



ASX Announcement

28 February 2019

CEO'S REPORT ON OPERATIONS AND APPENDIX 4E

Creso Pharma Limited (ASX:CPH) ("**Creso**" or the "**Company**") is pleased to present a Report on Operations by the CEO, Dr Miri Halperin Wernli.

The Report accompanies and supports its unaudited Appendix 4E Preliminary Final Report which is appended below.

Creso expects to publish its 2018 Annual Report early in March.

CEO's Report

I am very pleased to report on Creso's progress for the 2018 fiscal year, which has proven to be a truly formative year for the Company.

The cannabis industry is undergoing rapid transformation across the world as more and more countries and citizens discover the benefits of CBD and THC products. The regulatory environment is also evolving, and in many countries significant changes to regulation have legitimized the cannabis market. As a result, every day consumers are changing their perceptions towards cannabis and discovering its benefits.

For a product with a history like cannabis to be accepted globally, the industry will need to be strongly governed by regulating bodies and the products will need to be rigorously produced with the best ingredients to assure consumers of their quality and safety.

For the industry to work, emerging, regulated cannabis countries need to be trusted by the world and the products they produce must be trusted by the consumer.

Creso's strategy is built on its commitment to providing products that exceed the expectations of the governing bodies and consumers for quality, efficacy and control. One of Creso's greatest capabilities is therapeutic science; we are staffed with world class biomedical scientists, clinical researchers and medical professionals. We know how chemicals and human chemistry interact, and we are passionate about utilizing hemp and cannabis plant ingredients to deliver the most benefit to humans and animals.

Customers and consumers are telling us by their actions that Creso is delivering on this commitment.



Existing product expansion

After the first full year of distribution of our companion and large animal product anibidiol®, we have seen sales and distribution increase. In the 3rd quarter of 2018 our distribution partner Virbac Inc. (NASDAQ: VBAC), signed an agreement to expand distribution to 15 additional countries throughout Europe and Latin America. Virbac, a global supplier of products to the veterinary community, is seeing strong growth in vet and consumer demand. Our pet products are manufactured in the same pharmaceutical grade facility as our human products.

cannaQIX®, Creso's range of human CBD nutraceutical and medicinal "edibles" was introduced in the first quarter of 2018. cannaQIX® gained momentum in Europe, culminating in a distribution agreement with Pharmacare, a global pharmacy distribution company, to take the nutraceutical product to the UK.

cannaQIX®, in its nutraceutical and medicinal forms, is now sold in six countries and is growing rapidly.

Medicinal cannaQIX® is currently sold in New Zealand, it is about to be introduced in Brazil and it will be entering Australia and Sri Lanka in 2019. Moving forward on these plans, Creso has signed a Binding Letter of Intent with Burleigh Heads Cannabis Pty Ltd, one of Australia's leading medicinal cannabis distribution companies, to expand the distribution of its medical cannabis products into Australia, initially focusing on cannaQIX®50.

Total product sales are on the right track, increasing by over 500% from \$91,609 in 2017 to \$558,382 in 2018.

New product pipeline

To complement and expand our current portfolio, Creso has developed several new products.

Additional nutraceutical products have been developed, including;

- "cannaQIX@nite" to aid sleep;
- "cannaPEAL®" to introduce certain markets to the benefits of hemp seed oil-based products; and
- "cannaDOL®" to provide relief to athletes in the form of a topical application.

The pipeline extends well beyond this, and every product is designed with a specific purpose and efficacy.



Figures 1 – 4: Packaging and branding: CannaQIX® and CannaQIX®nite; Packaging: CannaDOL® and CannaPEAL®

Global expansion

The primary focus of Creso’s strategy is to build a global brand. Creso started by introducing its hemp CBD formulas to markets that readily accepted the commercialisation of CBD products. Many of these markets are still defining their position on CBD, hemp, medical or recreational cannabis. Creso will also introduce products with hemp seed oil but without CBD into emerging markets like Indonesia and Thailand.

All Creso products focus on effectiveness and quality, through formulation and understanding how the plant ingredients are delivered to the body. As cannabis markets evolve, product design can seamlessly introduce THC as an ingredient, thereby expanding potential patient and consumer base.

In anticipation of this, Creso has invested in cannabis cultivation and the benefits are already being reaped, with a license to cultivate being granted by Health Canada this month to our “Mernova Medical” state-of-the-art, GMP ready, indoor facility in Windsor, Nova Scotia. This gives Mernova Medical the ability to immediately plant crops and importantly, to already sell the first crops planted B2B. With a supply agreement already signed with TerrAscend Canada, a Licensed Producer (LP), revenue for 2019 is now assured.

In 2019, the Nova Scotia facility will build out its “edible cannabis” processing plant. It is also anticipated that our Ritual Green Brand of flower will be sold in the Nova Scotia Liquor Corporation’s retail distribution channels.



Figures 5&6: The new Windsor, Nova Scotia facility



Figure 7: The Ritual Green Brand logo

Colombia is keen to distinguish itself, not only as a source of low cost raw material but as a power house of value-added products known for strong brands and highly effective ingredients. Colombia has established a robust regulatory framework and also invested in the resources necessary to assure successful rapid growth of the industry.

In 2018, Creso completed its acquisition of Colombian-based Kunna SAS, which holds a full suite of licenses providing access to all aspects of cultivating, manufacturing, exporting, and research and development. Creso's team has established relationships with the medical and academic community, and we recently announced that Dr Ricardo Salazar and the National University of Colombia would be a primary Creso advisor and research partner. Creso has also established strong relationships with the Colombian business development department and regulating body.

Achieving a foothold at this early stage makes Creso one of few companies capable of capturing this opportunity. Creso is in the process of registering genetics, applying for quotas and registering branded products for distribution within Colombia.

Creso will have what very few companies have in Colombia; low cost CBD and THC for export as medicinal oils, on-shelf human and animal products (the recent agreement with Virbac will see anibidiol® distributed to Colombia), and a clinical research capability for therapeutic product development.

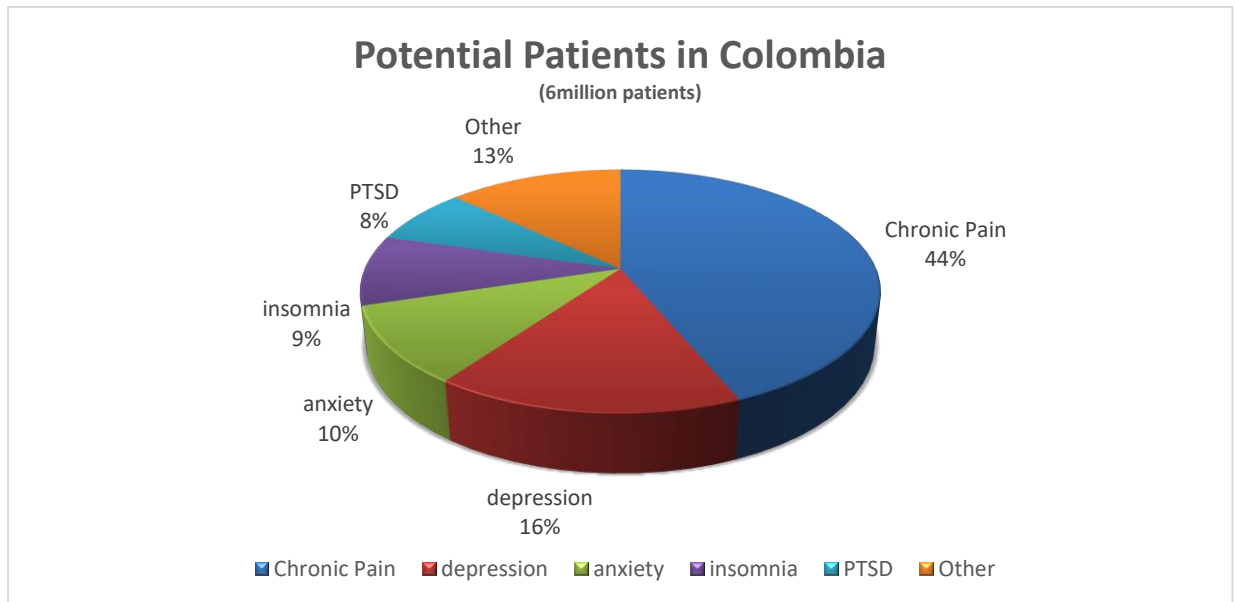


Figure 8: Number of potential patients in Colombia

The European CBD market is one of the world’s largest, with strong forecasted growth rates over the next 10 years, and Creso is well placed to expand its network across the continent. A strategic collaboration agreement was recently signed with Hempmate AG Switzerland to strengthen Creso’s presence in European countries, through new commercialisation opportunities. The first of the new products under the strategic collaboration have already been developed and will be launched in Q2 2019 in selected key European countries (Germany, UK, France, Italy, Spain).

Another country where Creso has established a strong foothold is Israel, where a bill was recently passed through parliament approving the export of cannabis. This is a key step in opening the world to the unique and exceptional supply available within Israel. Creso’s 76% share of the joint venture with Cohen Propagation Nurseries is poised to capture this opportunity as soon as international export is approved.

Creso’s approach to quality, efficacy and control will continue to deliver as we enter new markets with changing regulations.

In December 2018 the United States updated their Farm Bill and introduced the new Hemp Farm Act of 2018, which effectively regulates the Hemp industry on a federal basis, thereby legitimizing hemp derivatives as an industry.

In a sea of “homegrown” CBD products, Creso’s pharmaceutical-grade product portfolio will be clearly differentiated as we enter the US market.



In conclusion

2018 was pivotal for Creso's prospects:

- We established and strengthened our brands globally
- We generated growing revenues and created a growing demand for our products through repeat purchase and geographic expansion
- We solidified our cultivation strategy by physically building the infrastructure and we contracted future sales from this facility.

In short, Creso's strategy of building a global brand is rapidly materializing. The path forward is clear and executable.

2019 will be a huge year for the cannabis industry, and for Creso.

Our solid business strategy and sound fundamentals, including a very reasonable valuation, will be recognised.

Our team is executing against sales growth of our nutraceuticals and we expect our cultivation operations to generate meaningful revenues in 2019.

I am excited to see what the next year brings!

Dr. Miriam Halperin Wernli
Group CEO and Co-Founder



APPENDIX 4E PRELIMINARY FINAL REPORT

CRESO PHARMA LIMITED

ABN: 89 609 406 911

RESULTS FOR ANNOUNCEMENT TO THE MARKET FOR THE YEAR ENDED 31 DECEMBER 2018

(Previous corresponding period is the year ended 31 December 2017)

KEY INFORMATION	31-Dec-18	31-Dec-17	% Change
	\$	\$	
Revenue from sales of products	558,382	91,609	510%
Revenue from services *	-	152,189	(100)%
Royalty income	19,840	1,112	1600%
Total Revenue	578,222	244,910	
Other income	153,358	97,341	58%
Loss from ordinary activities after tax attributable to members	(16,845,686)	(15,076,076)	(14%)
Net loss attributable to members	(16,756,036)	(15,076,076)	(14%)

* Revenue from services relates to Hemp Industries, a wholly owned subsidiary, which did not provide services in 2018.

DIVIDEND INFORMATION

No dividend has been proposed or declared.

NET TANGIBLE ASSETS PER SECURITY	31-Dec-18	31-Dec-17
Net tangible assets per security	\$0.13	\$0.19

EARNINGS PER SHARE	31-Dec-18	31-Dec-17
	Cents	Cents
Basic earnings per share (cents)	(14.89)	(18.13)
Diluted earnings per share (cents)	(14.89)	(18.13)

FINANCIAL RESULTS	31-Dec-18	31-Dec-17
	\$	\$
Cash and cash equivalents	6,390,538	12,424,913
Net Assets	16,504,392	21,028,634
Total Revenue	578,222	244,910
Other income	153,358	97,341
Net loss after tax	(16,845,686)	(15,076,076)



RESULTS OF BUSINESS SEGMENTS

Year ended 31 Dec 2018	Asia Pacific	Europe & Middle East	North America	South America	Total
	\$	\$	\$	\$	\$
Revenue from products	2,290	556,092	-	-	558,382
Royalty income	19,840	-	-	-	19,840
Total segment revenue	22,130	556,092	-	-	578,222
Other income	127,171	17,523	8,663	-	153,358
Loss before income tax expense	(10,353,533)	(2,557,918)	(3,934,235)	-	(16,845,686)
Total Segment Assets	2,622,208	1,962,913	14,700,354	2,996,819	22,282,294
Total Segment Liabilities	3,457,840	362,151	1,951,095	6,816	5,777,902

DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED DURING THE YEAR

Company Name	Date of Acquisition	Country of Incorporation	Ownership interest	
			2018 %	2017 %
Creso Canada Corporate Limited	31 January 2018	Canada	100	-
Creso Canada Limited	31 January 2018	Canada	100	-
Mernova Medicinal Inc.	15 February 2018	Canada	100	-
Creso Grow Limited	9 July 2018	Israel	74	-
3321739 Nova Scotia Limited	1 November 2018	Canada	100	-
Kunna Canada Limited	20 December 2018	Canada	100	-
Kunna S.A.S	20 December 2018	Colombia	100	-

Control was not lost over any entity during the period

AUDIT INFORMATION

This report is based on accounts which are in the process of being audited.

FINANCIAL STATEMENTS SET OUT BELOW

Statement of Comprehensive Income
Statement of Financial Position
Statement of Cash Flows
Statement of Changes in Equity

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 31 December 2018

	2018 \$	2017 \$
Revenue from continuing operations		
Revenue	578,222	244,910
Cost of sales	(353,566)	(437,697)
Gross profit/(loss)	<u>224,656</u>	<u>(192,787)</u>
Other income		
Interest income	144,037	97,341
Other income	9,321	-
Expenses		
Administrative expenses	(1,547,470)	(1,224,943)
Compliance and regulatory expenses	(450,073)	(277,517)
Consultancy and legal expenses	(1,978,657)	(5,120,654)
Depreciation and amortisation expense	(38,721)	(6,638)
Employee benefit expenses	(3,041,271)	(1,174,438)
Exclusivity and Facilitation fee	(1,449,929)	-
Finance costs	(432,216)	-
Impairment of receivables	(102,147)	(495,379)
Impairment of other assets	(425,830)	(578,725)
Marketing and investor relations	(1,231,530)	(1,826,482)
Occupancy expenses	(171,395)	(109,216)
Share-based payment expense	(6,078,523)	(3,221,355)
Research and development expense	(286,539)	(788,623)
Other expenses	(43,035)	(100,635)
Foreign exchange (gain)/losses	53,636	(56,025)
(Loss) from continuing operations before income tax	<u>(16,845,686)</u>	<u>(15,076,076)</u>
Income tax expense	-	-
(Loss) from continuing operations after income tax	<u>(16,845,686)</u>	<u>(15,076,076)</u>
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translation of foreign operations	(206,421)	(15,403)
Other comprehensive income for the year, net of tax	<u>(206,421)</u>	<u>(15,403)</u>
Total comprehensive (loss) for the year	<u>(17,052,107)</u>	<u>(15,091,479)</u>
(Loss) for the year attributable to:		
Non-controlling interest	(89,650)	-
Owners of Creso Pharma Australia Limited	(16,756,036)	-
	<u>(16,845,686)</u>	-
Total comprehensive (loss) for the year attributable to:		
Non-controlling interest	(89,650)	-
Owners of Creso Pharma Australia Limited	(16,962,458)	-
	<u>(17,052,107)</u>	-
(Loss) per share for the year attributable to the members of Creso Pharma Limited:		
Basic loss per share (cents)	(14.89)	(18.13)
Diluted loss per share (cents)	(14.89)	(18.13)

Consolidated Statement of Financial Position

As at 31 December 2018

	2018 \$	2017 \$
ASSETS		
Current assets		
Cash and cash equivalents	6,390,538	12,424,913
Trade and other receivables	951,132	941,337
Inventories	443,536	912
Other assets	495,489	1,228,351
Total current assets	8,280,695	14,595,513
Non-current assets		
Property, plant and equipment	9,900,422	50,996
Intangible assets	4,101,178	-
Other assets	-	6,949,395
Investment accounted for using equity method	-	-
Total non-current assets	14,001,600	7,000,391
Total assets	22,282,294	21,595,904
LIABILITIES		
Current liabilities		
Trade and other payables	2,970,505	563,748
Provisions	30,947	3,522
Borrowings	2,776,450	-
Total current liabilities	5,777,902	567,270
Total liabilities	5,777,902	567,270
Net assets	16,504,392	21,028,634
EQUITY		
Issued Capital	38,222,883	35,138,519
Reserves	14,799,082	5,562,002
Accumulated losses	(36,427,923)	(19,671,887)
Equity attributable to the owners of Creso Pharma Limited	16,594,042	16,594,042
Non-controlling interest	(89,650)	-
Total equity	16,504,392	21,028,634

Consolidated Statement of Changes in Equity

For the Financial Year ended 31 December 2018

Group	Issued Capital \$	Share-based Payment Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Non- Controlling Interest \$	Total \$
At 1 January 2018	35,138,519	5,516,511	45,491	(19,671,887)	-	21,028,634
Loss for the year	-	-	-	(16,756,036)	(89,650)	(16,845,686)
Other comprehensive income	-	-	206,421	-	-	206,421
Total comprehensive income/(loss) for the year after tax	-	-	206,421	(16,756,036)	(89,650)	(16,639,265)
Transactions with owners in their capacity as owners:						
Issue of share capital	3,084,364	-	-	-	-	3,084,364
Issue of options	-	2,952,136	-	-	-	2,952,136
Share-based payments	-	6,078,523	-	-	-	6,078,523
At 31 December 2018	38,222,883	14,547,170	251,912	(36,427,923)	(89,650)	16,504,392
At 1 January 2017	5,479,612	2,295,156	60,894	(4,595,811)	-	3,239,851
Loss for the year	-	-	-	(15,076,076)	-	(15,076,076)
Other comprehensive income	-	-	(15,403)	-	-	(15,403)
Total comprehensive income/(loss) for the year after tax	-	-	(15,403)	(15,076,076)	-	(15,091,479)
Transactions with owners in their capacity as owners:						
Issue of share capital	32,237,924	-	-	-	-	32,237,924
Share issue costs	(2,579,017)	-	-	-	-	(2,579,017)
Share-based payments	-	3,221,355	-	-	-	3,221,355
At 31 December 2017	35,138,519	5,516,511	45,491	(19,671,887)	-	21,028,634

Consolidated Statement of Cash Flows

For the Financial Year ended 31 December 2018

	2018	2017
	\$	\$
Cash flows from operating activities		
Receipts from customers	570,904	244,910
Payments to suppliers and employees	(8,172,824)	(6,697,534)
Payments for research expense	(621,675)	(1,183,076)
Interest received	122,806	98,466
Interest paid	-	(899)
Net cash used in operating activities	(8,100,789)	(7,538,133)
Cash flows from investing activities		
Payments for plant and equipment	(6,729,569)	(40,888)
Payments for intangibles	(629,759)	-
Cash acquired from Kunna acquisition	10,814	-
Mernova Acquisition	(120,759)	-
Investment in JV	(100)	-
Loans to other entities	3,684,300	(6,006,676)
Net cash from investing activities	(4,211,050)	(6,047,564)
Cash flows from financing activities		
Proceeds from issue of shares	1,356,351	24,412,412
Proceeds from issue of options	2,562,136	200,000
Proceeds from external loans	2,430,000	-
Borrowing costs	(117,486)	-
Payment of share issue costs	-	(1,647,856)
Net cash from financing activities	6,231,001	22,964,556
Net increase in cash and cash equivalents	(6,080,838)	9,378,859
Cash and cash equivalents at the beginning of the year	12,424,913	3,046,054
Effect on exchange rate fluctuations on cash held	46,463	-
Cash and cash equivalents at the end of the year	6,390,538	12,424,913

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E. This report is to be read in conjunction with any public announcements made by Creso Pharma Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Australian Securities Exchange Listing Rules.

The Preliminary Financial Statements and notes of Creso Pharma Limited and its controlled entities, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

2 LOSS PER SHARE

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	2018	2017
	\$	\$
Net loss for the year	(16,845,686)	(15,076,076)
Non-controlling interest	89,650	-
Net loss for the year attributable to the owners of Creso Pharma Limited	(16,756,036)	(15,076,076)
Weighted average number of ordinary shares for basic and diluted loss per share.	112,552,436	83,143,209

Options on issue are not considered dilutive to the earnings per share as the Company is in a loss-making position.