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Creso Pharma's wholly-owned Canadian subsidiary Mernova secures medicinal cannabis sales licence and new purchase orders

Mernova secures medicinal sales licence amendment:

- Existing sales licence extended by Health Canada allowing Mernova to sell cannabis products for medicinal purposes, in addition to the recreational market
- Licence extension allows for Canada-wide, direct-to-patient sales, without the need for provincial wholesalers
- Large addressable market – in 2019, medicinal cannabis spend reached C\$500mⁱⁱⁱ
- Medicinal cannabis market provides greater pricing control, flexibility, and higher profit margins than the recreational market – unlocking potential to increase revenue profile and gross margin
- Medicinal sales unlock potential for recurring revenue model and may increase stability in sales forecasts
- Provides Mernova greater control and predictability over its downstream supply chain
- Medicinal sales licence allows direct interaction with consumers and better control over customer service – Mernova to receive direct feedback on the customer experience, and product quality
- Patients may qualify for government subsidies when purchasing Mernova's medicinal cannabis products
- Mernova to immediately target Canadian veteran market through wholly-owned subsidiary, Halucenex's relationships with veterans and associated support groups

Purchase orders (PO) underpinning growth:

- New purchase orders, totalling C\$224,580 (A\$242,546ⁱ) secured from provincial partners
- POs for the sale of Ritual Green and Ritual Sticks products – highlights strong consumer demand
- New Ritual Sticks products now being sold through Cannabis NB, New Brunswick's only legal cannabis retailer – product expansion initiatives remain ongoing
- Additional POs expected from new and existing provincial partners and wholesale groups in the near term
- Growth prospects over the coming months remain very strong

Creso Pharma Limited (ASX:CPH, OTC:COPHF, FRA:1X8) ('Creso Pharma' or 'the Company') is pleased to provide the following update on progress achieved through its wholly-owned Canadian subsidiary, Mernova Medicinal Inc. ("Mernova").



Medicinal sales licence from Health Canada:

Mernova has secured approval from Health Canada for an extension to its sales licence, allowing the Company to progress the sale of its leading product range for medicinal purposes direct-to-patients, without the need for provincial wholesalers. The licence extension follows the receipt of the Company's existing medicinal wholesale licence from Health Canada in 2020 (refer ASX announcement: 11 May 2020) and will allow Mernova to expand its presence in the Canadian medicinal cannabis market.

This is a major development for Mernova. To date, the Company has been focused on sales into Canada's recreational cannabis market through its existing sales licence from Health Canada. The recent amendment will allow the Company to expand into direct-to-patient sales in the Canadian medicinal cannabis market, in addition to its existing recreational market focus. .

Under the new licence, Mernova can possess dedicated medicinal cannabis products, sell or distribute products to other medicinal licence holders, sell or distribute cannabis products that are dried, fresh plants and seeds and sell and distribute to licenced nurseries and hospital employees for the purpose of, and in connection with, their dutiesⁱⁱ.

The licence will allow Mernova to grow its sales profile through the Canadian medicinal market, which is another potentially lucrative vertical for the group. In 2019, total spending on medicinal cannabis in the country was estimated at approximately C\$500mⁱⁱⁱ.

The medicinal licence allows Mernova to progress direct-to-patient sales across Canada, removing the need for provincial wholesalers, distributors and retailers from the supply chain. Medicinal cannabis products are subject to little or no mark-up, which will allow for increased profit margins.

Medicinal sales have the potential to unlock a recurring revenue model, which may provide additional predictability and stability to future revenue and forecasts, as well as to the downstream supply chain.

Direct interaction with customers will allow for more control over customer service and the customer experience, as well as provide direct customer feedback. Consumers purchasing products as patients may be eligible for government subsidies, to reduce out-of-pocket costs.

Mernova management are now exploring opportunities through existing, established medicinal clinics and other health care providers, to progress first sales into the Canadian medicinal market.

New purchase orders (PO) underpinning growth:

Mernova has secured a number of new purchase orders from provincial partners for its top-quality indoor grown, hand trimmed, hang dried, cured, artisanal, craft cannabis products.

Recent purchase orders total C\$224,580 (A\$242,546) and are made up of sale of products under the *Ritual Green* and *Ritual Sticks* brands. POs have been received from provincial partners in New Brunswick, Nova Scotia, and the Yukon.

New POs also include a new stock keeping unit (SKU), with Cannabis NB, New Brunswick's only legal cannabis retailer, for Mernova's new Tropic Cookies strain, which is sold under the group's pre-roll joint range *Ritual Sticks*.

Product development initiatives remain ongoing, and Mernova is in advanced discussions with a number of provincial partners to introduce additional SKUs in the future. New product introductions are expected to further broaden the Company's revenue profile over the course of the coming months.



Recent purchase orders continue to highlight the strong consumer demand Mernova is witnessing for its products across recreational markets. Timing of receipt continues to shorten, emphasising Mernova's recurring revenue profile.

Commentary:

Mernova's Managing Director, Jack Yu said: *"Receipt of our medicinal licence from Health Canada was the result of considerable due diligence and Quality Assurance review, and highlights the quality and experience of our QA Department.*

"Mernova is well positioned to expand its presence in the Canadian medicinal market, while continuing to increase market share in the country's growing recreational market. The direct-to-patient medicinal market has the potential to be huge for us. It increases our distribution channels from four provinces and territories to nation-wide, and allows for direct-to-patient sales, which provides us with increased control over pricing, as well as direct interaction with, and feedback from, valued customers.

"We anticipate this license expansion to allow us to considerably grow our revenue profile and profit margins, and that the potential of a recurring revenue model for medicinal sales may also provide increased predictability and stability of cashflows, forecasts, and downstream supply chain management. Planning for our direct-to-patient medicinal launch is underway, and we look forward to supplying our top-quality product to patients, nation-wide.

"Purchase orders for recreational sales continue to grow steadily, and we anticipate increased growth with the introduction of new strains and additional products, in the coming months."

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Authority and Contact Details

This announcement has been authorised for release by the Board of Directors of Creso Pharma Limited.

For further information, please contact:

Investor Enquiries

EverBlu Capital

E: info@everblucapital.com

P: +61 2 8249 0000

Released through:

Ben Jarvis, Six Degrees Investor Relations: Ph: +61 (0) 413 150 448

About Creso Pharma

Creso Pharma Limited (ASX:CPH) 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 life style products with wide patient and consumer reach for human and animal health.

Creso Pharma uses GMP (Good Manufacturing Practice) 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

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.

ⁱ Based on a CAD to AUD exchange rate of \$1.08

ⁱⁱ <https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/industry-licensees-applicants/licensing-summary/guide.html#b>

ⁱⁱⁱ <https://www.statista.com/statistics/587568/estimated-medical-marijuana-market-size-canada/>