



ASX Announcement | 14 October 2019

Creso Pharma achieves strong growth in Human Nutraceuticals and Animal Complementary Feed revenues

Canadian cannabis facility approaches full production

Highlights:

European Operations

- Revenues¹ from nutraceutical product sales for 9 months to 30 September 2019 are AUD 1.136 million, more than double the total revenues of FY 2018 (AUD 0.55 million).
- Estimated revenues² from nutraceutical product sales for the full year 2019 are expected to exceed AUD 2 million, up by more than 260% on FY2018.
- Seven new products are scheduled for launch in 2020 (4 in Human Health and 3 in Animal Health).

Canadian Operations

- Creso Pharma approaches full capacity at its Nova Scotia Mernova Facility.
- Latest licencing of the Facility's processing amendment will allow packaging of Mernova's brand Ritual Green and preparation for the installation of extraction and value added processing.

Australian and New Zealand Operations

- Received first orders from Burleigh Heads Cannabis Limited for cannaQIX® 50.
- Signed distribution agreement with New Zealand-based cannabis company Medleaf Therapeutics.

Schemes of Arrangement with PharmaCielo Ltd

- Creso Pharma's global operations continue to grow in the lead up to the Company's proposed acquisition by PharmaCielo Limited (**PharmaCielo**) by way of schemes of arrangement (**Schemes**), as announced to ASX on 7 June 2019.
- Scheme Booklets were issued post quarter end, with Shareholders and Optionholders set to vote on the Schemes on 11 November 2019.
- The board of directors of Creso Pharma unanimously recommends that Creso Pharma Shareholders and Optionholders vote in favour of the proposed Schemes, in the absence of a superior proposal.

Appendix 4C Quarterly Cash Flow Report

- Cash on hand as at 30 September 2019 was AUD 3.726 million.

¹ **Revenues** from nutraceutical product sales means sales resulting from deliveries made and invoiced to customers in accordance with AASB 15 "Revenue from Contracts with Customers".

² **Estimated revenues** from nutraceutical product sales are for the full year and include invoiced sales and confirmed orders which are expected to be delivered and invoiced in 2019.



Creso Pharma Limited (ASX:CPH) (“Creso Pharma” or “the Company”) is pleased to provide the following update on its global operations in the lead up to the Company’s proposed acquisition by PharmaCielo Limited. The Company also provides its Appendix 4C Quarterly Cash Flow Report for the quarter ended 30 September 2019 (Q3 FY19).

European Operations Update

Significant growth in revenues and confirmed purchase orders in Europe

Creso continues to make strong progress in Europe, with a significant growth in revenues and purchase orders from its commercialized nutraceutical products.

Revenues¹ from nutraceutical product sales for the 9 months to 30 September 2019 are AUD 1.136 million, more than double the total revenues for the full year 2018 (AUD 0.55 million).

Estimated revenues² for the full year 2019 are expected to exceed AUD 2 million (2018: AUD 0.55 million), representing growth of more than 260%, as summarised in the table below:

	Actual Revenues¹ to 30 Sep 2019 (9 months)	Estimated Revenues² to 31 Dec 2019 (12 months)	Estimated Growth on Prior Year %
Human Health	AUD 0.3 million	AUD 0.9 million	>100%
Animal Health	AUD 0.8 million	AUD 1.2 million	>900%

Product development continues in Europe, backed by collaboration with PharmaCielo

Creso’s R&D continues on humans’ and animals’ unmet health needs, with new leading technologies to maximize absorption and improve bioavailability of hemp and cannabis-based food and food supplements, focusing on helping support of stress, chronic pain and sleep disturbances.

In Human Health, four new hemp oil/hemp-seed oil-based products are ready for launch: cannaQIX[®] NITE, cannaPEAL[®] and cannaPEAL[®] NITE in the areas of stress and sleep disturbances and cannaDOL[®] Revitalise - Functional Topical Gel - in the area of muscle and joint revitalization.

In Animal Health, the development of three new products has been finalized and products are ready for launch in the areas of stress, ageing pets and chronic pain also for large animals. (e.g. horses). These products have been formulated with PharmaCielo’s extracts in a joint collaboration development. These initiatives amply demonstrate the value potential in combining high-quality source extracts with Creso’s expertise in formulation and development of innovative finished products.



Canadian Operations Update

Mernova Medical approaches full capacity

Mernova is rapidly approaching full production capacity and making progress across a number of key aspects of its operations. Highlights of the Facility's progress are as follows:

- The cultivation facility is approaching full capacity of all the growing rooms
- As of today, most of the production is committed for sale via B2B business agreements.
- Mernova's revenue for the remainder of the year is ramping up as yields per plant increase and plants per room are being optimized.
- Mernova's highly sophisticated and efficient integrated lighting, climate and nutrient supply systems are producing strains with some of the highest concentrations of tetrahydrocannabinol (THC) and terpenes found on the Canadian east coast.
- Latest approval of the Facility's processing amendment will allow packaging of Mernova's brand Ritual Green and preparation for the installation of extraction and value added processing.
- The process to obtain EU GMP compliance certification is progressing well and is on track with SGS International partnering with Mernova to assure GMP adherence prior to EU audit.
- Creso is in ongoing discussions with the provincial retail network, and as a homegrown Nova Scotia cultivator, expects to receive preferred placement.

Australia and New Zealand Operations Update

Creso also continues to expand its Australasia operations, with first orders received from an Australian partner and a new agreement formed across the Tasman during the quarter.

On 1 August 2019, Creso confirmed that it had received its first orders from leading Australian cannabis company Burleigh Heads Cannabis Limited (**BHC**) for its flagship medicinal cannabis product, cannaQIX® 50.

Creso and BHC are initially focusing on cannaQIX® 50 but intend to expand the collaboration to include additional therapeutic or medicinal products in Creso's portfolio, specifically high THC flowers from the Mernova facility.

BHC is a subsidiary of CDA Health Pty Ltd (**CDA**), an established business that supports patient access to medical cannabis products in Australia. Creso is leveraging BHC's and CDA's local regulatory experience and established distribution networks to expand its reach in the Australian market.



Following a comprehensive distribution agreement with JC Logistics Ltd t/a Medleaf Therapeutics (**Medleaf**) for the exclusive distribution of cannaQIX® 50 and 10% medicinal CBD Oil in New Zealand, cannaQIX® 50 has been very well received by patients and doctors in New Zealand. Repeat orders have been placed for delivery in Q4, 2019. First deliveries of 10% medicinal CBD Oil will also be made in Q4 2019.

Scheme of Arrangement with PharmaCielo Ltd

On 7 June 2019, Creso announced the Company's proposed acquisition by PharmaCielo Limited (**PharmaCielo**) by way of schemes of arrangement (**Schemes**).

Scheme Booklets were released on 4 October 2019, with Shareholders and Optionholders set to vote on the Schemes on 11 November 2019.

If approved, the implementation of the Schemes will see the combination of two complementary cannabis companies to create a well-capitalised, publicly traded company with a strong growth profile. Creso and PharmaCielo also 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.

The board of directors of Creso Pharma unanimously recommends that Creso Pharma Shareholders and Optionholders vote in favour of the proposed Schemes of Arrangement, in the absence of a superior proposal.

Refer to the Scheme Booklet released to the ASX on 4 October 2019 for further details.

Appendix 4C: Quarterly Cash Flow Report

The Company is pleased to attach its Appendix 4C Quarterly Cash Flow Report for the quarter ended 30 September 2019 (Q3 FY19).

As at 30 September 2019, Creso had approximately AUD 3.726 million in combined group cash.



Management Commentary

Creso Pharma Co-Founder and CEO Dr Miri Halperin Wernli said: “We are very pleased to see such strong revenue growth and the finalization of seven new products targetting attractive market segments despite the headwinds that many in the cannabis market are facing. Already, parts of the new products have been formulated with PharmaCielo’s extracts, which further demonstrates the potential synergies of the proposed acquisition. With a strong financial partner such as PharmaCielo, we will be able to launch these new products and expand our global presence. The PharmaCielo transaction will enable seamless vertical integration and accelerate our growth due to broader market access to more countries, bringing substantial benefits to consumers and patients worldwide. We are also very happy with all the excellent progress being made at Mernova.”

Mernova Managing Director Bill Fleming said: “The facility is performing extremely well. We have recruited some great talent and are scaling our staff with our growing operations. The quality of the strains being produced is among the best in the country as measured by cannabinoid and terpene content. We are now tuning our climate, lights and feeding systems to maintain the rich profile while increasing yields.”

Chief Operating Officer John Griese said: “Mernova is on track with cultivation. The recent approval of our processing amendment will allow the facility to complete extraction and prepare raw ingredients for Creso Pharma’s value added human and animal health products cannaQIX® and anibidiol®. Our goal is to be packaging our branded flower Ritual Green for the local market and ramp up for production of our non combustible cannaQIX® during this quarter.”

END

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 de-rived therapeutic, nutraceutical, and life style products with wide patient and consumer reach for human and animal health. Creso Pharma 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.

**About PharmaCielo**

www.PharmaCielo.com

PharmaCielo Ltd. (TSXV:[PCLO](#)) is a global company, headquartered in Canada, with a focus on ethical and sustainable processing and supplying of 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, is executing on a business plan focused on supplying the international marketplace.

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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 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 September 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	754	1,467
1.2 Payments for		
(a) research and development	(142)	(497)
(b) product manufacturing and operating costs	(854)	(1,446)
(c) advertising and marketing	(194)	(692)
(d) management costs	(522)	(1,215)
(e) staff costs	(715)	(1,810)
(f) Selling, General, Corporate and Admin Costs	(1,779)	(3,760)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	31
1.5 Interest and other costs of finance paid	-	(267)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	80	268
1.9 Net cash from / (used in) operating activities	(3,363)	(7,920)
1.2 (f) Corporate and Admin Costs include costs incurred as a result of the Schemes of Arrangement and the proposed transaction with PharmaCielo Limited.		
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(561)	(2,973)
(b) businesses (see item 10)	-	(853)
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$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)	-	2
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	(27)	10
2.4	Dividends received (see note 3)	-	-
2.5	Other	239	214
2.6	Net cash from / (used in) investing activities	(349)	(3,602)

3.	Cash flows from financing activities		
3.1	Proceeds from issue of securities	125	3,125
3.2	Proceeds from unissued securities	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of securities	-	(641)
3.5	Proceeds from borrowings	3,850	9,200
3.6	Repayment of borrowings	-	(2,716)
3.7	Transaction costs related to loans and borrowings	(118)	(118)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(204)	(204)
3.10	Net cash from / (used in) financing activities	3,653	8,647
3.5	In terms of the proposed transaction with PharmaCielo Limited (ASX announcement 7 June 2019), PharmaCielo provided loan funds of C\$3.5m (A\$3.85m).		
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	3,577	6,380
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,363)	(7,920)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(349)	(3,602)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,653	8,647
4.5	Effect of movement in exchange rates on cash held	208	223
4.6	Cash and cash equivalents at end of quarter	3,726	3,726

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	3,726	3,726
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)	3,726	3,726

In the event that the proposed transaction with PharmaCielo does not go ahead, Creso's board of directors has arrangements in place for the on-going funding of Creso Pharma's operations.

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

Current quarter \$A'000
(388)
-

- 6.1 Relates primarily to fees paid to Directors and their related parties

7. Payments to related entities of the entity and their associates

- 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

Current quarter \$A'000
-
-

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	3,850	3,850
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 In terms of the proposed transaction with PharmaCielo Limited, in Q3 PharmaCielo provided loan funds of C\$3.5m (A\$3.85m). The loan accrues interest at 15%pa, payable on settlement. In the event that the proposed transaction with PharmaCielo does not proceed, the loan together with accrued interest will be payable on 11 February 2020.		

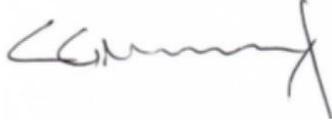
9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(290)
9.2 Product manufacturing and operating costs	(750)
9.3 Advertising and marketing	(190)
9.4 Management costs	(500)
9.5 Staff costs	(860)
9.6 Selling, General, Corporate and Admin Costs	(760)
9.7 Property, plant and equipment	(245)
9.8 Other (see note 9.8 below)	-
9.9 Total estimated cash outflows	(3,600)

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: 14 October 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.