



ASX Announcement

23 July 2018

Update on Acquisition of Kunna S.A.S Completion of Due Diligence and Reduced Purchase Price

Creso Pharma Limited (ASX:CPH) (**Creso** or the **Company**) is pleased to advise that it has successfully completed its legal and technical due diligence to acquire 100% of Kunna Canada Ltd, and its wholly-owned Colombian subsidiary, medicinal cannabis group, Kunna S.A.S. (formerly Cannalivio S.A.S) (**Kunna**) (**Acquisition**).

This is a significant step forward in Creso's Latin American journey. The completion of the due diligence follows the recent granting of a cultivation license to Kunna S.A.S in June 2018. Kunna is now equipped with the licenses required to produce, manufacture, cultivate, market and export cannabis derivatives as well as products using cannabis extracts.

Dr Miri Halperin Wernli, Creso's Co-Founder and CEO said: "The acquisition of Kunna provides a cost-effective entry into the Colombian market and broader Latin American market for Creso and the ability to greater integrate our supply chain, allowing us to produce our own medicinal cannabis as well as supply our existing and planned products to the Colombian market and export to the broader Latin America market, to Canada and to the EU.

Colombia has a population of 48.6 million people. Its cannabis market is growing strongly with consumption increasing 15% per annum since 2008.ⁱ Many Canadian medicinal cannabis industry executives have stated they plan to use Colombia as a springboard to serve Latin America's 400-plus million people who live in nations where some form of cannabis is legal.ⁱⁱ

The advancement into Colombia is part of our broader aim to establish operations which reach all key global markets. Creso's Canadian medicinal cannabis operations are set up towards supplying North America, our Israeli operations towards supplying Europe and now our Colombia operations towards supplying Latin America."

The Acquisition not only strengthens Creso's vertical integration approach but also follows a trend of global Cannabis companies moving into the Latin American Market. Recently, Canopy Growth acquired Spectrum Cannabis Colombia for ~\$34.8m worth of shares and up to \$61.2m in milestone payments, Khiron Life Sciences a TSXV listed medical cannabis company houses its core operations in Colombia, and Aphira acquired a subsidiary of Scythian Biosciences and their Latin American licenses, in a transaction worth \$193m.

In addition, the Company is pleased to advise that it has negotiated a variation to the transaction terms to reduce the purchase price and reset the issue price of the Creso shares to be issued to the Kunna shareholders. The net effect is a reduction in the overall upfront purchase price of US\$375,000 (on like for like terms taking into account the reduction in the issue price of the Creso shares) (based on a A\$:US\$ exchange rate of 1:0.75).

The revised total consideration payable by Creso at settlement of the Acquisition is as follows:

1. US\$5,235,227 in Creso ordinary shares upfront issued at A\$0.85 per share (8,212,121 ordinary shares).
2. US\$772,727 in deferred Creso performance shares issued at A\$0.85 per share (subject to satisfaction of the performance milestone) (1,212,121 performance shares).

Further, Creso and the Kunna shareholders have agreed to vary the milestone attaching to the performance shares such that they will now convert into Creso ordinary shares on a one-for-one basis in the event Kunna S.A.S. (the Colombian operating entity) successfully cultivates, extracts and sells 10 kilograms of cannabis extract from its operations within 18 months of settlement of the acquisition. In addition, Creso has agreed to advance additional funds of US\$85,000 to Kunna for general working capital requirements to be agreed with Creso in writing.

Kunna has advised Creso that one of the existing Kunna shareholders (a party unrelated to Creso) (**Vendor Facilitator**) played a significant role in establishing the acquisition on behalf of Kunna and, accordingly, the Kunna shareholders agreed that the Vendor Facilitator would receive 6% of the purchase price as a finder's fee (as a reduction to the purchase price, not in addition to the purchase price). The Kunna shareholders have nominated the Vendor Facilitator (or his nominees) to receive 6% of the total consideration being 492,727 ordinary shares and 72,727 performance shares to the Vendor Facilitator in order to settle the finder's fee. Additionally, the Vendor Facilitator has nominated that some of their finder's fee is to be allocated to certain debtors of Kunna to extinguish outstanding debts owed by Kunna to a value of US\$50,753.

The parties have agreed on a further extension to the end date of the Heads of Agreement (**HOA**) for the Acquisition to 30 September 2018, to allow time for the Notice of Meeting to obtain shareholder approval for the issue of the consideration shares and performance shares for the Acquisition to be updated to reflect the revised deal terms outlined above and re-submitted to ASX for approval. The General Meeting is now expected to be held in late August or early September 2018.

The acquisition of Kunna and the recent grant of the cultivation licence will give Creso a strong springboard to the strategically important Latin American market, which includes Argentina, Colombia, Chile, Mexico and Uruguay, and provides the capacity to commercially cultivate medicinal-grade cannabis in Colombia. It means Creso will be the only Australian-listed medicinal cannabis company with direct exposure to the Colombian market, which is expected to export more than 40.5 tonnes of medicinal cannabis oil by 2019.

-ENDS-

Investor Enquiries:

Daniel Solomons

Everblu Capital

P: +61 2 8249 0000

E: info@everblucapital.com

About Creso Pharma
www.cresopharma.com

Creso Pharma brings the best of cannabis to better the lives of people and animals. Creso Pharma brings pharmaceutical expertise and methodological rigor to the cannabis world and strives for the highest quality in its products. It develops cannabis- and hemp-derived therapeutic, nutraceutical, and life style products with wide patient and consumer reach for human and animal health. Creso uses GMP development and manufacturing standards for its products as a reference of quality excellence with initial product registrations in Switzerland. It has worldwide rights for a number of unique and proprietary innovative delivery technologies which enhance the bioavailability and absorption of cannabinoids.

ⁱ Observatorio Nacional de Drogas, <http://www.odc.gov.co/SIDCO/consumo/situacion-consumo>

ⁱⁱ Marijuana Business Daily, November 2017, <https://mjbizdaily.com/canadian-companies-aim-create-medical-marijuana-powerhouse-colombia-latin-america>