



18 December 2017

## **Creso gains footprint in Latin America with acquisition of Colombian medicinal cannabis group, Kunna S.A.S., formerly Cannalivio S.A.S**

### **Highlights:**

- **Acquisition of Kunna Canada Ltd and its wholly-owned Colombian subsidiary, Kunna S.A.S. for up to US\$7.15mn in shares to be issued at a deemed issue price of A\$1.10 each; up to US\$1mn in performance shares; and a US\$250,000 exclusivity option payment.**
- **Move means Creso is the only Australian-listed medicinal cannabis company with direct exposure to the Colombian market, which is expected to be exporting more than 40.5 tonnes of medicinal cannabis oil by 2019.**
- **Gives the Company a foothold in the strategically important Latin American market, which now includes Argentina, Colombia, Chile, Mexico and Uruguay.**
- **Legalisation of cannabis varies across the Latin American region.**
- **Colombian market is growing strongly: cannabis consumption increased 15% p.a. between 2008 & 2013; US\$86.3mn spent on cannabis in 2008<sup>1</sup>.**
- **Expected granting of a cultivation licence gives Creso a significant competitive advantage.**
- **Creso will be one of the few companies globally and the only medicinal cannabis company listed on the ASX, with the capacity to commercially cultivate medicinal-grade cannabis in Colombia.**

**Creso Pharma Limited** (ASX:CPH, the “Company” or “Creso”) is pleased to announce that it has successfully gained a foothold in the Latin American medicinal cannabis market with the proposed acquisition of Kunna Canada Ltd., and its wholly-owned Colombian subsidiary, medicinal cannabis group, Kunna S.A.S.

The acquisition is for a total of US\$7.15 million in shares to be issued at a deemed issue price of A\$1.10 each; up to US\$1m in performance shares to be issued at a deemed issue price of A\$1.10; and a US\$250,000 exclusivity option payment payable immediately. Creso intends to seek shareholder approval for the issue of the consideration shares and the issue of the performance shares will be subject to regulatory approval.

The move means Creso is the only Australian-listed medicinal cannabis company with direct exposure to the Colombian market. It also gives Creso a foothold in the wider Latin American medicinal cannabis market, enabling the Company to further expand in this strategically important region.

<sup>1</sup> Observatorio Nacional de Drogas: <http://www.odc.gov.co/SIDCO/consumo/situacion-consumo>



The Colombian government enacted the legalisation of medical cannabis in June 2016 and subsequently in April 2017, issued a decree outlining the framework for the cultivation, production, and domestic and international distribution of low and high THC-based medical cannabis extracts. This decree was further defined by the enactment of four resolutions specifying the application fees, security requirements, quality controls and responsibilities of the license holders and government administrators.

The groundbreaking regulatory framework enacted by the government of Colombia sets the standard for other jurisdictions in Latin America. The Colombian regulations focus on extracts to generate a purely medicinal product market and provide for product quality and consistency through the country's federal food and drug regulator. In compliance with international laws, these regulations also provide for legal exportation, thereby leveraging the agricultural and scientific competitive advantages of the country.

There are many advantages to growing cannabis in Colombia. In addition to its equatorial location and ideal microclimates, it is one of the most economically advantageous countries in the world for the production of large volumes of high-quality, low-cost cannabis due to its expertise in the flower industry, knowledgeable and skilled labour force and supportive government.

### **About Kunna S.A.S**

Kunna S.A.S ("Kunna") was established in 2012 under the brand Cannalivio S.A.S and is one of Latin America's first medicinal cannabis companies. Kunna aims to develop and produce 100% natural plant-based products for medicinal, therapeutic and cosmetic use based on ethnobotanic conditions – i.e. the use of a region's plants based on the traditional knowledge of the Colombian culture and population and in line with the best practice procedures of the 'Intellectual Property Rights on Ethnobiology' as laid out in the United Nations Convention on Biological Diversity (CBD) held in Rio de Janeiro,, Brazil (1992, amended 2010, Nagoya, Japan).

Kunna aims to develop phytotherapeutic products with a view to treating seizures, chronic pain, cancer, epilepsy and multiple sclerosis, among others.

On 31 March 2017, Kunna (formerly Cannalivio S.A.S) was granted a licence to produce, manufacture, market and export cannabis derivatives and products using extracts in Colombia by the Ministry of Health, making it one of a small number of companies to have secured such a licence.

Following receipt of this licence, Kunna is in the process of applying for a licence to cultivate medicinal cannabis in Colombia and expects this licence to be granted in the first quarter of 2018.

In preparation of receipt of a cultivation licence, Kunna has secured, a research partnership with the 'GIEM' group (associated with the Universidad de Antioquia, Medellín), which investigates plant genetics, disease and optimising cultivation.

Kunna has a parcel of land that is suitable for medicinal cannabis cultivation and, on receiving the cultivation license, it will begin a full genetic and fertilisation research project. It is also progressing Stage 2, which will give the Company access to large expanses of land packages for medicinal cannabis cultivation, while Stage 3 could potentially bring the total holdings available to the Company up to 600 hectares, subject to Colombian ministry quota grants.

### **Strategic rationale**

The granting of a cultivation licence to Kunna will give Creso a significant competitive advantage as Creso will be one of the few companies globally, and the only medicinal cannabis company listed on



the ASX, with the capacity to commercially cultivate medicinal-grade cannabis in the Colombian environment.

The receipt of a cultivation licence by Kunna will also enable Creso to produce a full range of cannabis products which will enable the Company to develop a complete vertical offering of standardised, medicinal-grade formulations for the local and broader Latin American market.

The acquisition also gives Creso the following advantages:

- A presence in the growing Colombian market for its innovative animal and human health nutraceutical products;
- A strong foothold in the growing Latin American region;
- Product and commercialisation synergies with Kunna having a complementary range of medicinal cannabis products aims to develop and end-user applications and a first-mover advantage in the Latin American market;
- Cost-effective entry into the Colombian market and broader Latin American market;
- The ability to greater integrate its supply chain, allowing it to produce its own medicinal cannabis as well as supply its existing planned products to the Colombian market; and
- The ability to bring its significant pharmaceutical expertise and rigour to medicinal cannabis production and cultivation in Colombia.

#### **Kunna team**

Kunna has secured the engagement of industry professionals to lead its operations in Colombia, including:

##### Pedro Tosin - Chief Executive Officer and Director

Pedro is a serial entrepreneur with over 15 years' experience focused on the technology sector. He has built companies in the audiovisual sector, including: a Colombian guild for the exchange of ideas and best-practice, a digital agency, and a highly successful a pet supply e-marketplace. Pedro was selected as the Endeavour Entrepreneur in 2009. He has a strong background in digital marketing and advertising and has been the CEO of Kunna since 2016.

##### Simon Hobson - Chief Operating Officer and Director

Simon has obtained an undergraduate degree in Mining Engineering from Camborne School of Mines (CSM), part of the University of Exeter, Cornwall, England, and he has worked towards a Diploma in Finance with the London School of Economics and Political Science (LSE). Prior to this, Simon gained knowledge of Rural Economics and Ecology from Sparsholt Agricultural College, Winchester, England. Simon has worked for multiple businesses as an engineer and project manager throughout his career. He was appointed as the COO of Kunna in 2017.

##### Danny Jaiquel - Community and Social Responsibility Director.

Danny began his 13-year career with a degree in Political Science. He has gone on to gain a Masters in Community Development. During his professional life, Danny has worked with indigenous and disenfranchised rural communities, formulating and structuring development projects in areas affected by illicit crops.

With his extensive experience in the management of resources, both international cooperation and the public sector, Danny can count among his achievements the structuring of four public-private partnerships between associations of rubber, cocoa, coffee and fruit growers. He has initiated and managed more than US\$10 million in activities of organisational strengthening, productive



infrastructure, territorial reordering and governance. He is currently a strategy advisor for the territory renewal agency, responsible for the implementation and point of first contact in the Colombian government's Peace Accord with the paramilitary group, FARC.

#### Nelsy Carreno – Quality Assurance, Quality Control and HSE

Working in the petroleum, mining and geothermal industries for over 19 years, Nelsy has a deep understanding of the quality control, health and environmental requirements of myriad international firms in the energy sector. Her growth in knowledge has come from time operating throughout both North and South America. Nelsy has specialist skills in quality assurance and control and environmental best-practice appertaining to the IPO Standards. She joined the team in 2017 to ensure that from the soil in the field, through the laboratory, to the final medical product, IPO Certification is obtained.

#### Alvaro Pio - Agricultural Economist

An economist and specialist in agricultural marketing, Alvaro has more than 30 years in the formulation, coordination and implementation of over 40 agricultural projects, some of which have included: cocoa, rubber, palm oil, coffee, chili, avocado, cassava, yams, aromatic, condimentary plants and fish farming etc). His skills are employed to strengthen the livelihoods of the rural population, increase crop productivity and help disenfranchised communities gain access to markets through strengthening agricultural value chains and the promotion of public-private partnerships.

Alvaro also works closely with the indigenous populations of Colombia, agrarian communities who are victims of the conflict, groups of rural women and for the reintegration of demobilised members of armed groups. Academic studies that Alvaro has been involved with include: agricultural market studies, the formulation and evaluation of micro-investment schemes and myriad irrigation projects.

#### **Financial Expertise**

Kunna also has a strong accounting and international support team, with public company experience, consisting of individuals from Argentina, Canada and Colombia.

#### **Terms of the Acquisition**

Creso is acquiring Kunna for a total of US\$7.15 million in Creso ordinary shares at a deemed issue price of A\$1.10, up to US\$1 million in performance shares to be issued at A\$1.10 each and a US\$250,000 exclusivity option payment payable immediately.

The performance shares will convert into Creso ordinary shares on a one-for-one basis in the event Kunna S.A.S. (the Colombian operating entity) successfully cultivates and sells 100 kilograms of cannabis from its operations within 18 months of settlement of the acquisition. The issue of the performance shares will be subject to regulatory approval.

The upfront payment of US\$7,150,000 (based on a A\$:US\$ exchange rate of 1:0.75) will, at settlement, be satisfied through the issue of fully paid ordinary shares in Creso at a deemed issue price of A\$1.10. Importantly, the vendors have agreed to be issued shares at the same price that Creso recently completed a placement to institutional and professional investors, demonstrating their confidence in Creso's strategy and forward business plan.

The agreement also remains conditional on Creso completing due diligence on Kunna, receipt of any required regulatory and shareholder approvals and Kunna being granted the cultivation licence, all of which must be satisfied by 30 April 2018.



The estimated timetable for completion of the acquisition is set out below:

Event	Date
Execution of HOA and announcement to ASX	18 December 2017
Payment of Exclusivity Fee	2 January 2018
Completion of Due Diligence	March 2018
Completion of Acquisition	March/April 2018

The impact of the proposed acquisition on Creso's capital structure is set out below:

	Shares	Options	Performance Rights	Performance Shares
Current issued capital	109,179,186	7,896,250 <sup>2</sup>	17,725,000 <sup>3</sup>	1,000,000 <sup>4</sup>
Consideration Shares	8,666,667 <sup>5</sup>	Nil	1,212,121	Nil
<b>Total</b>	<b>117,845,853</b>	<b>7,896,250</b>	<b>18,937,121</b>	<b>1,000,000</b>

**Notes:**

1. Refer to the Appendix 3B released on the Company's ASX Platform (ASX:CPH) 1 December 2017.
2. This includes 250,000 unquoted Options exercisable at \$0.40 on or before 14 October 2018, 600,000 unquoted Options exercisable at \$0.40 on or before 27 June 2020, 2,886,250 unquoted Options exercisable at \$0.20 on or before 13 October 2020, 2,500,000 unquoted Options exercisable at \$0.20 on or before 13 October 2019, 300,000 unquoted Options exercisable at \$0.50 on or before 23 January 2021, 100,000 unquoted Options exercisable at \$0.60 on or before 27 July 2020, 250,000 unquoted Options exercisable at \$0.30 on or before 27 July 2021. 100,000 unquoted Options exercisable at \$1.20 on or before 27 July 2019, 100,000 unquoted Options exercisable at \$1.60 on or before 27 July 2020, 100,000 unquoted Options exercisable at \$2.00 on or before 27 July 2021, 210,000 unquoted Options exercisable at \$0.40 on or before 27 July 2021, 250,000 unquoted Options exercisable at \$0.30 on or before 27 July 2019, 250,000 unquoted Options exercisable at \$0.80 on or before 13 April 2019.
3. This includes 5,000,000 Tranche 4 Performance Rights (subject to 24 months escrow). The terms and conditions attaching to the Performance Rights are summarised in Section 12.5 of the Prospectus; 12,725,000 Performance Rights (the terms and conditions attaching to the Performance Rights are summarised in Schedule 1 of the Notice of Meeting to be held on 27 July 2017. See Appendix 3B dated 9 November 2017.
4. 1,000,000 Performance Shares (subject to escrow until 13 October 2018).
5. The number of Creso Shares to be issued is based on the assumed market price for Creso's shares of A\$1.10 Creso Shares on the ASX (although the current market price is much lower) and the deemed exchange rate in the heads of agreement of US\$:A\$ exchange rate of 0.75:1.

**Benefits of entry into the Colombian and wider Latin American market**

Colombia has as a population of 48.6 million people. Its cannabis market is growing strongly with consumption having increased 15% per annum between 2008 and 2013 and US\$86.3 million spent on cannabis in 2008<sup>2</sup>.

<sup>2</sup> Observatorio Nacional de Drogas: <http://www.odc.gov.co/SIDCO/consumo/situacion-consumo>





Many Canadian medicinal cannabis industry executives said they plan to use Colombia as a springboard to serve Latin America's 400-plus million people who live in nations where some form of cannabis is legal<sup>3</sup>.

Colombia is ideally situated for marijuana production because it has:

- A newly established regulatory regime;
- A legion of trained agricultural workers;
- An ideal climate with 12 hours of sunshine on average each day; and
- Access to two oceans, making it easier to ship products both east and west

It is projected that by 2019, Colombia will contribute over 40.5 tonnes<sup>4</sup> of cannabis derived oil to the burgeoning global medicinal cannabis market.

"The acquisition gives Creso a strategic foothold in the growing Colombian market and also the opportunity to further expand across the Latin American region," said Creso Pharma Co-Founder and Chief Executive Officer, Dr Miri Halperin Wernli.

"The granting of a cultivation licence in Colombia will also give us a significant competitive advantage as Creso will be one of the few companies globally and the only medicinal cannabis company listed on the ASX with the capacity to commercially cultivate medicinal-grade cannabis in the Colombian environment."

-ENDS-

**Investor Enquiries:**

Gabriella Hold  
Media + Capital Partners  
M: 0411 364 382  
E: [gabriella.hold@mcpartners.com.au](mailto:gabriella.hold@mcpartners.com.au)

**Media Enquiries:**

Susannah Binsted  
Media + Capital Partners  
M: 0448 895 553  
E: [susannah.binsted@mcpartners.com.au](mailto:susannah.binsted@mcpartners.com.au)

**Corporate Queries:**

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

**About Creso Pharma**

Creso Pharma is bringing the best of Cannabis to better the lives of people and animals. Creso brings pharmaceutical expertise and methodological rigour to the world of medicinal cannabis and strives for the highest quality in its products. It is a global leader in medicinal cannabis and cannabidiol (CBD) innovation and developing cannabis and hemp-derived therapeutic-grade CBD nutraceuticals and medicinal cannabis products with wide patient reach for

<sup>3</sup>(<https://mjbizdaily.com/canadian-companies-aim-create-medical-marijuana-powerhouse-colombia-latin-america>).

<sup>4</sup>El Tiempo newspaper, Bogota, November 2017



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

For personal use only