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- additional counsel on signature page -

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

HOWARD ANDERSON, Individually
and on Behalf of All Others Similarly
Situated,

Plaintiff,

vs.

PHARMACIELO LTD., DAVID
ATTARD, and SCOTT LAITINEN,

Defendants.

Case No.

CLASS ACTION

COMPLAINT FOR
VIOLATIONS OF THE
FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

1 Plaintiff Howard Anderson (“Plaintiff”), individually and on behalf of all other
2 persons similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint
3 against Defendants (defined below), alleges the following based upon personal knowledge
4 as to Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters,
5 based upon, *inter alia*, the investigation conducted by and through his attorneys, which
6 included, among other things, a review of the Defendants’ public documents, conference
7 calls and announcements made by Defendants, public filings, wire and press releases
8 published by and regarding PharmaCielo Ltd. (“PharmaCielo” or the “Company”), and
9 information readily obtainable on the Internet. Plaintiff believes that substantial
10 evidentiary support will exist for the allegations set forth herein after a reasonable
11 opportunity for discovery.
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15

16 **NATURE OF THE ACTION**

17 1. This is a class action on behalf of persons or entities who purchased or
18 otherwise acquired publicly traded PharmaCielo securities from June 21, 2019 and March
19 2, 2020, both dates inclusive (the “Class Period”). Plaintiff seeks to recover compensable
20 damages caused by Defendants’ violations of the federal securities laws under the
21 Securities Exchange Act of 1934 (the “Exchange Act”).
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JURISDICTION AND VENUE

1
2 2. The claims asserted herein arise under and pursuant to Sections 10(b) and
3 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated
4 thereunder by the SEC (17 C.F.R. § 240.10b-5).
5

6 3. This Court has jurisdiction over the subject matter of this action pursuant to
7 28 U.S.C. § 1331, and Section 27 of the Exchange Act (15 U.S.C. §78aa).
8

9 4. This Court has jurisdiction over each defendant named herein because each
10 defendant has sufficient minimum contacts with this District so as to render the exercise
11 of jurisdiction by this Court permissible under traditional notions of fair play and
12 substantial justice.
13

14 5. Venue is proper in this judicial district pursuant to 28 U.S.C. § 1391(b) and
15 Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)) as the alleged misstatements entered
16 and the subsequent damages took place in this judicial district.
17

18 6. In connection with the acts, conduct and other wrongs alleged in this
19 complaint, Defendants, directly or indirectly, used the means and instrumentalities of
20 interstate commerce, including but not limited to, the United States mails, interstate
21 telephone communications and the facilities of the national securities exchange.
22
23

24 **PARTIES**

25 7. Plaintiff, as set forth in the accompanying Certification, purchased the
26 Company's securities at artificially inflated prices during the Class Period and was
27 damaged upon the revelation of the alleged corrective disclosure.
28

1 8. Defendant PharmaCielo, through its subsidiary, PharmaCielo Colombia
2 Holdings S.A.S., purports to cultivate, process, produce, and supply medicinal-grade
3 cannabis oil extracts and related products in Colombia and internationally.
4

5 9. The Company is incorporated in Canada and its head office is located at 1
6 Toronto Street, Suite 805, Toronto, Ontario, Canada M5C 2E3. PharmaCielo's securities
7 trade on the OTCQX Best Market ("OTCGX") under the ticker symbol "PCLOF" and
8 previously traded under the ticker symbol "PHCEF."
9

10 10. Defendant David Attard ("Attard") has served as the Company's Chief
11 Executive Officer ("CEO") and as a Director during the Class Period.
12

13 11. Defendant Scott Laitinen ("Laitinen") has served as the Company's Chief
14 Financial Officer ("CFO") during the Class Period.
15

16 12. Defendants Attard and Laitinen are collectively referred to herein as the
17 "Individual Defendants."
18

19 13. Each of the Individual Defendants:

- 20 (a) directly participated in the management of the Company;
21
22 (b) was directly involved in the day-to-day operations of the Company at
23 the highest levels;
24
25 (c) was privy to confidential proprietary information concerning the
26 Company and its business and operations;
27
28 (d) was directly or indirectly involved in drafting, producing, reviewing
and/or disseminating the false and misleading statements and

1 information alleged herein;

2 (e) was directly or indirectly involved in the oversight or implementation
3 of the Company's internal controls;

4 (f) was aware of or recklessly disregarded the fact that the false and
5 misleading statements were being issued concerning the Company;
6 and/or
7

8 (g) approved or ratified these statements in violation of the federal
9 securities laws.
10

11
12 14. The Company is liable for the acts of the Individual Defendants and its
13 employees under the doctrine of *respondeat superior* and common law principles of
14 agency because all of the wrongful acts complained of herein were carried out within the
15 scope of their employment.
16

17 15. The scienter of the Individual Defendants and other employees and agents
18 of the Company is similarly imputed to the Company under *respondeat superior* and
19 agency principles.
20

21 16. The Company and the Individual Defendants are referred to herein,
22 collectively, as the "Defendants."
23

24 **SUBSTANTIVE ALLEGATIONS**

25 **Materially False and Misleading**
26 **Statements Issued During the Class Period**

27 17. On June 21, 2019, PharmaCielo issued a press release touting the Company's
28

1 recent position in the stock market and announcing that the Company was “now trading
2 on the OTC Markets under the symbol ‘PHCEF.’”

3
4 18. On August 27, 2019, PharmaCielo issued a press release which announced
5 the Company’s second quarter 2019 financial results and touted its “maturing” oil
6 producing capabilities, stating in pertinent part:

7
8 “The first six months of 2019 have been incredibly productive for
9 PharmaCielo, as *the team in Colombia nears completion of the key*
10 *foundational elements that will enable the Company to support the sale and*
11 *export of processed oil,”* said David Attard, Chief Executive Officer of
12 PharmaCielo Ltd. . . . “Over the past several months PharmaCielo has been
13 transitioning from our founding stage as we finalize the operational
14 infrastructure and *are now entering into a more mature operational phase*
with inventory, finished products (oils and isolate), distribution channels,
sales agreements and, most recently, our announcements of international
sales relationships and successful export.”

15 (Emphasis added.)

16
17 19. Also on August 27, 2019, PharmaCielo issued its “Management’s Discussion
18 and Analysis For the Three and Six Months Ended June 30, 2019” (the “August
19 Management’s Discussion and Analysis”).

20
21 20. In the August Management’s Discussion and Analysis, PharmaCielo touted
22 its expanding production capabilities, particularly with regards to oil production, stating
23 the following, in pertinent part, about its operations and facilities:

24
25 Additional processing equipment now in place complements technologies
26 previously installed and will immediately increase annual dried flower
27 processing capacity in support of previously announced strategies for the
28 expansion of hectares under cultivation, with a corresponding increase in
finished oil production.

* * *

1
2 *The Company continues to expand the land area under active cultivation,*
3 *currently at 12.1 hectares (capable in annual cultivation in excess of 0.48*
4 *million kg) from 5.3 hectares at the beginning of the year, with additional*
5 *cultivation expansion expected to continue throughout the balance of the*
6 *year.*

* * *

7
8 PharmaCielo's nursery and propagation center, located in the municipality of
9 Rionegro in the department of Antioquia, consists of 12 hectares of open-air
10 greenhouses situated on a 27 hectare property, along with a manmade lake
11 (natural water reservoir), ample cold storage, and industrial "plugging"
12 systems customized to handle large-scale cutting operations. Each hectare of
13 greenhouse contains 180 planting beds, each bed is 40.5 sq. meters (1.35 m x
14 30 m). The total bedding area per hectare is 7,290 sq. meters and the entire
15 nursery and propagation center contains approximately 1.3 million square
16 feet of planting beds. This nursery and propagation center is capable of
17 producing on a weekly basis, significantly more than 12 million cuttings (e.g.,
18 clones) that would be required to supply 600 hectares of contract cultivation.

19 *PharmaCielo is also currently constructing a research technology and*
20 *processing center ("Research Technology and Processing Centre"), with*
21 *the anticipated completion of construction in late 2019. Once complete, the*
22 *Colombian National Food and Drug Surveillance Institute ("INVIMA") must*
23 *certify the center to ensure that it meets Colombian good and manufacturing*
24 *standards. The Research Technology and Processing Centre will contain*
25 *facilities to: (i) dry flowers naturally and by using drying machines; (ii) a*
26 *milling area; (iii) extraction areas; and (iv) an area designed for testing for*
27 *levels of THC and CBD levels in cannabis as well as for general compliance.*
28 *To date, the Research Technology and Processing Centre costs have been*
USD\$9 million and management projects that the completion of facility will
require an additional USD\$6 million.

(Emphasis added.)

21. On September 25, 2019, PharmaCielo issued a press release which
"announced that it has signed a United States sales agreement (the "Agreement") with an

1 established multi-state distributor, General Extract LLC ("General Extract")."

2 22. On November 25, 2019, PharmaCielo issued a press release which announced
3 the Company's third quarter 2019 financial results (the "3Q 2019 Financial Results") and
4 touted its expansion, stating in pertinent part:
5

6 *Nearing completion of extraction and processing center* ("RTC"), which
7 will expand the Company's extraction capacity to 265 tonnes of dried flower
8 per year (processed equivalent volume of 28,900 kg of cannabis oil per year).

9 * * *

10 [S]aid David Attard, Chief Executive Officer of PharmaCielo Ltd. "Our focus
11 in Q4 and through 2020 will be on a continued ramp up of our processing
12 facilities and on generating revenue at commercial scale both through the
13 expansion of global sales relationships, and the signing of commercial supply
14 agreements in jurisdictions where we are present today.["]

15 (Emphasis added.)

16 23. Also on November 25, 2019, PharmaCielo issued its "Condensed Interim
17 Consolidated Financial Statements Three and Six Months Ended September 30, 2019" (the
18 "November Financial Statements").

19
20 24. In the November Financial Statements, PharmaCielo touted its expanding
21 production capabilities, particularly with regards to oil production, stating the following,
22 in pertinent part, about its operations and facilities:
23

24 PharmaCielo Colombia Holdings S.A.S. is developing a farm and a
25 processing plant, located in Rio Negro the municipality of La Cieja
26 (Antioquia), for the purpose of cultivating and sowing, as well as assembly of
27 the cannabis oil. The farm includes greenhouses, offices and agricultural
28 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.

* * *

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.

(Emphasis added.)

25. In the November Financial Statements, PharmaCielo purportedly listed all of its related party transactions but did not include the transaction with General Extract.

26. The statements referenced in ¶¶ 17-25 above were materially false and/or misleading because they misrepresented and failed to disclose the following adverse facts pertaining to the Company’s business, operational and financial results, which were known to Defendants or recklessly disregarded by them. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) PharmaCielo engaged in undisclosed related party transactions with General Extract; (ii) PharmaCielo engaged in misleading transactions and loans with General Extract; (iii) PharmaCielo had significantly overstated the efficacy and competitiveness of the Company’s business and operations in South America, including Peru and Colombia; (iv) PharmaCielo’s Research Technology and Processing Centre was never on-schedule and is delayed; (v) the Rionegro facility is located on a floodplain and contaminated with mold and pesticides from its previous tenants; (vi) PharmaCielo’s Cauca Department land has never been utilized by

1 the Company and is idle; and (vii) as a result, Defendants’ public statements were
2 materially false and/or misleading at all relevant times.

3 **THE TRUTH BEGINS TO EMERGE**
4

5 27. On January 9, 2020, *Marijuana Business Daily* (“*MBD*”) published an article
6 entitled “New medical cannabis sales opportunities in Peru face downward price pressure
7 after winning company’s very low bid” (the “*MBD Article*”). According to that article,
8 “[t]he price offered by the winner of the first bidding process to supply medical cannabis
9 in Peru came in well below that of other applicants,” including PharmaCielo, which, “[t]o
10 comply with the purity requirement . . . offered CBD isolate in powder form,” and was
11 disqualified “because the company didn’t make an offer in ‘liquid’ form as required.”
12
13

14 28. On this news, shares of PharmaCielo fell \$0.122 per share, or 4.80%, to close
15 at \$2.42 per share on January 10, 2020. However, PharmaCielo’s shares continued to
16 trade at artificially inflated prices as a result of Defendants’ continued misrepresentations
17 and misstatements throughout the rest of the Class Period.
18
19

20 29. For example, on January 27, 2020, PharmaCielo issued a press release which
21 announced:
22

23 . . . that it has entered into a three-year agreement (the “Agreement”) with
24 **XPhyto Therapeutics Corp.** (“**XPhyto**”) (**CSE:XPHY; FSE:4XT**),
25 whereby PharmaCielo will supply medicinal-quality cannabis extract oils and
26 isolates, including those containing THC, to XPhyto for analysis, further
27 processing, product development and manufacturing at its European Union
28 Good Manufacturing Practicecertified (“EU GMP”) facility in Biberach in the
state of Baden-Württemberg, and thereafter for sale into the German market.

* * *

1 Pursuant to the Agreement, XPhyto granted PharmaCielo 500,000 Common
2 Share purchase Warrants (“Warrants”) with an exercise price of \$2.00 per
3 Common Share.

4 As a term of the Agreement, PharmaCielo will enter into an agreement (the
5 “Purchase Agreement”) to purchase CAD \$500,000 of unsecured convertible
6 debentures of XPhyto (the “Debentures”), to fund expansion of its processing
7 capabilities. The Debentures mature two years from the date of issue and bear
8 interest of 8.0% per annum. The Debentures will be convertible by
9 PharmaCielo into 500,000 common shares of XPhyto subject to certain
10 XPhyto acceleration rights. The purchase of the Debentures is subject to
11 approval by the Canadian Securities Exchange (the “CSE”). XPhyto will also
12 grant PharmaCielo 500,000 Warrants with an exercise price of \$1.50 per
13 Common Share.

14 30. The statements referenced in ¶ 29 above were materially false and/or
15 misleading because they misrepresented and failed to disclose the following adverse facts
16 pertaining to the Company’s business, operational and financial results, which were
17 known to Defendants or recklessly disregarded by them. Specifically, Defendants made
18 false and/or misleading statements and/or failed to disclose that: (i) PharmaCielo engaged
19 in an undisclosed related party transactions with General Extract; (ii) PharmaCielo
20 engaged in misleading transactions and loans with General Extract and XPhyto; (iii)
21 PharmaCielo had significantly overstated the efficacy and competitiveness of the
22 Company’s business and operations in South America, including Peru and Columbia; (iv)
23 PharmaCielo’s Research Technology and Processing Centre was never on-schedule and is
24 delayed; (v) the Rionegro facility is located on a floodplain and contaminated with mold
25 and pesticides from its previous tenants; (vi) PharmaCielo’s Cauca Department land has
26 never been utilized by the Company and is idle; and (vii) as a result, Defendants’ public
27
28

1 statements were materially false and/or misleading at all relevant times.

2 **THE TRUTH FULLY EMERGES**

3 31. On March 2, 2020, Hindenburg Research published a report (the “Report”)
4 explaining that PharmaCielo had failed to disclose: (i) transactions with related parties;
5 (ii) misleading business transactions and loans with General Extract and XPhyto; (iii) the
6 delayed state of its Research Technology and Processing Centre’s construction; and (iv)
7 the poor state of its Rionegro Growing Facility.
8

9
10 32. The Report noted the following, in pertinent part, regarding PharmaCielo’s
11 undisclosed related party transactions:
12

13 PharmaCielo recently announced a U.S. distribution deal with an opaque
14 company called General Extract LLC. *We found that this is yet another*
15 *undisclosed related party deal, involving PharmaCielo’s former COO.*

16 * * *

17 The company’s U.S. distribution partner is actually yet another undisclosed
18 related-party deal with a company that appears to have limited to no credible
19 operations.

20 * * *

21 **Undisclosed Related-Party Deals: PharmaCielo’s New U.S. Distribution**
22 **Deal with General Extract LLC Is Yet Another Questionable Deal with**
23 **A Former PharmaCielo COO**

24 * * *

25
26 *But what the company did not disclose seems far more important: General*
27 *Extract appears to be a related party entity with no credible operations run*
28 *by PharmaCielo’s former Chief Operating Officer.*

The articles of incorporation [] for General Extract, LLC show “John

1 Knapp” as the company’s registered agent. Mr. Knapp was former “Chief
2 Operations Officer” of PharmaCielo, per this 2016 regulatory filing [] with
3 British Columbia Securities Regulators.

4 * * *

5 *All told, nearly all of the key people at PharmaCielo’s new U.S. distribution*
6 *partner General Extract (and its parent Redwood Green) appear to be*
7 *related to PharmaCielo.*

8 (Emphasis added.)

9 33. The Report noted the following, in pertinent part, regarding PharmaCielo’s
10 transactions with General Extract:

11 **General Extract, Which PharmaCielo Described as an “Established**
12 **Multi State Distributor” Appears to Have No Products and No Credible**
13 **Operations Whatsoever**

14 Most “established” companies at least have a website.

15
16 When we examined General Extract, we found that its website [] domain was
17 registered on November 14, 2019, about 3 weeks after entering into its sales
18 agreement with PharmaCielo.

19 Along the same lines, the email address used by General Extract in its press []
20 with PharmaCielo was a Gmail address [] (presumably because they didn’t
21 even have a domain registered at the time)[.]

22 * * *

23 Despite the claim by PharmaCielo that General Extract is a “multistate” []
24 distributor, we were unable to find evidence to confirm this. Nothing on
25 General Extract’s website as of 3/1/2020 [] says anything about multi-state
26 distribution, multiple locations, or suggests any clients exist other than
27 PharmaCielo.

28 **We Visited General Extract in Colorado And We Found Its “Offices”**
Bore the Logo of a Different Company. Its Parent Company’s Office
“Suite” Was Actually A Mailbox at A UPS Store

Our investigator, did, however, see people leaving various parts of the building around 4:50pm local time; some of whom were wearing grey sweaters with a logo that resembled a “Good Meds” logo. “Good Meds” is the other brand owned by Redwood Green and operated by John Knapp [], the individual listed on General Extract’s corporate documents [].

* * *

Instead, it appears that General Extract exists largely on paper.

Undisclosed Related-Party Deals: General Extract’s Parent Corporation, Redwood Green, Is Also Replete with Related Party Ties to PharmaCielo

General Extract’s parent company, Redwood Green [] also consists of multiple people tied closely to PharmaCielo.

* * *

All told, nearly all of the key people at PharmaCielo’s new U.S. distribution partner General Extract (and its parent Redwood Green) appear to be related to PharmaCielo. Most importantly, none of this was disclosed to investors when the company touted its “milestone” distribution deal.

(Emphasis added.)

34. The Report noted the following, in pertinent part, regarding PharmaCielo’s transactions with XPhyto Therapeutics:

PharmaCielo’s other main partnership, a distribution deal with nanocap company XPhyto, appears to be little more than a shell game. *PharmaCielo is supplying XPhyto with cash so XPhyto can turn around and buy PharmaCielo’s products.*

* * *

Another Sketchy “Partnership”: PharmaCielo Is Paying a Company Called XPhyto To Buy PharmaCielo’s Product with PharmaCielo’s Money

* * *

1 XPhyto’s financials show that the company was in apparent distress leading
2 up to the deal. In the 9-month period prior to announcing the deal, XPhyto
3 reported [] revenue of \$45,000, operating losses of \$5,351,789, and cash of
4 only \$791,030. In other words, they look to have been at the brink of
5 insolvency.

6 * * *

7 When it boils down to it, this partnership appears to us to be a sham.
8 PharmaCielo is paying a distressed company to “buy” its product. Aside from
9 the splashy headline, the “deal” appears to offer no economic advantage.

10 ***In a best-case scenario, we think PharmaCielo will get its own money back***
11 ***and have to hand over valuable product.*** So far, we haven’t seen any
12 purchases by XPhyto as the partnership announcement [] was recent, on
13 January 27, 2020.

14 Realistically, given the state of XPhyto’s current balance sheet and its
15 dwindling cash, we expect PharmaCielo will simply lose most of its
16 investment in XPhyto with little to show for it.

17 (Emphasis added.)

18 35. The Report noted the following, in pertinent part, regarding PharmaCielo’s
19 Rionegro greenhouse facilities:

20 According to local sources, the Rionegro greenhouse facilities have issues
21 with mold and residual pesticides from the flower-growing operation that
22 preceded the company’s use of the facility.

23 * * *

24 ***The company’s main facility in Rionegro may be troubled with mold and***
25 ***pesticide contamination, likely originating from the flower-growing***
26 ***operation that preceded PharmaCielo’s assumption of the facilities,***
27 ***according to local sources we spoke with. In addition, Rionegro planning***
28 ***authorities say one-third of the land is unusable due to environmental***
restrictions and the risk of flooding.

* * *

1
2 **Financials and Operations: Reported Issues with Mold and Heavy**
3 **Pesticides in the Company’s Rionegro Facility**

4 Additionally, a source that our investigator spoke with, a businessperson who
5 is part of the flower-growing industry, said *based on their recent knowledge*
6 *and entry to the PharmaCielo facility, they believed the cannabis crop there*
7 *was “suffering from a bad outbreak of the fungus botrytis (or gray mold.)”*

8 They said the fungus was a major problem with certain flower cultivations,
9 especially daisy poms (pompoms) – which is the type of flower that our
10 investigator was told was being cultivated on the property prior to
11 PharmaCielo taking it over.

* * *

12 The other salient land issue is the flood risk from an adjacent stream. *An*
13 *officer at the Rionegro planning department explained about one-third of*
14 *the 27 hectare facility could not be used for building or agriculture because*
15 *it was on a flood plain and subject to strict environmental controls.*

16 (Emphasis added.)

17 36. The Report noted the following, in pertinent part, regarding construction on
18 PharmaCielo’s Rionegro Research Technology and Processing Centre:
19

20 The company’s Rionegro cannabis oil processing centre [the Research
21 Technology and Processing Centre], a key element of its plan to export oils,
22 remains unfinished after almost 6 months of delays.

* * *

24 **Financials and Operations: Cap-Ex Needs and the Company’s Delayed**
25 **Oil Processing Centre**

* * *

26
27
28 *We also see from the same filing that despite the company claiming the oil*
processing centre was “nearing completion” in August 2019, by September

1 *it estimated that over U.S. \$7 million in anticipated capital expenditures*
2 *would be needed in order to complete the project.*

3 The company has not yet announced whether the facility is completed. *We*
4 *contacted investor relations and asked about its status and have not yet*
5 *received a reply.* The facility does appear to be under construction, according
to pictures posted by a development group [] associated with the project[.]

6 The photos [] were posted around June 2019. *Based on the timing, we*
7 *anticipate that the external elements of the building are completed or close*
8 *to being completed. We attempted to visit the facility to examine its progress*
9 *but were unable to.*

10 In either case, investors should factor in the additional estimated \$7 million
11 cash burn from the cap-ex required to complete the facility. We also think the
12 company should provide investors with an update on progress, with pictures.

13 (Emphasis added.)

14 37. The Report noted the following, in pertinent part, regarding PharmaCielo's
15 land in the Cauca Department of Colombia:

16 The company announced it was building greenhouse facilities on newly
17 purchased land in Colombia's Cauca region in 2017. *We visited the land and*
18 *found the greenhouses don't exist.* The site is nothing more than an empty
19 field covered in weeds. (We have photos and video)

20 * * *

21 *The company's key 3.6 hectare 'operation' in Colombia's Cauca region is*
22 *actually just an empty field* (we have pictures and video). We confirmed this
23 with local leaders of a farming co-op that struck a deal to grow cannabis with
24 the company.

25 * * *

26 **"There's Nothing There, Just Weeds": PharmaCielo's 'Greenhouse**
27 **Facility' in Cauca Doesn't Exist**

1 Our investigator visited the Cauca property in February 2020, led by a senior
2 member of the cooperative. He saw that PharmaCielo's greenhouse facility in
3 Cauca, first touted 2 years ago, simply doesn't exist.

4 * * *

5 **Since the cultivation license was issued in November 2017, the person said**
6 **there has been no further investment, no greenhouse has been built and**
7 **not a single cannabis plant has been sown.**

8 (Emphasis added.)

9 38. On this news, shares of PharmaCielo fell \$0.5132 per share over the next two
10 trading days, or 36.14%, to close at \$0.9068 per share on March 3, 2020, damaging
11 investors.

12
13 39. As a result of Defendants' wrongful acts and omissions, and the precipitous
14 decline in the market value of the Company's securities, Plaintiff and other Class members
15 have suffered significant losses and damages.

16
17 **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

18
19 40. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
20 Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons other than
21 defendants who acquired PharmaCielo securities publicly traded on the OTCQX during
22 the Class Period, and who were damaged thereby (the "Class"). Excluded from the Class
23 are Defendants, the officers and directors of PharmaCielo, members of the Individual
24 Defendants' immediate families and their legal representatives, heirs, successors or
25 assigns and any entity in which Defendants have or had a controlling interest.

26
27
28 41. The members of the Class are so numerous that joinder of all members is

1 impracticable. Throughout the Class Period, PharmaCielo securities were actively traded
2 on the OTCQX. While the exact number of Class members is unknown to Plaintiff at this
3 time and can be ascertained only through appropriate discovery, Plaintiff believes that
4 there are hundreds, if not thousands of members in the proposed Class.
5

6 42. Plaintiff's claims are typical of the claims of the members of the Class as all
7 members of the Class are similarly affected by Defendants' wrongful conduct in violation
8 of federal law that is complained of herein.
9

10 43. Plaintiff will fairly and adequately protect the interests of the members of the
11 Class and has retained counsel competent and experienced in class and securities litigation.
12 Plaintiff has no interests antagonistic to or in conflict with those of the Class.
13

14 44. Common questions of law and fact exist as to all members of the Class and
15 predominate over any questions solely affecting individual members of the Class. Among
16 the questions of law and fact common to the Class are:
17

- 18 • whether the Exchange Act was violated by Defendants' acts as alleged
19 herein;
- 20 • whether statements made by Defendants to the investing public during the
21 Class Period misrepresented material facts about the financial condition and
22 business of PharmaCielo;
23
24
25
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28

- 1 • whether Defendants' public statements to the investing public during the
- 2 Class Period omitted material facts necessary to make the statements made,
- 3 in light of the circumstances under which they were made, not misleading;
- 4
- 5 • whether the Defendants caused PharmaCielo to issue false and misleading
- 6 filings during the Class Period;
- 7
- 8 • whether Defendants acted knowingly or recklessly in issuing false filings;
- 9
- 10 • whether the prices of PharmaCielo securities during the Class Period were
- 11 artificially inflated because of the Defendants' conduct complained of herein;
- 12 and
- 13
- 14 • whether the members of the Class have sustained damages and, if so, what is
- 15 the proper measure of damages.

16 45. A class action is superior to all other available methods for the fair and
17 efficient adjudication of this controversy since joinder of all members is impracticable.
18 Furthermore, as the damages suffered by individual Class members may be relatively
19 small, the expense and burden of individual litigation make it impossible for members of
20 the Class to individually redress the wrongs done to them. There will be no difficulty in
21 the management of this action as a class action.
22
23

24 46. Plaintiff will rely, in part, upon the presumption of reliance established by the
25 fraud-on-the-market doctrine in that:
26

- 27 • PharmaCielo shares met the requirements for listing, and were listed and
- 28

1 actively traded on the OTCQX, an efficient market;

- 2 • As a public issuer, PharmaCielo filed periodic public reports;
- 3 • PharmaCielo regularly communicated with public investors via established
- 4 market communication mechanisms, including through the regular
- 5 dissemination of press releases via major newswire services and through
- 6 other wide-ranging public disclosures, such as communications with the
- 7 financial press and other similar reporting services;
- 8 • PharmaCielo's securities were liquid and traded with sufficient volume
- 9 during the Class Period; and
- 10 • PharmaCielo was followed by a number of securities analysts employed by
- 11 major brokerage firms who wrote reports that were widely distributed and
- 12 publicly available.
- 13
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18 47. Based on the foregoing, the market for PharmaCielo securities promptly
19 digested current information regarding PharmaCielo from all publicly available sources
20 and reflected such information in the prices of the securities, and Plaintiff and the members
21 of the Class are entitled to a presumption of reliance upon the integrity of the market.
22

23 48. Alternatively, Plaintiff and the members of the Class are entitled to the
24 presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of the*
25 *State of Utah v. United States*, 406 U.S. 128 (1972), as Defendants omitted material
26 information in their Class Period statements in violation of a duty to disclose such
27 information in their Class Period statements in violation of a duty to disclose such
28

1 information as detailed above.

2 **COUNT I**

3 **For Violations of Section 10(b) and Rule 10b-5 Promulgated Thereunder**

4 **Against All Defendants**

5
6 49. Plaintiff repeats and realleges each and every allegation contained above as
7 if fully set forth herein.

8
9 50. This Count is asserted against Defendants is based upon Section 10(b) of the
10 Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

11
12 51. During the Class Period, Defendants, individually and in concert, directly or
13 indirectly, disseminated or approved the false statements specified above, which they
14 knew or deliberately disregarded were misleading in that they contained
15 misrepresentations and failed to disclose material facts necessary in order to make the
16 statements made, in light of the circumstances under which they were made, not
17 misleading.
18

19
20 52. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

- 21
- 22 • employed devices, schemes and artifices to defraud;
 - 23 • made untrue statements of material facts or omitted to state material
 - 24 facts necessary in order to make the statements made, in light of the
 - 25 circumstances under which they were made, not misleading; or
 - 26 • engaged in acts, practices and a course of business that operated as a
 - 27 fraud or deceit upon Plaintiff and others similarly situated in
 - 28

1 connection with their purchases of PharmaCielo securities during the
2 Class Period.

3 53. Defendants acted with scienter in that they knew that the public documents
4 and statements issued or disseminated in the name of PharmaCielo were materially false
5 and misleading; knew that such statements or documents would be issued or disseminated
6 to the investing public; and knowingly and substantially participated, or acquiesced in the
7 issuance or dissemination of such statements or documents as primary violations of the
8 securities laws. These defendants by virtue of their receipt of information reflecting the
9 true facts of PharmaCielo, their control over, and/or receipt and/or modification of
10 PharmaCielo's allegedly materially misleading statements, and/or their associations with
11 the Company which made them privy to confidential proprietary information concerning
12 PharmaCielo, participated in the fraudulent scheme alleged herein.

13 54. Individual Defendants, who are the senior officers and/or directors of the
14 Company, had actual knowledge of the material omissions and/or the falsity of the material
15 statements set forth above, and intended to deceive Plaintiff and the other members of the
16 Class, or, in the alternative, acted with reckless disregard for the truth when they failed to
17 ascertain and disclose the true facts in the statements made by them or other PharmaCielo
18 personnel to members of the investing public, including Plaintiff and the Class.

19 55. As a result of the foregoing, the market price of PharmaCielo securities was
20 artificially inflated during the Class Period. In ignorance of the falsity of Defendants'
21 statements, Plaintiff and the other members of the Class relied on the statements described
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1 above and/or the integrity of the market price of PharmaCielo securities during the Class
2 Period in purchasing PharmaCielo securities at prices that were artificially inflated as a
3 result of Defendants' false and misleading statements.
4

5 56. Had Plaintiff and the other members of the Class been aware that the market
6 price of PharmaCielo securities had been artificially and falsely inflated by Defendants'
7 misleading statements and by the material adverse information which Defendants did not
8 disclose, they would not have purchased PharmaCielo securities at the artificially inflated
9 prices that they did, or at all.
10

11
12 57. As a result of the wrongful conduct alleged herein, Plaintiff and other
13 members of the Class have suffered damages in an amount to be established at trial.
14

15 58. By reason of the foregoing, Defendants have violated Section 10(b) of the
16 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the Plaintiff and the
17 other members of the Class for substantial damages which they suffered in connection
18 with their purchase of PharmaCielo securities during the Class Period.
19

20 **COUNT II**

21 **Violations of Section 20(a) of The Exchange Act**

22 **Against the Individual Defendants**

23
24 59. Plaintiff repeats and realleges each and every allegation contained in the
25 foregoing paragraphs as if fully set forth herein.
26

27 60. During the Class Period, the Individual Defendants participated in the
28 operation and management of PharmaCielo, and conducted and participated, directly and

1 indirectly, in the conduct of PharmaCielo’s business affairs. Because of their senior
2 positions, they knew the adverse non-public information about PharmaCielo’s
3 misstatement of revenue and profit and false financial statements.
4

5 61. As officers and/or directors of a publicly owned company, the Individual
6 Defendants had a duty to disseminate accurate and truthful information with respect to
7 PharmaCielo’s financial condition and results of operations, and to correct promptly any
8 public statements issued by PharmaCielo which had become materially false or
9 misleading.
10

11 62. Because of their positions of control and authority as senior officers, the
12 Individual Defendants were able to, and did, control the contents of the various reports,
13 press releases and public filings which PharmaCielo disseminated in the marketplace
14 during the Class Period concerning PharmaCielo’s results of operations. Throughout the
15 Class Period, the Individual Defendants exercised their power and authority to cause
16 PharmaCielo to engage in the wrongful acts complained of herein. The Individual
17 Defendants therefore, were “controlling persons” of PharmaCielo within the meaning of
18 Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful
19 conduct alleged which artificially inflated the market price of PharmaCielo securities.
20

21 63. By reason of the above conduct, the Individual Defendants are liable pursuant
22 to Section 20(a) of the Exchange Act for the violations committed by PharmaCielo.
23
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PRAYER FOR RELIEF

1
2 **WHEREFORE**, Plaintiff, on behalf of himself and the Class, prays for judgment
3 and relief as follows:

4
5 A. Declaring this action to be a proper class action, designating Plaintiff as Lead
6 Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the Federal
7 Rules of Civil Procedure and designating Plaintiff’s counsel as Lead Counsel;

8
9 B. Awarding damages in favor of Plaintiff and the other Class members against
10 all defendants, jointly and severally, together with interest thereon;

11
12 C. Awarding Plaintiff and the Class reasonable costs and expenses incurred in
13 this action, including counsel fees and expert fees; and

14
15 D. Awarding Plaintiff and other members of the Class such other and further
16 relief as the Court may deem just and proper.

17
18 **JURY TRIAL DEMANDED**

19 Plaintiff hereby demands a trial by jury.

20
21 Dated: April 24, 2020

Respectfully submitted,

22
23 **POMERANTZ LLP**

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