



27 January 2023

LOI for Abby and Finn and Restructuring of Existing Debt

Highlights:

- **LOI to acquire the assets of Abby and Finn LLC ('Abby and Finn' or 'A&F'), a leading US based provider of natural products for babies**
- **Abby and Finn's key product lines include baby wipes and diapers, which are plant based and free of chlorine, alcohol, paraben, oil and cruelty**
- **A&F's success is based on a strong e-commerce program, having 2,800 monthly subscribers**
- **A&F generated US\$635,000 of revenue in the quarter ended September 30 2022, implying a last quarter annualized revenue base of US\$2.5m (A\$3.7m)**
- **Total purchase multiple for transaction of up to 1x revenue, further demonstrating Creso's capabilities to conduct accretive M&A with strategic benefits. Upon completion, the acquisition would take Creso's last quarter annualised revenue to A\$27.5m, based on the inclusion of SSH revenue, and the revenues of pending acquisition targets Health House International and Abby and Finn (based on the quarter ended September 30, 2022)**
- **A&F adds a further suite of unique, plant based products to Creso's US division, Sierra Sage Herbs ("SSH")**
- **Creso will utilise SSH's retail relationships, which include CVS, Rite-Aid, Whole Foods, and Albertsons, among others, to introduce A&F to retail following their e-commerce success**
- **Pro forma entity will also benefit from optimisation of A&F's cost structure by absorbing and eliminating fixed costs, improvements to manufacturing efficiencies and shared services**
- **Converting Loan Deed and Loan Modification Document signed with La Plata Capital LLC, an existing lender of SSH to repay US\$717,500 in cash and swap US\$1,282,500 for convertible notes ('Creso Secured Notes') valued at US\$1,282,500 of La Plata's US\$2m debt with SSH**
- **The expected retirement of a portion of the La Plata obligation would significantly clean and simplify the balance sheet while providing further alignment between the two companies**

Creso Pharma Limited (ASX:CPH, FRA:1X8) ('Creso Pharma' or 'the Company') is pleased to advise that it has entered into a non binding letter of intent ("LOI") to acquire the assets of Abby and Finn LLC ('Abby and Finn' or 'A&F'), a leading US based natural baby products company. Additionally, the Company has taken steps to simplify its balance sheet by modifying the structure of an existing loan.



Non binding LOI for Abby and Finn:

Abby and Finn is a leading US based provider of natural products for babies. A&F's success is driven by a focus on plant based, affordable products alongside a strong e-commerce subscription model. A&F's key product lines include baby wipes and diapers, which are naturally derived and chlorine, cruelty, alcohol, paraben and oil free. A&F currently has 2,800 monthly subscribers, with an average order value ('AOV') of US\$82.19, and a customer lifetime value ('LTV') of US\$735, vs. a customer acquisition cost ('CAC') of just US\$43.55.

During Q3 2022, A&F generated US\$653,000 of unaudited revenue. The acquisition of A&F fits strategically into the Sierra Sage Herbs ('SSH') US portfolio, adding an additional suite of unique, plant based products to the group. Pro forma, SSH will be able to further optimise A&F's cost structure by absorbing and eliminating fixed costs, improvements to manufacturing efficiencies and shared services. Additionally, given SSH's strong retail presence, which includes retailers such as CVS, Rite-Aid, Whole Foods, and Albertsons, among others, SSH will seek to introduce A&F products to retail – representing a significant opportunity.

The acquisition further strengthens Creso's commitment to shareholders to build a suite of leading plant based brands in high growth verticals, while benefiting from shared services and economies of scale.

Under the terms of the LOI, the Company would acquire the assets of A&F for an initial enterprise value of US\$1.79m, expected to be comprised of US\$1m of Creso equity and US\$270,000 of secured convertible notes, on similar terms to the notes announced to the market on 1 November 2022, to repay the existing debt between A&F and La Plata Capital LLC, , as well as the assumption of A&F's SBA (Small Business Association) loan of US\$518,000, which has a maturity date of 26 May 2050 and interest rate of 3.7% per annum. The combined consideration represents an acquisition multiple of just 0.70x last quarter annualised revenue. The LOI also provides for the opportunity for the equity holders of A&F to be provided US\$750,000 in Creso stock, based on achieving financial targets to be agreed in the definitive agreements. The structure in the LOI therefore caps the total acquisition multiple at ~1x A&F's last quarter annualised revenues. It is also contemplated that A&F's founders, Lance Little, and Matt Anderson, enter into employment agreements and join the SSH group, reporting to President of US Operations and SSH founder, Jodi Scott. The LOI is non-binding in nature and contains several standard provisions for a document of this type. All issuances of Creso equity contemplated in the LOI are subject to shareholder approval, and a floor price of A\$0.015 per share.

Restructuring of Existing Loan:

The Company is also pleased to announce that it has entered into a Converting Loan Deed and Loan Modification Document with La Plata Capital LLC, an existing lender of SSH. Under the terms of this transaction, US\$1,282,500 of La Plata's existing US\$2m debt with SSH will be swapped for US\$1,282,500 of Creso Secured Notes (similar, but ranking behind the existing secured convertible notes announced to the market on 1 Nov 2022). Terms of the La Plata Secured Notes are contained in Appendix A. The result of the transaction is an extension of the maturity date, and a simpler balance sheet, with the majority of all debt contained within a similar structure at the Creso Pharma level. The remaining US\$717,500 of the debt will be settled in a cash payment to La Plata by 31 January 2023.

EverBlu Capital Pty Ltd has waived its right to a cash fee for its role in facilitating the transaction. EverBlu Capital Pty Ltd or it's nominees will however be entitled to 74,125,134 options (8c exercise price, 4 year expiry) for its role in facilitating the transaction.

**Management commentary:**

CEO and Managing Director, Mr William Lay said: *“The potential acquisition of Abby and Finn brings several significant benefits to the Creso Group of companies. Adding A&F’s unique product suite to the SSH portfolio provides many opportunities for revenue synergy. We will seek to leverage SSH’s key relationships to introduce these products to retail, off the back of their success to date in e-commerce.*

“Additionally, SSH can leverage the success of A&F’s subscription model to optimise its online offering. We also see opportunities to optimise both business on the cost side and look forward to continuing to bolster our shared services platform in the US to eliminate overlapping costs and inefficiencies. We look forward to providing additional updates in due course.

“We are also pleased to have converted a portion of SSH’s existing debt to a parent company instrument similar to other instruments that we already have in place, extending the maturity of the La Plata loan and simplifying our balance sheet.”

-Ends-

Authority and Contact Details

This announcement has been authorised for release by the Disclosure Committee of Creso Pharma Limited.

For further information, please contact:

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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

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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.



Appendix A:

Key Terms of La Plata Secured Convertible Notes	
Indicative Convertible Note Type & Size	<p>Key terms include:</p> <ul style="list-style-type: none"> a) Face Value of each Convertible Note: US\$67,500. b) Interest: Flat 15% for the period (6 months) (i.e. 30% per annum). c) Maturity Date: 6 months from date of issue. d) Security: The Convertible Notes will be secured over Creso's Mernova Cannabis Cultivation Facility which is located in Nova Scotia, Canada. The Convertible Notes will rank second to an existing security. e) Investor Options. Investors will receive 1m options per US\$67,500 invested, regardless of whether they convert to equity, or get repaid back in cash. The options will have a \$0.08 exercise price and the same expiry date to the placement options to be issued in the capital raising announced by the company on 4 August 2022. The issue of these options is subject to shareholder approval. The options are intended to be listed subject to meeting all the relevant ASX requirements. f) Conversion: Subject to the conversion condition in (h) below, Conversion of the Convertible Notes is solely at the lender's election, otherwise repayment is due 6 months from investment date. g) Conversion Price: \$0.05 together with attaching 1 for 4 options (\$0.08 exercise price and an expiry date approximately 4 years from their date of issue) on the same terms as the Investor Options. h) Conversion Condition: Conversion of the Convertible Notes is subject to and conditional upon the Company obtaining Shareholder approval for the purposes of ASX Listing Rule 7.1 for the issue of the shares and options on conversion of the Convertible Notes. This condition is expected to be satisfied after the Company's EGM which is due to be held within approximately 60 days from today. Prior to this conversion condition being satisfied, the Convertible Notes will be considered a loan, without rights of conversion. If the conversion condition is not satisfied on or before 28 February 2023, the Face Value of the Convertible Notes (together with any accrued interest) will become repayable on date that is 6 months from the date of issue. i) Repayment: Repayment is due 6 months from the date of issue.
Security	<p>The Convertible Notes will have second ranking security over Creso's Mernova Cannabis Cultivation Facility which is located in Nova Scotia, Canada.</p> <p>Mernova is 24,000 sq. ft. facility purpose build to Health Canada GPP standard, scalable to 200,000 sq. ft. It contains 10 grow rooms with total production of 1,200-1,400 kg/year with potential to produce 4,000kg.</p>