	**$ (210,081,727)**	**$ (9,490,306)**

The accompanying notes are an integral part of these consolidated financial statements.

PHARMACIELO LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Note Reference	15 Months Ended March 31, 2025	Year Ended December 31, 2023
Operating Activities			
Net loss		**$ (11,369,716)**	$ (16,297,635)
Items not affecting cash:			
Amortization and depreciation	7,8	**1,641,910**	1,414,450
Loss on disposal of property, plant and equipment	7	**18,859**	3,100
Expected credit losses		**-**	24,663
Unrealized loss on fair market value of biological assets	6	**360,646**	(513,577)
Financing costs	8,9,10	**4,084,662**	2,549,356
Share-based compensation		**1,136,098**	1,536,098
Gain on foreign exchange		**(104,352)**	(80,253)
Impairment of long-term investment	19	**232,138**	-
Realized gain on marketable securities		**-**	(26,080)
Impairment of property, plant and equipment	7	**824,595**	4,234,784
Gain on modification and settlement of debt	10	**-**	(211,321)
Changes in non-cash working capital items			
Trade receivables	4	**(237,649)**	420,846
Prepaid expenses and other receivables	5	**197,591**	382,796
Inventory and biological assets	6	**489,772**	746,055
Accounts payable and accrued liabilities		**619,182**	666,944
Net cash used in operating activities		**(2,106,264)**	(5,149,774)
Investing Activities			
Proceeds from sale of marketable securities		**-**	179,080
Investment in sublease	8	**41,138**	227,824
Purchase of property, plant, and equipment	7	**-**	(15,268)
Net cash provided by investing activities		**41,138**	391,636
Financing Activities			
Cash received from debentures	10	**985,000**	5,445,000
Cash received as part of bridge loan	9	**2,000,000**	-
Loan principal and interest payments	9	**(886,219)**	(518,662)
Lease payments	8	**(41,857)**	(298,062)
Net cash provided by financing activities		**2,056,924**	4,628,276
Net decrease in cash		**(8,202)**	(129,862)
Effect of movements in exchange rates on cash held		**131**	19,058
Cash, beginning of period		**62,179**	172,983
Cash, end of period		**$ 54,108**	$ 62,179

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

PharmaCielo Ltd. ("PharmaCielo" or the "Company") was incorporated pursuant to the Business Corporations Act (British Columbia) on May 30, 2017. The Company's common shares (the "Common Shares") are listed on the TSX Venture Exchange (the "TSXV") under the symbol "PCLO" and on the OTC Markets under the symbol "PCLOF".

The head office is located at 82 Richmond Street East, Toronto, Ontario, M5C 1P1.

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

These audited consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to raise the necessary capital on terms acceptable to the Company and be able to realize its assets and satisfy its liabilities in the normal course of business for the foreseeable future.

As of March 31, 2025, the Company's cash was $54,108. The Company's current liabilities exceeded its current assets by $20,986,750, a net loss for the fifteen months ended March 31, 2025, of $11,369,716 and net cash used in operating activities of $2,106,264.

The Company has not yet been able to generate the sales volumes required to create positive cash flows from operations. Management believes that the Company will be able to meet its budgeted administrative and development costs during the current year and beyond 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 a portion of warrant and option holders will exercise their instruments.

While the Company has been able to demonstrate the ability to raise capital to fund its operations, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company. Whether and when the Company can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due after March 31, 2025, is uncertain. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Company's ability to continue as a going concern. These consolidated financial statements do not include necessary adjustments to reflect the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the fifteen months ended March 31, 2025.

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues, and expenses. See Note 3 for material accounting judgement and estimates.

2. BASIS OF PRESENTATION (continued)

These consolidated financial statements include certain comparative figures that have been reclassified to conform with the current fifteen-month fiscal year presentation.

These consolidated financial statements as at and for the fifteen months ended March 31, 2025, and year ended December 31, 2023, were approved by the Company’s Board of Directors on September 30, 2025.

Effective 2025, the Company changed its financial year-end from December 31 to March 31 to improve the efficiency of its audit and financial reporting process by reducing scheduling conflicts, allowing additional time for the completion of subsidiary audits, and better aligning external filing deadlines with internal reporting needs. The change in year-end resulted in the Corporation's filing a one-time, fifteen-month transition year covering the period of January 1, 2024, to March 31, 2025. The information presented in these consolidated financial statements is for the fifteen months ended March 31, 2025, compared to the twelve months ended December 31, 2023. The Company’s next financial year will cover the period from April 1, 2025, to March 31, 2026.

a) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss and biological assets, which are measured at their fair value. These consolidated financial statements are presented in Canadian dollars. The functional currency of the Canadian entity is the Canadian dollar and the functional currency of the operating subsidiaries in Colombia is the Colombian Peso (“COP”).

b) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, PharmaCielo Holdings Ltd., PharmaCielo Colombia Holdings S.A.S., and Ubiquo Telemedicina S.A.S (“Ubiquo”). The financial results of PharmaCielo’s subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to benefit from its activities. In assessing control, potential voting rights that are currently exercisable are considered. All inter-company balances and transactions have been eliminated in preparing the consolidated financial statements.

For the fifteen months ended March 31, 2025, and year ended December 31, 2023, the following companies have been included within the consolidated financial statements:

Company	Location	Principal activity
PharmaCielo Ltd.	Toronto, Canada	Parent company
PharmaCielo Holdings Ltd.	Toronto, Canada	Subsidiary of Parent company
Ubiquo Telemedicina S.A.S.	Medellin, Colombia	Telemedicine software company
PharmaCielo Colombia Holdings S.A.S.	Medellin, Colombia	Cultivation and processing

3. MATERIAL ACCOUNTING POLICY INFORMATION

a) Cash

Cash consist of cash on hand, deposits in banks.

b) Revenue recognition

Revenue is recognized to depict the transfer of goods in an amount that reflects the consideration to which the entity expects to be entitled to following five steps:

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

I. Identifying the contract with a customer
II. Identifying the performance obligations
III. Determining the transaction price
IV. Allocating the transaction price to the performance obligations
V. Recognizing revenue when (or as) performance obligation(s) are satisfied.

Revenue is recognized when control of goods is transferred to a customer. For the Company, control typically transfers at a point in time, when delivery is made of the goods is completed. Payment is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. Accordingly, revenue is then recognized only when the performance obligation is fulfilled. The Company will recognize the revenue upon satisfaction of following condition:

i. All parties to the contract have approved the contract and are committed to fulfilling their respective obligations;
ii. Each party's rights in relation to the goods to be transferred can be identified;
iii. The payments can be identified;
iv. The contract has commercial substance (i.e., the entity expects the risks, timing or amount of the Company's future cash flows to change as a result of the contract); and
v. It is possible (i.e., more likely than not) that the Company will collect the consideration it is entitled to in exchange for the goods.

c) Financial instruments

IFRS 9 – Financial Instruments ("IFRS 9") includes requirements for recognition and measurement, impairment, derecognition, and general hedge accounting.

The following table summarizes the classification of the Company's financial instruments:

Financial instruments	Category under IFRS 9
Cash	Amortized cost
Marketable securities and long-term investments	FVTPL
Trade and other receivables	Amortized cost
RSU obligation	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Debt and debentures	Amortized cost

d) Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or fair value through other comprehensive income ("FVTOCI"). The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss.

ii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at FVTPL: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest."

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

e) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Financial liabilities recorded at FVTPL

Financial liabilities are classified as FVTPL if they fall into one of the following categories: 1) financial liabilities at FVTPL, 2) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, 3) financial guarantee contracts, 4) commitments to provide a loan at a below-market interest rate, or 5) contingent consideration recognized by an acquirer in a business combination.

ii. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the five exemptions detailed above. The Company's accounts payable and accrued liabilities and debt do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

f) Transaction costs

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

g) Subsequent measurement of financial instruments

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

h) Derecognition of financial instruments

The Company de-recognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

i) Expected credit loss impairment model

Estimates of expected credit losses consider the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses using an allowance for doubtful accounts ("AFDA") provision. Changes in the AFDA provision are recognized in the statement of comprehensive loss. When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable, and the financial asset is written off.

j) Property, plant and equipment

Property, plant and equipment are recorded at cost, less impairment and is amortized over its remaining estimated useful economic life as follows:

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Class of property, plant and equipment	Amortization rate
Computer and communication equipment	Straight-line method over 2 to 3 years
Machinery and equipment	Straight-line method over 5 to 15 years
Office furniture and fixtures	Straight-line method over 2 years
Vehicles	Straight-line method over 5 years
Building	Straight-line method over 15 years

k) Impairment of property, plant and equipment

At the end of each reporting period and whenever events or changes in circumstances occur, the carrying amounts of the Company's assets are reviewed and evaluated for indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of 1) fair value less costs of disposal and 2) value in use. Fair value is the price that would be received to sell the asset in an orderly transaction between market participants. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the current time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount, and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

Where an impairment subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate and its recoverable amount, not to exceed the carrying amount that would have obtained had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in income or loss.

l) Share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Notes 11,12, 13, and 14.

The fair values of restricted share units issued and options granted to purchase common shares, are measured based on the share price on the date of issuance or grant. The fair values of the stock options and warrants are estimated using the Black-Scholes option-pricing model.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

The fair value of warrants issued to agents in connection with private placements ("Agent Warrants") is recognized on the date of issue as a share issue cost. The Company uses the Black-Scholes option pricing model to estimate the fair value of Agent Warrants issued.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest based on estimated forfeiture rate.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

m) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated, giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as the outstanding options and warrants are anti-dilutive.

n) Income taxes

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax is recognized in the consolidated statement of loss and comprehensive loss except to the extent it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net loss and comprehensive loss or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

o) Foreign currency transactions

Amounts included in these consolidated financial statements are expressed in Canadian dollars unless otherwise noted. The Canadian dollars is used as presentation currency in view of the Company’s Canadian based public market listing and head office location.

The Company’s subsidiaries measure the items in their financial statements in their functional currencies (the currency of the primary economic environment they operate in). The functional currency of the Company is the Canadian dollar. The functional currency of the operating subsidiaries in Colombia is the Colombian Peso.

Transaction in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the date of such transaction. At each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rate at the reporting date. Foreign exchange gains and losses are recognized in the statement of loss and comprehensive loss.

At the financial reporting date, the subsidiaries’ assets and liabilities are translated at the reporting period exchange rate, while revenues, expenses and cash flows are translated at the average exchange rate for the period. Shareholders’ equity is translated at the rate effective at the time of the transaction. The resulting translation adjustments are recognized in other comprehensive income (loss) (“OCI”) and in accumulated OCI in shareholders’ equity.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

p) Inventory

Inventories consist of dried cannabis, cannabis distillate crude oil, CBD isolate, and supplies.

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted-average method. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost of the inventory. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Subsequent costs include materials, overhead, amortization, stock-based compensation of applicable employees, and labour involved in processing, packaging, and quality assurance. The identified capitalized direct and indirect costs related to inventory are subsequently recorded within “cost of goods sold” on the consolidated statement of loss and comprehensive loss at the time the product is sold. Net realizable value refers to the value at which inventory can be sold to third parties in the ordinary course of business, less estimated costs to complete and to sell. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

q) Biological assets

Biological assets, consisting of cannabis plants, are measured at fair value up to the point of harvest less costs to sell, which becomes the basis for the cost of finished goods inventories after harvest. The Company capitalizes all direct and indirect costs related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest, including labour-related costs, materials, consumables, utilities, facility costs, amortization, overhead, and quality assurance costs. Capitalized direct and indirect costs of biological assets are subsequently recorded as cost of goods sold on the statement of loss and comprehensive loss in the period in which the related product is sold. Seeds are measured at cost. Unrealized gains or losses arising from changes in fair value during the period are included in the results of operations and presented as a separate line in the consolidated statement of comprehensive loss for the related period.

r) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

i. the contract involves the use of an identified asset;
ii. the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
iii. the Company has the right to direct the use of the asset.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

s) Critical accounting judgments and estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

Property, plant and equipment impairment

The Company reviews the carrying amounts of its finite-life intangible assets and property, plant and equipment, carried at cost to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. As part of the impairment testing, estimations would be involved in establishing the recoverable amount, including but not limited to, the assets fair value, discount rate, commission rate, real estate fees and dismantling costs in Note 7.

Net realizable value of Inventory

Net realizable value of inventories is management's estimation of future selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of the Company's products sold. Inventory consists of work-in-progress, semi-finished and finished products which are stored and packaged in a climate-controlled locations and have an expiry date of 48 months. Based on market demand, further reprocessing of work in progress and semi-finished products may be required at which point the expiry date would be reset. Reprocessing related costs of work-in progress and semi-finished products are insignificant.

Biological Assets

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. These assumptions primarily relate to the costs required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle. The fair value of biological assets is considered a Level 3 categorization in the IFRS Accounting Standards fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets are discussed in Note 6.

Share-based Compensation

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

(Expressed in Canadian Dollars, except as noted)

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

t) New, amended and future IFRS Accounting Standards pronouncements

The Company plans to adopt all applicable IFRS Accounting Standards issued. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

The following amendments were effective and adopted for the year beginning 1 January 2024:

IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback);

IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current); and

IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

The following amendments are effective for the year beginning on or after 1 January 2025:

IAS 21 Effects of Changes in Foreign Exchange Rates (Amendment - Lack of Exchangeability)

The following amendments are effective for the year beginning on or after 1 January 2027:

IFRS 18 Presentation and Disclosures in Financial Statements

The Company has assessed the impact of these new accounting standards and amendments. The Company does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Company.

4. TRADE RECEIVABLES

	March 31, 2025	December 31, 2023
For sale of cannabis derivative products	564,475	314,102
For revenue from telemedicine services	18,909	29,472
Expected credit loss	(113,873)	(114,459)
Total trade receivables	$ 469,511	$ 229,115

Most of the Company’s sales consist of bulk cannabis products sold internationally to various customers.

As of March 31, 2025, based on an assessment of the amounts due from the Company’s specific clients, the Company recorded a provision for an expected credit loss of $113,873 (December 31, 2023 - $114,459).

As at March 31, 2025, the Company recorded the following expected credit loss:

Balance, December 31, 2023	$ (114,459)
Effect of foreign exchange differences	586
Balance, March 31, 2025	$ (113,873)

(Expressed in Canadian Dollars, except as noted)

5. PREPAID EXPENSES AND OTHER RECEIVABLES

	As at March 31, 2025	As at December 31, 2023
VAT receivable	119,498	412,812
Prepaid expenses	30,877	192,504
Other receivables	369,286	119,151
Total prepaid expenses and other receivables	$ 519,661	$ 724,467

6. INVENTORY AND BIOLOGICAL ASSETS

Inventory

	As at March 31, 2025	As at December 31, 2023
Agricultural supplies and other	176,167	67,332
Work-in-progress	837,971	1,987,966
Finished products	347,473	146,593
Closing balance	$ 1,361,611	$ 2,201,891

During the fifteen months ended March 31, 2025, inventory recognized as cost of goods sold consisted of capitalized post-harvest costs expensed during the period as cannabis inventory is sold of $3,078,992 (2023 - $3,405,872).

Biological assets

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

The estimates and inputs used to assess the fair value of biological assets include the following assumptions as at March 31, 2025:

<u>CBD isolate</u>

a. Selling prices – selling prices are based on the Company's expected selling price per kilogram based on selling history, adjusted for current market conditions. To calculate the fair value of the biological assets, the selling price of a kilogram of CBD isolate is not directly used, it’s used as an input to determine the estimated selling price of plants.

b. Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, extracting, testing and packaging activities incurred in the period, including overhead allocations for these activities.

c. The stage of plant growth – is estimated by the number of days into the growing stage compared to the estimated growing time for a full harvest. During the fifteen months ended March 31, 2025, there were no cannabis plants cultivated, therefore, the estimated stage of growth was 0% (December 31, 2023 - 0%).

d. Expected yield – the expected yield per plant is based on the Company’s historical adjusted average yield per plant. During the fifteen months ended March 31, 2025, there was no production of cannabis plants, therefore, the expected yield per plant is 0 grams of CBD isolate (December 31, 2023 – 4.94 grams).

(Expressed in Canadian Dollars, except as noted)

6. INVENTORY AND BIOLOGICAL ASSETS (continued)

Flower for export

a. Selling prices – selling prices are based on the Company's expected selling price per kilogram based on selling history, adjusted for current market conditions. To calculate the fair value of the biological assets, the selling price of a kilogram of export flower is not directly used, it's used as an input to determine the estimated selling price of plants.
b. Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, extracting, testing and packaging activities incurred in the period, including overhead allocations for these activities.
c. The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at March 31, 2025, averaged 35% (December 31, 2023 - 47%).
d. Expected yield – the expected yield per plant is based on the Company's historical adjusted average yield per plant. Expected yield per plant is 53.3 grams of flower (December 31, 2023 – 76.1 grams).

As at March 31, 2025, 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, 2023	$	109,239
Production costs capitalized		481,752
Changes in fair value less costs to sell due to biological transformation		(360,646)
Transferred to inventory upon harvest		(224,182)
Effect of foreign exchange differences		(2,495)
Balance, March 31, 2025	$	3,668

As at December 31, 2023, the Company's biological assets consisted of cannabis plants. The changes in the fair value of biological assets were as follows:

Carrying amount, December 31, 2022	$	52,360
Production costs capitalized		768,762
Changes in fair value less costs to sell due to biological transformation		513,577
Transferred to inventory upon harvest		(1,237,552)
Effect of foreign exchange differences		12,092
Balance, December 31, 2023	$	109,239

The Company expects that a 10% increase or decrease in the wholesale market price per kilogram of flower for export would increase or decrease the fair value of biological assets by average $861 (2023 – $12,014). A 10% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by $362 (2023 - $12,145). Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by $503 (2023 - $1,084).

(Expressed in Canadian Dollars, except as noted)

7. PROPERTY, PLANT AND EQUIPMENT

COST	Land	Building	Machinery and equipment	Office furniture and fixtures	Computer and communication equipment	Vehicles	Total
Balance, December 31, 2022	**$ 6,209,490**	**$ 10,475,225**	**$ 7,498,712**	**$ 915,377**	**$ 681,712**	**$ 61,242**	**$ 25,841,758**
Additions	-	4,143	11,125	-	-	-	15,268
Disposals	-	-	(5,522)	(60,870)	(9,597)	-	(75,989)
Impairment	-	-	(4,234,784)	-	-	-	(4,234,784)
Effect of foreign exchange differences	839,251	1,977,238	1,685,904	70,906	163,301	13,769	4,750,369
Balance, December 31, 2023	**$ 7,048,741**	**$ 12,456,606**	**$ 4,955,435**	**$ 925,413**	**$ 835,416**	**$ 75,011**	**$ 26,296,622**
Disposals	-	(13,484)	(5,203)	-	(172)	-	(18,859)
Impairment	-	(824,595)	-	-	-	-	(824,595)
Effect of foreign exchange differences	(23,382)	(57,342)	(25,342)	(1,664)	(4,536)	(384)	(112,650)
Balance, March 31, 2025	**$ 7,025,359**	**$ 11,561,185**	**$ 4,924,890**	**$ 923,749**	**$ 830,708**	**$ 74,627**	**$ 25,340,518**
ACCUMULATED DEPRECIATION							
Balance, December 31, 2022	**$ -**	**$ 2,101,372**	**$ 1,769,779**	**$ 673,463**	**$ 640,265**	**$ 61,242**	**$ 5,246,121**
Additions	-	473,468	743,947	131,929	32,148	-	1,381,492
Disposals	-	-	(2,422)	(60,870)	(9,597)	-	(72,889)
Effect of foreign exchange differences	-	328,552	476,541	54,569	157,578	13,769	1,031,009
Balance, December 31, 2023	**$ -**	**$ 2,903,392**	**$ 2,987,845**	**$ 799,091**	**$ 820,394**	**$ 75,011**	**$ 7,585,733**
Additions	-	573,633	998,694	56,672	12,911	-	1,641,910
Effect of foreign exchange differences	-	(1,952)	1,187	(1,022)	(4,247)	(384)	(6,418)
Balance, March 31, 2025	**$ -**	**$ 3,475,073**	**$ 3,987,726**	**$ 854,741**	**$ 829,058**	**$ 74,627**	**$ 9,221,225**
CARRYING AMOUNT							
Balance, December 31, 2023	$ 7,048,741	$ 9,553,214	$ 1,967,590	$ 126,322	$ 15,022	$ -	$ 18,710,889
Balance, March 31, 2025	**$ 7,025,359**	**$ 8,086,112**	**$ 937,164**	**$ 69,008**	**$ 1,650**	**$ -**	**$ 16,119,293**

(Expressed in Canadian Dollars, except as noted)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

PharmaCielo Colombia Holdings S.A.S. farm and processing plant, located in Rio Negro in the municipality of La Cieja (Antioquia), for the purpose of cultivating and sowing, as well as assembly of the cannabis oil. The farm includes greenhouses, offices, and agricultural areas.

During the fifteen months ended March 31, 2025, the Company recorded an impairment expense of $824,595 as a result of writing off net book value of redundant greenhouses that were no longer used or maintained.

During the year ended December 31, 2023, the Company reviewed the carrying value of its property, plant and equipment for indicators of impairment, and assessed whether there were events or changes in circumstances that would indicate that they were impaired. As part of this assessment, management identified impairment indicators for PharmaCielo Colombia and as a result performed an impairment test. The recoverable amount of the assets was determined by an independent external appraiser. The methodology used by the appraiser was a market approach for land, replacement cost approach for building, equipment, and machinery. Market approach involves valuing an asset based on comparable sales data for similar class of assets. Market approach for building estimates the cost of building a structure to match its current functionality, utilizing present-day construction material, standards, and designs. Market approach for equipment and machinery involves several assumptions to estimate the value of each equipment and machinery, which consists of liquidation value, state of conservation, useful life, depreciation factor and fair value less costs of disposal. Hierarchy Used was Level 3 for building, equipment and machinery, unobservable inputs for estimation and Level 2 for land, observable variable other than unadjusted active market price (Level 1).

Key assumptions used by the appraiser

Key Assumptions	Machinery and Equipment	Building	Land
Discount rate	n/a	n/a	7%
State of conservation	n/a	1.5 - 3.5	n/a
Commission rate	4%	4%	4%
Real estate fees	n/a	2.5%	2.5%
Dismantling costs	3%	n/a	n/a
Liquidation factor	20% - 60%	n/a	n/a
Obsolescence factor	70% - 98%	n/a	n/a
Asset condition	92% - 95%	n/a	n/a
Depreciation factor	Straight line method	n/a	n/a

As a result, for the year ended December 31, 2023, the Company recorded an impairment expense of $4,234,784.

For the fifteen months ended March 31, 2025, depreciation costs of $1,407,954 (2023 - $1,056,573) was capitalized to biological assets and inventory.

8. LEASES

Investment in sublease	
Balance as at December 31, 2022	268,962
Interest income	23,318
Rental income	(251,142)
Balance as at December 31, 2023	41,138
Interest income	719
Rental income	(41,857)
Balance as at March 31, 2025	$ -

(Expressed in Canadian Dollars, except as noted)

8. LEASES (continued)

Investment in sublease consist of the office space in Toronto, which sublease ended February 29, 2024.

Right-of-use assets

Balance as at December 31, 2022		**28,928**
Termination of Medellín office lease		(19,029)
Depreciation		(13,929)
Effect of foreign exchange differences		4,030
Balance as at December 31, 2023	$	-
Balance as at March 31, 2025	$	-

Right-of-use assets consist of office spaces, which ceased to be used in 2023.

Lease obligations

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

Upon initial recognition of a lease liability and right-of-use asset, the Company elected to use the practical expedient not to separate non-lease components from lease components and instead accounted for each lease component and any associated non-lease components as a single lease component.

On March 1, 2022, the Company entered into a sublease agreement for the Toronto office space mentioned above. As a result of the sublease, the Company revalued the lease obligation due to a reduction in the lease term from 10 to 5 years, derecognized the Right-of-use asset, and recognized an investment in sublease.

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

Balance as at December 31, 2022	$	306,456
Termination of Medellín office lease		(25,487)
Interest expense		25,628
Lease payments		(272,575)
Effect of foreign exchange differences		7,116
Balance, December 31, 2023	$	41,138

Balance as at December 31, 2023		41,138
Interest expense		719
Lease payments		(41,857)
Balance as at March 31, 2025	$	-

(Expressed in Canadian Dollars, except as noted)

9. LOANS AND BORROWINGS

The company has the following loans and borrowings:

		Term loan
Balance, December 31, 2022	$	2,253,711
Interest expense		467,449
Principal payment		(276,040)
Interest payment		(242,622)
Effect of foreign exchange differences		530,447
Balance, December 31, 2023		2,732,945
Current portion of debt		(2,732,945)
Non-current portion of debt	**$**	**-**

		Term loan		Bridge loan		Total
Balance, December 31, 2023	$	2,732,945	$	-	$	2,732,945
Interest expense		507,687		-		507,687
Principal payment		(378,532)		-		(378,532)
Interest payment		(507,687)		-		(507,687)
Loan additions		-		2,000,000		2,000,000
Effect of foreign exchange differences		(13,976)		-		(13,976)
Balance, March 31, 2025		2,340,437		2,000,000		4,340,437
Current portion of debt		(2,340,437)		(2,000,000)		(4,340,437)
Non-current portion of debt	**$**	**-**	**$**	**-**	**$**	**-**

In December 2020, the Company entered into a loan agreement ("loan") with Banco Agrario de Colombia S.A. ("Banco Agrario"), consisting of term and revolving components for a total value of $8,500,000,000 COP ($3,151,684). The term loan is for seven (7) years and makes up $8,000,000,000 COP ($2,966,076) of the initial loan proceeds received. Per the details of the agreement, the term loan bears interest at a variable rate of Reference Banking Indicator ("IBR") + 7.85%, payable semi-annually during the first 24 months, and quarterly thereafter. The term loan is subject to a capital amortization grace period of up to 24-months. There are certain externally imposed capital requirements as a result of the loan. The loan is secured against part of the Company's La Margarita property. La Margarita is the location of the Company's nursery and propagation center consisting of 12 hectares of open-air greenhouses situated on a 26.3-hectare property, located in the municipality of Rio Negro in the department of Antioquia, Colombia.

Since September 2023, PharmaCielo Colombia has not been able to make regular instalment payments (including payment of part of the principal and accrued interest) to Banco Agrario. The Company is continuing negotiations with Banco Agrario with the objective of changing payment terms and extension of repayment deadlines. As a result, the Company has reclassified the loan as a current liability in the consolidated statements of financial position with carrying value of $2,340,437. Subsequent to March 31, 2025, the Company repaid these loans (Note 22).

During the fifteen months ended March 31, 2025, the Company received bridge loans from certain directors and senior officers of the Company as prepayment for a potential equity offering. $2,000,000 was received and recorded as current liability (Note 16). The bridge loans mature six months from the initial issuance date, bear 11% annual interest, and are secured by the assets of the Company.

(Expressed in Canadian Dollars, except as noted)

10. DEBENTURES

The following table is a summary of the Company's debentures as at March 31, 2025:

Balance as at December 31, 2022	**$**	**10,027,065**
Debentures issued by maturity date:		
December 24, 2024		2,030,000
June 30, 2026		4,015,000
Accrued interest		1,504,080
Accretion		552,199
Loss on modification and settlement		(211,321)
Interest paid		(1,448,629)
Fair value allocated to warrants		(933,805)
Balance as at December 31, 2023	**$**	**15,534,589**
Debentures issued by maturity date:		
June 30, 2026		985,000
Accrued interest		2,421,052
Accretion		1,034,584
Less: Interest paid		(1,921,854)
Less: Fair value allocated to warrants		(161,469)
Debentures balance, March 31, 2025	**$**	**17,891,902**
Current portion of the Debentures		13,269,053
Non current portion of the Debentures	**$**	**4,622,849**

On December 24, 2021, the Company issued debenture units ("Unit") in a non-brokered private placement ("Offering"). Each Unit consisted of $1,000 principal amount of 11% secured debentures ("Debenture") and 250 non-transferable common share purchase warrants ("Debenture Warrant"). Each Debenture Warrant entitled the holder for a period of 36 months from the initial closing date to acquire one common share of the Company at an exercise price of $1.44. The Debentures bear interest at a rate of 11% per annum, mature on December 24, 2024, and are guaranteed by PharmaCielo Colombia. PharmaCielo Colombia's guarantee of the Debentures are secured by mortgages on the real property of PharmaCielo Colombia. Debenture interest payable is due on June 1st and December 1st of each year and the Company has the right to settle debenture interest payable in cash or in shares of the Company, at the discretion of the Company.

On June 29, 2023, the Company closed the final tranche of the Offering. Under the Offering, PharmaCielo issued 12,825 debenture units, for aggregate proceeds of $12,825,000.

Following the closure of the Offering, the Company announced new debenture units ("New Unit") in a non-brokered private placement (the "New Offering"). The New Units are issued at a price of $1,000 per New Unit. Each New Unit consists of $1,000 principal amount of 11% secured debentures ("New Debenture") and 1,000 non-transferable common share purchase warrants ("New Debenture Warrant"). Each New Debenture Warrant entitles the holder for a period of 60 months from the initial closing date to acquire one common share of the Company at an exercise price of $0.22.

The New Debentures bear interest at a rate of 11% per annum, will mature on June 30, 2026, and carry the same guarantee as the Debenture.

10. DEBENTURES (continued)

The Company has the right to redeem any or all of the Debentures and New Debentures from time to time at the following percentages of face value: (i) 105% at any time prior to the first anniversary of the initial closing date; (ii) 103% at any time on or after the first anniversary of the initial closing date and prior to the second anniversary of the initial closing date; and (iii) 101% thereafter, in each case together with accrued and unpaid interest to, but not including, the date of redemption. Upon a change of control of the Company, the holders will have the right to have their Debentures and New Debentures repurchased at 105% of face value plus accrued and unpaid interest to, but not including the date of repurchase.

For the fifteen months ended March 31, 2025, the Company issued 985 New Units of the Offering for total proceeds of $985,000. The Company issued 985,000 New Debenture Warrants (Note 12). The fair value of the New Debenture Warrants was determined by using an effective interest rate of 20.13% and a discount rate of 19.0%.

11. SHARE CAPITAL

a) Authorized share capital

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

b) Common Shares issued and outstanding

187,983,694 Common Shares (December 31, 2023 - 169,135,718 Common Shares).

For the year ended December 31, 2023

(i) During the year ended December 31, 2023, 2,903,582 RSUs vested, and 2,411,104 Common Shares were issued. 1,159,145 RSUs vested were pending share issuance including 666,667 from 2021. $786,540 was recorded as shares to be issued in the Company's statement of changes in shareholders' equity.
(ii) During the year ended December 31, 2023, the Company issued 275,000 Common Shares upon the settlement of 275,500 DSUs.
(iii) During the year ended December 31, 2023, the Company issued 7,411,163 Common Shares for debenture interest payment of $1,448,629.
(iv) During the year ended December 31, 2023, the Company issued 4,075,664 Common Shares for debt settlement of $759,267 with suppliers and former employees of the Company.

For the fifteen months ended March 31, 2025

(v) During the fifteen months ended March 31, 2025, the Company issued 2,609,439 Common Shares for debt settlement of $285,322 with suppliers and former employees of the Company.
(vi) During the fifteen months ended March 31, 2025, the Company issued 16,238,537 Common Shares for debenture interest payment of $1,921,854.

(Expressed in Canadian Dollars, except as noted)

12. WARRANTS

The following table reflects the continuity of warrants for the fifteen months ended March 31, 2025, and year ended December 31, 2023:

	Number of warrants	Weighted average exercise price (CAD)	
Balance, December 31, 2022	11,705,950	$	0.83
Issued (i)(a)	507,500		1.44
Issued (i)(b)	4,015,000		0.22
Balance, December 31, 2023	**16,228,450**	**$**	**0.70**
Issued (ii)(a)	985,000		0.22
Expired	(3,206,250)		1.44
Balance, May 31, 2025	**14,007,200**	**$**	**0.50**

(i) Warrants issued, exercised or expired/forfeited in the year ended December 31, 2023, include the following:

a. As part of December 24, 2021 Non-Brokered Private Placement, the Company issued 507,500 warrants exercisable at $1.44 per Warrant Share.

b. As part of June 30, 2023, Non-Brokered Private Placement, the Company issued 4,015,000 warrants exercisable at $0.22 per Warrant Share.

(ii) Warrants issued, expiry date extended or expired in the fifteen months ended March 31, 2025, include the following:

a. As part of June 30, 2023 Non-Brokered Private Placement, the Company issued 985,000 warrants exercisable at $0.22 per Warrant Share.

b. 3,206,250 warrants issued as part of December 24, 2021 Non-Brokered Private Placement, expired upon the maturity of the Debentures on December 24, 2024.

c. Expiration date of 9,007,200 warrants with original expiration date of November 20, 2024, was extended to November 20, 2025.

The following table reflects the warrants issued and outstanding as at March 31, 2025:

Number of warrants outstanding	Exercise price	Expiry date
9,007,200	0.65	November 20, 2025
5,000,000	0.22	June 30, 2028
14,007,200		

(Expressed in Canadian Dollars, except as noted)

13. STOCK OPTIONS

The following table reflects the continuity of options for the fifteen months ended March 31, 2025, and year ended December 31, 2023:

	Number of options	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2022	13,981,948	**1.49**	**1.52**
Granted (i)	4,010,000	-	0.22
Expired/Forfeited	(4,038,748)	2.14	1.01
Balance, December 31, 2023	**13,953,200**	**1.42**	**1.24**
Granted (ii)	3,050,000	-	0.22
Expired/Forfeited	(1,427,000)	2.25	1.15
Balance, March 31, 2025	**15,576,200**	**1.04**	**1.07**

(i) Options granted during the year ended December 31, 2023, include the following:

On March 31, 2023, the Company granted a total of 4,010,000 incentive stock options to the Board of Directors, Officers, and Employees of the Company. Each option is exercisable for one Common Share at a price of $0.22 on or before March 31, 2028. The options vest as follows: 2,005,000 immediately on the grant date; 1,002,500 on the first anniversary of the grant date; 1,002,500 on the second anniversary of the grant date. The fair value of each option has been estimated at $0.17 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of $0.24, exercise price of $0.22, expected stock price volatility of 95%, risk-free rate of 2.90%, and expected life of 5 years. During the year ended December 31, 2023, the Company recorded $526,169 in share-based payments expense related to these stock options and reported in the Company's statement of loss and comprehensive loss.

(ii) Options granted during the fifteen months ended March 31, 2025, include the following:

On April 9, 2024, the Company granted a total of 3,050,000 incentive stock options to Board of Directors, Officers and Employees of the Company. Each option is exercisable for one Common Share at a price of $0.22 on or before April 9, 2029. The options vest as follows: 1,525,000 immediately on the grant date; 762,500 on the first anniversary of the grant date; 762,500 on the second anniversary of the grant date. The fair value of each option has been estimated at $0.1984 as at the date of the grant based on the Black-Scholes option pricing model. The following assumptions were used: share price of $0.26, exercise price of $0.22, expected stock price volatility of 95.92%, risk-free rate of 3.55%, and expected life of 5 years. During the fifteen months ended March 31, 2025, the Company recorded $518,266 in share-based expense related to these stock options and reported in the Company's statement of loss and comprehensive loss.

(Expressed in Canadian Dollars, except as noted)

13. STOCK OPTIONS (continued)

Details of the stock options outstanding as at March 31, 2025, are as follows:

Number of options outstanding	Number of options exercisable	Exercise price (USD)	Exercise price (CAD)	Weighted-average life (years)	Expiry date
50,000	50,000	$ 0.25	-	0.13	May 15, 2025
50,000	50,000	-	$ 3.35	0.17	June 1, 2025
3,000,000	3,000,000	-	$ 0.63	0.64	November 20, 2025
100,000	100,000	-	$ 2.15	1.12	May 13, 2026
560,000	560,000	-	$ 2.10	1.19	June 10, 2026
850,000	850,000	$ 1.00	-	1.26	July 4, 2026
50,000	50,000	-	$ 1.25	1.46	September 14, 2026
550,000	550,000	-	$ 3.10	1.60	November 5, 2026
100,000	100,000	-	$ 1.10	1.61	November 11, 2026
400,000	400,000	-	$ 1.10	1.72	December 20, 2026
300,000	300,000	$ 1.00	-	1.76	January 2, 2027
100,000	100,000	$ 1.00	-	1.83	January 27, 2027
100,000	100,000	$ 2.00	-	2.26	July 5, 2027
1,536,200	1,536,200	-	$ 0.46	2.41	August 29, 2027
2,630,000	1,972,500	-	$ 0.22	3.00	March 31, 2028
2,250,000	2,250,000	-	$ 3.35	3.25	July 1, 2028
2,950,000	1,475,000	-	$ 0.22	4.03	April 9, 2029
15,576,200	**13,443,700**	**$ 1.04**	**$ 1.07**	**2.40**	

14. RESTRICTED SHARE UNITS ("RSUs") and DEFERRED SHARE UNITS ("DSUs")

	Number of unvested RSUs and DSUs outstanding
Balance, December 31, 2022	**3,280,533**
Granted (i)	213,861
Vested RSUs (ii)	(2,903,582)
Settled DSUs (iii)	(275,000)
Balance, December 31, 2023	**315,812**
Granted RSUs (iv)	1,060,000
Granted DSUs (v)	1,845,948
Vested RSUs (vi)	(845,812)
Balance, March 31, 2025	**2,375,948**

During the year ended December 31, 2023:

(i) The Company granted 213,861 RSUs.

(ii) 2,903,582 RSUs vested with the Company issuing 2,411,104 Common Shares and 1,159,145 RSUs vested were pending share issuance including 666,667 from 2021.

(iii) The Company issued 275,000 Common Shares upon the settlement of 275,000 vested DSUs.

(Expressed in Canadian Dollars, except as noted)

14. RESTRICTED SHARE UNITS (“RSUs”) and DEFERRED SHARE UNITS (“DSUs”) (continued)

During the fifteen months ended March 31, 2025:

(iv) On April 9, 2024, the Company granted 1,060,000 RSUs to Directors, Officers and Employees of the Company.

(v) On April 9, 2024, the Company granted 1,845,948 DSUs to Directors, Officers and Employees of the Company.

(vi) 845,812 RSUs vested and were pending share issuance.

As at March 31, 2025, there were 2,375,948 unvested RSUs and DSUs outstanding.

15. NET LOSS PER COMMON SHARE

The calculation of basic and diluted loss per share for the fifteen months ended March 31, 2025, was based on the loss attributable to common shareholders of $11,369,716 (year ended December 31, 2023 - $16,297,635) and the weighted average number of Common Shares outstanding of 174,369,923 (year ended December 31, 2023 - 160,080,901). Diluted loss per share is equal to basic diluted loss per share as any effects of the potential convertible securities would be anti-dilutive.

16. TRANSACTIONS WITH RELATED PARTIES

As at March 31, 2025, certain directors and officers of the Company have units issued for a non-brokered private placement of debenture units in an aggregate principal amount totaling $4.2 million (December 31, 2023 - $3.8 million) (Note 10). For debentures that matured on December 24, 2024, each debenture unit consisted of $1,000 principal amount of 11% secured debentures and 250 non-transferable warrants to purchase one common share of the Company at $1.44 per share (Note 12). The warrants expired on December 24, 2024. For debentures maturing on June 30, 2026, each debenture unit consists of $1,000 principal amount of 11% secured debentures and 1,000 non-transferable warrants to purchase one common share of the Company at $0.22 per share (Note 12). The warrants expire on June 30, 2028.

During the fifteen months ended March 31, 2025, the Company received $2,000,000 from certain directors and senior officers of the Company as prepayment for a potential equity offering in the form of a bridge-loan (Note 9). Total amount due to related parties included in accrued liabilities as at March 31, 2025, was $735,883 (2023 - $522,400).

Compensation of Key Management

Key management personnel are those people who have 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.

	15 Months Ended March 31, 2025	Year Ended December 31, 2023
Management compensation	$ 753,015	$ 968,814
Directors' fees (1)	146,875	126,210
Share-based compensation (2)	969,222	1,534,185
Total management compensation	$ 1,869,112	$ 2,629,209

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

(Expressed in Canadian Dollars, except as noted)

16. TRANSACTIONS WITH RELATED PARTIES (continued)

The related party transactions were in the normal course of operations and have been valued in the 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, unless otherwise disclosed.

17. 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 $27,084.

ii. $116,552 (80,000 EURO) of the $190,933 (132,000 EURO) settlement payment to PharmaCielo Italia S.R.L. remains payable and is recorded in accounts payable and accrued liabilities.

18. SEGMENTED INFORMATION

The Company is engaged in the growth, cultivation and development of medicinal cannabis with operations in Colombia. The Company is considered to be operating in one segment based on its business nature and strategic decision-making method. The Company has operations in Rionegro, Colombia, with corporate offices in Toronto, Canada and Medellín, Colombia.

Revenues by region - for fifteen months ended March 31, 2025		
Americas	$	1,970,519
Australia	$	793,774
Africa	$	978,366
Europe	$	223,988
Total Revenue	$	3,966,647

Revenues by region - for the year ended December 31, 2023		
Americas	$	1,315,811
Australia		130,328
Africa		41,544
Europe		54,066
Total Revenue	$	1,541,749

The Company’s revenues by region is based on where the customer is located.

The Company has property, plant and equipment as at March 31, 2025, of $16,119,293 (December 31, 2023 - $18,710,889) all in Colombia.

Revenue Concentration

The Company's business is currently such that, at any given time, it sells its products and services to a relatively small number of customers. During the fifteen months ended March 31, 2025, three customers accounted for 69% of cannabis revenue (year ended December 31, 2023 - one customer accounted for 41%).

(Expressed in Canadian Dollars, except as noted)

19. LONG-TERM INVESTMENT

As at March 31, 2025, the Company fully impaired its long-term investment in Soteria Holdings Ltd. ("Soteria"). The carrying amount of $232,138 was written down to $Nil, as a rescue debt restructuring and the issuance of nominal-value warrants indicated negligible equity value and no observable market transactions were available to support fair value.

Investment in Soteria as at March 31, 2025, was written down to $Nil (December 31, 2023 - $210,463), as follows:

Balance, December 31, 2022	**$**	**204,025**
Effect of foreign exchange differences		6,438
Balance, December 31, 2023	**$**	**210,463**
Effect of foreign exchange differences		21,675
Impairment of investment in Soteria Holdings Ltd.		(232,138)
Balance, March 31, 2025	**$**	**-**

20. INCOME TAX

Reconciliation of effective tax rate

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2023 – 26.5%) to the effective tax rate is as follows:

		15 Months Ended March 31, 2025		**Year Ended December 31, 2023**
Net loss before taxes		**$(11,369,716)**		$(16,297,635)
Tax rate		**26.50%**		26.50%
Computed expected income taxes		**(3,012,975)**		(4,318,873)
Increase (decrease) in taxes:				
Difference in foreign tax rates		**(351,796)**		(806,478)
Tax rate changes and other adjustments		**(54,862)**		(142,817)
Share based compensation		**301,066**		407,066
Other non-deductible expenses		**136,195**		47,793
Change in tax benefits not recognized		**2,982,372**		4,813,309
Total tax expense (recovery)	**$**	**-**	$	-

The following table summarizes the components of deferred tax:

Deferred tax assets		**15 Months Ended March 31, 2025**		**Year Ended December 31, 2023**
Non-capital losses carried forward – Canada	**$**	**42,789**	$	253,967
Non-capital losses carried forward - Colombia		**423,236**		716,450
Deferred tax liabilities				
Warrants in compound debt - Canada		**(42,789)**		(253,967)
FV gain on biological asset and inventory		**(423,236)**		(716,450)
Net deferred tax asset	**$**	**-**	$	-

(Expressed in Canadian Dollars, except as noted)

20. INCOME TAX (continued)

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities.

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

		15 Months Ended March 31, 2025		Year Ended December 31, 2023
Property, plant and equipment	**$**	**-**	$	764,718
ROU asset and lease liability		**-**		10,902
Cash-settled RSU		**25,930**		25,930
Non-capital losses carried forward		**104,994,291**		99,741,932
Other assets		**64,969**		64,969
Long-term investment		**53,961**		-
Intangible Assets		**445,960**		445,960
Total	**$**	**105,585,111**	$	101,054,411

The Canadian non-capital loss carryforwards expire as noted in the table below. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits thereof.

The Company's Canadian non-capital income tax losses expire as follows:

Year of expiry		**Amount**
2035	$	2,293,745
2036		3,299,425
2037		8,419,310
2038		6,993,614
2039		10,954,554
2040		12,308,340
2041		8,847,263
2042		6,305,194
2043		4,428,357
2044		5,252,359
Total	**$**	**69,102,161**

The Company's Colombian subsidiary non-capital income tax losses expire as follows:

Year of expiry		**Amount**
2029	$	1,859,231
2030		2,584,531
2031		5,775,180
2032		12,187,447
2033		14,335,553
2034		7,070,152
2035		10,341,513
2036		3,161,031
Total	**$**	**57,314,638**

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company characterizes its fair value measurements of financial instruments into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 - inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs other than quoted prices included within Level 1, that are observable for the assets or liabilities either directly or indirectly; and
- Level 3 - inputs are unobservable for the asset or liability.

A financial instrument is classified to the lowest level hierarchy for which a significant input has been used in measuring fair value. The carrying amounts for cash, trade and other receivables and accounts payable and accrued liabilities approximate their respective fair values due to the short-term maturities of those instruments. The carrying amount of lease liabilities approximates its fair value as it is present valued using the discount rate implicit within the lease or the Company's incremental borrowing rate. Debentures are recognized at fair value at initial recognition.

The Company is exposed to a number of market risks arising through the use of financial instruments in the ordinary course of business. Specifically, the Company is subject to financial risk management, liquidity risk, credit risk, market risk, foreign currency risk, and interest rate risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's management identifies and analyzes the risks faced by the Company and manages/monitors these risks, including the impact of changes in market conditions and changes in the Company's activities.

For fifteen months ended March 31, 2025	**Risk**			
			Market risks	
	Liquidity	**Credit**	**Currency**	**Interest rate**
Measured at cost or amortized cost				
Cash		X	X	
Trade and other receivables		X	X	
Accounts payable and accrued liabilities	X		X	
Lease obligation	X			
Debt	X			X

Financial risk management

The Company's activities are exposed to a variety of financial risks in the normal course of business. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize the Company's capital costs by using suitable means of financing and to manage and control the Company's financial risks effectively. The principal financial risks arising from financial instruments are liquidity risk, credit risk, market risks, foreign currency risk and interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. As at March 31, 2025, the Company's financial liabilities consist of accounts payable and accrued liabilities, debt, debentures and RSU obligations. The Company's approach to managing

(Expressed in Canadian Dollars, except as noted)

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

liquidity is to ensure, as far as possible, that it has sufficient cash resources in order to finance operations, funds capital expenditures, and to repay financial liabilities. The Company manages its liquidity risk by preparing and monitoring operating budgets, reviewing capital requirements, and coordinating and authorizing project expenditures.

The following table details the contractual maturities of PharmaCielo's financial liabilities as at March 31, 3025 and December 31, 2023.

For fifteen months ended March 31, 2025	<1 Year	1 to 3 Years	3+ Years	Total
Accounts payable and accrued liabilities	5,759,889	-	-	5,759,889
Debt	4,340,437	-	-	4,340,437
RSU obligations	25,930	-	-	25,930
Debentures	13,269,053	4,622,849	-	17,891,902
Total	**23,395,309**	**4,622,849**	**-**	**28,018,158**

For the year ended December 31, 2023	<1 Year	1 to 3 Years	3+ Years	Total
Accounts payable and accrued liabilities	5,634,407	-	-	5,634,407
Debt	2,732,945	-	-	2,732,945
Lease Liabilities (1)	41,138	-	-	41,138
RSU obligations	25,930	-	-	25,930
Debentures	12,981,176	2,553,413	-	15,534,589
Total	**21,415,596**	**2,553,413**	**-**	**23,969,009**

(1) These amounts include the notional principal and interest payments for the contractual lease term and does not consider the Company's options to extend or renew its leases or terminate them before the contractual lease ending date.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its contractual obligations. Financial instruments subject to credit risk include cash and other receivables. All of the Company's cash are held at reputable financial institutions, as such credit risk is deemed to be low on these instruments. The Company is subject to concentration of accounts receivables and credit. The Company also has trade receivables of $583,384, of which $113,873 has been provided for as potentially uncollectible, which represents all trade receivables aging greater than 90 days.

Market risk

Market risk is the risk or uncertainty that changes in price, foreign exchange rates, and interest rates will affect the Company's net earnings and the value of financial instruments. PharmaCielo is exposed to two types of market risk, foreign currency risk and interest rate risk as outlined below.

Foreign Currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's functional and reporting currency is the Canadian dollar. However, some of the Company's business transactions and commitments occur in currencies other than Canadian dollars. The Colombian subsidiary sales transactions are negotiated in currencies other than the Colombian pesos and is exposed to the risk of fluctuations in foreign exchange rates between Colombian pesos and other currencies. The Colombian subsidiaries incur

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

expenditures in Colombian pesos, which is their functional currency. Therefore, the Company is exposed to the risk of fluctuations in foreign exchange rates between Canadian dollars, Colombian pesos and other currencies.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk on cash and debt. The debt is a loan agreement with Banco Agrario with interest at a variable rate of IBR + 7.85%. The change in the IBR of 100 basis points was $26,917 for the fifteen-month period ending March 31, 2025, and would not have had a significant impact on these consolidated financial statements.

Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the year. The Company considers its shareholders' deficit as capital which as at March 31, 2025, was a deficit of $9.5 million (2023 – deficit of $1.7 million).

22. SUBSEQUENT EVENTS

i. Subsequent to March 31, 2025, 50,000 options with expiry date of May 15, 2025, and 50,000 options with expiry date of June 1, 2025, expired.

ii. Since March 31, 2025, the Company has received aggregate gross proceeds of $150,000 bridge-loan (Note 9) as prepayment for a potential equity offering.

iii. On August 6, 2025, the Company announced that the Ontario Securities Commission, as its principal regulator, issued a failure to file cease trade order ("FFCTO") prohibiting the trading by any person of any securities of the Company in Canada, including trades in the Company's common shares made through the TSXV. The FFCTO was issued as a result of the Company's delay in filing its audited annual consolidated financial statements for the fifteen-month period ended March 31, 2025, the related management's discussion and analysis of financial condition and results of operations and CEO and CFO certificates relating to the audited annual financial statements as required by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings beyond the July 29, 2025 filing deadline.

iv. On September 29, 2025, PharmaCielo announced that it sold its parcel of land known as "La Margarita," located in Rio Negro, Colombia for gross proceeds of COP $26,000,000 (approximately CAD $8.9 million) (Note 7) and repaid Banco Agrario Loan (Note 9) and made partial repayments of outstanding debentures (Note 10). As a result, PharmaCielo booked a gain from land sale of $2.9 million.