



28 April 2023

Quarterly Activities Report – 31 March 2023

Highlights:

- **Total unaudited revenue of \$2,317,042ⁱ highlights strong start to CY2023**
- **Acquisition of Health House International Limited (ASX:HHI) expected to close in May - HHI generated \$5.95m in cash receipts in Q1 2023, a 10% increase on last quarter and 36% rise on PCP**
- **Combined Creso Pharma Group revenue and HHI cash receipts as a proxy for revenue takes unaudited pro forma revenue to \$8.26m or ~\$33m on an annualised basis, 280% in excess of Creso's FY 22 revenue**
- **Mernova Medicinal Inc. ("Mernova") becomes first business division to become cash flow positive in Company history**
- **Mernova delivered record revenue of A\$1,547,252 in Q1 2023, a 46% increase on last quarter (Q4 FY2022: A\$1,061,275)**
- **Maiden divisional cash flow positivity at Mernova validates Company strategy to drive revenue growth with a simultaneous focus on cost management to break even**
- **Recent financial performance and operation momentum expected to lay strong foundation for growth in 2023**

Creso Pharma Limited (ASX:CPH, FRA:1X8) ('Creso Pharma' or 'the Company') is pleased to provide the following summary of initiatives undertaken during the three month period ended 31 March 2023 (the 'quarter'), alongside the Company's Appendix 4C.

Management commentary:

CEO and Managing Director, Mr William Lay said: *"Creso Pharma has delivered another strong quarterly performance which has laid a very solid foundation for growth across the remainder of FY2023. Most pleasingly, the Company's strategic objective of driving business unit cash flow positivity has been validated through Mernova's journey to becoming cash flow positive."*

"Further, the Company's other operating divisions, including Creso Pharma Switzerland, Sierra Sage Herbs and Creso Pharma ImpACTIVE have all made considerable progress to optimising cost structures and allowing for future positive cash flowing states. Finally, the clinical trial at Halucenex continues to progress and we look forward to providing updates in due course."

"We are very confident that the work undertaken during Q1 FY2023 will provide a number of near term growth catalysts, which we look forward to reporting shortly."

Financial and Corporate overview:

Financial performance:

Total revenue for the quarter was \$2,317,042, underpinned by strong sales from Mernova, as well as contributions from Sierra Sage Herbs ('SSH'), Creso Pharma Switzerland and impACTIVE.



Target acquisition company Health House International Limited (ASX: HHI) generated \$5.95m in cash receipts for the three month period, which marked a 10.1% increase on the prior period and a 36.4% surge on the prior comparative period.

Combined Creso Pharma Group revenue and HHI cash receipts as a proxy for revenue takes unaudited pro forma revenue to \$8.26m or over \$33m on a last quarter annualised basis.

In addition, the Company continues its programs to reduce operating costs without affecting its growth strategies. Net cash used in operating activities totalled \$4,191,000 for the quarter, comprised mainly of product manufacturing and operating costs, advertising and marketing costs, staff costs, administration and corporate costs and receipts from customers, as set out further in the Appendix 4C.

In a major achievement and validating the Company's strategy, Mernova became the first Creso Pharma Group operating division to achieve a cash flow positive position. Mernova delivered record revenue for the quarter of A\$1,547,252, a 46% increase on the previous quarter (Q4 FY2022: A\$1,061,275) which was underpinned by increased brand awareness across Canada.

At quarter end, Creso Pharma had cash at bank of \$1.07m. Payments to related parties and their associates as detailed in section six of the Appendix 4C relate to Directors Fees (\$201,000), Loan repayment (\$44,000) and other services (\$107,000), which includes lease expenses and salaries paid to related parties of director, Jodi Scott.

Letter of Intent for Abbey and Finn:

The Company continued to actively advance M&A opportunities, entering into a non-binding LOI with leading US based provider of natural products for babies Abbey & Finn ("A&F"). A&F is a revenue generating business, driven by a focus on plant based, affordable products alongside a strong e-commerce subscription model. A&F's key product lines include baby wipes and diapers, which are naturally derived and chlorine, cruelty, alcohol, paraben and oil free. A&F currently has 2,800 monthly subscribers, with an average order value ('AOV') of US\$82.19, and a customer lifetime value ('LTV') of US\$735, vs. a customer acquisition cost ('CAC') of just US\$43.55.

The Company has since taken further steps to formalise its intended acquisition of the assets of A&F by acquiring a 31.25% interest in La Plata Capital LLC's ('La Plata') existing loan to A&F (face value of US\$500,000) in consideration for the issue to La Plata of US\$500,000 of Creso secured convertible notes. Full details are set out in the announcement dated 6 March 2023.

The Company continues to progress the potential transaction and will provide updates in due course.

Restructure of existing debt:

Obsidian

As announced on 9 January 2023, the Company secured A\$500,000 in funding from Obsidian Global GP, LLC ('Obsidian') via the issuance of an additional 340,850 convertible notes under the Second Purchase of the convertible note facility announced on 1 November 2022. Refer to the 9 January 2023 announcement for further detail.

During the quarter, Obsidian converted 500,000 of its First Purchase convertible notes into 41,528,239 Shares, and subsequently elected to redeem the remaining existing 968,025 convertible notes for an aggregate of 13,440,924 Shares and a cash payment of US\$550,000. As at the date of this



Report, 260,850 convertible notes held by Obsidian remain on issue, with a remaining cash payment to be made of US\$335,000.

HHI / Zelira

As approved by shareholders at the general meeting held in December 2022, in January 2023, the Company issued 40,000,000 Shares to Zelira Therapeutics Ltd (ASX:ZLD) ('Zelira') in satisfaction of the remaining A\$800,000 owed to Zelira by HHI. The issue resulted in the release of HHI from its obligations under its working capital facility loan agreement with Zelira, with the \$800,000 now falling within the previously disclosed \$3.4m loan facility provided by the Company to HHI, which is due for repayment on 31 May 2023. Refer to the Company's Quarterly Activities Report released 31 January 2023, for further information.

La Plata

During the quarter, the Company entered into a Converting Loan Deed and Loan Modification Document with La Plata, an existing lender of SSH. Under the terms of this transaction, US\$1,282,500 of La Plata's existing US\$2m debt with SSH ('SSH Loan') was agreed to be swapped for US\$1,282,500 of Creso Secured Notes (similar, but ranking behind the existing secured convertible notes announced to the market on 1 November 2022). Terms of the La Plata Secured Notes are contained in the Company's ASX announcement dated 27 January 2023. The result of the transaction is an extension of the maturity date, and a simpler balance sheet, with the majority of all debt contained within a similar structure at the Creso Pharma Group level.

On 6 March 2023, the Company agreed to roll over the entire remaining balance (US\$467,500) of the SSH Loan into Creso secured convertible notes on terms consistent with the Creso secured convertible notes announced to the market on 1 November 2022. This rollover resulted in an extension of maturity of the SSH Loan of 6 months, providing additional financial flexibility to the Company and strengthening the alignment between the Company and La Plata.

Completed \$2m capital raising:

During the quarter, the Company completed a \$2m capital raising (before costs) from new and existing institutional, professional and sophisticated investors through the issue of approximately 132,859,356 Shares at an issue price of \$0.01506 per Share (the 'Placement'), satisfied by \$1.63m subscriptions in cash, and ~\$368,000 subscriptions offset against outstanding invoices owed by the Company.

Funds from the placement have been used towards sales and marketing initiatives in the US, completion of Halucenex Life Sciences Inc.'s phase II clinical trial to test the efficacy of psilocybin on treatment resistant Post Traumatic Stress Disorder (PTSD), pending M&A opportunities, product development initiatives, costs of the offer and the repayment of existing debt.

Subject to shareholder approval to be sought in May 2023, investors will receive two options for every one Placement Share subscribed for and issued. These include one free attaching listed option (ASX: CPHOD) exercisable at \$0.08 on or before 31 January 2027) and one free attaching unlisted option exercisable at \$0.03 on or before the date that is 18 months from the issue date of the Shares under the Placement. Additional details regarding the Placement can be found in the Company's ASX announcements dated 17 February 2023 and 6 April 2023.



Balance sheet strengthened through \$2.5m Convertible Notes issue:

The Company secured commitments to raise \$2.5m through the issuance of secured convertible notes ('Secured Notes') to SBC Global Investment Fund ('SBC') comprising of one tranche with an aggregate purchase price of \$1,700,000 pursuant to a convertible securities agreement, which were issued on 15 March 2023, and a second tranche with an aggregate purchase price of \$800,000 pursuant to a second convertible securities agreement, which are subject to shareholder approval to be sought in May 2023. Full details of the Secured Notes are set out in the Company's ASX announcement dated 6 March 2023.

New funds will be deployed to support marketing and sales of existing products in Canada, Europe, and the US, advancement of Halucenex's ongoing phase II clinical trial, completion of pending M&A activities, repayment of debt to Obsidian Global GP, LLC and general working capital.

The new funding provides financial flexibility to continue the Company's focus on sustained revenue growth and consistent operating expenditure reduction.

Operational overview:

Mernova Medicinal Inc. – Cannabis cultivation and sales division:

During Q1 FY2023, Mernova delivered unaudited revenue of \$1,547,252, which highlighted a 46% increase on the previous quarter (Q4 FY2022: A\$1,061,275) and in a major milestone, became the first operating division to become cash flow positive in the Company's history.

Sales were underpinned by an increased presence across key provinces. This included seven new products being listed and sold through the Nova Scotia Liquor Corporation (NSLC) in a recent product call review. The products were selected following a rigorous evaluation by the governing body of 1,200 submissions which led to a total of 75 new listings. Mernova now has a total of 14 stock keeping units ("SKU") listed for sale in the province across its Ritual Green, Ritual Stick and Ritual Gold product suite.

Alongside a broadened product suite in Nova Scotia, Mernova also secured its largest purchase order ("PO") to date. The PO followed the new listings in the province and was valued at over \$350,000 for new product ranging in Nova Scotia. The PO value highlights the ongoing demand Creso Pharma is witnessing for its high-quality recreational cannabis products.

Mernova also expanded its footprint in Canada, entering the province of Manitoba. The new province entry followed consultation and registration processes with the Manitoba Liquor & Lotteries Corporation (MBLL), a Crown corporation in the province. Since November 2017, the province has mandated MBLL to oversee and track the supply and distribution of non-medical cannabis.

Following the consultation with MBLL, Mernova has listed a total of 39 SKUs from its Ritual Green, Ritual Sticks, and Ritual Gold product ranges. Items for sale now include the Company's dried flower products, electronic vaporisers and pre-rolled joint ranges.

Wholly-owned US subsidiary, Sierra Sage Herbs:

SSH generated revenue of \$759,207 during the quarter, underpinned by ongoing sales through ecommerce channels and key retail partners.

During the quarter, SSH management remained focused on broadening its distribution footprint in the US. This was highlighted through a number of range expansion agreements, including an arrangement with Walgreens, where its plant-based pain relief products will be stocked across 500 stores, and US retail giant Walmart, which will stock Sierra First-Aid 'travel tins' across 800 retail stores.



SSH also secured product ranging for its Tattoo Aftercare Salves at Food Lion, a regional grocery store chain headquartered in North Carolina that operates over 1,100 supermarkets across 10 US states.

Other distribution initiatives include multi-product ranging deals with Fresh Thyme Market, Bed Bath & Beyond and Harris Teeter.

As well, during Q1 of 2023, SSH management determined that there may have been a breach by its manufacturer in the defined standard operating procedures provided by the Company, resulting in potentially reduced quality products. SSH management has determined that the breaches, if confirmed, would neither have a health and safety impact on customers, nor require a recall. The Company continues to investigate this matter and will provide further updates, if required.

Halucenex Life Sciences – Wholly-owned psychedelics operation:

Halucenex remained focused on advancing its phase II clinical trial to test the efficacy of synthetic psilocybin on patients suffering from PTSD. The trial remains ongoing and the Company expects to provide updates on progress in the coming weeks.

Separately to the clinical trial initiative, Halucenex continued to explore international expansion opportunities following key regulatory changes in the Australian market.

During the quarter, the Australian medical regulator, the Therapeutic Goods Administration's (TGA) announced that the medical use of MDMA and psilocybin respectively will be rescheduled from Schedule 9 (prohibited substances) to Schedule 8 (controlled medicines) which will allow for both substances to be prescribed by specifically authorised psychiatrists for the treatment of certain health conditions, including treatment of resistant Post Traumatic Stress Disorder (PTSD) from 1 July 2023ⁱⁱ.

Halucenex is confident that following completion of its phase II clinical trial, it will have a solid foundation for the registration of its Lucenex branded synthetic psilocybin product, as a potential treatment route in Canada and Australia, pending further regulatory requirements. Halucenex is already a Licensed Psilocybin Supplier under Health Canada's Special Access Program.

Creso Pharma is also actively progressing additional work alongside Australian-based research organisations and potential partners to progress these opportunities.

Creso Pharma ImpACTIVE ("ImpACTIVE") – Wholly-owned Canadian sports and wellness products subsidiary:

ImpACTIVE made significant progress during the quarter, securing its largest US PO to date, and also expanded distribution into a number of traditional bricks and mortar stores in the USA. As ImpACTIVE is a recently launched business for Creso, its first large retail PO represented pleasing progress, with the product being well received and the first production run now sold out. This also demonstrates the effectiveness of Creso's shared services model, with Sierra Sage Herbs relationships playing a key role in the receipt of this PO.

ImpACTIVE received a \$70,400 PO for its Pro Releaf Stick roll-on product from US supermarket chain, Grocery Outlet, with the product now on shelves in the store. ImpACTIVE was also ranged in several independent retailers in the Canadian market during the period, including chiropractic and wellness clinics, sporting clubs and specialist CBD dispensaries.

-Ends-



Authority and Contact Details

This announcement has been authorised for release by the Board of Directors of Creso Pharma Limited.

For further information, please contact:

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About Creso Pharma

Creso Pharma Limited (ASX:CPH) 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 Pharma uses GMP (Good Manufacturing Practice) 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. To learn more please visit: www.cresopharma.com

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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.

ⁱ All figures reported in AUD, unless stated otherwise

ⁱⁱ <https://www.tga.gov.au/news/media-releases/change-classification-psilocybin-and-mdma-enable-prescribing-authorised-psychiatrists>

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Creso Pharma Limited

ABN

89 609 406 911

Quarter ended ("current quarter")

31 March 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,591	2,591
1.2 Payments for		
(a) research and development	(8)	(8)
(b) product manufacturing and operating costs	(1,414)	(1,414)
(c) advertising and marketing	(269)	(269)
(d) leased assets	-	-
(e) staff costs	(2,366)	(2,366)
(f) administration and corporate costs	(2,627)	(2,627)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(62)	(62)
1.6 Income taxes paid	-	-
1.7 Government grants and refunds	(36)	(36)
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(4,191)	(4,191)
Note:		
During the quarter and the year to date, the Company issued shares in lieu of cash payments for debts outstanding comprising:		
	92,319,135 shares	92,319,135 shares
Deemed value in lieu of cash	1,658	1,658

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	(552)	(552)
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (Cash received on acquisition)	-	-
2.6 Net cash from / (used in) investing activities	(552)	(552)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	1,637	1,637
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(138)	(138)
3.5 Proceeds from borrowings	5,101	5,101
3.6 Repayment of borrowings	(1,388)	(1,388)
3.7 Transaction costs related to loans and borrowings	(753)	(753)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	4,459	4,459

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,349	1,349
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(4,191)	(4,191)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(552)	(552)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,459	4,459
4.5	Effect of movement in exchange rates on cash held	4	4
4.6	Cash and cash equivalents at end of period	1,069	1,069

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	1,069	1,349
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)	1,069	1,349

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	352
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Payments made to related parties and their associates comprise:	\$A'000
- Directors fees	201
- Loan Repayment	44
- Other services	107
Aggregate amount as above	352

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Secured Loan facilities	2,500	1,700
Unsecured Loan facilities		
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)		
7.4 Total financing facilities	2,500	1,700

7.5 **Unused financing facilities available at quarter end** 800

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Convertible securities agreement with SBC – Secured Loan

Total Facility: 2,500,000

Draw down: 1,700,000

Implied interest rate: 8%

Purchase date: 13/03/2023

Maturity date: 12/12/2023

The facility was described in the ASX announcement dated 6th March 2023.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(4,191)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	1,069
8.3 Unused finance facilities available at quarter end (Item 7.5)	800
8.4 Total available funding (Item 8.2 + Item 8.3)	1,869
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.45

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: No. Overall revenues are expected to increase in the coming months which, coupled with on-going reductions in operating costs, is expected to result in improved net operating cashflow. This is evidenced by Mernova becoming the first ever Creso subsidiary to reach a cashflow positive state during Q1 of 2023.

- Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Yes. The Company has a demonstrated long term track record of being able to raise capital since listing in 2016. The Company currently has ~4.4m available Listing Rule 7.1 Placement Capacity and ~99.2m available Listing Rule 7.1A Placement Capacity, representing ~\$1.1m based on the current share price of \$0.011. Subject to receipt of shareholder approval for all resolutions at the upcoming General Meeting of Shareholders on 15 May 2023, the Company expects to have combined available placement capacity of approximately 530m representing ~\$5.8m based on the current share price of \$0.011, at which time capital raising opportunities may be considered by the Company. In short, the Company believes it has a continuous ability to raise capital, if and when required.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Yes, through a combination of actions 1 and 2 noted above.

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.

Date: 28 April 2023

Authorised by: The Board of Directors
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg *Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.