



25 October 2017

September Quarter Update

Highlights:

- **Company delivers on its strategy with the successful completion of due diligence and subsequent acquisition of Mernova Medicinal; construction of 20,000 sq. f.t. medical cannabis growing facility at the Mernova site commenced in Q3.**
- **Upcoming launch of Creso's anibidiol animal health products with Swiss pharmaceutical group, Virbac, to bring first revenues.**
- **Company remains on track to launch its CannaQix® and SwissVit™ human health nutraceutical products from Q2/2018.**

Creso Pharma Limited (ASX: CPH, the "Company" or "Creso") is pleased to provide its quarterly update for the three months ending 30 September 2017.

Corporate Overview

Creso Pharma appointed Dr. Stu Fillman as Australian-based Medical Manager in August to support the development of medical and scientific strategy around Creso's medicinal cannabis and full plant hemp extract products for human and animal use.

Operational Overview

Acquisition of Mernova Medicinal Inc

During the quarter, Creso Pharma successfully delivered on its strategy of establishing a Canadian presence and pursuing opportunities in the medicinal and soon-to-be legalised recreational cannabis space with the proposed acquisition of emerging Nova Scotia-based medicinal cannabis producer, Mernova Medicinal Inc (Mernova).

As a result of the deal, Creso gains direct exposure to the world's largest legal medical and recreational cannabis market and integrate supply and production of human and animal nutraceutical and medicinal cannabis.

Mernova has applied for a medical cannabis cultivation licence under Health Canada's Access to Cannabis for Medical Purposes Regulation (ACMPR) program and also has a strategic parcel of land that is highly suited for development of a medical cannabis growing facility.

In late September, Creso Pharma completed due diligence on Mernova. Construction of a 20,000 square foot facility on the Mernova site also commenced in Q3 as planned. Creso Pharma also intends to build a state-of-the-art extraction facility that is fully GMP compliant at the Mernova site, which is an important strategic step for Mernova to ensure that it is fully able to capitalise on the Canadian market opportunity.

Completion of the new production facility is targeted to coincide closely with the July 2018 legalisation of recreational cannabis in Canada post granting of the appropriate licenses.



At the same time, Creso is continuing to recruit for a Canadian-based CEO and other Canadian-based staff and expects to update investors on these appointments shortly.

Exclusive commercialisation agreement with Virbac

In August, Creso secured a three-year commercialisation agreement with global pharmaceutical company, Virbac Switzerland AG (Virbac) to distribute its high-quality, proprietary formulated, hemp-based complementary feed products for companion animals in Switzerland and Lichtenstein.

From November, Virbac will be the exclusive distributor of Creso Pharma's anibidiol[®] 1.25 and anibidiol[®] 2.5 animal health products in Switzerland and Lichtenstein with the rights to sell and distribute the products under Creso's trademark.

Anibidiol[®] 1.25 and anibidiol[®] 2.5 are designed for companion animals such as dogs and cats and come in proprietary granule formulations. They address stress and behavioural problems, chronic pain (mainly arthritis), and age-related ailments in ageing animals.

A successful launch in Switzerland, regarded as a regulatory and marketing reference country for many countries in Europe, Latin America and Asia Pacific, will enable expansion into additional international markets in 2018.

Human health products

Creso Pharma remains on track to launch CannaQix[®] and its SwissVit[™] premium nutraceutical products from Q2/2018. The Company plans to launch CannaQix[®] in the area of anxiety and stress in Q2/2018 and for bone metabolism in Q2/2019.

The SwissVit[™] premium nutraceutical products, which are specifically formulated to target a number of health issues, including eye health, immunity, bones and joints, oral iron supplementation and digestion, are expected to be launched across Australia and the Asia-Pacific region in 2018.

Both the SwissVit[™] and the CannaQix[®] product range use proprietary Swiss delivery technologies that enhance the bioavailability and absorption of their active ingredients.

Financials

The Company's cash balance as at 30 September 2017 was \$7.03 million.

Going forward, the Company expects that the cash burn rate will be in line with expectations as it continues to invest in the Mernova facility, its product development and commercialisation efforts. The Appendix 4C report attached to this report contains the Company's cash flow statement for the quarter.

Outlook

Creso looks forward to the launch of its proprietary formulated hemp-based complementary feed supplement products for companion animals in Switzerland with Virbac in November and to generating its first revenues.

At the same time, the Company is progressing with its plans in the Canadian market following the acquisition of Mernova and expects to achieve further milestones in that market over the coming months, ahead of the expected legalisation of recreational cannabis in Canada in July next year.



“We look forward to launching our animal products with Virbac in November and to generating our first revenues for these innovative health products for companion animals,” said Creso Pharma CEO and Co-Founder, Dr. Miriam Halperin Wernli.

“At the same time, we have made significant progress in the Canadian market following our acquisition of Mernova and started the construction of the growing facility as well as recruitment of our key staff members.”

-ENDS-

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About Creso Pharma

Creso Pharma brings pharmaceutical expertise and methodological rigour to the world of medicinal cannabis and strives for the highest quality in its products. It is the leader in medicinal cannabis and cannabidiol (CBD) innovation and develops cannabis- and hemp-derived therapeutic-grade nutraceuticals and medicinal cannabis 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.

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 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	6
1.2 Payments for		
(a) research and development	(424)	(1,131)
(b) product manufacturing and operating costs	(14)	(43)
(c) advertising and marketing	(324)	(779)
(d) leased assets	-	-
(e) staff costs	(384)	(682)
(f) administration and corporate costs	(711)	(1,917)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	15	28
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)	(11)	(33)
1.9 Net cash from / (used in) operating activities	(1,853)	(4,551)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
	(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	(331)	(562)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(331)	(562)
2.3	During the quarter, Creso provided a short-term loan of CAD\$250,000 to Mernova Medicinal Inc.		
	Creso also provided a loan of EUR 53,000 to Hemp M&S OG for the Group's continued operations in Israel.		

3.	Cash flows from financing activities		
3.1	Proceeds from issue of shares	-	9,782
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(673)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	9,109

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	9,250	3,046
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,853)	(4,551)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(331)	(562)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	9,109
4.5	Effect of movement in exchange rates on cash held	(39)	(15)
4.6	Cash and cash equivalents at end of quarter	7,027	7,027

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	7,027	9,250
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,027	9,250

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	(407)
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 fees and bonuses paid to Directors and/or Director related entities	\$368,599
	Corporate advisory fees paid to a Director related entity	\$30,000
	Rent expense paid to a Director related entity	\$8,800

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
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. Financing facilities available <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 (please specify)	-	-
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.		
N/A		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(500)
9.2 Product manufacturing and operating costs	(20)
9.3 Advertising and marketing	(310)
9.4 Leased assets	-
9.5 Staff costs	(256)
9.6 Administration and corporate costs	(840)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(1,926)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	N/A	N/A
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

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:
(Company secretary)

Date: 25 October 2017

Print name: Sarah Smith

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.