



**PHARMACIELO LTD.
CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2019
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)**

PHARMACIELO LTD.

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

	As at September 30, 2019	As at December 31, 2018 (Restated note 19)	As at January 1, 2018 (Restated note 19)
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,461,394	\$ 7,350,169	\$ 15,984,352
Restricted cash (note 10(b(v)))	-	38,323,900	-
Accounts receivable	13,044	-	-
Short-term investments (note 4)	16,217,795	215,001	-
Marketable securities	120,000	153,000	12,500
Prepaid expenses and other receivables (note 5)	5,051,072	623,254	377,216
Inventory (note 6)	2,666,702	84,580	-
Biological Assets (note 7)	1,045,701	-	-
Total current assets	29,575,708	46,749,904	16,374,068
Non-current assets			
Other assets	-	-	8,169
Property, plant and equipment (note 8)	23,401,939	19,513,159	14,941,059
Right-of-use assets (note 9)	1,300,926	-	-
Goodwill (Note 21)	859,650	-	-
Intangible Assets (Note 21)	415,000	-	-
Total non-current assets	25,977,515	19,513,159	14,949,228
Total assets	\$ 55,553,223	\$ 66,263,063	\$ 31,323,296
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (note 15)	\$ 2,230,609	\$ 3,019,522	\$ 2,065,519
Lease obligations (note 9)	128,727	-	-
RSU obligations (note 13)	3,080,385	-	-
Consideration payable (note 21)	240,806	-	-
Total current liabilities	5,680,527	3,019,522	2,065,519
Non-current liabilities			
Lease obligations (note 9)	1,251,995	-	-
RSU obligations (note 13)	526,200	-	-
Total non-current liabilities	1,778,195	-	-
Total liabilities	7,458,722	3,019,522	2,065,519
Shareholders' equity			
Share capital (note 10(a)(b))	109,412,086	64,355,186	50,949,160
Shares to be issued (note 10(b))	-	35,556,574	3,464,686
Reserves (notes and 11, 12 and 13)	24,373,201	23,932,929	5,712,795
Other comprehensive loss	(731,594)	2,244,032	349,055
Deficit	(85,089,433)	(62,845,180)	(31,217,919)
Total attributable to parent	47,964,260	63,243,541	29,257,777
Non-controlling interest (note 18)	130,241	-	-
Total shareholders' equity	48,094,501	63,243,541	29,257,777
Total liabilities and shareholders' equity	\$ 55,553,223	\$ 66,263,063	\$ 31,323,296

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

Nature of operations (note 1)

Commitments (note 16)

Events after the reporting period (note 22)

PHARMACIELO LTD.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
Sale of Cannabis derivative products	\$ 60,843	\$ -	\$ 60,843	\$ -
Revenue from online medical services	69,287	-	69,287	-
Total revenue	130,130	-	130,130	-
Cost of Sales				
Cost of Sales - Cannabis derivative products	67,183	-	67,183	-
Cost of Sales - Online medical services	3,159	-	3,159	-
Gross Profit before fair value adjustments	59,788	-	59,788	-
Unrealized gain in fair value of biological assets (note 7)	2,073,214	-	2,073,214	-
Gross profit	2,133,002	-	2,133,002	-
Operating expenses				
Agricultural costs (note 8)	\$ 121,491	\$ 617,926	\$ 2,424,525	\$ 1,479,081
Selling, general and administrative expenses				
General and administrative				
Consulting fees	706,180	474,095	1,670,420	1,290,239
Consulting fees - Creso Pharma				
Acquisition (note 20)	-	-	393,330	-
Office and general	814,507	448,652	1,931,217	1,187,191
Professional fees	1,945,951	(22,251)	3,253,771	1,771,380
Salaries and wages	1,002,666	234,870	2,840,819	613,349
Travel and accommodation	219,871	218,094	851,386	595,023
Rent and lease payments	52,800	20,160	157,887	60,797
Share-based compensation	844,168	8,500,408	7,041,623	16,454,559
Selling, marketing and promotion	391,126	346,085	1,038,868	798,096
Amortization and depreciation (notes 8 and 9)	147,551	86,967	482,584	246,968
Total selling, general and administrative expenses	6,124,820	10,307,080	19,661,905	23,017,602
Other expenses (income)				
Bank charges and interest expense	20,144	(63,206)	118,702	(32,246)
Unrealized loss (gain) on marketable securities	108,000	-	33,000	-
Exchange loss (gain)	(298,009)	(1,364,870)	(244,188)	(1,102,448)
Other non-operating expenses	102,688	-	223,849	-
Listing expense (note 3)	-	-	2,433,687	-
Interest Income	(243,264)	-	(291,314)	-
Change in fair value of holdback consideration payable in shares	17,089	-	17,089	-
Total other expenses	(293,352)	(1,428,076)	2,290,825	(1,134,694)
Net gain (loss) for the period	\$ (3,819,957)	\$ (9,496,930)	\$ (22,244,253)	\$ (23,361,989)
Other comprehensive gain (loss) for the period:				
Currency translation adjustment for the period	1,599,048	(62,189)	2,975,626	(198,312)
Net comprehensive gain (loss) for the period	\$ (2,220,909)	\$ (9,559,119)	\$ (19,268,627)	\$ (23,560,301)

PHARMACIELO LTD.

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

(Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Basic and diluted net gain (loss) per common share (note 14)	\$ (0.04)	\$ (0.12)	\$ (0.23)	\$ (0.30)
Weighted average number of common shares outstanding - basic and diluted	96,666,354	77,906,560	95,414,153	77,618,394

Net (loss) income attributable to:	2019	2018
PharmaCielo Ltd.	(22,202,191)	(23,361,989)
Non-controlling interests	(42,062)	-
Comprehensive (loss) income attributable to:		
PharmaCielo Ltd.	(19,268,342)	(23,560,301)
Non-controlling interests	(285)	-

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

PHARMACIELO LTD.

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Operating activities		
Net loss for the period	\$ (22,244,253)	\$(23,361,989)
Items not affecting cash:		
Depreciation (note 8 and 9)	1,071,601	246,968
Unrealized gain on Fair market value of biological assets	(2,073,214)	-
Change in fair value of holdback consideration payable	17,089	-
Interest expense	129,400	-
Share-based payments	7,041,623	16,454,559
Exchange gain	(244,188)	(172,146)
Unrealized gain on marketable securities	33,000	-
Listing expense	2,406,476	-
Changes in non-cash working capital items:		
Accounts receivables	(13,044)	-
Prepaid expenses and other receivables	(4,427,818)	(107,311)
Other assets	(1,274,650)	(37,603)
Biological Assets	(1,045,701)	-
Accounts payable and accrued liabilities	(788,913)	646,968
Consideration payable	240,806	-
Net cash and cash equivalents used in operating activities	(21,171,786)	(6,330,554)
Investing activities		
Cash acquired on RTO (note 3)	183,729	-
Cash acquired on acquisition of Ubiquo Telemedicina (note 21)	562	-
Property, plant and equipment acquired on acquisition of Ubiquo Telemedicina (note 21)	267,174	-
Purchase of Ubiquo Telemedicina (note 21)	(754,240)	-
Purchase of property, plant and equipment	(7,290,969)	(4,068,401)
Purchase of short-term investments	(16,002,794)	-
Net cash and cash equivalents used in investing activities	(23,596,538)	(4,068,401)
Financing activities		
Options and warrants exercised	4,230,915	279,414
Cash received for shares to be issued	-	36,328,666
Share issue costs	(577,302)	-
Lease payments	(184,474)	-
Capital contribution from non-controlling interest	86,510	-
Net cash and cash equivalents provided by financing activities	3,555,649	36,608,080
Net change in cash and cash equivalents	(41,212,675)	26,209,125
Cash and cash equivalents, beginning of period	45,674,069	15,984,352
Cash and cash equivalents, end of period	\$ 4,461,394	\$ 42,193,477
Cash and cash equivalents	\$ 4,461,394	\$ 42,193,477
Restricted cash	-	-
Cash and cash equivalents for cash flow purposes	\$ 4,461,394	\$ 42,193,477

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

PHARMACIELO LTD.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars, Unless Otherwise Indicated)

(Unaudited)

	Number of common shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income	Deficit	Total attributable to parent	Non- controlling interest	Total equity
Balance, December 31, 2017	76,118,863	\$ 50,949,160	\$ 3,464,686	\$ 5,712,795	\$ 349,055	\$(31,217,919)	\$ 29,257,777	\$ -	\$ 29,257,777
Common shares issued for services (note 10(b)(i))	1,000,000	2,894,625	(2,894,625)	-	-	-	-	-	-
Common shares issued for land acquisition (note 10(b)(ii))	201,000	570,061	(570,061)	-	-	-	-	-	-
Warrants exercised (note 10(b)(iii))	335,610	343,820	-	(114,572)	-	-	229,248	-	229,248
Options exercised (note 10(b)(iv))	300,000	143,189	-	(93,023)	-	-	50,166	-	50,166
Share-based compensation	-	-	-	16,454,559	-	-	16,454,559	-	16,454,559
Currency translation adjustment for the period	-	-	-	-	198,312	-	198,312	-	198,312
Net loss for the period	-	-	-	-	-	23,361,989	23,361,989	-	23,361,989
Balance, September 30, 2018	77,955,473	\$ 54,900,855	\$ -	\$ 21,959,759	\$ 547,367	\$ (7,855,930)	\$ 69,552,051	\$ -	\$ 69,552,051

PHARMACIELO LTD.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Continued)
(Expressed in Canadian Dollars, Unless Otherwise Indicated)
(Unaudited)

	Number of common shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total attributable to parent	Non- controlling interest	Total equity
Balance, December 31, 2018	81,747,811	\$ 64,355,186	\$ 35,556,574	\$ 23,932,929	\$ 2,244,032	\$(62,845,180)	\$ 63,243,541	\$ -	\$ 63,243,541
Securities issued pursuant to the RTO (note 3)	413,735	2,043,850	-	224,440	-	-	2,268,290	-	2,268,290
Shares issued pursuant to private placement at price of \$3.35 per share (note 10(b)(v))	11,815,416	39,581,644	(39,581,644)	-	-	-	-	-	-
Common shares issued pursuant to acquisition of Ubiquo (note 10(b)(x))	132,716	583,657	-	-	-	-	583,657	-	583,657
Options exercised (note 10(b)(vi))	2,615,889	4,032,232	(226,450)	(2,033,616)	-	-	1,772,166	-	1,772,166
Exercise of warrants (note 10(b)(vii))	764,455	3,644,339	-	(1,185,590)	-	-	2,458,749	-	2,458,749
Cost of issue	-	(4,828,822)	4,251,520	-	-	-	(577,302)	-	(577,302)
Share-based compensation	-	-	-	3,435,038	-	-	3,435,038	-	3,435,038
Non-controlling interest	-	-	-	-	-	-	-	130,241	130,241
Currency translation adjustment for the period	-	-	-	-	(2,975,626)	-	(2,975,626)	-	(2,975,626)
Net loss for the period	-	-	-	-	-	(22,244,253)	(22,244,253)	-	(22,244,253)
Balance, September 30, 2019	97,490,022	\$109,412,086	\$ -	\$ 24,373,201	\$ (731,594)	\$(85,089,433)	\$ 47,964,260	\$ 130,241	\$ 48,094,501

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

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

1. Nature of operations

PharmaCielo Ltd. ("PharmaCielo" or the "Company") was incorporated pursuant to the *Business Corporations Act* (British Columbia) on May 30, 2017 under the name "AAJ Capital 1 Corp.". Upon completion of its Qualifying Transaction (as such term is defined in Policy 2.4 – *Capital Pool Companies* of the TSX Venture Exchange ("TSXV") Corporate Finance Manual ("Policy 2.4")) in accordance with the policies of the TSXV on January 15, 2019, the Company changed its name to "PharmaCielo Ltd." The Company carries on business under the name "PharmaCielo Ltd.". Refer to note 3 for further details of the Company's completed Qualifying Transaction with AAJ Capital 1 Corp. ("AAJ").

On January 18, 2019, PharmaCielo's common shares (the "Common Shares") started trading on the TSXV under the symbol "PCLO". On June 21, 2019, Common Shares started trading on the OTC Markets under the symbol "PHCEF". The head office is located at 1 Toronto Street, Suite 805, Toronto, Ontario, M5C 2E3.

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

2. Significant accounting policies

Statement of Presentation and measurement

The condensed consolidated interim financial statements of the Company have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS' issued and outstanding as of November 21, 2019, the date the Board of Directors approved these unaudited condensed interim consolidated financial statements. The condensed consolidated interim financial statements are presented in Canadian dollars and are prepared in accordance with the same accounting policies, critical estimates and methods described in the Company's annual consolidated financial statements, except for the adoption of new accounting standards identified in Note 2(d). Given that certain information and footnote disclosures, which are included in the annual audited consolidated financial statements, have been condensed or excluded in accordance with IAS 34, these financial statements should be read in conjunction with our annual audited consolidated financial statements as at and for the year ended December 31, 2018, including the accompanying notes thereto.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries.

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

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

2. Significant accounting policies (continued)

Basis of consolidation (continued)

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

Company	Location	Principal activity
PharmaCielo Ltd.	Toronto, Canada	Parent company
PharmaCielo Holdings Ltd. ⁽¹⁾	Toronto, Canada	Subsidiary of parent company
Ubiquo Telemedicina S.A.S. ⁽¹⁾	Medellin, Colombia	Telemedicine software company
PharmaCielo Colombia Holdings S.A.S. ⁽¹⁾	Medellin, Colombia	Cultivation and processing company
PharmaCielo Italia S.r.l. ⁽²⁾	Milan, Italy	Product development and delivery
PharmaCielo S.A. de C.V. ⁽³⁾	Mexico City, Mexico	Product development and delivery

⁽¹⁾ 100% owned by PharmaCielo Ltd., inactive.

⁽²⁾ 70% owned by PharmaCielo Ltd. There were no activities carried since incorporation. Activities are expected to commence in Q4 2019, subject to obtaining the requisite registrations and licenses. The Company's ability to carry out the contemplated business will be subject to the approval of the TSXV.

⁽³⁾ 50% owned by PharmaCielo Ltd. There were no activities carried since incorporation. Activities are expected to commence in Q4 2019, subject to obtaining the requisite registrations and licenses. The Company's ability to carry out the contemplated business will be subject to the approval of the TSXV.

Change in functional currency

The Company changed its functional currency from US dollars to Canadian dollars as of January 1, 2019. The change in functional currency is due to financings denominated in Canadian dollars while there were denominated in US dollars before. All assets, liabilities, share capital and other components of shareholders' equity were translated into Canadian dollars at the exchange rate of \$1.3642 as at the date of change. These changes have been accounted for prospectively. Prior period comparable information is restated to reflect the change in the presentation currency using an exchange rate of \$1.245 at January 1, 2018 (see note 19).

The functional currency of PharmaCielo Italia S.r.l. is the Euro.

The functional currency of PharmaCielo S.A. de C.V. is the Mexican Peso.

Revenue Recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when the Company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the Company has delivered the product to customers.

Service revenues, including online medical services, are recognized over a period of time as performance obligations are completed. Payment of the transaction price for patient counselling is typically due prior to the services being rendered and therefore, the transaction price is recognized as a contract liability, or deferred revenue, when payment is received. Contract liabilities are subsequently recognized into revenue as or when the Company fulfills its performance obligation. Payment of the transaction price for design, engineering and consulting services are typically due upon completion of the performance-related milestone. The Company is engaged with telemedicine software services in the Latin American market.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

2. Significant accounting policies (continued)

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 packaging and quality assurance. The identified capitalized direct and indirect costs related to inventory are subsequently recorded within "cost of goods sold" on the statement of loss and comprehensive loss at the time the product is sold, with inventory sold which are recorded as a separate line within gross margin before depreciation. Net realizable ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

Subsequent to harvest all direct and overhead post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Direct and overhead costs include wages and benefits, facility costs, amortization and other costs incurred in bringing the inventory to the present location and condition. Net realizable value is determined as the estimated selling price less the estimated costs of completion and estimated selling costs. Cost is determined on a weighted average basis for each individual harvest.

Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist, the amount of the write-down is reversed.

Biological assets

Biological assets, consisting of cannabis plants, are measured at fair value up to the point of harvest less costs to complete and sell.

The Company measures biological assets consisting of cannabis plants using the income approach at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, depreciation, overhead, quality and testing costs. The identified capitalized direct and direct costs of biological assets are subsequently recorded within the line item "costs of goods sold" on the statement of loss and comprehensive loss in the period that the related product is sold. Seeds are measured at fair value. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations and presented on a separate line of statement of comprehensive loss of the related period.

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

All direct and overhead costs incurred during the biological transformation process and up to the point of harvest are expensed to production costs on the consolidated statement of comprehensive loss in the period the costs are incurred.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

2. Significant accounting policies (continued)

Biological assets (continued)

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

Prior to July 1, 2019, the Company expensed all agricultural expenses to pre-operational costs, as it was related to the costs incurred in the agricultural facilities pre-commercial stage. During the third quarter of 2019, the Company started the valuation of biological assets and . The Company will continue to expenses related to Mother plants and cuttings costs which is included as part of Cost of sales.

New accounting policies

(a) Leases and right-of-use assets

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), replacing IAS 17 - Leases ("IAS 17"). IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity's lease obligations.

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonably certain to exercise that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

PHARMACIELO LTD.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2019

(Expressed in Canadian Dollars)

(Unaudited)

2. Significant accounting policies (continued)

New accounting policies (continued)

(a) Leases and right-of-use assets (continued)

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term.

See note 9 - *Leases* for further details.

(b) On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. At January 1, 2019, the Company adopted this standard and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

(c) Non-controlling interest

Non-controlling interest represents the minority shareholders' interest in the Company's less than wholly-owned subsidiary. On initial recognition, non-controlling interest is measured at its proportionate share of the acquisition-date fair value of identifiable net assets of the related subsidiary acquired by the Company. Subsequent to the acquisition date, adjustments are made to the carrying amount of non-controlling interest for the minority shareholders' share of changes to the subsidiary's equity. Changes in the Company's ownership interest that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent.

(d) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired.

Goodwill is measured at historical cost and is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Cash Generating Units ("CGUs") have been grouped for purposes of impairment testing. Impairment is determined for goodwill by assessing if the carrying value of CGUs which comprise the CGU segment, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGUs. any goodwill impairment is recorded in income in the reporting period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

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2. Significant accounting policies (continued)

New accounting policies (continued)

(e) Business Combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. When provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period may not exceed one year from the acquisition date.

3. Reverse Take-over

On January 15, 2019, the Company completed a reverse takeover ("RTO") transaction with AAJ. Pursuant to the terms of an agreement dated August 17, 2018 in respect of a plan of arrangement (the "Arrangement") between AAJ, 10949469 Canada Inc. ("AAJ Sub"), a private company incorporated under the Canada Business Corporations Act (the "CBCA") and a wholly owned subsidiary of AAJ created for the purposes of the Arrangement, and PharmaCielo Holdings Ltd., a private corporation incorporated under the CBCA, AAJ acquired all of the issued and outstanding common shares of PharmaCielo Holdings Ltd. (the "PharmaCielo Shares") and indirectly, PharmaCielo Colombia Holdings S.A.S., the Company's wholly owned Colombian operating subsidiary from the holders of PharmaCielo Shares. Consequently, these unaudited condensed interim consolidated financial statements reflect the continuation of PharmaCielo and the deemed acquisition of AAJ Capital on January 15, 2019. Following the completion of the RTO on January 15, 2019, AAJ changed its name to PharmaCielo Ltd. Prior to closing, AAJ had 4,640,000 common shares issued and outstanding. As part of the transaction, a 11.94:1 share consolidation was completed which resulted in 388,609 shares issued and outstanding immediately prior to closing. The 463,000 stock options were converted to 38,776 options which were ascribed a fair value of \$3.72 on the transaction date using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; share price of \$4.94; expected volatility of 90%; risk free interest rate of 1.89%; and expected maturity of 1 year. The 250,000 warrants were converted to 20,938 warrants which were ascribed a fair value of \$3.83 on the transaction date using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; share price of \$4.94; expected volatility of 92.06%; risk free interest rate of 1.89%; and expected maturity of 1.04 years. The Common Shares started trading at \$4.94 on the TSXV on January 18, 2019, therefore, \$4.94 per Common Share is considered the fair value of the Common Shares as at the RTO date of January 15, 2019. The RTO of AAJ did not meet the definition of a business combination under IFRS 3 - Business Combinations, and accordingly was accounted for in accordance with IFRS 2 - Share-based Payments. The transaction resulted in a listing expense of \$2,433,687 representing the difference between the fair value of the securities issued for \$2,268,290, in addition \$335,049 of expenses were incurred towards the RTO and the fair value of AAJ's net assets on the closing date as follows:

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3. Reverse Takeover (Continued)

Net assets of AAJ acquired

Cash	\$	183,729
Accounts payable and accrued liabilities		(14,077)
	\$	169,652

Consideration paid

388,609 common shares deemed issued to AAJ's existing shareholders (i)	\$	1,919,728
25,126 common shares deemed issued as finder's fee (i)		124,122
38,776 stock options deemed issued to AAJ's existing option holders		144,247
20,938 warrants deemed issued to AAJ's existing warrant holders		80,193
Other listing costs		335,049
	\$	2,603,339
Listing expense	\$	2,433,687

(i) For the purpose of determining the value of the purchase price consideration, the 388,609 and 25,126 Common Shares were valued at \$4.94 per share based on the Company's opening price as at January 18, 2019.

In addition, 11,815,416 subscription receipts of the Company were converted into PharmaCielo Shares and immediately into Common Shares on a one for one basis for gross proceeds of \$39,581,644. Refer to note 10(b)(v) - *Share Capital* for further details.

Certain of the Common Shares are subject to escrow restrictions including: (i) 179,229 Common Shares subject to an 18 month staged release pursuant to an escrow agreement entered into by certain insiders of the Company pursuant to Policy 2.4, with a first release of 10% on January 15, 2019; (ii) 18,867,500 Common Shares and 10,755,000 stock options exercisable for Common Shares subject to an 18 month staged release under the Form 5D Escrow Agreement, with a first release of 10% on January 15, 2019; (iii) 3,963,700 Common Shares subject to an 18 month staged release with a first release of 25% on January 15, 2019; and (iv) 535,610 Common Shares subject to a one year staged release pursuant to TSXV seed share restrictions, with a first release of 20% at the closing of the Qualifying Transaction. In addition, the Directors and Officers of PharmaCielo as well holders of 5% or more of the Common Shares are subject to the provisions of lock-up agreements for a period of 120 days from the closing of the Qualifying Transaction.

4. Short-term investments

Short-term investments consist of term deposits in Canadian banks with maturity dates between February 27, 2020 and August 31, 2020 and interest rates between 0.75% to 2.65%.

5. Prepaid expenses and other receivables

	As at September 30, 2019	As at December 31, 2018
Prepays	\$ 1,237,978	\$ 185,926
Account receivable	240,469	437,328
Accounts receivable - Creso Pharma (note 20)	3,572,625	-
	\$ 5,051,072	\$ 623,254

PHARMACIELO LTD.**Notes to Condensed Interim Consolidated Financial Statements****September 30, 2019****(Expressed in Canadian Dollars)****(Unaudited)**

6. Inventory

	As at September 30, 2019	As at December 31, 2018
Agricultural supplies and other	\$ 184,213	\$ 84,580
Work-in-progress	2,165,978	-
Finished products	316,511	-
Closing balance, September 30, 2019	\$ 2,666,702	\$ 84,580

During the nine months ended September 30, 2019 inventory recognized as expense was \$67,183 (December 31, 2018, \$nil), consisting of \$nil (December 31, 2018: \$nil) of realized fair value changes on inventory sold or impaired and \$34,927 (December 31, 2018: \$nil) of capitalized post-harvest costs expensed during the period as cannabis inventory is sold.

7. Biological Assets

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

The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at September 30, 2019:

- a. Selling prices – selling prices are based on the Company's historical average selling price per kilogram for the preceding three months, adjusted for current market conditions. Adjusted selling prices averaged \$4,628 per kilogram of CBD isolate.
- b. Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, extracting, testing and packaging activities incurred in the period, including overhead allocations for these activities. Post-harvest processing costs averaged \$2,907 per kilogram of CBD isolate.
- c. The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage as compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at September 30, 2019 averaged 43%.
- 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 1.02 grams of CBD isolate.

As at September 30, 2019, the Company's biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

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7. Biological Assets (continued)

Carrying amount, December 31, 2018	\$ -
Production costs capitalized	747,844
Changes in fair value less costs to sell due to biological transformation	2,073,214
Transferred to inventory upon harvest	(1,775,357)
Balance, September 30, 2019	\$ 1,045,701

The Company expects that a 10% increase or decrease in the wholesale market price per kilogram of dried cannabis would increase or decrease the fair value of biological assets by \$329,494. 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 \$95,064. Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by \$224,924.

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

Unrealized change in fair value of biological assets	\$ 2,073,214
Realized fair value increments on inventory sold or impaired	-

During the third quarter of 2019, the Company started the valuation of biological assets. For the three and nine month period ended September 30, 2019, the agricultural cost (pre-operative) was \$121,491 and \$2,424,525 (for the three and nine period ended September 30, 2018: \$617,926 and \$1,479,081), and it was related to the costs incurred in the agricultural facilities pre-commercial stage.

PHARMACIELO LTD.

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8. Property, plant and equipment

	Land	Building	Machinery and equipment	Office furniture and fixtures	Computer and communication equipment	Vehicles	Equipment in transit	Total
COST								
Balance, December 31, 2018	\$ 8,251,772	\$ 4,106,457	\$ 4,561,540	\$ 179,886	\$ 631,396	\$ 144,298	\$ 3,066,880	\$20,942,229
Additions	-	47,943	1,262,922	297,912	132,038	21,592	5,528,562	7,290,969
Additions from Ubiquo Acquisition	-	-	-	1,064	266,110	-	-	267,174
Transfers	-	(20,879)	793,713	4,983	-	-	(1,501,692)	(723,875)
Disposals	-	-	-	-	-	-	-	-
Effect of foreign currency exchange differences	(485,884)	(233,772)	(849,507)	(24,398)	(79,346)	(13,278)	(492,036)	(2,178,221)
Balance, September 30, 2019	\$ 7,765,888	\$ 3,899,749	\$ 5,768,668	\$ 459,447	\$ 950,198	\$ 152,612	\$ 6,601,714	\$25,598,276
ACCUMULATED DEPRECIATION								
Balance, December 31, 2018	\$ -	\$ 630,491	\$ 485,572	\$ 65,911	\$ 224,521	\$ 22,575	\$ -	\$ 1,429,070
Depreciation	-	271,808	364,392	85,596	176,842	23,470	-	922,108
Effect of foreign currency exchange differences	-	(44,598)	(63,244)	(9,214)	(31,833)	(5,952)	-	(154,841)
Balance, September 30, 2019	\$ -	\$ 857,701	\$ 786,720	\$ 142,293	\$ 369,530	\$ 40,093	\$ -	\$ 2,196,337
CARRYING AMOUNT								
Balance, December 31, 2018	\$ 8,251,772	\$ 3,475,966	\$ 4,075,968	\$ 113,975	\$ 406,875	\$ 121,723	\$ 3,066,880	\$19,513,159
Balance, September 30, 2019	\$ 7,765,888	\$ 3,042,048	\$ 4,981,948	\$ 317,154	\$ 580,668	\$ 112,519	\$ 6,601,714	\$23,401,939

PHARMACIELO LTD.

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8. Property, plant and equipment (continued)

PharmaCielo Colombia Holdings S.A.S. is developing a farm and a processing plant, located in Rio Negro the municipality of La Cieja (Antioquia), for the purpose of cultivating and sowing, as well as assembly of the cannabis oil. The farm includes greenhouses, offices and agricultural areas. As of September 30, 2019, the construction and assets in transit balance of \$6,601,714 (December 31, 2018 - \$3,066,880) represents the developing activities that have not yet been completed.

For the three and nine months ended September 30, 2019, depreciation expenses of \$117,025 and \$470,239, respectively (three and nine months ended September 30, 2018 - \$nil) is included in the unaudited condensed interim consolidated statement of loss as agricultural pre-operational costs.

9. Leases

Right-of-use assets

Balance, January 1, 2019	\$ -
Additions	1,466,374
Depreciation	(149,493)
Foreign exchange adjustment	(15,955)
Balance, September 30, 2019	\$ 1,300,926

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

Maturity analysis - contractual undiscounted cash flows

As at September 30, 2019

Less than one year	\$ 228,516
One to three years	473,508
Three to five years	477,844
More than five years	1,075,148
Total undiscounted lease obligation	\$ 2,255,016

Lease obligations

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

The Company entered into a thirty-six month lease agreement for new office space to serve as a corporate office in Medellin, Colombia, commencing on October 1, 2018. Under the lease, the Company is required to pay a base rent of \$5,278, for the term of the lease. In addition to the base rent, the Company must pay its proportionate share of utilities, maintenance and other related costs for the leased premises. At the commencement date of the lease, the lease liability was measured at the present value of the lease payments that were not paid at that date. Lease payments are discounted over 33 months using an interest rate of 14.39%.

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9. Leases (Continued)

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

Balance, January 1, 2019	\$ -
Additions	1,466,374
Interest expense	129,400
Lease payments	(184,474)
Foreign exchange adjustment	(30,578)
Balance, September 30, 2019	\$ 1,380,722

As at September 30, 2019	
Lease obligations	\$ 1,380,722
Less current portion	(128,727)
Non-current portion	\$ 1,251,995

The Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

10. Share capital

a) Authorized share capital

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

b) Common Shares issued and outstanding

97,440,022 Common Shares (December 31, 2018 - 81,747,811 Common Shares)

For the nine months ended September 30, 2018

(i) In December 2017, the Company agreed to issue 1,000,000 Common Shares to a service provider in relation to services and assistance to obtain Cannabis related licenses in Colombia. The fair value attributed to the Common Shares to be issued was driven by the recent private placement at US\$2.25 per Common Share. The Common Shares were issued during the six months ended June 30, 2018.

(ii) On July 27, 2016, PharmaCielo Colombia Holdings S.A.S. entered into an agreement to purchase a land called San Angel for the following consideration:

- Amount of Colombia Peso 1,244,275,500 (about \$533,000 measured at August 30, 2017 exchange rate) to be paid in cash; and
- By the issuance of 201,000 PharmaCielo Shares.

The deal was completed, and the property acquired on August 30, 2017 with the with the cash payment and 201,000 Common Shares fair valued at US\$2.25 (price of recent private placement) were issued during the six months ended June 30, 2018 in compliance with the agreement. The fair value of the Common Shares to be issued of \$570,061 was capitalized as part of the acquisition cost of the land.

(iii) As at December 31, 2017 cash proceeds for \$5,000 were received towards 50,000 warrants that were exercised. Those Common Share were issued during the nine months ended June 30, 2018. In addition, the Company issued 335,610 Common Shares at a price of US\$0.50 upon exercise of 50,000 warrants.

(iv) During the nine months ended September 30, 2018 the Company issued 100,000 Common Shares at a price of US\$0.25 per Common Share upon the exercise of 100,000 stock options.

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10. Share capital (continued)

b) Common shares issued (continued)

For the nine months ended September 30, 2019

(v) During June and July 2018, the Company issued subscriptions receipts for the issuance of 11,815,416 Common Shares at a price of \$3.35 per Common Share raising gross proceeds of \$39,581,644 and incurring related costs for \$4,251,520. The net cash proceeds were placed in escrow account awaiting PharmaCielo Holdings Ltd. to complete the RTO and becoming a public company. This cash was included as restricted cash in the consolidated statement of financial position as at December 31, 2018. On January 15, 2019, the restricted cash was released to the Company and Common Shares were issued. Refer to note 3 - *Reverse Takeover* for further details.

(vi) As at December 31, 2018, cash proceeds for \$226,450 were received towards 587,180 options that were exercised. Consequently, 587,180 Common Shares were issued during the nine months ended September 30, 2019. In addition, the Company issued 38,776 Common Shares at a price of \$1.194 per Common Share, 940,000 Common Shares at a price of US\$0.25 per Common Share and 1,550,000 Common Shares at a price of US\$1.00 per Common Share upon the exercise of 587,180 options.

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

(viii) On July 26, 2019, the Company acquired Ubiquo Telemedicina S.A.S. for an aggregate of 156,058 Common Shares at a price of \$4.40. Upon closing, an aggregate of 132,649 Common Shares were issued with the remaining shares held back for a period of six months for any adjustments to the purchase price that may be required.

(ix) On July 31, 2019, the Company issued 132,649 Common Shares pursuant to a share purchase agreement with Ubiquo Telemedicina S.A.S.

11. Warrants

The following table reflects the continuity of warrants for the periods ended September 30, 2019 and 2018:

	Number of warrants	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2017	609,896	0.73	-
Exercised	(285,610)	0.50	-
Balance, September 30, 2018	324,286	0.93	-
Balance, December 31, 2018	781,722	2.03	3.35
Issued pursuant to the RTO (note 3)	20,938	-	1.194
Exercised	(764,455)	2.01	3.27
Balance, September 30, 2019	38,205	2.06	1.194

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11. Warrants (continued)

The following table reflects the warrants issued and outstanding as of September 30, 2019:

Number of warrants outstanding	Fair value (\$)	Exercise price (USD)	Exercise price (CAD)	Expiry date
1,323	2,994	-	1.194	January 30, 2020
27,882	51,449	2.00	-	June 16, 2020
9,000	26,900	2.25	-	December 12, 2022
38,205	81,343	2.06	1.194	

12. Stock options

The following table reflects the continuity of options for the periods ended September 30, 2019 and 2018:

	Number of options	Weighted average exercise price (USD)	Weighted average exercise price (CAD)
Balance, December 31, 2017	7,760,000	0.69	-
Granted (i)(ii)(iii)(iv)(v)(vi)	4,108,000	1.80	3.35
Exercised	(100,000)	0.25	-
Balance, September 30, 2018	11,768,000	1.06	3.35
Balance, December 31, 2018	15,655,180	1.18	3.35
Issued pursuant to the RTO (note 3)	38,776	-	1.194
Exercised	(2,615,956)	0.74	1.194
Balance, September 30, 2019	13,078,000	1.28	3.35

For the nine months ended September 30, 2018

(i) During January 2018, the Company granted incentive stock options to consultants and employees to purchase up to 1,690,000 Common Shares exercisable at a price of US\$2.25 per Common Share on or before January 29, 2025. 1,250,000 options vest immediately and 90,000 options vest on December 31, 2019. The fair value of the option has been estimated at US\$1.72 as of the date of the grant using the Black-Scholes option pricing model. During the three and nine months ended September 30, 2018, the Company recorded \$23,183 and \$3,533,153, respectively in share-based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

(ii) During January 2018, the Company granted incentive stock options to consultants, advisers, directors and employees to purchase up to 775,000 Common Shares exercisable at a price of US\$2.25 per Common Share on or before January 29, 2025. The options fully vest on the day of grant. The fair value of the option has been estimated at US\$1.73 as of the date of the grant using the Black-Scholes option pricing model. During the three and nine months ended September 30, 2018, the Company recorded \$nil and \$1,693,661, respectively in share-based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

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12. Stock options (continued)

For the nine months ended September 30, 2018 (continued)

(iii) During February 2018, the Company granted incentive stock options to employees to purchase up to 93,000 Common Shares exercisable at a price of US\$2.25 per Common Share on or before February 4, 2025. 25,000 options vest immediately and 68,000 options vest on December 31, 2019. The fair value of the option has been estimated at US\$1.73 as of the date of the grant using the Black-Scholes option pricing model. During the three and nine months ended September 30, 2018, the Company recorded \$17,766 and \$83,238, respectively in share-based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

(iv) During February 2018, the Company granted incentive stock options to directors to purchase up to 1,000,000 common shares exercisable at a price of US\$2.25 per Common Share on or before December 31, 2019. The options fully vest on the day of grant. The fair value of the option has been estimated at US\$1.81 as of the date of the grant using the Black-Scholes option pricing model. During the three and nine months ended September 30, 2018, the Company recorded \$nil and \$2,288,238, respectively in share-based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

(v) During May 2018, the Company granted incentive stock options to directors to purchase up to 500,000 Common Shares exercisable at a price of \$2.25 per Common Share on or before December 23, 2026. The options vest as follows: one-third immediately; one-third after the first anniversary of the date of grant; and one-third after the second anniversary of the date of grant. The fair value of the option has been estimated at \$1.78 as of the date of the grant using the Black-Scholes option pricing model. During the three and nine months ended September 30, 2018, the Company recorded \$245,373 in share-based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

(vi) During May 2018, the Company granted incentive stock options to consultants to purchase up to 50,000 Common Shares exercisable at a price of \$3.35 per Common Share on or before May 24, 2023. The options vest as follows: one-sixth immediately upon issuance; and one-sixth on each monthly anniversary. The fair value of the option has been estimated at \$1.38 as of the date of the grant using the Black-Scholes option pricing model. During the three and nine months ended September 30, 2018, the Company recorded \$29,595 in share based payments expense related to these stock options in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

(vii) The portion of the estimated fair value of options granted in the prior periods and vested during the three and nine months ended September 30, 2019, amounted to \$669,278 and \$3,452,273, respectively (three and nine month ended September 30, 2018 - \$nil).

(viii) The fair value of the various options granted during the nine months ended September 30, 2018 was estimated using the Black-Scholes option pricing model with the following estimated assumptions:

Risk-free interest rate	2.17% - 2.23%
Dividend yield	0%
Volatility	87%
Expected life	5-8 years
Forfeiture rate	0%

PHARMACIELO LTD.**Notes to Condensed Interim Consolidated Financial Statements****September 30, 2019****(Expressed in Canadian Dollars)****(Unaudited)**

12. Stock options (continued)

Details of the stock options outstanding as at September 30, 2019 are as follows:

Number of options outstanding	Number of options exercisable	Exercise price (USD)	Exercise price (CAD)	Weighted average life (years)	Fair value (\$)	Expiry date
1,000,000	1,000,000	0.50	-	0.02	2,288,238	December 31, 2019
775,000	775,000	2.25	-	5.34	1,693,661	January 29, 2025
1,690,000	1,600,000	2.25	-	5.34	3,632,204	January 29, 2025
93,000	25,000	2.25	-	5.35	157,612	February 4, 2025
1,045,000	1,045,000	0.25	-	5.63	305,522	May 15, 2025
50,000	50,000	-	3.35	5.67	50,000	June 1, 2025
75,000	75,000	0.50	-	6.08	43,142	October 27, 2025
250,000	250,000	0.50	-	6.22	143,685	December 17, 2025
50,000	50,000	0.50	-	6.33	28,743	January 25, 2026
550,000	172,500	1.00	-	6.76	561,015	July 4, 2026
500,000	500,000	1.00	-	6.79	574,432	July 14, 2026
400,000	400,000	1.00	-	6.84	453,704	August 1, 2026
50,000	50,000	1.00	-	6.93	-	September 1, 2026
150,000	150,000	1.00	-	7.24	171,966	December 23, 2026
500,000	166,667	2.25	-	7.24	555,635	December 23, 2026
100,000	100,000	1.00	-	7.33	114,341	January 27, 2027
300,000	300,000	2.00	-	7.77	679,585	July 5, 2027
5,500,000	2,500,000	-	3.35	8.76	12,144,397	July 1, 2028
13,078,000	9,209,167	1.28	3.35	6.77	23,597,882	

13. Restricted share unit ("RSU")

On April 17, 2019, pursuant to the restricted share unit ("RSU") plan of the Company (the "RSU Plan"), the Company granted 1,008,000 RSUs to certain directors, employees and consultants of the Company. Each RSU vests over 1 or 2 years and may be settled in Common Shares. During the three and nine months ended September 30, 2019, the Company recorded \$3,285,974 in share based payments expense related to these RSUs in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

On May 24, 2019, pursuant to the RSU Plan, the Company granted 250,000 RSUs to an officer of the Company. Each RSU vests over 2 years and may be settled in Common Shares. During the three and nine months ended September 30, 2019, the Company recorded \$128,486 in share based payments expense related to these RSUs in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

On April 1, 2019, pursuant to the restricted share unit ("RSU") plan of the Company (the "RSU Plan"), the Company granted 27,000 RSUs to certain directors, employees and consultants of the Company. Each RSU vests over 1 or 2 years and may be settled in Common Shares. During the three and nine months ended September 30, 2019, the Company recorded \$138,510 in share based payments expense related to these RSUs in the unaudited condensed interim consolidated statements of loss and comprehensive loss. The RSUs can be settled in cash or equity at the option of the holder.

As at September 30, 2019, there were 1,285,000 RSUs outstanding of which 356,500 RSUs are fully vested.

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(Unaudited)

14. Net loss per common share

The calculation of basic and diluted loss per share for the three and nine months ended September 30, 2019 was based on the loss attributable to common shareholders of \$(3,819,957) and \$(22,244,253), respectively, (three and nine months ended September 30, 2018 - \$(9,496,930) and \$(23,361,989), respectively) and the weighted average number of Common Shares outstanding of 96,666,354 and 95,414,153, respectively (three and nine months ended September 30, 2018 - 77,906,560 and 77,618,394, respectively). Diluted loss per share for the periods presented did not include the effect of 38,205 warrants (period ended September 30, 2018 - 324,286 warrants), 13,078,000 stock options (period ended September 30, 2018 - 11,218,000 stock options) and 1,285,000 RSU (period ended September 30, 2018 - nil) as they are anti-dilutive.

15. Transactions with Related Parties

During the three and nine months ended September 30, 2019, the Company has the following related party transactions:

(i) The Company incurred subcontractor expenses of \$6,712 and \$21,712, respectively (compared to three and nine months ended September 30, 2018 of \$101,471 and \$132,224, respectively) from Tahami & Cultiflores S.A.C.I., a company controlled by a past director of the Company, Federico Cock-Correa. As of September 30, 2019, the amount of \$Nil (September 30, 2018 - \$Nil) is owing to Tahami & Cultiflores S.A.C.I. and is recorded in accounts payable and accrued liabilities.

(ii) The Company incurred management fees of \$Nil and \$Nil, respectively (compared to three and nine months ended September 30, 2018 of \$Nil and \$1,158,270, respectively) to the Company's former Chief Executive Officer, Anthony Wile. As of September 30, 2019, the amount of \$Nil (September 30, 2018 - \$Nil) is owing and recorded in accounts payable and accrued liabilities.

(iii) The Company incurred consulting fees of \$Nil and \$53,174, respectively (compared to three and nine months ended September 30, 2018 of \$104,430 and \$263,293, respectively) to Grupo Jaque, a company controlled by the Company's former Chief Executive Officer, Anthony Wile. As of September 30, 2019, the amount of \$Nil (September 30, 2018 - \$Nil) is owing and recorded in accounts payable and accrued liabilities.

(iv) The Company incurred consulting fees of \$2,000 and \$4,500, respectively (three and nine months ended September 30, 2018 of \$50,000 and \$200,000, respectively) to Laitinen Consulting Inc., a company controlled by the Company's Chief Financial Officer, Scott Laitinen. As of September 30, 2019, the amount of \$Nil (September 30, 2018 - \$Nil) is owing and recorded in accounts payable and accrued liabilities.

(v) The Company incurred expenses of \$359,100 and \$1,354,523, respectively (three and nine months ended September 30, 2018 of \$5,720,301 and \$12,721,912, respectively) of share based payment expense for stock options and restricted share units ("RSUs") issued to certain Company officer's, directors and key management personnel.

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

16. Commitments

The Company has an agreement with CNV Construcciones S.A.S. ("CNV"), a Colombian construction company, to pay CNV USD\$32,314 to complete the construction of the Research Technology and Processing Centre in 2019. The construction of the Research Technology and Processing Centre is progressing with the anticipated completion of construction in late 2019. Once completed, the Research Technology and Processing Centre must be certified by INVIMA in order to ensure that it meets Good Manufacturing Practice (GMP) standards.

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17. Segmented Information

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

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

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

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

Net loss for the period	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Canada	\$ 4,272,229	\$ 8,059,897	\$ 17,718,140	\$ 19,679,975
Colombia	(536,395)	1,437,033	4,441,990	3,682,014
Italy	-	-	-	-
Mexico	84,123	-	84,123	-
Total	\$ 3,819,957	\$ 9,496,930	\$ 22,244,253	\$ 23,361,989

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

Total assets	September 30, December 31,	
	2019	2018
Canada	\$ 30,158,522	\$ 49,028,742
Colombia	25,047,428	17,234,321
Italy	86,628	-
Mexico	260,645	-
Total	\$ 55,553,223	\$ 66,263,063

Operating segment	Corporate	Cannabis	Medical services	Total
Revenues	\$ -	\$ 60,843	\$ 69,287	\$ 130,130
Cost of Sales	-	67,183	3,159	70,342
Loss for the period	\$ 17,820,769	\$ 4,380,291	\$ 43,193	\$ 22,244,253

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18. Non-controlling interest

Summarized information on the financial position and results of operations relating to the 30% non-controlling interest in PharmaCielo Italia S.r.l. and 50% non-controlling interest in PharmaCielo S.A. de C.V. before inter-company eliminations is set out below:

As at September 30, 2019	Italy	Mexico
Current assets	\$ 86,628	\$ 260,645
Current liabilities	\$ -	\$ 6,631
Non-current liabilities	\$ 73,695	\$ -
Net loss for the period	\$ -	\$ (84,123)

19. Change in functional currency

For comparative purposes, the unaudited condensed interim consolidated statements of financial position as at January 1, 2018 and December 31, 2017 includes adjustments to reflect the change in the accounting policy resulting from the change in functional currency to the Canadian dollar. The amounts previously reported in US dollars as shown below have been translated into Canadian dollars at the January 1, 2018 and December 31, 2018 exchange rates (note 2). The effect of the translation is as follows:

As at January 1, 2018	Previously reported (US \$)	Translated (CAD \$)
Current assets	\$ 13,052,266	\$ 16,374,068
Non-current assets	11,916,483	14,949,228
Total assets	\$ 24,968,749	\$ 31,323,296
Current liabilities	\$ 1,646,488	\$ 2,065,519
Total liabilities	\$ 1,646,488	\$ 2,065,519

As at December 31, 2018	Previously reported (US \$)	Translated (CAD \$)
Current assets	\$ 34,269,099	\$ 46,749,904
Non-current assets	14,303,737	19,513,159
Total assets	\$ 48,572,836	\$ 66,263,063
Current liabilities	\$ 2,213,401	\$ 3,019,522
Total liabilities	\$ 2,213,401	\$ 3,019,522

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20. Proposed acquisition of Creso Pharma Limited

On June 6, 2019, PharmaCielo announced that it entered into a scheme implementation agreement (the "Implementation Agreement") pursuant to which PharmaCielo agreed to acquire all of the issued and outstanding shares (the "Share Scheme") and listed options of Creso Pharma (ASX:CPH) by way of a scheme of arrangement (the "Scheme of Arrangement"). Creso Pharma is a global medicinal cannabis company that specializes in research, development and production of therapeutic, nutraceutical and animal health products. PharmaCielo will pay A\$0.63 per ordinary share of Creso Pharma (each a "Creso Pharma Share"). The purchase price for the Creso Pharma Shares will be satisfied by the issuance of Common Shares priced at \$7.6166 per Common Share being the 3-day volume weighted average trading price for the Common Shares, representing an exchange ratio of a 0.0775 Common Shares per each Creso Pharma share. The Implementation Agreement and related transactions have been unanimously approved by each of the Board and board of directors of Creso Pharma.

On November 5, 2019, the Company announced the termination of the Implementation Agreement. See section titled "Events after the reporting period" for further details.

21. Acquisition

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

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

	Number of Shares	Amount in CAD
By issuance of Common Shares (i)	156,058	\$ 686,655
To be paid in cash	-	887,341
Total consideration		\$ 1,573,996

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

Paid as at September 30, 2019	Number of Shares	Amount in CAD
Issuance of Common Shares	132,649	\$ 583,656
Cash payment	-	754,240
Total consideration paid		\$ 1,337,896

The remaining shares and cash will be held back for a period of six months for any adjustments to the purchase price that may be required.

Consideration Payable	Number of Shares	Amount in CAD
Issuance of Common Shares - Fair value at acquisition date	23,409	\$ 103,000
Change in fair value of hold back consideration payable in shares	-	17,089
Cash consideration payable	-	133,101
Gain/loss on consideration payable	-	(12,383)
Total consideration payable		\$ 240,807

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21. Acquisition (continued)

Allocation of purchase price	Amount in CAD
Cash	\$ 562
Amounts receivable and other assets	729,502
Property, plant and equipment	267,175
Goodwill	859,650
Amounts payable and other liabilities	(309,424)
Net assets acquired	\$ 1,547,465

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

The goodwill resulting from the allocation of the purchase price to the total fair value of net assets represented the expected future growth potential of Ubiquo.

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

22. Events after the reporting period

Grant of Restricted Share Units

Subsequent to September 30, 2019, a total of 335,000 Common Shares were issued for RSUs vesting during the quarter.

On November 5, 2019, pursuant to the restricted share unit plan of the Company, the Company granted 25,000 RSUs to certain directors, employees and consultants of the Company. The RSUs vested on the grant date, November 5, 2019, and were settled in Common Shares.

Grant of Option Certificates

On November 5, 2019, pursuant to the stock option ("Options") plan of the Company, the Company granted 550,000 Options to certain directors, employees and consultants of the Company. The Options vest over one or two years time periods and may be settled in Common Shares.

Termination of the Scheme Implementation Agreement with Creso Pharma

On October 2, 2019, Creso Pharma informed PharmaCielo that the Supreme Court of Western Australia approved the convening of the meetings of the Creso Pharma shareholders and listed optionholders to approve the Scheme of Arrangement (the "Meetings"). The Meetings were scheduled to take place on November 11, 2019.

On November 1, 2019, Creso Pharma advised PharmaCielo that it had received a supplementary independent expert report (the "Supplementary IER") from its independent expert, BDO Corporate Finance (WA) Pty Ltd. ("BDO"), updating its previously issued independent expert report dated September 26, 2019. The Supplementary IER concluded that the Share Scheme was neither no longer fair nor reasonable, and was no longer in the best interests of the shareholders of Creso Pharma.

In light of this change in recommendation by BDO, the Implementation Agreement was terminated and Creso Pharma and PharmaCielo entered into a mutual release and settlement in relation to the Scheme of Arrangement on November 11, 2019 (the "Mutual Release"). Pursuant to the Mutual Release, both Creso Pharma and PharmaCielo agreed to release each other from all claims arising under or in connection with the Implementation Agreement or related transaction documents. No break fees or expense reimbursements are payable by either PharmaCielo or Creso Pharma in connection with the termination of the Implementation Agreement.

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22. Events after the reporting period (continued)

Termination of the Scheme Implementation Agreement with Creso Pharma (continued)

Update on Outstanding Loan Amounts Owed by Creso Pharma to PharmaCielo as a Result of the Termination of the Scheme Implementation Agreement with Creso Pharma.

During April 2019, PharmaCielo provided Creso Pharma with a convertible loan in the amount of AUD\$200,000 (approximately CAD\$196,000) (the "Convertible Loan") pursuant to a loan trust deed entered by both companies. The Convertible Loan bears an interest rate of 15% per annum and will now mature on November 30, 2019. The amount of Convertible Loan outstanding is included as part of other receivables in the consolidated statement of financial position. In connection with the entering into the Implementation Agreement, PharmaCielo had agreed to advance Creso Pharma a secured bridge loan for AUD\$3.8 million (approximately CAD\$3.57 million) on June 6, 2019 (the "Bridge Loan"). The Bridge Loan, which bears interest at a rate of 15% per annum, is secured by a general security agreement over the assets of Creso Pharma and a pledge of the shares of Mernova Medicinal Inc., a subsidiary of Creso Pharma, in favor of PharmaCielo. The secured bridge loan will now mature on November 30, 2019. The amount of the Bridge Loan is included as part of other receivables in the consolidated statement of financial position.

In accordance with the Mutual Release, PharmaCielo is expecting the balance of both the Convertible Loan and Bridge Loan to be repaid on or prior to November 30, 2019.