



ASX Announcement - 29 April 2019

## Creso Pharma Accelerates Global Expansion in March Quarter

### Highlights:

- Granted a license to cultivate cannabis at the Creso's state-of-the-art Mernova Medical facility in Nova Scotia, Canada
- Continued global expansion across Australasia, Europe and North America
- Raised AUD3m in a placement to support the sales and marketing of its human and animal products in Europe and Canada
- Creso's commercialised products continued to progress steadily and started to generate revenues
- A further four new CBD hemp-oil and hemp-seed oil based products are ready for launch
- Post the quarter, Creso received firm commitments to raise a further AUD5.35m in secured loans and announced that it had commenced cultivation at the Mernova Medical facility

**Creso Pharma Limited (ASX:CPH) ("Creso" or "the Company")** is pleased to provide its Appendix 4C cash flow statement for the quarter ended March 31 2019 (Q3 FY19), together with the following operational update.

### CANNABIS CULTIVATION

On 15 February 2019, Creso's wholly owned subsidiary, Mernova Medical Ltd ("Mernova Medical"), was granted a license to cultivate cannabis at its state-of-the-art facility in Nova Scotia, Canada by Health Canada.

First revenues from the Mernova facility are anticipated by June 2019, under the three-year supply agreement with TerrAscend Canada, a wholly owned subsidiary of TerrAscend Corp. (CSE: TER, OTCQX: TRSSF) ("TerrAscend") as announced to the ASX on January 21, 2019.

Under the terms of the agreement, TerrAscend has agreed to purchase a minimum of 100kg of cannabis flower per month from Creso commencing the date that the Company is licensed to sell cannabis under Canadian laws. The volume of flower is worth an estimated CAD6m per year in sales.



Post the quarter, Creso's wholly-owned subsidiary Mernova Medical Ltd ("Mernova") commenced cultivation of premium cannabis clones [ASX Announcement: April 15, 2019] with first crops expected to be harvested in May 2019.

Cannabis from the facility will be used to service Canada's burgeoning market and the Company has also progressed its European Union Good Manufacturing Practice (EU-GMP) certification process for the facility which will allow it to supply European pharmaceutical companies.

### ***Israel***

Early in the year, Israel's parliament passed a law for the exporting of medicinal cannabis and approved a new regulatory structure regarding the foreign ownership of Israeli medicinal cannabis operations.

Creso is well-positioned to take advantage of these changes via its 74% stake in a joint venture with Israel-based Cohen nurseries, which will allow Creso to supply cannabis strains previously unavailable from Israeli cannabis producers [ASX Announcement: January 2, 2019].

## **HUMAN AND ANIMAL HEALTH PRODUCTS**

The Company currently produces the following CBD Hemp products for human and animal health:

- cannaQIX®10
- cannaQIX®50
- anibidiol®2.5
- anibidiol®8

During Q1 2019, Creso continued to expand its global distribution networks for its human and animal health products, with significant milestones achieved across Europe, Central America, Australasia.

### ***Europe***

In February, Creso signed a strategic collaboration agreement with Hempmate AG ("Hempmate"), a Switzerland-based company which specialises in the sale of hemp-based products for humans and pets [ASX Announcement: February 13, 2019].

Under the agreement, Creso and Hempmate are co-developing products to address the unmet needs in Switzerland in the area of CBD hemp products supporting anxiety, stress, chronic pain, and sleep issues.



Post the quarter, Creso provided a progress update of its commercialised product portfolio which is already available in Europe, as well as an update on new products in the development pipeline [ASX Announcement: April 2, 2019].

Creso's commercialised products cannaQIX®10 and 50 in Human Health are progressing steadily and generating revenues. The anibidiol® range of products for pets will be launched with Virbac into 14 additional European countries starting Q2 CY19 following the successful Swiss launch.

The new products, which are now ready for launch, are CBD hemp-based nutraceuticals with improved delivery systems and a continued focus on the areas of sleep, stress and chronic pain.

### ***Central America***

Creso appointed Dr Ricardo Salazar as a Primary Medical Advisor during the quarter [ASX Announcement: February 1, 2019]. Creso owns Kunna Canada Limited ("Kunna") and its Colombian subsidiary and sees the Colombian market as a significant opportunity.

### ***Australasia***

In January, Creso signed a binding LOI with Medleaf Ltd, a new New Zealand-based company that aims to introduce safe, high-quality medicinal cannabis products as prescription medicine for the people of New Zealand [ASX Announcement: January 9, 2019].

According to the LOI, Creso and Medleaf will partner on building a comprehensive cannabis business in New Zealand and an expansion of the range of CBD-based medicinal cannabis products available to New Zealand consumers. The LOI followed regulatory changes introduced into New Zealand at the end of 2018 which make it an increasingly attractive market for Creso.

The following month, Creso signed a separate LOI with Australia-based Burleigh Heads Cannabis Ltd ("BHC"), a subsidiary of Cannabis Doctors Australia Pty Ltd ("CDA") [ASX Announcement: February 13, 2019].

CDA is an established Australian business supporting patient access to medicinal cannabis products in Australia via affordable CDA-branded products and CDA clinics which assist doctors and patients navigate the process to legally obtain medicinal cannabis.

Creso is leveraging BHC's and CDA's local regulatory expertise and established distribution networks to facilitate patients access to its products in Australia.

Creso and BHC are finalizing the required regulatory approval for Creso's flagship medicinal cannabis product cannaQIX®50. It will be sold in Australia with CDA branding as a therapeutic product via approved channels as "CDA CBD 50 - Lozenges".



### ***South Asia***

In January, Creso signed a binding Letter of Intent (LOI) with Ceyoka Health (Pvt) Ltd, one of Sri Lanka's leading pharmaceutical distribution companies [ASX Announcement: January 7, 2019].

The partnership is initially focusing on commercializing Creso's flagship medicinal cannabis product cannAFFORD®50 and will then look to explore a wide range of other joint initiatives.

## **FINANCIAL RESULTS COMMENTARY**

Revenues from sales of human and animal products during the quarter were CHF119,690 (approximately AUD\$167,633). Creso is set to see the benefits of its expanded distribution network in coming quarters with CHF716'610 (Approximately AUD 1'000'000) in firm orders<sup>1</sup> already placed by repeat customers for delivery in Q2 and Q3. Creso is pleased with the level of additional interest received from customers to date and is dedicated to further driving strong sales performance in the coming quarters.

The Mernova construction expenditure for the quarter was CAD\$1.69m (AUD\$1.78m). Revenues from the Company's cultivation activities in Canada are expected to commence in Q2 2019.

## **CORPORATE**

Creso raised approximately AUD3m in a placement to institutional and sophisticated investors in late January [ASX Announcement: January 24, 2019].

The funds raised are being used to support the sales and marketing of Creso's human and animal health CBD-based products in Europe and Canada and to accelerate Creso's cannabis cultivation and production at the Mernova facility.

Post the quarter, Creso received firm commitments to raise an additional AUD5.35m through a series of secured loans [ASX Announcement: April 11, 2019].

At the end of Q1 FY19, Creso had approximately AUD 3.239m in cash and, following the post quarter capital raising, remains well-funded to maintain its operational momentum throughout FY19 and beyond.

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<sup>1</sup> Purchase orders are subject to a standard delivery and defects clause which allow a customer to either cancel an order 10 days after placement of the order - if Creso fails to confirm product delivery within the agreed timelines - or claim for penalties in case delivery is overdue or product defect is observed within 30 days after receipt.



**Dr Miri Halperin Wernli Creso's CEO and Co-Founder said:** "We are very pleased with the significant progress we made across our global operations during the quarter. From R&D to cultivation to commercialisation, all aspects of our CBD and medicinal cannabis business are thriving. We look forward to continuing with the momentum we have established in this productive quarter and informing the market of exciting upcoming developments."

## Ends

### Investor Enquiries

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### About Creso Pharma

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

Creso Pharma brings the best of cannabis to better the lives of people and animals. It 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.

### Forward Looking statements

This announcement contains forward-looking statements with respect to Creso and its 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 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 Creso has no obligation to up-date such statements, except to the extent required by applicable laws.

## 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")**

31 March 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	121	121
1.2 Payments for		
(a) research and development	(219)	(219)
(b) product manufacturing and operating costs	(73)	(73)
(c) advertising and marketing	(168)	(168)
(d) management costs	(386)	(386)
(e) staff costs	(608)	(608)
(f) Selling, General, Corporate and Admin Costs	(756)	(756)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	18	18
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)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,071)</b>	<b>(2,071)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1,787)	(1,787)
(b) businesses (see item 10)	-	-
(c) investments	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date \$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)	2	2
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other	(879)	(879)
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(2,664)</b>	<b>(2,664)</b>
<p><b>Notes:</b></p> <p>2.1a) - During the quarter, Mernova spent \$1.787m in funds to continue the construction of the Mernova facility which was completed in Q1'19.</p> <p>2.5 - On 14 March 2019, The company paid C\$800k (approx. AUD\$845k) to Mr William Fleming as a result Mernova Medicinal Inc securing a cultivation licence from Health Canada under the ACMPR for its cultivation facility.</p>			

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issue of shares	2,975	2,975
3.2	Proceeds from unissued shares	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(198)	(198)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(1,274)	(1,274)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	25	25
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>1,528</b>	<b>1,528</b>
<p><b>Notes:</b></p> <p>3.5 - On 24 January 2019, the company raised \$2.975 million in a placement to institutional and sophisticated investors ("Placement").</p>			

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date \$A'000</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	6,389	6,389
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,071)	(2,071)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,664)	(2,664)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,528	1,528
4.5	Effect of movement in exchange rates on cash held	57	57
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>3,239</b>	<b>3,239</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	3,239	6,379
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>3,239</b>	<b>6,379</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	(552)
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 Relates primarily to fees paid to Directors and their related parties*

<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 & 2.5,	(25)
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

7.1 Relates primarily to cash loaned to CLV Frontier Brands Pty Ltd (33½% Joint Venture)

<b>8.</b>	<b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1	Loan facilities	\$2.43m	\$2.43m
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.		

*8.1 On October 5, 2019 Creso finalised a secured construction finance loan with the face value of AUD\$2.7m from L1 Capital Global Opportunity Master fund and the Canadian Special Opportunity Fund. The loan had a drawdown price of 90% of the face value and Creso received A\$2.43m in funding and 10%pa interest rate.*

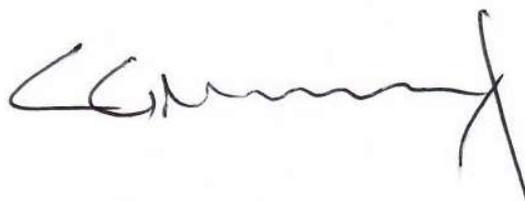
*On 7 February 2019 \$205k was transferred to the Canadian Special Opportunities Fund as part of repayment 1 per the loan agreement. On 21 February, A\$1.068m was transferred to L1 Capital Global Opportunity Master fund as part of repayment 1 per the loan agreement.*

<b>9.</b>	<b>Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1	Research and development	(300)
9.2	Product manufacturing and operating costs	(500)
9.3	Advertising and marketing	(150)
9.4	Management costs	(300)
9.5	Staff costs	(530)
9.6	Administration and corporate costs	(700)
9.7	Other (see note 9.7 below)	(50)
<b>9.8</b>	<b>Total estimated cash outflows</b>	<b>(2,580)</b>
<b>Notes:</b>		
9.7:		
<i>(a) \$50k in land and construction cost for the Kunna S.A.S business.</i>		
<i>(b) The L1 Capital Global Opportunities Master Fund &amp; Canadian Special Opportunities Fund loan repayments are due in Q2'19 will be settled in shares.</i>		

10. Acquisitions and disposals of business entities	Acquisitions	Disposals
10.1 Name of entity		Hemp-Industries s.r.o ("Hemp-Industries")
10.2 Place of incorporation or registration		Slovakia
10.3 Consideration for acquisition or disposal		The company was sold for EUR1,000.
10.4 Nature of business		Now defunct, Hemp-Industries was a hemp growing operation located in Slovakia that outsourced CBD extraction and CBD product sales activities.

### 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: 29 April 2019

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.