



31 January 2023

Quarterly Activities Report – 31 December 2022

Highlights:

- Total FY2022 unaudited revenue to \$8,950,259, a record year for Creso Pharma and marking a 44% increase on FY2021
- Total group Q4 revenue of \$2,571,756 – a 25% increase on the previous quarter
- 32% reduction in cash burn from operations from FY2021 to FY2022 and a 35% reduction between Q3 2022 and Q4 2022 demonstrates management’s ability and core objective to simultaneously grow revenues and decrease costs
- Target acquisition company Health House International Limited (ASX: HHI) generated \$5.4 million in cash receipts for the quarter, a 17% increase on the previous quarter buoyed by a 22% increase in sales in its Australian medical cannabis distribution business, transaction expected to close in late Q1 or early Q2 2023
- Combining Creso Pharma’s Group revenue and HHI’s cash receipts as a proxy for revenue, unaudited pro forma adjusted Q4 revenue totals \$8m, or A\$32m on a last quarter annualised basis
- Multiple operational milestones achieved across the group highlighting implementation of strategy drive to business unit profitability through ongoing expansion opportunities

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 December 2022 (the ‘quarter’), alongside its Appendix 4C quarterly cash flow report.

Commentary:

CEO and Managing Director William Lay said: *“I’m very proud of the entire Creso Pharma team to have delivered such strong results for FY2022. Our core objective as a business is to achieve profitability as soon as practically possible, and demonstrating a clear ability to grow revenues while simultaneously reducing costs is a strong vindication of the work we have done and the work we continue to focus on every day.*

We enter 2023 with a diverse platform of revenue generating businesses that can benefit from shared services and revenue synergies. We completed the highly strategic acquisition of Sierra Sage Herbs LLC in the second half of 2022 and expect to complete the equally strategic acquisition of HHI in the first half of 2023. Once all these transactions have closed, we will see a Creso that is materially larger in scale emerge in Q2/Q3 of 2023.

We continue to monitor the M&A landscape for value accretive opportunities, while maintaining a sharp focus on driving growth in the business and reducing costs. We look forward to keeping investors updated over what we expect to be another strong year of growth for Creso Pharma.



Financial and Corporate overview:

Financial performance:

Total group revenue for the quarter was \$2,571,756, highlighting a 25% increase on the last quarter. The rise in revenue was underpinned by ongoing sales through Mernova, Sierra Sage Herbs and Creso Pharma Switzerland.

Target acquisition company Health House International Limited (ASX: HHI) generated \$5.4 million in cash receipts for the quarter, a 17% increase on the previous quarter buoyed by a 22% increase in sales in its Australian medical cannabis distribution business.

Combining Creso Pharma's Group revenue and HHI's cash receipts as a proxy for revenue, unaudited pro forma adjusted Q4 revenue totals \$8m, or A\$32m on a last quarter annualised basis

Further, the Company considerably reduced its net cash used in operating activities from \$5.29m in the previous quarter to \$3.43m in during Q4 FY2022. The 35% decrease in operating expenditure is the result of the Company's increased focus on cash management and implementation of shared services across all operating units.

Per the attached Appendix 4C, cash at bank at the end of the was \$1.34m. Payments to related parties and their associated as detailed in section six of the Appendix 4C relate to Directors Fees (\$250,000), Loan repayment (\$137,000) and other services (\$84,000), which includes lease expenses and salaries paid to related parties of director, Jodi Scott.

Scheme of Implementation Deed signed to acquire Health House International Limited (ASX: HHI):

Creso Pharma progressed its proposed acquisition of Health House International Limited by entering into a Scheme Implementation Deed (the "Scheme") to acquire 100% of the issued capital of the company through the issue of Creso shares and a 1:4 options (per Appendix 3B dated 8 August 2022), based on a price of A\$0.043 per share and a total value of up to ~\$4.6m.

The acquisition will provide Creso Pharma with another revenue generating operating division, the potential to considerably broaden the Company's international footprint and advance its growth trajectory.

The development highlights the Company's ongoing strategy to leverage growth through value accretive M&A and unlocks a number of potential benefits, including the potential addition of another revenue generating business division, access to new markets and cross selling opportunities.

Work towards the integration of HHI into the Creso Pharma Group continued during the period, which led to the implementation of a number of cost saving benefits.



The Company provides the following revised timetable for completion for the Scheme:

Event	Date (Week commencing)
Application in respect of the Court hearing to be held on the First Court Date, filed with the Court, served on ASIC and delivered to ASX	3 February 2023
Scheme Booklet registered by ASIC	17 February 2023
Dispatch Scheme Booklet to Health House Shareholders	17 February 2023
Scheme Meeting	17 March 2023
Second Court Date	24 March 2023
Effective Date – lodge office copy of Court order approving the Scheme with ASIC	31 March 2023
Scheme Record Date	7 April 2023
Implementation Date	14 April 2023
Dispatch of new holding statements to Scheme Shareholders	14 April 2023

Further to the Company's announcement of 5 September 2022 in which it was disclosed that the Company had agreed to provide a loan facility of up to A\$700,000 to HHI, which was repayable by November 2022. The Company made an initial variation to the facility agreement in November 2022, whereby the facility was increased to A\$3,400,000. The facility of A\$3,400,000 comprises A\$700,000 from the initial facility, A\$550,000 deemed to be drawn down by HHI when the Company advanced A\$550,000 to Zelira to satisfy a portion of HHI's debt to Zelira (refer to ASX announcement 23 November 2022), A\$800,000 deemed to be drawn down by HHI when the Company issued shares to Zelira following shareholder approval at the 29 December 2022 general meeting, to fully satisfy HHI's debt with Zelira, A\$400,000 deemed to be drawn down to HHI when the Company assumed the obligation of HHI to Celtic Capital Pty Ltd, and A\$950,000 additional funding to be advanced by the Company against a budget to be agreed to by the Company. HHI has since drawn an additional A\$600,000, leaving A\$350,000 available under the facility. The Company has since agreed to extend the loan repayment date under this Facility to 31 May 2023.

Optimised Board and management team:

The Company made a number of Board and management changes which reflect its ongoing commitment to increasing independence and growth into a burgeoning, internationally recognised provider of high plant based products including recreational and medicinal cannabis, non-cannabis natural over-the-counter products, CBD solutions for humans and animal health, and psychedelics.

These appointments including SSH co-founder Ms Jodi Scott becoming an Executive Director, ex-Canopy Growth executive Mr Ben Quirin joining as a Non-Executive Director and the appointment of senior executive Mr Peter Hatfull as a Non-Executive Director. During the quarter, Mr Boaz Wachtel also assumed the role of Non-Executive Chairman.

Each new director has extensive international experience and defined skillsets across business optimisation, strategic planning, government negotiations, corporate governance and product



development. Creso Pharma is confident that it will considerably benefit from the additional depth to its Board and management team over the coming months.

Concurrently with these appointments, both Mr Adam Blumenthal and Dr. James Ellingford resigned as a Non-Executive Directors.

Commitments to raise up to \$7.6m through convertible note issues:

The Company strengthened its cash balance through firm commitments to raise up to \$7.6m through the issue of two separate convertible notes. The new funding includes commitments from new and existing professional investors to raise \$2.6m through the issue of secured convertible notes and an additional agreement with NY-based asset and fund manager Obsidian Global GP, LLC to raise up to \$5m via convertible notes. Mr Adam Blumenthal also confirmed his commitment to participate in the secured convertible note offer for \$500,000 of the \$2.6m secured convertible notes committed.

Operational overview:

Mernova Medicinal Inc. – Cannabis cultivation and sales division:

Mernova increased unaudited revenue by 17% on the last quarter to \$1,061,275 in Q4, which was underpinned by increased demand from provincial partners, including Nova Scotia, Ontario, the Yukon, New Brunswick and Saskatchewan.

Operationally, the group continued its strong progress achieving a number of milestones including expansion into the Canadian medicinal cannabis market through two distribution agreements with pharmaceutical company and cannabis merchant JMF Growers Inc. (“JMF Growers”) and Mendo Medical Cannabis (“Mendo”) and the grant of a research license from Health Canada.

JMF Growers and Mendo are focused on the distribution and online sale of medicinal cannabis products to patients in Canada. These two groups have strong industry presence and an online platform that sells medicinal cannabis products to patients, registered through a separate platform, from a number of Canadian authorised producers.

The Company has provided JMF Growers with a range of its *Ritual Green* strains, which will be sold on consignment through the group’s established online channels. The group has also expressed interest in stocking Mernova’s Lemon Haze vaporiser and pre-rolled joint products.

Mernova strengthened its regulatory position with the receipt of a cannabis Research License from Health Canada. The license will be used with respect to research involving the administration or distribution of cannabis (after QA product release) to human research subjects for assessments of taste, sight, smell and touch of cannabis.

Grant followed an extensive application process and thorough review of Mernova’s facilities, current practises and protocols, personnel as well as the Company’s proposed uses.

Mernova also received approval from Health Canada for an amended licence permitting the sale of cannabis extracts, electric vaporisers, edibles and topical products (“cannabis 2.0 licence”). The licence amendment builds on the Company’s original sales licence and provides the opportunity to directly sell an expanded portfolio of craft cannabis 2.0 products through its all approved provincial partners and medicinal avenues. Mernova will leverage its cannabis 2.0 licence to enter into new provincial markets, which could not be accessed previously due to contract manufacturing relationships.



Wholly-owned US subsidiary, Sierra Sage Herbs:

SSH generated a total of \$1,445,790 during the quarter. This marked a 29% increase on the last quarter and highlights the operation division's ongoing expansion throughout the US and other markets.

To increase US exposure, SSH signed a Product Supply and Services agreement with omni-commerce sales, marketing and media company accelerate360 to increase brand awareness and unlock potential new sales channels to drive revenue.

accelerate360 is a major US-based omni-commerce solutions company providing sales, distribution and logistics, marketing and media to unlock growth for retailers and brands. The group multiple major US media brands, delivered to more than 35,000 retail locations on a weekly basis.

SSH will leverage accelerate360's media group to engage media brands in its portfolio for content-related marketing initiatives. SSH products will be featured as part of a shopping experience through accelerate360's Us Weekly magazine brand. The Company's Green Goo range will be featured to promote consumer knowledge of plant-based natural skin care. accelerate360 may also purchase products from SSH, which can be resold to consumers.

Furthering its international footprint, SSH entered the Canadian market with the successful launch of Green Goo products via a Canadian specific ecommerce channel. SSH also began work to launch the range across Amazon Canada, which is expected to underpin additional sales growth.

Canadian expansion follows substantial work undertaken alongside Health Canada. SSH has also commenced an application with Health Canada to register its Southern Butter and Good Goo ranges for sale in the country, which may lead to additional revenue generating opportunities.

Halucenex Life Sciences – wholly-owned psychedelics operation:

Halucenex achieved a major milestone during the period, successfully administering first doses of its Lucenex branded 10mg and 25mg synthetic psilocybin formulation to a patient participating in the Company's phase II clinical trial (in separate sessions), marking the commencement of the initiative. To date, the dosage has not shown any observed adverse effects.

Following the administration of its maiden 100%-owned and formulated synthetic psilocybin aqueous solution, Halucenex has continued administering its synthetic psilocybin to an average of two patients per week, allowing for completion of the trial in Q2 CY2023.

Upon completion and subject to the success of the trial, Halucenex will undertake an extensive review of data generated and the effect of synthetic psilocybin when used to treat symptoms associated with PTSD. The Company will also simultaneously conduct a review of additional product development opportunities, R&D initiatives and potential licencing agreements.

-Ends-

Authority and Contact Details

This announcement has been authorised for release by the Disclosure Committee 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.

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 December 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,905	8,281
1.2 Payments for		
(a) research and development	(36)	(373)
(b) product manufacturing and operating costs	(1,782)	(6,357)
(c) advertising and marketing	(465)	(1,126)
(d) leased assets	-	-
(e) staff costs	(2,340)	(7,999)
(f) administration and corporate costs	(1,612)	(6,735)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(100)	(100)
1.6 Income taxes paid	-	-
1.7 Government grants and refunds	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,430)	(14,409)
Note:		
During the quarter and the year to date, the Company issued shares in lieu of cash payments for debts outstanding comprising:	-	1,670,588 shares
Deemed value in lieu of cash	-	134

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	(1,400)	(4,942)
(c) property, plant and equipment	(3)	(406)
(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	-	11
(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)	-	170
2.6 Net cash from / (used in) investing activities	(1,403)	(5,167)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	9,942
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	8
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(663)
3.5 Proceeds from borrowings	4,837	4,837
3.6 Repayment of borrowings	(268)	(268)
3.7 Transaction costs related to loans and borrowings	-	(34)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	4,569	13,821

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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	1,653	7,062
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,430)	(14,409)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,403)	(5,167)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,569	13,822
4.5	Effect of movement in exchange rates on cash held	(40)	41
4.6	Cash and cash equivalents at end of period	1,349	1,349

5. Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1 Bank balances	1,349	1,653
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)	1,349	1,653

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	471
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	250
- Loan Repayment	137
- Other services	84
Aggregate amount as above	471

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

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>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.</i>		
7.1 Secured Loan facilities	3,600	2,320
Unsecured Loan facilities	3,850	2,350
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	7,450	4,670

7.5 **Unused financing facilities available at quarter end** 2,780

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.

Loan trust deed with Briant Nominees Pty Ltd – Secured Loan

Total Facility: \$3,600,000

Drawn down: \$2,320,000

Interest per annum: 30%

Maturity date: 21/05/2023

Convertible securities agreement with Obsidian – Unsecured Loan

Total Facility: \$3,850,000

Drawn down: \$2,350,000

Implied interest rate: 15%

Inception date: 27/10/2022

Maturity date: 02/02/2024

All of these facilities were described in the ASX announcement on 1st November 2022.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(3,430)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	1,349
8.3 Unused finance facilities available at quarter end (Item 7.5)	2,780
8.4 Other	2,758
8.5 Total available funding (Item 8.2 + Item 8.3 + Item 8.4)	6,887
8.6 Estimated quarters of funding available (Item 8.5 divided by Item 8.1)	2.01

8.4 Other comprises:

\$2.458 million of director and former director participation from previous capital raises, of which \$1.640 million required shareholder approval and was approved by shareholders at the general meeting on 29 December 2022.

The Company has received \$0.7 million of this amount, with the remainder expected to be received during the week of 30 January 2023.

\$0.3m facility guaranteed by a former director.

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

1. 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: N/A

2. 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: N/A

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

Answer: N/A

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: 31 January 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.