



ASX Announcement

16 May 2018

Creso Pharma Enters Israeli Medical Cannabis Market Joint venture formed to cultivate and manufacture high-grade medical cannabis

Highlights:

- **Creso to form a Joint Venture with Asaf Cohen of Cohen Propagation Nurseries Limited, an applicant for an Israel Medical Cannabis – Good Agricultural Practice (IMC-GAP) licence (“Cannabis Licence”), to grow cannabis for medical purposes**
- **Subject to confirmation by local lawyers and regulators, the licence application will be transferred to the Joint Venture company, in which Creso have a 74% ownership interest**
- **Expands Creso’s international footprint while providing access to the lucrative and reputable Israeli medical cannabis market**
- **Provides Creso with exposure to Israel’s world leading medical cannabis research and development and innovation**
- **Amit Edri, Creso’s International Business Development Executive, will lead the Joint Venture team through the development and licensing of the project**
- **Cohen Propagation Nurseries Limited is one of the most experienced agriculture companies in Israel, with significant operational know-how and proven capabilities in establishing high scale production greenhouses to international standards**

Creso Pharma Limited (ASX:CPH, the “Company” or “Creso”) is pleased to announce that it is entering the strategic Israeli medical cannabis market through a binding agreement with Cohen Propagation Nurseries Limited (“**Cohen**”). Under the agreement, the partners will establish and incorporate a joint venture (“**Joint Venture**”) to operate a medical cannabis growing facility in Israel.

Cohen, Creso’s Joint Venture partner, is one of the most experienced agriculture companies in Israel. It has significant operational know-how and proven capabilities in establishing high scale production greenhouses to international standards. Founded in 1958, Cohen owns and operates farms across South and Central Israel with a total greenhouse capacity of 15.7 hectares.

This is the first strategic partnership of its kind: Creso Pharma already has market operations; the Cohen brothers own greenhouses and are major agricultural exporters; and Nir Gilboa is the owner of the security group, Team 3. Teaming up with Gilboa offers a critical strategic response to the special security requirements raised by the Ministry of Defense and the



Ministry of Public Security related to the growing of cannabis because new medical cannabis companies in Israel must, by law, secure security services from licensed security companies in Israel, of which Team 3 is one of them.

The Joint Venture will develop an IMC-GAP cultivation facility operating out of one of Cohen's existing greenhouse facilities. Along with the facility, Cohen will provide qualified and experienced agricultural and managerial teams capable of working at the highest standards. Creso estimates that entry into the Joint Venture with Cohen will save Creso at least 8 months of establishment and construction time, along with associated costs.

Cohen has already applied for an IMC-GAP licence to grow cannabis for medical purposes. Subject to confirmation by local regulators and lawyers, the application will be transferred to a new Joint Venture company that will be established, in which Creso will have a 74% stake.

The Joint Venture aims to leverage Cohen's growing experience and Creso's pharmaceutical expertise and methodological rigour, strengths of commercialising medical cannabis products and its global distribution channels. The agreement also provides a pathway into the lucrative Israeli market.

Once the facility is at full capacity, Creso estimates annual production of up to 2,500 kilograms of high-quality cannabis per year. This is a conservative estimate based on having an 8,000 m² greenhouse producing approximately 320kg of dried flower per 1,000 m². Cannabis grown at the facility will be available for sale in the Israeli domestic market and potentially for export, subject to Israeli government approval.

Creso Pharma's Chief Executive Officer, Dr. Miri Halperin Wernli said, "This is an important milestone for Creso as it provides us with a strategic foothold and frontline exposure to one of the worlds most developed medical cannabis countries. Israel's medical cannabis industry is considered a world leader. Because Israel has been providing medical cannabis products to Israeli patients for over a decade, its researchers have accumulated vast clinical experience along with substantial knowledge in developing strains, breeding methods and extraction, as well as maintaining quality control.

"The Joint Venture with Cohen will expose Creso to leading cannabis research and innovation and will allow us to cultivate a high-quality crop at a very competitive cost. It's a key step for Creso's further vertical integration within our own ecosystem," Dr. Halperin Wernli added.



Regulation and background on the Cannabis Licence

Asaf Cohen has been granted a preliminary code (an “**IMC Code**”) for a Cannabis Licence under Israeli law. It is the intention of the parties to assign the IMC Code to the Joint Venture. However, this assignment will require the approval of the Israeli authorities and, if granted, it is expected to take up to two months to obtain. Following assignment of the IMC Code to the Joint Venture, construction can commence on the cannabis growing facility and this is expected to take approximately 4 to 5 months. Thereafter, a full Cannabis Licence is applied for and approval is subject to the facility meeting the required specifications under Israeli law.

The approval process with the Israeli authorities is similar to other jurisdictions around the world. It involves police and background checks on all persons involved in the cannabis operation and the facility complying with strict construction and operating standards.

About the Israeli Cannabis Market

Israeli Government Resolution number 1587 dated June 26, 2016 laid down an outline for the “medicalization” of cannabis products. Following this Government Resolution, the Israeli Ministry of Health has published five new directives for the medical cannabis value chain, including **Directive 151/2016 – IMC – GAP- Growing Cannabis for Medical Purposes**. This directive sets the standards for growing medical cannabis and requires that each person growing medical cannabis will need to be licensed by entities approved by the Ministry of Health. The directive sets forth the process for the approval of such entities.

Israel is a world leader in medical cannabis, agricultural and research. Israel's medical cannabis industry has provided medical cannabis products to Israeli patients for over a decade. There are currently 30,000 Israeli patients receiving medical cannabis treatments. A medical cannabis program was first introduced in the mid-1990s, followed by the establishment of a National Medical Cannabis Agency in 2007. Israeli researchers have vast clinical experience and substantial knowledge in developing cannabis strains, breeding methods and extraction, as well as maintaining quality control.

The export of medical cannabis from Israel, under certain restrictions and to countries where there is legal approval, was approved by an inter-ministerial committee of the Israeli Finance and Health Ministries in August 2017. A final governmental decision on exports is pending. The ruling provides a significant opportunity for the Joint Venture to use the country as an export base.



Key terms of Joint Venture Agreement

Under the terms of the Joint Venture Agreement:

- Creso will have a 74% ownership stake in the Joint Venture company.
- Establishment of the Joint Venture will be subject to and conditional upon a number of conditions precedent, including:
 - the parties obtaining all necessary regulatory and third-party approvals, including the approval of the Israel Medical Cannabis agency (“**IMC**”) for grant of a Cannabis Licence to the Joint Venture transaction and the assignment of the preliminary IMC code to the Joint Venture;
 - Creso obtaining any shareholder approvals required to issue the Creso Options (defined below) in accordance with the ASX Listing Rules;
 - Cohen entering into a long-term services agreement (on an arm’s-length basis, on terms acceptable to Creso, acting reasonably) under which it will provide the following to the Joint Venture company:
 - security consultation;
 - access to infrastructure necessary to operate the growing facility;
 - access to all necessary water, electricity, telecommunications, gas and other utilities necessary to operate the growing facility;
 - experienced Cohen employees, including general staff and professional management personnel on a secondment basis, to attend to the day to day management and administration of the Joint Venture company and operate the growing facility;
 - Cohen entering into a long-term lease agreement with the Joint Venture company (on terms acceptable to Creso) in relation to the site for the growing facility (including existing greenhouse) (the **Site**);
 - completion of Creso’s due diligence with respect to the Site, operation of the Site and the regulatory environment to its reasonable satisfaction;
 - completion and execution of mutually acceptable definitive agreements for the transaction;
- If the conditions referred to above are not satisfied by that date which is 12 weeks (6 August 2018) from execution of the binding agreement the subject of this announcement, either party may terminate the agreement unless otherwise agreed;
- Each of Asaf Cohen (Asaf), Merav Cohen (Merav) Amit Banai (Amit) and Nir Gilboa (Nir) will enter into services agreement with the Joint Venture company;
- On establishment of the Joint Venture, Creso will issue a total of 3,658,480 options to Asaf, Merav, Amit and Nir each with a nominal or nil exercise price, but subject to the vesting conditions outlined below (**Creso Options**);
- The Creso Options will be issued under Creso’s employee share option plan and will be subject to approval of the Creso Board and the Board of the Joint Venture company. The



Creso Options will have a nominal or zero exercise price, and will vest in three tranches as follows:

- 20% to vest on completion of the Joint Venture transaction and the transfer and assignment of the licence application referred to above (known as a Preliminary IMC Code) to the Joint Venture company;
 - 40% to vest on grant of the final IMC-GAP licence; and
 - 40% to vest on completion of one successful cultivation cycle of a cannabis crop at the Joint Venture's growing facility.
- Creso will make available to the Joint Venture company an unsecured loan arrangement of up to US\$1,500,000 to fund the development of the growing facility. The loan will be drawn down in stages, based on a budget to be agreed for the Joint Venture company, and subject to the Joint Venture company meeting agreed performance milestones;
 - Creso or any of its affiliates will have the right, but not the obligation, to buy all product grown at the growing facility at the prevailing wholesale market rates.

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About Creso

www.cresopharma.com

Creso brings pharmaceutical expertise and methodological rigor to the cannabis world and strives for the highest quality in its products. Creso develops cannabis and hemp-derived therapeutic, nutraceutical, and life style products with wide patient and consumer reach for human and animal health.

Creso uses Good Manufacturing Practices (GMP) development and manufacturing standards for its products as a reference of quality excellence with initial product registrations in Switzerland.

Creso has worldwide rights for a number of unique and proprietary innovative delivery technologies which enhance the bioavailability and absorption of cannabinoids.

About Cohen Propagation Nurseries Limited

Cohen Propagation Nurseries is a family business, established in 1958. Located in the centre of Israel and spread over 3 different farms in Kfar Hanagid, Gderot and Nir Hen the company employs a 550 highly trained staff working across a total greenhouse area of 15.7 hectares. Cohen's products are famous for their high quality, sterility and hygiene and are supplied with a special quality certificate from Israel's Ministry of Agriculture Plant Protection and Inspection Services. Cohen has been exporting cuttings for both bedding and basket plants since 1979.



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.

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