



A Message from David Attard, CEO of PharmaCielo

Fellow shareholders,

January and February continued to be challenging months for all of us invested in PharmaCielo stock. I would like to acknowledge that both my team and I understand the stock price performance has been difficult to experience and to point out our strong belief that this performance is radically detached from the progress we have already made in the first two months of 2020. As I touched on in my year-end letter, the equity markets are in the midst of a secular transition to valuing strong balance sheets and operating results from heedlessly backing good, bad and downright abysmal business models alike, and this shift has impacted companies across the sector.

I am a firm believer that as the market realizes the near-term revenue and cash flow generation potential of our business, as well as the scalability of our platform, the fundamental value of this company will be recognized. My belief in this outcome is steadfast because we built PharmaCielo knowing that this industry transition would occur, though it was impossible to guess at the timing. While the sell-off in our stock is unjustified in our view, we see it as temporary. The market is in “show me” mode – and that is exactly what we are going to do in 2020.

Each member of the senior management team has individually allocated significant personal dollars – outside of any option grants – to buy the Company’s stock, and we remain confident holders. We are believers in the bright future of PharmaCielo and the fundamental achievability of our long-term objective to become the world’s preferred source of naturally grown cannabis. As a company, we had \$20.7 million in cash and short-term investments at the end of Q3, our team has already executed against the key sales milestones we outlined on our November 25th Q3 conference call, and we fully expect continued momentum through 2020. This year is all about leveraging the industrial-scale, pharmaceutical-grade cultivation and processing assets we have built over the past four years into a robust sales pipeline and meaningful commercial revenue.

With our focus squarely on sales, in the first two months of 2020 we have already made three announcements that are expected to drive revenue growth in 2020. These announcements were also squarely aligned with the statement we made to shareholders on our Q3 call that the U.S. and Europe would be our primary sales focuses in 2020:

- On January 17th the TSX Venture Exchange (“TSXV”) [approved](#) PharmaCielo to export medicinal-grade CBD isolate from Colombia into the U.S. market. While this approval took far longer than expected – PCLO is the first TSXV-listed company to export CBD isolate from Colombia to the U.S. – this is a meaningful positive for our business, and we are actively pursuing additional opportunities in this large market.
- On January 24th, we [announced](#) a Pan-European distribution agreement for CBD isolate and broad-spectrum CBD oil, covering the entire EU as well as Switzerland and Liechtenstein. This three-year agreement comes with a minimum 2,000 kg target volume for the first year with increasing volumes in the second and third years.
- On January 27th we [announced](#) our most significant sales agreement to date. This three-year agreement calls for the delivery of 30,000 kg of medicinal-quality extract oils and isolates including both CBD and THC-dominant profiles for distribution in the German market, beginning in mid-2020. Germany is the largest and most sophisticated medical cannabis market in Europe.

This is just the beginning for PharmaCielo. Our team is hard at work turning existing LOIs and the sales conversations we are having with global organizations every day into firm sales agreements. At the same time, we are prioritizing the transition of existing sales agreements into commercial revenue during 2020.

As we shift our focus from building to selling, we are also increasing the volume of our external activity to build and further solidify our global sales and distribution relationships. This involves a ramp-up in introductory shipments and testing activities for potential clients. When a potential customer is looking at using our product at scale, just like with an industrial chemical, these potential customers need to run the product through their own processes to validate both the quality and the ability of our product to scale within their existing processes. This can take time; however, we have gotten very positive feedback as a result of these trials and we do expect follow-on orders as we move through 2020. Because of our efforts over the past 12 months, we are now in a position to sell products commercially, and you will begin to see more of PharmaCielo in a variety of global markets. While the transition from a “building” to a “selling” organization is never easy, we are off to a fantastic start and I am proud of the entire team for their efforts to bring us to this massive turning point in the business.

Our business model has a substantial amount of operating leverage available to it. We have the ability to get profitable and cash flow-positive on a relatively modest level of annualized revenue. While producing top-quality product, our all-in production cost in Q3 was \$0.04 per gram – several orders of magnitude below any scalable, medicinal-quality cannabis producer in the global sector that we are aware of.

From the combined 15 million square feet (~260 football fields) of top-quality, cost-effective outdoor cultivation space available to us and built on the exact hybrid owned/contract model used for decades by the global tobacco and cut-flower industries, to the pharmaceutical-grade

and scalable processing systems we have put in place, to a prudent and decisive plan to drive significant revenue growth beginning in 2020, PharmaCielo is very well positioned to become one of the top long-term players in the global cannabis landscape.

Aligned with our transition into the next phase of our business plan – where we are targeting rapid and sustained growth in commercial revenue – we will also be increasing the frequency and depth with which we communicate with our shareholders. Up to now we have had our “heads down,” focusing on building the operational, financial, compliance and communications structure required to support our growth. As the first stage in this transition, beginning March 1st we will commence a monthly newsletter that will update you on key developments and progress on the continued expansion of the global business. All subscribers will receive the monthly newsletter.

I would like to reiterate my appreciation to our long-term supporters. We will be holding our second quarterly conference call in concert with the release of our audited full-year 2019 financial results, during the second half of April, and I look forward to providing a fulsome update at that time. While the equity market environment has been very challenging of late, as shareholders ourselves, we are highly confident that our strategy is the right one and that by the end of 2020 our efforts will have generated substantial value for shareholders.

Sincerely,

David Attard
Chief Executive Officer
PharmaCielo Ltd.

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