



ASX Announcement

24 July 2019

Creso Pharma lifts global revenue in June quarter ahead of proposed acquisition by listed Canadian cannabis company

Highlights

- YTD revenue increased 500% on the previous corresponding period.
- Granted license to import **cannaQIX®50**, Creso's first medicinal cannabis product into Brazil.
- Signed distribution agreement with Burleigh Heads Cannabis and received an import permit for Creso's first shipment of **cannaQIX®50** medicinal cannabis product in Australia.
- Canada operation progressed through cultivation, harvest and revenue generation.
- Raised AUD5.35m via a series of secured loans from institutional and sophisticated investors.
- Post-quarter, Creso entered an agreement to be acquired by Canadian cannabis company PharmaCielo Limited (TSXV:PCLO).
- Post-quarter, Creso reduced secured loans by AUD5.15m through the issue and conversion of convertible notes in preparation for the acquisition.
- Post-quarter, PharmaCielo agreed to provide a bridging loan of up to CAD3.5m to Creso.

Creso Pharma Limited (ASX:CPH) ('Creso' or 'the Company') is pleased to provide its Appendix 4C cash flow statement for the quarter ended 30 June 2019 (Q2 2019), together with the following operational update.

During the quarter, Creso achieved strong revenue growth from its commercialised product portfolio in Europe. In the six months to June 2019, AUD revenues increased by 500% compared to the previous corresponding period, from AUD184,076 to AUD926,675.

During the quarter the Company also prepared for the import and sale of **cannaQIX®50** into Brazil and Australia.

Post the quarter end, the Company commenced sales of cannabis from its Canadian production facility.



Acquisition by PharmaCielo Limited (TSXV:PCLO)

On 7 June 2019, Creso announced it entered into a scheme implementation agreement with PharmaCielo Limited (TSXV:PCLO) (“PharmaCielo”), for a recommended acquisition of Creso by PharmaCielo.

PharmaCielo is a TSX-V listed cannabis company, which is a fully licensed producer of medicinal cannabis oil products in Colombia and is the largest cannabis producer in Colombia. PharmaCielo currently has a market capitalisation of approximately CAD510m.¹

Implementation of the proposed acquisition will combine two complementary cannabis companies to create a well-capitalised, publicly traded company with a strong growth profile and significant strategic advantages.

If the acquisition proceeds, Creso and PharmaCielo expect to benefit from a number of synergies including but not limited to creation of a vertically integrated supply chain, the strengthening of the merged entities leadership team, expansion of cultivation and processing facilities, and expansion of commercial networks and product ranges.

Upon implementation of the proposed acquisition, Creso shareholders will receive 0.0775 PharmaCielo shares for every Creso share held and Creso listed option holders will receive 0.0185 PharmaCielo shares for each Creso listed option held.

Creso securityholders will hold approximately 13% of the issued shares in the PharmaCielo following implementation, with PharmaCielo shareholders holding the remaining 87%.

Further details on the acquisition are outlined in Creso’s ASX announcement dated 7 June 2019.

Canadian operation commences sales

Post-quarter, Creso commenced cannabis sales from its Nova Scotia-based Mernova Medical facility [ASX Announcement: 2 July 2019]. Dried flower sales from Mernova were invoiced at the end of June. With committed sales for all that the facility can produce, Creso expects to generate up to CAD\$5m by the end of 2019.² This milestone comes following receipt of the necessary cultivation licence in mid-February 2019 allowing commencement of both commercial cultivation and B2B sales.

¹ Based on the closing share price of CAD5.28 on 22 July 2019.

² This is based on Mernova’s actual harvest schedule by week, through to the end of the 2019 calendar year. Estimates for yields are based on the first two harvests, which were very high quality. As growing processes are fine tuned, yield per plant is expected to increase.



To facilitate the demand for its high-quality cannabis products, Creso intends to produce at the Halifax facility a minimum two strains for its wholesale clients (B2B) and up to an additional five strains to the retail market. Retail sales will commence following approval of a Sale for Medical Purposes license already well in progress. The Company expects to produce approximately 700,000¹ grams of dried flower in its built-for-purpose Mernova cultivation facility by year end. Creso plans to increase production capacity at the state-of-the-art facility to up to 4,000 kilograms of cannabis annually, with additional expansion capacity allowing for future increases of up to 10 times that amount.

Europe revenue increases

In April, Creso announced that sales of its two human health commercialised products, **cannaQIX® 10** and **50**, were progressing steadily and generating revenues in Europe [ASX Announcement: 2 April 2019].

CannaQIX®10 was distributed throughout Switzerland from March 2018. The cannabis lozenge has seen steady sales growth.

The **cannaQIX®** range of products comprises CBD hemp-based nutraceuticals using Creso's proprietary innovative delivery technology. They contain full spectrum organic hemp extract with CBD, vitamins and zinc, aiming to reduce stress and to support mental and nervous functions. The product is well tolerated, non-euphoric, non-addictive and sugar free. The standardized, user-friendly strength and formulation allows precise dosage control, ensuring a reliable and stable effect over several days. The **cannaQIX®** range has been developed to Good Manufacturing Practice standards and is produced in Switzerland by Creso's partner, Swiss-based food and pharma development company, Domaco, Dr. med Aufdermaur AG (Domaco), to the highest Swiss quality with a "Swiss Made" label.

The increase in sales was achieved through the Company's partnerships with Doetsch Grether Switzerland, Hempmade Switzerland and Pharmacare UK, which have enabled Creso's human health nutraceutical products to achieve significant penetration into pharmacies and drug stores.

During the quarter, Creso secured distribution of its **cannaQIX®** product in two major retailers in the United Kingdom, being Boots and Holland & Barrett International.

cannaQIX® is now for sale in the stores of both retailers following the supply and distribution agreement with UK-based Pharmacare Europe to commercialise **cannaQIX®**.



Boots is the largest pharmacy health and beauty chain in the United Kingdom focused on community-based health and beauty and has 2,485 stores. Holland & Barrett International is one of the world's leading health and wellness retailers and the largest in Europe, supplying its customers with a wide range of vitamins, minerals, health supplements, specialist foods and natural beauty products. Collectively both retailers have thousands of retail outlets and can efficiently reach millions of potential consumers and patients.

In the animal health segment, Creso also saw excellent progress across veterinarians/clinics in Switzerland with further expansion in new countries in the pipeline.

Creso continues to focus its R&D efforts on humans and animals' unmet health needs with the development of innovative technologies which maximise absorption and improve bioavailability of cannabis-based supplements. The Company has a pipeline of new products targeting areas including stress, chronic pain and sleep-improvement ready for launch.

Expansion into Brazil progresses

In April, Creso announced that it had received approval from Brazilian health regulatory agency ANVISA to import its first medicinal cannabis product **cannaQIX®50** into Brazil [ASX Announcement: 18 April 2019].

Creso and its marketing partner SIN Solution will import **cannaQIX® 50**, a medicinal cannabis product which has been developed for patients suffering from chronic pain. The commercialisation of **cannaQIX® 50** in Brazil follows the product's successful launch in New Zealand last year.

Sales in Australia to commence via new distribution agreement

In April, Creso signed an exclusive distribution agreement with leading Australian medicinal cannabis distribution company Burleigh Heads Cannabis [ASX Announcement: 30 April 2019].

Creso and Burleigh Heads Cannabis have received the required regulatory approvals for the first shipment of **cannaQIX® 50** to be imported in Q3 2019 as a therapeutic product for sale via approved channels. The distribution agreement is expected to provide a significant new channel for Creso's innovative products as Burleigh Heads Cannabis and CDA Clinics Australia rapidly expand their patient reach in Australia.



Financial results commentary

Revenues from sales of human and animal products during the quarter were CHF519,603 (~ AUD742,033), an increase of 434% on the CHF119,690 (~ AUD167,633) in revenues recorded in the March quarter.

YTD 2019 revenues from sales of human and animal products were CHF639,293 (~ AUD909,666), an increase of 467% on revenues of CHF136,939 (~ AUD184,076) for the previous corresponding period.

Corporate

Creso raised AUD5.35m in secured loans from institutional and sophisticated investors during the quarter [ASX Announcement: 11 April 2019].

At the end of the quarter, Creso had approximately AUD3.3m in cash.

Following the signing of the acquisition agreement with PharmaCielo, Creso announced it had reduced the balance of its secured loans by AUD5.15m through the issue and conversion of convertible notes [ASX Announcement: 3 July 2019].

In demonstration of its commitment to the proposed acquisition of Creso, in Q3 2019 PharmaCielo has agreed to provide a bridging loan of up to CAD3.5 million to Creso.

Creso received the first instalment on the loan of AUD1.5m (~CAD1.35m) on 9 July 2019, with remaining funds to be advanced in instalments. The funds will be used to fund Creso's ongoing operations in accordance with an agreed budget and cash flow forecast as the parties work towards completion of the proposed acquisition.

Key terms of the loan agreement include:

- Interest will be charged at 15 per cent per annum. Interest payments to be paid quarterly in arrears, with the first repayment to take place on the earlier of 31 December 2019 and the maturity date of the loan.
- The maturity date is the later to occur of (a) 30 November 2019 and (b) if the scheme of arrangement is not approved by the Creso shareholders, the date which is four (4) months after the date of such unsuccessful vote.
- An early redemption fee of 20% of the outstanding face value of the loan will apply if the loan is repaid prior to the maturity date.
- The loan is secured by a general security granted over the personal property of Creso, a guarantee by Creso Canada Limited of the obligations of Creso pursuant to the loan agreement, and a pledge by Creso Canada Limited of all of the shares of Mernova owned by Creso Canada Limited.



Dr Miri Halperin Wernli, Creso CEO and Co-Founder, said:

“We are very pleased with our achievements this quarter. Creso has increased its revenue generation in Europe, commenced sales in Canada and is about to start importing into Brazil. In addition, we have reduced our debt in preparation for our acquisition by PharmaCielo. The deal is a great opportunity for our listed securityholders to benefit from being part of a well-capitalized global medicinal cannabis company.”

Ends

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About Creso Pharma Ltd

Creso 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 lifestyle 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.

To learn more, please visit: www.cresopharma.com

About PharmaCielo

PharmaCielo Ltd. is a global company privately held and headquartered in Canada, with a focus on processing and supplying all natural, medicinal-grade cannabis oil extracts and related products to large channel distributors. PharmaCielo's principal (and wholly owned) subsidiary is PharmaCielo Colombia Holdings S.A.S., headquartered at its nursery and propagation centre located in Rionegro, Colombia.



The boards of directors and executive teams of both PharmaCielo and PharmaCielo Colombia Holdings are comprised of a diversely talented group of international business executives and specialists with relevant and varied expertise. PharmaCielo recognized the significant role that Colombia's ideal location will play in building a sustainable business in the medical cannabis industry, and the company, together with its directors and executives, has built a compelling business plan focused on supplying the international marketplace.

To learn more, please visit: www.pharmacielo.com

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 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 (the "Company")

ABN

89 609 406 911

Quarter ended ("current quarter")

30 June 2019

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	591	712
1.2 Payments for		
(a) research and development	(114)	(333)
(b) product manufacturing and operating costs	(519)	(592)
(c) advertising and marketing	(360)	(528)
(d) management costs	(325)	(711)
(e) staff costs	(605)	(1,213)
(f) Selling, General, Corporate and Admin Costs	(1,080)	(1,847)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	25
1.5 Interest and other costs of finance paid	(153)	(257)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	187	187
1.9 Net cash from / (used in) operating activities	(2,371)	(4,557)
<u>Breakdown of Other</u>		
1.8 -	Includes approx. A\$160k capital equipment rebate paid by the Nova Scotia Provincial Department of Efficiency towards the Mernova lighting and cooling system as Mernova purchased an energy efficient solution.	

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(626)	(2,413)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	2
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other	-	(879)
2.6	Net cash from / (used in) investing activities	(626)	(3,290)
	Item 2.1a		
	- During the quarter, Mernova paid A\$1.43m (offset against A\$857k of recovered HST) to settle the final stages of the construction of the Mernova facility - which was completed in Q1'19.		
	Item 2.5		
	- On 14 March 2019, the Company settled a Mernova Medicinal Milestone payment amounting to AUD\$854k. Milestone 1 was met as a result of Mernova securing a cultivation licence from Health Canada under the ACMPR for its cultivation facility.		
3.	Cash flows from financing activities		
3.1	Proceeds from issue of shares	-	2,975
3.2	Proceeds from unissued shares	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(443)	(641)
3.5	Proceeds from borrowings	5,350	5,350
3.6	Repayment of borrowings	(1,557)	(2,716)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	25
3.10	Net cash from / (used in) financing activities	3,350	4,993

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
3.5	On 11 April 2019, the company raised \$5.35m million through convertible notes issued to strategic and sophisticated investors. (Refer to the ASX announcement on 11 April 2019)		
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	3,239	6,389
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,371)	(4,557)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(626)	(3,290)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,350	4,993
4.5	Effect of movement in exchange rates on cash held	(12)	45
4.6	Cash and cash equivalents at end of quarter	3,580	3,580

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	3,580	3,239
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)	3,580	3,239

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	(561)
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 and their related parties	

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 & 2.5,	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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	5,350	5,350
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 On 11 April 2019, the Company raised A\$5.35m via a series of secured loans from sophisticated and professional investors through the issue of convertible notes. On 2 July 2019 A\$5.1m of the secured loans were converted to shares (refer to ASX announcements on 11 April 2019 and the 3B announcement on 1 July 2019).		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(211)
9.2 Product manufacturing and operating costs	(404)
9.3 Advertising and marketing	(103)
9.4 Management costs	(266)
9.5 Staff costs	(498)
9.6 Selling, General, Corporate and Admin Costs	(1,176)
9.7 Other (see note 9.7 below)	(961)
9.8 Total estimated cash outflows	(3,618)
9.7 Significant items included in item 9.7 are:	
- Estimated costs of implementation of the PharmaCielo Scheme of arrangement A\$690k	
- 1 st and final Interest instalment on Convertible Notes totalling A\$180k. .	

10. Acquisitions and disposals of business entities	Acquisitions	Disposals
10.1 Name of entity	Note applicable	Note applicable
10.2 Place of incorporation or registration	Note applicable	Note applicable
10.3 Consideration for acquisition or disposal	Note applicable	Note applicable
10.4 Nature of business	Note applicable	Note applicable

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: 24 July 2019

Print name: Chris Grundy (Chief Financial Officer)

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.