



ALERT #11



PharmaCielo – The Google-Size Opportunity In Legal Cannabis, leading the transition from underground cottage industry to large-scale professionally run manufacturing business

It probably won't come as news to you, as a reader of *Sovereign Man Private Investor* that the worldwide movement toward legalized cannabis is now a freight train roaring down the track. Clear signs that the train is unstoppable:

- The medical use of cannabis has been scoring one success after another. Epilepsy, multiple sclerosis, sleep disorders, side effects of chemotherapy and a catalog of other miseries have been shown to yield to cannabis, even when more conventional therapies just bounce off the problem. It's also emerging as an effective treatment for chronic pain – so effective that states where it's legal for that purpose have seen a drop in the death rate from prescription painkillers. Your high school drug counselor might not have told you this, but the data shows that cannabis saves lives.
- Medical successes have led many people to rethink their opinion of cannabis. The public has begun to notice that the dangers of cannabis have been just a bit overstated. It's not really cocaine's little brother. It's not even a second cousin.
- The War On Drugs is now recognized as mostly a failure. Continuing a prohibition on cannabis will make the most ruthless elements of the illegal drug trade even richer than they already are.
- Instead, governments are realizing that the better model, as with alcohol and tobacco, is to legalize, regulate, and tax the industry for their gain. And with governments around the world as desperate for cash as they are, this trend is almost certainly now unstoppable.

■ WORLDWIDE MOVEMENT

Cannabis is moving toward legalization almost everywhere – first for medical use and eventually for adults to use for whatever purpose they choose. It's going to be a gigantic, legitimate industry. Not as big as alcohol (which worldwide is a trillion dollars per year) perhaps, but on a similar scale.

That means fortunes, big fortunes, are going to be made. Here's how you can stake a claim to your share.

There are dozens of little companies, some public and some still private, that are trying to be part of the fortune-building machine, and they would like you to invest in their projects. Good wishes to all of them.

But as is typical in most booms, many market entrants are simply trying to capitalize on the gold rush. They turn out badly because they're not trying to build a real business, they're just trying to realize big gains in the market.

Remember the dot-com boom? No one was interested in making money. It was just a bunch of kids registering domains and moving to an IPO.

That's just the way things are with any new industry. Dozens or even hundreds of companies correctly identify the big opportunity, but only a tiny few succeed in successfully exploiting it and turn a profit for their shareholders.

Here's a stark example of the principle. Fifteen years ago, scores of companies were inviting the public to use their brilliantly conceived Internet search engines. Now there's... Google.

Millions of people invested in some of those other search engines. But it was only Google that birthed billionaires.

Today's cannabis opportunity is huge. Like cryptocurrency and financial technology, it's one of the sectors that has explosive potential. But who's going to be the winner? I've looked at dozens of companies in the legal cannabis business, and I've identified one that I believe has a serious chance of owning the industry the way Google owns the internet search industry.

■ THE LOOK OF SUCCESS

Very early, the company made a critical judgment. What exactly is the profit-making product going to be? It's not going to be that green stuff that goes up in smoke. Instead, this company will extract medicinal-grade oils from cannabis plant material and sell the oils as standardized, precisely labeled products.

Think of Pfizer or Merck or Smith-Cline. Everything will be shipped with all the active ingredients and their concentrations listed on the label.

Properly assayed, reliably labeled cannabis oils are the right product because...

- It's what doctors want. "Cannabis" isn't just one thing. The plant contains more than four hundred different cannabinoids and other active elements – and in concentrations that vary drastically from variety to variety and from individual plant to plant. Few doctors want to prescribe raw marijuana, even when they know it might help, because raw plant material comes with too many unmeasured variables, maybes and unknowns. But when reliable, standardized medicinal-grade cannabis oils are available, a doctor can write a prescription for exactly what he or she determines that the patient needs.

- It’s what regulators can easily monitor. Legal cannabis is going to be highly regulated, just like alcohol. While no one knows exactly what the regulations will be, they are going to be easier to live with for producers who know the exact composition of the products they’re selling.
- It’s what will get the easiest tax treatment. Cannabis is going to be highly taxed, again like alcohol. You can expect the tax rules will assume that every speck of plant material is packed with the maximum possible level of every active ingredient, for tax purposes. Thus, producers of plant material often will be paying taxes on more THC and other active elements than they are actually delivering to customers – which will put them at a grave disadvantage to producers of assayed cannabis oils and extracts, who will be paying taxes on exactly the amount of active elements they deliver and nothing more.
- It’s what consumers want. For health reasons and as a matter of aesthetics, most people don’t want to smoke anything. Oils, which can be consumed in food or drinks or with “e-cigarettes” (vaporizers), solve the problem. In Colorado (which provides the best statistics), the share of cannabis sales going to oils keeps rising and is likely to overtake sales of raw plant material by the end of the year. Ten years from now, marijuana cigarettes will probably be just a movie cliché about the 1960s.

Most cannabis companies haven’t figured out that the future belongs to purified oils. Their thinking is stuck in the world of Cheech and Chong. The company I’ve identified isn’t stuck in the past. It’s preparing for the future, and, unlike any other cannabis ventures I’ve looked at, it has made good strategic decisions.

■ THE COMPANY

PharmaCielo Ltd. (“PC Canada”) is a federally incorporated Canadian company organized in 2014. It has two wholly owned Colombian subsidiaries, PharmaCielo Colombia S.A.S. (“PC Colombia”) and PharmaCielo International Exports S.A.S. (“PC Exports”). The Canadian parent handles financing and the development and implementation of global strategy.

PC Colombia is responsible for propagating cannabis plants optimized for the Company’s purposes and for the production of cannabis flower. Under a joint venture agreement, PC Colombia works with the University of Antioquia in connection with plant development and quality control.

PC Exports processes harvested cannabis flower into medicinal-grade oils and other extracts. It operates in a tax-efficient free trade zone and is responsible for international sales and distribution.

PharmaCielo intends to gain a substantial, if not the dominant, share of the rapidly “whitening” global cannabis market. It should be a mega-billion dollar market, most of whose profits are likely to be captured by a few successful “long-distance runners” that were early in understanding the industry’s geopolitical drivers and in assessing the public’s demand for specific types of products, and with the staying power to go from concept to product delivery and profits.

In the judgment of the Company's management (a judgment I share), the industry will continue shifting toward the production and distribution of standardized, medicinal-grade cannabis oils, extracts and related cannabis products. Smokable plant material will be an incidental product for the industry and has no place in PharmaCielo's plans.

As you will read shortly, the Company's management team is very strong. And their mission statement, although not bashful, reflects what I want to see: the goal of delivering "Google-size" profits to early investors.

As this is the first thorough report published about the Company, it will place you at the starting gate for one of the highest-stakes races of the decade.

■ MISSION

PharmaCielo's mission is to become the world's leading supplier of naturally grown and processed, medicinal-grade cannabis oils, extracts, and related products.

■ MANAGEMENT

One of the first things we always look for in a development-stage company is competent management with high-level experience that relates to the company's business.

What follows is a brief introduction to the core of PharmaCielo's management team, many of whom I met personally during a recent tour of the Company's operations in Colombia.

The management team's expertise is both deep and wide, and all of it is relevant to the Company's business. The individuals include three with CEO-level pedigrees from large, first-tier international companies.

The Canadian Parent Company – PharmaCielo Ltd.

Patricio A. Stocker, *Chairman of the Board*

Dr. Stocker (PhD in Economics) has extensive experience leading large-scale business projects subject to strict local and international regulatory constraints. He is the former CEO of DaimlerChrysler Colombia, and as the head of Mercedes-Benz's commercial truck division for all of Latin America was responsible for annual revenues of more than \$1.3 billion. Currently Dr. Stocker is CEO of Motorysa (Mitsubishi Motors) Colombia, with 320 employees and annual revenues of US\$100 million.

Simon Langelier, *Vice Chairman*

The vice chairman of PharmaCielo's board has spent 30 years leading international divisions of the world's largest tobacco company, Phillip Morris International. He was the president of Phillip Morris Eastern Europe, Middle East & Africa (EEMA), responsible for the ex-Soviet Union countries, the African continent and the Middle East, covering a total of 87 countries, 8,500 employees and annual revenue of

\$6.9 billion. He has overseen high-level negotiations with businesses and government agencies in Russia, Ukraine, South Africa, Iraq, Algeria, Libya, Nigeria, Senegal and other markets.

Simon was also president of Eastern Asia for Philip Morris Asia Limited from 2005 to 2007, responsible for annual revenue of \$5.7 billion and 3,500 employees located in Japan, Australia, New Zealand, South Korea and Greater China (PRC, Hong Kong and Taiwan).

Juan Manuel Ruiz, CEO and Director

PharmaCielo's CEO is the former president of Phillip Morris Colombia and the former director of marketing and sales of Phillip Morris/Tabaqueria Portugal and marketing manager for Phillip Morris Spain.

Most recently Mr. Ruiz was president of Colombia's largest media conglomerate, which operates the country's largest newspaper, *El Tiempo*, employing 3,900 people. This CEO is exceptionally well prepared to develop support for the Company from local media.

David Attard, Director

David Attard is a vice president with Loblaw Companies Limited, where he is responsible for corporate development and strategy, including product development. Canadian readers will recognize the Loblaw name. It is that country's largest food retailer and the operator of the country's biggest pharmacy network, Shopper's Drug Mart (which it recently purchased for \$12.4 billion). Loblaw employs 136,000 people and generates more than \$31 billion in annual revenue.

With over 17 years of experience in the financial services industry at President's Choice Financial (a Loblaw subsidiary), Citigroup, American Express and The Loyalty Group, David has a diverse business background that covers business planning and strategy, new venture startups, corporate development, marketing, brand development and operations management. In 2005 he received Citigroup's Chairman's Global Leadership Award.

David Attard may be bringing more to the Company than his well-suited management expertise. His position with Loblaw puts him at ground zero of what is likely to be the first intelligently structured distribution channel for a national program of fully legalized cannabis.

The Canadian marketplace is already wide open for legally importing and distributing cannabis for medical use. And it may shortly be wide open for importing and distributing cannabis for any purpose; current polls indicate that Canada's coming fall election could swing in favor of the pro-legalization Liberal Party.

John Knapp, COO and Director

John Knapp is the founder of one of Colorado's oldest and best known medicinal cannabis production and retail distribution companies, Good Meds Network, and of GMC & Associates cannabis consulting firm. He was previously senior marijuana design engineer for one of the world's top cannabis consulting firms for three years.

John is not the kind of "unstructured" entrepreneur you might think of in connection with the burgeoning cannabis industry. He's an industrial engineer who built his business on sophisticated, systematized cannabis production and processing. John has provided supply chain and logistical consulting services to more than a dozen large-scale production companies in seven U.S. states and Canada and has earned numerous awards from industry organizations and publications.

Christopher Hansen, Director

Christopher Hansen is a true internationalist. He has led initiatives in Latin America for the Inter-American Institute for Cooperation on Agriculture (IICA), including as country representative to Colombia, deputy director, associate deputy director, U.S. representative and director of strategic partnerships on projects in energy efficiency, sustainable forestry management, coca rehabilitation, women's entrepreneurship, irrigation, tourism, agribusiness and aquaculture. He was chief of party for the USAID Colombian Enterprise Development Program and as IICA representative in Colombia he worked closely with institutions and companies (Syngenta, World Food Program, World Bank) involved in increasing the competitiveness of Colombia's agriculture.

In an industry as heavily regulated as cannabis is going to be, it helps to have a team member with experience maneuvering through the snakes and ladders of the globalist apparatus. (Not that the Phillip Morris directors lack working knowledge in this area. No industry spends more on lobbyists and regulatory compliance than big tobacco.)

Next, let's look at the management of PharmaCielo's wholly owned cannabis flower production subsidiary.

PharmaCielo Colombia S.A.S.

Federico Cock-Correa, Director & CEO, Director PC Canada

Federico Cock-Correa is a prominent member of Colombia's cut-flower industry and is the "quarterback" of the Company's domestic operations. He'll be doing for PharmaCielo what he has been doing to propagate, cultivate and process other plant varieties in Colombia for many years.

Federico is a university-trained (University of Georgia) master horticulturist who now has 29 years of experience managing the development of improved crop strains and applying advanced technology to enhance quality and output rates.

When I met with Federico on a recent visit to Colombia, I toured the vast nursery (part of the family-owned Tahamí & Cultiflores S.A.) where he has the capacity to produce more than 10 million flower cuttings per month to be delivered to selected local growers to raise into ready-to-ship flowers for the world market.

Federico is a past president of the Colombian Flower Exporters Association (Asocolflores), as are two other board members of PC Colombia, and is still active in the association's governance.

Asocolflores is not merely a trade association. Its members employ 130,000 people and bring the country over a billion dollars in exports earnings every year. The importance of flower exporting to the country's economy makes Asocolflores a socially powerful and politically influential organization with a big say in any government policy related to agriculture.

Federico's international flower export business, employing thousands of skilled workers, has been supported by a marketing network that reaches the USA, UK, Netherlands, Russia, Japan, Chile, and Canada. Federico was one of the pioneers in exporting flowers by sea container to the UK market, where he sold literally boatloads of cut flowers to wholesale distributors.

Federico is also the co-founder of a large Colombian plant extract business, EcoFlora, for which in its early years he supervised the processing and extraction of oils and active ingredients from literally hundreds of natural medicinal plants found throughout Colombia.

The next three directors are businessmen whose companies have contracted with PharmaCielo to take the cannabis plant cuttings the Company will produce, raise those cuttings to maturity, and deliver the harvested plants back to the Company for processing and extraction.

Gonzalo Aristizabal Londoño, *Director and Contract Grower*

While evaluating the PharmaCielo team last month, I met another director who is a master grower, Gonzalo Aristizabal Londoño. Like Federico Cock-Correa, he is close to Asocolflores – currently a member of its board of directors and previously its chairman. (Gonzalo also has been the chairman of the board of the Colombia Flower Council, a joint project of Asocolflores and the Association of Flower Importers of Florida that represents the industry on international trade issues.)

Today Gonzalo is chairman of the board of Miraflores LLC, a US-based company established for the direct marketing and distribution of Colombian flowers. His Colombian company, C.I. Cultivos Miramonte S.A., has contracted to grow cannabis exclusively for PharmaCielo in 41.6 hectares of open-air greenhouses. More on that important arrangement later.

Carlos Manuel Uribe, *Director and Contract Grower*

Since 2000, Carlos has been the general manager of Flores El Capiro S.A., the world's largest exporter of flowers by sea freight and one of the world's top-three largest growers of chrysanthemums. Flores El

Capiro's 1,500 employees produce 130 million top-quality chrysanthemum stems per year, all grown in Rionegro, the Company's own neighborhood.

Flores El Capiro has contracted to cultivate and harvest cannabis for PharmaCielo in 70.8 hectares of open-air greenhouses.

Additionally, Carlos is the current chairman of Asocolflores and serves on the board of Cartama S.A., Colombia's largest avocado producer.

Major General Jose Vicente Urueña Molina, *Director*

One director of PharmaCielo Colombia S.A.S. whom I spent time with isn't a grower. Nor does he have any significant agricultural experience – other than eradicating the illegal production of the very crop PharmaCielo is now developing into a large-scale legitimate business.

Major General Urueña served for 40 years in the Colombian military. After spending two years in joint logistics planning with the U.S.'s Wright Patterson Air Force Base he was promoted to Lieutenant Colonel in 1991. He was further promoted to Brigadier General in 2001 after serving as defense attaché in Paris in 1999. In 2005 General Urueña was promoted to Major General by President Alvaro Uribe, thereafter serving as Colombia's Chief of Air Force Operations from 2007 to 2008 and military attaché to Russia in 2010.

In part because of his participation in the Company, PharmaCielo has been accepted as a member of The Business Corporation of Eastern Antioquia (CEO), which is a business alliance focused on physical security. Think of it as an industrial-scale Neighborhood Watch with good friends in the military.

There are also many smart people on PharmaCielo's International Advisory Board – one of whom I've known personally for many years...

PharmaCielo's International Advisory Board

Jim Rogers, *Strategic Advisor*

I grew up reading Jim Rogers's work and hearing him opine on major media networks on the state of the economy and on investment markets. He's one of the shrewdest investors out there. With his partner, George Soros, he founded the most successful hedge fund in history, the Quantum Fund.

It is always nice to know your money is invested alongside people with proven success at sniffing out rising stars early. Jim didn't become a billionaire by making bad bets.

More important to me is that Jim obviously sees the magnitude of this opportunity, which, as I mentioned before, I think of as "Google size." His judgment and guidance should prove highly valuable to PharmaCielo as the industry's growth accelerates.

Nora Restrepo Sánchez, Chief Research Advisor

Dr. Restrepo, the former head of the University of Antioquia's Chemistry Department, is Dean of the University's School of Science. Before joining the University of Antioquia, she was director of the immunochemistry laboratory at the Immunology Institute of Valle, Universidad del Valle, where she earned a PhD in chemistry. She has taught university courses in organic chemistry and analytical chemistry.

This is the person who manages the relationship between the government-owned University of Antioquia and PharmaCielo. The two have entered into a formal operating partnership for the development of cannabis stock suited for high-altitude growing in Colombia and for optimizing CO₂ extraction methodologies for the production of medicinal-grade cannabis oils.

Anthony Wile, Chairman of the Advisory Board.

You may know Anthony from his extensive "free-market" economic publishing effort, *TheDailyBell.com*.

Anthony has a wealth of experience advising high-potential enterprises and guiding them past the hazards of being a new company. He has a deep involvement with the company and has been instrumental in its success and milestone achievements thus far.

About the University of Antioquia

The university is a public research institution with 250 research groups in 23 research centers, 37,000 students and 1,800 professors. The main campus is in Medellín, less than an hour from the Company's nursery in Rionegro; 11 regional campuses are located throughout Colombia. It is 100% state-owned and operates under the direction of a government-appointed rector.

The third-party testing laboratory services of the University Research Headquarters have become an important function for the school, as many companies use those services to confirm laboratory results, extend research and development capabilities, solve unusual and difficult problems and access specialized analytical instrumentation not available in most labs.

The organization meets the highest quality standards, including ISO 9001:2008 certification, external quality control from the London-based Randox International Quality Assessment Scheme (RIQAS), USA's Medical Laboratory Evaluation (MLE) and Colombia's Public Health Departmental Laboratory (Laboratorio Departamental de Salud Pública) standards.

The University of Antioquia is owned by the government of Colombia and is managed by a government-appointed rector. Thus, the Company's joint venture with the university is tantamount to a public-private partnership, which is more than just convenient. It's a sign that the government has already made a decision about its proper involvement in the legal global cannabis industry, or at the least has moved closer to such a decision.

There is more to PharmaCielo's management team, but with the details I've already given, we can safely put a checkmark by the "management capability" box.

■ MARKET

The Company's management has invested considerable time and attention communicating with the international "powers that be" that will be shaping the regulatory framework for legal cannabis. It is into this framework that individual governments around the world will be fitting their own rules and procedures.

Many of the cannabis companies operating today are reactionary in dealing with regulation. They try to keep up with the changing rules in their respective regional markets but give little attention to where the big picture rules are headed.

Most likely, regulations in most countries will converge on the international standards now developing, in part because invoking international standards is the safest strategy for local politicians struggling to deal with the trend toward legal cannabis.

Standardized Medicinal-Grade Oils Are the Future

PharmaCielo has developed a strategy to exploit developing changes in consumer preferences and also the expected character of the future regulatory regime. The Company will produce standardized, medicinal-grade oils from naturally grown and harvested landrace cannabis strains.

(A landrace strain is a variety of a plant that has grown wild – without cultivation or cross breeding – in a particular geographical area for a long period, and hence has proven that it is genetically stable and well adapted to the area.)

Consumer demand for cannabis oils has been growing much faster than demand for smokable plant material, largely as a result of the public's growing distaste for smoking anything. Oils are the future of the cannabis industry.

I asked John Knapp, PharmaCielo's COO and founder of Colorado-based Good Meds Network, about this trend. He told me that two years ago oils represented 5% of his company's annual revenue. Today it is near 40% and rising. He expects oil products to account for more than 50% of total sales by year-end.

He also noted that the more natural oils fetch premium prices. These are oils derived from naturally grown cannabis flower and extracted without using toxic chemicals... like the products from PharmaCielo.

Colombia

Colombia's history as a locus of illegal drug production is well known. Less understood are the factors

that positioned Colombia so favorably for that trade. The explanation can be found in the success of the country’s flower industry, which supplies more than three-quarters of all cut flowers sold in the U.S.

For healthy flowering, chrysanthemums and other decorative blooms require a daily routine close to 12 hours of sunlight followed by 12 hours of darkness. So do cannabis plants.

Equatorial regions, such as Colombia, have exactly that daily light cycle. They don’t deviate from 12-on, 12-off by more than a few minutes throughout the year. The flowers, beautiful as they are, aren’t sensitive enough to notice the small deviation.

Colombia has something in addition to the right daily light cycle. In its high-elevation districts (Rionegro, where PharmaCielo’s nursery is located, sits about 7,000 feet above sea level), the climate is ideal for raising cannabis and other flowers – reliably warm but never scorching, with rainfall that is reliably abundant but seldom excessive.

Growing cannabis in the right areas of Colombia means that water and power (sunlight) are captured at virtually no cost. Combined with the low cost of skilled horticultural workers in Colombia, it is thus possible to produce cannabis flower, year-round, for literally a few pennies per gram. That gives PharmaCielo a tremendous competitive advantage.

There is a reason Colombian cut-flower producers supply 80% or so of the flowers purchased in the United States – it is because they have what economist David Ricardo referred to as comparative economic advantages. Colombian flower growers dominate the international cut-flower industry because they produce high-quality flowers at a lower cost than their competitors. Substitute “cannabis” for “chrysanthemums” and it becomes obvious what other market Colombia is capable of dominating.

After all, cannabis is just another flower. And cannabis has virtually the same rooting, vegetation and flowering cycle as the decorative flowers produced in, and exported from, Colombia in such volume.

On top of that, the master growers who own and operate the 130+ hectares of open-air greenhouses already under contract with PharmaCielo dominate Colombia’s flower production and export industry. Their operators already know how to develop high-quality mother plants and maximize yields and productivity.

■ MOAT (Competitive advantages to keep competitors at bay)

Warren Buffett often talks about wanting to own businesses that have moats full of piranhas and crocodiles surrounding them, to keep competitors at bay.

In short, PharmaCielo’s moat is that it will be the lowest-cost producer of cannabis oils anywhere in the world, with a cost as little as 1/30th that of its North American or European competitors.

During my recent visit to Colombia, Federico Cock-Correa gave me a tour of the vast propagation

nursery that is preparing to switch over from chrysanthemums to cannabis. I saw how organized and methodical the operations are.

Here is a little math to highlight the unbeatably low production costs PharmaCielo will be working with. It's why I believe all the indoor growers and any growers whatsoever in non-equatorial climates will perish in the face of competition from Colombia.

Most of the cost of producing medicinal-grade cannabis oils and extracts – about 90% of total cost – is tied to raising and handling the plants whose flowers are the feeder stock for the oil extraction process. Anywhere between 4 to 6 grams of cannabis flower is needed to produce one gram of cannabis oil.

PharmaCielo projects their cost of producing feeder stock cannabis flower to be less than 5 cents per gram – actually 3.8 cents, but let's keep the math round-number simple and ultra-conservative with 5 cents.

The cost of growing the same cannabis flower in North American or European facilities – such as artificially lighted warehouses – ranges from \$1.50 to \$2.50 per gram and even higher. Much of that cost ties back to the electricity bill for creating an artificial 12-on, 12-off lighting environment and then running a cooling plant to draw off the resulting heat.

Another big cost for indoor growers is water. Cannabis is a thirsty plant. But the contract growers that PharmaCielo works with in Colombia have their own water reservoirs to supply any irrigation that rainfall doesn't provide on its own. Cost of water... virtually nothing, just a little more than the cost of sunshine.

Roughly 5 grams of feeder stock flower is needed to produce 1 gram of extracted oil. Thus, PharmaCielo's feeder stock cost for a gram of oil is 25 cents. For the strongest of the competitors outside of Colombia, with a feeder stock cost of \$1.50 per gram, the cost of extracted oil is 5 x \$1.50, or \$7.50 per gram – *30 times more expensive* than PharmaCielo.

This isn't a hypothetical cost advantage either. It's the exact same cost advantage that has driven the success and profitability of Colombia's world class flower export industry.

American and Canadian companies – despite their obvious transportation cost advantages, being close to the end markets for flowers – just can't overcome the benefits of year-round free sunshine that regulates itself in the 12-on, 12-off pattern that is ideal for flower production... not to mention the dependable year-round supply of free rain water.

No industry comes closer to being an operational twin of legal cannabis production than Colombia's multi-billion dollar cut-flower industry. If flower growers in other countries, including the United States, could supply the markets in their own backyards at a competitive cost, they would. But they can't. Colombian growers can. Expect them to do the same with cannabis.

Another part of the competitive moat is the product itself. As a reader of *Sovereign Man Private Investor*, you most likely already know that we favor consuming natural, and where possible, organic products. And we

are not alone. More and more people around the world are demanding non-GMO products and have shown they are willing to pay more for them.

This adds a substantial, though hard to measure, plus to PharmaCielo's competitive advantage and widens its moat further. Not only is the Company preparing to produce cannabis oils at just 3% or so of the cost of the competition (about the cost of producing Popsicles), the Company's medicinal-grade oils, being naturally produced from landrace strains, can support premium pricing.

Low cost. Premium pricing. Let that sink in for a second. It's the Holy Grail for any business.

■ [BUSINESS] MODEL

PharmaCielo's production model should allow quick, responsive scalability, so that the Company can satisfy every increase in demand even though legalization will come to each state, or country on its own unknowable schedule.

A business that plans to gain and maintain a dominant market share in the global cannabis industry must be ready at all times to ship as much as the market will take – even when demand is surging. Inventories contribute to that readiness, but even more important is scalability, which means the ability to increase production rapidly, and to do so without driving up costs.

To achieve that scalability, PharmaCielo has entered into standby production contracts with selected flower growers. The terms of those contracts build in a compelling incentive for growers to switch from cut flowers to cannabis on just a single day's notice. Here's how the arrangement works, as step 2 in the Company's production model.

Production

PharmaCielo's production model operates in three steps:

Nursery cloning and cutting

Cultivation and Harvest

Oil Extraction and Processing

It's step 2 that involves the contract growers, but let's examine each step separately.

Step 1: PharmaCielo's Nursery and Propagation Center

PharmaCielo has entered into agreements to purchase a 24-hectare property with 12 hectares of open-air greenhouses. Those greenhouses currently serve as one of the Colombian cut-flower industry's most prominent nursery and propagation centers. It's where Colombian flower growers go to buy high-quality cuttings to start their crops.

This is the property PharmaCielo rates as the most important to own, because it is turnkey ready for the company's cuttings (cloning) operations. It's where the Company's optimized mother plants will be grown from which cuttings are harvested to yield millions of tiny cuttings per week. Those cuttings will then be delivered to contract growers, who will raise them to full-flower maturity and then return the plants to the Company's extraction facility.

Think of the nursery and propagation center as a giant birthing station.

PharmaCielo calculates that its nursery and propagation center can turn out 12.2 million ready-to-grow cuttings per week. That's enough to supply a 600-hectare cultivation and harvest operation, which would produce enough cannabis flowers to yield more than 56,197,582 grams of medicinal-grade cannabis oil per week, which (in case you'd like to read a really big number), when valued at today's wholesale price for cannabis oil in the Colorado market, amounts to \$87.6 billion per year.

The Company should eventually need all of the capacity it has entered into agreements to purchase, but initially it will require only a fraction of it. So, the numbers will of course start off much smaller.

To keep the entire facility ready and available without carrying the cost of unneeded capacity, PharmaCielo has entered into a long-term operating agreement with Tahimi & Cultiflores, the company through which Federico Cock-Correa and the company's 250-person staff currently produce cuttings for growers of chrysanthemums and other flowers. The Company will pay only for the portion of the staff it actually uses.

Under the contract, PharmaCielo gets the services of an existing horticultural operating staff – no need for recruiting and training – and pays for the staff only to the extent it is needed. As with the Company's arrangement with contract growers, this allows the Company to expand production rates rapidly, in quick response to the opening of new markets for legal cannabis.

As the company's cultivation and harvest needs grow, so also will the need for more cuttings, or flower babies. And as this growth happens, more and more of Federico's Tahimi & Cultiflores staff will shift their attention and work to cannabis propagation.

PharmaCielo currently incurs no costs whatsoever for this scalable standby staffing. Only at the time of its actual use will the Company incur staffing costs for the facility.

The beauty of this cuttings production model is that nothing very new needs to happen... except a swap-out of the flower being grown. The nursery and its staff just keep doing what they've been doing for 30 years.

Now let's look at what happens when the flower babies (the cuttings) leave the nursery to be grown to full-flower maturity.

Step 2: Contract Grower Network for Cultivation and Harvesting

PharmaCielo has built a contract grower network that embraces the most successful and experienced greenhouse owner/operators in Colombia. These are the same growers who already dominate the U.S. cut-flower market.

They are ready to re-task selected open-air greenhouses from growing chrysanthemums and other decorative flowers to growing PharmaCielo's cannabis plants, and to do so on short notice. Those standby facilities contain 124 hectares of protected growing space, at 10 separate locations all within 20 minutes of PharmaCielo's nursery and propagation center in Rionegro.

By a big margin, that gives PharmaCielo the single largest growing footprint in the world. (It shouldn't be difficult to expand that footprint even further, as needed, considering the incentives involved. The current contract growers and their associates in Asocolflores already operate multiples of the initial 124 hectares of open-air greenhouses.)

PharmaCielo has devised a contract growing relationship whereby everybody can win – and win big. Each contract grower receives three kinds of payment.

Offset for operating costs. For the greenhouse area that a contract grower devotes to raising a batch of PharmaCielo cuttings, the Company pays the grower a per-square-meter amount equal to the grower's historical operating costs. This accrues when the Company delivers the batch.

Harvest fee. When the cuttings have been raised to maturity and the cannabis flowers have been harvested (roughly 10 weeks later), the Company pays the grower a harvest fee that approximates the normal profit from raising cut flowers on a per-square-meter basis.

The growers, in other words, are paid up front for the cost of growing the cannabis and are compensated for harvesting the cannabis flowers.

Royalty pool. The first two payments give a contract grower more or less the same financial result as growing conventional flowers does now. A grower's big payoff, and the reason growers will be eager to switch from chrysanthemums to cannabis, is the royalty pool, which PharmaCielo will feed with 3% of its net (after all operating costs) export revenue.

That royalty pool will be paid out to contract growers in proportion to the amount of cannabis oil PharmaCielo extracts from the flowers each grower produces.

That three percent should add up to serious money. Based on very conservative (almost pessimistic) assumptions about flower yield per square meter and oil yield per gram of flower, the 124 hectares should generate total royalty payments to the growers of \$350 million per year.

I know the numbers sound big but they're more than big... they are downright mind-boggling.

I have visited the operations and met the principals. It's a new company, so of course there are plenty of risks that could derail its plans, including, most likely, risks no one has even thought of yet.

But I have never seen a company so well positioned to capitalize on an obvious boom.

You'll need to read the Company's detailed, 140+ page business plan to grasp the size of this opportunity, but it is worth the time. The entire plan is fascinating and clearly is not the result of a one-night brainstorming session on the back of an envelope.

The most remarkable aspect of the plan is how the company has positioned itself to expand to meet ANY amount of future market demand, but without requiring much capital or committing itself to big overhead expense. For an investor, the modest capital requirements skew the risk/reward ratio strongly in the right direction.

PharmaCielo is setting itself up to be the first to market in each jurisdiction that opens up for legal cannabis and to do so in size. They literally can be planting the day after they receive a purchase order ... 90 days later the crop is ready for oil extraction. That's fast.

Many other companies will claim to have the first-mover advantage. The difference is that Pharmacielo can do it on a scale no other competitor can match, and at a cost that is a tiny fraction of the cost its competitors currently face.

And because PharmaCielo knows exactly what they will be paying the contract growers per square meter, the Company is able to accurately forecast their cost per gram of harvested cannabis flower.

By referring to published industry averages, the company estimates that even if its yields (flower per square meter) are grossly sub-par – something they don't plan to let happen – they can grow ready-to-process cannabis flower for a few pennies per gram.

With normal production yields, the cost per gram should be well below 5 cents – and that's for all-natural, high-quality stock cannabis that can be processed into medical-grade oils.

This overwhelming cost advantage – an engine for capturing an industry – doubtless is part of what has attracted senior Phillip Morris executives to PharmaCielo's Board of Directors.

Step 3: All Natural Processing

PharmaCielo is not only ahead of the industry with its natural production model for feeder stock cannabis flower, it is also ahead in how it processes the flower.

Today, most cannabis oil is produced by shoestring operators with little to no formal scientific training or knowledge. It's a cottage industry. That is going to change – and fast.

The public wants wholesome cannabis products and healthier means of consuming them. They prefer cannabis **oils** derived from plants developed without genetic manipulation and whose flowers have been raised and processed without the use of contaminating chemicals.

PharmaCielo's production starts with landrace strains. Then the hardiest, most oil-rich specimens are selected by the Company's horticultural experts for propagation. Then the Company applies a whole-plant extraction process that is 100% free of synthetic chemicals or toxins.

Product differentiation

Cannabis oil is extracted from the flowers by using a solvent to “pull” the active elements from the plant material. Cannabis plants contain over 400 known active elements, and some extraction processes aim at pulling just certain of those elements. Companies using those processes are pulling in the wrong direction.

While certain elements are known to be the primary drivers of one or more effects of cannabis consumption, the experience of medical practitioners is that individual, separated elements never work as effectively to treat an ailment as the entire suite of extractable elements. No one knows why. But until someone figures it out, the highest-quality oil you can produce is an extract that mirrors the array of active elements in the entire original plant material.

That's why PharmaCielo is focused on whole-plant extraction – meaning that upwards of 99% of the original plant material's active elements will be present in the resulting oil.

And PharmaCielo's extraction process is the cleanest, most natural one imaginable. It relies on nature's own carbon dioxide, which at the right pressure and temperature becomes a powerful solvent. Because the process involves no butane or other noxious chemicals, it yields an oil that is completely free of contaminants. And the resulting oil closely matches the element profile of the original plant material. Clean and complete.

The Company has assembled an oil processing team that is above and beyond in its members' understanding of how to use clean processes to pull almost perfect whole-plant extracts.

One source of the Company's oil-extraction expertise is Federico Cock-Correa, the Colombian subsidiary's CEO, who built a successful Colombian plant extraction company by focusing on toxin-free, natural extraction methodologies.

Another source of expertise is Pritesh Kumar, one of the world's leading cannabinoid research scientists. Pritesh, a cannabinoid scientist and lab manager at the University of Louisville, is also the founder of Phytosciences Consultants.

His team there includes an international network of cannabis scientists, from microbiologists to pharmacologists, working to establish international standards for cannabis testing, validated lab testing practices and analytical methods to ensure testing consistency. He has developed CO₂ processing techniques that capture 99+ percent of a plant's active elements.

And the Company will have the resources of the University of Antioquia's renowned multi-disciplinary faculty and scientific research and testing facilities at its disposal, too – including Dr. Restrepo, dean of the School of Science – with its vast experience working with extractions from hundreds of different medicinal plants.

■ MARKETING

Let's take a quick look at how PharmaCielo intends to promote its products. Here too, once again, PharmaCielo has positioned itself thoughtfully for the future of the cannabis distribution game.

Processing Location

The Company's extraction plant (operated by the Company's subsidiary, PC Exports) will be located in the Zona Franca de Rionegro free trade zone, 15 minutes from the Company's nursery. Industries resident in the free trade zone enjoy extensive tax and foreign trade benefits.

Zona Franca de Rionegro is also a BASC-certified zone, meaning that the security is as tight as it gets for international commerce in Latin America. BASC (Business Alliance for Secure Commerce) is a non-profit international business alliance focused on securing the efficient movement of goods. It is supported by the US Customs and Border Protection and over 2,300 international companies have voluntarily chosen to participate.

I expect this should make it easier for US export once the time comes.

And Zona Franca de Rionegro free trade zone is located immediately adjacent to the Medellin International Airport, which makes export shipping much easier to secure.

Public Relations

I have met some entrepreneurs with what seemed like great ideas, but when I asked them how they planned to let the world know they exist, the question took them by surprise. A big negative.

PharmaCielo's management team appreciates the importance of building and protecting their brand, including their corporate name and the names of their products. Attending to branding is important, even though the Company will be selling exclusively to other businesses, not directly to the public. For knowledgeable help with branding and with public relations in general, PharmaCielo has retained the firm Cohn & Wolfe.

Cohn & Wolfe is an innovative global communications firm providing services that has, for over 40 years, built brands "by captivating, engaging and motivating stakeholders to act."

The firm's client list includes some of the most recognized brands in the world: Barclays, ExxonMobil, GlaxoSmithKline, Hennessy, Mandarin Oriental Hotel Group, Mattel, Panasonic and Smucker's, for example. Cohn & Wolfe has also been behind some of the world's highest-profile events, ranging from every Olympic Games since the early '70s to the Golden Globes.

It's a big operation. Cohn & Wolfe has offices in North America, Europe, the Middle East, Africa and Asia and employs a staff of 1,200 professionals. *PRWeek* named Cohn & Wolfe the 2013 Agency of the Year and identified the firm's CEO as one of the Most Powerful People in PR. The Holmes Report called Cohn & Wolfe's creative work "among the best in the business."

This is the kind of Fortune 500 representation that supports branding and marketing efforts that are well managed and effective. And there are spillover effects.

In addition to advising clients on communicating the value of their products to the consuming public, Cohn & Wolfe assists companies in communicating the value of their stock to the investing public. At some future date, this may be helpful for the Company (and for its early investors), when the time comes for PharmaCielo to transition from a private company to a public company.

Potential new shareholders will get to know what you have already learned. And, if I am even remotely close to grasping the power of today's early-stage opportunity, they'll be discovering PharmaCielo at much higher valuation levels than are available to you now.

■ MONEY (AND DEAL SUMMARY)

PharmaCielo is raising up to \$2,500,000 by issuing up to 5,000,000 new shares at a cost of 50c a share.

Management reserves the right to accept reservations for the issuance of any number of shares below this, and up to 50% more than this.

The minimum investment is \$25,000, and the company requires its investors to be Accredited Investors under US securities laws to participate.

Prior to this share issue, the fully diluted number of shares outstanding, assuming all warrants, special warrants, and stock options outstanding were exercised, is 44,533,300.

So, the pre-money valuation of the company for this round of financing is \$22,266,650.

After this financing round there will be 49,533,300 shares outstanding. The 5 million new shares being offered account for 10.09% of the expanded share-count.

Again, the minimum investment is \$25,000. For that, you will end up owning 50,000 shares, or 0.1009% of the entire company.

In full disclosure, Sovereign Man was invited to participate in an earlier round of financing, back when PharmaCielo was at a much earlier, conceptual stage.

We invested \$25,000. As you can probably guess from this writeup, we plan on investing much more in this round.

(As always, we receive no fees, warrants, kickbacks, etc. of any sort from the company; we are investing in this round at the same terms as you are, so we have the exact same incentives.)

■ MY EXIT

PharmaCielo's business plan calls for it to become the biggest, most profitable legal cannabis supplier in the world, growing by leaps and bounds as each stage of that market opens up.

As such, the plan is to make profits and distribute dividends to shareholders as soon as practicably possible.

This is not some "build it and hope they come" business model that focuses on gathering as many customers as possible, and then wondering how to monetize them later (the tech industry is full of these sorts of companies which, frankly, are not our cup of tea... Twitter being a prime example).

It is quite probable there will be an IPO for PharmaCielo at some stage in the coming years.

Founding shareholders and those who invest during the early, private financing rounds, such as you, will no doubt have a chance to exit some or all of their holdings at that point, should they want to.

But, if PharmaCielo delivers even a fraction of the market share, sales, and profits that its business plan calls for, you might find yourself wanting to hang onto your shares.

As always, we at Sovereign Man Private Investor will be there to let you know what course of action we think is most appropriate, and what we'll be doing.

I expect it to be a couple of years, at least, before PharmaCielo starts to hit its full stride. So, this is not an investment to make if you need your capital out in 6 or 12 months. Please plan accordingly.

And, we stress again that you are investing in a pre-revenue, pre-product, pre-profit start-up. Total losses are possible. Do not invest more than you can afford to lose without affecting your lifestyle.

As an old mentor of mine wisely said, "Never risk your lifestyle on a single investment."

If this investment pays off, it will be a grand slam home run where the ball goes way out of the park. But you need to realize that there is also a possibility it could be a total strikeout.

As with any new company, it's a long way from here to there. Cannabis is still a banned substance in many countries, states, and provinces, and PharmaCielo has yet to produce any of it in industrial scale.

■ NEXT STEPS

The Company has prepared some substantial offering documentation, but before we pass along their contact details we want to ensure you have enough time to digest this information, as well as schedule the teleconference with one of the principals of the Company.

So for now please take some time to review this publication with your financial advisors and send us your questions, and we'll be back with the teleconference details sometime after the 4th of July holiday.