



ASX Announcement

31 July 2018

Creso Pharma - June Quarter 2 Update

Highlights:

- Creso continuing to invest heavily in Canadian cannabis growing facility to fast-track completion of build in Q3 2018 with first revenues planned for Q1 2019
- Indoor Mernova facility, in Nova Scotia will complete in Q3 2018 with initial planting of 100KG of product planned
- Creso's acquisition of Kunna S.A.S. successfully completed and licence to cultivate in Colombia granted
- Successful product launches in Europe resulted in initial revenues and expected revenue growth will start to build from Q4 of 2018
- Global expansion of anibidiol® and cannaQIX® product ranges planned following successful Swiss launches
- Launch of Global Beer and Tonic Products with CLV Frontier Brands Joint Venture to commence in Q3 2018

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

The construction of Mernova Medicinal's cannabis growing facility, the completion of Creso's acquisition of Kunna S.A.S. in Columbia, and Creso's decision to appoint a Chief Operations Officer for the Americas in June are important milestones in Creso's stated strategy to expand further its already strong presence in North and South America – two leading markets for the cannabis industry forecasted to be worth ~\$48 billion combined, by 2028³. The landmark legalisation of cannabis in Canada in October further supports this strategy and provides substantial opportunity for product growth and uptake.

There have been a number of important product developments in the second quarter of 2018. Product launches of anibidiol® and cannaQIX® in Switzerland resulted in initial revenues including confirmed reorders.

Market uptake and revenue growth in additional countries for both the animal and the human health products will start to build as of Q4 2018.

In addition, a number of positive product developments across Creso's focus areas have driven its global expansion and furthered its footprint in existing markets.



Mernova Medicinal Inc.

Construction of Creso's Canadian, Nova-Scotia based cannabis growing facility, a result of its acquisition of Mernova Medical Inc., is moving quickly. Creso continues to invest funds in order to fast track construction progress and have the facility built in Q3 2018 and fully up and running by Q1 2019 with initial revenues to follow. There is significant demand for recreational cannabis products, which will be fully legal in Canada in October 2018. Deloitte Canada has projected Canada's recreational marijuana market to be between CAD\$4.9b to \$8.7b.¹

The granting of a grower's licence for the Mernova facility is on track for Q3 2018 with the granting of the sales licence due in Q1 2019.

Once completed, Creso's 20,000 square foot, state-of-the-art fully GMP facility will be the premier cannabis growing facility in Canada. Similar-sized Canadian-listed cannabis cultivation companies, with facilities of between 15,000 and 25,000 square foot, have, on average, a market value exceeding CAD\$65m.² In its first year of operation, the Mernova facility will produce three to four tonnes of cannabis, for which there is already established demand in Canada. With the ability to expand the Mernova facility by a further 200,000 square foot, Creso is well placed to become a dominant force in the Canadian cannabis market.

Kunna S.A.S.

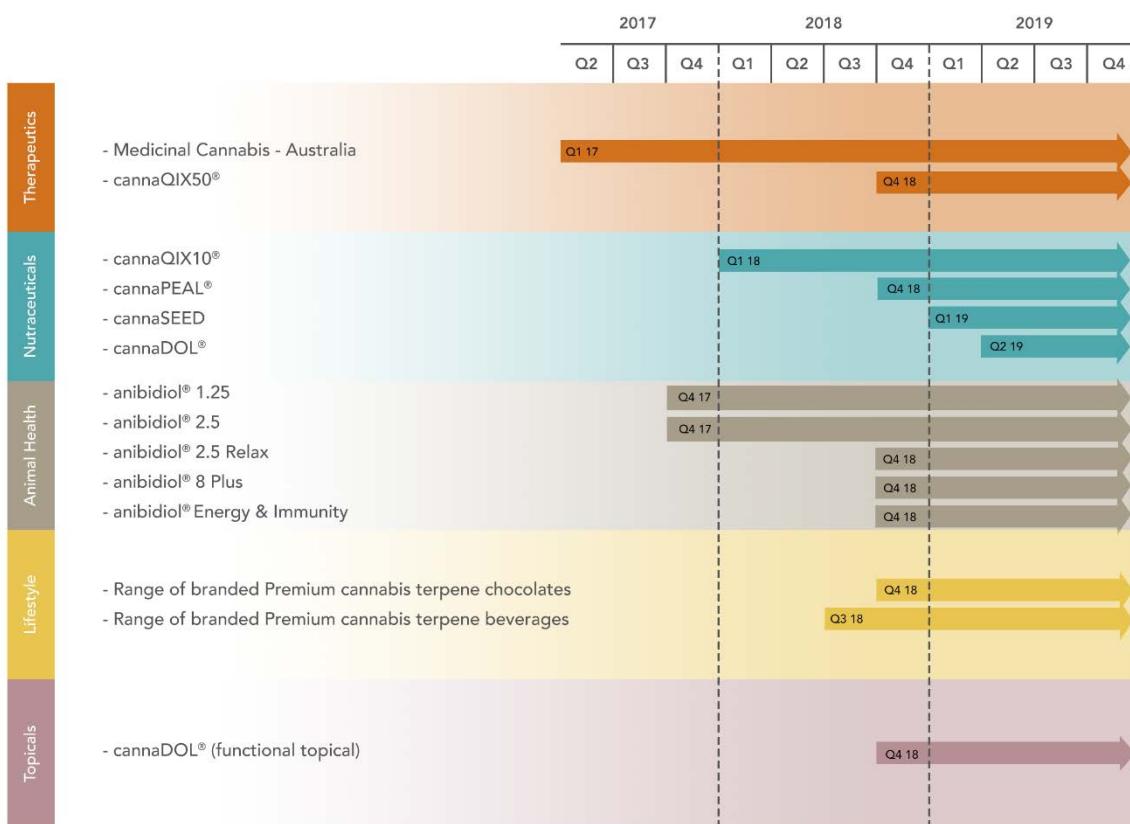
Creso completed its acquisition of Kunna Canada Ltd. in July 2018. Licence to cultivate medical cannabis in Columbia has been granted to Kunna S.A.S, the wholly owned subsidiary of Kunna Canada Ltd. With all five licenses granted in Columbia the acquisition of Kunna and the granting of the cultivation licences makes Creso 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.

The acquisition of Kunna follows 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 Aphria'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.



Creso's Product pipeline



Taken from Creso's July 2018 investor presentation

Creso Nutraceuticals – cannaQIX®10

The results from the launch of cannaQIX®10 in Switzerland earlier this year set a solid foundation for Creso to expand into additional markets.

In May, Creso signed a commercial agreement with Mediphos OTC Consumer Health BV Netherlands for the marketing and distribution of cannaQIX®10 in the Benelux region in September, following a successful initial revenue generating launch in Switzerland and Lichtenstein. At the time of signing, the first orders from Benelux had already been placed.

In the UK, alongside an agreement with Precision Health to launch Creso's e-commerce platform, discussions are taking place with potential partners to launch and market cannaQIX®10 through leading retail companies. Creso is also in advanced discussions for commercialisation with potential partners in Italy, Spain, and the Czech Republic.



In South and Central America the first regulatory notifications are progressing in Colombia and Mexico, and discussions with potential commercial partners in both markets are underway. Regulatory approval in Colombia is the gateway to access in other South American markets and consultations with possible partners have already commenced in Chile, among others.



Creso Therapeutics – cannaQIX®50

Production of cannaQIX®50 has begun, with a launch in New Zealand for therapeutic use (under prescription) expected by year end, followed by a launch in Australia in 2019.

A commercial partner in New Zealand has been identified and the commercial Term Sheet has been signed.

Creso Animal Health – anibidiol®

Since its launch in Switzerland by Virbac in November 2017, anibidiol® has been very well received by vets and pet owners, demonstrating the product's value and driving expansion in Europe.

As a result of this positive uptake, an expansion contract with Virbac is expected to be signed in Q3 which will potentially cover 15 countries across Europe and South America.



Launch plans for Q4 2018 are underway for two new life cycle complementary feed products for Virbac currently in production; anibidiol 8 "plus" - with 8 mg CBD and enriched with vitamins and minerals; and anibidiol 2.5 "relax" - with 2.5 mg CBD and enriched with vitamins and minerals.



Creso Nutraceuticals – cannadOL® Functional Topical Gel

Creso is in advanced stage of development of a natural CBD based topical formulation for muscle and joint pain relief in sport, and osteoarthritis.

cannadOL® topical is being developed as part of an integral Pain Management system (combining cannadOL® topical + cannadOL® oral).

The launch of the topical formulation is planned for December 2018 through e-commerce channels in the UK with Precision Health following pan European registration, and with commercial partners through Europe and Latin America.

Creso Lifestyle – Cannabis terpene infused chocolates and beverages

Development of the first three products from Creso's terpene enriched Functional Chocolate line has been completed and market testing has shown very encouraging results. Creso has partnered with Felchlin Chocolatier on the development of the chocolate line, a premium Swiss Chocolate company with a B2B network in Europe and the US, which will collaborate with commercialisation contacts.



Branding has been finalised and discussions are taking place with potential commercial partners in Canada, Australia, Israel, and various countries in Europe.

Work on the range of terpene beers and the terpene Non-alcoholic Beverages (Sparkling Waters, Tonics, and Soft Drinks) by CLV Frontier Brands Pty Ltd ("CLV"), Creso's equal one-third joint venture with UK-based Baltic Beer Company Ltd and Canadian TSX Venture incorporated LGC Capital, is in progress. In Europe, the establishment of the R&D brewery in Tallinn, Estonia, has been completed and a UK portfolio launch for the first range of beers is set for September 2018, with branding, marketing and social media campaigns in the final stages of development.

The initial focus for bottled beers is the UK, followed by other European and global markets. Discussions are already advanced in Canada for partnership with a brewery in British Columbia (BC) to cover the provinces of BC and Alberta. Discussions are also underway with distributors in Australia, Israel and a number of other key markets.

Financials

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

In the 3rd quarter, Creso will raise additional funds for its operations, primarily working capital. \$2.7m is expected to be raised from the recently announced Options Entitlement Issue and a further \$2.5m in cash will be sourced from loans to the Company. The raisings will supplement cash reserves, following considerable investments in the Company's operations, particularly the commitment of a total of more than \$10m to the construction of the Company's cannabis cultivation facility in Nova Scotia.

---ENDS---

Notes to Editors

- 1) Creso Pharma has a portfolio covering five key areas of focus: Creso Therapeutics, Creso Nutraceuticals, Creso Animal Health, Creso Lifestyle and Creso Topicals. For further information visit www.cresopharma.com



About Creso Pharma

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 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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¹ Deloitte Canada, Recreational Marijuana insights and opportunities, 2016

² Canadian cannabis stocks, facilities between 15,000 to 25,000 square foot

³ Forbes Magazine, Legal Cannabis Industry poised for big growth in North America and around the world
(source: Arcview Market Research & BDS Analytics)

+Rule 4.7B

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 June 2018

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	7	195
1.2	Payments for		
	(a) research and development	(365)	(915)
	(b) product manufacturing and operating costs	(39)	(91)
	(c) advertising and marketing	(196)	(795)
	(d) management costs	(189)	(366)
	(e) staff costs	(541)	(744)
	(f) administration and corporate costs	(384)	(1,157)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	66	75
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)	(9)	(8)
1.9	Net cash from / (used in) operating activities	(1,650)	(3,806)
1.1	The Company received A\$93,000 in cash receipts during the December quarter. A year-end audit adjustment for this amount was made after the December Appendix 4C was lodged.		
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(1,724)	(1,724)
	(b) businesses (see item 10)	-	(202)
	(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	(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	3,642	3,101
2.4	Dividends received (see note 3)	-	-
2.5	Other (cash acquired on acquisition)	-	-
2.6	Net cash from / (used in) investing activities	1,918	1,175
2.1(a)	Payments for the construction of the Mernova production facility.		
2.3	During the quarter, Creso provided a loan of EUR100,000 to CLV Frontier Brands Pty Ltd (JV) for operating costs.		

3.	Cash flows from financing activities		
3.1	Proceeds from issue of shares	-	1,228
3.2	Proceeds from unissued shares	28	259
3.3	Proceeds from exercise of share options	-	-
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	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	28	1,487
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	11,037	12,425
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,650)	(3,806)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	1,918	1,175

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	28	1,487
4.5	Effect of movement in exchange rates on cash held	20	72
4.6	Cash and cash equivalents at end of quarter	11,353	11,353

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	11,353	11,037
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)	11,353	11,037

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	(238)
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	\$205,954
	Corporate advisory fees paid to a Director related entity	\$32,019

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 (see note 8.3 below)	2,827	-
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.		
8.3	As announced on 23 July 2018, Creso is undertaking a non-renounceable rights issue to raise up to approximately \$2,826,889 before costs.		

9. Estimated cash outflows for next quarter		\$A'000
9.1	Research and development	(464)
9.2	Product manufacturing and operating costs	(132)
9.3	Advertising and marketing	(292)
9.4	Management costs	(166)
9.5	Staff costs	(696)
9.6	Administration and corporate costs	(580)
9.7	Other (see note 9.7 below)	(6,445)
9.8	Total estimated cash outflows	(8,775)
9.7	(a) Payment of A\$5.5 million for the construction of the Mernova production facility. As disclosed in Note 8.3 above, the funds from the non-renounceable rights issue will be applied to the construction of the cannabis growing facility in Canada. (b) In the next quarter, Creso will be transferring US\$85,000 (A\$113,000) to Kunna Canada for operating costs.	

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)		Acquisitions	Disposals
10.1	Name of entity	Mernova Medicinal Inc.	N/A
10.2	Place of incorporation or registration	Nova Scotia, Canada	
10.3	Consideration for acquisition or disposal	<ul style="list-style-type: none"> - Cash payment of C\$200,000 - 8,300,000 Exchangeable Shares in Creso Canada Limited. Upon the satisfaction of Milestone 1, each Exchangeable Share will be exchanged for one fully paid ordinary share in Creso Pharma. The approximate value is \$5.35 million based on Creso's share price of A\$0.645 on 27 July 2018. 	
10.4	Nature of business	Medicinal 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:
(Company secretary)

Date: 31 July 2018

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.