



ASX Announcement

31 January 2019

Quarterly Update and Appendix 4C

Highlights:

- cannaQIX® and anibidiol® sales close the year with significant growth in distribution and repeat demand
- Creso finalises an extended commercial agreement with Virbac bringing anibidiol® to an additional 15 countries in Europe and Latin America
- Creso's Colombian Kunna SAS acquisition officially closed and Colombian operations commence with the first steps of genetic registration accomplished
- The US Hemp Farm Act of 2018 signed in law in November 2018 opens the door to Creso's CBD human and animal health products in the US
- Creso announces plans to list on the Toronto Stock Exchange, TSX-V
- Israeli parliament approved a final bill to allow export of cannabis products - Creso's Cohen JV where Creso holds 76% moves one step closer to becoming operational
- Creso signed a binding Letter of Intent (LOI) with Medleaf Ltd to partner on building a comprehensive cannabis business in New Zealand

Creso Pharma Limited (ASX:CPH) (the "Company" or "Creso"), is pleased to provide its Appendix 4C cash flow statement for the quarter ending 31 December 2018, together with the following operational update.

Kunna SAS Colombia – During Q4, the Company completed the acquisition of Kunna SAS Colombia, representing a key milestone for the Company as the transaction allows Creso to significantly develop its key strategic foothold in Colombia with Kunna SAS' licenses to cultivate, process, research, develop, export and sell medicinal cannabis.

Creso expects to grow its cultivation operations quickly providing low-cost, raw material for their products as well as high quality material for the Colombian market and export markets.

The Colombian government is advanced in its cannabis legislation and anxious to establish Colombia as a center of expertise and to establish cannabis as a legitimate addition to their economy. Creso's team is working closely with the authorities and the medical community and has the resources necessary to accelerate progress.



Canada Cultivation – During Q4, the Company completed construction of its Windsor Nova Scotia cultivation facility and was contacted by Health Canada at the end of the year for final content required to complete and approve the application for a license to produce. With the license application process now in the final stages, the Company expects to receive its production license imminently.

The Canadian Federal legalisation of the recreational cannabis market has created a current and projected supply shortage, making Mernova’s dried flower - branded Ritual Green - a hot commodity.

Creso also declared the Nova Scotia facility as its Global Centre for Edible Cannabis Research and Development. Creso will utilise its significant medical and pharmacological expertise to develop trusted, dosage-controlled “edible products” for the Canadian market and precision-formulated cannabis products for the global medical community.

Anibidiol® Distribution Expansion - After only a year of distribution of Creso’s anibidiol® range of branded companion animal products, Virbac (France) has expanded its commercial agreement to an additional 15 countries throughout Europe and Latin America and an initial order of \$350,000 was placed to fill the pipeline and will be delivered to Virbac in April 2019.

cannaQIX®10 continues to generate repeat purchases and is seeing its distribution grow. Pharmacare UK continues to see point-of-sale expansion throughout the UK.

The medicinal form of cannaQIX®50 is now expanding to Brazil, Sri Lanka and New Zealand.

Israeli Export - Creso’s strategic plan for Israel is a step closer with the Israeli Parliament’s approval to allow the export of medicinal cannabis from Israel. The new law which has now received Israeli Cabinet final sign off will allow Israel to participate in the global medicinal cannabis industry.

Creso is well positioned to take advantage of these changes via its 74% stake in a Joint Venture with Israeli-based Cohen Propagation nurseries. The JV will enable Creso to supply cannabis strains previously unavailable from Israeli cannabis producers. Creso is one of few ASX-traded companies with operations in Israel and one of only a few Licensed Producers in Canada with access to Israeli strains.

US Hemp Farm Bill 2018 - Creso has the opportunity to introduce its global CBD derived brands cannaQIX®, anibidiol® and cannaDOL® to the United States of America’s (“US”) human and animal health markets following the removal in that market, of hemp, from the Controlled Substances Act (“CSA”).



Over the past few years, Creso has established itself as a pharmaceutical grade, CBD nutraceutical and animal health company with its innovative CBD products now sold internationally. Following the change in the CSA, Creso now has a significant market opportunity in the US with its CBD brands.

New Zealand Medleaf Ltd. Partnership - Creso signed a binding Letter of Intent (LOI) with Medleaf Ltd to partner on building a comprehensive cannabis business in New Zealand and expand the range of CBD-based medicinal cannabis products available to New Zealand consumers, having previously only had cannaQIX®50 available.

The LOI came at the same time as significant changes to New Zealand's medicinal cannabis regulatory framework, delivering improved patient access to medicinal cannabis.

Corporate

Dual Listing on TSX-V

On 3 December 2018, Creso announced its intention to dual-list on the Toronto Venture Exchange (TSX-V), making it the only cannabis company to be publicly listed in both Australia and Canada, giving it exposure to a very wide pool of investors.

The Canadian listing is supported by Echelon Wealth Partners Inc. ("Echelon") who has been engaged to lead the dual listing process. Echelon is a full-service broker/dealer offering investment banking, equity research, institutional sales and trading and retail distribution services. Echelon has raised over US\$6 billion since January 2014 and participated in over 200 transactions. In the cannabis space alone, Echelon has raised over US\$1.1B and has been an active participant in global cannabis M&A advisory.

The listing application process is now well underway, with the Company targeting completion in April 2019.

Construction Finance Loan

On 5 October 2018, Creso finalised a construction finance loan with the face value of AUD\$2.7m from L1 Capital Global Opportunity Master fund and the Canadian Special Opportunity Fund. The loan had a drawdown price of 90% of the face value and Creso received \$2.43m in funding. The funds were received on the 17th and 22nd of October 2018 with cash being used to complete the construction of the Mernova Facility.

During the quarter, Mernova spent \$4.56m in funds to continue the construction of the Mernova facility which has an expected completion date in Q1'19. Approximately \$2.43m in debt was drawn externally to continue to fund the project build.



Performance Rights – Satisfaction of Milestones

The Company wishes to confirm that the performance milestones attached to the following Performance Rights have been satisfied:

Number and Class	Performance Milestone
5,000,000 CPHPERR4 Performance Rights (Tranche 4)	The Company (or one of its controlled entities) achieving gross sales revenue from one or more Products equal to or exceeding A \$500,000.
2,000,000 CPHPERR19 Performance Rights (Tranche 12)	The Company completing the Kunna Transaction, which represented a material transaction that was sourced or introduced by the Contractor in any jurisdiction around the world.
100,000 CPHPERR15 Performance Rights (Tranche 16)	The Employee successfully assisting the CEO on local and international initiatives as determined by the CEO, and completion of 18 months of continued engagement with the Company from date of issue of the Performance Rights

CPHPERR4 and CPHPERR15 Performance Rights are now eligible for vesting at the election of the holder, subject to the holder giving the required vesting notice to the Company.

CPHPERR19 Performance Rights were converted into shares, as per the Appendix 3B lodged with ASX earlier today.

ENDS



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 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.

Corporate Queries:

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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 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	219	588
1.2 Payments for		
(a) research and development	(274)	(1580)
(b) product manufacturing and operating costs	(226)	(368)
(c) advertising and marketing	(167)	(1,220)
(d) management costs	(271)	(1,403)
(e) staff costs	(316)	(1,320)
(f) administration and corporate costs	(932)	(3,213)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	30	124
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)	-	15
1.9 Net cash from / (used in) operating activities	(1,936)	(8,376)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(4,556)	(7,449)
(b) businesses (see item 10)	-	(633)
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-

+ See chapter 19 for defined terms

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
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	-	3,100
2.4	Dividends received (see note 3)	-	-
2.5	Other	158	517
2.6	Net cash from / (used in) investing activities	(4,398)	(4,465)
2.1a) 2.5	<p>During the quarter, Mernova spent \$4.56m in funds to continue the construction of the Mernova facility which has a completion date in Q1'19. Approx. \$2.43m in debt was drawn externally to continue to fund the project build. Refer to section 3.5 for the funding information.</p> <p>During the quarter, Mernova recovered 158k in HST owed by the Canadian tax authorities related to the construction of the Mernova facility.</p>		

3.	Cash flows from financing activities		
3.1	Proceeds from issue of shares	-	1,459
3.2	Proceeds from unissued shares	-	-
3.3	Proceeds from exercise of share options	100	2,459
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	2,430	2,430
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	(97)	(112)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	2,433	6,236
3.5	<p>On October 5, 2019 Creso finalised a construction finance loan with the face value of AUD\$2.7m from L1 Capital Global Opportunity Master fund and the Canadian Special Opportunity Fund. The loan had a drawdown price of 90% of the face value and Creso received \$2.43m in funding. The funds were received on the 17th and 22nd of October, 2019 with cash being used to complete construction on the Mernova Facility.</p>		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
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	10,204	12,425
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,936)	(8,376)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(4,398)	(4,465)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,433	6,236
4.5	Effect of movement in exchange rates on cash held	77	560
4.6	Cash and cash equivalents at end of quarter	6,379	6,379

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	6,379	10,204
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)	6,379	10,204

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	(96)
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	
6.1	Relates primarily to fees paid to Directors	

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	

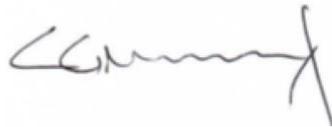
8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	\$2.43m	\$2.43m
8.2 Credit standby arrangements	-	-
8.3 Other (see note 8.3 below)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
8.1 8.1 On October 5, 2019 Creso finalised a secured construction finance loan with the face value of AUD\$2.7m from L1 Capital Global Opportunity Master fund and the Canadian Special Opportunity Fund. The loan had a drawdown price of 90% of the face value and Creso received \$2.43m in funding and a 10%p.a interest rate.		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(310)
9.2 Product manufacturing and operating costs	(770)
9.3 Advertising and marketing	(150)
9.4 Management costs	(310)
9.5 Staff costs	(650)
9.6 Administration and corporate costs	(620)
9.7 Other (see note 9.7 below)	(500)
9.8 Total estimated cash outflows	(3,310)
9.7 (a) \$300k in transactions costs to be incurred for the Canadian TSX listing.	
(b). \$200k in additional building costs for the Mernova Facility.	

10. Acquisitions and disposals of business entities	Acquisitions	Disposals
10.1 Name of entity	Kunna Canada Limited	N/A
10.2 Place of incorporation or registration	Ontario, Canada	
10.3 Consideration for acquisition or disposal	The consideration for the Acquisition, being a total of 8,212,121 CPH shares and 1,212,120 performance shares, were today issued to the vendors of Kunna (as disclosed in CPH's Notice of Meeting announced on 11 September 2018).	
10.4 Nature of business	By acquiring 100% of the issued capital in Kunna, CPH has also indirectly acquired 100% of Kunna's Colombian registered subsidiary, Kunna S.A.S. (Kunna Colombia). The business has been granted a licence to produce, manufacture, market and export cannabis derivatives and products, using extracts in Colombia. Additionally, in June 2018, Kunna Colombia was granted a licence to cultivate cannabis in Colombia.	

Compliance statement

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



Sign here:

Date: 31 January 2019

Print name: Chris Grundy (Head of Finance)

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.