



31 January 2018

December quarter update

Highlights:

- **Launch of anibidiol® animal health product in Switzerland with Virbac (Switzerland) Ltd.**
- **Commercial agreement to market and distribute cannaQIX®10 human health product in Switzerland and Lichtenstein.**
- **LOI with LGC Capital and Baltic Beer Company to create a JV to develop and market a range of cannabis- and hemp-derived beverages.**
- **Entry into the lucrative Chinese market via strategic partnership and commercial distribution agreement with Zhejiang Kingdom Creative Co.**
- **Gains foothold in Latin American market through acquisition of Kunna Canada Ltd., and its Colombian subsidiary, Kunna S.A.S.**
- **Swiss launch of cannaQIX®10 and the UK launch of cannaQIX®10 and 50 in 1Q 2018 to bring first revenues for human health product line.**

Creso Pharma Limited (ASX:CPH, the “Company” or “Creso”) is pleased to provide its quarterly update for the three months ending 31 December 2017.

During the quarter, Creso achieved a number of key milestones in terms of progressing the commercialisation of its animal and human health products and expanding its global reach, putting it in a very strong position for further success in CY 2018.

Operational Overview

Launch of animal health product in Switzerland

In November, Creso and Virbac (Switzerland) Limited launched Creso’s animal health product, anibidiol®, in Switzerland.

anibidiol® is a natural complementary feed for companion animals containing a standardised amount of hemp extract with cannabidiol (CBD), the non-psychoactive substance of the hemp plant.

It supports companion animals’ immune systems, their natural defences and contributes to balanced behaviour.

The CBD contained in anibidiol® does not cause gastrointestinal or dependency side effects and has a very good safety and tolerability profile.

To guarantee professional advice, anibidiol® is marketed in Switzerland exclusively by Virbac and only through veterinary practices.

Commercialisation agreement for launch of cannaQIX®10 in Switzerland

In December, the Company secured an exclusive commercialisation agreement with Swiss pharma company, Doetsch Grether, for the marketing and distribution of Creso’s cannaQIX®10 in



Switzerland and Lichtenstein, setting the cornerstone for Creso's global commercialisation of the product.

The agreement covers the exclusive marketing and distribution of cannaQIX®10 in Switzerland for 10 years, targeting the biggest pharmacy and drug store chains in Switzerland and Lichtenstein, giving Creso access to more than 2,300 outlets.

cannaQIX®10 is Creso's proprietary buccally formulated cannabidiol (CBD) lozenge product which aims to reduce stress and to support mental and nervous functions in humans.

Creso obtained the necessary approvals to market its hemp-based nutraceutical cannaQIX®10 in Switzerland as a Food Supplement compliant with Swiss Federal food law.

Agreement for import and distribution of cannaQIX®50 in Australia.

In November, Creso cemented its position in the Australian market, securing a deal with its Australian distribution partner, Health House International in November for the import of cannaQIX®50, in CY 2018.

cannaQIX®50 is Creso's proprietary buccally formulated cannabidiol (CBD) lozenge product which is designed to support the management of chronic pain.

Under the move, Health House will import the product under local medicinal cannabis regulations.

Once the product is imported, Health House International will distribute the product to pharmacies in all Australian states and territories. The lozenges will be available through the Therapeutic Goods Administration's (TGA) Special Access Scheme (SAS).

LOI with LGC Capital Ltd and Baltic Beer Company to create a JV company to develop a range of cannabis-derived beverages

In November, Creso signed a binding Letter of Intent with Canadian diversified business group, LGC Capital Ltd and UK brewing company, Baltic Beer Company Ltd, to form a joint venture company to develop and market a portfolio of cannabis- and hemp-derived alcoholic and non-alcoholic beverages.

Research and development work has already started in Switzerland, Estonia and the UK on a premium craft beer range containing unique cannabis terpenes mixes.

It is expected the first test batches of the cannabis terpene beers will reach selected markets in May 2018, with commercial sales expected to be ready for shipments from Q3 2018.

Cannabis terpenes are fragrant oils that give cannabis and hemp their aromatic diversity. The terpenes in the beer range will carry the characteristic odour and fragrance of cannabis with the same taste and feel but the beers will not contain THC or CBD or any other cannabinoids.

Entry into the lucrative Chinese market

In November, Creso entered the lucrative Chinese market with a Strategic Partnership and Commercial Distribution agreement with Zhejiang Kingdom Creative Co., Ltd (Kingdom Creative).

The Chinese health food market – which includes vitamins, dietary supplements and minerals, animal and herbal extracts and traditional Chinese medicine – is currently valued at RMB200 billion



(US\$31 billion; A\$39 billion) and is projected to grow by 10 per cent every year between now and 2025¹.

The agreement provides Creso with a strategic foothold in China and the ability to offer a range of products from nutraceuticals to therapeutic and medicinal – both for human and animal health. It also allows Kingdom Creative to vertically integrate and diversify into value-added, hemp-based nutraceuticals for human and animal health as well as cosmetics and age-defying beauty products.

Under the move, the two companies will collaborate on research and development as well as the distribution of hemp- and cannabis-based nutraceutical, cosmetics and body care products across China. Creso is very conscious of its legal obligations in all jurisdictions and will only ever distribute products in compliance with local laws.

Creso is also in advanced discussions with other Asian pharmaceutical and cosmetic groups. This will open up the path to bring Creso's products and IP to Asia in a fast, effective and efficient manner so the Company can reach a massive population of consumers and patients.

Entry into Latin American market with Kunna acquisition

Also during the quarter, Creso became the only Australian-listed medicinal cannabis company with direct exposure to the Colombian market through the proposed acquisition of Kunna Canada Ltd., and its wholly-owned Colombian subsidiary, medicinal cannabis group, Kunna S.A.S.

The move also gives Creso a foothold in the strategically important Latin American market.

Kunna has a licence to produce, manufacture, market and export cannabis derivatives and products using extracts in Colombia and is in the process of applying for a licence to cultivate medicinal cannabis. It expects this licence to be granted in the first quarter of 2018.

The granting of the cultivation licence to Kunna will give Creso a significant competitive advantage as it will be one of the few companies globally, and the only medicinal cannabis company listed on the ASX, with the capacity to commercially cultivate medicinal-grade cannabis in Colombia.

It will also enable Creso to produce a full range of cannabis products and to develop a complete vertical offering of standardised, medicinal-grade formulations for the Colombian and broader Latin American market.

Post-quarter developments

In January 2018, Creso secured a commercial agreement with UK-based healthcare group Precision Healthcare Ltd to market and distribute cannaQIX®10 and 50 products in the UK. The UK launch is planned for Q1 2018.

The agreement covers the non-exclusive marketing and distribution of cannaQIX®10 and 50 in the UK market, targeting pharmacies and health food stores.

The commercialisation agreement follows Creso receiving confirmation for cannaQIX® as a Food Supplement from the UK Trading Standard Office (TSO), Hertfordshire County Council, as the primary regulatory authority.

Swiss regulatory authorities have issued a certificate of free sales for the export of the product into the UK from Switzerland.

¹The Boston Consulting Group, *From Insight to Action: Capturing a Share of China's Consumer Health Market*, February 2014, accessed 7 February 2017.



Also in January, Creso formally launched its joint venture (JV) company – CLV Frontier Brands Pty Ltd – with LGC Capital and Baltic Beer Company to develop and globally commercialise the bespoke portfolio of cannabis and hemp-derived alcoholic and non-alcoholic beverages, following November’s announcement of the LOI and JV.

Financials

The Company’s cash balance as at 31 December 2017 was \$12.4 million, with the balance helped by Creso’s successful Placement and Share Purchase Plan (SPP). The SPP was underwritten to an amount of \$2 million, and the shortfall is expected to be placed in the near term. This will bring an additional \$1.6 million funds to the Company.

The Placement, conducted in November, was expanded from A\$10 million to A\$15.5 million to accommodate high demand from both domestic and international institutional, sophisticated and professional investors.

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

Outlook

Creso expects to achieve a number of key milestones over the coming months, namely the Swiss launch of cannaQIX®10 and the UK launch of the cannaQIX®10 and 50 products, which will bring the first revenues for the Company’s human health product line.

It also expects to import of cannaQIX®50 into Australia, via its commercial partner, Health House, in the second half of 2018, cementing its competitive advantage in the local market.

The Company also plans to continue securing commercial agreements for both the cannaQIX® range as well as the anibidiol® animal health range of products, after the launch of the latter in Switzerland during the December quarter.

At the same time, the Company will continue to expand its global presence through commercial agreements and acquisitions. It expects to provide investors with updates on the Kunna acquisition and the Mernova acquisition in Canada over the coming weeks.

-ENDS-

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About Creso Pharma

Creso Pharma 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. Creso Pharma Switzerland develops, produces and markets worldwide cannabis and hemp- derived therapeutics, nutraceuticals and life cycle products for humans and complementary feed products for animals.

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 December 2017

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	14	20
1.2 Payments for		
(a) research and development	(432)	(1,563)
(b) product manufacturing and operating costs	(91)	(134)
(c) advertising and marketing	(439)	(1,218)
(d) leased assets	-	-
(e) staff costs	(251)	(933)
(f) administration and corporate costs	(1,611)	(3,528)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	53	81
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)	(23)	(56)
1.9 Net cash from / (used in) operating activities	(2,779)	(7,330)

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	(5,724)	(6,286)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(5,724)	(6,286)
2.3	During the quarter, Creso provided a loan of CAD\$5.5 million to Mernova Medicinal Inc.		
	During the quarter, Creso provided a loan of EUR20,000 to the Viru Beer joint venture company.		
3.	Cash flows from financing activities		
3.1	Proceeds from issue of shares	14,631	24,413
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	200	200
3.4	Transaction costs related to issues of shares, convertible notes or options	(1,023)	(1,696)
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	13,808	22,917
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	7,027	3,046
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,779)	(7,330)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5,724)	(6,286)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	13,808	22,917
4.5	Effect of movement in exchange rates on cash held	1	(14)
4.6	Cash and cash equivalents at end of quarter	12,333	12,333

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	12,333	7,027
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)	12,333	7,027

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	(1,212)
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	
6.1	Director fees and bonuses paid to Directors and/or Director related entities	\$157,962
	Corporate advisory fees paid to a Director related entity	\$30,000
	Transaction costs related to issues of shares paid to a Director related entity	\$1,024,362

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	
N/A	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
N/A		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(250)
9.2 Product manufacturing and operating costs	(100)
9.3 Advertising and marketing	(450)
9.4 Leased assets	-
9.5 Staff costs	(250)
9.6 Administration and corporate costs	(860)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(1,910)

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

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(Company secretary)

Date: 31 January 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.