



28 September 2017

Creso Pharma completes due diligence of Mernova Medicinal Inc. - Acquisition on track for completion

Highlights:

- **Creso progresses acquisition of medicinal cannabis producer, Mernova Medicinal Inc. (Mernova) for C\$10.1 million (A\$10.2 million) in cash and equity**
- **Creso Pharma to gain direct exposure to the world's largest legal medical and recreational cannabis market and integrate supply and production of human and animal nutraceutical and medicinal cannabis**

Creso Pharma Limited (ASX:CPH, the "Company" or "Creso") is pleased to announce it has successfully completed due diligence on emerging Nova Scotia-based medicinal cannabis applicant, Mernova Medicinal Inc. (Mernova).

Mernova is a privately held company, based in Nova Scotia. It has applied for a medical and recreational cannabis cultivation licence in 2014 under Health Canada's Access to Cannabis for Medical Purposes Regulation (ACMPR) program.

Said Creso Pharma CEO and Co-Founder Dr Miri Halperin Wernli: "The ACMPR application is progressing well and now that we have satisfied our due diligence process, we have committed the necessary capital to construct the initial 20,000 square foot cannabis growing facility. Construction start is imminent."

"This facility delivers on one of the key pillars of our corporate strategy: establishing a Canadian presence and the pursuit of opportunities in the nutraceutical, medicinal and the recreational cannabis space. The ability to cultivate, manufacture and extract our own innovative cannabis and hemp products means we will have product for local distribution as well as export to countries which accept cannabis and hemp imports.

"Building our own Good Manufacturing Process (GMP) cultivation facility gives Creso the ability to rationalise and vertically integrate our supply and production chain."

Said Mernova CEO Bill Fleming: "Mernova looks forward to working with the Creso Pharma team with their experienced pharmaceutical based approach. This gives us access to a suite of innovative proprietary delivery technologies for future cannabis product development."

Completion of the new production facility is targeted to coincide closely with the July 2018 legalisation of recreational cannabis in Canada post granting of the appropriate licenses.

In confirming satisfaction with its due diligence review, Creso also agreed to vary the terms of the Heads of Agreement entered into with the Mernova shareholders such that:

- (a) Creso will complete the acquisition of Mernova immediately following receipt of shareholder approval and a required ASX waiver to issue the exchangeable shares to the Mernova shareholders (as opposed to after a cultivation licence under the ACMPR is secured by Mernova);



- (b) at completion, Creso will make a cash payment of C\$200,000 to the Mernova shareholders and issue C\$8,300,000 of fully paid Exchangeable Preferred Shares in the capital of Creso Sub (“Exchangeable Shares”) at an issue price equal to the 10 day volume weighted average price (“VWAP”) of the ordinary shares of Creso (“Creso Shares”) trading on ASX over the 10 trading days immediately prior to Settlement (the “Consideration Shares”) (the Consideration Shares are referred to herein, for convenience only, as follows: as to C\$4,150,000 of Exchangeable Shares, the Milestone 1 Consideration Shares; as to \$4,150,000 of Exchangeable Shares, the “Milestone 2 Consideration Shares”);
- (c) on Creso’s announcement to the market of Mernova securing a cultivation license from Health Canada under the ACMPR (subject to any one or more force majeure event, “Milestone 1”), to pay to the Mernova shareholders a cash payment of C\$800,000 and for the Milestone 1 Consideration Shares to be exchangeable into Creso ordinary shares;
- (d) on Creso’s announcement to the market of the grant of a sales licence to Mernova under the ACMPR (subject to any one or more force majeure event, “Milestone 2”), to pay to the Mernova shareholders a cash payment of C\$800,000 and for the Milestone 2 Consideration Shares to become exchangeable into Creso ordinary shares at an issue price equal to the 10-day VWAP of Creso’s shares at the date the relevant Mernova shareholder elects to convert the Consideration Shares; and
- (e) a floor price for exchange of the Exchangeable Shares into Creso shares of \$0.50 per Creso share and a ceiling price of \$0.75 per Creso shares has also been introduced. This will provide protection to Creso shareholders on the downside if the share price drops below \$0.50, but also cap the upside if the Creso share price increases above \$0.75.

The impact of these variations in the Heads of Agreement terms is that Creso will complete the acquisition of Mernova earlier than anticipated, but the majority of the purchase price is still deferred until the two key milestones under the ACPMR are secured (with one of the previous milestones being dropped).

Creso/Mernova have also agreed to exercise the right of first refusal option on the adjoining land parcel to allow Mernova to expand the facility by up to 200,000 square feet in time. The total land purchased will be 9.75 acres.

The granting of a licence to Mernova under the ACMPR, which is post construction of the facility will give the Company a significant competitive advantage. Creso will be one of the few companies globally and the only medicinal cannabis company listed on the ASX with 100% ownership and the capacity to commercially cultivate and extract cannabis and hemp in the Canadian federally regulated environment. Similar licences, once granted, are valued at between C\$50-C\$250 million (A\$50.4-A\$252.2 million).

-ENDS-

**Investor Enquiries:**

Gabriella Hold
M: 0411 364 382
E: gabriella.hold@mcpartners.com.au

Media Enquiries:

Elise Hughan
M: 0458 855 500
E: elise.hughan@mcpartners.com.au

EverBlu Capital
Level 39, Aurora Place
88 Phillip Street, Sydney, NSW 2000
E: info@everblucapital.com
P: +61 2 8249 0000

About Creso Pharma

Creso Pharma brings pharmaceutical expertise and methodological rigour to the world of medicinal cannabis and strives for the highest quality in its products. It is the leader in medicinal cannabis and cannabidiol (CBD) innovation and develops cannabis- and hemp-derived therapeutic-grade nutraceuticals and medicinal cannabis 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.

About Mernova

Mernova Medicinal Inc.(Mernova) is a privately held company based in Halifax, Nova Scotia, Canada. The founder and CEO is William (Bill) Fleming. Mernova is establishing a team of experts qualified to build the proposed cannabis growing, production and extraction facilities to Creso's requirement of a GMP standard. Mernova has land available to construct an initial growing/production facility totaling 20,000 sq ft, with plans to expand this to 200,000 sq ft subject to market conditions and the Company's plans.

Creso also intends to build a state-of-the-art CO2 extraction facility that is fully GMP compliant at the Mernova site. This is an important strategical step for Mernova to ensure that it is fully able to capitalise on the Canadian market opportunity.

Extracts and other cannabis derivatives are the future in Canada (and all other legal markets). Creso, through Mernova, intends to be a market leader in this field.