



## **ASX Announcement**

31 October 2018

### **Company Update and Appendix 4C for the Quarter Ended 30 September 2018**

#### **Highlights:**

- **Health Canada accepted Creso's application to become a Licensed Producer for its 20,000sq ft Mernova cultivation facility in Nova Scotia**
- **Creso's Mernova facility will be home to its Global Centre for Edible Cannabis Research and Development**
- **Acquisition of Kunna S.A.S, a fully licensed Colombian producer, approved by Creso shareholders, with settlement expected in the coming weeks**
- **cannaQIX® and anibidiol® sales grow as distribution increases**

**Creso Pharma Limited** (ASX:CPH) (the "Company" or "Creso"), is pleased to provide an update for the quarter ending 30 September 2018.

A key milestone for Creso was the acceptance by Health Canada of its application for licensed cultivation in Nova Scotia. Finishing touches are being completed on the facility with cultivation, once licensed, due to start prior to year-end.

The Canadian Federal legalization of the recreational market has created a current and projected supply shortage making Mernova dried flower, branded Ritual Green, a hot commodity. Creso also declared the Nova Scotia facility as its Global Centre for Edible Cannabis Research and Development. Creso will utilize its significant medical and pharmacological expertise to develop trusted, dosage-controlled "edible products" for the Canadian market and precision-formulated cannabis products for the global medical community.

Product development was in full swing in the third quarter of 2018 with new extensions or new products due to reach the market in 2019.

Excitement is growing in Creso's brands and unique patented formulations for both human and animal health, with substantial interest from new commercial partners expected to result in expanded global distribution.



More broadly, the global market for cannabis products is growing significantly; market value surpassed the \$7.5 billion<sup>1</sup> US dollar mark at the end of 2017 and it is projected to reach \$30 billion<sup>1</sup> US dollars by 2021. Through its partnerships with leading commercial entities, Creso has the market knowledge, networks and ability to launch and distribute its products successfully, enabling Creso to expand globally, quickly.

#### **Company update – Mernova Medicinal Inc.**

Once completed, Creso’s 20,000 square feet, state-of-the-art fully GMP facility will be one of the premier cannabis growing facilities in Canada. Similar-sized Canadian-listed cannabis cultivation companies, with facilities of between 15,000 and 25,000 square feet, have, on average, a market value exceeding CAD\$65m.<sup>2</sup> In its first full year of operation, the Mernova facility will produce three to four tonnes of cannabis, for which there is already established demand in Canada. Creso has the ability to expand the Mernova facility by a further 200,000 square feet, which would position it as a dominant force in the Canadian cannabis market.

Mernova will generate the highest possible revenue from its dried flower production due to its exceptional growing environment. A portion of the state-of-the-art facility has been allocated to value added production. The Mernova site is Creso’s “Centre for Edible Cannabis Research and Development” and it will manufacture Creso’s global brands of nutraceuticals and complementary animal feeds.

#### **Company update - Kunna Canada Ltd and Kunna S.A.S.**

Creso shareholders approved the acquisition of Kunna Canada Ltd in October 2018. Kunna holds a rare position with five licenses granted in Colombia. Kunna can cultivate, manufacture/extract, sell domestically, export and complete research and development. Kunna is also licenced to produce and register seeds/genetics and complete genetic research.

The transaction with Kunna is now unconditional.

When finalised in the coming weeks, the acquisition of Kunna will follow a trend of global Cannabis companies moving into the Latin American market. Recent transactions include Canopy Growth acquiring Spectrum Cannabis Colombia for ~\$34.8m worth of shares and up to \$61.2m in milestone payments, and Aphira’s acquisition of a subsidiary of Scythian Biosciences and their Latin American licenses, in a transaction worth \$193m.

Colombia is part of Creso’s broader aim to establish operations which reach all key global markets.

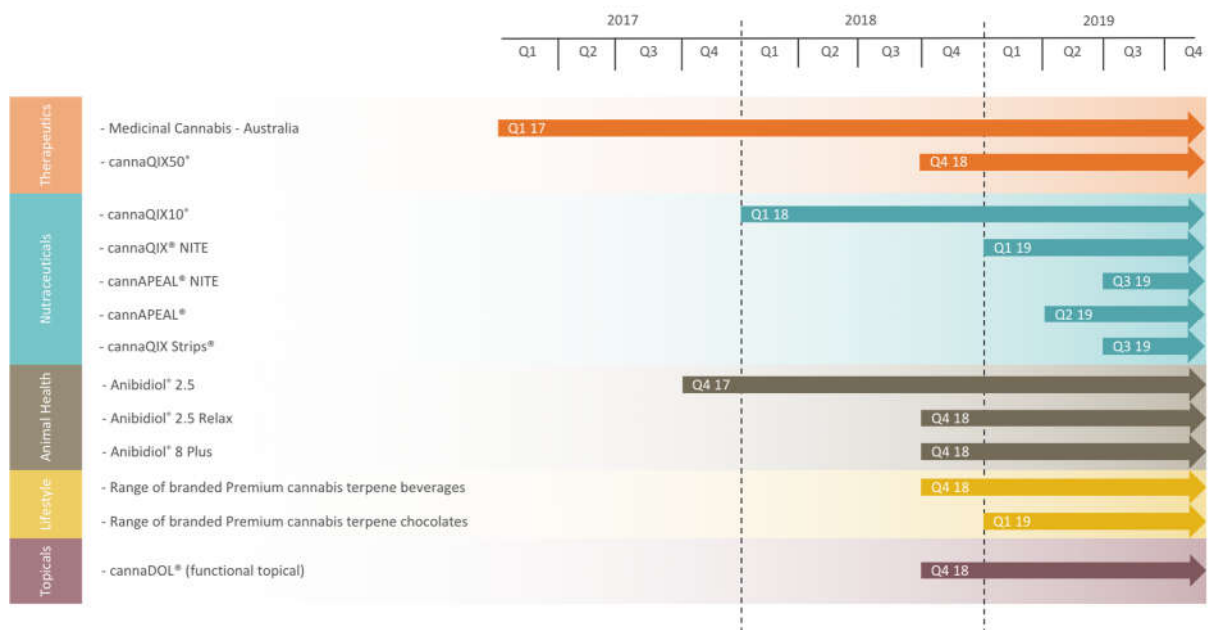
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<sup>1</sup> Brightfield Report

<sup>2</sup> Canadian cannabis stocks, facilities between 15,000 to 25,000 square foot



## Creso's Product Pipeline



### Creso partnerships - Israeli Joint Venture with Cohen Propagation Nurseries Ltd

The JV company, Creso Grow Ltd, was incorporated and registered on 9 July 2018. The shareholders' agreement to form the Joint Venture (JV) between Creso and Cohen Propagation Nurseries (Cohen) was executed on 6 September 2018.

The JV agreements are conditional upon successful applications in process for the approval by the Israeli Medical Cannabis Agency (IMCA) of Creso as a foreign shareholder in an Israeli medical cannabis operation and the approval by the Israeli Ministry of Agriculture to use the land according to Israeli "Settlement law".

Subject to confirmation by the regulators, the licence application will be transferred to Creso Grow Ltd, in which Creso has a 74% ownership interest.

The designated 8000 sqm. greenhouse is ready to be upgraded and adapted to the needs of growing Medicinal Cannabis. Cohen are working on the final plans for the greenhouse.



### **Creso partnership - SuperMedic**

Creso executed a commercial agreement with SuperMedic for the marketing and distribution of its unique human health nutraceutical product cannaQIX® and further products in Israel and selected Middle East countries.

On 8 October 2018, SuperMedic received the first batch of samples and the required documentation in order to register Creso products under the Israeli Ministry of Health (MOH) regulation. SuperMedic is responsible for the registration of the products in Israel.

### **Creso Nutraceuticals – cannaQIX®10**

Creso's cannaQIX®10 is a sugar-free, non-euphoric Food Supplement in innovative buccal formulation containing CBD from full-spectrum hemp oil extract, vitamins, minerals and capsicum used OTC (Over the Counter/without prescription). cannaQIX® targets stress reduction and supports the mental and nervous functions in humans.

Having already had successful product launches in Switzerland, Liechtenstein, UK, and the Netherlands, Creso is looking to expand the distribution of cannaQIX®10 and additional distribution agreements are in process.

In August 2018, Creso signed a commercial agreement with Pharmacare Europe for the marketing and distribution of cannaQIX® and further products in the UK. The products will be commercialized under the Pharmacare umbrella brand Naturopathica, laying the grounds for its presence in European markets. Pharmacare is a key distributor to major UK and European retailers covering over 10,000 points of sales.





### Creso Therapeutics – cannaQIX®50

cannaQIX® 50 is a CBD-based, full-spectrum hemp extract Medical Cannabis (MC) product in innovative, non-oil based, buccal lozenge formulation with vitamins, minerals and capsicum to assist with managing pain.

Launched first in New Zealand in Q3 2018 it is planned to be followed by Australia in 2019. Creso is in ongoing discussions with European countries where MC has been legalized.



### Creso Animal Health – anibidiol®

anibidiol® is a complementary feed for companion animals with CBD from full-spectrum hemp oil extract in an innovative granular buccal formulation. CBD from hemp is effective in animals as well as humans due to the shared endocannabinoid system.

Launched with success in Switzerland & Liechtenstein in November 2017 through Creso’s partnership with Virbac, a leader in global animal health, further European market introductions are now in final discussions.





### **Creso Nutraceuticals - cannAPEAL®**

cannAPEAL® is a sugar-free Food Supplement in innovative buccal formulation containing hemp seed oil and vitamins used OTC (Over the Counter/without prescription) targeting healthy aging and support of stress reduction in humans. cannAPEAL® is formulated in a proprietary delivery system maximizing absorption and bioavailability.

cannAPEAL® is to be launched in countries where CBD is not yet allowed, with market introductions planned for 2019.



### **Creso Functional Topical - cannaDOL®**

Creso has partnered with Frike Technologies (the largest independent Swiss manufacturing group) to develop the cannaDOL® range of organic CBD-based functional topicals. These will address the analgesics needed in sports-related muscle injuries, arthritis and osteoarthritis and will be registered as appropriate in jurisdictions, beginning with Cosmetics, in the European Union.

The cannaDOL® product range will be launched across Europe with commercial partners in 2019. The market in Europe for oral and topical analgesics is currently valued at €3.5 billion. Analgesics sales in 2016 were €603 million in the UK and €203 million in Switzerland.<sup>3</sup>

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<sup>3</sup> Statista - <https://www.statista.com/statistics/254612/global-skin-care-market-size/>



### **Creso Lifestyle – Cannabis terpene-infused chocolates and beverages**

In partnership with Felchlin Switzerland, Creso's range of unique, ultra-premium Swiss-made chocolate products containing various cannabis inspired terpenes mixes, are now in the hands of numerous businesses globally. Felchlin is a high-end, genuine Swiss chocolate producer and operates in line with Creso's quality standards.

Launch discussions are ongoing with commercial partners in Canada, Australia and Israel to bring the chocolate products to market in early 2019, and Creso anticipates strong customer demand based on sales of cannabis edibles globally.

In California 10% of total cannabis sales were edibles, reaching over \$180 million in product.<sup>4</sup>



### **Financials**

Subsequent to the end of the quarter, Creso advised that terms have been finalised and agreed on a construction finance loan (**Loan**) with a face value of AUD \$2.7m from L1 Capital Global Opportunities Master Fund and The Canadian Special Opportunity Fund. The Loan has a drawdown price of 90% of the face value and Creso will receive A\$2.42m in funding to finalize the construction of Mernova's cannabis growing facility. This will act as a cash buffer should the Company need it.

The Loan has an interest rate of 10% p.a, a maturity date of 28 June 2019 and is secured over the Mernova's assets. The Company has agreed to repay the face value of the Loan

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<sup>4</sup> Arcview market research



via 3 instalments payable in cash starting 10 February 2019. The first 2 instalments will be for 25% each of the face value (plus interest accrued) with the final instalment for the outstanding face value and accrued interest. A capital raising fee of \$145,200 in respect of the loan is payable to EverBlu Capital Pty Limited.

The Appendix 4C report attached to this update contains the Company's cash flow statement for the third quarter of FY2018.

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### **About Creso Pharma Limited**

[www.cresopharma.com](http://www.cresopharma.com)

Creso Pharma Limited (ASX: CPH) (the "Company" or "Creso") brings the best of cannabis to better the lives of people and animals, using its pharmaceutical expertise and methodological rigor to the cannabis world. Creso has a portfolio covering five key areas of focus: Creso Therapeutics, Creso Nutraceuticals, Creso Animal Health, Creso Lifestyle and Creso Topicals. It develops cannabis and hemp derived therapeutic, nutraceutical, and lifestyle 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.

### **Forward Looking statements**

This announcement contains forward-looking statements with respect to Creso and CLV, and their respective operations, strategy, investments, financial performance and condition. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "intends", "believe" or "continue" or the negative thereof or similar variations. The actual results and performance of Creso and CLV could differ materially from those expressed or implied by such statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Some important factors that could cause actual results to differ materially from expectations include, among other things, general economic and market factors, competition and government regulation. The cautionary statements qualify all forward-looking statements attributable to Creso and persons acting on its behalf. Unless otherwise stated, all forward looking statements speak only as of the date of this announcement and neither Creso nor CLV has any obligation to up-date such statements, except to the extent required by applicable laws.





**Investor and Media Enquiries/Interviews:**

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## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

Creso Pharma Limited

**ABN**

89 609 406 911

**Quarter ended ("current quarter")**

30 September 2018

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	170	369
1.2 Payments for		
(a) research and development	(391)	(1,306)
(b) product manufacturing and operating costs	(51)	(142)
(c) advertising and marketing	(258)	(1,053)
(d) management costs	(766)	(1,132)
(e) staff costs	(261)	(1,004)
(f) administration and corporate costs	(1,043)	(2,281)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	19	94
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(54)	15
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,636)</b>	<b>(6,442)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1,169)	(2,893)
(b) businesses (see item 10)	(118)	(633)
(c) investments	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	3,100
2.4	Dividends received (see note 3)	-	-
2.5	Other (cash acquired on acquisition)	359	359
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(928)</b>	<b>246</b>
2.1(a)	Payments for the construction of the Mernova production facility.		
2.1(b)	During the quarter, Creso paid an Exclusivity Fee of US\$85,000 to Kunna Canada to pursue the grant of the Cultivation Licence and for other general working capital requirements per the Heads of Agreement – Agreement to Variation		

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issue of shares	-	1,459
3.2	Proceeds from unissued shares	-	-
3.3	Proceeds from exercise of share options	2,331	2,359
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	(15)	(15)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>2,316</b>	<b>3,803</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	11,353	12,425
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,636)	(6,442)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(928)	246
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,316	3,803
4.5	Effect of movement in exchange rates on cash held	121	194
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>10,226</b>	<b>10,226</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	10,226	11,353
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>10,226</b>	<b>11,353</b>

<b>6.</b>	<b>Payments to directors of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to these parties included in item 1.2	(325)
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	
6.1	Director and consulting fees paid to Directors and/or Director related entities	\$294,209
	Corporate advisory fees paid to a Director related entity	\$ 31,004

<b>7.</b>	<b>Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	
N/A		

8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (see note 8.3 below)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	(464)
9.2 Product manufacturing and operating costs	(248)
9.3 Advertising and marketing	(242)
9.4 Management costs	(236)
9.5 Staff costs	(546)
9.6 Administration and corporate costs	(670)
9.7 Other (see note 9.7 below)	-
<b>9.8 Total estimated cash outflows</b>	<b>(2,407)</b>

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	Acquisitions	Disposals
10.1 Name of entity	Kunna Canada Ltd	N/A
10.2 Place of incorporation or registration	Ontario, Canada	
10.3 Consideration for acquisition or disposal	Details as per Notice of EGM dated 11 September 2018, subsequently approved by shareholders	
10.4 Nature of business	Medicinal and scientific cannabis producer	

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:

Date: 31 October 2018

Print name: Chris Grundy (CFO)

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.