
Shareholders Update

A Message from David Attard, CEO of PharmaCielo

Dear investors and business partners,

As we turn the page on a new decade, it is a good point in time for reflection. 2019 has been a productive and exciting year for PharmaCielo.

While the past year came with some challenges to be expected from a new and nascent industry, more importantly, it was the year of many significant accomplishments for PharmaCielo and laid the groundwork for solid progress in 2020. We continued to build out our infrastructure in Colombia while opening international sales channels and exploring opportunities to partner with some of the world's largest organizations. We closed 2019 on a high note, winning the prestigious MJBizDaily **Regional Game Changer Award**, in recognition of the role PharmaCielo played as a pioneer in Latin America's cannabis sector and in leading its future growth.

The capital markets were difficult for publicly traded cannabis companies in 2019, with most stocks impacted to the same degree regardless of strategy, results or jurisdiction. PharmaCielo's public equity was likewise impacted. However, we are well capitalized to execute on our plans and therefore are in a solid position to weather short-term volatility and continue generating value for shareholders. In a relatively new sector, volatility is to be expected as investors determine where they want to be positioned and get comfortable with the long-term economic profile of various business models. We expect business models to continue to evolve as operators and investors position themselves for future success. The first wave of public cannabis companies focused primarily on cultivation in North America. During 2019, many cannabis companies realized that in order to extract reasonable margins from this business over the long term, particularly in North America, companies need to be on the brand side, or they need to otherwise control the supply chain.

From PharmaCielo's inception, we have always focused on the long term and looked at other developed industries for guidance. The result of this focus has been a consistent strategy, leading to a unique and defensible position in low-cost and high-quality bulk cultivation, processing, and extraction. Yes, brands will matter in the cannabis space just as they matter in other mature consumer packaged goods ("CPG") sectors. However, by positioning PharmaCielo to sell top-quality medicinal cannabis extracts to CPG players, pharmaceutical companies, and other licensed producers who will ultimately work to create winning products and brands, we expect to maintain a sustainable competitive advantage and generate solid returns on capital for our shareholders.

Over the past year we have executed along three primary paths: cultivation expansion, growth in our processing and extraction capabilities, and laying the groundwork for meaningful commercial sales growth in 2020. I am proud of the team for having successfully executed along these three paths over 2019.

Over the course of the last year, we expanded our area under cultivation from just over 430,000 square feet (four hectares) to the current level of 1.2 million square feet (12 hectares), with the ability to expand to a total of 15 million square feet (139 hectares). Our processing and extraction centre, which will produce greater than 24,000 kilograms of refined cannabis oil per year, is nearing completion. We are already producing oil out of it today as well as from the temporary facility. We expect construction on the processing and extraction centre to be completed shortly, and we will steadily ramp up production throughout 2020. The additional time has been necessary to meet the requirements for GMP certification.

In conjunction with the expansion of our cultivation and processing capabilities, our team has been working diligently to bring the company's high-grade medicinal cannabis extracts into international markets. Keeping with our trailblazing tradition, this year we became the first cannabis producer to secure an export permit from the Colombian government. This significant milestone was followed by the successful completion of numerous introductory and trial shipments of medicinal-grade CBD isolate to the US and Europe, as well as the signing of our first commercial sales order to a distributor in the US. As we approach the end of 2019, PharmaCielo already has an international cost advantage, having produced at an all-in cost of \$0.04 per gram in the third quarter of 2019.

Turning to 2020, we really see this next year as the inflection point for our business. We are already actively shipping CBD isolate to several international markets, and a primary focus in the coming year will be to expand our sales function and generate meaningful commercial revenue above and beyond the agreement we have already announced in the US. From a jurisdictional point of view, we will be prioritizing the US and Europe, followed by Latin America – including Mexico, where we wait keenly for the legislative activity required to enable our existing joint venture to become aggressively active. In Q4 of 2019 we engaged experienced broker teams to focus on identifying and building out opportunities in these regional areas with pharmaceutical companies and licensed cannabis producers. We will also be targeting appropriate CPG opportunities. In the coming months we plan to add a chief commercial officer to head up our sales function and further build out our team.

This is a business model with a substantial amount of operating leverage available to it. Compared to many other publicly traded cannabis producers in the sector, we have the ability to get profitable and cash flow-positive on a relatively lower level of revenue. All of this is backed by a team and a board of directors who have successfully done this before in other industries at a global level.

The momentum we generated in 2019 has set us up well for 2020. I would like to thank all of our long-term shareholders for their continuous support and for being an important part of this great journey as we transform and shape the global medical cannabis industry.

Wishing you and your loved ones a Happy New Year, filled with health, happiness and fulfillment.

David Attard
Chief Executive Officer
PharmaCielo Ltd.