



ASX Announcement | Friday, 4 October 2019

Replacement Scheme Booklet

Creso Pharma Limited (ASX:CPH) (“Creso Pharma” or “the Company”) hereby provides a revised version of the Scheme Booklet to replace the version lodged with ASX earlier today.

The revised version includes a correction to the graph on the bottom of page 106 of the Scheme Booklet.

Ends.

Investor Enquiries

EverBlu Capital

E: info@everblucapital.com

P: +61 2 8249 0000

Media Enquiries

Julia Maguire | The Capital Network

E: julia@thecapitalnetwork.com.au

P: +61 419 815 386

About Creso Pharma

www.cresopharma.com

Creso Pharma 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 de-rived therapeutic, nutraceutical, and life style products with wide patient and consumer reach for human and animal health. Creso Pharma 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.

Forward Looking statements

This announcement contains forward-looking statements with respect to Creso Pharma 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 Pharma 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 Pharma and persons acting on its behalf. Unless otherwise stated, all forward-looking statements speak only as of the date of this announcement and Creso Pharma has no obligation to up-date such statements, except to the extent required by applicable laws.

Creso Pharma Limited

ACN 609 406 911

Scheme Booklet

for a scheme of arrangement in relation to the proposed acquisition of all the fully paid ordinary shares in Creso Pharma Limited by PharmaCielo Ltd. and related option scheme

**Your Creso Pharma Directors unanimously recommend¹ that you
VOTE IN FAVOUR
of the Proposed Transaction with PharmaCielo Ltd., in the absence
of a Superior Proposal**

This is an important document and requires your prompt attention. You should read it in its entirety before you decide how to vote on the Schemes. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

STEINPREIS PAGANIN 
Lawyers & Consultants

Legal Adviser to Creso Pharma

MinterEllison

Australian legal Adviser to PharmaCielo

¹ In respect of the recommendations of Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel, Creso Pharma Listed Securityholders should have regard to the fact that, if the Share Scheme is implemented, Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel will receive various personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page vi of this Scheme Booklet.

IMPORTANT INFORMATION

This Scheme Booklet contains important information

The purpose of this Scheme Booklet is to explain the terms of the Schemes, the manner in which the Schemes will be considered and implemented (if the Scheme Conditions are satisfied), and to provide such information as is prescribed or otherwise material for Creso Pharma Listed Securityholders when deciding how to vote on the Schemes. This document includes the explanatory statement required by section 412(1) of the Corporations Act in relation to the Schemes. You should read this document in its entirety before making a decision on how to vote on of the Schemes.

Investment decisions

This Scheme Booklet is for Creso Pharma Shareholders and Creso Pharma Listed Optionholders collectively and does not take into account an individual's investment objectives, financial situation, taxation position or other particular needs.

This Scheme Booklet should not be relied upon as the sole basis for any investment decision in relation to the Schemes, Creso Pharma Shares, Creso Pharma Listed Options or New PharmaCielo Shares. If you are in any doubt about what you should do, you should seek independent legal, financial or other professional advice before making any investment decision in relation to the Schemes.

Responsibility for information

The information concerning the Creso Pharma Group contained in this Scheme Booklet, including financial information and information as to the views and recommendations of the Creso Pharma Directors has been provided by Creso Pharma and is the responsibility of Creso Pharma. Neither PharmaCielo, nor its advisers, nor the advisers of Creso Pharma assume any responsibility for the accuracy or completeness of that information.

The PharmaCielo Information has been provided by PharmaCielo and is the responsibility of PharmaCielo. Creso Pharma and its advisers do not assume any responsibility for the accuracy or completeness of that information.

BDO Corporate Finance (WA) Pty Ltd has prepared the Independent Expert's Report set out in Annexure A of this Scheme Booklet and takes responsibility for that report. PharmaCielo, Creso Pharma and their respective advisers do not assume any responsibility for the accuracy or completeness of the Independent Expert's Report.

BDO Corporate Finance (East Coast) Pty Ltd has prepared the Independent Limited Assurance Report set out in Annexure B of this Scheme Booklet and takes responsibility for that report. PharmaCielo, Creso Pharma and their respective advisers do not assume any responsibility for the accuracy or completeness of the Independent Limited Assurance Report.

BDO East Coast Partnership has prepared, and is responsible for, the information on Australian taxation implications of the Schemes contained in Section 15.1 of this Scheme Booklet. PharmaCielo, Creso Pharma and their respective advisers (except for BDO East Coast Partnership) do not assume any responsibility for the accuracy or completeness of the information set out in Section 15.1 of this Scheme Booklet.

McMillan LLP has prepared and is responsible for the information on Canadian taxation implications of the Schemes contained in Section 15.2 of this Scheme Booklet, information on Canadian legislation and the rights attaching to New PharmaCielo Shares in Section 16 and Annexure I of the Scheme Booklet (**McMillan Information**). PharmaCielo, Creso Pharma and their respective advisers (other than McMillan) do not assume any responsibility for the accuracy or completeness of the McMillan Information set out in this Scheme Booklet.

Role of ASIC and ASX

A copy of this Scheme Booklet has been examined by ASIC pursuant to section 411(2)(b) of the Corporations Act and lodged with, and registered by, ASIC under section 412(6) of the Corporations Act. Creso Pharma has requested ASIC provides statements, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Schemes. If ASIC provides those statements, they will be produced to the Court on the Second Court Date. Neither ASIC nor any of its officers take any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been provided to ASX. Neither ASX nor any of its officers take any responsibility for the contents of this Scheme Booklet.

Notice of Scheme Meetings

The Notice of Share Scheme Meeting is set out in Annexure G and the Notice of Option Scheme Meeting is set out in Annexure H.

Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Schemes following the vote at the Scheme Meetings.

Any Creso Pharma Listed Securityholder may appear at the Second Court Hearing, expected to be held at 9.30am (WST) on Wednesday, 13 November 2019.

Any Creso Pharma Listed Securityholder who wishes to oppose approval of the Schemes at the Second Court Hearing may do so by filing with the Court and serving on Creso Pharma a notice of appearance in the prescribed form together with any affidavit that the Creso Pharma Listed Securityholder proposes to rely on.

The notice of appearance and affidavit must be served on Creso Pharma at its address for service at least one day before the Second Court Hearing. The address for service is: c/o Steinepreis Paganin, Level 4, 16 Milligan Street, Perth, WA 6000.

Important notice associated with Court order under section 411(1) of the Corporations Act

The Court is not responsible for the contents of this Scheme Booklet and, the fact that under section 411(1) of the Corporations Act the Court ordered on Wednesday, 2 October 2019 that meetings of Creso Pharma Listed Securityholders be convened by Creso Pharma to consider and vote on the Schemes and has approved the Scheme Booklet does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Schemes or as to how Creso Pharma Listed Securityholders should vote (on this matter, Creso Pharma Listed Securityholders must reach their own decision); and
- (b) has prepared, or is responsible for, the content of this Scheme Booklet. An order under section 411(1) is not an endorsement of, or any other expression or opinion on the Scheme(s).

Forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. The statements contained in this Scheme Booklet about the advantages and disadvantages expected to result from the Schemes are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Creso Pharma and/or PharmaCielo to be materially different from future results, performance or achievements expressed or implied by such statements (whether the Schemes are implemented or not). The operations and financial performance of Creso Pharma and/or PharmaCielo and the change of a Scheme Participant's ownership of Creso Pharma Shares, Creso Pharma Listed Options and New PharmaCielo Shares are subject to various risks that are summarised in Section 14 of this Scheme Booklet and that may be beyond the control of Creso Pharma and/or PharmaCielo.

As a result, Creso Pharma's actual results of operations and earnings and those of PharmaCielo following implementation of the Schemes, as well as the actual advantages and disadvantages of the Schemes, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The forward-looking statements included in this Scheme Booklet reflect views only as of the date of this Scheme Booklet. None of Creso Pharma, PharmaCielo, the Creso Pharma Directors or the PharmaCielo Directors or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Scheme Booklet will actually occur and you are cautioned not to place undue reliance on such forward-looking statements.

All written and oral forward-looking statements attributable to Creso Pharma or PharmaCielo or any person acting on their behalf are qualified by this cautionary statement. Subject to any continuing obligations under the ASX Listing Rules, the Corporations Act or the TSX-V Listing Rules, neither Creso Pharma nor PharmaCielo give any undertaking to update or revise any such statements after the date of this Scheme Booklet to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Notice to Creso Pharma Listed Securityholders in jurisdictions outside Australia and its external territories, New Zealand, Switzerland, Israel, Canada and Colombia.

This Scheme Booklet and the Schemes are subject to Australian disclosure requirements that may be different to those applicable in other jurisdictions. Neither this Scheme Booklet nor the Schemes constitute or are intended to constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities law. PharmaCielo and Creso Pharma disclaim all liabilities to such persons. No action has been taken to register or qualify the New PharmaCielo Shares or otherwise permit a public offering of such securities in any jurisdiction outside Australia.

Restrictions in certain jurisdictions outside Australia may make it impractical or unlawful for New PharmaCielo Shares to be issued under the Schemes to, or received under the Schemes by, Creso Pharma Listed Securityholders in those jurisdictions.

Any Creso Pharma Listed Securityholder whose address as shown in the Creso Pharma Register on the Share Scheme Record Date or the Option Scheme Record Date (as applicable) is outside of Australia or its external territories, New Zealand, Switzerland, Israel, Canada and Colombia will be an Ineligible Foreign Securityholder for the purposes of the Share Scheme and the Option Scheme, unless PharmaCielo is satisfied, acting reasonably, that it is permitted to allot and issue New PharmaCielo Shares to that Scheme Participant under the Share Scheme or Option Scheme (as relevant) by the laws of that holder's country of residence, either unconditionally or after compliance with conditions which PharmaCielo in its sole discretion regards as acceptable and not unduly onerous or impracticable. Ineligible Foreign Securityholders will not receive New PharmaCielo Shares. Instead, all Ineligible Foreign Securityholders will have the New PharmaCielo Shares that would otherwise have been issued to them under the Schemes issued to the Sale Agent, as nominee in trust for the Scheme Shareholders or Scheme Optionholders (as applicable), for sale on market following implementation of the Schemes.

Nominees, custodians and other Scheme Participants who hold Creso Pharma Listed Securities on behalf of a beneficial owner resident in Australia or its external territories, New Zealand, Switzerland, Israel, Canada and Colombia may forward this Scheme Booklet (or accompanying documents) to such beneficial shareholder but may not forward this Scheme Booklet to any person in any other country without the consent of PharmaCielo.

Foreign Jurisdictions

New Zealand

This Scheme Booklet is not a New Zealand disclosure document and has not been registered, filed with or approved by any New Zealand Governmental Agency under or in accordance with the Financial Markets Conduct Act 2013 (or any other relevant New Zealand law). In offering New PharmaCielo Shares under the Scheme in New Zealand, PharmaCielo is relying on an exemption contained in the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016 and accordingly, this Scheme Booklet may not contain all the information that a disclosure document is required to contain under New Zealand law. New Zealand investors should seek their own advice and satisfy themselves as to the Australian and New Zealand tax implications of participating in the Schemes.

Switzerland

The New PharmaCielo Shares described in this document shall not be publicly offered, sold or advertised, directly or indirectly, in or into Switzerland, and will not be listed on the SIX Swiss Exchange or any other exchange in Switzerland. Neither this Scheme Booklet nor any other offering or marketing material relating to the securities described in this Scheme Booklet constitute a prospectus within the meaning of Articles 652a or 1156 of the Swiss Code of Obligations (CO) or a listing prospectus within the meaning of the SIX Swiss Exchange or any other exchange in Switzerland, and neither this Scheme Booklet nor any other offering or marketing material relating to the securities described in this Scheme Booklet may be communicated, distributed or otherwise made available in Switzerland in any way that could constitute a public offering within the meaning of Articles 652a or 1156 CO.

Israel

An offer of PharmaCielo securities has not been made, and may not be made, in Israel, except pursuant to an applicable exemption under the Israeli Securities Law 5728-1968 (the **Israeli Securities Law**), from the requirement to publish a prospectus when offering securities to the public. Article 15A to the Israeli Securities Law stipulates all the cases in which an offering or sale of securities is not made to the "public", and therefore does not require the publishing of a prospectus. The information in this document has been prepared on the basis that all offers of New PharmaCielo Shares to Israeli residents or citizens, or other people to whom equity was offered or issued in Hebrew or with other significant relation to Israel (**Israeli People**) will be made pursuant to section 15A(a)(1) to Israeli Securities Law, according to which so long as all Israeli People to whom PharmaCielo will have offered or issued any equity during any period of 12 months is no more than 35, and therefore not made to the "public".

Canada

The New PharmaCielo Shares to be issued in connection with the Schemes will be issued by PharmaCielo in reliance upon exemptions from the prospectus and registration requirements of the applicable Canadian securities law in each province and territory of Canada. The New PharmaCielo Shares issued in connection with the Scheme may (through a registered dealer, unless the dealer registration requirements do not apply) be resold in each province and territory in Canada, including through the TSX-V, subject to the usual conditions that PharmaCielo is, and has been, a reporting issuer in a jurisdiction of Canada for the four months immediately preceding the trade, the trade is not a control distribution, no unusual effort has been made to prepare the market, or create a demand for, the New PharmaCielo Shares, no extraordinary commission or consideration is paid to a person or company in respect of the trade and if the selling security holder is an insider or officer of PharmaCielo, such selling security holder has no reasonable grounds to believe that PharmaCielo is in default of applicable Canadian securities law.

Colombia

The information contained in the Scheme Booklet has been prepared on the basis that PharmaCielo's offering of New PharmaCielo Shares has only been and will only be made in Colombia in circumstances that, pursuant to Decree 2555 of 2010 (**Decree 2555**), qualify as a private placement of shares (*oferta privada*). Accordingly, the offer of the issued shares is addressed to less than one hundred (100) specifically identified investors and under circumstances which do not constitute a public offering of securities (*oferta pública*) under applicable Colombian securities laws and regulations.

The New PharmaCielo Shares that will be issued: (i) have not been and will not be issued, placed, distributed or offered to the public in Colombia under the terms of the Decree 2555, (ii) will not be registered before the Colombia National Registry of Securities and Issuers (RNVE for its Spanish acronym), (iii) nor admitted to trading on a regulated market located or operating in Colombia, such as Bolsa de Valores de Colombia.

The information and legal documents related to the offering of New PharmaCielo Shares is for the sole and exclusive use of the subscriber, resident in Colombia, and cannot be considered as being addressed to or intended for the use of any third party, including any of such party's shareholders, administrators or employees, or by any other third-party resident in Colombia.

The New PharmaCielo Shares cannot be promoted or marketed in Colombia or to Colombian residents unless such promotion and marketing is made in compliance with Decree 2555 and other applicable rules and regulations related to the promotion of foreign financial and/or securities related products or services in Colombia.

Notwithstanding the above, the Colombian resident subscribing New PharmaCielo Shares will be required to comply with formal obligations pursuant to tax and foreign investment applicable regimes in Colombia.

Small Securityholders

Creso Pharma Listed Securityholders who are entitled to receive less than 62 New PharmaCielo Shares (being Creso Pharma Shareholders who hold less than 794 Creso Pharma Shares and Creso Pharma Listed Optionholders who hold less than 3,325 Creso Pharma Listed Options) on the Share Scheme Record Date or the Option Scheme Record Date (as applicable) may elect to have those New PharmaCielo Shares sold via a Sale Facility and receive the Cash Proceeds instead. Small Securityholders should refer to Sections 9.3(b) and 9.3(c) of this Scheme Booklet for further information.

Privacy and entitlement to inspect Creso Pharma Registers

Personal information may be collected by Creso Pharma and PharmaCielo in the process of implementing the Schemes. This information may include the name, contact details, security holding details of Creso Pharma Listed Securityholders, and the names of individuals appointed to act as proxy, attorney or corporate representative by a Creso Pharma Listed Securityholders at the Scheme Meetings. The primary purpose for collecting this personal information is to assist Creso Pharma and PharmaCielo to conduct the Scheme Meetings and implement the Schemes.

Any personal information collected may be disclosed to Creso Pharma's and PharmaCielo's respective share registries, advisers, print and mail service providers and related bodies to the extent necessary to effect the Schemes. Creso Pharma Listed Securityholders are entitled under section 173 of the Corporations Act to inspect and obtain copies of personal information collected. Creso Pharma Listed Securityholders should contact Automic in the first instance if they wish to access their personal information.

Defined terms

Capitalised terms and certain other terms used in this Scheme Booklet are defined in the Glossary of defined terms in Section 19.

The Independent Expert's Report set out in Annexure A has its own defined terms and those terms are sometimes different to the defined terms in the Glossary.

Currency

All references in this Scheme Booklet to:

- “\$”, “A\$” or “dollar” are references to Australian currency;
- “C\$”, “CAD” and “Canadian dollars” are references to Canadian currency;
- “US\$”, “USD” and “United States dollars” are references to American currency

unless otherwise indicated.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet, including but not limited to those in respect of the Scheme Consideration, are subject to the effect of rounding. Accordingly, their actual calculation may differ from the calculations set out in this Scheme Booklet.

Charts, graphs and tables

Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Last Practicable Date. Any discrepancies in any chart, graph or table between totals and sums of amounts presented or listed therein or to previously published financial figures are due to rounding.

Implied Value

Any reference to the implied value of the Scheme Consideration should not be taken as an indication that Creso Pharma Listed Securityholders will receive cash. Creso Pharma Listed Securityholders should note that the implied value of the Scheme Consideration is not fixed and will change from time to time based on movements in the market price of PharmaCielo Shares and in the A\$:C\$ exchange rate. This also applies to Ineligible Foreign Securityholders and Electing Small Securityholders, whose Scheme Consideration will be remitted to the Sale Agent to sell. The amount of Cash Proceeds received by Ineligible Foreign Securityholders and Electing Small Securityholders will depend on the market price of PharmaCielo Shares and the A\$:C\$ exchange rate at the time of sale by the Sale Agent.

External websites

Unless expressly stated otherwise, the content of the websites of Creso Pharma and PharmaCielo do not form part of this Scheme Booklet and Creso Pharma Listed Securityholders should not rely on any such content.

Reference to time

All references in this document to time relate to the time in Perth, Western Australia, unless otherwise specified.

Date of this document

This document is dated 3 October 2019.

IMPORTANT INFORMATION REGARDING DIRECTORS' RECOMMENDATIONS

Creso Pharma Listed Securityholders should have regard to the fact that, if the Share Scheme is implemented, EverBlu Capital, an entity of which Mr Blumenthal is a director and shareholder, will be entitled to receive a transaction success fee which will be paid through the issue of 458,256 PharmaCielo Shares. These PharmaCielo Shares will be subject to lock-up on a tiered basis over the twelve-months commencing on the Effective Date. Further details in respect of the agreements between EverBlu Capital, PharmaCielo and Creso Pharma are set out in Sections 18.8(b) and 18.8(c). EverBlu Capital also holds or controls 2,250,000 Creso Pharma Unlisted Options, which will be cancelled pursuant to an Option Cancellation Deed, in exchange for the issue of 119,061 PharmaCielo Shares as set out in Section 8.11. In addition, Mr Blumenthal holds or controls 6,250,001 Creso Pharma Shares and 2,750,000 Creso Pharma Listed Options for which he will receive the aggregate Scheme Consideration of 535,250 New PharmaCielo Shares if the Schemes are implemented.

Mr Blumenthal considers that it is appropriate for him to make a recommendation on the Schemes in light of the importance of the Schemes and EverBlu Capital's role in providing corporate advisory and other services to Creso Pharma and assisting with facilitation of the Proposed Transaction. The Creso Pharma Board (in the absence of Mr Blumenthal) and, separately, Mr Blumenthal, have determined that Mr Blumenthal can, and should, if he wishes to do so, make a recommendation on the Schemes notwithstanding the nature of the benefits which will be received by each of EverBlu Capital (being the issue of 577,317 PharmaCielo Shares, equating to approximately A\$3,305,448)² and Mr Blumenthal (being the aggregate Scheme Consideration of 535,250 New PharmaCielo Shares, equating to approximately A\$3,064,592³) if the Schemes are implemented.

Creso Pharma Listed Securityholders should also have regard to the fact that, if the Share Scheme is implemented, Dr Halperin Wernli will be appointed to the Combined Group Board. In connection with her appointment as the President of the Combined Group she will receive 170,500 PharmaCielo Shares and will be issued 500,000 PharmaCielo Options pursuant to her employment agreement with PharmaCielo as set out in Section 18.8(a). 153,450 of the 170,500 PharmaCielo Shares will be subject to lock-up periods on a tiered basis over the twelve-months commencing on the Implementation Date. The 500,000 PharmaCielo Options will be subject to performance-based vesting conditions. Further details of the agreement between Dr Halperin Wernli and PharmaCielo are set out in Section 18.8(a). In addition, Dr Halperin Wernli holds or controls 12,800,000 Creso Pharma Shares and 4,147,950 Creso Pharma Listed Options for which she will receive the aggregate Scheme Consideration of 1,068,737 New PharmaCielo Shares if the Schemes are implemented.

Dr Halperin Wernli considers that it is appropriate for her to make a recommendation on the Schemes in light of the importance of the Schemes and her role in the foundation and development of Creso Pharma. The Creso Pharma Board (in the absence of Dr Halperin Wernli) and, separately, Dr Halperin Wernli, have determined that Dr Halperin Wernli can, and should, if she wishes to do so, make a recommendation on the Schemes notwithstanding the nature of the benefits (being the issue of 170,500 PharmaCielo Shares, equating to approximately A\$976,203⁴, the aggregate Scheme Consideration of 1,068,737 New PharmaCielo Shares, equating to approximately A\$6,119,090⁵, and the issue of 500,000 PharmaCielo Options⁶) which will be received by Dr Halperin Wernli if the Schemes are implemented.

Creso Pharma Listed Securityholders should also have regard to the fact that Mr Wachtel (Creso Pharma's Executive Chairman) holds or controls 8,300,000 Creso Pharma Shares, 3,000,000 Creso Pharma Listed Options and 1,600,000 Creso Pharma Performance Rights. If the Share Scheme is approved by the Court on the Second Court Date, in addition to his entitlement as a Creso Pharma Shareholder and Creso Pharma Listed Optionholder Mr Wachtel's 1,600,000 Creso Pharma Performance Rights be deemed to have vested and if exercised by Mr Wachtel, result in 1,600,000 Creso Pharma Shares being issued to Mr Wachtel. Accordingly, in such circumstances, Mr Wachtel will hold a total of 9,900,000 Creso Pharma Shares and 3,000,000 Creso Pharma Listed Options, all of which would be entitled to participate in the Share Scheme and the Option Scheme respectively.

Mr Wachtel considers that it is appropriate for him to make a recommendation on the Schemes in light of the importance of the Schemes and his role as Executive Chairman. The Creso Pharma Board (in the absence of Mr Wachtel) and, separately, Mr Wachtel, have determined that Mr Wachtel can, and should, if he wishes to do so, make a recommendation on the Schemes notwithstanding the nature of the benefits (being the aggregate Scheme Consideration of 822,750 New PharmaCielo Shares, equating to approximately A\$4,710,683)⁷ which will be received by Mr Wachtel if the Schemes are implemented, noting that only 124,000 New PharmaCielo Shares equating to approximately A\$709,996⁸ is as a result of his interests outside of being a current Creso Pharma Shareholder and Creso Pharma Listed Optionholder.

FOOTNOTES:

- ² Calculated based on the closing price of PharmaCielo Shares of C\$5.090as at the Last Practicable Date and utilising an exchange rate of C\$0.8890:A\$1.00.
- ³ Calculated based on the closing price of PharmaCielo Shares of C\$5.090as at the Last Practicable Date and utilising an exchange rate of C\$0.8890:A\$1.00.
- ⁴ Calculated based on the closing price of PharmaCielo Shares of C\$5.090as at the Last Practicable Date and utilising an exchange rate of C\$0.8890:A\$1.00.
- ⁵ Calculated based on the closing price of PharmaCielo Shares of C\$5.090as at the Last Practicable Date and utilising an exchange rate of C\$0.8890:A\$1.00.
- ⁶ As the performance milestones for the 500,000 PharmaCielo Options have not yet been agreed, the 500,000 PharmaCielo Options cannot be valued.
- ⁷ Calculated based on the closing price of PharmaCielo Shares of C\$5.090as at the Last Practicable Date and utilising an exchange rate of C\$0.8890:A\$1.00.
- ⁸ Calculated based on the closing price of PharmaCielo Shares of C\$5.090as at the Last Practicable Date and utilising an exchange rate of C\$0.8890:A\$1.00.

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1. OVERVIEW OF THIS SCHEME BOOKLET

This Scheme Booklet contains information about the proposed acquisition of Creso Pharma by PharmaCielo that was announced by Creso Pharma on the ASX on 7 June 2019.

The acquisition will be effected by way of schemes of arrangement under the Corporations Act.

Under the Share Scheme, a Scheme Shareholder (other than an Ineligible Foreign Shareholder or an Electing Small Shareholder) will receive 0.0775 New PharmaCielo Shares for every Scheme Share held by that Scheme Shareholder. Small Shareholders may elect to participate in the Sale Facility instead of receiving New PharmaCielo Shares.

Under the Option Scheme, a Scheme Optionholder (other than an Ineligible Foreign Optionholder or an Electing Small Optionholder) will receive 0.0185 New PharmaCielo Shares for every Scheme Option held by that Scheme Optionholder. Small Optionholders may elect to participate in the Sale Facility instead of receiving New PharmaCielo Shares.

The Share Scheme is subject to the approval of Creso Pharma Shareholders and the Option Scheme is subject to the approval of Creso Pharma Listed Optionholders.

The Scheme Meetings to consider the Schemes will be held at the office of Steinepreis Paganin at Level 4, 16 Milligan Street, Perth, Western Australia on **Monday, 11 November 2019**. The Share Scheme Meeting will commence at **10:00am (WST)** and the Option Scheme Meeting will commence at the later of **10:30am (WST)** and the conclusion of the Share Scheme Meeting.

This Scheme Booklet contains information relevant to the decision of Creso Pharma Listed Securityholders as to whether to vote for or against the relevant Schemes.

2. KEY DATES RELATING TO THE SCHEMES

Key events and the expected timing in relation to the approval and implementation of the Schemes are set out in the table below.

EVENT	DATE
First Court Date – this is the date the Court made orders convening the Scheme Meetings	Wednesday, 2 October 2019
Latest time and date for lodgement of completed proxy forms for the Scheme Meetings	10:00am (WST) (Share Scheme Meeting); and 10:30am (WST) (Option Scheme Meeting) on Saturday, 9 November 2019 Note: As this is not a business day, if you intend to mail your proxy form or return your proxy form in person, you should ensure that you allow sufficient time for it to be received by the Creso Pharma Registry by close of business (WST) on Friday, 8 November 2019
Time and date for determining eligibility to attend and vote at the Scheme Meetings	12pm (WST) on Saturday, 9 November 2019
Scheme Meetings to be held at the offices of Steinepreis Paganin at Level 4, 16 Milligan Street, Perth, Western Australia	10:00am (WST) (for the Share Scheme Meeting) and the later of 10:30am (WST) and the conclusion of the Share Scheme Meeting (for the Option Scheme Meeting) on Monday, 11 November 2019
If the Schemes are approved by the Requisite Majorities of Creso Pharma Listed Securityholders, the expected timetable for implementing the Schemes is:	
Second Court Date for approval of the Schemes	Wednesday, 13 November 2019
Effective Date of the Schemes and last day of trading of Creso Listed Securities on ASX	Wednesday, 13 November 2019
Suspension of trading of Creso Pharma Listed Securities on ASX	Close of trading on Wednesday, 13 November 2019
Record Date for determining entitlements to the Scheme Consideration	Close of trading on Friday, 15 November 2019
Latest time and date for receipt of Election Forms from Electing Small Securityholders	2:00pm (WST) Tuesday, 19 November 2019
Implementation Date for the issue of Scheme Consideration to Scheme Participants ⁷	Friday, 22 November 2019
Termination of official quotation of Creso Pharma Listed Securities on ASX	Close of trading on Friday, 22 November 2019 (or as otherwise determined by ASX)
New PharmaCielo Shares commence trading on TSX-V on a normal settlement basis	Tuesday, 26 November 2019
Expected dispatch of holding statements for New PharmaCielo Shares	Wednesday, 27 November 2019

The above dates and times are indicative only and, amongst other things, are subject to the time at which each Scheme Condition is satisfied and the dates on which all necessary Court and regulatory approvals are obtained. Creso Pharma has the right to vary any or all of these dates and times, subject to the approval of such variation by ASX, TSX-V, the Court and PharmaCielo, where required.

Any variation to the above dates and times will be announced to ASX (and accordingly, details of any variations will be available on ASX's website (www.asx.com.au) and will be published on Creso Pharma's website (www.cresopharma.com)).

The exact number of New PharmaCielo Shares to be issued to you will not be confirmed until you receive your holding statement following the Implementation Date. It is your responsibility to confirm your holding of New PharmaCielo Shares before you trade them to avoid the risk of committing to sell more than will be issued to you.

FOOTNOTES:

⁹ The Scheme Consideration is subject to rounding for fractional entitlements. Ineligible Foreign Securityholders will not be entitled to receive any New PharmaCielo Shares and will instead receive Cash Proceeds from the sale by the Sale Agent of the New PharmaCielo Shares which an Ineligible Foreign Securityholder would otherwise have been entitled to receive. Small Securityholders may also elect to participate in this facility. Refer to Section 9.3 of this Scheme Booklet for further information.

3. LETTER FROM CRESO PHARMA

2 October 2019

Dear Creso Pharma Shareholders and Listed Optionholders,

On behalf of the board of Creso Pharma, I am pleased to present this Scheme Booklet to you.

On 7 June 2019, Creso Pharma Limited and PharmaCielo Ltd. announced that they had entered into a scheme implementation agreement in relation to PharmaCielo's proposed acquisition of Creso Pharma (**Proposed Transaction**).

The Proposed Transaction will be conducted through a scheme of arrangement between Creso Pharma and the Creso Pharma Shareholders (**Share Scheme**) and a separate concurrent scheme of arrangement between Creso Pharma and the Creso Pharma Listed Optionholders (**Option Scheme**). Scheme Participants (other than Ineligible Foreign Securityholders and Electing Small Securityholders) will receive 0.0775 New PharmaCielo Shares for each Scheme Share held under the Share Scheme and 0.0185 New PharmaCielo Shares for each Scheme Option held under the Option Scheme.

PharmaCielo is a leading cannabis company listed on Canada's TSX Venture Exchange. It is a fully licensed cultivator and producer of medicinal cannabis extracts (both CBD and THC) and products in Colombia.

The Proposed Transaction is expected to harness the synergies between Creso Pharma and PharmaCielo, creating a combined company that is poised to become a global powerhouse in the medicinal cannabis industry. Upon completion of the Proposed Transaction, the Combined Group will have a broad global footprint with presence in more than a dozen countries spanning North and Latin America, Switzerland, Europe, the Middle East, Australia and New Zealand.

The Option Scheme is conditional on the Share Scheme proceeding. However, the Share Scheme is not conditional on the Option Scheme proceeding. Accordingly, if the Option Scheme is not approved or does not otherwise proceed, the Share Scheme will still proceed if all of the conditions relating to the Share Scheme are satisfied (or waived, if applicable).

Recommendation of Creso Pharma Directors

The Creso Pharma Directors have considered the advantages and disadvantages of the Schemes and concluded that the Schemes are in the best interest of Creso Pharma Listed Securityholders. The Creso Pharma Directors unanimously recommend that all Creso Pharma Listed Securityholders vote in favour of the Schemes, in the absence of a Superior Proposal.

In respect of the recommendations of Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel, Creso Pharma Listed Securityholders should have regard to the fact that, if the Share Scheme is implemented, Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel will receive various personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page vi of this Scheme Booklet.

The Creso Pharma Directors are aware of the decrease in the implied value of the Scheme Consideration driven by a material decrease in the PharmaCielo Share price on Canada's TSX Venture Exchange (**TSX-V**) since the Announcement Date, noting that:

- PharmaCielo Shares have only been trading on TSX-V since 18 January 2019 and therefore have a very limited history as a publicly traded security;
- the prevailing market price of PharmaCielo Shares is subject to a range of company specific and industry general factors.

Further details on the fluctuations in the market price of PharmaCielo and its effect on the implied value of the Scheme Consideration are set out in Sections 7.1(b) and 14.2. As at the Last Practicable Date, the implied value of the Share Scheme Consideration and Option Scheme Consideration was \$73,188,537 and \$ 7,710,772 respectively¹⁰. This is lower than as at the Announcement Date due to a decrease in the value of PharmaCielo's share price, being C\$6.76 at the Announcement Date and C\$5.090 at the Last Practicable Date.

The Creso Pharma Directors recognise that at the time of publishing this Scheme Booklet, the date scheduled for the Scheme Meetings remains some weeks away and, in that time, the PharmaCielo Share price may increase. If the PharmaCielo Share price increases, this should increase the implied value of the Scheme Consideration (subject to any changes in the A\$: C\$ exchange rate).

In accordance with the Scheme Implementation Agreement with PharmaCielo, the Creso Pharma Directors recommend that you vote in favour of the Schemes, in the absence of a Superior Proposal. Subject to that same qualification, each Creso Pharma Director intends to vote all of the Creso Pharma Listed Securities held or controlled by them in favour of the Schemes.

In reaching their recommendation, the Creso Pharma Directors considered a number of factors, including that:

- the implied value of the Scheme Consideration as at the Announcement Date represents an attractive premium over the trading prices of Creso Pharma Shares prior to the Announcement Date;
- all-scrip consideration available under the Schemes allows existing Creso Pharma Listed Securityholders to participate in and benefit from the combination of the companies;
- the Combined Group will have an increased market presence, greater liquidity and enhanced financial strength enabling it to better develop the existing business of Creso Pharma and PharmaCielo;
- PharmaCielo's stronger balance sheet addresses Creso Pharma's financial uncertainties;
- PharmaCielo's experienced board and management team;
- the Combined Group will have access to North American capital markets, including investors that have had more exposure to cannabis companies and may have a more sophisticated understanding of international cannabis company valuations;
- the Independent Expert has concluded that, in the absence of a Superior Proposal, the Share Scheme is not fair but reasonable and therefore is in the best interest of Creso Pharma Shareholders and the Option Scheme is fair and reasonable and therefore is in the best interest of Creso Pharma Listed Optionholders;¹¹
- the trading price of Creso Pharma Listed Securities may fall in the near future should the Schemes not be implemented and in the absence of a Superior Proposal; and
- no Superior Proposal has emerged as at the date of this Scheme Booklet.

These key reasons to vote in favour of the Schemes are set out in further detail in Section 7.1 of this Scheme Booklet.

There are also reasons why you may choose to vote against the Schemes, including that:

- you may disagree with the recommendation by the Independent Expert and the Creso Pharma Directors;
- there are risks associated with the integration of Creso Pharma and PharmaCielo which you may consider exceed the anticipated benefits of the Proposed Transaction;
- you may consider that there is the potential for a Superior Proposal to emerge for Creso Pharma in the foreseeable future;
- you may consider that the conditions to which the Schemes may be subject to are conditions that you consider to be unacceptable;
- the value of the Scheme Consideration is not fixed and will depend on the price at which the New PharmaCielo Shares trade on the TSX-V following the Implementation Date;
- you may prefer to maintain an interest in an Australian publicly listed company;
- you will only be able to trade your New PharmaCielo Shares on the TSX-V, not the ASX;
- your percentage interest in the Combined Group will be less than your current interest in Creso Pharma; and
- the tax consequences of the Schemes may not suit your current financial position.

These reasons why you may choose to vote against the Schemes are set out in further detail in Section 7.2 of this Scheme Booklet.

Your vote is important

Each Scheme requires the agreement by the Requisite Majority of the Creso Pharma Listed Securityholders and the approval of the Court in order to proceed. The Scheme Meetings will be held consecutively on Monday, 11 November 2019 at the offices of Steinepreis Paganin at Level 4, 16 Milligan Street, Perth, Western Australia, commencing at 10:00am (WST).

Your vote is important regardless of how many Creso Pharma Listed Securities you own. If you are unable to attend the Scheme Meetings in person, we encourage you to vote by completing and returning your personalised proxy forms enclosed with this Scheme Booklet in accordance with the directions on those forms. Further information regarding the Scheme Meetings and details of how to vote are set out in Section 5 of this Scheme Booklet and in the notices convening each Scheme Meeting in Annexures G and H. Creso Pharma confirms that it will appoint an independent lawyer to act as chairman at each of the Scheme Meetings.

Before making a decision about the Schemes, you should read this Scheme Booklet in its entirety (including the Independent Expert's Report) and if you are in doubt about what action you should take, contact your legal, financial and other professional adviser.

Yours sincerely



Dr Miriam Halperin Wernli
Chief Executive Officer
Creso Pharma Limited

FOOTNOTES:

10 Based on last trading price of PharmaCielo's shares of C\$5.090 at the Last Practicable Date and the exchange rate of C\$0.8890:A\$1.00 at the Last Practicable Date

11 Refer to Section 7.1(h) for further circumstances surrounding the Independent Expert's opinion and the Independent Expert's Report.

4. LETTER FROM PHARMACIELO

2 October 2019

Dear Creso Pharma Shareholders and Listed Optionholders,

On behalf of the Board of Directors of PharmaCielo Ltd., I am pleased to provide you with information regarding the Schemes under which PharmaCielo proposes to acquire Creso Pharma. The Proposed Transaction outlined in this Scheme Booklet provides you with an opportunity to participate in the creation of a new Combined Group that will continue to progress as a leading global participant in the medicinal cannabis industry.

PharmaCielo is a leading cannabis company listed on Canada's TSX Venture Exchange (TSXV:PCLO). We are the first fully licensed cultivator and producer of medicinal cannabis extracts (both CBD and THC) and products in Colombia, and the largest cannabis producer in Colombia. Creso Pharma and PharmaCielo's focus on the nutraceutical cannabis industry and the medicinal cannabis industries, respectively, are complementary as each company is approaching the broader cannabis marketplace from opposite but, synergistic vantage points. Where PharmaCielo has focused its activities to date on the cultivation and extraction of the highest quality cannabis extracts, Creso Pharma has focused on the development and distribution of finished goods to the medicinal health and wellness marketplace through an established range of multi-market channels.

Together, Creso Pharma and PharmaCielo will be well positioned to take advantage of the opportunities to create a seamless, fully integrated medicinal health and wellness entity; from the planting of unique, registered and licensed strains to the sale of finished goods through a range of global channels.

The directors of PharmaCielo and Creso Pharma respectively believe that the Proposed Transaction:

- represents an attractive opportunity to benefit from the complementary assets and synergies of both companies; and
- allows Creso Pharma Shareholders and Creso Pharma Listed Optionholders to benefit from being part of a larger company with a more diversified asset portfolio and strong balance sheet.

The Combined Group will have greater geographic diversification, more financial strength, better access to capital for future growth and an experienced management team.

Following implementation of the Proposed Transaction:

- the Combined Group will increase its global footprint with a presence spanning North and Latin America, Switzerland, Europe, the Middle East, Australia and New Zealand; and
- the Combined Group will be managed by a capable and experienced board of directors, as well as an executive management team that has significant development and operating experience in international markets.

Dr Miri Halperin Wernli, the co-founder and CEO of Creso Pharma, will join the Board of the Combined Group, as the President. Mr. David Attard, the current CEO and President of PharmaCielo will continue in his role as CEO for the Combined Group.

Financial strength is a key aspect of PharmaCielo. At 31 December 2018, we reported approximately USD\$33.6 million in cash and short-term deposits, USD\$32.1 million in net working capital and no debt. This cash and net working capital will provide the important funding to support the principal focus of the Combined Group which is cultivating, processing, and supplying all-natural medicinal-grade cannabis oil extracts.

Details of the Proposed Transaction, including a profile of the Combined Group and PharmaCielo's intentions for the Combined Group, are contained in this Scheme Booklet, which I encourage you to read in full. The Independent Expert has concluded that the Share Scheme is not fair but reasonable and therefore is in the best interest of Creso Pharma Shareholders and the Option Scheme is fair and reasonable and therefore is in the best interest of Creso Pharma Listed Optionholders.¹²

On behalf of the PharmaCielo Board, I encourage Creso Pharma Shareholders to vote in favour of the Share Scheme and Creso Pharma Listed Optionholders to vote in favour of the Option Scheme.

As Chairman of the PharmaCielo Board, I am excited by the opportunities that lie ahead for the combined Creso Pharma and PharmaCielo businesses and believe the timing of the Proposed Transaction coincides with a positive long-term outlook for medicinal cannabis. I look forward to welcoming you as a new shareholder of PharmaCielo as we create a growth orientated medicinal cannabis company.



Simon Langelier
Chair
PharmaCielo Ltd

FOOTNOTES:

12 Refer to Section 7.1(h) for further circumstances surrounding the Independent Expert's opinion and the Independent Expert's Report.

5. DETAILS OF THE SCHEME MEETINGS AND HOW TO VOTE

5.1 Next Steps

You should read and carefully consider the information included in this Scheme Booklet in full to help you make an informed decision as to how to vote in relation to the Schemes.

For further information in relation to the Schemes, please call the Creso Pharma Registry on 1300 636 752 (within Australia) or +61 2 8318 7933 (outside Australia). If you have any doubt as to what action you should take, please contact your financial, legal, taxation or other professional adviser immediately.

5.2 Voting at the Scheme Meetings

As a Creso Pharma Listed Securityholder, it is your right to vote on whether the Schemes should be approved, and therefore, whether the Schemes should proceed. You should note that the Schemes are subject to the Scheme Conditions. Even if Creso Pharma Listed Securityholders approve the Schemes, it is possible that the Schemes will not be implemented if the Scheme Conditions have not been satisfied or (if applicable) waived.

The Share Scheme Meeting will be held at 10:00am (WST) and the Option Scheme Meeting will be held at the later of 10:30am (WST) and the conclusion of the Share Scheme Meeting, on Monday, 11 November 2019 at the offices of Steinepreis Paganin at Level 4, 16 Milligan Street, Perth, Western Australia.

For the Share Scheme to be implemented, it is necessary that the Requisite Majority of Creso Pharma Shareholders vote in favour of the resolution to approve the Share Scheme at the Share Scheme Meeting.

For the Option Scheme to be implemented, it is necessary that the Requisite Majority of Creso Pharma Optionholders vote in favour of the resolution to approve the Option Scheme at the Option Scheme Meeting.

Creso Pharma Listed Securityholders may vote at the Scheme Meetings either in person, or by proxy, attorney or, in the case of a corporation, by corporate representative.

Details on how to vote are set out briefly in the table below. Further details are set out in the Notice of Share Scheme Meeting (attached at Annexure G) and the Notice of Option Scheme Meeting (attached at Annexure H).

Creso Pharma confirms that it will appoint an independent lawyer to act as chairman at each of the Scheme Meetings.

Means	Voting Instructions
In Person	<p>If you wish to vote in person, you must attend the relevant Scheme Meeting.</p> <p>All persons entitled to vote must register their attendance by disclosing their name at the point of entry to the relevant Scheme Meeting.</p>
By Proxy	<p>To appoint a proxy to vote on your behalf in respect of the Schemes, you can complete the enclosed personalised Proxy Form in accordance with the instructions and return it to Automic in the envelope enclosed. Alternatively, you can lodge your proxy online in accordance with the instructions on the Proxy Form.</p> <p>If your proxy is signed by an attorney, please also enclose the authority under which the proxy is signed (or a certified copy of the authority).</p> <p>Proxy Forms and powers of attorney must be received by the Creso Pharma Registry by no later than 10:00am (WST) on Saturday, 9 November 2019 for the Share Scheme Meeting and 10:30am (WST) on Saturday, 9 November 2019 for the Option Scheme Meeting (or if the Scheme Meetings are adjourned, at least 48 hours before the resumption of the relevant Scheme Meeting). Proxy Forms and powers of attorney received after this time will not be valid. Accordingly, you should ensure that it is posted, delivered or lodged online in sufficient time for it to be received by Automic by that time. As this is not a business day, if you intend to mail your proxy form or return your proxy form in person, it must be received by the Creso Pharma Registry by close of business on Friday, 8 November 2019.</p> <p>If you are entitled to cast two or more votes, you may appoint two proxies. You must specify the names and the proportion or the number of votes that each proxy is appointed to exercise. If numbers or proportions of votes are not specified, each proxy may exercise half of the votes you are entitled to cast. Fractions of votes will be disregarded.</p> <p>If you hold Creso Pharma Listed Securities jointly with one or more other persons, in order for your proxy appointment to be valid, each of you must sign the Proxy Form.</p> <p>Appointing a proxy will not preclude you from attending the Scheme Meetings in person and voting at the Scheme Meetings instead of your proxy. In this scenario the appointment of your proxy is not revoked but your proxy must not speak or vote at the meeting while you are so present.</p>
By Power of Attorney	<p>Your vote may be cast by a duly authorised attorney. An attorney need not be a Creso Pharma Listed Securityholder.</p> <p>If you intend to appoint an attorney to attend the Share Scheme Meeting and vote on your behalf, you may do so by providing a power of attorney duly executed by you in the presence of at least one witness, and specifying your name, the company (that is, Creso Pharma Limited), and the attorney, and also specify the meeting at which the appointment may be used. The appointment may be a standing one.</p> <p>The original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by Automic by no later than 10:00am (WST) on Saturday, 9 November 2019 in respect of the Share Scheme Meeting and 10:30am (WST) on Saturday, 9 November 2019 in respect of the Option Scheme Meeting. As this is not a business day, if you intend to mail the relevant documents or deliver the relevant document in person, you should ensure that you allow sufficient time for it to be received by the Creso Pharma Registry by close of business (WST) on Friday, 8 November 2019.</p> <p>The power of attorney must be delivered by posting it in the envelope provided (for use in Australia) in accordance with the instructions set out the proxy form.</p> <p>Alternatively, the attorney may bring a certified copy of the power of attorney to the relevant Scheme Meeting.</p> <p>Your appointment of an attorney does not preclude you from attending in person and voting at the relevant Scheme Meeting. The appointment of your attorney is not revoked merely by your attendance and taking part in the relevant Scheme Meeting, but if you vote on a resolution, the attorney is not entitled to vote, and must not vote, as your attorney on that resolution.</p>
By Corporate Representative	<p>A Creso Pharma Listed Securityholder that is a body corporate may appoint an individual to act as its representative at the relevant Scheme Meeting.</p> <p>To vote by corporate representative at a Scheme Meeting, a corporate Creso Pharma Shareholder should obtain an "Appointment of Corporate Representative" form from Automic and complete that form in accordance with its instructions.</p> <p>Corporate representative appointment forms should be provided to Automic by no later than 10:00am (WST) on Saturday, 9 November 2019, or alternatively brought to the relevant Scheme Meeting. As this is not a business day, if you intend to mail your form, you should ensure that you allow sufficient time for it to be received by the Creso Pharma Registry by close of business (WST) on Friday, 8 November 2019.</p>
Further Information	<p>For further information, you can call Automic on 1300 636 752 (within Australia) or +61 2 8318 7933 (outside Australia).</p>

6. FREQUENTLY ASKED QUESTIONS

This Section provides summary answers to some basic questions that Creso Pharma Listed Securityholders may have in relation to the Schemes. This Section should be read in conjunction with the whole Scheme Booklet.

Questions about the Proposed Transaction	
What is the Proposed Transaction?	<p>The Proposed Transaction is the acquisition of Creso Pharma by PharmaCielo, to create the Combined Group in which you are being offered the opportunity to participate in and potentially benefit from. The Proposed Transaction is to be implemented principally by a scheme of arrangement between Creso Pharma and its shareholders.</p> <p>A scheme of arrangement is a statutory procedure that is commonly used to enable one company to acquire or merge with another.</p> <p>Under the Share Scheme, Creso Pharma Shareholders are being asked to vote on a proposal that PharmaCielo acquire all the Creso Pharma Shares in exchange for the Share Scheme Consideration.</p> <p>The Option Scheme is a separate, concurrent scheme under which Creso Pharma Listed Optionholders are being asked to vote on a proposal that all Creso Pharma Listed Options be cancelled in exchange for the Option Scheme Consideration.</p> <p>The Share Scheme Consideration and the Option Scheme Consideration each comprise New PharmaCielo Shares which will trade on the TSX-V. Ineligible Foreign Securityholders and Electing Small Securityholders will receive Cash Proceeds instead of New PharmaCielo Shares as set out in Section 9.3.</p> <p>The ratio of New PharmaCielo Shares to be issued as Share Scheme Consideration and the Option Scheme Consideration has been contractually agreed between PharmaCielo and Creso Pharma under the Scheme Implementation Agreement. See further the answers to the questions below, “What will I receive if the Share Scheme is implemented?”, “What will I receive if the Option Scheme is implemented?”, “What if I am an Ineligible Foreign Securityholder?” and “What if I am a Small Securityholder?”</p> <p>If the Share Scheme is approved but the Option Scheme is not approved, the Share Scheme will still proceed and PharmaCielo will acquire all of the Creso Pharma Shares.</p>
What are the effects of the Schemes?	<p>If the Share Scheme is approved and implemented:</p> <ul style="list-style-type: none"> all Creso Pharma Shares held by Scheme Shareholders will be transferred to PharmaCielo without any further action required by any Scheme Shareholder; Creso Pharma will enter the name of PharmaCielo into the Creso Pharma Register in respect of the Creso Pharma Shares; Creso Pharma will then become a wholly owned subsidiary of PharmaCielo, and will be delisted from the ASX; the current Creso Pharma Board (other than Dr Halperin Wernli) will resign; all Scheme Shareholders (other than Ineligible Foreign Shareholders and Electing Small Shareholders) will receive the Share Scheme Consideration irrespective of whether they voted for or against the Share Scheme; all existing Creso Pharma Unlisted Options (other than the Creso Pharma Unlisted Options issued under tranche CPHOPT3) will be cancelled pursuant to the Option Cancellation Deeds in exchange for the issue of PharmaCielo Shares in accordance with an agreed ratio, as set out in Section 8.11; Ineligible Foreign Shareholders and Electing Small Shareholders will receive Cash Proceeds instead of New PharmaCielo Shares as set out in Section 9.3 irrespective of whether they voted for or against the Share Scheme; EverBlu Capital will receive 458,256 PharmaCielo Shares, as set out in Section 18.8(b); Dr Halperin Wernli will be appointed to the Combined Group Board. In connection with her appointment as the President of the Combined Group she will receive 170,500 PharmaCielo Shares and will be issued 500,000 PharmaCielo Options pursuant to her employment agreement with PharmaCielo as set out in Section 18.8(a); and Cormark, the financial adviser to PharmaCielo, will receive a success fee by way of a cash payment and the issuance of C\$1,500,000 worth of PharmaCielo Shares. The number of PharmaCielo Shares to be issued to Cormark shall be calculated as C\$1,500,000 divided by the lesser of: (i) the VWAP of PharmaCielo Shares on the TSX-V for the twenty trading day period ending immediately prior to the closing of the Proposed Transaction; and (ii) the issue price per PharmaCielo Share pursuant to the terms of any equity financing that is announced prior to the closing of the Proposed Transaction. <p>If the Option Scheme is approved and implemented:</p> <ul style="list-style-type: none"> all Creso Pharma Listed Options held by Scheme Optionholders will be cancelled, without the need for any further act by any Scheme Optionholder; all Scheme Optionholders (other than Ineligible Foreign Optionholders and Electing Small Optionholders) will receive the Option Scheme Consideration irrespective of whether they voted for or against the Option Scheme; and Ineligible Foreign Optionholders and Electing Small Optionholders will receive Cash Proceeds instead of New PharmaCielo Shares as set out in Section 9.3 irrespective of whether they voted for or against the Option Scheme.
Who is PharmaCielo?	<p>PharmaCielo is a global company headquartered in Toronto, Canada and publicly trades on the TSX-V. PharmaCielo’s wholly owned operating subsidiary, PharmaCielo Colombia Holdings S.A.S. (PharmaCielo Colombia) is headquartered Rionegro, Colombia. PharmaCielo Colombia is a fully licensed and permitted cultivator, producer, and distributor of THC and CBD medical cannabis in Colombia for use in Colombia, international export and research purposes.</p> <p>Further information on PharmaCielo is set out in Section 11.</p>
Questions about the Schemes	
Who is entitled to participate in the Share Scheme?	<p>Creso Pharma Shareholders on the Creso Pharma Register on the Share Scheme Record Date are entitled to participate in the Share Scheme. If the Share Scheme is approved and implemented, Scheme Shareholders (other than Ineligible Foreign Shareholders and Electing Small Shareholders) will receive New PharmaCielo Shares as their Share Scheme Consideration.</p> <p>Ineligible Foreign Shareholders and Electing Small Shareholders will not receive New PharmaCielo Shares but will instead receive Cash Proceeds as set out in Section 9.3.</p>
Who is entitled to participate in the Option Scheme?	<p>Creso Pharma Listed Optionholders on the Creso Pharma Register on the Option Scheme Record Date are entitled to participate in the Option Scheme. If the Option Scheme is approved and implemented, Scheme Optionholders (other than Ineligible Foreign Optionholders and Electing Small Optionholders) will receive New PharmaCielo Shares as their Option Scheme Consideration.</p> <p>Ineligible Foreign Optionholders and Electing Small Optionholders will not receive New PharmaCielo Shares but will instead receive Cash Proceeds as set out in Section 9.3.</p>

Questions about the Schemes

<p>What does the Independent Expert say about the Schemes?</p>	<p>The Independent Expert has concluded that the Share Scheme is not fair but reasonable to Creso Pharma Shareholders, and therefore is in the best interest of Creso Pharma Shareholders.¹³</p> <p>The Independent Expert has concluded that the Option Scheme is fair and reasonable to Creso Pharma Listed Optionholders, and therefore is in the best interest of Creso Pharma Listed Optionholders.</p> <p>The Independent Expert's Report is included in Annexure A to this Scheme Booklet and you are encouraged to read it in full.</p>
<p>What do the Creso Pharma Directors recommend?</p>	<p>The Creso Pharma Directors unanimously recommend that Creso Pharma Listed Securityholders vote in favour of the Schemes, in the absence of a Superior Proposal.¹⁴</p> <p>Subject to that same qualification, each Creso Pharma Director intends to vote all Creso Pharma Listed Securities held or controlled by them, or on their behalf, in favour of the Schemes.</p>
<p>What happens to Creso Pharma Unlisted Securities?</p>	<p>If the Share Scheme is approved and implemented, Creso Pharma Unlisted Securities will be treated as follows:</p> <ul style="list-style-type: none"> • all existing Creso Pharma Unlisted Options (other than the Creso Pharma Unlisted Options issued under tranche CPHOPT3) will be cancelled on the Implementation Date pursuant to the Option Cancellation Deeds in exchange for the issue of PharmaCielo Shares in accordance with the ratio set out in Section 8.11; • all existing Creso Pharma Performance Rights will vest and, subject to agreement with existing Creso Pharma Performance Right Holders, be exercised prior to the Share Scheme Record Date so that the Creso Pharma Shares issued on exercise will be exchanged for New PharmaCielo Shares under the Share Scheme; • all existing Creso Pharma Performance Shares will automatically convert to Creso Pharma Shares prior to the Share Scheme Record Date so that the Creso Pharma Shares issued on conversion will be exchanged for New PharmaCielo Shares under the Share Scheme; and • all existing Creso Pharma Exchangeable Shareholders will: <ul style="list-style-type: none"> o in relation to their Milestone 1 Exchangeable Shares, be issued Creso Pharma Shares, with the exchange occurring prior to the Share Scheme Record Date so that the Creso Pharma Shares issued will be exchanged for New PharmaCielo Shares under the Share Scheme; and o in relation to their Milestone 2 Exchangeable Shares, be dealt with in the manner agreed between the Creso Pharma Exchangeable Share Holders and PharmaCielo with the overriding objective of ensuring that, subject to Milestone 2 being achieved, the Creso Pharma Exchangeable Share Holders will receive PharmaCielo Shares instead of Creso Pharma Shares. As at the date of this Scheme Booklet, it is anticipated that an additional 510,516 PharmaCielo Shares will be issued to the Creso Pharma Exchangeable Shareholders, noting that this remains subject to agreement between PharmaCielo, Creso Pharma and the Creso Pharma Exchangeable Share Holders. <p>Further information is set out in Sections 8.11 to 8.14</p>
<p>What are the Scheme Conditions?</p>	<p>Implementation of the Schemes is subject to the Scheme Conditions being satisfied or waived.</p> <p>The Share Scheme will only be implemented if, amongst other things:</p> <ul style="list-style-type: none"> • the Requisite Majority of Creso Pharma Shareholders approve the Share Scheme; • the Court approves the Share Scheme; and • the conditions to the Share Scheme are satisfied or waived. <p>The Option Scheme will only be implemented if, amongst other things:</p> <ul style="list-style-type: none"> • the Requisite Majority of Creso Pharma Listed Optionholders approve the Option Scheme; • the Court approves the Option Scheme; and • the conditions to the Option Scheme (which include the Share Scheme becoming Effective), are satisfied or waived. <p>Further details in respect of the Scheme Conditions are set out in Sections 8.4 and 8.5.</p> <p>At the date of this Scheme Booklet the Creso Pharma Directors are not aware of any Scheme Condition that is likely to prevent the Schemes becoming Effective and the Proposed Transaction progressing.</p>
<p>What happens if one or more of the conditions to the Schemes are not satisfied or waived?</p>	<p>The Schemes will not be implemented, and Creso Pharma and PharmaCielo will continue as separate entities, with each entity bearing its own costs incurred as a result of the Proposed Transaction.</p> <p>Depending on the reasons why the Share Scheme does not proceed, either Creso Pharma or PharmaCielo may be liable to pay a break fee of \$1,200,000 (exclusive of GST) to the other party. The Creso Pharma Break Fee is not payable if the Share Scheme does not proceed merely because Creso Pharma Shareholders do not approve the Share Scheme by the Requisite Majority. Further information in relation to the Creso Pharma Break Fee and the PharmaCielo Break Fee is set out in Sections 17.3 and 17.4.</p> <p>Creso Pharma has also agreed to pay PharmaCielo a reimbursement fee of \$450,000 (exclusive of GST) if the resolution to approve the Share Scheme is submitted to the Share Scheme Meeting, the Share Scheme Meeting is held but the resolution is not approved by the Requisite Majority. Further information in relation to the Creso Pharma Reimbursement Fee is set out in Section 17.3</p>

Questions about the Schemes

What happens if both Schemes do not proceed?	<p>If both Schemes do not proceed:</p> <ul style="list-style-type: none"> • you will not receive the Scheme Consideration; • Creso Pharma will remain listed on the ASX; • you will keep your Creso Pharma Securities and continue to participate in the potential benefits of, and continue to be exposed to the risks associated with, an investment in Creso Pharma; • the trading price of Creso Pharma Listed Securities may fall in the absence of a Superior Proposal; • Creso Pharma will be required to raise additional capital in the short term which, to the extent it is equity capital, may have a dilutionary impact on the existing Creso Pharma Securityholders; • Creso Pharma will be required to repay the PharmaCielo Loan; and • depending on the reasons why the Schemes do not proceed, either Creso Pharma or PharmaCielo may be liable to pay a break fee of \$1,200,000 (exclusive of GST) to the other party; and • Creso Pharma will be liable to pay a reimbursement fee of \$450,000 (exclusive of GST) if the resolution to approve the Share Scheme is submitted to the Share Scheme Meeting, the Share Scheme Meeting is held but the resolution is not approved by the Requisite Majority.
What happens if either the Share Scheme or Option Scheme is not approved?	<p>If the Share Scheme is not approved, regardless of whether the Option Scheme is approved, the Proposed Transaction will not proceed and Creso Pharma will continue to operate as a stand-alone entity, listed on the ASX. In addition, as stated above, Creso Pharma will be liable to pay a reimbursement fee of \$450,000 (exclusive of GST) if the resolution to approve the Share Scheme is submitted to the Share Scheme Meeting, the Share Scheme Meeting is held but the resolution is not approved by the Requisite Majority.</p> <p>If the Share Scheme is approved but the Option Scheme is not approved, the Share Scheme will still proceed and PharmaCielo will acquire all of the Creso Pharma Shares, but Creso Pharma Listed Optionholders will continue to hold their Creso Pharma Listed Options. In those circumstances, Creso Pharma would be de-listed from ASX, meaning there is unlikely to be an active market for any Creso Pharma Shares issued to Creso Pharma Listed Optionholders on any exercise of their Creso Pharma Listed Options.</p> <p>If this occurs, it is the intention of PharmaCielo to seek to compulsorily acquire the Creso Pharma Listed Options under Part 6A.2 of the Corporations Act, but PharmaCielo reserves the right to change its intention having regard to the prevailing circumstances.</p>
Can Creso Pharma or PharmaCielo terminate the Proposed Transaction?	<p>The Scheme Implementation Agreement provides for situations where either Creso Pharma or PharmaCielo have the right to terminate it and the Proposed Transaction.</p> <p>These include the Share Scheme not being approved by the Requisite Majority of Creso Pharma Shareholders, the Court refusing to approve the Share Scheme and the remainder of the conditions to the Share Scheme not being satisfied or waived by the relevant time.</p> <p>Further information is set out in Section 17.5.</p>
How will the Schemes affect you?	
What will I receive if the Share Scheme is implemented?	<p>Scheme Shareholders (other than Ineligible Foreign Shareholders and Electing Small Shareholders) will receive 0.0775 New PharmaCielo Shares per Scheme Share held under the Share Scheme.</p> <p>If the Share Scheme becomes Effective, New PharmaCielo Shares will be issued on the Implementation Date, which is expected to be Friday, 22 November 2019.</p>
What will I receive if the Option Scheme is implemented?	<p>Scheme Optionholders (other than Ineligible Foreign Optionholders and Electing Small Optionholders) will receive 0.0185 New PharmaCielo Shares for each Scheme Option held under the Option Scheme.</p> <p>If the Option Scheme becomes Effective, the Option Scheme Consideration will also be issued on the Implementation Date.</p>
What if I am an Ineligible Foreign Securityholder?	<p>New PharmaCielo Shares will not be issued to Ineligible Foreign Securityholders under the Schemes. New PharmaCielo Shares that would otherwise have been issued to Ineligible Foreign Securityholders will instead be issued to the Sale Agent who will then sell these New PharmaCielo Shares on TSX-V, and PharmaCielo will pay the Ineligible Foreign Securityholders their proportion of the Cash Proceeds received from that sale.</p> <p>Ineligible Foreign Securityholders will receive Cash Proceeds as soon as reasonably practicable after the Implementation Date.</p> <p>Further information is set out in Section 9.3.</p>
What if I am a Small Securityholder?	<p>Creso Pharma Listed Securityholders who are eligible to receive less than 62 New PharmaCielo Shares under the Schemes (being Creso Pharma Shareholders who hold less than 794 Creso Pharma Shares and Creso Pharma Listed Optionholders who hold less than 3,325 Creso Pharma Listed Options) on the Share Scheme Record Date or the Option Scheme Record Date (as applicable) may elect, by completing an Election Form, to have those New PharmaCielo Shares to which it is entitled allotted to the Sale Agent and receive Cash Proceeds instead.</p> <p>Election Forms will be sent to those Creso Pharma Listed Securityholders who hold less than 794 Creso Pharma Shares or less than 3,325 Creso Pharma Listed Options at the time for determining which Creso Pharma Listed Securityholders are entitled to be sent a copy of the Scheme Booklet. Small Securityholders may also obtain an Election Form from Automic.</p> <p>Electing Small Securityholders will receive Cash Proceeds as soon as reasonably practicable after the Implementation Date.</p> <p>Further information is set out in Section 9.3.</p>
Will I have to pay brokerage fees or stamp duty?	<p>Creso Pharma Listed Securityholders will not be required to pay brokerage or stamp duty on the transfer or cancellation of their Creso Pharma Listed Securities.</p> <p>Brokerage fees, stamp duty and other selling costs, taxes and charges will however be incurred by Ineligible Foreign Securityholders and Electing Small Securityholders whose attributable New PharmaCielo Shares will be issued to and sold by the Sale Agent in accordance with the procedure set out in Section 9.3.</p>

How will the Schemes affect you?

Can I sell my Creso Pharma Listed Securities now?	Creso Pharma Listed Securityholders may sell their Creso Pharma Listed Securities at the prevailing market price, on market at any time before the close of trading on ASX on the Effective Date, which is expected to be Wednesday, 13 November 2019. If Creso Pharma Listed Securityholders sell their Creso Pharma Listed Securities before the Effective Date of the Share Scheme or the Option Scheme (as applicable) they will not receive New PharmaCielo Shares.
Will the Schemes be taxable transactions for Australian and Canadian tax purposes?	A description of the general Australian and Canadian tax consequences of the Schemes for certain Creso Pharma Listed Securityholders is set out in Section 15. You should consult with your own tax adviser regarding the consequences of the Schemes, in light of current tax laws and your particular personal circumstances.
Where will the New PharmaCielo Shares be quoted for trading?	If the Schemes are implemented, the New PharmaCielo Shares will be quoted on the TSX-V.
When and where will I be able to trade my New PharmaCielo Shares?	New PharmaCielo Shares can be traded on the TSX-V following the listing of the New PharmaCielo Shares on the TSX-V. New PharmaCielo Shares will be issued immediately after the Implementation Date and will be received by Creso Pharma Listed Securityholders once delivered by Computershare Investor Services Inc., PharmaCielo's transfer agent.
How can I trade my New PharmaCielo Shares?	PharmaCielo is listed on the TSX-V but is not listed on the ASX. If you wish to sell the New PharmaCielo Shares you receive under the Schemes or purchase additional PharmaCielo Shares, you will need to instruct a stockbroker who is able to execute trades on the TSX-V. Not all Australian brokers are able to trade securities on TSX-V. PharmaCielo Shares are quoted and traded on TSX-V in Canadian dollars. The Australian dollar value of PharmaCielo Shares will depend on the prevailing A\$:C\$ exchange rate from time to time.

Questions about the Scheme Meetings

When and where will the Scheme Meetings be held?	The Share Scheme Meeting will be held at 10:00am (WST) and the Option Scheme Meeting will be held at the later of 10:30am (WST) and the conclusion of the Share Scheme Meeting, on Monday, 11 November 2019 at the offices of Steinepreis Paganin at Level 4, 16 Milligan Street, Perth, Western Australia. Refer to the Notice of Share Scheme Meeting set out in Annexure G and the Notice of Option Scheme Meeting set out in Annexure H for further information.
Who is entitled to vote at the Scheme Meetings?	Creso Pharma Shareholders who are recorded on the Creso Pharma Register as at 12:00pm (WST) on Saturday, 9 November 2019, are entitled to vote at the Share Scheme Meeting. Creso Pharma Listed Optionholders who are recorded on the Creso Pharma Register as at 12:00pm (WST) on Saturday, 9 November 2019, are entitled to vote at the Option Scheme Meeting. Refer to Section 5 for further information.
Is voting compulsory?	Voting is not compulsory. However, your vote is important in deciding whether the Schemes are approved. Creso Pharma Listed Securityholders are strongly encouraged to vote. You should be aware that even if you do not vote, or vote against the Schemes, the Schemes may still be implemented if they are approved by the Requisite Majorities of Creso Pharma Listed Securityholders and the Court. If this occurs, your Creso Pharma Shares will be transferred to PharmaCielo, your Creso Pharma Listed Options will be cancelled and you will receive the Scheme Consideration (unless you are an Ineligible Foreign Securityholder or an Electing Small Securityholder, in which case you will receive the Cash Proceeds from that sale of your New PharmaCielo Shares that you would otherwise be entitled to receive) even though you did not vote on, or voted against, the Schemes. Creso Pharma Listed Securityholders who cannot attend the Scheme Meeting may complete and return the personalised proxy form (enclosed with this Scheme Booklet) or alternatively appoint a representative with a power of attorney to attend the Scheme Meeting. Refer to Section 5 for further information.
What voting majority is required to approve the Schemes?	For the Share Scheme to be approved by Creso Pharma Shareholders, votes in favour of the Share Scheme must be received from: <ul style="list-style-type: none"> a majority in number (more than 50%) of Creso Pharma Shareholders present and voting at the Share Scheme Meeting (in person, by proxy, by attorney or, in the case of corporate Creso Pharma Shareholders, by corporate representative); and Creso Pharma Shareholders who together hold at least 75% of the total number of votes cast at the Share Scheme Meeting. Likewise, the Option Scheme must be approved at the Option Scheme Meeting by a majority in number (more than 50%) of Creso Pharma Listed Optionholders present and voting at the meeting (either in person or by proxy, attorney or representative) and by Creso Pharma Listed Optionholders whose Creso Pharma Listed Options amount in aggregate to at least 75% (by value) of the total amount of debts and claims of all Creso Pharma Listed Optionholder present and voting at the Option Scheme Meeting. For this purpose, the amount (or value) of each Creso Pharma Listed Optionholders' debt and claim will be the same as the Option Scheme Consideration payable for the cancellation of the Creso Pharma Listed Options held by that Creso Pharma Listed Optionholder under the Option Scheme (expressed in cents).

Information on the Combined Group

How will the Combined Group be managed?	It is intended that Creso Pharma's existing business units will be integrated into PharmaCielo's corporate structure. Following implementation of the Schemes, PharmaCielo will review the scope and breadth of the Combined Group, to align with its strategic objectives. Subject to that review, it is intended that the Combined Group will continue to operate Creso Pharma's businesses, including its Canadian and Swiss operations. Refer to Sections 12 and 13 for further details.
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Information on the Combined Group

What will be the strategy of the Combined Group?	<p>Following implementation of the Schemes, PharmaCielo will export high-quality THC and CBD oil, cultivated and extracted from their low-cost operations based in Medellin, Colombia to supply Creso Pharma's proprietary, nutraceutical, therapeutic, and animal health products that are currently sold in five countries.</p> <p>The Combined Group will benefit from high-quality, low-cost product inputs and expanded research and product development team, a broad product portfolio and an expanding distribution partnership network.</p> <p>Refer to Sections 12 and 13 for further details.</p>
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Other Information

What other information is available?	<p>For further information, contact the Creso Pharma Registry on 1300 636 752 (within Australia) or +61 2 8318 7933 (outside Australia).</p> <p>If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.</p>
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ENDNOTES:

- 13 Refer to Section 7.1(h) for further circumstances surrounding the Independent Expert's opinion and the Independent Expert's Report.
- 14 In respect of the recommendations of Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel, Creso Pharma Listed Securityholders should have regard to the fact that, if the Share Scheme is implemented, Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel will receive various personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page vi of this Scheme Booklet.

7. KEY CONSIDERATIONS RELEVANT TO YOUR VOTE

7.1 Key reasons to vote in favour of the Schemes

This Section summarises the key reasons why the Creso Pharma Directors recommend that Creso Pharma Listed Securityholders vote in favour of the Schemes.

This Section should be read in conjunction with Section 14 which describes the risks associated with the Combined Group, the risks associated with the Schemes and the implications if the Schemes do not proceed.

(a) The Creso Pharma Directors unanimously recommend that Creso Pharma Shareholders vote in favour of the Schemes¹⁵

The Creso Pharma Directors unanimously recommend that, in the absence of a Superior Proposal, Creso Pharma Listed Securityholders vote in favour of the Schemes at the Scheme Meetings. Subject to that same qualification, each Creso Pharma Director intends to vote all Creso Pharma Listed Securities held or controlled by them, or on their behalf, in favour of the Schemes.

The Creso Pharma Directors believe that the reasons for Creso Pharma Listed Securityholders to vote in favour of the Schemes outweigh the potential disadvantages and reasons to vote against the Schemes. In making their voting recommendation and determining how to vote on the Schemes in respect of their own Creso Pharma Listed Securities, the Creso Pharma Directors have considered:

- the advantages and disadvantages of the Schemes, as summarised in this Section;
- the implications of the Schemes not being approved, as summarised in Section 7.3;
- the opinion of the Independent Expert that the Share Scheme is not fair but reasonable and therefore is in the best interest of Creso Pharma Shareholders and the Option Scheme is fair and reasonable and therefore is in the best interest of Creso Pharma Listed Optionholders¹⁶; and
- the alternative arrangements to the Schemes that might have otherwise been available to Creso Pharma.

The Creso Pharma Directors consider that the reasons to vote in favour of the Schemes outweigh the potential disadvantages and reasons to vote against the Schemes.

The decision of the Creso Pharma Directors to unanimously recommend the Proposed Transaction follows their considered assessment of strategic options for Creso Pharma over the past 12 months in regard to various corporate, asset and financial options available to Creso Pharma to enhance value for Creso Pharma Listed Securityholders. The Creso Pharma Directors unanimously consider that the Schemes will deliver greater benefits to Creso Pharma Securityholders than any other alternative currently available, including Creso Pharma continuing as a standalone entity.

(b) The implied value of the Share Scheme Consideration represents an attractive premium over the trading prices of Creso Pharma Shares prior to the Announcement Date

The Share Scheme Consideration represents significant value for Creso Pharma Shareholders above trading levels before the Announcement Date. In receiving 0.0775 New PharmaCielo Shares per Scheme Share held, Scheme Shareholders (other than Ineligible Foreign Shareholders and Electing Small Shareholders) will receive an implied value of \$0.63 per Creso Pharma Share, based on the three-day VWAP of PharmaCielo Shares ending on 4 June 2019.¹⁷ This implied value of Share Scheme Consideration as at that date represents approximately a:

- 50.0% premium to the closing price of Creso Pharma Shares on the day prior to the Announcement Date (\$0.42 per Creso Pharma Share);
- 37.3% premium to the 1-month VWAP of Creso Pharma Shares up to and including the day prior to the Announcement Date;
- 49.8% premium to the 3-month VWAP of Creso Pharma Shares up to and including the day prior to the Announcement Date;
- 46.0% premium to the 6-month VWAP of Creso Pharma Shares up to and including the day prior to the Announcement Date; and
- 29.1% premium to the 12-month VWAP of Creso Pharma Shares up to and including the day prior to the Announcement Date.

Creso Pharma Listed Securityholders should note that the implied value of the Scheme Consideration will change from time to time based on movements in PharmaCielo's share price and in the A\$:C\$ exchange rate. The table below sets out the implied value of Creso Pharma Shares based on potential movements in PharmaCielo's Share price (assuming an exchange rate of C\$0.8890/\$A1.00).¹⁸

	PCLO Share Price		Implied Value of Scheme Consideration	
	(CAD)	(AUD)		(AUD)
	\$9.00	\$10.12		\$0.78
	\$8.50	\$9.56		\$0.74
	\$8.00	\$9.00		\$0.70
	\$7.50	\$8.44		\$0.65
	\$7.00	\$7.87		\$0.61
	\$6.50	\$7.31		\$0.57
	\$6.00	\$6.75		\$0.52
	\$5.50	\$6.19		\$0.48
	\$5.00	\$5.62		\$0.44
	\$4.50	\$5.06		\$0.39

Between the Announcement Date and the Last Practicable Date, PharmaCielo Shares have traded between C\$7.50 on 6 June 2019 and C\$4.14 on 30 July 2019. Accordingly, the implied value of the Scheme Consideration has been as high as A\$0.60 per Creso Pharma Share and as low as A\$0.35 per Creso Pharma Share between the Announcement Date and the Last Practicable Date.¹⁹ Creso Pharma Listed Securityholders should also note that PharmaCielo Shares have only been listed on TSX-V since 18 January 2019, meaning that there is a limited trading history for those shares.

(c) **All-scrip consideration available under the Schemes allows existing Creso Pharma Listed Securityholders to participate in and benefit from the combination of the companies**

If the Schemes are implemented, Scheme Participants (other than Ineligible Foreign Securityholders and Electing Small Securityholders) will receive 0.0775 New PharmaCielo Shares per Scheme Share held under the Share Scheme and 0.0185 New PharmaCielo Shares for each Scheme Option held under the Option Scheme, resulting in an ownership of approximately 12.6%²⁰ of the Combined Group. Having ownership in the Combined Group will enable Creso Pharma Listed Securityholders to retain an interest in a well-capitalised, publicly traded company with a strong growth profile and significant strategic advantages.

The Creso Pharma Directors consider that the combination of the two companies will result in a range of benefits to Creso Pharma Listed Securityholders including:

- (i) **Creation of a vertically integrated supply chain:** The Proposed Transaction will result in the combination of PharmaCielo, a global leader in terms of price, quantity and quality in cannabis cultivation, production and extraction, and Creso Pharma, an early mover in human and animal cannabis-based products, to create a vertically integrated supply chain.
- (ii) **Expansion of commercial networks:** As set out in Section 12.7, the Proposed Transaction will result in the expansion of Creso Pharma's existing commercial networks, with the Combined Group having a commercial network in several countries around the world including Colombia, Mexico, Italy, Australia, New Zealand, Brazil, Switzerland, Germany, France, the Netherlands and the United Kingdom.
- (iii) **Expansion of cultivation and processing facilities:** The Combined Group will hold dual-market licensed cultivation and processing facilities (in Canada and Colombia) allowing the Combined Group to provide high-grade medicinal cannabis materials to multiple global markets.
- (iv) **Experienced Board and management team:** The Combined Group will benefit from the combined experience and expertise of the PharmaCielo Board and management team and Dr Miri Halperin Wernli, Creso Pharma's Co-Founder and CEO. Further information on the experience of the PharmaCielo Board and Dr Halperin Wernli is set out in Sections 11.3 and 10.4 and respectively.

(d) **The Combined Group will have an increased market presence, greater liquidity and enhanced financial strength enabling it to better develop the existing business of Creso Pharma and PharmaCielo**

If the Proposed Transaction proceeds, you will benefit by receiving shares in the Combined Group that are expected to be substantially more liquid than Creso Pharma Shares on a stand-alone basis.

Based on the closing price of Creso Pharma Shares and PharmaCielo Shares on the last trading day prior to the Announcement Date, the Combined Group will have a pro forma market capitalisation of approximately C\$896,599,885.²¹ The exact market capitalisation of the Combined Group following implementation of the Schemes may be higher or lower than this number, dependent on the price at which PharmaCielo Shares trade on TSX-V after the Implementation Date.

The Combined Group's strengthened balance sheet, increased asset suite and increased market capitalisation is expected to raise the profile of the Combined Group in capital markets and widen the range of potential investors for the Combined Group. This in turn is expected to result in increased coverage of the Combined Group's operations by analysts and enhance the liquidity of shares in the Combined Group and may be expected to lead to a positive re-rating of the Combined Group.

(e) **PharmaCielo's stronger balance sheet addresses Creso Pharma's financial uncertainties**

Creso Pharma will require significant short-term investment in order to execute its strategic growth plan. As set out in Sections 7.3 and 14.4, if the Schemes are not implemented, Creso Pharma will need to raise further funds through equity or debt financing, joint ventures or other means. In addition to the funds required to implement its growth plan, Creso Pharma may need funds to pay the Creso Pharma Break Fee or the Creso Pharma Reimbursement Fee (should the payment terms be triggered), repay the PharmaCielo Loan and to fund its ongoing operations. There can be no assurance that additional financing will be available when needed and, if available, the terms of the financing might not be favourable to Creso Pharma. In addition, any equity financing may involve substantial dilution to Creso Pharma Shareholders.

The Creso Pharma Directors consider the Schemes to be the best available alternative to address the Company's financial uncertainties, in light of PharmaCielo's strong balance sheet and the other reasons set out in this Section 7.1.

(f) **PharmaCielo's experienced board and management team**

The PharmaCielo Board benefits from the combined experience and expertise from a variety of top executives from an alumni of global companies and organizations, including Philip Morris International, the World Health Organization, and American Express. The Combined Group's team will be further strengthened with the addition of Dr. Halperin Wernli and her level of expertise in building an international cannabis company.

(g) **The Combined Group will have access to North American capital markets**

If the Proposed Transaction proceeds, you will benefit by receiving shares in the Combined Group which will have access to improved equity capital market opportunities as a result of the listing of PharmaCielo on the TSX-V, including investors that have had more exposure to cannabis companies and may have a more sophisticated understanding of international cannabis company valuations. This will enhance the ability of the Combined Group to obtain equity funding in order to expand its operations.

(h) **The Independent Expert has concluded that, in the absence of a Superior Proposal, the Share Scheme is not fair but reasonable and therefore is in the best interest of Creso Pharma Shareholders and the Option Scheme is fair and reasonable and therefore is in the best interest of Creso Pharma Listed Optionholders**

The Independent Expert has considered the terms of the Schemes and has concluded that, in the absence of a superior proposal, the Share Scheme is not fair but reasonable and therefore is in the best interest of Creso Pharma Shareholders and the Option Scheme is fair and reasonable and therefore is in the best interest of Creso Pharma Listed Optionholders.

On 27 August 2019, the Independent Expert issued a previous version of the independent expert report, which was subsequently withdrawn on 16 September 2019. The Independent Expert's Report has been issued following the assessment of additional information received, and the monitoring of market circumstances, in accordance with our obligations as an Expert under RG 111 paragraphs 102-104. Further details are set out in section 3.4 of the Independent Expert's Report.

The Independent Expert's Report is set out in Annexure A to this Scheme Booklet. The Creso Pharma Directors recommend that Creso Pharma Listed Securityholders read the Independent Expert's Report in full.

(i) **The trading price of Creso Pharma Listed Securities may fall in the near future should the Schemes not be implemented and in the absence of a Superior Proposal**

If the Schemes are not implemented, Creso Pharma Listed Securities will remain quoted on the ASX and will continue to be subject to the specific funding and other risk factors in Section 14.4, to market volatility, including as a result of general stock market movements and to the impact of general economic conditions in the markets in which Creso Pharma operates. As such, if the Schemes are not implemented, it is possible that the price at which Creso Pharma Listed Securities trade will fall.

(j) **No Superior Proposal has emerged as at the date of this Scheme Booklet**

The Creso Pharma Directors' unanimous recommendation²² of the Schemes is qualified as applying in the absence of a Superior Proposal. As at the date of this Scheme Booklet, no Superior Proposal has been received and the Creso Pharma Directors are not aware of any approach that may result in a Superior

Proposal emerging. As part of the exclusivity arrangements described in Section 17.2, Creso Pharma has agreed not to solicit, invite or encourage any Competing Proposal. However, these restrictions do not prevent Creso Pharma from considering an unsolicited Competing Proposal. PharmaCielo has the right (but not the obligation) to match any unsolicited Superior Proposal.

If a Competing Proposal for Creso Pharma emerges prior to the Scheme Meetings, the Creso Pharma Directors will carefully consider the proposal to determine whether it is a Superior Proposal and will inform you of any material developments which may affect the Creso Pharma Directors' view that the Schemes are presently the most favourable proposal for Creso Pharma Listed Securityholders. If a Superior Proposal is announced, Creso Pharma may be obliged to pay a break fee of \$1,200,000 (exclusive of GST) to PharmaCielo.

Please see Sections 17.2 and 17.3 for further discussion about the implications of any Competing Proposal that may emerge.

7.2 Reasons why you may choose to vote against the Schemes

(a) You may disagree with the recommendation by the Independent Expert and the Creso Pharma Directors²³

Notwithstanding the unanimous recommendation by the Creso Pharma Directors, and the conclusion reached by the Independent Expert²⁴ that, in the absence of a superior proposal, the Share Scheme is not fair but reasonable and therefore is in the best interest of Creso Pharma Shareholders and the Option Scheme is fair and reasonable and therefore is in the best interest of Creso Pharma Listed Optionholders, you may believe that the Schemes are not in your best interests or believe that the Scheme Consideration is inadequate.

(b) There are risks associated with the integration of Creso Pharma and PharmaCielo which you may consider exceed the anticipated benefits of the Proposed Transaction

The risk profile and risk of investment for Creso Pharma Listed Securityholders will change and you may consider the risk profile and risk of investment of the Combined Group to be a disadvantage relative to that of Creso Pharma as a standalone entity.

(c) You may consider that there is the potential for a Superior Proposal to emerge for Creso Pharma in the foreseeable future

It is possible that, if Creso Pharma were to continue as a stand-alone listed company, a corporate control proposal for Creso Pharma may materialise in the future which is more favourable for Creso Pharma Listed Securityholders than the Scheme Consideration that PharmaCielo is offering through the Schemes. Creso Pharma Securityholders are being asked to vote on the Schemes and if the Schemes proceed, this would preclude the possibility of Creso Pharma Listed Securityholders obtaining the benefit of any future, potentially more favourable, proposal for their Creso Pharma Shares and Creso Pharma Listed Options that could emerge if Creso Pharma were to remain an independent ASX listed company.

As at the date of this Scheme Booklet, the Creso Pharma Directors have not received or become aware of any Competing Proposal and have no reason to believe that a Competing Proposal will emerge. Further, since the Schemes were announced on 7 June 2019, there has been a significant period of time for a Competing Proposal to emerge and none has emerged. Accordingly, the Schemes are the only corporate control proposals that has been received by the Creso Pharma Board as at the date of this Scheme Booklet.

If a Competing Proposal for Creso Pharma emerges prior to the Scheme Meetings, the Creso Pharma Directors will carefully consider the proposal to determine whether it is a Superior Proposal and will inform you of any material developments which may affect Creso Pharma Directors' view that the Schemes are presently the most favourable proposal for Creso Pharma Listed Securityholders.

Although Creso Pharma has agreed to certain exclusivity provisions that restrict it from soliciting or inviting, or engaging with the proponent of a Competing Proposal, these restrictions do not prevent Creso Pharma from considering an unsolicited Competing Proposal that would reasonably be expected to result in a Superior Proposal. PharmaCielo has the right, but not the obligation, to match any competing proposal. If a Superior Proposal is announced, Creso Pharma may be obliged to pay a break fee of \$1,200,000 (exclusive of GST) to PharmaCielo.

Please see Sections 17.2 and 17.3 for further discussion about the implications of any Competing Proposal that may emerge.

(d) You may consider that the conditions to which the Schemes are subject are unacceptable to you

In addition to Creso Pharma Listed Securityholder approval and Court approval, the implementation of the Schemes is subject to a number of other conditions. If these conditions are not satisfied or waived (as applicable), the Schemes will not be implemented and Creso Pharma Listed Securityholders will not receive the Scheme Consideration.

The conditions to the Schemes are summarised in Section 8.4 and are set out in full in clauses 3.1 and 3.3 of the Scheme Implementation Agreement. You may consider those conditions to be unacceptable. However, you should note that the Schemes will not be implemented unless those conditions are satisfied or waived.

(e) The value of the Scheme Consideration is not fixed and will depend on the price at which the New PharmaCielo Shares trade on the TSX-V following the Implementation Date

The exact value of the Scheme Consideration that would be realised by individual Creso Pharma Listed Securityholders upon implementation of the Schemes is not certain, as it will depend on the price at which the New PharmaCielo Shares trade on TSX-V.

The Share Scheme Consideration is fixed at a ratio of 0.0775 New PharmaCielo Shares for every Scheme Share held and the Option Scheme Consideration is fixed at a ratio of 0.0185 New PharmaCielo Shares for every Scheme Option held.

This exposes Creso Pharma Listed Securityholders to the risk that the effective value they receive for their Creso Pharma Listed Securities may move adversely from the market value of the Scheme Consideration on the date of the Scheme Meetings. Alternatively, if there is an increase in the price of PharmaCielo Shares then the effective value Creso Pharma Listed Securityholders receive for their Creso Pharma Listed Securities may move favourably from the market value of the Scheme Consideration on the date of the Scheme Meetings. In this regard, please refer to the table set out in Section 7.1(b) for further information on the potential range of implied values of the Scheme Consideration.

In addition, the Sale Agent will be issued the New PharmaCielo Shares that would otherwise be issued to Ineligible Foreign Securityholders and Electing Small Securityholders and will sell them on market as soon as reasonably practicable after the Implementation Date (refer to Section 9.3). Although the quantum of these sales is expected to be limited, it is possible that such sales may exert downward pressure on the Combined Group's share price during the applicable period.

(f) You may prefer to maintain an interest in an Australian publicly listed company

Creso Pharma is incorporated in Australia, and the Creso Pharma Listed Securities trade on ASX. PharmaCielo is incorporated in Canada, and the New PharmaCielo Shares will trade on the TSX Venture Exchange.

If the Schemes are implemented and a Creso Pharma Listed Securityholder receives New PharmaCielo Shares under the Schemes, that person's rights as a shareholder will no longer be governed by the laws of Australia, the ASX Listing Rules and the constitution of Creso Pharma. Instead, that person's rights as a holder of those New PharmaCielo Shares will be governed by the laws of Canada, the TSX Venture Exchange rules, the British Columbia Business Corporations Act (Canada) (BCBA) and the articles of incorporation of PharmaCielo.

Although some of the material differences between the corporations and securities laws in Australia and Canada could be viewed as advantageous to Creso Pharma Listed Securityholders, others could be viewed as disadvantageous to Creso Pharma Listed Securityholders.

Further details of the rights attaching to the New PharmaCielo Shares and the differences between applicable company laws, listing rules and other relevant laws, can be found in Annexure I.

(g) You will only be able to trade your New PharmaCielo Shares on TSX-V

The New PharmaCielo Shares will be listed on TSX-V but will not be listed on ASX. Accordingly, if you wish to sell the New PharmaCielo Shares you receive under the Schemes or purchase additional PharmaCielo Shares, you will need to instruct a stockbroker who is able to execute trades on the TSX-V. Not all

Australian brokers are able to trade securities on TSX-V. PharmaCielo Shares are quoted and traded on TSX-V in Canadian dollars. The Australian dollar value of PharmaCielo Shares will depend on the prevailing A\$:C\$ exchange rate from time to time.

(h) **Your percentage interest in the Combined Group will be less than your current interest in Creso Pharma**

Although the Proposed Transaction is expected to provide additional value, given the proportional shareholding of Creso Pharma Listed Securityholders in the Combined Group (approximately 12.6%²⁵), a large portion of this value will flow to PharmaCielo's existing shareholders. However, while a larger share of the benefits will flow to PharmaCielo's existing shareholders, in the absence of the Proposed Transaction, no value from synergies will arise for Creso Pharma Listed Securityholders.

(i) **The tax consequences of the Schemes may not suit your current financial position**

If the Schemes proceed, there may be tax consequences for you as a Creso Pharma Listed Securityholder which may include tax payable by you on any gain on the disposal of your Creso Pharma Listed Securities.

A description of the general Australian and Canadian tax consequences of the Schemes for certain Creso Pharma Listed Securityholders is set out in Section 15.

You should consult with your own tax adviser regarding the consequences of the Schemes, in light of current tax laws and your particular personal circumstances.

7.3 Implications if the Schemes are not implemented

This Section outlines potential implications for Creso Pharma and Creso Pharma Listed Securityholders if the Schemes are not implemented.

(a) **You will not receive the Scheme Consideration**

Each Creso Pharma Listed Securityholder will retain their Creso Pharma Listed Securities and will not receive any New PharmaCielo Shares.

(b) **Creso Pharma will remain listed on ASX and continue to operate as a standalone entity**

If the Schemes are not implemented, Creso Pharma will remain listed on ASX. Creso Pharma Listed Securityholders will therefore continue to be exposed to the risks and benefits of owning Creso Pharma Listed Securities, including many of the risks set out in Section 14.4.

(c) **Creso Pharma Share price may fall**

The Creso Pharma Directors expect that if the Share Scheme is not implemented the Creso Pharma Share price would be likely to trade below its recent trading price, although it is not possible to predict the Creso Pharma Share price movement with any degree of certainty.

(d) **Transaction costs will be incurred**

If the Schemes are not implemented, Creso Pharma's transaction costs of approximately \$1,000,000 will be borne by Creso Pharma.

Depending on the reasons why the Share Scheme does not proceed, either Creso Pharma or PharmaCielo may be liable to pay a break fee of \$1,200,000 (exclusive of GST) to the other party. The Creso Pharma Break Fee is not payable if the Share Scheme does not proceed merely because Creso Pharma Shareholders do not approve the Share Scheme by the Requisite Majority. Further information in relation to the Creso Pharma Break Fee and the PharmaCielo Break Fee is set out in Sections 17.3 and 17.4.

Creso Pharma has also agreed to pay PharmaCielo a reimbursement fee of \$450,000 (exclusive of GST) if the resolution to approve the Share Scheme is submitted to the Share Scheme Meeting, the Share Scheme Meeting is held but the resolution is not approved by the majorities required under section 411(4) (a)(ii) of the Corporations Act. Further information in relation to the Creso Pharma Reimbursement Fee is set out in Section 17.3.

(e) **Future capital requirements to fund development of Creso Pharma's operations**

The Board considers that, if the Schemes are not implemented, the Company will need to raise between A\$8,000,000 and A\$10,000,000 to pay the Creso Pharma Break Fee or the Creso Pharma Reimbursement Fee (should the payment terms be triggered), repay the PharmaCielo Loan, pay the Mernova Milestone 2 Payment and have sufficient funding to continue with its current business activities.

The Company has had initial discussions with its corporate adviser, EverBlu Capital Pty Ltd regarding funding options.

The Company expects that, based on past fund-raising attempts and current market sentiment, any equity or debt raising in the aftermath of the unsuccessful Schemes would require offering shares at a 10%-20% discount to the trading price at the time of the raising, noting that if the Schemes do not proceed Creso Pharma's share price may fall to pre-announcement levels, or offering secured debt with attractive interest rates of around 10-20%.

As a result of Creso Pharma's voluntary suspension from 18 September 2019 to 26 September 2019, any equity capital raising would need to be made under a prospectus, which makes the process lengthier and more costly. Further, any additional equity financing will dilute shareholdings of current Creso Pharma shareholders. Loan agreements and other financing rearrangements such as debt facilities, convertible note issue and finance leases (and any related guarantee and security) that may be entered into by Creso Pharma will likely involve security and/or restrictions on financing and operating activities of the Company as well as covenants, undertakings and other provisions. Enforcement of security granted by Creso Pharma or default under a finance lease could result in the loss of assets.

It is expected that any fundraising activities would take up to 3-4 months to complete once the necessary regulatory and shareholder approvals are satisfied.

Whilst the Company would take all necessary action in order to obtain required funding, there can be no assurance that additional financing will be available when needed and, if available, the terms of the financing might not be favourable to Creso Pharma. In addition, any equity financing may involve substantial dilution to Creso Pharma Shareholders.

Accordingly, where the Company is only able to raise enough funding to repay the Mernova Fee and the outstanding PharmaCielo Loan, being C\$4.3 million, it will likely be required to reduce the scope of its operations and scale back its current business activities which the Company considers would likely result in the reduction of further value for its securityholders.

(f) **Implications specific to Option Scheme**

If the Share Scheme is approved but the Option Scheme is not approved, PharmaCielo will acquire all of the Creso Pharma Shares but Creso Pharma Listed Optionholders will continue to hold their Creso Pharma Listed Options. In these circumstances, Creso Pharma would be delisted from ASX, meaning there is unlikely to be an active market for any Creso Pharma Shares issued to Creso Pharma Listed Optionholders on the exercise of their Creso Pharma Listed Options.

If this occurs, it is the intention of PharmaCielo to seek to compulsorily acquire the Creso Pharma Listed Options under Part 6A.2 of the Corporations Act, but PharmaCielo reserves the right to change its intention having regard to the prevailing circumstances. Further information in relation to the compulsory acquisition procedure is set out in Section 8.17.

(g) **Uncertainty regarding the Proposed Transaction may lead to the loss of key distributors**

The Proposed Transaction may introduce additional uncertainties that may lead to the loss of key distributors. This will affect Creso Pharma operations, even if the Schemes do not proceed.

The Creso Pharma Directors are not aware of any key distributors who may wish to terminate their contractual arrangements with Creso Pharma as at the date of this Scheme Booklet.

7.4 Other considerations

(a) **The Schemes may be implemented even if you vote against the Schemes or do not vote at all**

You should be aware that even if you do not vote, or vote against the Schemes, the Schemes may still be implemented if they are approved by the Requisite Majorities of Creso Pharma Listed Securityholders and the Court. If this occurs, your Creso Pharma Shares will be transferred to PharmaCielo, your Creso Pharma Listed Options will be cancelled and you will receive the Scheme Consideration (unless you are an Ineligible Foreign Securityholder or an Electing

Small Securityholder, in which case you will receive the Cash Proceeds from that sale of your New PharmaCielo Shares that you would otherwise be entitled to receive) even though you did not vote on, or voted against, the Schemes.

(b) Warranties by Creso Pharma Shareholders under the Share Scheme

The effect of the Share Scheme is that all Scheme Shareholders, including those who vote against the Share Scheme and those who do not vote, will be deemed to have warranted to Creso Pharma, both in their own right and for the benefit of PharmaCielo, that, as at the Implementation Date, their Scheme Shares are fully paid and not subject to any of the encumbrances specified in the Share Scheme. The terms of the warranty are set out in clause 10.4 of the Share Scheme. The Share Scheme is set out in Annexure C.

You should ensure that these warranties can be given by you prior to, and remain correct as at, the Implementation Date.

(c) Warranties by Creso Pharma Listed Optionholders under the Option Scheme

The effect of the Option Scheme is that all Scheme Optionholders, including those who vote against the Option Scheme and those who do not vote, will be deemed to have warranted to Creso Pharma, both in their own right and for the benefit of PharmaCielo, that, as at the Implementation Date, their Scheme Options are not subject to any of the encumbrances specified in the Option Scheme. The terms of the warranty are set out in clause 10.4 of the Option Scheme. The Option Scheme is set out in Annexure D.

You should ensure that these warranties can be given by you prior to, and remain correct as at, the Implementation Date.

ENDNOTES:

- 15 In respect of the recommendations of Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel, Creso Pharma Listed Securityholders should have regard to the fact that, if the Share Scheme is implemented, Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel will receive various personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page vi of this Scheme Booklet.
- 16 Refer to Section 7.1(h) for further circumstances surrounding the Independent Expert's opinion and the Independent Expert's Report.
- 17 Based on the three day VWAP of PharmaCielo shares for the three trading days ending 4 June 2019 of CAD\$7.6166/AUD\$8.1261 when using the exchange rate of A\$0.9373/C\$1.00.
- 18 Calculated based on the closing price of PharmaCielo Shares of C\$5.090, as at the Last Practicable Date and utilising an exchange rate of C\$0.8890:A\$1.00.
- 19 Calculated utilising an exchange rate of C\$0.8890:A\$1.00 as at the Last Practicable Date.
- 20 PharmaCielo has also agreed to issue C\$1,500,000 worth of PharmaCielo Shares to Cormark on the Implementation Date and up to 23,409 PharmaCielo Shares to the former shareholders of Ubiquo as set out in Section 12.1. These issues will result in the dilution to the shareholdings of the former Creso Pharma Listed Securityholders who will become shareholders of PharmaCielo.
- 21 Based on 112,352,045 PharmaCielo Shares on issue following implementation of the Schemes and using the VWAP for PharmaCielo Shares for the 30-day period up to and including 5 June 2019, being the last trading day prior to the Announcement Date.
- 22 In respect of the recommendations of Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel, Creso Pharma Listed Securityholders should have regard to the fact that, if the Share Scheme is implemented, Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel will receive various personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page vi of this Scheme Booklet.
- 23 In respect of the recommendations of Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel, Creso Pharma Listed Securityholders should have regard to the fact that, if the Share Scheme is implemented, Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel will receive various personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page vi of this Scheme Booklet.
- 24 Refer to Section 7.1(h) for further circumstances surrounding the Independent Expert's opinion and the Independent Expert's Report.
- 25 PharmaCielo has also agreed to issue C\$1,500,000 worth of PharmaCielo Shares to Cormark [on the Implementation Date] and up to 23,409 PharmaCielo Shares to the former shareholders of Ubiquo as set out in Section 12.1. These issues will result in the dilution to the shareholdings of the former Creso Pharma Listed Securityholders who will become shareholders of PharmaCielo.

8. OVERVIEW OF THE SCHEMES

This Section provides an overview of the Scheme Conditions, the Scheme Meetings, and other steps required to implement the Schemes.

8.1 Summary of the Schemes

A scheme of arrangement is a statutory procedure that is commonly used to enable one company to acquire or merge with another.

If implemented, the Share Scheme will have the following effect:

- (a) all Creso Pharma Shares will be transferred from Scheme Shareholders to PharmaCielo in return for the Share Scheme Consideration;
- (b) Creso Pharma will become a wholly owned subsidiary of PharmaCielo, and Creso Pharma will be de-listed from the ASX;
- (c) Scheme Shareholders (other than Ineligible Foreign Shareholders and Electing Small Shareholders) will become shareholders in PharmaCielo; and
- (d) Ineligible Foreign Shareholders and Electing Small Shareholders will receive the Cash Proceeds of the sale of the New PharmaCielo Shares that would otherwise be issued to them.

Creso Pharma is also undertaking a separate scheme of arrangement with the Creso Pharma Listed Optionholders which, if implemented, will result in the cancellation of the Creso Pharma Listed Options and the Creso Pharma Listed Optionholders (other than Ineligible Foreign Optionholders and Electing Small Optionholders) becoming holders of New PharmaCielo Shares. Ineligible Foreign Optionholders and Electing Small Optionholders will receive the Cash Proceeds of the sale of the New PharmaCielo Shares that would otherwise be issued to them.

Implementation of the Schemes is subject to the Scheme Conditions being satisfied or waived, including the condition that the Schemes may only be implemented if Creso Pharma Listed Securityholders vote in favour of the Schemes at the Scheme Meetings.

8.2 Scheme Implementation Agreement

Creso Pharma and PharmaCielo entered into the Scheme Implementation Agreement on 6 June 2019 in which they agreed (among other things) their respective obligations in implementing the Schemes. The key terms of the Scheme Implementation Agreement not otherwise addressed in this Section 8, are summarised in Section 17. A full copy of the Scheme Implementation Agreement was released on ASX on 7 June 2019 and is available on Creso Pharma's website (www.cresopharma.com).

8.3 Deed Polls

On 11 September 2019, PharmaCielo executed the Share Scheme Deed Poll in favour of each Scheme Shareholder and the Option Scheme Deed Poll in favour of each Scheme Optionholder, pursuant to which PharmaCielo covenanted to perform its obligations under Schemes and to otherwise comply with the Schemes as if PharmaCielo was a party to the Schemes. The key obligation of PharmaCielo under the Schemes is to issue the Share Scheme Consideration to each Scheme Shareholder (other than Ineligible Foreign Shareholders and Electing Small Shareholders) and the Option Scheme Consideration to each Scheme Optionholder (other than Ineligible Foreign Optionholder and Electing Small Optionholder), subject to satisfaction or (if applicable) waiver of the Scheme Conditions.

The Deed Polls may be relied upon by a Scheme Participant, despite the fact that they are not a party to them.

Copies of the Deed Polls are attached to this Scheme Booklet at Annexures E and F.

8.4 Scheme Conditions

Implementation of the Schemes is subject to satisfaction or waiver of the applicable Scheme Conditions.

The Scheme Conditions are set out in clause 3 of the Share Scheme of Arrangement and clause 3 of the Option Scheme of Arrangement (attached to this Scheme Booklet at Annexure C and Annexure D respectively) and clauses 3.1 and 3.3 of the Scheme Implementation Agreement.

The Scheme Conditions are set out in the table below.

1. Regulatory Approvals

- (a) ASIC and ASX have issued or provided (and not withdrawn or revoked) such consents, waivers, relief or approvals as are necessary or which Creso Pharma and PharmaCielo agree are desirable to implement the Share Scheme (noting that if such consents waivers and/or approvals are subject to conditions those conditions must be acceptable to Creso Pharma and PharmaCielo (both acting reasonably)); and
- (b) the relevant Governmental Agency has issued or provided (and not withdrawn or revoked) such consents, waivers, approvals which Creso Pharma and PharmaCielo consider are necessary or desirable to implement the Share Scheme (noting that if such consents waivers and/or approvals are subject to conditions those conditions must be acceptable to Creso Pharma and PharmaCielo (both acting reasonably)).

2. TSX-V Approval

TSX-V conditionally accepts PharmaCielo to close the Proposed Transaction and approves the conditional listing of the New PharmaCielo Shares, subject to any conditions that TSX-V may reasonably require, including customary listing conditions relating to the Share Scheme becoming Effective.

3. No Creso Pharma Prescribed Occurrence

No Creso Pharma Prescribed Occurrence occurs between the date of the Scheme Implementation Agreement and the Delivery Time on the Second Court Date.

4. No PharmaCielo Prescribed Occurrence

No PharmaCielo Prescribed Occurrence occurs between the date of the Scheme Implementation Agreement and the Delivery Time on the Second Court Date.

5. Creso Pharma representations and warranties

Creso Pharma's representations and warranties set out in section 11 of the Scheme Implementation Agreement are true and correct in all material respects as at the date of Scheme Implementation Agreement and as the Delivery Time on the Second Court Date.

6. PharmaCielo representations and warranties

PharmaCielo's representations and warranties set out in clause 11 of the Scheme Implementation Agreement are true and correct in all material respects as at the date of Scheme Implementation Agreement and as the Delivery Time on the Second Court Date.

7. Share Scheme approval

The Share Scheme is approved by Creso Pharma Shareholders at the Share Scheme Meeting by the Requisite Majority.

8. Convertible securities

- (a) Creso Pharma has complied with its obligations under clause 6 of the Scheme Implementation Agreement in relation to the Creso Pharma Performance Rights, the Creso Pharma Unlisted Options, the Creso Pharma Exchangeable Shares and the Creso Pharma Performance Shares.
- (b) Legally binding arrangements are in place so that there will be no Creso Pharma Performance Rights, Creso Pharma Unlisted Options (other than the Creso Pharma Unlisted Options issued under tranche CPHOPT3) and Creso Pharma Performance Shares in existence immediately prior to the Share Scheme Record Date.
- (c) Legally binding arrangements are in place in relation to the Creso Pharma Exchangeable Shares in respect of the matters set out in clause 6.4 of the Scheme Implementation Agreement.

9. Court approval

The Share Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act either unconditionally or on conditions that do not impose unduly onerous obligations upon either party (acting reasonably).

10. No Creso Pharma Material Adverse Change

No Creso Pharma Material Adverse Change occurs between the date of Scheme Implementation Agreement and the Delivery Time on the Second Court Date.

11. No PharmaCielo Material Adverse Change

No PharmaCielo Material Adverse Change occurs between the date of Scheme Implementation Agreement and the Delivery Time on the Second Court Date.

12. Third party consents

All consents, approvals or waivers of rights by parties other than Creso Pharma under any Material Contracts that in the reasonable opinion of PharmaCielo and Creso Pharma are necessary or desirable are obtained on terms acceptable to both PharmaCielo and Creso Pharma acting reasonably.

13. Restraints

No temporary restraining order, preliminary or permanent injunction or other order including cease trade orders, in each case issued by a court of competent jurisdiction or securities regulatory authority in Australia in a proceeding brought by a Governmental Agency in either Australia, Canada, Switzerland, Colombia or Israel preventing or delaying the Proposed Transaction, unless such order or injunction has been disposed of to the reasonable satisfaction of Creso Pharma and PharmaCielo acting reasonably and in good faith, is in effect at the Delivery Time on the Second Court Date.

14. Loan Agreement

PharmaCielo has not defaulted in payment or making available the relevant funds under the PharmaCielo Loan other than where this is due to the conditions precedent to drawdown under the PharmaCielo Loan not being satisfied.

15. Conversion of Secured Loan Agreements

In relation to the Secured Loan Agreements:

- (a) all Secured Loan Agreements have been converted into Convertible Notes (excluding PharmaCielo) and as a consequence all Loans provided by the Investors have been deemed to be fully satisfied and discharged and no early repayment fees apply in relation to those Loans,
- (b) all holders of those Convertible Notes (excluding PharmaCielo) have irrevocably exercised their conversion right in respect of all of their convertible notes to receive Creso Pharma Shares and Creso Pharma Listed Options,

in each case on terms acceptable to PharmaCielo (acting reasonably).

16. Scheme Implementation Agreement/Share Scheme Deed Poll

Neither the Scheme Implementation Agreement nor the Share Scheme Deed Poll having been terminated in accordance with their terms as at the Delivery Time on the Second Court Date.

17. Orders lodged with ASIC

A copy of the Court orders approving the Share Scheme is lodged with ASIC under section 411(10) of the Corporations Act.

1. Regulatory Approvals

- (a) ASIC and ASX have issued or provided (and not withdrawn or revoked) such consents, waivers, relief or approvals as are necessary or which Creso Pharma and PharmaCielo agree are desirable to implement the Option Scheme (noting that if such consents waivers and/or approvals are subject to conditions those conditions must be acceptable to Creso Pharma and PharmaCielo (both acting reasonably)); and
- (b) the relevant Governmental Agency has issued or provided (and not withdrawn or revoked) such consents, waivers, approvals which Creso Pharma and PharmaCielo consider are necessary or desirable to implement the Option Scheme (noting that if such consents waivers and/or approvals are subject to conditions those conditions must be acceptable to Creso Pharma and PharmaCielo (both acting reasonably)).

2. TSX-V Listing

The TSX-V conditionally accepts PharmaCielo to close the Proposed Transaction and approves the conditional listing of the New PharmaCielo Shares, subject to any conditions that the TSX-V may reasonably require, including customary listing conditions and conditions relating to the Option Scheme becoming Effective.

3. Share Scheme approval

The Share Scheme becomes Effective.

4. Option Scheme approval

The Option Scheme is approved by Creso Pharma Listed Optionholders at the Option Scheme Meeting by the majority required under section 411(4)(a)(i) of the Corporations Act.

5. Court approval

The Option Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act either unconditionally or on conditions that do not impose unduly onerous obligations upon either party (acting reasonably).

6. Scheme Implementation Agreement/Option Scheme Deed Poll

Neither the Scheme Implementation Agreement nor the Option Scheme Deed Poll having been terminated in accordance with their terms as at the Delivery Time on the Second Court Date.

7. Orders lodged with ASIC

A copy of the Court orders approving the Option Scheme is lodged with ASIC under section 411(10) of the Corporations Act.

For the Share Scheme to be implemented, each condition to the Share Scheme (other than the conditions relating to Court approval and the lodgement of the Court orders approving the Share Scheme with ASIC) must be satisfied (or otherwise waived to the extent it is capable of waiver) by the Delivery Time on the Second Court Date.

For the Option Scheme to be implemented, each condition to the Option Scheme (other than the conditions relating to Court approval, the lodgement of the Court orders approving the Option Scheme with ASIC and the Share Scheme becoming Effective) must be satisfied (or otherwise waived to the extent it is capable of waiver) by the due date (if any) fixed for its satisfaction as set out in the above table (or otherwise waived to the extent it is capable of waiver) by the Delivery Time on the Second Court Date.

As at the date of this Scheme Booklet, Creso Pharma is not aware of any circumstances that would cause the Scheme Conditions to not be satisfied. Creso Pharma Listed Securityholders will receive an update on the status of the Scheme Conditions at the Scheme Meetings.

Creso Pharma will also announce to ASX any relevant matter that affects the Schemes or the likelihood of a Scheme Condition being satisfied or not being satisfied, in accordance with Creso Pharma's continuous disclosure obligations. These details will be published on the ASX website (www.asx.com.au) and will also appear on Creso Pharma's website (www.cresopharma.com).

8.5 Status of Scheme Conditions

As at the date of this Scheme Booklet, the following Scheme Conditions have been either wholly or partially satisfied or waived:

- (a) **Regulatory Approval:** Creso Pharma has obtained a waiver from ASX of the requirements of ASX Listing Rule 6.23.2 to permit the Creso Pharma Listed Options and the Creso Pharma Unlisted Options to be cancelled for consideration without requiring Creso Pharma Shareholder approval to be obtained.
- (b) **Conversion of Secured Loan Agreements:** On 3 July 2019, Creso Pharma announced that the Investors (excluding PharmaCielo) elected to convert the Secured Loan Agreements into Convertible Notes and immediately convert those Convertible Notes into Creso Pharma Shares and Creso Pharma Listed Options.
- (c) **Convertible Securities:** Creso Pharma has entered into Option Cancellation Deeds with each of the Creso Pharma Unlisted Optionholders (other than Biologus in respect of the Creso Pharma Unlisted Options issued under tranche CPHOPT3), pursuant to which the Creso Pharma Unlisted Optionholders have agreed to the cancellation of their Creso Pharma Unlisted Options in exchange for the issue of PharmaCielo Shares.
- (d) **TSX-V Listing:** PharmaCielo has obtained conditional approval from the TSX-V to list the New PharmaCielo Shares issued in connection with the Proposed Transaction on the TSX-V.
- (e) **Third Party Consents:** Creso Pharma has obtained all consents and approvals required under the Material Contracts identified by PharmaCielo.

8.6 Scheme Meetings

On 2 October 2019, the Supreme Court of Western Australia ordered Creso Pharma to convene a meeting of Creso Pharma Shareholders to consider and vote on the Share Scheme and a meeting of Creso Pharma Listed Optionholders to consider and vote on the Option Scheme.

The Scheme Meetings to consider the Schemes are scheduled to be held at the offices of Steinepreis Paganin at Level 4, 16 Milligan Street, Perth, Western Australia on Monday, 11 November 2019. The Share Scheme Meeting will commence at 10:00am (WST) and the Option Scheme Meeting will commence at the later of 10:30am (WST) and the conclusion of the Share Scheme Meeting.

The Creso Pharma Board has chosen to appoint an independent lawyer to chair each of the Scheme Meetings.

In this regard, it is proposed that Stephen Penrose of Tottle Partners and Grant Paterson of GTP Legal be appointed as Chairperson and Alternate Chairperson of the Scheme Meetings respectively, and consent to be appointed to act has been given.

Both Mr Penrose and Mr Paterson have advised that they have had no previous relationship or dealing with Creso Pharma or any other person interested in the proposed Schemes and have no interest or obligation that may give rise to a conflict of interest or duty if appointed to act as Chairperson of the Scheme Meetings. Creso Pharma Listed Optionholders who wish to attend the Option Scheme Meeting only should ensure they are present at the venue for the meeting by no later than 10:30am (WST) on Monday, 11 November 2019.

The fact that under section 411(1) of the Corporations Act the Court ordered on 2 October 2019 that meetings of Creso Pharma Listed Securityholders be convened by Creso Pharma to consider and vote on the Schemes and has approved the Scheme Booklet does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Schemes or as to how Creso Pharma Listed Securityholders should vote (on this matter, Creso Pharma Listed Securityholders must reach their own decision); and

(b) has prepared, or is responsible for, the content of this Scheme Booklet.

For the Share Scheme to be implemented, it is necessary that the Requisite Majority of Creso Pharma Shareholders vote in favour of passing the resolution to approve the Share Scheme at the Share Scheme Meeting.

For the Option Scheme to be implemented, it is necessary that the Requisite Majority of Creso Pharma Listed Optionholders vote in favour of passing the resolution to approve the Option Scheme at the Option Scheme Meeting.

If the Requisite Majority of Creso Pharma Listed Securityholders approve the Schemes at the Scheme Meetings, Creso Pharma will, as soon as possible after the Scheme Meetings are held, announce the results of the Creso Pharma Listed Securityholders' vote to ASX and will publish the results on Creso Pharma's website (www.cresopharma.com).

8.7 Second Court Hearing

In accordance with section 411(4)(b) of the Corporations Act, in order to become Effective, the Schemes (with or without modification) must be approved by an order of the Court. If the Schemes are approved at the Scheme Meetings, Creso Pharma intends to apply to the Court on the Second Court Date (expected to be [Wednesday, 13 November 2019]) for the necessary orders to give effect to the Schemes.

Each Creso Pharma Listed Securityholder has the right to appear at Court at the hearing of the application by Creso Pharma for orders approving the Schemes. Any Creso Pharma Listed Securityholder who wishes to object to the Schemes at that Court hearing or make a complaint to ASIC about the Schemes should note that the Court hearing for approval of the Schemes is expected to be held on [Wednesday, 13 November 2019]. The Court has an overriding discretion regarding whether or not to approve the Schemes, even if the Schemes are approved by the Requisite Majorities of Creso Pharma Listed Securityholders at the Scheme Meetings.

Any Creso Pharma Listed Securityholder may appear at the Second Court Hearing. Any Creso Pharma Listed Securityholder who wishes to oppose approval of the Schemes at the Second Court Hearing may do so by filing with the Court and serving on Creso Pharma a notice of appearance in the prescribed form together with any affidavit that the Creso Pharma Listed Securityholder proposes to rely on. The notice of appearance and affidavit must be served on Creso Pharma at its address for service at least one day before the Second Court Hearing. The address for service is:

c/o Steinepreis Paganin, Level 4, 16 Milligan Street, Perth, WA 6000.

Creso Pharma has requested ASIC provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Schemes. If ASIC provides that statement, it will be produced to the Court at the time of the Second Court Hearing.

8.8 Record Date

Creso Pharma Listed Securityholders will be entitled to receive the Scheme Consideration under the Schemes if they are registered as holders of Creso Pharma Shares on the Share Scheme Record Date and/or Creso Pharma Listed Options on the Option Scheme Record Date. The Share Scheme Record Date and the Option Scheme Record Date is expected to be Friday, 15 November 2019.

As from the Share Scheme Record Date and the Option Scheme Record Date (and other than for PharmaCielo following the Implementation Date), the Creso Pharma Register will close for transfers and all holding statements for Creso Pharma Shares and Creso Pharma Listed Options will cease to have effect as documents of title. Each entry on the Creso Pharma Register on the Share Scheme Record Date and/or the Option Scheme Record Date (as applicable) will cease to have any effect other than as evidence of entitlement to the Share Scheme Consideration and Option Scheme Consideration.

8.9 Effective Date

If the Court approves the Schemes, Creso Pharma will (pursuant to section 411(10) of the Corporations Act) lodge with ASIC the office copy of the Court order approving the Schemes. Creso Pharma intends to lodge the office copy of the Court order with ASIC on the Effective Date, which is expected to be Wednesday, 13 November 2019.

Creso Pharma will apply to ASX for suspension of trading of Creso Pharma Shares and Creso Pharma Listed Options on ASX after the close of trading on ASX on the Effective Date. It is expected that the suspension will commence on the first Business Day after the day on which Creso Pharma notifies ASX of the Share Scheme becoming Effective.

If the Scheme Conditions are satisfied or waived, the Schemes will legally come into effect on the Effective Date.

If a Scheme has not become Effective or the relevant Scheme Conditions have not been satisfied or (if applicable) waived by 31 December 2019, or such later date as Creso Pharma and PharmaCielo agree in writing, the Scheme will lapse and be of no further force or effect.

8.10 Implementation Date

The Implementation Date is expected to be Friday, 22 November 2019. If the Share Scheme becomes Effective, on the Implementation Date:

- (a) all Scheme Participants who receive New PharmaCielo Shares will have their names entered on the PharmaCielo Register;
- (b) the current Creso Pharma Board (other than Dr Halperin Wernli) will resign;
- (c) all Scheme Shares held by Scheme Shareholders will be transferred to PharmaCielo without any further action required by Scheme Shareholders;
- (d) Creso Pharma will enter the name of PharmaCielo into the Creso Pharma Register in respect of the Scheme Shares;
- (e) Creso Pharma will then become a wholly owned subsidiary of PharmaCielo;
- (f) all existing Creso Pharma Unlisted Options (other than the Creso Pharma Unlisted Options issued under tranche CPHOPT3) will be cancelled pursuant to the Option Cancellation Deeds in exchange for the issue of PharmaCielo Shares in accordance with an agreed ratio, as set out in Section 8.11;
- (g) EverBlu Capital will receive 458,256 PharmaCielo Shares, as set out in Section 18.8(b); and
- (h) Dr Halperin Wernli will receive 170,500 PharmaCielo Shares and 500,000 PharmaCielo Options, as set out in Section 18.8(a).

If the Option Scheme becomes Effective, all Creso Pharma Listed Options held by Creso Pharma Listed Optionholders will be cancelled, without the need for any further act by any Creso Pharma Listed Optionholder. Each Scheme Optionholder (other than Ineligible Foreign Optionholders and Electing Small Optionholders) will receive 0.0185 New PharmaCielo Shares for every Scheme Option they hold in consideration for the cancellation of their Scheme Options.

For further information regarding the New PharmaCielo Shares to be issued to the Scheme Shareholders and Scheme Optionholders, refer to Annexure I. No securities will be issued on the basis of this Scheme Booklet after the date which is 13 months after the date of this Scheme Booklet, being the expiry date of this Scheme Booklet.

New PharmaCielo Shares are expected to commence trading on TSX-V on 26 November 2019.

8.11 Treatment of Creso Pharma Unlisted Options

In accordance with the terms of the Scheme Implementation Agreement, Creso has entered into Option Cancellation Deeds with each of the Creso Pharma Unlisted Optionholders (other than Biologus IP GMBH (**Biologus**) in respect of their CPHOPT3 Creso Pharma Unlisted Options), pursuant to which the Creso Pharma Unlisted Optionholders have agreed to the cancellation of their Creso Pharma Unlisted Options in exchange for the issue of PharmaCielo Shares.

Creso Pharma has obtained a waiver from ASX in respect of the requirements of ASX Listing Rule 6.23.2 to permit the Creso Pharma Unlisted Options to be cancelled for consideration without requiring Creso Pharma Shareholder approval to be obtained.

The cancellation of the Creso Pharma Unlisted Options is conditional upon, amongst other things, the Court approving the Share Scheme.

In accordance with the terms of the Scheme Implementation Agreement, the consideration to be issued to a Creso Pharma Unlisted Optionholder who holds:

- (a) Creso Pharma Unlisted Options with an exercise price of A\$0.80, is A\$0.15 per Creso Pharma Unlisted Option, with such consideration being satisfied by the issue of PharmaCielo Shares at a deemed issue price of A\$8.1261 per PharmaCielo Share; and

- (b) Creso Pharma Unlisted Options with an exercise price less than A\$0.63 (other than the Creso Pharma Unlisted Options issued under tranche CPHOPT3), is the difference between A\$0.63 and the exercise price of that Creso Pharma Unlisted Option, with such consideration being satisfied by the issue of PharmaCielo Shares at a deemed issue price of A\$8.1261 per PharmaCielo Share.

Following implementation of the Schemes, the Creso Pharma Unlisted Options which were issued under tranche CPHOPT3 will remain on issue. These Creso Pharma Unlisted Options are not capable of vesting as the vesting conditions for these Creso Pharma Unlisted Options relate to part of the Creso Pharma business that has been abandoned and therefore the vesting conditions can never be satisfied. Accordingly, PharmaCielo has consented to the Creso Pharma Unlisted Options which were issued under tranche CPHOPT3 remaining on issue following implementation of the Share Scheme.

PharmaCielo does not currently intend to seek to compulsorily acquire the Creso Pharma Unlisted Options which were issued under tranche CPHOPT3 under Part 6A.2 of the Corporations Act, but PharmaCielo reserves the right to change its intention having regard to the prevailing circumstances. Accordingly, unless compulsorily acquired, the Creso Pharma Unlisted Options issued under tranche CPHOPT3 will remain on issue (unable to be exercised) until they expire on 13 October 2020. Further information in relation to the compulsory acquisition procedure is set out in Section 8.17.

The number of Creso Pharma Unlisted Options on issue at the Last Practicable Date is set out in Section 10.5.

The transactions under the Option Cancellation Deeds will result in approximately 153,702 PharmaCielo Shares being granted to the Creso Pharma Unlisted Optionholders (or their nominees) (assuming that no Creso Pharma Unlisted Options are exercised before the Share Scheme Record Date).

As at the Last Practicable Date, of the ten Creso Pharma Unlisted Optionholders:

- (a) one Creso Pharma Unlisted Optionholder is a Creso Pharma Shareholder holding 200,000 Creso Pharma Shares; and
(b) one Creso Pharma Unlisted Optionholder is a Creso Pharma Listed Optionholder holding 150,000 Creso Pharma Listed Options.

Action that may be taken by Creso Pharma Unlisted Optionholders

Creso Pharma Unlisted Optionholders whose Creso Pharma Unlisted Options have vested may elect to:

- (a) participate in the Share Scheme in lieu of receiving the consideration set out above by exercising their Creso Pharma Unlisted Options before the Delivery Time on the Second Court Date; or
(b) exercise their Creso Pharma Unlisted Options before the Delivery Time on the Second Court Date and then sell the Creso Pharma Shares that will be issued to them on ASX on or before the Effective Date of the Share Scheme.

As at the Last Practicable Date, 3,425,000 Creso Pharma Unlisted Options have vested and are exercisable.

To exercise vested Creso Pharma Unlisted Options in time to participate in the Share Scheme, a valid exercise notice in respect of the Creso Pharma Unlisted Options that a Creso Pharma Listed Optionholder wishes to exercise and payment of the relevant exercise price in cleared funds must be received by Creso Pharma at its registered office in Australia before the Delivery Time on the Second Court Date. Creso Pharma Unlisted Options cannot be exercised after this time and all Creso Pharma Unlisted Options that are subject to the Option Cancellation Deeds will be cancelled on the Implementation Date for the Share Scheme.

In deciding what action to take, Creso Pharma Unlisted Optionholders should consider the following matters in relation to their vested Creso Pharma Unlisted Options:

- (a) the value of exercising their Creso Pharma Unlisted Options compared with the value of the consideration under the Option Cancellation Deeds set out above. In determining the value of exercising a Creso Pharma Unlisted Option, Creso Pharma Unlisted Optionholders should compare the exercise price of that Creso Pharma Unlisted Option with:
(i) the prevailing Creso Pharma Share price; and
(ii) the prevailing implied value of the Share Scheme Consideration, noting that this value will fluctuate depending on movements in the trading price of PharmaCielo Shares and changes in the A\$: C\$ exchange rate;
(b) the tax consequences of exercising their Creso Pharma Unlisted Options and receiving New PharmaCielo Shares under the Share Scheme compared with the tax consequences of receiving the consideration under the Option Cancellation Deeds set out above. As these tax consequences will vary depending on individual circumstances, Creso Pharma Unlisted Optionholders should consider their own tax position and the tax implications of the Share Scheme; and
(c) the risk factors described in this Scheme Booklet (see Section 14).

8.12 Treatment of Creso Pharma Performance Rights

In accordance with the terms of the Scheme Implementation Agreement, as soon as practicable after the Share Scheme has been approved by Creso Pharma Shareholders at the Share Scheme Meeting, the Creso Pharma Board must give written notice to each Creso Pharma Performance Rights Holder stating that, subject to the Court approving the Share Scheme on the Second Court Date:

- (a) all Creso Pharma Performance Rights will be deemed to have vested in accordance with the terms of the Creso Pharma Performance Rights Plan; and
(b) subject to securing the agreement of each Creso Pharma Performance Rights Holder to exercise the Creso Pharma Performance Rights into Creso Pharma Shares, Creso Pharma will issue to the Creso Pharma Performance Rights Holder such number of Creso Pharma Shares to which the Creso Pharma Performance Rights Holder is entitled prior to the Share Scheme Record Date.

Creso Pharma must take all necessary steps to procure that each Creso Pharma Performance Rights Holder exercises their Creso Pharma Performance Rights prior to the Share Scheme Record Date.

The number of Creso Pharma Performance Rights on issue at the Last Practicable Date is set out in Section 10.5.

As at the Last Practicable Date, of the ten Creso Pharma Performance Rights Holders:

- (a) three Creso Pharma Performance Rights Holders are Creso Pharma Shareholders holding in aggregate 8,540,000 Creso Pharma Shares; and
(b) three Creso Pharma Performance Rights Holders are Creso Pharma Listed Optionholders holding in aggregate 3,222,000 Creso Pharma Listed Options.

8.13 Treatment of Creso Pharma Performance Shares

In accordance with the terms of the Scheme Implementation Agreement, as soon as practicable after the Share Scheme has been approved by Creso Pharma Shareholders at the Share Scheme Meeting, the Creso Pharma Board must give written notice to each Creso Pharma Performance Shareholder stating that, subject to the Court approving the Share Scheme on the Second Court Date and in accordance with the terms and conditions of the Creso Pharma Performance Shares:

- (a) each Creso Pharma Performance Share will automatically convert to a new Creso Pharma Share on a one for one basis; and
(b) Creso Pharma will issue to the Creso Pharma Performance Shareholder such number of Creso Pharma Shares to which the Creso Pharma Performance Shareholder is entitled prior to the Share Scheme Record Date.

The number of Creso Pharma Performance Shares on issue at the Last Practicable Date is set out in Section 10.5.

As at the Last Practicable Date, of the [twenty] Creso Pharma Performance Shareholders:

- (a) Seventeen of the Creso Pharma Performance Shareholders are Creso Pharma Shareholders holding in aggregate 5,101,354 Creso Pharma Shares; and
(b) no Creso Pharma Performance Shareholders are Creso Pharma Listed Optionholders.

8.14 Treatment of Creso Pharma Exchangeable Shares

In accordance with agreements entered into between Creso Pharma, PharmaCielo and the Creso Pharma Exchangeable Shareholders, the Creso Pharma Exchangeable Share Holders:

- (a) in relation to their Milestone 1 Exchangeable Shares, will be issued an aggregate of 6,587,302 Creso Pharma Shares, with the exchange occurring prior to the Share Scheme Record Date so that the Creso Pharma Shares issued will be exchanged for New PharmaCielo Shares under the Share Scheme for Share Scheme Consideration; and
- (b) in relation to their Milestone 2 Exchangeable Shares, will be dealt with in the manner agreed between the Creso Pharma Exchangeable Share Holders and PharmaCielo with the overriding objective of ensuring that, subject to Milestone 2 being achieved, the Creso Pharma Exchangeable Share Holders will receive PharmaCielo Shares instead of Creso Pharma Shares. As at the date of this Scheme Booklet, it is anticipated that an additional 510,516 PharmaCielo Shares will be issued to the Creso Pharma Exchangeable Shareholders, noting that this remains subject to agreement between PharmaCielo, Creso Pharma and the Creso Pharma Exchangeable Share Holders. In this regard, on 16 September 2019, Creso Pharma issued an ASX announcement advising that Creso Pharma's Mernova Facility has been granted a processing licence by Health Canada. PharmaCielo, Creso Pharma and the Creso Pharma Exchangeable Share Holders are currently in discussions to ascertain the implications of this development on the achievement of Milestone 2. Any development regarding the achievement of Milestone 2 will be the subject of a further ASX announcement by Creso Pharma.

The number of Creso Pharma Exchangeable Shares on issue at the Last Practicable Date is set out in Section 10.5.

As at the Last Practicable Date, the Creso Pharma Exchangeable Shareholders do not hold Creso Pharma Shares or Creso Pharma Listed Options.

8.15 De-listing of Creso Pharma

On the Implementation Date, Creso Pharma will apply for termination of the official quotation of Creso Pharma Shares and Creso Pharma Listed Options and have itself removed from the official list of ASX.

A summary of the rights attaching to New PharmaCielo Shares is set out in Annexure I.

8.16 If the Schemes do not proceed

If the Share Scheme does not proceed, Creso Pharma Shareholders will continue to hold Creso Pharma Shares. In the absence of any Superior Proposal to the Share Scheme, Creso Pharma will continue as a standalone ASX listed entity. Creso Pharma may, in addition to the normal risks it faces, be exposed to the additional risks as described in Section 14.4.

Depending on the reasons why the Share Scheme does not proceed, either Creso Pharma or PharmaCielo may be liable to pay a break fee of \$1,200,000 (exclusive of GST) to the other party. The Creso Pharma Break Fee is not payable if the Share Scheme does not proceed merely because Creso Pharma Shareholders do not approve the Share Scheme by the Requisite Majority. Further information in relation to the Creso Pharma Break Fee and the PharmaCielo Break Fee is set out in Sections 17.3 and 17.4.

Creso Pharma has also agreed to pay PharmaCielo a reimbursement fee of \$450,000 (exclusive of GST) if the resolution to approve the Share Scheme is submitted to the Share Scheme Meeting, the Share Scheme Meeting is held but the resolution is not approved by the Requisite Majority. Further information in relation to the Creso Pharma Reimbursement Fee is set out in Section 17.3.

If the Share Scheme is approved, but the Option Scheme is not approved, the Proposed Transaction will still proceed and PharmaCielo will acquire all of the Creso Pharma Shares but Creso Pharma Listed Optionholders will continue to hold their Creso Pharma Listed Options. In those circumstances, Creso Pharma would be delisted from the ASX, meaning there is unlikely to be an active market for any Creso Pharma Shares issued to Creso Pharma Listed Optionholders on any exercise of their Creso Pharma Listed Options.

Creso Pharma will also be liable to pay certain transaction costs in relation to the Schemes, regardless of whether or not the Schemes are implemented. If the Schemes do proceed, additional costs will be incurred.

In addition, Creso Pharma will be required to repay the PharmaCielo Loan. Further details of the PharmaCielo Loan are set out in Section 10.10.

8.17 Compulsory acquisition of Creso Pharma Listed Options

If the Share Scheme is not approved, regardless of whether the Option Scheme is approved, the Proposed Transaction will not proceed and Creso Pharma will continue to operate as a stand-alone entity, listed on ASX.

If the Share Scheme is approved but the Option Scheme is not approved, the Share Scheme will proceed and PharmaCielo will acquire all of the Creso Pharma Shares, but Creso Pharma Listed Optionholders will continue to hold their Creso Pharma Listed Options. If this occurs, it is the intention of PharmaCielo to seek to compulsorily acquire the Creso Pharma Listed Options under Part 6A.2 of the Corporations Act, but PharmaCielo reserves the right to change its intention having regard to the prevailing circumstances.

Under Part 6A.2 of the Corporations Act, a person may compulsorily acquire all of the shares and securities convertible into shares in a company where the person holds at least 90% of all the securities of the company that are either shares or convertible into shares. The consideration paid under compulsory acquisition must represent fair value as assessed by an independent expert nominated by ASIC.

In the event that PharmaCielo seeks to compulsorily acquire Creso Pharma Listed Options, the Corporations Act sets out procedures and safeguards for Creso Pharma Listed Optionholders. If people who hold at least 10% of the Creso Pharma Listed Options validly object to the compulsory acquisition, PharmaCielo will need to apply to the Court for approval of the compulsory acquisition, and such approval may only be granted by the Court where PharmaCielo establishes that the Creso Pharma Listed Optionholders will receive fair value for their Creso Pharma Listed Options. In accordance with the Corporations Act, PharmaCielo is required to bear the legal costs of any proper and reasonable objection made by a Creso Pharma Listed Optionholder.

Creso Pharma Listed Optionholders should note that where compulsory acquisition applies in these circumstances, PharmaCielo may acquire Creso Pharma Listed Options for a cash sum only.

9. SCHEME CONSIDERATION

9.1 Scheme Consideration

If the Share Scheme becomes Effective, each Scheme Shareholder (other than Ineligible Foreign Shareholders and Electing Small Shareholders) will receive 0.0775 New PharmaCielo Shares for every Creso Pharma Share held on the Share Scheme Record Date. The Share Scheme Consideration will be issued by PharmaCielo on the Implementation Date, which is expected to be Friday, 22 November 2019.

If the Option Scheme becomes Effective, each Scheme Optionholder (other than Ineligible Foreign Optionholders and Electing Small Optionholders) will receive 0.0185 New PharmaCielo Shares for every Creso Pharma Listed Option held on the Option Scheme Record Date. The Option Scheme Consideration will be issued by PharmaCielo on the Implementation Date, which is expected to be Friday, 22 November 2019.

Ineligible Foreign Securityholders and Electing Small Securityholders will not be issued with New PharmaCielo Shares. Instead, the New PharmaCielo Shares that would otherwise have been issued to them will be issued to the Sale Agent on their behalf and they will be sold on the TSX-V. The Cash Proceeds of the sale of these New PharmaCielo Shares will then be paid to the Ineligible Foreign Securityholders and Electing Small Securityholders. Further details are set in Section 9.3.

9.2 Exercise of Creso Pharma Listed Options

Creso Pharma Listed Optionholders can participate in the Share Scheme in lieu of participating in the Option Scheme by exercising their Creso Pharma Listed Options in sufficient time before the Share Scheme Record Date. Alternatively, Creso Pharma Listed Optionholders can exercise their Creso Pharma Listed Options and then sell the Creso Pharma Shares that will be issued to them on ASX on or before the Effective Date of the Share Scheme. In deciding what action to take, Creso Pharma Listed Optionholders should consider the following matters:

- (a) the value of exercising their Creso Pharma Listed Options compared with the value of the Option Scheme Consideration (refer to the Independent Expert's Report at Annexure A). In determining the value of exercising a Creso Pharma Listed Option, Creso Pharma Listed Optionholders should compare the exercise price of that Creso Pharma Listed Option with:

- (i) the prevailing Creso Pharma Share price (if Creso Pharma Shares are trading on ASX at the relevant time); and
 - (ii) the prevailing implied value of the Share Scheme Consideration, noting that this value will fluctuate depending on movements in the trading price of PharmaCielo Shares and changes in the A\$: C\$ exchange rate;
- (b) the tax consequences of exercising their Creso Pharma Listed Options and receiving New PharmaCielo Shares under the Share Scheme compared with the tax consequences of receiving the Option Scheme Consideration. As these tax consequences will vary depending on individual circumstances, Creso Pharma Listed Optionholders should consider their own tax position and the tax implications of the Schemes;
- (c) the risk factors described in this Scheme Booklet (see Section 14); and
- (d) whether the Schemes have become Effective.

To exercise Creso Pharma Listed Options in time to participate in the Share Scheme, a valid exercise notice in respect of the Creso Pharma Listed Options that a Creso Pharma Listed Optionholder wishes to exercise and payment of the relevant exercise price in cleared funds must be received by Creso Pharma at its registered office in Australia five Business Days before the Share Scheme Record Date. Creso Pharma Listed Options cannot be exercised after this time (assuming the Option Scheme becomes Effective) and all Creso Pharma Listed Options will be cancelled on the Implementation Date for the Option Scheme.

If the Option Scheme does not become Effective, but the Share Scheme becomes Effective, Creso Pharma Listed Options will not be cancelled and Creso Pharma Listed Optionholders will continue to hold their Creso Pharma Listed Options. If this occurs, it is the intention of PharmaCielo to seek to compulsorily acquire the Creso Pharma Listed Options under Part 6A.2 of the Corporations Act, but PharmaCielo reserves the right to change its intention having regard to the prevailing circumstances. Further information in relation to the compulsory acquisition procedure is set out in Section 8.17.

Creso Pharma Listed Optionholders should consult the rules governing the Creso Pharma Listed Options for information on the procedures for exercising them. A copy of the applicable rules, and details of which Creso Pharma Listed Options are currently capable of exercise, can be obtained from the Creso Pharma Company Secretary on +61 9389 3100.

9.3 Ineligible Foreign Securityholders and Small Securityholders

(a) Ineligible Foreign Securityholders

PharmaCielo is not obliged to issue New PharmaCielo Shares as consideration to any Scheme Participant whose address in the Creso Pharma Register (as at the Share Scheme Record Date or the Option Scheme Record Date (as applicable)) is in a jurisdiction other than Australia or its external territories, New Zealand, Switzerland, Israel, Canada and Colombia, unless PharmaCielo is satisfied that the laws of that Scheme Participant's country of residence (as shown in the Creso Pharma Register) would permit the issue and allotment of New PharmaCielo Shares to that Scheme Participant, either unconditionally or after compliance with conditions which PharmaCielo in its sole discretion regards as acceptable and not unduly onerous or impracticable.

The New PharmaCielo Shares that would otherwise have been issued to these Scheme Participants will be issued to the Sale Agent on the Implementation Date and dealt with in the manner described in Section 9.3(c).

This Scheme Booklet does not constitute an offer of New PharmaCielo Shares in any jurisdiction in which it would be unlawful to make such an offer. In particular, this Scheme Booklet may not be distributed to any person, and the New PharmaCielo Shares may not be offered or sold, in any country outside Australia and its external territories, New Zealand, Switzerland, Israel, Canada and Colombia.

Creso Pharma Listed Securityholders whose registered address shown on the Creso Pharma Register is outside of the aforementioned jurisdictions should refer to the Important Information Section of this Scheme Booklet.

(b) Small Securityholders

A Creso Pharma Listed Securityholder who is entitled to receive less than 62 New PharmaCielo Shares (being a Creso Pharma Shareholder who holds less than 794 Creso Pharma Shares or a Creso Pharma Listed Optionholders who holds less than 3,325 Creso Pharma Listed Options) on the Share Scheme Record Date or the Option Scheme Record Date (as applicable) may elect to have those New PharmaCielo Shares to which it is entitled allotted to the Sale Agent and receive Cash Proceeds instead by completing an Election Form. Small Securityholders that wish to make such an election must complete an Election Form. Election Forms will be sent to those Creso Pharma Listed Securityholders who hold less than 794 Creso Pharma Shares or less than 3,325 Creso Pharma Listed Options at the time for determining which Creso Pharma Listed Securityholders are entitled to be sent a copy of the Scheme Booklet. Small Securityholders may also obtain an Election Form from Automic.

An Election Form will only be valid if it is completed in accordance with the instructions on the Election Form and is received by Automic by 2.00pm (WST) on the date that is two Business Days prior to the Implementation Date (as applicable). New PharmaCielo Shares that would otherwise have been issued to Electing Small Securityholders will be issued to the Sale Agent (or to a nominee of the Sale Agent) on the Implementation Date and dealt with in the manner described in Section 9.3(c).

(c) Sale Agent

As set out above, Ineligible Foreign Securityholders and Electing Small Securityholders will not receive New PharmaCielo Shares under the Schemes. Instead, the New PharmaCielo Shares that would otherwise have been issued to them will be issued to the Sale Agent (or to a nominee of the Sale Agent) on the Implementation Date.

PharmaCielo will procure that:

- (i) as soon as reasonably practicable after the Implementation Date, the Sale Agent sells the New PharmaCielo Shares issued to the Sale Agent (in relation to Ineligible Foreign Securityholders and Electing Small Securityholders) on-market in such manner, at such price and on such other terms as the Sale Agent determines in good faith; and
- (ii) promptly after the last sale of those New PharmaCielo Shares, PharmaCielo will procure that the Sale Agent pays the sale proceeds to PharmaCielo (for payment by PharmaCielo to the Ineligible Foreign Securityholders and Electing Small Securityholders).

Under the Schemes, Ineligible Foreign Securityholders and Electing Small Securityholders appoint Creso Pharma as their agent to receive any financial services guide or other notice given by the Sale Agent. Copies of any document Creso Pharma receives from the Sale Agent as agent for the Ineligible Foreign Securityholders and Electing Small Securityholders can be obtained by contacting Creso Pharma's Company Secretary.

Creso Pharma, PharmaCielo and the Sale Agent give no assurance as to the price that will be achieved for the sale of New PharmaCielo Shares described above. The Cash Proceeds that Ineligible Foreign Securityholders and Electing Small Securityholders will receive may be more or less than the current market value of PharmaCielo Shares after deducting any applicable brokerage and other costs.

Further details regarding the Sale Facility are as follows:

- (i) PharmaCielo has appointed the Sale Agent;
- (ii) the market price of PharmaCielo Shares is subject to change from time to time. Up-to-date information on the market price of PharmaCielo Shares is available from at www.tmxmoney.com;
- (iii) all New PharmaCielo Shares attributable to Ineligible Foreign Securityholders and Electing Small Securityholders will be issued to the Sale Agent, who will pool those New PharmaCielo Shares and sell them on market (in one transaction or a number of transactions). All of the proceeds of those sales will be pooled and then (after deduction of brokerage and other costs) the Cash Proceeds will be divided by the total number of New PharmaCielo Shares issued to the Sale Agent. The resultant amount will be paid to each Ineligible Foreign Securityholders and Electing Small Securityholders in respect of each New PharmaCielo Share to which they would otherwise have been entitled (subject to rounding); and
- (iv) the amount of Cash Proceeds received by Ineligible Foreign Securityholders and Electing Small Securityholders may be less than the actual proceeds received by the Sale Agent (or the nominee of the Sale Agent) for that person's New PharmaCielo Shares.

9.4 Fractional entitlements

If, pursuant to the Schemes, a Scheme Participant becomes entitled to a fraction of a New PharmaCielo Share, the number of New PharmaCielo Shares issued (or, in the case of Ineligible Foreign Securityholders and Electing Small Securityholders, the number of New PharmaCielo Shares the Sale Agent will receive for sale on their behalf) will be rounded up or down to the nearest whole number of New PharmaCielo Shares (rounded up if the fractional entitlement is equal to or greater than one half, and rounded down if the fractional entitlement is less than one half).

9.5 Warning against splitting of Creso Pharma Shares or Creso Pharma Listed Options

If PharmaCielo reasonably believes that a Creso Pharma Listed Securityholder has been a party to the splitting or division of a security holding in an attempt to obtain an advantage in relation to the rounding referred to in Section 9.4, then PharmaCielo reserves the right to round the entitlement of such holdings so as to provide only the number of New PharmaCielo Shares that would have been received but for the splitting or division.

9.6 Tax consequences of the Schemes and trading and holding New PharmaCielo Shares

A general guide to the Australian and Canadian tax consequences for Scheme Participants who are Australian tax residents is set out in Section 15. This guide is not intended to provide specific tax advice in respect of the individual circumstances of any Creso Pharma Listed Securityholders. Accordingly, Creso Pharma Listed Securityholders should seek their own independent professional tax advice.

9.7 How can I sell my New PharmaCielo Shares after the Implementation Date?

PharmaCielo is listed on the TSX-V. If you wish to sell the New PharmaCielo Shares you receive under the Schemes or purchase additional PharmaCielo Shares, you will need to instruct a stockbroker who is able to execute trades on the TSX-V. Not all Australian brokers are able to trade securities on TSX-V. PharmaCielo Shares are quoted and traded on TSX-V in Canadian dollars. The Australian dollar value of PharmaCielo Shares will depend on the prevailing A\$:C\$ exchange rate from time to time.

10. PROFILE OF CRESO PHARMA

10.1 Introduction

Creso Pharma (ASX:CPH) was incorporated on 20 November 2015 and was admitted to the official list of the ASX on 18 October 2016.

10.2 Overview of business

Creso Pharma has developed cannabis and hemp-derived nutraceuticals and medicinal cannabis products with a broad range of applications in both human and animal health. Creso Pharma's innovative CBD plant-based nutraceutical products are non-psychoactive and do not contain detectable levels of tetrahydrocannabinol (THC). Creso Pharma's strategy is to develop, register, and globally commercialise cannabis and hemp-derived products and treatments, according to the highest Good Manufacturing Practice quality standards.

Creso Pharma was founded on the belief that the cannabis space required pharmaceutical expertise and methodological rigour to deliver better health outcomes for people and animals. By developing and commercialising a range of standardised hemp and cannabis derived products which are administered through innovative delivery techniques, Creso Pharma has sought to become the world's most trusted supplier of cannabis and hemp derived products.

Creso Pharma's business strategy is designed to develop innovative products by combining cannabis and hemp ingredients, pharmaceutical and cannabis expertise and proprietary technologies for delivery.

Creso Pharma has developed standardized high-quality hemp-derived complementary feed products to target the management of behavioural disorders, pain, and arthritis in cats and dogs. These products are intended to provide veterinarians with an alternative to using human therapeutics to manage pet ailments.

In addition to animal health products, Creso Pharma developed human health hemp derived nutraceutical products to target management of stress and support mental and nervous functions. Creso Pharma's human food supplements including cannaQIX® have been formulated using a proprietary buccal delivery system which enables rapid absorption of the various ingredients contained within the product.

Further details on Creso Pharma's animal and human health products are set out below.

Creso Pharma's Products

Creso Pharma's primary brands are cannaQIX® and anibidiol®, as described below.

cannaQIX® - The cannaQIX® brand relates to a hemp oil based standardized nutraceutical food supplement for humans. It combines full spectrum hemp extract with CBD and hemp seed oil, zinc and vitamins B6, B12 and C, targeting the management of stress and the support of normal mental and nervous functions. The product is non-psychoactive and sugar-free. The standardized strength and formulation allow for precise dosage control. Creso Pharma has obtained the necessary approvals to market cannaQIX® in Switzerland, in the UK and in the Netherlands.



anibidiol® - The anibidiol® brand relates to a natural hemp oil based complementary feed for pets which contains non-psychoactive ingredient CBD as well as a number of vitamins and minerals and the Omega 3, Omega 6 and Omega 9 fatty acids.



As set out in the Annual Report released on 25 March 2019, Creso Pharma has also developed several new products to complement and expand on its existing portfolio of animal and human health products. These products include:

- (a) cannaQIX Nite: a sugar free food supplement which will comprise of hemp oil extract, vitamins, minerals, and lemon balm. This formulation is intended to target the management of sleep and stress, and the support of normal mental and nervous functions in humans;
- (b) cannaPEAL: a sugar free food supplement which will contain hemp seed oil, vitamins and minerals. This formulation is intended to target the management of stress in humans; and
- (c) cannaDOL: a CBD-based functional topical gel targeting the management of pain in sports-related muscle injuries, arthritis and osteoarthritis.

Creso Pharma intends to continue to develop a pipeline of innovative new products derived from hemp and cannabis as markets segments develop.

Production

Creso Pharma's products are developed by its Swiss-based product development team with over 150 years of combined experience in commercializing health and wellness products.

Formulations prepared by the Swiss development team are passed through to Creso Pharma's manufacturing partners.

The primary raw ingredients used to create Creso Pharma's products are currently sourced from external cultivation sites. However, Creso Pharma has been granted a licence to cultivate cannabis at its cultivation facility in Nova Scotia (**Mernova Facility**).

As announced on 2 July 2019, Creso Pharma has commenced cannabis sales from the Mernova Facility. The first dried flower sale (initial delivery invoice of C\$150,000) is part of multi-year agreement that Creso Pharma has signed.

As announced on 16 September 2019, the Mernova Facility has also recently been granted a processing licence by Health Canada. Subject to meeting certain conditions and demonstrating that it satisfies certain requirements, the processing licence will allow sales of dried cannabis and oils to provincial/territorial retailers and/or to the holders of a sale for medical purposes licence.

To facilitate the demand for its high-quality cannabis products, Creso Pharma intends to produce at the Mernova Facility two specific strains for its wholesale clients (B2B) and up to an additional five strains to the retail market, pending receipt of a sales license. The Company expects to produce approximately 700,000²⁶ grams of dried flower in its built-for-purpose Mernova cultivation facility by year end.

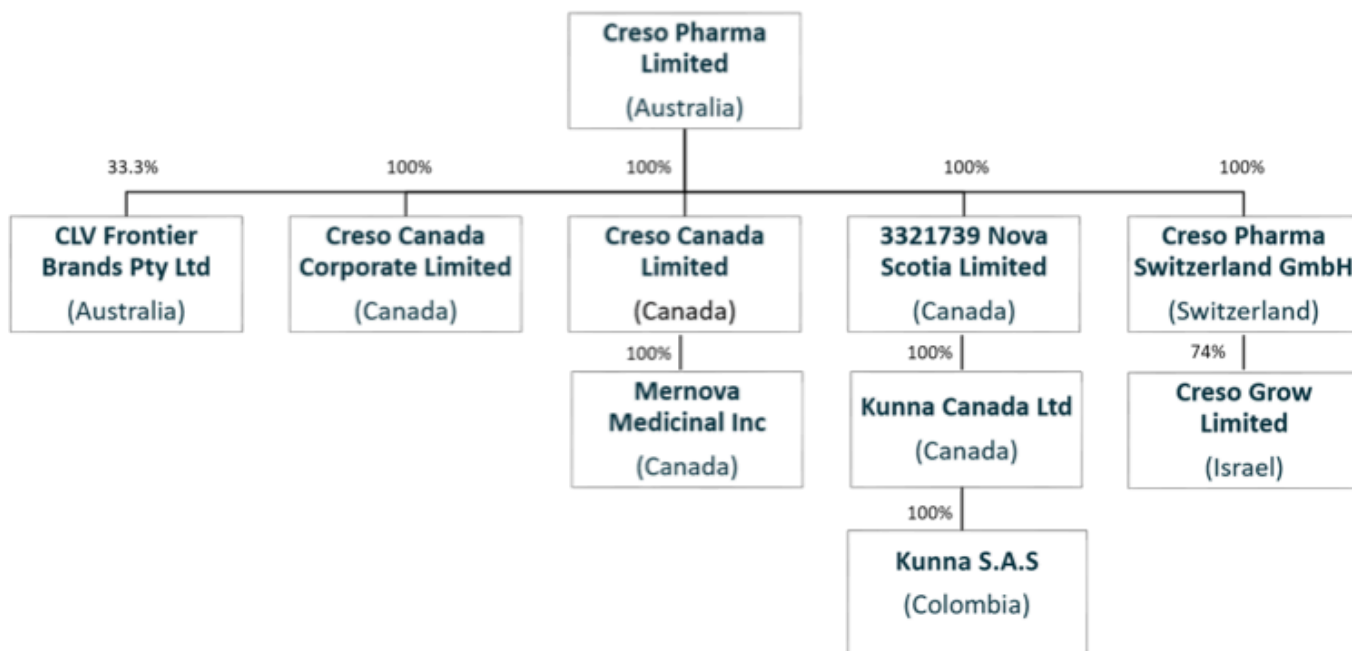
The Mernova Facility has the capacity to produce up to 4,000 kilograms of cannabis annually. It also includes a custom-built secure storeroom that can store up to \$100m in concentrated product.

Creso Pharma is progressing the European Union Good Manufacturing Practice (EUGMP) certification process for the facility. Once obtained, the EU-GMP certification will allow Creso Pharma to export its medicinal cannabis products to European pharma companies with whom it has existing relationships, subject to the receipt of required import/export licenses.

Creso Pharma's wholly owned subsidiary, Kunna S.A.S. (an entity incorporated in Colombia) (**Kunna Colombia**) currently holds a licence to produce, manufacture, market and export cannabis derivatives and products using extracts in Colombia by the Ministry of Health and a licence to cultivate cannabis in Colombia. Kunna Colombia is leveraging local resources and research combined with access to vast ideal cultivation property with a view to becoming one of the lowest cost producers in the industry. Kunna Colombia is intending to complete a full genetic and fertilisation research project.

10.3 Corporate Structure

The corporate structure of the Creso Pharma Group is set out below:



Note: the Mernova Vendors additionally hold Creso Pharma Exchangeable Shares in Creso Canada Limited. The Creso Pharma Exchangeable Shares are non-voting.

10.4 Directors of Creso Pharma

The directors of Creso Pharma as at the date of this Scheme Booklet are as follows:

Creso Pharma Director	Relevant Experience
<p>Boaz Wachtel <i>Executive Chairman</i></p>	<p>Mr Wachtel is a certified clinical research manager and holds an MA in Management and Marketing from the University of Maryland. Co-Founder and former Managing Director of MMJ-Phytotech Ltd, Australia's first publicly traded Medical Cannabis Company. Co-founder of IMCPC – International Medical Cannabis Patient Coalition. He is an Israeli medical cannabis pioneer/activist, who formulated and assisted the Ministry of Health with the implementation of the National Medical Cannabis Program – one of only few national programs in the world. He is a frequent lecturer and adviser to governments, national committees, business and NGO's on medical cannabis program formulation, grow operations, international laws and UN drug convention compliance, as well as the founder (1999) and former Chairman of the Green Leaf Party, an Israeli political party for cannabis legalisation/medicalisation, human rights and ecology.</p> <p>Mr Wachtel is currently an executive director of Roots Sustainable Agricultural Technologies Limited.</p> <p>Mr Wachtel was appointed to the Creso Pharma Board on 20 November 2015.</p>
<p>Dr. Miriam Halperin Wernli <i>Executive Director, Group CEO and Co-Founder</i></p>	<p>Dr. Halperin Wernli is a senior pharmaceutical and biomedical executive with over 25 years strategic and operational leadership in the biopharmaceutical industry and a deep understanding of drug and product development.</p> <p>Dr. Halperin Wernli is an experienced Pharmaceutical leader with skills and broad expertise in drug development, regulatory affairs, project & portfolio management, development finance & controlling, and corporate strategy and governance.</p> <p>Dr. Halperin Wernli has held worldwide senior leadership positions in product development, R&D and Strategic Marketing in Switzerland and in the USA (Merck, Sharp and Dohme, Roche and Actelion pharmaceuticals). Her extensive pharmaceutical industry and biomed research and development experience covers the full spectrum of activities from Preclinical to Clinical Development and Strategy, to Drug Registration and Launch, across several Therapeutic Areas.</p> <p>Dr Halperin Wernli was appointed to the Creso Pharma Board on 20 November 2015.</p>
<p>Adam Blumenthal <i>Non-Executive Director</i></p>	<p>Adam Blumenthal has over 10 years' experience in Investment Banking and Corporate Finance. He has deep exposure to Australian and International markets, having provided capital raising and financing solutions to an extensive number of unlisted and listed companies. Adam has played a lead role in advising and supporting multiple organisations across a broad spectrum of industries, using his experience and extensive network of international contacts to provide corporate advisory and capital markets input. He has successfully brought to market several Medical Marijuana companies spanning Israel, Canada, Switzerland and Australia. He has also been actively involved in the Mining, Cyber Security, Health Care and IT sectors.</p> <p>Adam is Chairman of EverBlu Capital Pty Ltd, the Lead Manager to Creso Pharma's capital raisings.</p> <p>Outside of his formal business activities, Adam has lectured at a leading Sydney University covering corporate governance, corporate social responsibility and ASX listings - both at an undergraduate and postgraduate level. Adam holds a Bachelor of Commerce, Master of International Relations (MIR) and Master of Business Administration (MBA) degrees. Adam is a strong supporter of Israeli innovation and has previously lived in Israel. He is a member of the Israel Business Club Sydney (IBCS).</p> <p>Mr Blumenthal is currently a non-executive director of Roots Sustainable Agricultural Technologies Limited. Mr Blumenthal has previously served as a director of Pursuit Minerals Limited and Bronson Group Limited.</p> <p>Mr Blumenthal was appointed to the Creso Pharma Board on 20 November 2015.</p>
<p>Dr James Ellingford <i>Non-Executive Director</i></p>	<p>Dr Ellingford's professional life culminated in being President of an international publicly listed billion-dollar business with its headquarters in Geneva, Switzerland and New York, USA, Take Two Interactive Software (NASDAQ:TTWO). He has vast experience in the international arena and has successfully developed close ties with both financial institutions as well as governments throughout the world.</p> <p>Dr Ellingford holds a Post Graduate degree in Corporate Management from Chartered Secretaries Australia, a Masters degree in Business Administration from Sydney Graduate School of Management as well as a Doctorate in Management from Revans University - International Management School. Dr Ellingford previously lectured MBA students in Corporate Governance at a leading Sydney University (Australian Catholic University) and has a keen interest in ethics.</p> <p>Dr Ellingford is currently the non-executive chairman of MinRex Resources Limited. Dr Ellingford has previously served as a director of Manalto Limited, Victory Mines Limited, Pursuit Minerals Limited and Hardey Resources Limited.</p> <p>Dr Ellingford was appointed to the Creso Pharma Board on 20 November 2015.</p>

10.5 Capital Structure

As at the Last Practicable Date, Creso Pharma has the following securities on issue:

- Creso Pharma Listed Securities;
 - Creso Pharma Unlisted Options;
 - Creso Pharma Performance Rights;
 - Creso Pharma Performance Shares; and
 - Creso Pharma Exchangeable Shares,
- further details of which are provided below.

Creso Pharma Listed Securities	Number
Creso Pharma Shares (ASX: CPH) ^{1,2}	151,544,332
Creso Pharma Listed Options (ASX: CPHO) ³ (exercisable at \$0.80 on or before 21 August 2020)	72,796,411

Notes:

- As at the Last Practicable Date, there were approximately 9,537 Creso Pharma Shareholders. This includes 2,053,043 Creso Pharma Shares escrowed to 20 December 2019.
- This does not include the 8,300,000 Creso Pharma Exchangeable Shares currently on issue in Creso Canada Limited, that were issued as consideration for Creso Pharma's acquisition of Mernova. Further information in respect of the treatment of the Creso Pharma Exchangeable Shares is set out in Section 8.14.
- As at the Last Practicable Date, there were approximately 2,230 Listed Optionholders.

Creso Pharma Unlisted Options	Number
CPHOPT2 (exercisable at \$0.40 on or before 27 June 2020) ¹	400,000
CPHOPT3 (exercisable at \$0.20 on or before 13 October 2020) ²	2,886,250
CPHOPT4 (exercisable at \$0.20 on or before 13 October 2019)	2,250,000
CPHOPT5 (exercisable at \$0.50 on or before 23 January 2021) ³	300,000
CPHOPT12 (exercisable at \$0.60 on or before 27 July 2020)	100,000
CPHOPT14 (exercisable at \$0.80 on or before 13 July 2021) ⁴	150,000
CPHOPT16 (exercisable at \$0.535 on or before 27 July 2021)	200,000
CPHOPT17 (exercisable at \$0.80 on or before 27 July 2022) ⁵	200,000
CPHOPT18 (exercisable at \$0.55 on or before 21 August 2021)	200,000
CPHOPT19 (exercisable at \$0.80 on or before 15 September 2022) ⁶	400,000

Notes:

- 200,000 CPHOPT2 Options have vested. Vesting and exercise of the remaining CPHOPT2 Options is subject to the holder's continuous service to Creso Pharma as a scientific committee member until 1 December 2019.
- The vesting conditions in relation to the CPHOPT3 Options relate to part of the Creso Pharma business that has been abandoned and therefore the vesting conditions can never be satisfied.
- 200,000 CPHOPT5 Options have vested. Vesting and exercise of the remaining 100,000 CPHOPT5 Options are subject to the holder's continuous service as a consultant of Creso Pharma until 1 January 2020.
- 75,000 CPHOPT14 Options have vested. Vesting and exercise of the remaining 75,000 CPHOPT14 Options is subject to the holder's continuous service as a consultant of Creso Pharma until 1 April 2020.
- Vesting and exercise of CPHOPT17 Options is subject to the holder's continuous service to Creso Pharma as a scientific committee member until 1 July 2021.
- 200,000 CPHOPT19 Options have vested. Vesting and exercise of the remaining CPHOPT19 Options is subject to the holder's continuous service, on the following dates:
 - 31 August 2020: 100,000 CPHOPT19 Options; and
 - 31 August 2021: 100,000 CPHOPT19 Options

Creso Pharma Performance Rights	Number
Creso Pharma Performance Rights	5,596,000 ¹

Notes:

- Comprising 532,000 Creso Pharma Performance Rights which have vested and 5,064,000 Creso Pharma Performance Rights, which will vest upon satisfaction of the following vesting conditions:
 - 800,000 CPHPERR6 Performance Rights: Vest upon the holder successfully identifying and concluding a collaboration or joint venture acquisition and remaining as a Creso Pharma Director for 12 months from date of issue of the Performance Rights (being 27 July 2017);
 - 800,000 CPHPERR7 Performance Rights: Vest upon the holder successfully identifying and concluding a collaboration or joint venture acquisition in Israel and remaining as a Creso Pharma Director for 12 months from date of issue of the Creso Pharma Performance Rights (being 27 July 2017);
 - 100,000 CPHPERR16 Performance Rights: Vest upon the creation of local collaborations to the material benefit of Creso Pharma as determined by the CEO, and completion of 36 months of continued engagement with Creso Pharma from date of issue (being 27 July 2017);
 - 132,000 CPHPERR23 Performance Rights: Vest upon Mernova achieving gross sales revenue of C\$500,000;
 - 132,000 CPHPERR24 Performance Rights: Vest upon Mernova achieving gross sales revenue of C\$1,500,000;
 - 200,000 CPHPERR27 Performance Rights: Vest upon Creso Pharma (or one of its controlled subsidiaries) securing a commercial deal in Sri Lanka in relation to cannaQIX50 (cannAFFORD 50) introduced and managed by the recipient;
 - 300,000 CPHPERR29 Performance Rights: Vest upon the completion of three years of continuous service with Creso Pharma, commencing from 21 November 2017;
 - 300,000 CPHPERR30 Performance Rights: Vest upon the completion of an international accounting and reporting system for the Creso Pharma Consolidated Group;
 - 300,000 CPHPERR31 Performance Rights: Vest on the completion of a global tax structure for the Creso Pharma Consolidated Group;
 - 100,000 CPHPERR32 Performance Rights: Vest upon the completion of the Annual Report & Appendix 4E for the financial year ended 2020, five days or more before the ASX reporting deadline;
 - 150,000 CPHPERR33 Performance Rights: Vest upon the completion of two years of continuous service with Creso Pharma, commencing from 18 June 2018;
 - 150,000 CPHPERR34 Performance Rights: Vest upon the completion of three years of continuous service with Creso Pharma, commencing from 18 June 2018;
 - 500,000 CPHPERR35 Performance Rights: Vest upon the holder securing distribution agreements for two of Creso Pharma's "ex-Mernova" products in the nutraceutical or lifestyle categories;
 - 400,000 CPHPERR36 Performance Rights: Vest upon the achievement of gross sales revenue from one or more of Mernova's products exceeding C\$500,000;
 - 400,000 CPHPERR37 Performance Rights: Vest upon the achievement of gross sales revenue from one or more of the Creso Pharma Consolidated Group's products exceeding C\$1,000,000;

- (p) 100,000 CPHPERR38 Performance Rights: Vest upon the Board confirming in its sole discretion that Creso Pharma (or one of its subsidiaries) has entered into a binding commercial agreement with a third party entity identified and introduced by the consultant, for the distribution of anibidiol, cannaQIX or other Creso Pharma products;
- (q) 100,000 CPHPERR41 Performance Rights: Vest upon the consultant and the nominated person remaining engaged by Creso Pharma for 24 months from the date of agreement to grant of the Creso Pharma Performance Rights; and
- (r) 100,000 CPHPERR42 Performance Rights: Vest upon the consultant and the nominated person remaining engaged by Creso Pharma for 36 months from the date of agreement to grant of the Creso Pharma Performance Rights

Creso Pharma Performance Shares	Number
Creso Pharma Performance Shares	1,212,120 ^{1,2}

Notes:

- Each Creso Pharma Performance Share will automatically convert into one Creso Pharma Share in the event Kunna S.A.S. (an entity incorporated in Colombia) is successful at the cultivation, extract and sale of 10 kgs of cannabis extract (with a minimum of 6% CBD or 6% THC in flower), which must occur on commercial arm's length terms, from its operations within 18 months of settlement of the acquisition (being 20 December 2018).
- Comprising 909,081 Creso Pharma Performance Shares which are not subject to escrow restrictions, 303,039 Creso Pharma Performance Shares which are subject to voluntary escrow until 20 December 2019.

Creso Pharma Exchangeable Shares	Number
Milestone 1 Exchangeable Shares	4,150,000 ¹
Milestone 2 Exchangeable Shares	4,150,000 ²

Notes:

- The Exchangeable Shareholders will be issued 6,587,302 Creso Pharma Shares in exchange for their Milestone 1 Exchangeable Shares, with the exchange occurring prior to the Share Scheme Record Date. Refer to Section 8.14 for further details.
- The Milestone 2 Exchangeable Shares will be dealt with in the manner agreed between the Creso Pharma Exchangeable Share Holders and PharmaCielo with the overriding objective of ensuring that, subject to Milestone 2 being achieved, the Creso Pharma Exchangeable Share Holders will receive PharmaCielo Shares instead of Creso Pharma Shares. As at the date of this Scheme Booklet, it is anticipated that an additional 510,516 PharmaCielo Shares will be issued to the Creso Pharma Exchangeable Shareholders, noting that this remains subject to agreement between PharmaCielo, Creso Pharma and the Creso Pharma Exchangeable Share Holders. In addition, PharmaCielo, Creso Pharma and the Creso Pharma Exchangeable Share Holders are currently in discussions to ascertain the implications of the receipt by Creso Pharma's Mernova Facility of a Processing Licence from Health Canada. Refer to Section 8.14 for further details.

If any existing Creso Pharma Options, Creso Pharma Performance Rights or Creso Pharma Performance Shares are exercised, or Creso Pharma Exchangeable Shares are exchanged between the Last Practicable Date and the Share Scheme Record Date or the Option Scheme Record Date (as applicable), the number of Creso Pharma Shares on issue will increase.

Additional details about the Creso Pharma Unlisted Options, Creso Pharma Performance Rights, Creso Pharma Performance Shares and Creso Pharma Exchangeable Shares are set out in Sections 8.11 to 8.14.

10.6 Creso Pharma's top ten shareholders

Based on information lodged with ASX or known to Creso Pharma, Creso Pharma had the following top ten shareholders as at the Last Practicable Date:

Creso Pharma Performance Shares	Number	Number
HSBC Custody Nominees (Australia) Limited	20,451,044	13.50%
Miriam Halperin Wernli ^{1,2}	12,800,000	8.45%
International Water and Energy Savers Ltd ³	8,300,000	5.48%
Jamber Investments Pty Ltd <The Amber Schwarz Fam A/C>	8,000,000	5.28%
Anglo Australasia Holdings Pty Ltd <Anglo Australasia A/C>	6,250,000	4.12%
Citicorp Nominees Pty Limited	3,920,358	2.59%
J P Morgan Nominees Australia Pty Limited	3,647,898	2.41%
Pheakes Pty Ltd <Senate A/C> ⁴	3,498,000	2.31%
BNP Paribas Nominees Pty Ltd <IB AU NOMS Retailclient DRP>	2,473,013	1.63%
Dorson Commercial Corp	1,549,618	1.02%

Notes:

- Dr. Miriam Halperin Wernli is a Creso Pharma Director.
- Includes 300,000 Shares held by Jorge Wernli, who is the spouse of Dr. Miriam Halperin Wernli.
- International Water Energy Savers Ltd is an entity controlled by Creso Pharma Director, Mr Boaz Wachtel.
- Pheakes Pty Ltd is an entity controlled by Peter Wall (a Partner at Steinepreis Paganin).

10.7 Creso Pharma Share trading history

The last recorded sale price of Creso Pharma Shares traded on ASX before the announcement of the Proposed Transaction was \$0.42 (recorded on 6 June 2019).

On the Last Practicable Date, the closing price of Creso Pharma Shares on ASX was \$0.3825.

During the three-month period up to and including the Last Practicable Date, the highest and lowest recorded sale prices of Creso Pharma Shares on ASX were, respectively, \$0.510 on 2 July 2019 and \$0.360 on 6 September 2019.

Set out below is the volume weighted average price (VWAP) of Creso Pharma Shares for various periods up to and including the Last Practicable Date:

	10 Days	20 days	30 days	90 days
VWAP	N/A	0.37	0.39	0.48

10.8 Creso Pharma Directors' Intentions

The Corporations Regulations require a statement by the Creso Pharma Directors of their intentions regarding the Creso Pharma business. If the Share Scheme is approved and implemented:

- (a) each Creso Pharma Director (other than Miriam Halperin Wernli), will resign from their position within the Creso Pharma Group on the Implementation Date in accordance with the terms of the Scheme Implementation Agreement; and
- (b) PharmaCielo will acquire 100% ownership and control of Creso Pharma.

It will be for the board of directors of the Combined Group to determine its intentions as to:

- (a) the continuation of the Creso Pharma business;
- (b) any major changes, if any, to be made to the business of Creso Pharma, including any redeployment of the fixed assets of Creso Pharma; and
- (c) the future employment of the present employees of Creso Pharma.

The current intentions of PharmaCielo with respect to these matters are set out in Section 13. If the Schemes are not implemented, the Creso Pharma Board intends to continue to operate Creso Pharma in the ordinary course of the business.

10.9 Secured Loan Agreements

As announced on 11 April 2019, Creso Pharma received firm commitments from sophisticated and professional investors (including PharmaCielo) (**Investors**) to raise a total of A\$5,350,000 (**Loans**). Subsequently, Creso Pharma entered into formal agreements with the Investors regarding the Loans (**Secured Loan Agreements**).

PharmaCielo advanced Creso Pharma A\$200,000 under a Secured Loan Agreement (PharmaCielo Tranche 1 Loan).

The key terms of the Loans were:

- (a) **(Interest):** 15% per annum, payable quarterly in arrears.
- (b) **(Security):** secured by a general security granted over the assets owned by Mernova Medical Inc, a wholly owned subsidiary of Creso Pharma and a property mortgage over land held by Mernova (Security). A trustee held the Security on behalf of Investors.
- (c) **(Repayment):** subject to (d), the Loans were automatically repayable on 31 August 2019, together with an early redemption fee of 20% of the face value of the Loans.
- (d) **(Conversion):** Creso Pharma could elect to make an offer to the relevant Investors, inviting the Investors to subscribe for Convertible Notes (defined and detailed below). Such conversion of the Loans into Convertible Notes was also subject to Creso Pharma Shareholders approving such issue.

EverBlu Capital acted as lead manager for the debt raising and received a fee of 6% of the total funds raised.

When the Secured Loan Agreements were entered into, Creso Pharma had held discussions with PharmaCielo as to a possible transaction between the two companies. However, at that time, no terms had been proposed and both PharmaCielo and Creso Pharma were in the process of evaluating each other.

Prior to agreeing the Loans and entering into the Secured Loan Agreements, Creso Pharma was in serious need for funding. Creso Pharma considered the alternative methods for raising funds which were available at the time, the circumstances and financial position of Creso Pharma, prevailing market conditions and advice from financial advisers. Creso Pharma considered that the Secured Loan Agreements finally agreed with the Investors were on standard commercial terms and were the most efficient and expedient mechanism for Creso Pharma to raise the funds required to ensure the company had sufficient funding to continue its business strategy.

On 31 May 2019, the Creso Pharma Shareholders passed a resolution to allow the repayment of the principal of the Loans through the issue of up to 107 secured convertible notes, each with a face value of A\$50,000 (**Convertible Notes**). The Convertible Notes approved were to have an interest rate of 15% per annum, maturity date of 12 months and could be converted at the election of Investors into Creso Pharma Shares at the conversion price of \$0.50, together with three Creso Pharma Listed Options for every two Creso Pharma Shares issued.

One of the conditions to the Scheme Implementation Agreement (as set out in Section 8.4) is that before the Delivery Time:

- (a) all Loans provided by the Investors (other than PharmaCielo) would be converted into Convertible Notes; and
- (b) all Investors (excluding PharmaCielo) would agree to exercise their conversion right in respect of the Convertible Notes to receive Creso Pharma Shares and Creso Pharma Listed Options.

Creso Pharma subsequently made each of the Investors (other than PharmaCielo) an offer to subscribe for Convertible Notes in lieu of repayment of the respective Loans. These offers were accepted and on 2 July 2019, Creso Pharma issued an aggregate of 103 Convertible Notes to the Investors (other than PharmaCielo). The Convertible Notes were subsequently converted into 10,300,000 Creso Pharma Shares and 15,450,000 Creso Pharma Listed Options. Refer to the ASX announcement released on 3 July 2019 for further details. Accordingly, the above condition to the Scheme Implementation Agreement is now satisfied.

10.10 Loan Facility with PharmaCielo

On 2 July 2019, PharmaCielo entered into a second loan agreement with Creso Pharma whereby PharmaCielo has agreed to advance Creso Pharma up to a further CAD\$3,500,000 (**PharmaCielo Tranche 2 Loan**). PharmaCielo may elect, in its sole discretion, to increase the amount advanced under the PharmaCielo Tranche 2 Loan to CAD\$5,000,000.

The PharmaCielo Tranche 1 Loan and the PharmaCielo Tranche 2 Loan (together, the **PharmaCielo Loan**) will mature on the earlier to occur of:

- (a) the later of (A) 30 November 2019 and (B) if the Share Scheme is not approved by a vote of the Creso Pharma Shareholders, that date which is four (4) months after the date of such unsuccessful vote; and
- (b) any earlier date on which Creso Pharma repays the PharmaCielo Loan in accordance with the applicable loan conditions, including, but not limited to, upon redemption of the PharmaCielo Loan.

Interest accrues on the principal outstanding amount of the PharmaCielo Loan at 15%, calculated daily and payable quarterly in arrears with the first payment to be made on the earlier of 31 December 2019 and the maturity date.

If the PharmaCielo Loan is repaid prior to the maturity date, Creso Pharma must also pay PharmaCielo an early redemption fee of 20% of the value of the PharmaCielo Loan.

The PharmaCielo Loan is secured by a general security deed granted by Creso Pharma in favour of PharmaCielo, a guarantee by Creso Canada Limited in favour of PharmaCielo of the obligations of Creso Pharma pursuant to the loan agreement, and a pledge by Creso Canada Limited in favour of PharmaCielo of all of the shares of Mernova owned by Creso Canada Limited.

10.11 Creso Pharma announcements and reports

As a disclosing entity, Creso Pharma is subject to the periodic and continuous disclosure and reporting requirements of the Corporations Act and ASX Listing Rules. Specifically, as a listed company, Creso Pharma is subject to the ASX Listing Rules which require continuous disclosure of any information Creso Pharma has concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

Creso Pharma announcements are available on its website (www.cresopharma.com) as well as the ASX website (www.asx.com.au). Further announcements concerning developments at Creso Pharma may be made and placed on these websites after the date of this Scheme Booklet.

In addition, Creso Pharma is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC in relation to Creso Pharma may be obtained from, or inspected at, an ASIC office.

Creso Pharma will provide a copy of each of the following documents, free of charge, to anyone who asks for them before the Schemes are approved by the Court. The following documents can also be obtained from the ASX website (www.asx.com.au) or from the Creso Pharma website (www.cresopharma.com):

- (a) the annual financial report of Creso Pharma for the year ended 31 December 2018 (being the annual financial report most recently lodged with ASIC by Creso Pharma before lodgement of a copy of this Scheme Booklet with ASIC for registration); and
- (b) any continuous disclosure announcements made by Creso Pharma after the date of the lodgement of the annual financial report referred to above and before the lodgement of a copy of this Scheme Booklet with ASIC for registration.

There is no information which has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules, and which is required to be set out in this Scheme Booklet.

The following table summarises material announcements made by Creso Pharma to ASX since 25 March 2019 (being the date of lodgement of the annual financial report referred to in paragraph (a)).

Date Lodged	Description of Document (ASX announcement header)
03/10/2019	Update on Proposed Acquisition by PharmaCielo
27/09/2019	Update on Proposed Acquisition by PharmaCielo
18/09/2019	Voluntary Suspension
16/09/2019	Trading Halt
16/09/2019	Pause in Trading
16/09/2019	Creso Pharma granted processing licence for its wholly-owned Canadian cannabis facility
04/09/2019	Release of Securities from Voluntary Escrow
26/08/2019	Half Yearly Report and Accounts
22/08/2019	Creso Signs with Pharma Dynamics for cQIX in South Africa
20/08/2019	Creso Receives PCLO's First Commercial CBD Export into EU
08/08/2019	Additional Information on Medleaf Distribution Agreement
06/08/2019	Distribution Agreement with Medleaf NZ for CBD Products
02/08/2019	Change of Directors' Interest Notice
01/08/2019	First Order of cannaQIX50 from Burleigh Heads Cannabis
31/07/2019	Cleansing Statement and Appendix 3B
24/07/2019	Quarterly Update & Appendix 4C
15/07/2019	Change in substantial holding
15/07/2019	Change in substantial holding
12/07/2019	Cleansing Statement and Appendix 3B
10/07/2019	Becoming a substantial holder
08/07/2019	Appendix 3Y x 4
03/07/2019	Creso Repays Debt in Preparation for Acquisition & Appendix 3B
07/06/2019	Creso Pharma to Be Acquired
04/06/2019	Release of Securities from Voluntary Escrow
31/05/2019	Results of Meeting
23/05/2019	Creso Harvests First Cannabis Crop in Canada
30/04/2019	BHC Distribution Agreement & Australian Import Permit
29/04/2019	Quarterly Update & Appendix 4C
29/04/2019	Notice of Annual General Meeting/Proxy Form
23/04/2019	Brazil Import Licence - Additional Information
18/04/2019	Brazil Import Licence Granted For cannaQIX
15/04/2019	Creso Pharma Canadian Cultivation Update
11/04/2019	Additional Information on Secured Loans
11/04/2019	Creso to Raise AUD5.35m via Secured Loans
09/04/2019	Trading Halt
05/04/2019	Response to ASX Aware Query
02/04/2019	Commercial Progress Across Premium Product Categories
27/03/2019	Appendix 4G & Corporate Governance Statement
25/03/2019	Annual Report to shareholders

10.12 Litigation

As at the Last Practicable Date, Creso Pharma is not involved in any legal proceedings. Other than as set out in Section 14.2, the Creso Pharma Directors are not aware of any legal proceedings pending or threatened against Creso Pharma.

10.13 Historical Financial Information

This Section 10.13 contains the Creso Pharma Financial Information, which comprises:

- historical income statements of Creso Pharma for the years ended 31 December 2016, 31 December 2017 and 31 December 2018;
- historical balance sheet of Creso Pharma as at 31 December 2016, 31 December 2017 and 31 December 2018; and
- historical cash flow statements of Creso Pharma for the years ended 31 December 2016, 31 December 2017 and 31 December 2018.

The financial information set out in the Section is in abbreviated form and does not contain all the information usually provided in an annual report in accordance with the Corporations Act. See Section 10.11 of this Scheme Booklet for details of where Creso Pharma's full financial reports, including all notes to those financial reports, can be found.

(a) Creso Pharma Income Statements

	31-Dec-18 \$	31-Dec-17 \$	31-Dec-16 \$
Revenue from continuing operations			
Revenue	578,222	244,910	8,022
Cost of sales	(353,566)	(437,697)	(32,828)
Gross profit/loss	224,656	(192,787)	(24,806)
Other income			
Interest income	144,037	97,341	6,498
Other Income	9,321	-	-
FX gain	-	-	-
Other expenses			
Administrative expenses	(1,547,470)	(1,224,943)	(463,727)
Compliance and regulatory expenses	(450,073)	(277,517)	(114,925)
Consultancy and legal expenses	(1,978,657)	(5,120,654)	(724,207)
Depreciation and amortisation expense	(38,721)	(6,638)	(1,318)
Employee benefit expenses	(3,041,271)	(1,174,438)	(294,457)
Exclusivity and Facilitation fee	(1,449,929)	-	-
Finance costs	(432,216)	-	(36,751)
Impairment of intangible assets	-	-	(344,705)
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)	(238,225)
Occupancy expenses	(171,395)	(109,216)	(8,944)
Share-based payment expense	(6,078,523)	(3,221,355)	(1,783,447)
Research and development costs	(286,539)	(788,623)	(488,978)
Other expenses	(43,035)	(100,635)	(39,539)
Foreign exchange losses	53,636	(56,025)	(26,708)
Loss before income tax expense	(16,845,686)	(15,076,076)	(4,584,239)
Income Tax expense		-	-
Loss after income tax for the year	(16,845,686)	(15,076,076)	(4,584,239)

	31-Dec-18 \$	31-Dec-17 \$	31-Dec-16 \$
Other comprehensive income for the year			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations	(206,421)	(15,403)	60,894
Total comprehensive income/(loss) for the year (net of tax)	(17,052,107)	(15,091,479)	(4,523,345)
Total comprehensive loss for the period attributable to owners of Creso Pharma			
<i>Loss from the year attributable to:</i>			
Non-Controlling Interest	(89,650)	-	-
Owners of Creso Pharma Australia Limited	(16,756,036)	-	-
	(16,845,686)	-	-
<i>Total Comprehensive Loss from the year attributable to:</i>			
Non-Controlling Interest	(89,650)	-	-
Owners of Creso Pharma Australia Limited	(16,962,457)	-	-
	(17,052,107)	-	-

(b) **Creso Pharma Balance Sheet**

	31-Dec-18 \$	31-Dec-17 \$	31-Dec-16 \$
Assets			
Current Assets			
Cash and Cash Equivalents	6,390,538	12,424,913	3,046,054
Trade and Other Receivables	951,132	941,337	701,826
Inventory	443,535	912	2,519
Other assets	495,489	1,228,351	-
Total Current Assets	8,280,694	14,595,513	3,750,399
Non Current Assets			
Property, plant and equipment	9,900,422	50,996	17,474
Other non-current assets	-	6,949,395	-
Intangible assets	4,101,178	-	-
Total Non Current Assets	14,001,600	7,000,391	17,474
Total Assets	22,282,294	21,595,904	3,767,873
Liabilities			
Current Liabilities			
Trade and Other Payables	2,970,505	563,748	525,828
Provisions	30,947	3,522	2,194
Borrowings	2,776,450	-	-
Total Current Liabilities	5,777,902	567,270	528,022
Non-Current Liabilities			
Borrowings	-	-	-
Total Non-Current Liabilities	-	-	-
Total Liabilities	5,777,902	567,270	528,022
Net Assets			
	16,504,392	21,028,634	3,239,851
Equity			
Contributed Equity	38,222,883	35,138,519	5,479,612
Reserves	14,799,082	5,562,002	2,356,050
Accumulated Losses	(36,427,923)	(19,671,887)	(4,595,811)
Total Equity	16,504,392	21,028,634	3,239,851

(c) Creso Pharma Cash Flow Statements

	31-Dec-18	31-Dec-17	31-Dec-16
	\$	\$	\$
Cash flows from operating activities			
Receipts from customers	570,904	244,910	8,022
Payment to suppliers and employees	(8,245,348)	(6,697,534)	(2,325,346)
Payments for research	(621,675)	(1,183,076)	(216,384)
Interest Received	122,806	98,466	5,333
Interest Paid	-	(899)	(36,751)
Net cash outflow from operating activities	(8,173,313)	(7,538,133)	(2,565,126)
Cash flows from investing activities			
Payment for plant and equipment	(6,729,569)	(40,888)	(5,496)
Payment for Intangibles	(629,759)	-	-
Cash acquired from business acquisition	-	-	26,155
Kunna Acquisition	10,814	-	-
Investment in Joint Venture	(100)	-	-
Mernova Acquisition	(120,759)	-	-
Loans to associate	(425,977)	-	-
Repayment/(Loan) from/to other entities	3,756,824	(6,006,676)	-
Net cash outflow from investing activities	(4,138,526)	(6,047,563)	20,659
Cash flows from financing activities			
Proceeds from the issue of shares	1,356,351	24,412,412	6,005,500
Proceeds from exercise of options	2,562,136	200,000	-
External Loan Drawdown	2,430,000	-	-
Borrowing Costs	(117,486)	-	-
Share issue costs	0	(1,647,856)	(414,980)
Net cash inflow from financing activities	6,231,001	22,964,556	5,590,520
	0		
Net (decrease) / increase in cash and cash equivalents	(6,080,838)	9,378,859	3,046,053
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the beginning of the year	12,424,913	3,046,054	1
Effect of exchange rate fluctuations on cash held	46,463	-	-
Cash and cash equivalents at the end of the year	6,390,538	12,424,913	3,046,054

(d) Basis of Preparation of the Creso Pharma Financial Information

The financial statements presented above summarise certain financial information about Creso Pharma for the years ended 31 December 2016, 2017 and 2018. The historical annual financial information has been extracted from the audited financial statements contained in the published annual reports of Creso Pharma for each of the same year ends. In each instance the financial statements were audited by RSM Australia Partners and all included an unqualified opinion.

Further information on Creso Pharma's financial performance for the financial years ended 31 December 2016, 2017 and 2018 is provided in the results announcements to ASX dated 28 February 2017, 27 February 2018 and 25 March 2019. These documents are available from ASX on its website: www.asx.com.au (ASX code for Creso Pharma is CPH.)

Creso Pharma's significant accounting policies have been reported in each of its annual reports for 2016, 2017 and 2018. The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for each reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been adopted.

AASB 16 Leases is not yet mandatory and has not been adopted. The standard is applicable to annual reporting periods beginning on or after 1 January 2019. Adoption of AASB16 for the financial year to December 2019 is not expected to have a significant effect upon the financial statements of the consolidated entity as it incurs small amounts of lease expenditure.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

- *AASB 9 Financial Instruments*: The consolidated entity adopted AASB 9 with effect from 1 January 2018.
- *AASB 15 Revenue from Contracts with Customers*: The consolidated entity adopted AASB 15 with effect from 1 January 2018.
- *AASB 41 Agriculture*: The consolidated entity will adopt AASB41 in preparing its financial statements for the financial year ended 31 December 2019.

Going Concern

The financial statements for each reporting period have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business at the amounts stated in the financial information presented in this Scheme Booklet.

Should operations not successfully achieve operating, capital and working capital forecasts, including the proposed acquisition of Creso Pharma by PharmaCielo, Creso Pharma will require additional funding in the form of debt and/or equity. Negotiation for additional equity and debt funding will be further progressed as required and the Creso Pharma Directors have a reasonable expectation that such additional funding can be secured.

Accordingly, the Creso Pharma Directors believe that the consolidated entity will be able to continue as a going concern.

The financial statements do not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as a going concern.

10.14 Material events since 31 December 2018

Within the knowledge of the Creso Pharma Directors and other than as disclosed in this Scheme Booklet, including the below statements, there has not been any other material change in the financial position of Creso Pharma since 31 December 2018.

Material changes to financial performance and financial position since 31 December 2018 for the period ending 30 June 2019 are set out below. Since 30 June 2019, the only material financial events have been:

- (a) the conversion of a portion of the Loans (\$5.15 million) into Creso Pharma Listed Securities; and
- (b) the draw-down of two instalments of the PharmaCielo Loan, \$1.5 million in July and \$1 million in August, amounting to \$2.5 million in total, to fund on-going operations.

Changes in Financial Performance

Loss for the period

The net loss for the period reduced by nearly \$2,361,000 due to increases in revenues and changes in activities – as noted below.

Revenues

Sales of finished products increased \$529,000 due to re-orders, new products and new markets.

Consultancy and Legal expenses

Increased M&A activity in 2019 caused an increase in consultancy and legal expenses of \$878,000.

Employee Benefit Expenses

Employment costs increased by \$517,000 due to operations scaling up in Mernova and expanded operations in North and South America and Switzerland.

Finance Costs

Finance costs increased by \$980,000 due to capital raisings and new loan funds.

Share-based payments expense

The expense was down by \$2,863,000 due to a larger number of performance rights becoming fully vested in the period, arising from contractors and staff meeting KPIs in the 2018 financial period.

Non-recurring expenses

There were non-recurring expenses in 2018 of \$1,450,000.

Changes in Financial Position

Net Assets

Net assets increased by \$774,000 due to changes in operations – as noted below.

Net current assets decreased by \$4.5 million, due mainly to the Mernova cultivation licence and the commissioning of the Mernova plant, requiring cash expenditure and the raising of short-term loans.

Cash

Cash and cash equivalents decreased by \$2.8 million due mainly to payments for the completion of the Mernova cultivation facility.

Inventories

Mernova cultivated its first standing crop valued at \$847,000.

Property, Plant and Equipment

The Mernova cultivation facility was completed in the period, resulting in additional capitalised costs of \$2.0 million.

Intangible Assets

Payments and accruals, mainly relating to the Mernova cultivation licence, resulted in increases to Intangible Assets of about \$3.3 million.

Trade and other payables and Accruals

Payables and accruals decreased \$743,000 due mainly to the completion of the Mernova construction contract.

Borrowings

Borrowings increased by \$2.6 million in the period, due to additional loan funds raised in the period of \$5.35 million. On 3rd July 2019, \$5.15 million of that amount was converted to Creso Pharma Listed Securities. Further details are set out in Section 10.9.

As summarised in Section 10.10, PharmaCielo (who had a Loan of A\$200,000 remaining) agreed to extend Creso Pharma up to a further CAD\$5,000,000. The first draw-down of the loan occurred on 9 July 2019 for A\$1.5million and a second drawdown of the loan occurred on 8 August 2019 for A\$1million.

Contributed Equity

Contributed equity increased by \$2.915 million in the period due the issuance of shares and options.

Reserves

Reserves increased by \$4.132 million due to share based payments expenses, Mernova's first inventory and increases in unrealised exchange gains.

10.15 Forecast Financial Information

Creso Pharma has given careful consideration as to whether a reasonable basis exists to produce further reliable and meaningful forecast financial information with respect to Creso Pharma. It has been determined that, as the date of this Scheme Booklet, it would be misleading to provide forecast financial information, as a reasonable basis does not exist having regard to the requirements of applicable law, policy, and market practice.

ENDNOTES:

- 26 This is based on Mernova's actual harvest schedule by week, through to the end of the 2019 calendar year. Estimates for yield are based on the first two harvests, which were very high quality. As growing processes are fine-tuned, yield per plant is expected to increase.

11. PROFILE OF PHARMACIELO

This Section of the Scheme Booklet contains information in relation to PharmaCielo as at the Last Practicable Date. Additional information is included in the Independent Expert's Report set out in Annexure A to this Scheme Booklet.

11.1 Introduction to PharmaCielo

PharmaCielo is a global company head quartered in Toronto, Canada and publicly traded on the TSX-V. PharmaCielo's wholly owned operating subsidiary, PharmaCielo Colombia is headquartered in Rionegro, Colombia. PharmaCielo Colombia is a fully licensed and permitted cultivator, producer, and distributor of THC and CBD medical cannabis in Colombia for: (a) use in Colombia; (b) international export (CBD); and (c) research purposes. Public trading of PharmaCielo Shares commenced on the TSX-V on 18 January 2019.

PharmaCielo aims to focus on supplying large channel distributors and product manufacturers in domestic and international markets with cannabis and cannabis-derived products. PharmaCielo is initially targeting global markets for CBD extracts due to less stringent regulatory restrictions, and as global medical cannabis regimes continue to expand and mature, PharmaCielo also intends to supply THC extracts in the future.

11.2 Overview of PharmaCielo's Operations

Background

PharmaCielo is a Canadian integrated medicinal cannabis company with its core operations at its facility in Rionegro, Colombia. PharmaCielo is focused on cultivating, processing and supplying all natural, medicinal-grade cannabis oil extracts and related products to large channel distributors. As the Colombian market currently allows for the commercial production and distribution of medicinal cannabis products, PharmaCielo intends to sell medicinal cannabis in Colombia and to export its cannabis to foreign markets.



Figure 1. Map of Rionegro, Colombia

Through its wholly owned subsidiary, PharmaCielo Colombia, PharmaCielo is built to supply the world's global end-product companies and large channel distributors with cannabis products for medical purposes. PharmaCielo Colombia was the first Colombian recipient of a licence to cultivate THC dominant strains and produce THC focused cannabis oil extracts. PharmaCielo Colombia has received licenses from the Colombian Ministry of Social Health and Protection (**Ministry of Health**) or the Colombian Ministry of Justice and Law (**Ministry of Justice**) to process cannabis plants for medical and scientific purposes that will enable the development of products for domestic and international markets.

PharmaCielo Colombia is in the process of cultivating medicinal cannabis at its facility in Rionegro, Colombia for a variety of medical conditions. Currently, PharmaCielo has 20 strains of cannabis of its bank of 150 strains approved by the Colombia National Food and Drug Surveillance Institute, the Colombian prescription drug regulatory body. PharmaCielo's products include a variety of THC and CBD compositions designed to treat specific medical conditions. The composition of the strains includes a wide range of THC and CBD ratios.

PharmaCielo's core operations are in Colombia and carried out through its wholly-owned subsidiary, PharmaCielo Colombia. PharmaCielo is substantially dependent on the licences granted to PharmaCielo Colombia and the evolving regulatory framework of cannabis in Colombia. PharmaCielo Colombia was the first Colombian recipient of a licence to cultivate THC-dominant strains and produce THC-focused cannabis oil extracts. PharmaCielo Colombia has received licenses from the Ministry of Health and the Ministry of Justice in Colombia to process cannabis plants for medical and scientific purposes that will enable the development of products for domestic and international markets.

Production

PharmaCielo Colombia's nursery and propagation centre located in Rionegro, Colombia is approximately 2.9 million square feet and approximately 1.3 million square feet of that area is available for open-air greenhouse production. PharmaCielo Colombia currently utilizes 750,000 square feet to develop and propagate a steady stream of genetically stable cuttings (clones) that will supply a scalable 600-hectare network of contracted cultivation centres, which in turn root and cultivate the cuttings into flowering plants that eventually yield the harvested cannabis flower that will be sent for processing into standardized, medicinal-grade oil extracts.

PharmaCielo Colombia will eventually use the entire facility for producing cuttings to supply its contract growers. Each hectare of greenhouses contains 180 planting beds; each bed is 40.5 square meters (1.35m x 30m). The total bedding area per hectare is 7,290 square meters. This nursery and propagation facility is capable of producing more than the estimated 12 million cuttings (clones) required each week to supply 600 hectares of contract cultivation and harvest centres running at full capacity. A 600-hectare contract cultivation network will, conservatively, require a weekly supply of approximately 12.2 million fresh cuttings from PharmaCielo Colombia's nursery and propagation centre, which can be comfortably supplied at approximately 86% operating capacity.

These outbound cuttings, destined for contract cultivation, are hand-culled from populations of mother plants, which will occupy a dominant percentage, of approximately 75% of the overall nursery and propagation centre's open-air greenhouse planting capacity. The mothers supply all of the feeder stock cannabis cuttings to be delivered to and cultivated by PharmaCielo Colombia's network of contract cultivation and harvest farms.

Mother plants supply genetically stable varieties of cuttings as they also originated as harvested cuttings from grandmother plants. As the cloning process perfectly replicates plant genetics, the genetics of the mother plants mirror those of the grandmother plants from which they were harvested. After extensive laboratory and field propagation testing only a select few plants determined to possess superior genetics are selected to be grandmothers. To ensure the genetic consistency of future generations of grandmother plants (and by extension future mother plants), tissue culture harvested from the grandmother plants is stored in an onsite tissue culture lab. In other words, when the entire population of grandmother plants needs to be replaced with new grandmothers, which is required approximately every six months, it is replaced with its own genetic offspring via tissue culture propagation.

Figure 2. Rionegro Facility



Figure 3. Inside The Rionegro Facility²⁷



The equatorial location of these facilities offers PharmaCielo the opportunity to cultivate the highest quality cannabis flowers and produce correspondingly high-quality oil extracts through combination of a consistent and natural 12 hour sunlight/darkness light cycle, along with the expertise provided by the PharmaCielo workforce drawn from Colombia's cut flower industry. PharmaCielo also benefits from the natural light cycle through minimal energy requirements, providing the potential for an extremely low carbon production footprint and high production cost efficiency.

Figure 4. Pilot Extraction Facility



PharmaCielo Colombia is also currently constructing a research technology and processing centre (**Research Technology and Process Centre**), targeted to be completed by the fourth quarter of 2019. Once complete, it must be certified by the Colombian National Food and Drug Surveillance Institute (**INVIMA**) to ensure that it meets the Colombian goods manufacturing standards for pharmaceuticals laboratories in accordance with the guidelines set out in Decree 549 of 2001 and INVIMA Resolution 01087 of 2001 (**GMP Standards or GMP**). The Research Technology and Process Centre will contain: (i) facilities to allow dry flowers naturally as well as using drying machines; (ii) a milling area; (iii) extraction areas; and (iv) an area designed for testing for levels of THC and CBD levels in cannabis as well as for general compliance.

PharmaCielo has expended approximately US\$8,500,000 to date constructing the Research Technology and Processing Centre and anticipates expending as further \$5,500,000 in order to complete construction. In addition, once complete, the Research Technology and Processing Centre will be required to receive certification in accordance with GMP Standards. The Research Technology and Processing Centre will allow PharmaCielo to sell GMP certified cannabis products. PharmaCielo may also use third party facilities that are GMP certified other than the Research Technology and Processing Centre to enable it to obtain GMP certification in the event that completion of the construction of the Research Technology and Processing Centre is delayed or even if construction is completed and the facility is operational.

GMP Standards require a system in place that ensures that products are consistently produced and controlled according to quality standards. GMP Standards are designed to minimize the risks involved in any pharmaceutical, food, cosmetics, and production that cannot be eliminated through testing the final product. GMP Standards implement standards for all facets of production including materials, premises, equipment, training and personal hygiene of staff. Detailed written procedures are essential for each process that could affect the quality of the finished product. In addition, systems must be implemented to provide documented proof that correct procedures are consistently followed at each step in the manufacturing process, every time a product is made.

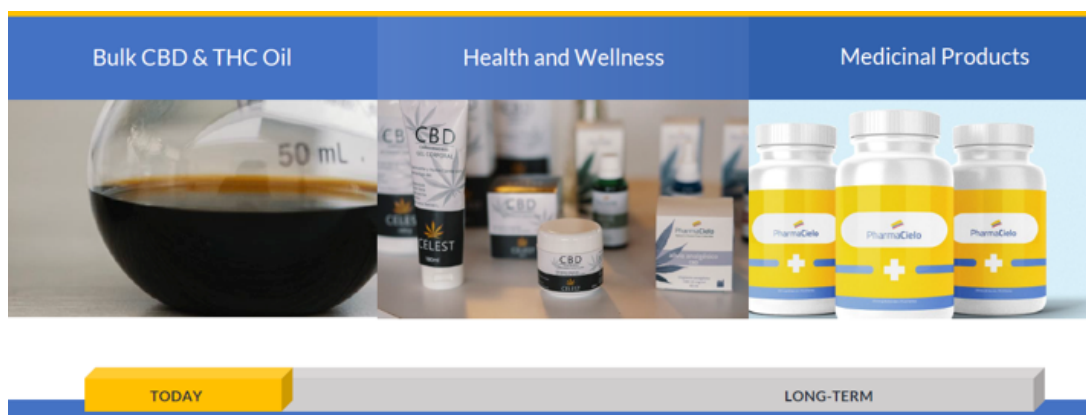
Principal Products

PharmaCielo is focused on cultivating, processing and supplying all natural, medicinal grade cannabis oil extracts and related products to large channel distributors, including pharmacies, medical clinics, and cosmetic companies.

PharmaCielo Colombia is in the process of cultivating medicinal cannabis at its facility in Rionegro, Colombia for a variety of medical conditions. Currently, PharmaCielo has 20 strains of cannabis of its bank of 150 strains approved by INVIMA.

PharmaCielo's products include a variety of THC and CBD compositions designed to treat specific medical conditions. The composition of the strains includes a wide range of THC and CBD ratios.

Figure 5. Anticipated Product Offering



PharmaCielo sources the majority of its non-GMO feeder stock seed material through the legally established channels set forth by the Colombian government. These seeds are used to establish a germplasm genetic bank and then all cannabis plants are grown from the cuttings of the mother plants from this germplasm genetic bank. Water for growing is obtained from two lakes on the property. The lakes are fed from rain water that flows down the side of local mountains. Soil is obtained from the property itself. Fertilizer is obtained from various suppliers based on the demand from the cultivation schedule.

Specialized Skills

The nature of PharmaCielo's business requires specialized experience and technical skill in managing large-scale cultivation operations, medical sciences, chemical engineering, and marketing and distribution of medicinal and wellness products.

PharmaCielo's and PharmaCielo Colombia's respective board of directors and management teams have strong experience enabling the team to operate a business of this nature including experience in horticulture, crop development, horticultural production techniques, produce manufacturing and international finance. The boards of directors and management teams also have experience operating in the Colombian business environment.

As of the date of this Scheme Booklet, PharmaCielo has 350 full-time employees.

Licenses

According to Colombian law, there are four types of cannabis licenses that authorize different activities concerning the various stages of the production line of the medical cannabis industry: (i) the Cannabis Seeds Possession License; (ii) the Cannabis Psychoactive Cultivation License; (iii) the Cannabis Non-Psychoactive Cultivation License; and (iv) the Cannabis Manufacturing License. An overview of each license PharmaCielo possesses is provided below.

The legal framework currently in force in Colombia regarding medical cannabis is established in the Law 1787 of 2016 (the **Law**) and the **Decree** 613 of 2017 (the Decree). Each of these licenses must be issued by the Ministry of Health or the Ministry of Justice. In accordance with Colombia's international obligations, there is a limit in the amount allowed for fabrication or cultivation assigned by the Colombian government (specific crop or manufacturing quotas) that must be requested when having a Cannabis Psychoactive Cultivation License or a Cannabis Manufacturing License. The activities of cultivation and manufacturing can only be started once the specific quotas have been granted to the licensee.

The cannabis Colombian regulation provides an additional requirement applicable to the Cannabis Psychoactive Cultivation License licensees and Cannabis Manufacturing License licensees, which is to be granted with crop and manufacturing quotas (the **Quotas**). According to article 2.8.11.2.6.2 of the Decree, the granting of Quota is made collectively by the Ministry of Health, the Ministry of Justice, the Colombian Agricultural Institute, INVIMA, and the Colombian National Narcotics Fund.

According with article 2.8.11.2.6.5 of the Decree, there are two types of Quotas: (i) crop quotas of psychoactive cannabis (applicable to the licensees of the Cannabis Psychoactive Cultivation License licensees) that are granted by the Ministry of Justice; and (ii) the manufacturing quotas of psychoactive cannabis (applicable to Cannabis Manufacturing License licensees that will manufacture psychoactive cannabis) that are granted by the Ministry of Health.

These Quotas are requested by the licensees no later than the last calendar day of April of each year, and, if they are granted by the appropriate authority, they can only be used by the licensees during the next calendar year (for instance, if a licensee requests a specific crop Quota in March 2017, and this Quota is granted by the Ministry of Justice, the licensee will be allowed to use the Quota from 1 January 2018 to 31 December 2018). In extraordinary events, the licensees can request a supplementary Quota that will apply to the calendar year requested (the issuance of these Quotas depends on the special circumstances defined by the Colombian governmental authorities).

Figure 6. Colombian Cannabis Licensing Framework²⁸



The operations of PharmaCielo Colombia do not require a Cannabis Seeds Possession License.

PharmaCielo Colombia has the following licenses and quotas:

(a) Cannabis Psychoactive Cultivation License

This license is granted by the Ministry of Justice and authorizes production of cannabis seed for cultivation, production of grain, fabrication, storage, commercialization, distribution or transportation of psychoactive cannabis and cultivation for scientific purposes. The applicant must comply with the specific requirements contemplated in article 2.8.11.2.4.2 of the Decree.

PharmaCielo Colombia applied to the Ministry of Justice for this license on 15 August 2017 and it was granted on 19 October 2017, pursuant to Resolution 843.

The Cannabis Psychoactive Cultivation License grants PharmaCielo Colombia the right to cultivate psychoactive cannabis plans for: (a) seed sowing production, (i.e., cultivation to produce sowing seeds); (b) cultivation from sowing to harvest; and (c) scientific purposes.

PharmaCielo Colombia will apply to the Ministry of Justice for a Quota when it has entered into commercial agreements requiring it to supply cannabis produced under the Cannabis Psychoactive Cultivation License as the Quotas are granted only once demand is established upon entering into a commercial agreement.

(b) Cannabis Non-Psychoactive Cultivation License

This license is granted by the Ministry of Justice and is intended for authorizing production and cultivation of cannabis grain, derivatives fabrication, industrial or scientific purposes, or for storage and final disposition. The applicant must comply with the specific requirements contemplated in article 2.8.11.2.5.2 of the Decree.

PharmaCielo Colombia applied to the Ministry of Justice for this license on 15 August 2017 and it was granted on 19 October 2017, pursuant to Resolution 842.

The Cannabis Non-Psychoactive Cultivation License grants PharmaCielo Colombia the right to cultivate non-psychoactive cannabis plans for: (a) seed sowing production; (b) crops; and (c) scientific purposes.

The Cannabis Non-Psychoactive Cultivation License does not require a Quota.

(c) Cannabis Manufacturing License

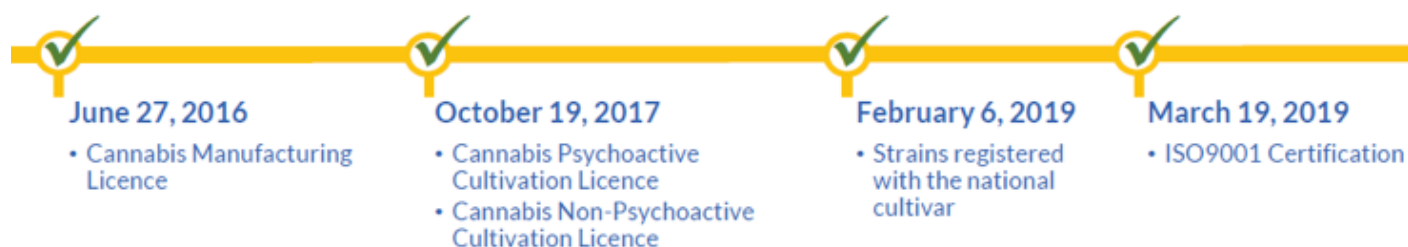
This type of license is granted by the Ministry of Health and contains an authorization to manufacture derivatives of non psychoactive cannabis for use inside Colombian territory, for scientific purposes or for exportation. The applicant must comply with the specific requirements provided by article 2.8.11.2.2.2 of the Decree.

PharmaCielo Colombia applied to the Ministry of Health for this license on 18 January 2018 and it was granted on 16 April 2018, pursuant to Resolution 1357. On 30 January 2019, PharmaCielo Colombia received approval from the Ministry of Health for an amendment to its previously issued Cannabis Manufacturing License, changing the facility approved for manufacturing to the newly constructed facility in Rionegro.

The Cannabis Manufacturing License grants PharmaCielo Colombia the right to produce and manufacture cannabis derivatives on the Sant Angelo/la Margarita estate for: (a) use within Colombia; (b) foreign export; and (c) scientific purposes.

The Cannabis Psychoactive Cultivation License, the Cannabis Non-Psychoactive License, and the Cannabis Manufacturing License are granted by the Colombian government when the applicant fulfills the general criteria described in the article 2.8.11.2.1.5 of the Decree, and the specific requirements for each type of license. The licenses validity is up to five (5) years. The Colombian government maintains the right to monitor the activities performed by the corresponding licensee.

Figure 6. Colombian Cannabis Licensing Framework



11.3 Directors of PharmaCielo

The directors of PharmaCielo are as follows:

Creso Pharma Director	Relevant Experience
Simon Langelier, Chairman of the Board and Director	Mr. Langelier is currently a member of the board of Imperial Brands PLC as an Independent Non-Executive Director. He comes from a 30-year career with Philip Morris International where he served as a senior executive in roles all over the world, most recently as the managing director of Coltabaco (Philip Morris Colombia). Mr. Langelier was also the President of Next Generation Products and Adjacent Businesses. Mr. Langelier received a Bachelor of Science with Honours in Operational Research from the University of Lancaster, UK. He has served as director of PharmaCielo since May 2015. ⁽¹⁾
David Attard, Chief Executive Officer, President, and Director	Mr. Attard served as Senior Vice President, Corporate Strategy & Business Innovation and member of the Executive Management Team at President's Choice Financial, a subsidiary of Loblaw Companies Limited. He was responsible for overseeing corporate development and strategy, product development and digital commerce for President's Choice Financial across all of its divisions. Mr. Attard has over 17 years of experience in the financial services industry at corporations like President's Choice Financial, Citigroup, American Express and The Loyalty Group. Mr. Attard holds a BA from York University. He has served as a director of PharmaCielo since January 2015. ⁽¹⁾
Douglas Bache, Director	Mr. Bache is currently President of Maxum Capital Markets Inc., a private merchant bank offering corporate finance and strategy advisory services primarily to mining companies. He is also a Director of Marathon Gold Corporation. He was Chief Executive Officer and a Director of Valencia Ventures Inc. from April 2006 to June 2008 and was a Director of Aberdeen International Inc. from January 2006 until September 2008. Mr. Bache was also Treasurer of North American Palladium Ltd. from August 2003 to December 2005. Mr. Bache holds a B. Math and Business Administration Degree from the University of Waterloo. He has served as a director of PharmaCielo since December 2018. ⁽¹⁾
Henning von Koss, Director	Mr. von Koss spent 27 years with Bayer Material Science, where he served as senior vice president of Latin America, president and head of healthcare in the Andean region, and in numerous management positions in Brazil, Germany and Poland in addition to the Andean region. Most recently Mr. von Koss served as Chief Operating Officer of HAPVIDA, the third largest managed care organization in Brazil. He has served as Chief Executive Officer of Industrial Levorin, COO of Amil Assistencia Medica Internacional, the largest managed care organization in Brazil and Chief Executive Officer of Medial Saude (Grupo AMIL). Mr. von Koss received a Bachelor's degree in Business Administration from Pontificia Universidade Catolica in São Paulo, Brazil. He has served as a director of PharmaCielo since January 2017. ⁽¹⁾
Matteo Pellegrini, Director	Mr. Pellegrini has over 25 years in international management and leadership experience with Phillip Morris International, spanning numerous European and Asian countries. From 2003 to 2015 he served as Philip Morris International's President of Asia. Mr. Pellegrini received both his MBA, Advertising and Marketing Communication, from MasterPublitalia and his Bachelor's in Business Administration from Università Bocconi, in Milan, Italy. He has served as a director of PharmaCielo since April 2017. ⁽¹⁾
Carlos Manuel Uribe, Director	Mr. Uribe is currently a general manager of Flores El Capiro S.A. Mr. Uribe is presently chairman of the board of Asocolflores. He serves on the boards of several companies including, Petpack Ltd., a PET preforms and containers manufacturer; Cartama S.A., the largest avocado producer in Colombia; Pegauchó S.A.S., a Colombian adhesives/sealants producer; and Savannah Crops S.A.S., the largest MD2 pineapple producer in Colombia. Mr. Uribe received a MBA from Southern New Hampshire University and a Bachelor's degree in Production Engineering from E.A.F.I.T. in Medellín, Colombia. He has served as a director of PharmaCielo since August 2015. ⁽¹⁾

Notes:

1. PharmaCielo became a public company in January 2019. Prior to thereto, the directors and officers of PharmaCielo were directors and officers of "PharmaCielo Ltd.", a private company incorporated under the Canada Business Corporations Act (the CBCA).

11.4 Material contracts

As at the Last Practicable Date, the only material contracts of PharmaCielo are:

- (a) the agreement respecting the plan of arrangement (the **Plan of Arrangement**) pursuant to the CBCA dated 17 August 2018 between AAJ Capital 1 Corp (**AAJ**), 10949469 Canada Inc., and PharmaCielo Holdings Ltd., a private corporation under the laws of the CBCA formerly known as "PharmaCielo Ltd. (**PharmaCielo PrivateCo**), pursuant to which AAJ and PharmaCielo PrivateCo completed the Plan of Arrangement, AAJ changed its name to "PharmaCielo Ltd." And the business and operations of PharmaCielo PrivateCo became those of PharmaCielo (formerly AAJ);
- (b) the Scheme Implementation Agreement;
- (c) Cannabis Psychoactive Cultivation License;
- (d) Cannabis Non-Psychoactive Cultivation License; and
- (e) Cannabis Manufacturing License.

The two joint venture agreements outlined in Section 11.5 are not currently considered to be material contracts because each of these joint ventures is currently in a very preliminary stage.

Distribution to the United States

On 25 September, 2019, PharmaCielo announced it had entered into a non-exclusive United States sales agreement (the **Sales Agreement**) with General Extract LLC (**General Extract**), a multi-state distributor of hemp and hemp derivatives. Pursuant to the Sales Agreement, PharmaCielo will provide General Extract with bulk medicinal CBD isolate, which meets the purity requirements of *Agriculture Improvement Act of 2018*, for the purpose of sales in multiple states, including California and Colorado. The term of Sales Agreement covers the balance of the 2019 calendar year and permits for both renewal and volume expansion in 2020, based on market demand.

PharmaCielo has completed initial shipments to General Extract in compliance with international trade and custom requirements, and has agreed to the volume of CBD isolate to be shipped for the balance of the 2019 calendar year for distribution in the United States.

11.5 Acquisitions and Joint Ventures

Italian Joint Venture Agreement

On 21 December 2018, PharmaCielo entered into a joint venture agreement (the **Eugene Joint Venture Agreement**) with Eugene S.R.L., a company existing under the laws of Italy (**Eugene** and together with PharmaCielo, **the Italian Parties**). The Italian Parties agreed to establish a joint venture for the sales, marketing, and product development of PharmaCielo branded cannabis derivative therapeutic and cosmetic products and supplements in Italy.

Pursuant to the Eugene Joint Venture Agreement, the Italian Parties have formed an Italian limited liability company (the **Joint Venture**) of which 70% is owned by PharmaCielo and 30% by Eugene (each, respectively, the **Percentage Interest**). The Italian Parties have agreed to contribute an aggregate of €400,000 to the Joint Venture, in accordance with their respective Percentage Interests (i.e., €280,000 by PharmaCielo and €120,000 by Eugene), of which an aggregate of €10,000 has been contributed to date (€7,000 by PharmaCielo and €3,000 by Eugene). All costs of incorporation that cannot be borne by the Joint Venture itself are borne by the Italian Parties in accordance with their respective Percentage Interest. The Joint Venture's board of directors is comprised of five directors, three of whom are appointed by PharmaCielo, and two of whom are appointed by Eugene. The office of Chairman is held by one member of the board of directors of Eugene appointed by PharmaCielo. The Managing Director of the Joint Venture is appointed by Eugene.

It is anticipated that PharmaCielo will be the sole owner of all regulatory authorizations and registrations filed by the Joint Venture at the European level and will be responsible for the cost of obtaining such authorizations. Pursuant to the Joint Venture Agreement, it is further anticipated that PharmaCielo will not own any Italy-specific authorizations or authorizations required in connection with new products developed by Eugene. The Eugene Joint Venture Agreement grants Eugene the irrevocable right to subscribe for an additional 5% Percentage Interest in the Joint Venture (for a total 35% Percentage Interest) (the **Earn-In Option**) upon satisfaction of: (i) achieving commercial sales by the Joint Venture of cannabis derivative products for therapeutic purposes in Italy of not less than €10,000,000; and (ii) achieving commercial sales by the Joint Venture of cannabis derivative products for cosmetic purposes and supplements in Italy of not less than €5,000,000 (collectively, the **Condition Precedent**). Eugene can exercise the Earn-In Option during the period commencing on the first business day following Eugene's satisfaction of the Condition Precedent and ending 30 business days later. The Earn-In Option shall be exercised only in whole and not in part, and only once during the duration of the Eugene Joint Venture Agreement.

The Joint Venture is anticipated to be funded by a combination of contributions from the Italian Parties, revenues from the Joint Venture's operations and debt. The Italian Parties intend to contribute funds as provided for in an agreed upon business plan and annual budget, in accordance with funding requests submitted to the Italian Parties by the board of directors.

The Joint Venture is anticipated to enter into a long-term supply agreement with PharmaCielo Holdings S.A.S., which will exclusively supply the Joint Venture with raw cannabis oils to be used for the business of the Joint Venture.

Under the Eugene Joint Venture Agreement, PharmaCielo is granted the option to purchase Eugene's quota in the Joint Venture upon any change of control in Eugene and if there is a change of control of PharmaCielo, then shall have a call option to purchase Eugene's interest in the Joint Venture at a price equal to €5,000,000. Both options are subject to certain restrictions.

The Italian Parties are provided certain rights and are subject to certain restrictions with respect to their interests in the Joint Venture, including lock-up and transfer restrictions, tag-along rights, and drag-along rights.

Mexican Joint Venture Agreement

On 25 January 2019, PharmaCielo entered into a definitive agreement (the **Mexican Joint Venture Agreement**) with Mino Labs, S.A. de C.V. (**Mino** and together with PharmaCielo, **the Mexican Parties**), a specialty pharmaceutical company and medical supply distributor with more than 20 years of experience based in Mexico in relation to an equity joint venture based in Mexico to be operated by PharmaCielo S.A. de C.V., a Mexican company (the **Mexican JV Company**).

Pursuant to the terms of the Mexican Joint Venture Agreement, PharmaCielo and Mino both have a 50% interest in the Mexican JV Company. The board of directors of the Mexican JV Company is comprised of three directors nominated by PharmaCielo and three directors nominated by Mino.

The business of the Mexican JV Company is intended to be the business and activities conducted by the Mexican JV Company from time to time, including the sales, distribution, marketing, research and product development of cannabis products in Mexico. The Mexican Parties are in the process of developing an initial business plan that is to reflect the strategic, financial and business guidelines with respect to the management and operations of the Mexican JV Company. It is anticipated that the products to be sold by the Mexican JV Company shall be PharmaCielo medicinal grade cannabis products (to be agreed and set forth in the final initial business plan).

The Mexican Parties are required to cause the Mexican JV Company to prepare and submit all regulatory applications and registrations required under applicable laws to: (i) import medicinal grade cannabis products and (ii) develop, manufacture, market and sell the medicinal grade cannabis products. The Mexican Parties will also develop an action plan to set out the activities to be performed and the relevant timeframe required for steps such as obtaining the registrations and licenses.

Pursuant to the Mexican Joint Venture Agreement, the Mexican JV Company and PharmaCielo Colombia are expected to enter into a long-term supply agreement pursuant to which the Mexican JV Company will exclusively purchase from PharmaCielo Colombia cannabis oils and other medicinal grade cannabis products to be used for developing, manufacturing, marketing and selling the products.

PharmaCielo has certain call rights and Mino has certain put rights in the event of certain deadlock matters at the fair market value of the shares of the Mexican JV Company subject to such put rights and call rights. PharmaCielo's ability to carry on the contemplated business of the Mexican JV Company is subject to the approval of the TSX-V.

Ubiquo Telemedicina Acquisition

On 6 June 2019, PharmaCielo entered into a share purchase agreement (the **Ubiquo Agreement**) and Ubiquo Telemedicina S.A.S. (**Ubiquo**) pursuant to which PharmaCielo purchases all the issued and outstanding shares in the capital of Ubiquo. PharmaCielo paid approximately CA\$880,000 in cash and issued 156,058 PharmaCielo Shares to the shareholders of Ubiquo, with approximately \$130,000 of the purchase price and 23,409 PharmaCielo Shares being held back for a period of six months for any adjustments to the purchase price that may be required.

Ubiquo is a knowledge management and medical consultation system that aims to create better access to healthcare for Colombians. Through its acquisition of Ubiquo, PharmaCielo anticipates that it will be better able to facilitate the educational progress and knowledge about the possible uses, benefits, and risks of medicinal cannabis. On 26 July 2019, PharmaCielo announced that it had officially completed its acquisition of Ubiquo.

11.6 Litigation

As at the Last Practicable Date, PharmaCielo is not a party to, nor is any of its property the subject of, any current legal proceedings. In addition, to PharmaCielo's knowledge, PharmaCielo is not a party to any contemplated legal proceedings.

11.7 PharmaCielo's corporate structure

PharmaCielo has the following Subsidiaries, which upon the Schemes being implemented will remain Subsidiaries of PharmaCielo.

	Place of Incorporation	% of Equity Interest
PharmaCielo Holdings Limited	Canada	100%
PharmaCielo Colombia Holdings S.A.S.	Colombia	100%
Ubiquo Telemedicina S.A.S.	Colombia	100%
PharmaCielo Italia S.R.L.	Italy	70%
PharmaCielo, S.A. DE C.V.	Mexico	50%

11.8 Capital Structure

As at the Last Practicable Date, the issued and outstanding securities of PharmaCielo consist of:

- 97,440,022 PharmaCielo Shares;
- 0 preferred shares (**PharmaCielo Preferred Shares**);
- 13,128,000 stock options exercisable to purchase PharmaCielo Shares (**PharmaCielo Options**);
- 38,205 warrants exercisable to purchase PharmaCielo Shares;
- 1,258,000 restricted share units (PharmaCielo RSUs); and
- 0 deferred share units.

11.9 PharmaCielo's substantial shareholders

As at the Last Practicable Date, the substantial shareholders of PharmaCielo are:

PharmaCielo Shareholder	Number of PharmaCielo Shares Held	Percentage of Issued PharmaCielo Shares
Anthony Wile	13,002,500	13.34%

11.10 Interests of PharmaCielo Directors and Creso Pharma Directors in PharmaCielo's securities

The PharmaCielo Directors have a Relevant Interest in the following PharmaCielo securities.

Director	PharmaCielo Shares	PharmaCielo Options	PharmaCielo RSUs
Simon Langelier	750,000	400,000	Nil
David Attard	200,000	2,600,000	Nil
Douglas Bache	Nil	Nil	20,000
Henning von Koss	Nil	225,000	Nil
Matteo Pellegrini	225,000	225,000	Nil
Carlos Manuel Uribe	358,264	175,000	75,000
Total	1,533,264	3,625,000	95,000

No Creso Pharma Director has a Relevant Interest in any PharmaCielo Securities.

11.11 PharmaCielo Share trading history

Public trading of PharmaCielo Shares commenced on the TSX-V on 18 January 2019. The closing price for PharmaCielo Shares on TSX-V on 5 June 2019 (being the last trading day prior to the Announcement Date) was C\$8.14.

On the Last Practicable Date, the closing price of PharmaCielo Shares on TSX-V was C\$4.96.

During the three-month period up to and including the Last Practicable Date, the highest and lowest recorded sale prices of PharmaCielo Shares on TSX-V were, respectively, C\$6.90 on 2 July 2019 and C\$4.15 on 30 July 2019.

Set out below is the volume weighted average price (**VWAP**) of PharmaCielo Shares for various periods up to and including the Last Practicable Date:

	10 Days	20 days	30 days	90 days
VWAP	C\$5.18	C\$5.01	C\$5.00	C\$5.86

The PharmaCielo Share prices given above should not be taken as necessarily being an indication of the likely PharmaCielo Share price following implementation of the Proposed Transaction.

11.12 Rights attaching to PharmaCielo Shares

The holders of PharmaCielo Shares are entitled to dividends if, as and when declared by the Board to receive notice of and one vote per PharmaCielo Share at meetings of the PharmaCielo shareholders, and upon liquidation, dissolution or winding up of PharmaCielo, to share ratably in such assets of PharmaCielo as are distributable to the holders of PharmaCielo Shares.

The PharmaCielo Preferred Shares are issuable in series. Upon liquidation, dissolution, or winding-up of PharmaCielo, the holders of PharmaCielo Preferred Shares of each series rank on a par with holders of PharmaCielo Preferred Shares from all other series and are given preference over the holders of PharmaCielo Shares with respect to repayment of capital or distribution of assets. Holders of PharmaCielo Preferred Shares are entitled to dividends and are given preference over holders of the PharmaCielo Shares with respect to payment of dividends. The PharmaCielo Preferred Shares do not entitle holders to receive notice of or vote at any meeting of PharmaCielo shareholders.

Further details of the rights attaching to PharmaCielo Shares are summarised in Annexure I of this Scheme Booklet.

11.13 Corporate Governance

General

The PharmaCielo Board is committed to following sound corporate governance practices, as such practices are both in the interest of PharmaCielo and PharmaCielo Shareholders and help to contribute to effective and efficient decision-making. In support of this objective, PharmaCielo has adopted corporate governance policies, including the following:

- a Disclosure Policy; and
- an Insider Trading Policy.

Independence of the Board of Directors

The PharmaCielo Board facilitates its exercise of independent supervision over management by ensuring representation on the PharmaCielo Board by directors who are independent of management. Directors are considered to be independent if they have no direct or indirect material relationship with PharmaCielo. Pursuant to Canadian securities laws, a “material relationship” is a relationship which could, in the view of the PharmaCielo Board, be reasonably expected to interfere with the exercise of a PharmaCielo Director’s independent judgment. A majority of the PharmaCielo Board are independent, including the Chairman of the PharmaCielo Board.

Meeting Attendance Record

Directors are expected to attend all meetings of the PharmaCielo Board and the committees of which they are members, to attend such meetings fully prepared, and to remain in attendance for the duration of the meeting. Attendance by telephone is acceptable. Where a PharmaCielo Director’s absence from a meeting is unavoidable, the PharmaCielo Director is expected to speak with the other PharmaCielo Board members or committee members to review the matters of the meeting as soon as possible for a briefing on the substantive elements of the meeting.

Committees

There are currently three committees of the PharmaCielo Board: (a) the audit committee (**Audit Committee**); (b) the corporate governance and nominating committee (**Corporate Governance and Nominating Committee**); and (c) the Compensation Committee (**Compensation Committee**). Formal charters for each committee of the have been adopted by the PharmaCielo Board and provide the parameters for each committee. Summaries of each committee’s responsibilities and mandate are provided below.

Audit Committee

The Audit Committee consists of individuals who are “independent” and “financially literate” within the meaning of Canadian securities law. Each of the Audit Committee members has an understanding of the accounting principles used to prepare financial statements and varied experience as to the general application of such accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting.

The Audit Committee is responsible for overseeing the policies and practices relating to integrity of financial and regulatory reporting, as well as internal controls to achieve the objectives of safeguarding of corporate assets, reliability of information, and compliance with policies and laws. The Audit Committee’s role is to support the PharmaCielo Board in meeting its responsibilities to PharmaCielo Shareholders, review and enhance the independence of the external auditor, facilitate effective communication between management and the external auditor, provide a link between the external auditor and the PharmaCielo Board, and increase the integrity and objectivity of financial reports and public disclosure.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee identifies, interviews and makes recommendations to the PharmaCielo Board with respect to new PharmaCielo Board members. It is anticipated that future nominees to the PharmaCielo Board will be as a result of the recruitment efforts by members of the Corporate Governance and Nominating Committee and the PharmaCielo Board – including both formal and information among the Corporate Governance and Nomination Committee members, members of the PharmaCielo Board, and management.

In addition, the Corporate Governance and Nominating Committee, considers and reviews long-term plans for PharmaCielo Board composition, reviews the PharmaCielo Board’s relationship with management to ensure the PharmaCielo Board functions independently, develops criteria for directors, and reviews and monitors orientation and education of directors.

Compensation Committee

The Compensation Committee assists the PharmaCielo Board in settling compensation of directors and senior executives and developing and submitting to the PharmaCielo Board recommendations with regard to other employee benefits. The Compensation Committee reviews on an annual basis the adequacy and form of compensation and senior executives and directors to ensure that such compensation reflects the responsibilities, time commitment, and risk involved in being an effective executive officer or director, as applicable.

Nomination of Directors

The PharmaCielo Board considers its size each year when it considers the number of directors to recommend to the PharmaCielo Shareholders for election at the annual meeting of PharmaCielo Shareholders, taking into account the number required to carry out the PharmaCielo Board’s duties effectively and to maintain a diversity of views and experience.

11.14 Historical Financial Information

(a) Basis of Preparation

PharmaCielo’s consolidated financial statements have been prepared by management of the Company in accordance with International Financial Reporting Standards (IFRS).

The financial statements below summarise certain financial information about PharmaCielo for the years ended 31 December 2018, 31 December 2017 (for the five months ended),²⁹ 31 July 2017, 31 July 2016 and the three months ended 31 March 2019 and 31 March 2018. The annual historical financial information has been extracted from the audited financial statements contained in the annual reports of PharmaCielo for the years ended 31 December 2018 and 31 July 2016. The financial statements for the years ended 31 December 2018 and 31 July 2016 were audited by MNP LLP and included an unqualified opinion. The financial statements for the year ended 31 July 2017 were audited by Deloitte LLP and included an unqualified opinion.

Scheme Participants should note that the information in this Section 11.14 is a summary only and does not include all of the information and disclosures that would ordinarily be included in financial statements pursuant to IFRS. The full consolidated financial statements of PharmaCielo for the years ended 31 December 2018, 31 December 2017 (for the five months ended), 31 July 2017, and 31 July 2016 are available on the SEDAR website at www.sedar.com under PharmaCielo’s name and on PharmaCielo’s website at www.pharmacielo.com.

There were no changes in PharmaCielo’s accounting policies for the period ended 31 December 2018.

(b) Annual Historical Consolidated Statement of Profit or Loss

Set out below is a summary of PharmaCielo’s consolidated statement of profit or loss expressed in US\$ for the years ended 31 December 2018, 31 December 2017 (for the five months ended), 31 July 2017, and 31 July 2016.

ENDNOTES:

27 Source: GMP Securities.

28 Source: GMP Securities.

29 In 2017, PharmaCielo changed its fiscal year end from July 31, 2017 to December 31, 2017, hence why the five months ended December 31, 2017 is effectively treated as a year end as well.

PHARMACIELO LTD.

Consolidated Statements of Loss and Comprehensive Loss (Expressed in U.S. Dollars)

	Year Ended December 31, 2018	5 Months Period Ended December 31, 2017	Year Ended July 31, 2017
General and administrative expenses			
Agricultural pre-operational costs	\$ 1,782,039	\$ -	\$ -
Administration	299,992	71,956	144,633
Amortization	44,446	-	-
Bank charges and interest expense (income)	(164,913)	10,828	12,747
Communication	22,528	-	67,967
Consulting	1,266,852	330,086	1,042,555
Depreciation	230,800	267,312	294,541
Filing and transfer agent fees	86,463	6,708	42,717
Exchange loss	698,948	118,755	6,352
Insurance	13,032	14,402	45,863
Investor relations	11,577	-	219,276
Lease payment	106,134	21,130	42,948
Maintenance	36,644	8,907	53,970
Management fees	893,934	389,348	480,320
Market development and research	589,470	-	-
Media services	401,781	88,340	114,560
Office and miscellaneous	274,900	128,886	454,481
Professional fees	1,229,450	3,133,850	472,828
Share based payments	14,414,503	111,256	2,347,734
Subcontractors	392,602	19,418	423,597
Supplies	-	-	10,800
Taxes	5,020	81,201	113,375
Telephone	6,014	458	11,168
Travel and promotion	759,942	186,649	465,725
Unrealized gain on marketable securities	(108,436)	-	-
Wages	949,999	358,226	500,455
Web and database	172,344	81,304	218,749
Loss before tax	24,416,065	5,429,020	7,587,361
Income tax expense	9,804	-	-
Net loss for the period	\$ 24,425,869	\$ 5,429,020	\$ 7,587,361
Other comprehensive income for the period:			
Currency transiation adjustment for the period	(982,549)	(13,766)	194,575
Net comprehensive loss for the period	\$ 23,443,320	\$ 5,415,254	\$ 7,781,936
Basic and diluted net loss per common share	\$ (0.31)	\$ (0.07)	\$ (0.12)
Weighted average number of common shares outstanding			
- basic and diluted	78,191,617	73,557,552	65,891,765

PHARMACIELO LTD.

Consolidated Statements of Loss and Comprehensive Loss (Expressed in U.S. Dollars)

	Year Ended July 31, 2016	Year Ended July 31, 2015
General and administrative expenses		
Administration	\$ 77,442	\$ 44,271
Bank charges and interest expense	2,598	3,302
Business plan	-	31,690
Communication	37,411	68,798
Consulting	1,014,140	987,409
Depreciation	34,857	4,307
Due diligence	-	50,439
Filing and transfer agent fees	33,844	6,898
Exchange (gain) loss	7,616	9,244
Insurance	2,360	3,691
Investor relations	117,977	35,454
Lease payment	132,470	64,262
Licensing	-	20,949
Logistical services	5,639	5,862
Loss on termination and settlement	3,000,000	-
Maintenance	52,485	4,206
Management fees	30,000	-
Media services	122,550	22,395
Non-operating expenses	348,789	-
Office and miscellaneous	36,304	80,622
Professional fees	1,472,771	322,978
Security services	13,215	1,375
Share based payments (Note 3d)	1,155,795	735,631
Subcontractors	42,551	1,520
Supplies	-	2,023
Taxes	9,650	-
Telephone	10,052	20,724
Travel and promotion	423,956	468,782
Wages	205,645	-
Web and database	251,033	227,319
Loss before tax	(8,641,150)	(3,224,151)
Income tax expense	(166)	-
Net loss for the year	\$ (8,641,316)	\$ (3,220,339)
Other comprehensive income loss for the year		
Currency transiation	129,183	(3,812)
Comprehensive loss for the year	\$ (8,512,133)	\$ (3,224,151)
Basic and diluted net loss per common share	\$ (0.17)	\$ (0.14)
Weighted average number of common shares Basic and diluted	50,677,598	22,978,634

(c) **Interim Historical Consolidated Statement of Profit or Loss**

Set out below is a summary of PharmaCielo's consolidated statement of profit or loss expressed in C\$ for the three months ended 31 March 2019 and 31 March 2018.

PHARMACIELO LTD.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2019
Operating expenses		
Agricultural pre-operational costs	\$ 906,225	\$ 331,766
Selling, general and administrative expenses		
General and administrative		
Consulting fees	323,343	441,104
Office and general	508,187	378,211
Professional fees	707,168	624,505
Salaries and wages	850,403	172,063
Travel and accommodation	404,725	167,162
Rent and lease payments	42,606	15,210
Share-based compensation	1,381,181	7,559,341
Selling, marketing and promotion	403,023	125,408
Amortization and depreciation	141,955	75,025
Total selling, general and administrative expenses	4,762,591	9,558,029
Other expenses		
Bank charges and interest expense	28,189	816
Unrealised gain on marketable securities	(240,000)	-
Exchange (gain) loss	(202,788)	156,873
Other non-operating expenses	50,475	-
Listing expense	2,433,687	-
Total other expenses	2,069,563	157,689
Net loss for the period	\$ 7,738,379	\$ 10,047,484
Other comprehensive income loss for the period:		
Currency translation adjustment for the period	593,823	(910,681)
Net comprehensive loss for the period	\$ 8,332,202	\$ 9,136,803
Basic and diluted net loss per common share	\$ (0.08)	\$ (0.13)
Weighted average number of common shares outstanding		
- basic and diluted	92,782,399	77,133,903

(d) Annual Historical Consolidated Statement of Financial Position

Set out below is a summary of PharmaCielo's consolidated statement of financial position expressed in US\$ as at 31 December 2018, 31 December 2017, 31 July 2017, and 31 July 2016.

PHARMACIELO LTD.**Consolidated Statements of Financial Position
(Expressed in U.S. Dollars)**

	As at December 31, 2018	As at December 31, 2017	As at July 31, 2017
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 5,387,898	\$ 12,741,612	\$ 9,761,682
Restricted cash	28,092,582	-	-
Short-term investments	157,602	-	-
Marketable securities	112,154	9,964	-
Pre-paid expenses and other receivables	456,864	300,690	367,660
Supplies	62,000	-	-
Total current assets	34,269,100	13,052,266	10,129,342
Non-current assets			
Other assets	-	6,512	424,983
Property, plant and equipment	14,303,737	11,909,971	10,266,786
Total non-current assets	14,303,737	11,916,483	10,691,769
Total assets	48,572,837	24,968,749	20,821,111
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	\$ 2,213,401	\$ 1,646,488	\$ 456,466
Total liabilities	2,213,401	1,646,488	456,466
Shareholders' Equity			
Share capital	50,876,014	40,613,121	35,018,714
Shares to be issued	26,685,236	2,706,336	-
Reserves	18,757,642	4,553,842	4,481,715
Other comprehensive (loss) income	(648,837)	333,712	319,946
Deficit	(49,310,619)	(24,884,750)	(19,455,730)
Total shareholders' equity	46,359,436	23,322,261	20,364,645
Total liabilities and shareholders' equity	\$ 48,572,837	\$ 24,968,749	\$ 20,821,111

PHARMACIELO LTD.

Consolidated Statements of Financial Position (Expressed in U.S. Dollars)

As at	July 31, 2016	July 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,918,762	\$ 3,950,698
GST receivable	62,955	19,610
Other receivables	70,260	-
Pre-paid expenses	27,858	38,909
Total current assets	4,079,835	4,009,217
Property, plant and equipment, net (Note 4)	7,139,088	27,337
Advance (Note 5)	-	1,050,000
Total assets	11,218,923	5,086,554
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,612,657	\$ 116,479
Due to related parties	37,500	23,391
Total liabilities	1,650,157	139,870
SHAREHOLDERS' EQUITY		
Share capital (Note 3)	19,328,371	7,275,302
Share option and warrants reserve (Note 3)	1,983,393	902,247
Exchange reserve	125,371	(3,812)
Deficit	(11,868,369)	(3,227,053)
Total shareholders' equity	9,568,766	4,946,684
Total liabilities and shareholders' equity	\$ 11,218,923	\$ 5,086,554

(e) **Annual Historical Consolidated Statement of Financial Position**

Set out below is a summary of PharmaCielo's consolidated statement of financial position expressed in C\$ as at 31 March 2019.

PHARMACIELO LTD.

**Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)**

	As at March 31, 2019	As at December 31, 2018	As at January 1, 2018
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 24,572,145	\$ 7,350,169	\$ 15,984,352
Restricted cash	-	38,323,900	-
Short-term investments	16,215,000	215,001	-
Marketable securities	393,000	153,000	12,500
Pre-paid expenses and other receivables	690,819	623,254	377,216
Supplies	132,383	84,580	-
Total current assets	42,003,347	46,749,904	16,374,068
Non-current assets			
Other assets	-	-	8,169
Property, plant and equipment	21,189,036	19,513,159	14,941,059
Right-of-use assets	1,398,045	-	-
Total non-current assets	22,587,081	19,513,159	14,949,228
Total assets	64,590,428	66,263,063	31,323,296
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	\$ 2,127,250	\$ 3,019,522	\$ 2,065,519
Lease obligations	120,109	-	-
Total current liabilities	2,247,359	3,019,522	2,065,519
Non-current liabilities			
Lease obligations	1,322,736	-	-
Total non-current liabilities	1,322,736	-	-
Total liabilities	3,570,095	3,019,522	2,065,519
Shareholders' Equity			
Share capital	106,533,605	64,355,186	50,949,160
Shares to be issued	83,875	35,556,574	3,464,686
Reserves	23,332,458	23,932,929	5,712,795
Other comprehensive loss	1,650,209	2,244,032	349,055
Deficit	(70,583,559)	(62,845,180)	(31,217,919)
Total attributable to parent	61,016,588	63,243,541	29,257,777
Non-controlling interest	3,745	-	-
Total shareholders' equity	61,020,333	63,243,541	29,257,777
Total liabilities and shareholders' equity	\$ 64,590,428	\$ 66,263,063	\$ 31,323,296

(f) **Material Changes in Financial Position since 31 March 2019**

Other than the extension of the PharmaCielo Loan to Creso Pharma and for matters related to the transactions contemplated by the Schemes, there were no material changes in financial position since PharmaCielo published its condensed interim financial statements for the three month period ended 31 March 2019.

(g) **Commentary and Forecast Financial Information**

PharmaCielo's half-year financial results for the three and six month period ended 30 June 2019 are not expected to be released until 31 August 2019. Once released, PharmaCielo's half-year financial results for the three and six month period ended 30 June 2019 will be available on the SEDAR website at www.sedar.com under PharmaCielo's name and on PharmaCielo's website at www.pharmacielo.com.

PharmaCielo has given careful consideration as to whether a reasonable basis exists to produce reliable and meaningful forecasted financial information with respect to PharmaCielo. It has been determined that, as at the date of the Scheme Booklet, it would be misleading to provide forecasted financial information, as a reasonable basis does not exist having regard to the requirements of applicable law, policy, and market practice.

12. PROFILE OF THE COMBINED GROUP

This Section of the Scheme Booklet contains information in relation to PharmaCielo and the Combined Group if the Schemes are approved and implemented.

12.1 Capital Structure

PharmaCielo's capital structure is described in Section 11.8. If the Schemes become Effective:

- (a) approximately 12,782,831 New PharmaCielo Shares will be issued as Share Scheme Consideration in respect of the Creso Pharma Shares to be acquired under the Share Scheme (ignoring the effects of rounding and assuming that no further Creso Pharma Shares are issued before the Share Scheme Record Date);
- (b) approximately 1,346,734 New PharmaCielo Shares will be issued as Option Scheme Consideration in respect of the Creso Pharma Listed Options to be cancelled under the Option Scheme (ignoring the effects of rounding and assuming that no further Creso Pharma Listed Options are exercised before the Option Scheme Record Date);
- (c) approximately 153,702 additional PharmaCielo Shares will be issued to Creso Pharma Unlisted Optionholders (ignoring the effects of rounding);
- (d) approximately 628,756 additional PharmaCielo Shares will be issued to EverBlu Capital as set out in Section 18.8(b) and Dr Halperin Wernli as set out in Section 18.8(a).

PharmaCielo will have approximately 112,352,045 PharmaCielo Shares on issue following implementation of the Schemes (assuming no further PharmaCielo Shares are issued).

In addition, Dr Halperin Wernli will be granted 500,000 PharmaCielo Options with a vesting period of 24 months, subject to certain performance milestones of the Combined Group being achieved.

Immediately following implementation of the Schemes, Creso Pharma Listed Securityholders will own approximately 12.6%³⁰ of the Combined Group, prior to any dilution in respect of the exercise or conversion of the convertible securities described in Section 11.8 of this Scheme Booklet.

In addition, in relation to the Milestone 2 Exchangeable Shares, subject to agreement between the Creso Pharma Exchangeable Share Holders and PharmaCielo and upon certain milestones being achieved under a binding heads of agreement between Creso, Mernova, and the Creso Pharma Exchangeable Shareholders, additional PharmaCielo Shares will be issued to the Creso Pharma Exchangeable Shareholders. As at the date of this Scheme Booklet, it is anticipated that an additional 510,516 PharmaCielo Shares will be issued to the Creso Pharma Exchangeable Shareholders, noting that this remains subject to agreement between PharmaCielo, Creso Pharma and the Creso Pharma Exchangeable Share Holders.

In addition, Cormark, the financial adviser to PharmaCielo, will receive a success fee by way of a cash payment of C\$1,500,000 and the issuance of C\$1,500,000 worth of PharmaCielo Shares. The number of PharmaCielo Shares to be issued to Cormark shall be calculated as C\$1,500,000 divided by the lesser of: (i) the VWAP of PharmaCielo Shares on the TSX-V for the twenty trading day period ending immediately prior to the closing of the Proposed Transaction; and (ii) the issue price per PharmaCielo Share pursuant to the terms of any equity financing that is announced prior to the closing of the Proposed Transaction.

12.2 Substantial shareholdings

Based on information lodged with ASX or known to Creso Pharma (in respect of Creso Pharma substantial shareholders) or set out in Section 12.2 (in respect of PharmaCielo substantial shareholders), and assuming that:

- (a) the substantial shareholders of PharmaCielo and Creso Pharma as at the date of this Scheme Booklet continue to hold their existing holdings in PharmaCielo and Creso Pharma (respectively);
- (b) none of those substantial shareholders hold shares in both PharmaCielo and Creso Pharma; and
- (c) no further PharmaCielo Shares or Creso Pharma Shares are issued except pursuant to the Scheme, the holdings of those substantial shareholders in PharmaCielo following implementation of the Scheme will be as follows:

Shareholder	Number of PharmaCielo Shares Held	Percentage of Issued PharmaCielo Shares
Anthony Wile	13,002,500	13.34%

12.3 Rights attaching to New PharmaCielo Shares

The rights and liabilities attaching to the New PharmaCielo Shares that comprise the Scheme Consideration are the same as the existing PharmaCielo Shares currently on issue. Further information on the rights and liabilities attaching to PharmaCielo Shares is set out in Annexure I.

12.4 Financial overview of the Combined Group

(a) Combined Group Financials

The Combined Group's pro forma historical information set out in this Section 12.4 has been prepared to illustrate the:

- historical statement of financial position as at 31 December 2018 (**Combined Group Pro Forma Historical Statement of Financial Position**); and
- historical income statement for the year ended 31 December 2018 (**Combined Group Pro Forma Historical Income Statement**).

(collectively, the **Combined Group Pro Forma Historical Financial Information**).

The Combined Group Pro Forma Historical Financial Information has been prepared solely for the purpose of inclusion in this Scheme Booklet.

The Combined Group Pro-Forma Historical Financial Information should be read together with the:

- basis of preparation as set out in this Section 12.4;
- risk factors as set out in Section 14.2; and
- other information contained in this Scheme Booklet regarding PharmaCielo, Creso Pharma, and the Combined Group.

(b) Basis of Preparation and Presentation of the Combined Group Pro Forma Historical Financial Information

The Combined Group Pro-Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in the IFRS other than that it includes adjustments which have been prepared in a manner consistent with IFRS, that reflect: (i) the exclusion of certain transactions that occurred in the relevant period, and (ii) the impact of certain transactions as if they had occurred at 31 December 2018 in the Combined Group Pro-Forma Historical Statement of Financial Position and from 1 January 2018 in the Combined Pro-Forma Historical Income Statement.

The Combined Group Pro-Forma Historical Financial Information is presented in an abbreviated form and does not contain all the disclosures and comparative information that are usually provided in an annual report prepared in accordance with the Australian Accounting Standards and the Corporations Act (Cth) 2001. In the Creso Pharma Directors' view, the omitted disclosures would provide no more relevant information to a potential investor in the Combined Group.

The historical financial information presented in this Section 12.4 has been derived from the consolidated financial statements of PharmaCielo for the financial year ended 31 December 2018 (**PharmaCielo Historical Financial Information**) and from the consolidated financial statements of Creso Pharma for the financial year ended 31 December 2018 (**Creso Pharma Historical Financial Information**).

The Combined Group Pro Forma Historical Financial Information presented in this Section 12.4 is based on the:

- PharmaCielo Historical Financial Information, as at and for the year ended, 31 December 2018 (presented in Section 11.14);
- Creso Pharma Historical Financial Information, as at and for the year ended, 31 December 2018 (presented in Section 10.13); and
- pro-forma adjustments described further in this Section 12.4 (**Pro Forma Adjustments**).

The PharmaCielo Historical Financial Information was audited by MNP LLP in accordance with Canadian generally accepted auditing standards, on which an unqualified audit opinion was issued. The Creso Pharma Historical Financial Information was audited by RSM Australia in accordance with Australian Auditing Standards, on which an unqualified audit opinion was issued.

The Pro Forma Historical Financial Information set out in this Section 12.4 should be read in conjunction with the risk factors set out in Section 14.2 of this Scheme Booklet.

In preparing the Combined Group Pro Forma Historical Financial Information, no adjustments have been made for potential changes in the cost or operating structure resulting from the merger of PharmaCielo and Creso Pharma.

Due to its nature, the Combined Group Pro Forma Historical Financial Information does not represent the Combined Group's actual or prospective financial performance or position.

A preliminary comparison of the PharmaCielo and Creso Pharma accounting policies has not identified any material differences in accounting policies. For the accounting policies of PharmaCielo, please refer to the PharmaCielo annual report for the year ended 31 December 2018. For the accounting policies of Creso Pharma, please refer to the Creso Pharma annual report for the year ended 31 December 2018.

BDO Corporate Finance (East Coast) Pty Ltd has been appointed as the Independent Accountant to prepare an Independent Limited Assurance Report on the Pro Forma Historical Financial Information. The Independent Limited Assurance Report is attached in Annexure B of this Scheme Booklet. PharmaCielo and Creso Pharma Shareholders should note the scope and limitations of the Independent Limited Assurance Report.

(c) **Currency**

PharmaCielo changed its functional currency from US dollars to Canadian dollars as of 1 January 2019. The change in functional currency is due to financings denominated in Canadian dollars while there were denominated in US dollars before. As the Combined Group Pro Forma Historical Financial Information date is being presented as at, and for the year ended, 31 December 2018, all amounts have been referenced in US dollars.

The consolidated audited statement of financial position of Creso Pharma as at 31 December 2018 has been translated to USD from AUD at the spot rate of 0.7058 USD per 1 AUD on 31 December 2018.

The consolidated audited statement of loss and comprehensive loss of Creso Pharma for the year ended 31 December 2018 has been translated to USD from AUD using the average foreign exchange rate for the fiscal year spanning 1 January 2018 to 31 December 2018 of 0.7479 USD per 1 AUD.

Changes in PharmaCielo's capital structure after 31 December 2018, have been measured in Canadian dollars. These movements have been translated to USD from CAD using the closing exchange rate on 28 June 2019 of 0.7641 USD per 1 CAD.

(d) **Basis of consolidation**

Upon implementation of the Schemes, PharmaCielo will gain control over Creso Pharma and therefore the Proposed Transaction is accounted for under IFRS 3 (Business Combinations (**IFRS 3**)). PharmaCielo is required to recognise the identifiable net assets of Creso Pharma at fair value on the date of acquisition within the Combined Group Pro Forma Historical Statement of Financial Position. Any excess between the fair value of the consideration paid and the fair value of the identifiable net assets is recognised as goodwill.

(e) **Preliminary purchase price accounting**

IFRS 3 allows an acquirer a period of 12 months from the acquisition date to finalise the identification and valuation process of all assets and liabilities and any resultant accounting adjustments. PharmaCielo has not finalised the identification and valuation of Creso Pharma's assets and liabilities, with finalisation to take place after implementation of the Scheme. For the purpose of preparing the Combined Group Pro Forma Historical Statement of Financial Position, it has been assumed that the historical carrying value of assets and liabilities is equal to their fair value and that there will be no additional separately identifiable intangible assets other than those already recognised in the 31 December 2018 historical statement of financial position of Creso Pharma.

The pro forma adjustments and the allocation of the consideration transferred are based on certain estimates in connection with the fair value of Creso Pharma's assets acquired and liabilities assumed. In light of the above and upon completion of the transaction, the final determination of the consideration transferred and the allocation of the fair value of the assets acquired and liabilities assumed may vary from the amounts presented in the Combined Group Pro Forma Historical Financial Information and the difference may be material.

PHARMACIELO LTD.

Pro Forma Consolidated Statement of Financial Position
As at 31 December 2018
(Expressed in U.S. Dollars)

	As at 31 December 2018 PharmaCielo	As at 31 December 2018 Creso Pharma	Note Ref.	Pro Forma Adjustments	As at 31 December 2018 Pro Forma Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 5,387,898	\$ 4,510,442	(i) - (viii)	\$ 39,615,619	\$ 49,513,958
Restricted cash	28,092,582	-	(ix)	(28,092,582)	-
Trade and other receivables	-	671,309		-	671,309
Short-term investments	157,602	-		-	157,602
Marketable securities	112,154	-		-	112,154
Prepaid expenses and other assets	456,864	349,716		-	806,580
Inventory	-	313,047		-	313,047
Supplies	62,000	-		-	62,000
Total current assets	34,269,100	5,844,514		11,523,037	51,636,650
Non-current assets					
Property, plant and equipment	14,303,737	6,987,718		-	21,291,455
Intangible assets	-	2,894,611	(vii)	2,261,705	5,156,317
Goodwill	-	-	(vi) & (x)	64,718,498	64,718,498
Total non-current assets	14,303,737	9,882,329		66,980,203	91,166,270
Total non-current assets	14,303,737	9,882,329		66,980,381	91,166,447
Total assets	48,572,837	15,726,843		78,503,418	142,803,098
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	2,213,401	\$ 2,096,582	(viii)	747,900	5,057,883
Provisions	-	21,842		-	21,842
Short-term borrowings	-	1,959,618		-	1,959,618
Deferred consideration	-	-	(vi)	175,710	175,710
Total liabilities	2,213,401	4,078,043		923,610	7,215,054
Net assets	46,359,436	11,648,800		77,579,630	135,587,866
Shareholders' Equity					
Share capital	50,876,014	26,977,711	(i) - (x)	104,980,326	182,834,050
Shares to be issued	26,685,236	-	(ix)	(26,617,360)	67,876
Reserves	18,757,642	10,445,192	(x)	(19,789,782)	9,413,052
Other comprehensive (loss) income	(648,837)	-		-	(648,837)
Deficit	(49,310,619)	(25,710,828)	(viii) & (x)	18,943,172	(56,078,275)
Non controlling interest	-	(63,275)	(x)	63,275	-
Total shareholders' equity	46,359,436	11,648,800		77,579,630	135,587,866
Total shareholders' equity and liabilities	48,572,837	15,726,843		78,503,240	142,802,920

No adjustments have been made to reflect trading performance over the period from 1 January 2019 to the date of this Scheme Booklet. While pro forma cash and cash equivalents is US\$49.5million in the Pro Forma Historical Consolidated Statement of Financial Position as at 31 December 2018, the Combined Group expects that net cash outflow between 31 December 2018 and completion of the Schemes will reduce this balance, including due to operating cash outflows of PharmaCielo and Creso Pharma and investing cash outflows of PharmaCielo and Creso Pharma.

The following Pro Forma Adjustments have been made for the purposes of illustrating the Combined Group Pro Forma Historical Consolidated Statement of Financial Position as at 31 December 2018 as if the Scheme had occurred on 31 December 2018:

(i) Consideration for the transaction

As consideration for acquiring all issued and outstanding share capital of Creso Pharma, PharmaCielo will issue 14,129,565 New PharmaCielo Shares under the Schemes and 153,702 additional PharmaCielo Shares to Creso Pharma Unlisted Optionholders. The value of the share consideration is based on the three-day VWAP of PharmaCielo Shares for the three trading days ending June 4, 2019 of A\$8.1261 (USD equivalent of \$5.7354) (**PharmaCielo VWAP**) per share, resulting in an aggregate fair value of USD\$81,920,269.

(ii) Listed options

Under the Option Scheme, Creso Pharma Listed Optionholders will receive 0.0185 New PharmaCielo Shares for each Creso Pharma Listed Options held. This ratio represents an offer price of A\$0.15 per Creso Pharma Listed Option based on the PharmaCielo VWAP.

(iii) Unlisted options

Under the private treaty arrangements, Creso Pharma Unlisted Options with an exercise price below A\$0.63 will receive an amount of PharmaCielo Shares with a value equal to the difference between A\$0.63 and their respective exercise price multiplied by their respective number of Creso Pharma Unlisted Options at a deemed issue price of A\$8.1261 per PharmaCielo Share. Also by way of private treaty arrangements, Creso Pharma Unlisted Options holders with an exercise price equal to A\$0.80 will receive an amount of PharmaCielo Shares with a value equal to A\$0.15 per Creso Pharma Unlisted Option, with such consideration being satisfied by the issue of PharmaCielo Shares at a deemed issue price of A\$8.1261 per PharmaCielo Share multiplied by the respective number of Creso Pharma Unlisted Options.

(iv) Performance rights

All Creso Pharma Performance Rights will be deemed to have vested. Creso Pharma will issue to the Creso Pharma Performance Rights Holders such number of Creso Pharma Shares (at a 1:1 ratio) to which the Creso Pharma Performance Rights Holders are entitled subject to the Court approving the Share Scheme. From there, all new Creso Pharma Shares issued to the former Creso Pharma Performance Rights Holders will participate in the Share Scheme.

(v) Share and option agreements

PharmaCielo will issue 170,500 New PharmaCielo Shares to Dr. Miriam Halperin Wernli and 458,256 New PharmaCielo Shares to Everblu as further described in Sections 18.8(a) and 18.8(b).

As noted in Section 18.8(a), Dr Miriam Halperin Wernli will be granted 500,000 Incentive Options. The terms of the Incentive Options have not yet been determined.

(vi) Ubiquo acquisition

In July 2019, PharmaCielo completed the acquisition of Ubiquo. The aggregate purchase price for the acquisition of Ubiquo consisted of 156,058 PharmaCielo Shares and COP\$2.1 million (approximately equal to C\$880,000) in cash. Upon closing of the acquisition, an aggregate of 132,649 PharmaCielo Shares were issued and COP\$1.78 million (approximately equal to C\$750,000) was paid to former Ubiquo Telemedicina shareholders. The value of the remaining shares and cash are accounted for under deferred consideration and will be held back for a period of six months for any adjustments to the purchase price that may be required.

(vii) Mernova 1 Milestone

On 14 March 2019, in accordance with Milestone 1, Mernova Medicinal Inc secured a cultivation licence from Health Canada under the ACMPR for its cultivation facility. This was achieved within 18 months of acquisition. As a result, Creso Pharma paid C\$800,000 to the Mernova Vendors with 4,150,000 Exchangeable Shares (equivalent to 6,587,302 shares in Creso Pharma at a ratio of 1.5873 Creso Pharma shares for each Exchangeable Shares) to be exchanged at a future date for ordinary shares in Creso Pharma.

The value of the shares to be issued to the Mernova Vendors has been determined as 6,587,302 Creso Pharma shares to be issued multiplied by the closing share price of Creso Pharma on the date the milestone was met and the shares vested (14 March 2019), being A\$0.335, and converted to USD.

(viii) Transaction costs

The Combined Group anticipates the following non-recurring costs attributable to the transaction:

- Costs related to the Proposed Transaction and expected to be incurred by PharmaCielo post 31 December 2018 totaling US\$3.2m, of which US\$2.0m will be paid in cash and US\$1.2m will be settled through the issue of PharmaCielo shares; and
- Costs related to the Proposed Transaction expected to be incurred by Creso Pharma post 31 December 2018 of US\$0.75m which will be treated as pre-acquisition expenses.

These transaction costs have been included in the Combined Group Pro Forma Historical Consolidated Statement of Financial Position. The transaction costs incurred by Creso Pharma increase the goodwill on acquisition by US\$0.75m and the transaction costs incurred by PharmaCielo increase accumulated losses by US\$3.2m.

(ix) Restricted cash

Restricted cash comprises cash received for subscriptions receipts issued by PharmaCielo for the issuance of 11,815,416 shares at a price of C\$3.35 per share. The net cash proceeds were placed in an escrow account awaiting PharmaCielo to complete the RTO and becoming a public company. This cash was included as restricted cash in the consolidated statement of financial position as at 31 December 2018. On January 15, 2019, the restricted cash was released to PharmaCielo and common shares were issued.

(x) Goodwill on acquisition

Goodwill arises as a result of the difference between the deemed purchase consideration less the fair value of the net assets of Creso Pharma. The deemed purchase consideration has been based on the three-day VWAP of PharmaCielo Shares for the three trading days ended 4 June 2019 of A\$8.1261, converted to USD at the spot rate of 0.7058 USD per 1 AUD on 31 December 2018. The final purchase consideration will reflect PharmaCielo's actual share price at completion of the acquisition. The purchase consideration has been calculated as follows:

Number of PharmaCielo Shares issued pursuant to the SIA	14,283,267
Fair value per PharmaCielo Share as at 31 December 2018	US\$5.7354
Share consideration	US\$81,920,269

The fair value of the net assets of Creso Pharma has been determined as follows:

Allocation of purchase price	
Net assets of Creso Pharma at 31 December 2018	US\$11,648,800
Additional adjustments:	
Add: Additional cash raised post 31 December 2018	US\$5,832,026
Less: Transaction costs	(US\$747,900)
Add: Mernova payment	US\$3,103,785
Add: Goodwill acquired	US\$62,083,737
Total	US\$81,920,269

PHARMACIELO LTD.

Pro Forma Consolidated Statement of Loss and Comprehensive Loss
For the Year Ended 31 December 2018
(Expressed in U.S. Dollars)

	For the year ended December 2018 Pharmacielo	For the year ended December 2018 Creso Pharma	Note Ref.	Pro Forma Adjustments	Pro Forma Consolidated
Revenues	\$ -	\$ 432,452		\$ -	\$ 432,452
Cost of sales	-	(264,432)		-	(264,432)
Gross profit	-	168,020		-	168,020
Interest income	164,913	107,725		-	272,638
Other income	-	6,971		-	6,971
Gross margin	164,913	282,717		-	447,630
General and administrative expenses					
Agricultural pre-operational costs	(1,782,038)	-		-	(1,782,038)
Administration	(299,992)	(1,157,353)		-	(1,457,345)
Amortization	(275,246)	(28,959)		-	(304,205)
Communication	(28,542)	-		-	(28,542)
Consulting	(1,266,852)	(1,479,838)	(i)	502,290	(2,244,400)
Employee benefit expenses	-	(2,274,567)		-	(2,274,567)
Exclusivity and facilitation fees	-	(1,084,402)	(ii)	1,084,402	-
Exchange loss (gain)	(698,948)	40,114		-	(658,834)
Filing and regulatory fees	(86,463)	(336,610)		-	(423,073)
Finance costs	-	(323,254)		-	(323,254)
Impairment of receivables and other assets	-	(394,874)	(iii)	394,874	-
Insurance	(13,032)	-		-	(13,032)
Investor relations	(11,577)	(921,061)		-	(932,638)
Lease payments	(106,134)	(128,186)		-	(234,320)
Maintenance	(36,644)	-		-	(36,644)
Management fees	(893,934)	-	(i)	847,500	(46,434)
Market development and research	(589,470)	(214,303)		-	(803,773)
Media services	(401,781)	-		-	(401,781)
Office and miscellaneous	(274,900)	(32,186)		-	(307,086)
Professional fees	(1,229,450)	-		-	(1,229,450)
Share-based payments	(14,414,503)	(4,546,127)		-	(18,960,630)
Subcontractors	(392,603)	-		-	(392,603)
Taxes	(5,020)	-		-	(5,020)
Travel and promotion	(759,942)	-		-	(759,942)
Unrealized gain on marketable securities	108,436	-		-	108,436
Wages	(949,999)	-		-	(949,999)
Web and database	(172,344)	-		-	(172,344)
Total general and administrative expenses	(24,580,978)	(12,881,605)		2,829,066	(34,633,517)
Loss before tax	(24,416,065)	(12,598,889)		2,829,066	(34,185,888)
Income tax expense	(9,804)	-		-	(9,804)
Net loss	(24,425,869)	(12,598,889)		2,829,066	(34,195,692)
Other comprehensive income					
Currency translation adjustments	982,549	(154,382)		-	828,167
Net comprehensive loss for the year	(23,443,320)	(12,753,271)		2,829,066	(33,367,525)

The following Pro Forma Adjustments have been included in the Pro Forma Historical Consolidated Income Statement for the year ended 31 December 2018 as if the Scheme had been implemented on 1 January 2018.

1. US\$502,290 represents one-off costs paid to PharmaCielo's former CEO and an officer of PharmaCielo, therefore has been removed from PharmaCielo's profit or loss. US\$847,500 relates to one-off severance costs paid to PharmaCielo's former CEO, and has also been removed from PharmaCielo's profit or loss.
2. On 13 December 2017, Creso Pharma entered into a heads of agreement to acquire 100% of the shares in Kunna Canada Limited, and its wholly owned subsidiary Kunna S.A.S. registered in Colombia. The acquisition was completed on 20 December 2018. In connection with the acquisition, Creso Pharma paid a A\$429,929 (approximately US\$321,544) exclusivity fee to Kunna Canada, which has been included as an adjustment as it represents a one-off expense. On 15 February 2018, Creso Pharma completed the acquisition of Mernova. As part of the acquisition, a facilitation fee equal to 10% of the total deal value was paid to a consultant. This amount of A\$1,020,000 (approximately US\$762,858) has also been included as an adjustment as it represents a one-off expense.
3. On 12 March 2019, Creso Pharma decided, in conjunction with the Board of CLV, to cease funding the operations of the CLV joint venture, due to the significant additional funding required to maintain a sustainable business. CLV is winding down its operations. Accordingly, A\$527,977 (approximately US\$394,874) has been added back as it represents one off write-off costs in connection with the CLV loans and trade receivable.

12.5 Financial outlook of the Combined Group

The Combined Group has given careful consideration as to whether a reasonable basis exists to produce further reliable and meaningful forecast financial information with respect to the Combined Group. It has been determined that, as the date of this Scheme Booklet, it would be misleading to provide forecast financial information for the Combined Group, as a reasonable basis does not exist having regard to the requirements of applicable law, policy, and market practice.

12.6 Industry Focus

The Combined Group's vision is to become the world's preferred brand of naturally grown, sustainably developed, medicinal-grade cannabis extracts and wellness products. The Combined Group is best suited to operate in the global health and wellness subsector of the cannabis industry, which includes nutraceutical, therapeutic, and pharmaceutical products. The global health and wellness subsector of the cannabis industry is the only one that currently allows global distribution. The Combined Group will benefit from their low-cost, high-quality Colombian cultivation and processing be able to leverage economies of scale when investing in their industry leading R&D team, and fully utilize their existing network of large-chain distribution in multiple international markets.

12.7 Business, Operations, and Assets

If the Share Scheme is implemented, the Combined Group's principal assets will include:

- the Toronto headquarters;
- the Colombian cultivation and oil processing facility (100% owned);
- the Mernova Canadian Licensed Producer (100% owned);
- the Swiss product development and commercialization business unit (100% owned); and
- the Israel JV with Cohen Nurseries (74% owned).

Business and Assets

The assets from these business groups fall into four broad categories: Cultivation and Processing; Proprietary Products; Sales Channels; and Research and Development.

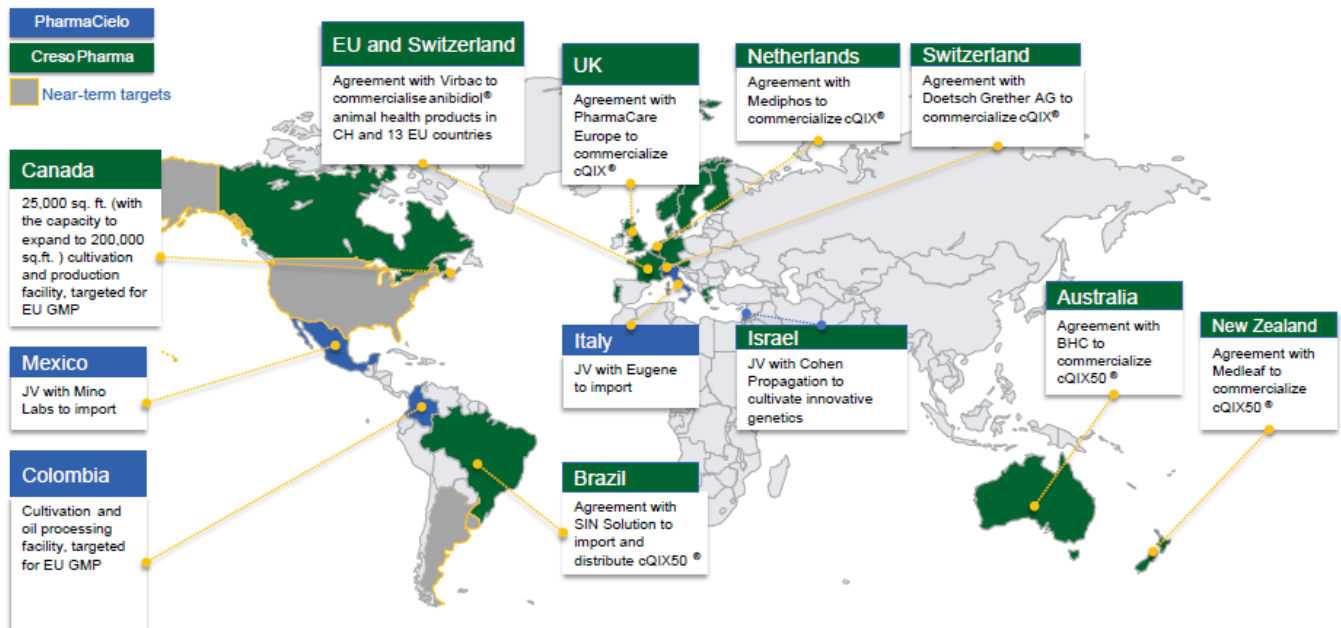
1. Cultivation and Processing

- Access to 15 million square feet of cultivation in open-air greenhouse located in Colombia;
- 25,000 square foot oil processing facility built to GMP standards located in Colombia; and
- 25,000 square foot indoor cultivation and processing facility built to EU GMP standards located in Nova Scotia Canada which is situated on more than 10 acres providing the capability of expansion to 200,000 square feet.

2. Proprietary Products

Upon implementation of the Schemes, the Combined Group will have access to the proprietary products which have been developed by Creso Pharma. Further details of these products are set out in Section 10.2.

3. Sales Channels



Further details of each distribution channel is summarized below:

Market	Entity	Partner	Products currently sold	About
Mexico	PharmaCielo	Mino Labs	None as of date of this Scheme Booklet	Access to a network of 33,000 retailers, pharmacies, and government-owned outlets.
Italy	PharmaCielo	Eugene	None as of the date of this Scheme Booklet	Maker of consumer genetic testing kits, that will develop and market PharmaCielo branded CBD-infused products.
United States	PharmaCielo	General Extract	None as of the date of this Scheme Booklet	Distribute bulk medicinal CBD for sale in multiple states.
E.U.	Creso Pharma	Virbac	Anibidiol	Animal health company with health products in more than 100 countries.
Switzerland	Creso Pharma	Doetsch Grether AG	cannaQIX®	Located in Switzerland specialising in the marketing and distribution of products in the pharma, OTC and consumer care segments.
UK	Creso Pharma	PharmaCare Europe	cannaQIX®	Specialises in the development and distribution of consumer healthcare products. Operating in Europe and the Middle East, across pharmacy, retail and online channels.
Netherlands	Creso Pharma	Mediphos	cannaQIX®	Based in Netherlands, provides healthcare products to consumers with a focus on value, quality, innovation and sustainability.
Australia	Creso Pharma	Burleigh Heads Cannabis	cannaQIX®50	Burleigh Heads Cannabis focuses on providing easily accessible, quality products to patients through their affordable Cannabis Doctors Australia branded products and accessible pathways through Cannabis Doctors Australia Clinics.
Brazil	Creso Pharma	SIN Solution	cannaQIX®50	Brazil based company that specialises in the market-access sales, doctors and patients support for health care products in Brazil and across Latin America.

4. Research and Development

The Combined Group's research and development team will comprise of the following:

- Swiss based product development team;
- Joint venture with Cohen Nurseries in Israel to research proprietary cannabis plant genetics;
- Colombian botanical development team focused on development of proprietary plant genetics required for cultivation registration with Colombian government; and
- Colombian research and technology team focused on creation of propriety oil formulations.

The Combined Group has an industry leading research and development team, focused on the distinct areas of cultivation and product development. Cultivation is led by Colombian agronomists focused on developing proprietary strains with distinct genetics to improve yield, resiliency, quality and to target individual cannabinoids.

Formulation and product research are overseen by former secretary general of the World Medical Association and the Medical & Scientific Advisory Board made up of a diverse group of experts from the following fields:

- Veterinary medicine, focused on animal anesthesiology, particularly with regards to analgesia, opioids, anesthesia, epidurals, and canine medicine;
- Cardiology, focused on smoking and tobacco harm reduction;
- Biological science, focused on drug treatment to improve overall patient outcome;
- Nutrition and food sciences;
- Psychology, focused on mod disorders and addiction medicine; and
- Respiratory health.

Product research is supported by a Swiss-based product development team with 150+ years of combined experience commercializing health and wellness products.

5. Operations

The Combined Group plans to operate and manage these assets as described below and anticipates managing all operations from PharmaCielo's headquarters in Toronto, Ontario with local operating teams managing:

(a) PharmaCielo's headquarters operations

The Combined Group will operate all head office, financial, and sales operations out of the Toronto headquarters.

(b) Colombian Operations

The Combined Group will focus on producing high-quality low-cost THC and CBD oil from their cultivation and processing assets located primarily in Rionegro Colombia. Oil produced in Colombia will be used to supply both bulk oil and proprietary formulations for export through both existing and future sales channels across the globe. Approximately 1 million square feet are under cultivation currently with the potential to increase cultivation to 15 million square feet through existing exclusive contract growing. The Colombian operations are currently under final stages of construction of an expanded oil processing facility. The Combined Group will focus on completion of the oil processing facility, GMP certification, and expanding the area under cultivation.

(c) Canadian Operations

The Combined Group will continue to focus on expanding Canadian cultivation and receiving EU GMP certification for its production facility. With the granting of the cannabis processing license to Mernova (the Processing License) by Health Canada on 13 September 2019, the Combined Group will work towards meeting the relevant requirements of the regulations in order to allow the sales of cannabis products in Canada as permitted by the Processing License. The Combined Group will work towards entering into distribution agreements for products processed and sold out of the Mernova Facility and also investing in extraction equipment to be installed at the Mernova Facility.

(d) Swiss Operations

The Combined Group will continue to focus on product development, proprietary delivery technologies, and delivering unique "Swiss Made" product formulations to the global GMP compliant, pharma-grade pipeline.

(e) Israeli Operations

The Combined Group will focus solely on research and development of proprietary strains that are targeted toward higher yield, diseases resistance, specific cannabinoid formulations, and potency.

12.8 Risks associated with the Combined Group

There are a number of risks associated with the Combined Group. These are summarised in Section 14.2.

12.9 Combined Group's register of securityholders

The register of the PharmaCielo Shares is maintained at the offices of its transfer agent, Computershare Investor Services Inc.

ENDNOTES:

³⁰ PharmaCielo has also agreed to issue C\$1,500,000 worth of PharmaCielo Shares to Cormark on the Implementation Date and up to 23,409 PharmaCielo Shares to the former shareholders of Ubiquo as set out in Section 12.1. These issues will result in the dilution to the shareholdings of the former Creso Pharma Listed Securityholders who will become shareholders of PharmaCielo.

13. INTENTIONS OF PHARMACIELO AND THE COMBINED GROUP

13.1 Overview

This Section sets out PharmaCielo's intentions for the Combined Group if the Share Scheme is implemented.

The statements of intention made in this Section are based on the information concerning Creso Pharma and PharmaCielo and the circumstances affecting the businesses of Creso Pharma and PharmaCielo that are known to both companies at the date of this Scheme Booklet.

Final decisions on these matters will only be made by the Combined Group Board in light of all material information, facts and circumstances at the relevant time if the Share Scheme is implemented. Accordingly, it is important to recognise that the statements set out in this Section are statements of PharmaCielo's current intentions only, which may change as new information becomes available or circumstances change, and which will be superseded by the intentions, strategic focus, outlook and decisions of the Combined Group Board.

13.2 Business, Operations, and Assets

It is the intention of PharmaCielo that all fixed assets of Creso Pharma will be utilized substantially in the same manner. Periodically management of the Combined Group will review all operations and assets of the company to identify ways to realize shareholder value and drive efficiencies.

13.3 Directors, management and employees of the Combined Group

The directors and management of the Combined Group will include: Simon Langelier, Chairman of the Board and a director; David Attard, Chief Executive Officer and a director; Douglas Bache, director; Matteo Pellegrini, director; Carlos Manuel Uribe, director; Miri Halperin Wernli, President and a director; Scott Laitinen, Chief Financial Officer; David Gordon, Chief Corporate Officer.

Following implementation of the Schemes, the Combined Group will conduct an analysis of its ongoing resourcing requirements. In circumstances where duplication of employee roles is identified, the present intention of PharmaCielo, where practicable and possible to do so, is to seek to allocate alternative responsibilities to those affected employees within the Combined Group. However, it may not be possible for PharmaCielo to offer suitable alternative roles in all instances. Where affected employees are unable to be allocated alternative responsibilities as permitted by applicable law, those employees will receive payments and other benefits to which they are entitled on departure under their terms of employment.

Other than as described above, it is the current intention of PharmaCielo to continue the current employment of employees of Creso Pharma.

13.4 Corporate matters in relation to Creso Pharma

Following implementation of the Schemes, it is intended that:

- (a) Creso Pharma be removed from the official list of ASX;
- (b) all of the current Creso Pharma Directors (other than Dr Halperin Wernli) will resign from the Creso Pharma Board; and
- (c) as Creso Pharma will be a wholly owned subsidiary of PharmaCielo, the Creso Pharma Board will be reconstituted so that it comprises persons nominated by the PharmaCielo Board.

13.5 Other Intentions

Other than as referred to or described in this Section 13 and elsewhere in this Scheme Booklet, it is the intention of PharmaCielo that the business of the Creso Pharma Group will be conducted in substantially the same manner as at the date of this Scheme Booklet.

13.6 Dividend policy

PharmaCielo does not have a specific dividend policy. Payment of cash dividends, if any, is at the discretion of the PharmaCielo Board and depends on PharmaCielo's financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that the PharmaCielo Board considers relevant.

14. RISK FACTORS

14.1 Overview

Under the Schemes, Scheme Participants (other than Ineligible Foreign Securityholders and Electing Small Securityholders) will acquire New PharmaCielo Shares and consequently there will be a change to their overall investment risk profile. This Section outlines a number of the risks that may affect the performance of the Combined Group and the value of its shares. These risks include:

- (a) risks relating to the Combined Group;
- (b) risks associated with the implementation of the Schemes; and
- (c) risks to Creso Pharma Listed Securityholders if the Schemes do not proceed.

The outline of risks in this Section 14 is a summary only and should not be considered exhaustive. No assurances or guarantees are given in relation to the future performance of, profitability of, or payment of dividends by Creso Pharma, PharmaCielo or the Combined Group.

14.2 Specific risks of the Combined Group

The following risks have been identified as being key risks specific to an investment in the Combined Group. These risks have the potential to have a significant adverse impact on the Combined Group and may affect the Combined Group's financial position, prospects and price of its listed securities.

Risks attaching to the Israeli JV

On 6 September 2018, Creso Pharma Switzerland GmbH (**Creso GmbH**) a wholly-owned subsidiary of Creso Pharma, Asaf Cohen (**Cohen**) and Creso Grow Ltd., an Israeli corporation jointly owned by Creso GmbH and Cohen (the **Israeli JV Entity**), entered into a Joint Venture and Shareholders Agreement (the **JV Agreement**), which was superseded by an Amended and Restated Joint Venture and Shareholders Agreement (the **Amended JV Agreement**) entered into by the parties on 31 October 2018 (effective 6 September 2018) to pursue a cannabis business related joint venture in Israel. The Amended JV Agreement was later supplemented by a Memorandum of Understanding entered into by the parties and Cohen Propagation Nurseries Ltd. (**Cohen Nurseries** and together with Cohen, collectively referred to as the **Cohen Group**) on 28 April 2019 (the **MOU** and together with the **JV Agreement** and **Amended JV Agreement**, the "**Israeli JV Agreements**"), pursuant to which, the Cohen Group through the Israeli JV Entity, would pursue obtaining all the necessary regulatory approvals to begin cultivating cannabis in Israel (the **Israeli JV**). The parties are currently in negotiations with respect to clarifying the scope of the Cohen Group's responsibilities and entitlements under the Israeli JV Agreements. While the Israeli JV is still in its nascent stages and substantive business operations have not yet taken place, if the parties cannot reach a resolution with respect to such matters, the business of the Israeli JV may not proceed or either party may pursue litigating the matter in Israeli courts. The occurrence of such events could materially adversely affect Creso GmbH's business operations in Israel and its financial condition.

Risks attaching to New PharmaCielo Shares will be different from those attaching to Creso Pharma Listed Securities

Holding shares in a Canadian company listed on the Toronto Venture Exchange is different to holding shares in an Australian company listed on ASX. The rights attaching to New PharmaCielo Shares will be primarily governed by the BCBCA, Canadian securities laws and the rules of the TSX-V.

The differences between the rights attaching to New PharmaCielo Shares and Creso Pharma Shares are summarised in Annexure I.

The integration of PharmaCielo and Creso Pharma may not occur as planned

The ability to realize the benefits of the Combined Group, will depend in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner. This integration will require the dedication of substantial management effort, time and resources, which may divert management's focus and resources from other strategic opportunities following completion of the Proposed Transaction and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business and employee relationships that may adversely affect the ability of the Combined Group to achieve the anticipated benefits of the Proposed Transaction.

The Combined Group is still a development stage company with limited operating history, and the Combined Group cannot assure profitability

Both PharmaCielo and Creso Pharma have been incurring operating losses and cash flow deficits as they attempt to create an infrastructure to capitalize on the opportunity for value creation that is emerging from the relaxing of state and local prohibitions on the cannabis industry globally. The limited operating history of the Combined Group makes it difficult for investors to evaluate the Combined Group's prospects for success. Prospective investors should consider the risks and difficulties the Combined Group might encounter. There is no assurance that the Combined Group will be successful, and the likelihood of success must be considered in light of the relatively early stage of operations. As the Combined Group will have no operating history together, it is extremely difficult to make accurate predictions and financial forecasts for the Combined Group. This is compounded by the fact the cannabis industry is rapidly transforming. There is no guarantee that the products or services of the Combined Group will be attractive to potential consumers.

The Combined Group will have operations in a number of jurisdictions around the world

Operations, development and exploration activities carried out by the Combined Group may be affected to varying degrees by taxes and government regulations relating to such matters as environmental protection, land use, water use, health, safety, labour, restrictions on production, price controls, currency remittance, maintenance of land rights, and expropriation of property. Changes in cannabis regulations or investment policies or shifts in political attitudes with respect to the cannabis industry may also adversely affect the Combined Group's business. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, maintenance of claims, environmental legislation, expropriation of property, land use, land claims of local people (including aboriginal land claims), water use and safety. Any changes in the laws relating to cannabis in the jurisdictions in which the Combined Group carries on business could materially affect the rights of the Combined Group. No assurance can be given that applicable governments will not revoke or significantly alter the conditions of cannabis licences or other applicable authorizations upon completion of the Proposed Transaction. The effect of any of these factors on the business of the Combined Group cannot be accurately predicted.

Uncertainty regarding legal and regulatory status changes

Achievement of the Combined Group's business objectives is also contingent, in part, upon compliance with other regulatory requirements enacted by governmental authorities and obtaining required regulatory approvals all over the world. The regulatory regimes applicable to the cannabis business in Canada, Australia, Colombia, Brazil, and the European Union are currently undergoing significant changes and the Combined Group cannot predict the impact of the changes on its combined business once the regulatory regimes are finalized. Similarly, the Combined Group cannot predict the timeline required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities upon completion of the Proposed Transaction. Any delays in obtaining, or failing to obtain, required regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Combined Group. The Combined Group will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions on the Combined Group's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Combined Group's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Combined Group.

Volatility of market price of the Combined Group's Shares

The market price of the shares of the Combined Group may be volatile. The volatility may affect the ability of shareholders to sell the shares of the Combined Group at an advantageous price. Market price fluctuations in the shares of the Combined Group may be due to the unavailability of financing on acceptable terms, the Combined Group's operating results failing to meet the expectations of securities analysts, downward revisions in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Combined Group or its competitors, along with a variety of additional factors. In addition, the market price for securities in the stock markets, including the TSX-V,

has experienced significant price and trading fluctuations in recent years. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market price of the shares of the Combined Group.

If the Schemes are implemented, a significant number of New PharmaCielo Shares will be available for trading in the public market. The increase in the number of PharmaCielo Shares may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market price of PharmaCielo Shares.

Key persons

The success of the Combined Group after the completion of the Proposed Transaction will depend, in part, upon its ability to retain key employees including Dr Halperin Wernli, especially during the integration phase of the two businesses. Current and prospective employees of PharmaCielo and Creso Pharma might experience uncertainty about their future roles with the Combined Group following completion of the Proposed Transaction, which might materially and adversely affect the Combined Group's ability to retain key managers and other employees. If PharmaCielo or Creso Pharma lose key personnel or the Combined Group is unable to attract, retain and motivate qualified individuals, the associated costs to the Combined Group could increase significantly, and the Combined Group's business could be materially and adversely affected.

The Combined Group's operations will be dependent on additional financings and revenues

The continued operation of the Combined Group will be dependent upon its ability to procure additional financing, through either debt or equity, and to generate operating revenues in the future where needed. Although there is no current need for funding, there can be no assurance that any such revenues can be generated or that other financing can be obtained at terms acceptable to the Combined Group. If the Combined Group is unable to generate such or obtain such financing or such revenues, any investment in the shares of the Combined Group may be materially diminished in value or lost. There is no assurance as to whether the Combined Group will be profitable or earn revenues. Management of the Combined Group anticipates that it will continue to incur substantial expenses relating to the development of the Combined Group's global operations.

If the Combined Group raises additional funds through future issuances of equity or convertible debt securities, existing shareholder could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of the current shareholders. In addition, any debt financing obtained in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Combined Group may not be able to obtain additional financing on favourable terms, if at all. If the Combined Group is unable to obtain adequate financing or financing on terms satisfactory to it when required, its ability to continue to support its business growth and to respond to business challenges could be significantly impaired, and its business may be harmed.

The unaudited pro forma consolidated financial statements of the Combined Group are presented for illustrative purposes only and may not be an indication of the Combined Group's financial conditions or results of operations following the Proposed Transaction

The Combined Group's unaudited pro forma consolidated financial statements contained in this Scheme Booklet are presented for illustrative purposes only as of their respective dates and may not be an indication of the financial condition or results of operations of the Combined Group following the Proposed Transaction for several reasons. For example, the unaudited pro forma condensed consolidated financial statements have been derived from the respective historical financial statements of Creso Pharma and PharmaCielo, and certain adjustments and assumptions made as of the dates indicated therein have been made to give effect to the Proposed Transaction and the other respective relevant transactions. The information upon which these adjustments and assumptions have been made is preliminary and these kinds of adjustments and assumptions are difficult to make with complete accuracy. Moreover, the unaudited pro forma consolidated financial statements do not reflect all costs expected to be incurred by the Combined Group in connection with the Proposed Transaction. For example, the impact of any incremental costs incurred in integrating Creso Pharma and PharmaCielo is not reflected in unaudited pro forma consolidated financial statements.

The Combined Group may not realize the benefits of its growth projects

As part of its combined strategy, the Combined Group will continue efforts to develop cannabis products to be sold globally. A number of risks and uncertainties are associated with the development of these types of projects, including political, regulatory delays, design, labour, operational efficiencies, technical and technological risks, facility design errors, environmental factors, non-performance by third party contractors, failure of equipment, contractor or operator errors, major incidents or catastrophic events, uncertainties relating to capital and other costs and financing risks. It is likely that actual results for the Combined Group will differ from its current estimates and assumptions leading up to the Proposed Transaction, and these differences may be material. In addition, experience from actual growing, cultivating, or selling operations in the future may identify new or unexpected conditions which could reduce sales, and increase capital and/or operating costs, above current estimates. If actual results are less favourable than current estimates, the Combined Group's business, results of operations, financial condition and liquidity could be adversely impacted.

The Combined Group may not be able to effectively manage its growth and operations, which could materially and adversely affect its business

The Combined Group has grown by acquisitions, therefore, the Combined Group may in the future experience rapid growth and development in a relatively short period of time. The management of this growth will require, among other things, proper integration and continued development of the Combined Group's financial and management controls and management information systems, stringent control of costs, the ability to attract and retain qualified management personnel and the training of new personnel. Failure to successfully manage its possible growth and development could have a material adverse effect on the Combined Group's business and the value of the shares of the Combined Group.

Business relationships of PharmaCielo or Creso Pharma may be subject to disruption due to uncertainty associated with the Proposed Transaction

Third parties with which PharmaCielo and Creso Pharma currently do business with or may do business with in the future, including industry partners, customers and suppliers, may experience uncertainty associated with the Proposed Transaction, including with respect to current or future business relationships with PharmaCielo or Creso Pharma. Such uncertainty could have a material and adverse effect on the business, financial condition, results of operations or prospects of the Combined Group.

The European Commission may delay sales of ingestible CBD products in the European Union (EU)

The European Food Safety Authority classified CBD ingestible products as a "novel food", thus, prohibiting retail sales within the EU. Food producers can sell a "novel food" only after the European Commission has drafted an application and implemented an act authorizing the "novel food" to be sold in the market. If the European Commission does not process an application authorizing CBD ingestible products to be sold in the EU market, this could have a material and adverse effect on the business and financial prospects of the Combined Group.

The U.S. Food and Drug Administration (FDA) may delay sales of CBD products in the U.S.

In conjunction with the signing of the 2018 Farm Bill into law, the FDA issued a statement clarifying it is still illegal to make beneficial health claims on CBD products and to introduce CBD in foods or dietary supplements, despite CBD-derived products being federally legal. There is no timeline for when the FDA will issue new regulations with respect to introducing CBD into foods and dietary supplements. The FDA may enact restrictive regulations or delay retail sales of CBD ingestible products indefinitely, which could have a material and adverse effect on the business and financial prospects of the Combined Group.

U.S. regulators may limit imports of CBD into the U.S.

Cannabis and hemp are both agricultural products; over the last few years, the current U.S. administration has generally regulated the agricultural industry using protectionist policies. While the enactment of the 2018 Farm Bill legalized hemp, there is still much uncertainty with regards to how international trade will regulate such cannabis related products, given the nascence of the industry. If the U.S. government or other international bodies pursues protectionist measures with respect to cannabis related products or hemp-derived products, such as CBD products, it could have a material and adverse effect on the business, financial condition, results of operations or prospects of the Combined Group.

Colombia is an emerging market economy

Colombia is a country with a history of drug-related violence and is regarded as an emerging market economy. The country has higher levels of poverty and political instability than developed nations. While the country has recently taken positive strides towards becoming a developed nation, there is still political instability and

other potentially adverse conditions may arise. As the Combined Group will have significant growing operations in the region, any detrimental effects in Colombia could have a material and adverse effect on the business, financial condition, results of operations or prospects of the Combined Group.

Adverse weather may affect production

The Combined Group's growth and cultivating operations will depend on the availability and viability of natural resources. Should adverse weather such as severe storms occur, it may negatively affect the Combined Group production activities. If the Combined Group is unable to produce a sufficient quantity of cannabis products for extraction, the company may be forced buy products at wholesale to fulfil future potential contractual sales requirements. This could have a material and adverse effect on the business and financial prospects of the Combined Group.

Inconsistent legal enforcement of cannabis regulations in the EU

In some EU countries, law enforcement has inconsistently and sometimes improperly enforced laws surrounding cannabis. Enforcement actions vary between fines or removing products from store shelves to seizure of assets or imprisonment. Law enforcement may have the power to temporarily close operations of a business for an indeterminate amount of time in order to test cannabis CBD-products to verify if THC concentrations are within legal limits. Should law enforcement activities intensify in the Combined Group's EU markets, its customers may be discouraged from selling CBD-products, this could have a material and adverse effect on the business, financial condition, results of operations or prospects of the Combined Group.

Lack of data on the cannabis and CBD markets

There is a lack of data surrounding the global cannabis and CBD market due to its relatively nascent status. Therefore, sizing the markets, determining accurate consumption and purchasing behaviours, and sales forecasts may dramatically differ in reality compared to current estimates made by the Combined Group. In addition, historical figures and growth rates may not be indicative of future trends. Such uncertainty could have a material and adverse effect on the business, financial condition, results of operations or prospects of the Combined Group.

Contract risk

The Schemes may be deemed under contracts to which Creso Pharma or its Subsidiaries are a party, to result in a change of share ownership event in respect of Creso Pharma that allows the counterparty to review or terminate the contract as a result of the change or the issue of shares by PharmaCielo, upon implementation of the Schemes. If the counterparty to any such contract were to validly seek to renegotiate or terminate the contract on that basis, this may have a material adverse effect on the financial performance of the Combined Group, depending on the relevant contracts. Creso Pharma is managing this risk and has obtained approval from a number of distributors to the change in control that will occur upon implementation of the Schemes.

Product liability

There is an inherent risk of exposure to product liability claims, regulatory action or litigation arising from any significant loss or injury caused by products manufactured by the Combined Group. An adverse reaction resulting from human consumption of medical cannabis/and or hemp alone or in combination with other medication or substances could occur. The Combined Group may be subject to various product liability claims, including among others that the products manufactured by the Combined Group caused injury or illness, inadequate instructions for use or warnings concerning possible side effects. A product liability claim or regulatory action against the Combined Group could result in increased costs, could adversely affect the Combined Group's reputation with its clients and consumers generally and could have a material adverse effect on our results of operations and financial conditions.

Intellectual Property

The Combined Group may be forced to litigate to enforce or defend its intellectual property rights against infringement and unauthorised use by competitors, and to protect our trade secrets. In so doing, the Combined Group's intellectual property may be put at risk of being invalidated, unenforceable, or limited or narrowed in scope. Further, an adverse result in any litigation or defence proceedings may place pending applications at risk of non-issuance. In addition, if any licensor fails to enforce or defend their intellectual property rights, this may adversely affect the Combined Group's ability to develop and commercialise its products and prevent competitors from making, using, and selling competing products. Any such litigation could be very costly and could distract management from focusing on operating the Combined Group's business. Further, because the content of much of the Combined Group's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions, we may face additional difficulties in defending our intellectual property rights.

14.3 Scheme and Proposed Transaction implementation specific risks

The following risks have been identified as being key risks specific to the implementation of the Schemes.

The exact value of the Scheme Consideration is not certain

Under the terms of the Proposed Transaction, Scheme Shareholders will receive 0.0775 New PharmaCielo Shares per Scheme Share held at the Share Scheme Record Date and Scheme Optionholders will receive 0.0185 New PharmaCielo Shares per Scheme Option held at the Option Scheme Record Date. The exact value of this Scheme Consideration that would be realised by individual Creso Pharma Listed Securityholders will be dependent on the price at which the New PharmaCielo Shares trade on TSX-V after the Implementation Date.

In addition, the Sale Agent (and/or a nominee of the Sale Agent) will be issued New PharmaCielo Shares attributable to certain Ineligible Foreign Securityholders and Electing Small Securityholders and will sell them on market as soon as reasonably practicable after the Implementation Date. It is possible that such sales may exert downward pressure on the Combined Group's share price during the applicable period. In any event, there is no guarantee regarding the prices that will be realised by the Sale Agent or the future market price of the New PharmaCielo Shares. Future market prices may be either above or below current or historical market prices.

Satisfaction or waiver of Scheme Conditions

Implementation of the Schemes is subject to satisfaction or waiver of the applicable Scheme Conditions. There can be no certainty, nor can Creso Pharma provide any assurance, that these conditions will be satisfied or waived (where applicable), or if satisfied or waived (where applicable), when that will occur. In addition, there are a number of conditions precedent to the Schemes which are outside the control of Creso Pharma, including, but not limited to, approval of the Schemes by the Requisite Majorities of Creso Pharma Listed Securityholders and required regulatory and third party approvals and consents (refer to Section 8.4).

If for any reason the conditions to the Schemes are not satisfied or waived (where applicable) and the Schemes are not completed, the market price of Creso Pharma Listed Securities may be adversely affected.

Court approval

There is a risk that the Court may not approve the Schemes, or that the approval is delayed. In particular, if there is a material change in circumstances between the Scheme Meetings and the Second Court Date, then the Court will have regard to that change in deciding how it should proceed. If such changes are so important that they materially alter the Schemes, there is a risk that the Court may not approve the Schemes at the Second Court Hearing or may impose conditions on their approval.

Rights, obligations and break fee under Scheme Implementation Agreement

Depending on the reasons why the Share Scheme does not proceed, either Creso Pharma or PharmaCielo may be liable to pay a break fee of \$1,200,000 (exclusive of GST) to the other party. The Creso Pharma Break Fee is not payable if the Share Scheme does not proceed merely because Creso Pharma Shareholders do not approve the Share Scheme by the Requisite Majority.

Creso Pharma has agreed to pay PharmaCielo a reimbursement fee of \$450,000 (exclusive of GST) if the resolution to approve the Share Scheme is submitted to the Share Scheme Meeting, the Share Scheme Meeting is held but the resolution is not approved by the majorities required under section 411(4)(a)(ii) of the Corporations Act.

Further information in relation to the Creso Pharma Break Fee and the Creso Pharma Reimbursement Fee is set out in Section 17.3 and further information in relation to the PharmaCielo Break Fee is set out in Section 17.4.

Termination rights

Creso Pharma and PharmaCielo each have the right to terminate the Scheme Implementation Agreement in the circumstances described in Section 17.5 of this Scheme Booklet. As such, there is no certainty that the Scheme Implementation Agreement will not be terminated before the Schemes are implemented.

If the Scheme Implementation Agreement is terminated, Creso Pharma can provide no assurances that another party would be willing to offer the same or greater price for Creso Pharma Listed Securities than that which is offered under the Scheme Implementation Agreement and the Schemes.

Transaction and other costs

Transaction and other costs incurred (or which are expected to be incurred by Creso Pharma) in relation to the successful implementation of the Proposed Transaction are currently estimated at approximately \$1,000,000 (exclusive of GST), comprising adviser, legal, accounting, expert fees, planned redundancy costs and various other costs.

Litigation risk

In connection with the Schemes, Creso Pharma and/or PharmaCielo could face new claims and litigation, in particular brought by partners, suppliers, competitors and/or regulators of Creso Pharma or PharmaCielo, or by investors in connection with the Schemes.

A Superior Proposal for Creso Pharma may yet emerge

It is possible that a Superior Proposal for Creso Pharma, which is more attractive for Creso Pharma Listed Securityholders than the Proposed Transaction, may materialise in the future. The implementation of the Proposed Transaction would mean that Creso Pharma Listed Securityholders would not obtain the benefit of any such proposal.

The Creso Pharma Board is not currently aware of any such proposal and notes that since Creso Pharma and PharmaCielo announced the Proposed Transaction, there has been a significant period of time and ample opportunity for an alternative proposal for Creso Pharma which provides a different outcome for Creso Pharma Listed Securityholders to emerge.

Since the Announcement Date, no alternative proposal has emerged, and the Creso Pharma Directors have decided that the Proposed Transaction is the best option available at the date of this Scheme Booklet. In addition, shareholders in the Combined Group will still have an opportunity to realise a full premium in the event of any future change of control transaction for the Combined Group.

Tax consequences for Scheme Participants

If the Proposed Transaction proceeds, there may be tax consequences for Scheme Participants. A description of the general Australian and Canadian tax consequences of the Schemes for certain Creso Pharma Listed Securityholders is set out in Section 15. However, Scheme Participants should seek their own professional advice regarding the individual tax consequences applicable to them.

Other risks

Additional risks and uncertainties not currently known to Creso Pharma or PharmaCielo may also have a material adverse effect on Creso Pharma or PharmaCielo's business and that of the Combined Group and the information set out above does not purport to be, nor should it be construed as representing, an exhaustive list of the risks of Creso Pharma, PharmaCielo or the Combined Group.

14.4 Risks to Creso Pharma Listed Securityholders if the Schemes do not proceed

Creso Pharma Listed Securityholders should be aware that if the Schemes do not proceed, Creso Pharma Listed Securityholders will retain their Creso Pharma Listed Securities and will not receive any form of Scheme Consideration. Creso Pharma Listed Securityholders may, in addition to the normal risks they face, be exposed to the additional risks as described in this Section.

Transaction costs already incurred

Before the Scheme Meetings, Creso Pharma estimates that it will have incurred or committed one-off transaction costs of approximately A\$1,000,000 in relation to the Schemes. These costs have already been incurred or will be payable by Creso Pharma regardless of whether or not the Schemes are implemented.

Depending on the reasons why the Share Scheme does not proceed, Creso Pharma may be liable to pay a break fee of \$1,200,000 (exclusive of GST) to PharmaCielo. The Creso Pharma Break Fee is not payable if the Share Scheme does not proceed merely because Creso Pharma Shareholders do not approve the Share Scheme by the Requisite Majority. Further information in relation to the Creso Pharma Break Fee is set out in Section 17.3.

Creso Pharma has also agreed to pay PharmaCielo a reimbursement fee of \$450,000 (exclusive of GST) if the resolution to approve the Share Scheme is submitted to the Share Scheme Meeting, the Share Scheme Meeting is held but the resolution is not approved by the Requisite Majority. Further information in relation to the Creso Pharma Reimbursement Fee is set out in Section 17.3.

PharmaCielo Loan

As set out in Section 10.10, if the Schemes are not implemented, Creso Pharma will be required to repay the PharmaCielo Loan.

The PharmaCielo Loan will mature on the earlier to occur of:

- (a) the later of (A) 30 November 2019 and (B) if the Share Scheme is not approved by a vote of the Creso Pharma Shareholders, that date which is four (4) months after the date of such unsuccessful vote; and
- (b) any earlier date on which Creso Pharma repays the PharmaCielo Loan in accordance with the applicable loan conditions, including, but not limited to, upon redemption of the PharmaCielo Loan. If the PharmaCielo Loan is repaid prior to the maturity date, Creso Pharma must also pay PharmaCielo an early redemption fee of 20% of the value of the PharmaCielo Loan.

Interest accrues on the principal outstanding amount of the PharmaCielo Loan at 15%, calculated daily and payable quarterly in arrears with the first payment to be made on the earlier of 31 December 2019 and the maturity date.

Funding risk

If the Schemes are not implemented, Creso Pharma will need to raise further funds through equity or debt financing, joint ventures or other means. In addition to the funds required to implement its growth plan, Creso Pharma may need funds to pay the Creso Pharma Break Fee or the Creso Pharma Reimbursement Fee (should the payment terms be triggered), repay the PharmaCielo Loan and to fund its ongoing operations. Specifically, on the satisfaction of Mernova Milesone 2, Creso Pharma will also have to fund the milestone payment of C\$800,000 payable to the Mernova Vendors. There can be no assurance that additional finance will be available when needed and, if available, the terms of the financing might not be favourable to Creso Pharma. In addition, any equity financing may involve substantial dilution to Creso Pharma Shareholders.

Loan agreements and other financing rearrangements such as debt facilities, convertible note issue and finance leases (and any related guarantee and security) that may be entered into by Creso Pharma may contain covenants, undertakings and other provisions which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that Creso Pharma would be able to repay such loans in the event of an acceleration. Enforcement of any security granted by Creso Pharma or default under a finance lease could result in the loss of assets.

15. TAX CONSIDERATIONS

15.1 Australian Tax Implications

15.1.1 Outline

Section 15.1 of the Scheme Booklet provides a summary of the Australian income tax, Goods & Services Tax (**GST**) and state duty implications for Scheme Participants if the Schemes proceed. Section 15.1 is only a general guide and does not provide a complete analysis of the potential Australian tax implications of the Schemes. This summary is based on the existing tax law, relevant precedent and administrative guidelines issued by the revenue authorities as at the date of this Scheme Booklet. The relevant law precedent and / or guidelines may subsequently change which may affect the taxation implications of the Schemes.

Section 15.1 does not constitute tax advice and should not be relied upon. Scheme Participants should seek advice from their tax agent or an appropriately qualified professional tax adviser having regard to their individual circumstances.

Scheme Participants who are not residents of Australia (whether or not they are also residents, or are temporary residents, of Australia for income tax purposes) should take into account the tax consequences of the Schemes under the laws of Australia and if relevant, the laws of their primary country of residence.

The comments set out in Section 15.1 are relevant to the Scheme Participants who hold their Scheme Shares or Scheme Options on capital account for Australian income tax purposes.

Further, the comments in Section 15.1 do not apply to Scheme Participants who:

- acquired their Scheme Shares or Scheme Options under an employee share scheme or employee share option plan;
- are temporary residents of Australia;
- hold their Scheme Shares or Scheme Options as trading stock or revenue assets other than trading stock;
- hold their Scheme Shares or Scheme Options in connection with a business carried on through a permanent establishment outside their country of residence;
- are subject to the taxation of financial arrangements provisions in Division 230 of the *Income Tax Assessment Act 1997* (Cth); and / or
- are a financial institution, insurance company or tax exempt organisation.

15.1.2 Australian Tax Resident Scheme Participants

The comments provided in Section 15.1.2 are in relation to Scheme Participants (other than Electing Small Securityholders) who are residents of Australia and exchange their Scheme Shares or Scheme Options pursuant to the Scheme.

(a) Exchange of Scheme Shares or Scheme Options for New PharmaCielo Shares

(i) Capital Gains Tax (CGT) event

Australian resident shareholders who exchange their Scheme Shares or Scheme Options for the New PharmaCielo Shares will trigger a CGT event at the Implementation Date.

CGT rollover relief may be available for Scheme Shareholders (but not Scheme Optionholders) to disregard any capital gain arising from the disposal. The CGT rollover relief is discussed in further detail at Subsection 15.1.2(a)(ii) below.

In the absence of any CGT rollover relief, Scheme Participants may:

- derive a capital gain from the Schemes to the extent the capital proceeds exceed the cost base of the Scheme Shares or Scheme Options; or
- incur a capital loss from the Schemes to the extent the capital proceeds are less than the reduced cost base of the Scheme Shares or Scheme Options.

The capital proceeds will be equal to the market value of the New PharmaCielo Shares received pursuant to the Schemes as at the Implementation Date.

The cost base (and reduced cost base) of the Scheme Shares or Scheme Options is broadly the original amount paid to acquire the Scheme Shares or Scheme Options plus any incidental costs for the acquisition and disposal of the same (eg brokerage fees and stamp duty).

(ii) CGT rollover relief

A Scheme Shareholder may be entitled to choose CGT rollover relief and disregard any capital gain derived from the disposal of the Scheme Shares in exchange for the New PharmaCielo Shares. If a capital loss is incurred, CGT rollover relief is not available.

If you choose CGT rollover relief, the general CGT implications set out below should apply:

- **Capital gain disregarded** – the capital gain derived from the disposal of Scheme Shares in exchange for the New PharmaCielo Shares should be disregarded at the time of the Implementation Date. Scheme Participants may be taxed on a subsequent disposal of the New PharmaCielo Shares (see discussion at Subsection 15.1.2(b)(ii) below).
- **Cost base and reduced cost base of New PharmaCielo Shares** - the first element of the cost base (and reduced cost base) of the New PharmaCielo Shares is equal to the original cost base of the Scheme Shares.
- **Acquisition date of New PharmaCielo Shares** – the New PharmaCielo Shares are treated for CGT purposes as acquired by the Scheme Participant on the same date as the Scheme Shares. The original acquisition date of the Scheme Shares will be relevant for the purposes of determining whether the Scheme Participant is entitled to the CGT general discount in respect of a subsequent disposal of the New PharmaCielo Shares (see discussion at Subsection 15.1.2(a)(iii) below).

CGT rollover relief does not apply automatically. Scheme Participants seeking to apply the rollover must choose to do so on or before lodgement of their income tax return for the financial year in which the CGT event occurs. The choice you make to claim CGT rollover relief should be evident by the way you prepare your income tax return (ie Scheme Participants' who claim CGT rollover relief should exclude the relevant capital gain from their income tax return).

In relation to the disposal of the Scheme Options, CGT rollover relief is not available.

(iii) CGT rollover relief not available or not chosen

If CGT rollover relief is not available or the Scheme Participant chooses not to apply the CGT rollover concession, the general CGT implications set out below should apply:

- **CGT general discount** – the capital gain derived from the disposal of Scheme Shares or Scheme Options held for at least 12 months before the Implementation Date may be eligible for the CGT general discount. The discount capital gain percentage amount is 50 percent of the gross capital gain derived by individuals and trusts, and 33 1/3 percent for complying superannuation entities. Companies are not entitled to the CGT general discount.

Before applying the CGT general discount percentage, the discount capital gain derived from the Schemes must be reduced by any capital losses incurred in the current year or net capital losses from previous financial years.

Where the Scheme Participant is a trustee, the CGT provisions are complex. Subject to satisfying prescribed requirements, the discount capital gain may flow through to the beneficiaries of the trust. Subject to the income tax profile of the beneficiaries, the beneficiaries will determine eligibility to apply the CGT general discount in their hands.

- **Capital loss** – any capital loss incurred from the Schemes may be applied against capital gains derived from other CGT events and in the case of companies and trusts, subject to satisfying the loss recoupment rules. A capital loss cannot be offset against ordinary income nor carried back to offset net capital gains arising in earlier income years.

- **Cost base and reduced cost base of New PharmaCielo Shares** - the first element of the cost base (and reduced cost base) of the New PharmaCielo Shares acquired under the Schemes should be equal to the market value of the Scheme Shares or Scheme Options as at the Implementation Date.
- **Acquisition date of New PharmaCielo Shares** - the acquisition date of the New PharmaCielo Shares for CGT purposes should be the Implementation Date. Scheme Participants must hold their New PharmaCielo Shares for at least 12 months after the Implementation Date to be entitled to the CGT general discount.

(b) Ownership of New PharmaCielo Shares

The following comments are made on the basis PharmaCielo is not a resident of Australia and therefore resident Scheme Participants will hold the New PharmaCielo Shares in a non-resident company. The commentary set out below considers the Australian income tax implications for Australian resident shareholders in relation to:

- Dividends received from PharmaCielo; and
- Capital gains or losses from the disposal of the New PharmaCielo Shares.

(i) Receipt of dividend income

Dividends received from PharmaCielo should be included in assessable income of the Scheme Participant and if dividend withhold tax is imposed at source, Scheme Participants may be entitled to claim Foreign Income Tax Offsets (**FITOs**) in their Australian income tax returns.

Dividends paid, deemed to be paid or credited in relation to the New PharmaCielo Shares will be subject to non-resident withholding tax under Canadian tax law at a rate of 25 percent of the gross amount of the dividend unless the rate is reduced by an applicable income tax treaty (see discussion at Subsection 15.2(d) below).

Scheme Participants must include the amount of tax withheld from the dividends together with the cash amount of the dividend received in their assessable income.

Depending on the specific tax profile of Scheme Participants, FITOs may reduce the Australian income tax liability that would otherwise be payable by the amount of tax withheld. If the FITO exceeds the amount of Australian income tax payable, the excess FITO is not refundable and cannot be carried forward to future income tax years.

Where the Scheme Participant is a company that holds a greater than 10% participation interest in PharmaCielo, any dividends received may be treated as “non-assessable non-exempt” income for Australian income tax purposes.

(ii) Future disposal of New PharmaCielo Shares

Where an Australian resident shareholder sells, transfers or otherwise disposes of their New PharmaCielo Shares to a third party, a CGT event may arise and the shareholder may:

- derive a capital gain to the extent capital proceeds exceed the cost base of the New PharmaCielo Shares; or
- incur a capital loss to the extent the reduced cost base of the New PharmaCielo Shares exceeds the capital proceeds.

The cost base and acquisition date of the New PharmaCielo Shares, and eligibility to claim the CGT general discount, are described in Subsections 15.1.2(a)(ii) and (iii) above.

If the capital gain is subject to foreign tax, the Scheme Participant may be entitled to a FITO and reduce their Australian income tax liability for any foreign tax paid. As discussed above, if the FITO exceeds the amount of tax payable, the excess is not refundable and cannot be carried forward to future income tax years.

Notwithstanding the preceding general comments, we strongly encourage all holders of the New PharmaCielo Shares to seek tax advice because the preceding comments are a guide and may not apply to their particular circumstances.

15.1.3 Non Australian Resident Scheme Participants

The comments provided in this Section are in relation to Scheme Participants (other than Ineligible Foreign Securityholders and Electing Small Securityholders) who are not residents of Australia (**NR Participants**) and enter into the Schemes.

NR Participants may also have tax implications in their primary country of residence and should seek their own specific advice.

(a) Exchange of Scheme Shares or Scheme Options for New PharmaCielo Shares

NR Participants who exchange their Scheme Shares or Scheme Options for the New PharmaCielo Shares will be subject to Australian CGT if both of the following criteria are satisfied:

- NR Participant together with its associates hold a direct control interest (including put options) of 10% or more in Creso Pharma:
 - o at the time of disposal (ie Implementation Date), or
 - o for a 12 month period within the 2 years preceding the disposal (referred to as a “non-portfolio interest”); and
- more than 50 percent of the market value of assets held by Creso Pharma represent direct and indirect interests held in “taxable Australian real property” (**TARP**) as defined in the Australian income tax legislation.

Based on the representations of Creso Pharma, less than 50% of the market value of assets held by Creso Pharma at the Implementation Date will be attributable to direct or indirect interests held in TARP assets. If that representation is correct at the Implementation Date, NR Participants should not be subject to Australian CGT when participating in the Schemes.

NR Participants who were a resident of Australia prior to the Implementation Date and chose to disregard a capital gain or loss from their Scheme Shares or Scheme Options upon cessation of Australian residency, may be subject to Australian CGT as set out in Subsection 15.1.2(a) but modified as follows:

- CGT rollover relief described in Subsection 15.1.2(a)(ii) is not available; and
- CGT general discount described in Subsection 15.1.2(a)(iii) is reduced on a pro-rata basis for the period the NR Participant ceased to be a resident of Australia.

(b) Ownership of New PharmaCielo Shares

On the basis PharmaCielo is not a resident of Australia, NR Participants should not be subject to Australian income tax for:-

- dividend income paid by PharmaCielo; and
- capital gains derived from the disposal of the New PharmaCielo Shares,

because the dividend income / capital gain will be foreign income / foreign gains derived by a non-resident of Australia.

15.1.4 Ineligible Foreign Securityholders or Electing Small Securityholders

As discussed above, Ineligible Foreign Securityholders and Electing Small Securityholders will receive Cash Proceeds instead of New PharmaCielo Shares as their Scheme Consideration.

The Australian income tax implications described in Subsection 15.1.2(a) should apply to Australian resident Electing Small Securityholders, except for the comments in relation to CGT rollover and cost base of the New PharmaCielo Shares because those comments do not apply where Cash Proceeds are received.

The Australian income tax implications described in Subsection 15.1.3(a) should apply to Ineligible Foreign Securityholders and foreign resident Electing Small Securityholders.

15.1.5 GST

Transfer of Scheme Shares to PharmaCielo should not trigger GST for Scheme Participants. In addition, Scheme Participants who are registered or required to be registered for GST should not have any GST obligations in relation to the Schemes. However, for those Scheme Participants who are registered for GST there may be consequences in relation to claiming input tax credits for any GST included in costs associated with the Schemes (eg GST paid for legal and adviser costs).

15.1.6 Stamp Duty

No Australian stamp duty should be payable by Scheme Participants on the transfer of their Scheme Shares to PharmaCielo or the acquisition of New PharmaCielo Shares. Any applicable stamp duty should be payable / paid by PharmaCielo.

15.2 Certain Canadian Federal Tax Implications

(a) Overview

The following summary describes certain of the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the **Canadian Tax Act**) generally applicable to a Scheme Shareholder or a Scheme Optionholder who exchanges Scheme Shares or Scheme Options for New PharmaCielo Shares pursuant to the Share Scheme or the Option Scheme, respectively, and who, for purposes of the Canadian Tax Act and at all relevant times, (i) is neither resident nor deemed to be resident in Canada, (ii) deals at arm's length with, and is not affiliated with, PharmaCielo, Creso Pharma, and each of their respective affiliates, (iii) holds such Scheme Shares or Scheme Options, as applicable, as capital property, and (iv) does not use or hold and is not deemed to use or hold Scheme Shares, Scheme Options or New PharmaCielo Shares in carrying on a business in Canada (a **Holder**).

Generally, Scheme Shares and Scheme Options would be considered to be capital property to a Holder provided that the Holder does not hold such shares or options, as applicable, in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade.

This summary is not applicable to a Scheme Shareholder or Scheme Optionholder who acquired Scheme Shares or Scheme Options pursuant to an employee stock option plan or any other form of employee compensation plan or arrangement. Special rules, which are not discussed in this summary, may apply to a non-resident of Canada for purposes of the Canadian Tax Act that is an insurer carrying on business in Canada and elsewhere or an "authorised foreign bank" as defined in the Canadian Tax Act.

This summary is based upon the current provisions of the Canadian Tax Act, the regulations (the **Canadian Tax Regulations**) thereunder, and the current published administrative policies and assessing practices of the Canada Revenue Agency published in writing and publicly available prior to the date hereof. It takes into account all specific proposals to amend the Canadian Tax Act and the Canadian Tax Regulations publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof (**Proposed Amendments**) and assumes that all Proposed Amendments will be enacted in the form proposed. However, there can be no assurance that the Proposed Amendments will be enacted in their current form or at all. This summary does not otherwise take into account or anticipate any changes in the law or administrative or assessing practice or policy of the Canada Revenue Agency whether by legislative, regulatory, administrative, or judicial action, nor does it take into account tax legislation or considerations of any province, territory, municipality or non-Canadian jurisdiction, which may differ significantly from those discussed herein.

The summary in this Section 15.2 is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular Holder. It is not exhaustive of all Canadian federal income tax considerations. Accordingly, Holders should consult their own tax advisors having regard to their own particular circumstances.

For the purposes of the Canadian Tax Act, all amounts relating to the acquisition, holding or disposition of Scheme Shares, Scheme Options or New PharmaCielo Shares (including proceeds of disposition, dividends and adjusted cost base) must be determined in C\$ based on the exchange rate quoted by the Bank of Canada for the applicable day or such other rate of exchange that is acceptable to the Minister of National Revenue (Canada).

(b) Exchange of Scheme Shares or Scheme Options for New PharmaCielo Shares

Holders who exchange their Scheme Shares or Scheme Options for New PharmaCielo Shares under the Share Scheme or Options Scheme, respectively, will not be subject to tax under the Canadian Tax Act on any capital gain realised on the exchange unless such Scheme Shares or Scheme Options, as applicable:

- (i) are, or are deemed to be, "taxable Canadian property" (as described below) of the Holder at the time of the exchange; and
- (ii) are not "treaty-protected property" (as defined in the Canadian Tax Act and described below) of the Holder at the time of exchange.

The cost of any New PharmaCielo Share received in exchange for a Scheme Share or a Scheme Option will be equal to the fair market value of the New PharmaCielo Share received on the exchange at the time that is immediately after the Share Scheme or Option Scheme, as applicable, becomes effective.

(c) Dispositions of New PharmaCielo Shares

Any capital gain realised by a Holder on the disposition or deemed disposition of New PharmaCielo Shares will not be subject to tax under the Canadian Tax Act unless such New PharmaCielo Shares:

- (i) are, or are deemed to be, "taxable Canadian property" of the Holder at the time of disposition; and
- (ii) are not "treaty-protected property", as defined in the Canadian Tax Act, of the Holder at the time of disposition.

Generally, a Scheme Share, Scheme Option or New PharmaCielo Share owned by a Holder will not be taxable Canadian property of the Holder at a particular time provided that the Scheme Shares (in the case of the Scheme Shares or the Scheme Options) or New PharmaCielo Shares, as applicable, are listed on a "designated stock exchange", as defined in the Canadian Tax Act (which currently includes ASX and Tier 1 of the TSX-V), at that time, unless at any time during the 60-month period immediately preceding the particular time (i) the Holder, persons with whom the Holder did not deal at arm's length, partnerships in which the Holder or a person with whom the Holder did not deal at arm's length hold a membership interest directly or indirectly through one or more partnerships, or the Holder together with all such persons or partnerships, held 25% or more of the issued shares of any class or series of Creso Pharma or PharmaCielo, as the case may be and (ii) more than 50% of the fair market value of the Scheme Shares or New PharmaCielo Shares, as the case may be, was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, "Canadian resource properties" (as defined in the Canadian Tax Act), "timber resource properties" (as defined in the Canadian Tax Act) or options in respect of, or interests in, or for civil law rights in, such property whether or not such property exists. Further, Scheme Shares, Scheme Options or New PharmaCielo Shares may be deemed to be taxable Canadian property to a Holder for purposes of the Canadian Tax Act in certain circumstances.

Even if Scheme Shares, Scheme Options or New PharmaCielo Shares are taxable Canadian property to a Holder at a particular time, such Holder may be exempt from tax on any capital gain realised on the disposition of such shares by virtue of an applicable income tax treaty or convention to which Canada is a signatory, such that the Scheme Shares, Scheme Options or New PharmaCielo Shares, as applicable, would be "treaty-protected property" for purposes of the Canadian Tax Act.

Holders whose Scheme Shares, Scheme Options or New PharmaCielo Shares may be taxable Canadian property should consult their tax advisor for advice as to the Canadian taxation implications of their particular circumstances.

(d) Dividends on New PharmaCielo Shares

Dividends paid, deemed to be paid, or credited on New PharmaCielo Shares to a Holder will be subject to non-resident withholding tax under the Canadian Tax Act at a rate of 25% of the gross amount of the dividend unless the rate is reduced by an applicable income tax treaty or convention. In the case of a beneficial owner of dividends who is an individual that is a resident of Australia for purposes of the *Australia-Canada Income Tax Convention* (1980), as amended, and who is entitled to the benefits of that treaty, the rate of withholding tax on dividends will generally be reduced to 15%.

16. COMPARISON OF AUSTRALIAN AND CANADIAN LAWS AND A SUMMARY OF THE RIGHTS ATTACHING TO NEW PHARMACIELO SHARES

Creso Pharma is a public company registered in Australia and is subject to Australian law. Creso Pharma Shares and Creso Pharma Listed Options are admitted to trading on the ASX.

PharmaCielo was incorporated in British Columbia and is subject to the laws of British Columbia and the applicable laws of Canada. PharmaCielo Shares are listed on the TSX-V.

If the Schemes are implemented, the rights of Creso Pharma Listed Securityholders who receive PharmaCielo Shares will, in respect of those shares, be governed principally by the BCBA, Canadian securities laws and the rules of the TSX-V.

A comparison of some of the material provisions of Australian company law and Canadian company law as they relate to Creso Pharma and PharmaCielo, respectively, is set out in Annexure I, along with a description of certain securities laws and stock exchange rules where applicable.

References to 'Australian law' where they appear in Annexure I are references to the Corporations Act, ASX Listing Rules, ASX Settlement Operating Rules and Australian common law, as applicable. References to 'Canadian law' are references to the BCBCA, Canadian corporate and securities laws and Canadian common law, as applicable. References to 'TSX-V Rules' are references to the market rules of the TSX-V, primarily embodied in the 'TSX Venture Exchange Corporate Finance Manual'.

The comparison set out in Annexure I is not an exhaustive statement of all relevant laws, rules and regulations and is intended as a general guide only. Creso Pharma Listed Securityholders should consult with their own legal adviser if they require further information.

17. KEY TERMS OF THE SCHEME IMPLEMENTATION AGREEMENT

Creso Pharma and PharmaCielo entered into the Scheme Implementation Agreement on 6 June 2019. The Scheme Implementation Agreement sets out the obligations of Creso Pharma and PharmaCielo in relation to the Schemes.

The Creso Pharma Directors consider that the Scheme Implementation Agreement was entered into on arm's length commercial terms having regard to the fact that Creso Pharma undertook an assessment of any alternative strategic options available to it, noting that Dr Halperin Wernli and Mr Blumenthal abstained from the final board determination. Creso Pharma confirms that the determination relating to the decision to abstain from voting on the entry into the Scheme Implementation Agreement did not affect Dr Halperin Wernli and Mr Blumenthal ability to recommend the Schemes and once the decision had been made to enter the Scheme Implementation Agreement Dr Halperin Wernli and Mr Blumenthal considered it appropriate to make their recommendations on the Schemes for the reasons set out in the Section titled "Important Information Regarding Directors' Recommendation" on page vi of this Scheme Booklet.

In making the above statement, the Creso Pharma Directors note that Creso Pharma Listed Securityholders are being given the opportunity to consider and vote on whether the Proposed Transaction is implemented at the Scheme Meetings.

This Section sets out a summary of the key terms and conditions of the Scheme Implementation Agreement that are not otherwise addressed in this Scheme Booklet.

17.1 Scheme Conditions under the Scheme Implementation Agreement

The Schemes are subject to the fulfilment or, in certain cases, waiver of the Scheme Conditions. Refer to Sections 8.4 and 8.5 for further details.

17.2 Exclusivity

The Scheme Implementation Agreement contains certain exclusivity arrangements in favour of PharmaCielo, which are in line with market practice. Those arrangements include:

- (a) **No shop:** Creso Pharma must not solicit or encourage any Competing Proposal or any enquiries, discussions or negotiations in relation to, or that may reasonably be expected to lead to, a Competing Proposal;
- (b) **No talk:** Creso Pharma must not participate in any negotiations or discussions with any person in relation to, or that may reasonably be expected to lead to, a Competing Proposal;
- (c) **No due diligence:** Creso Pharma must not invite, facilitate or permit any person (other than PharmaCielo) to undertake due diligence investigations in respect of Creso Pharma or its Related Bodies Corporate, or any of their businesses and operations in connection with such person formulating, developing or finalising a Competing Proposal;
- (d) **Competing Proposal:** During the Exclusivity Period, Creso Pharma must promptly (and in any event, within 48 hours) notify PharmaCielo in writing of:
 - (i) any approach, inquiry or proposal to initiate any discussions or negotiations that concern, or that could reasonably be expected to lead to, an actual, proposed or potential Competing Proposal; and
 - (ii) any request for any information relating to Creso Pharma, its Related Bodies Corporate, or any of their businesses and operations, if Creso Pharma has reasonable grounds to suspect that the request may be in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of a Competing Proposal.

The notice must provide details of the identity of the relevant person making or proposing the Competing Proposal and the material terms of any such Competing Proposal (including price, conditions precedent, timetable and break fee (if any) of any Competing Proposal or proposed Competing Proposal to the extent known). Creso Pharma must keep PharmaCielo updated in relation to any material developments in relation to any actual, proposed or potential Competing Proposal; and

- (e) **Matching right:** If Creso Pharma receives a Competing Proposal and as a result, any Creso Pharma Director proposes to either:
 - (i) change, withdraw or modify his or her recommendation of the Share Scheme; or
 - (ii) approve or recommend entry into any agreement, commitment, arrangement or understanding relating to the Competing Proposal,

Creso Pharma must ensure that no Creso Pharma Director does so unless:

- (iii) the Competing Proposal is bona fide and constitutes a Superior Proposal;
- (iv) Creso Pharma has provided PharmaCielo with material terms of the Competing Proposal (including price, conditions precedent, timetable and break fee (if any) of the Competing Proposal);
- (v) Creso Pharma has given PharmaCielo at least five Business Days after the date of the provision of the information referred to above to amend the terms of the Proposed Transaction or propose another form of transaction; and
- (vi) PharmaCielo has not announced or otherwise formally proposed to that party a matching or superior proposal to the terms of the actual, proposed or potential Competing Proposal (including by way of an increase or decrease in the Scheme Consideration) by the expiry of the five Business Day period above.

Creso Pharma is not required to comply with the no talk and no due diligence provisions in the Scheme Implementation Agreement if the Creso Pharma Board, acting in good faith, determines that complying with those provisions would be likely to constitute a breach of the fiduciary or statutory duties owed by the Creso Pharma Directors.

These exclusivity arrangements are set out in full in clause 17 of the Scheme Implementation Agreement.

17.3 Creso Pharma Break Fee and Creso Pharma Reimbursement Fee

In accordance with Australian market practice, Creso Pharma has agreed to pay PharmaCielo a cash reimbursement fee of \$1,200,000 (exclusive of GST) (**Creso Pharma Break Fee**) in certain circumstances. Those circumstances are:

- (a) **Competing Proposal Succeeds:** a Competing Proposal is publicly announced prior to the End Date, and within twelve months of the date of such announcement:
 - (i) the Competing Proposal is implemented or completed substantially on the terms described in the public announcement; or
 - (ii) the proponent of that Competing Proposal acquires a relevant interest in at least 50% of the Creso Pharma Shares and the Competing Proposal is (or becomes) free of any defeating condition;
- (b) **Change of Recommendation:** at any time prior to the Second Court Date, any Creso Pharma Director:
 - (i) withdraws or adversely modifies their recommendation of the Proposed Transaction or recommends or supports a Competing Proposal;
 - (ii) does not recommend in the Scheme Booklet that Creso Pharma Shareholders approve the Share Scheme and that Creso Pharma Listed Optionholders approve the Option Scheme; or
 - (iii) makes any public statement to the effect that the Share Scheme or the Option Scheme is not, or is no longer, recommended, except where that act is:
 - (iv) as a result of a Creso Pharma Director considering, after taking written advice from his or her legal adviser, that he or she should not provide or continue to maintain any recommendation (positive or adverse) because that Creso Pharma Director has an interest in the Share Scheme that is so materially different from other Creso Pharma Shareholders which would properly preclude him or her from providing any such recommendation. For the avoidance of doubt, this will not extend to any Creso Pharma Director adversely revising or adversely modifying his or her recommendation of the Proposed Transaction or making a public statement indicating that they recommend, endorse or support a Competing Proposal;
 - (v) as a result of the Independent Expert (either in its initial report or any updated, revised or supplemental report) opining that the Share Scheme is not in the best interest of Creso Pharma Shareholders (other than where the reason for that opinion is a Superior Proposal);
 - (vi) as a result of a failure of a condition precedent in clause 3 of the Scheme Implementation Agreement, other than as result of a failure of a condition precedent in clauses 3.1(c) (No Creso Pharma Prescribed Occurrences), 3.1(e) (Creso Pharma Warranties), 3.1(j) (No Creso Pharma Material Adverse Change) 3.1(h) (Creso Pharma Convertible Securities), 3.1(l) (Third party consents) or 3.1(o) (Conversion of Secured Loan Agreements); or
 - (vii) in circumstances where Creso Pharma is entitled to terminate the Scheme Implementation Agreement in accordance with either clause 14.1(a)(i) or clause 14.2(b) of the Scheme Implementation Agreement; and
- (c) **Material breach:** PharmaCielo terminates the Scheme Implementation Agreement in accordance with either clause 14.1(a)(i) or clause 14.2(a) of the Scheme Implementation Agreement.

The Creso Pharma Directors consider the Creso Pharma Break Fee is reasonable and appropriate in amount, structure and effect. The fee is not payable if the Share Scheme does not proceed merely because Creso Pharma Shareholders do not vote in favour of the Share Scheme in sufficient numbers to satisfy the legal requirements.

Creso Pharma has agreed to pay PharmaCielo a cash reimbursement fee of \$450,000 (exclusive of GST) if the resolution to approve the Share Scheme is submitted to the Share Scheme Meeting, the Share Scheme Meeting is held but the resolution is not approved by the majorities required under section 411(4)(a)(ii) of the Corporations Act (**Creso Pharma Reimbursement Fee**).

Full details of the Creso Pharma Break Fee and the Creso Pharma Reimbursement Fee are set out in clause 15 of the Scheme Implementation Agreement.

17.4 PharmaCielo Break Fee

PharmaCielo has agreed to pay Creso Pharma a cash reimbursement fee of \$1,200,000 (exclusive of GST) (**PharmaCielo Break Fee**) in certain circumstances. Those circumstances are:

- (a) **Payment of Consideration:** the Share Scheme and the Option Scheme each became Effective but:
 - (i) PharmaCielo does not pay the Share Scheme Consideration or the Option Scheme Consideration in accordance with the terms and conditions of the Scheme Implementation Agreement, the Share Scheme Deed Poll and the Option Scheme Deed Poll; or
 - (ii) PharmaCielo does not comply with its obligations to pay the agreed consideration for the Creso Pharma Unlisted Securities in accordance with the terms and conditions in clause 6 of the Scheme Implementation Agreement; or
- (b) **Material breach:** Creso Pharma terminates the Scheme Implementation Agreement in accordance with either clause 14.1(a)(i) or clause 14.2(b) of the Scheme Implementation Agreement.

Full details of the PharmaCielo Break Fee are set out in clause 16 of the Scheme Implementation Agreement.

17.5 Termination

Either party may terminate the Scheme Implementation Agreement at any time prior to the Delivery Time on the Second Court Date:

- (a) if the other party is in material breach of its obligations under the Scheme Implementation Agreement (including a material breach of a representation or warranty) and the breaching party has failed to remedy the breach within ten Business Days' of receipt by it of a notice in writing from the non-breaching party setting out details of the relevant circumstance and requesting the breaching party to remedy the breach;
- (b) if a Scheme Condition becomes incapable of being satisfied before the End Date;
- (c) if the Court refuses to make any order directing Creso Pharma to convene the Share Scheme Meeting, provided that both Creso Pharma and PharmaCielo have met and consulted in good faith and agreed that they do not wish to proceed with the Share Scheme; or
- (d) if the Effective Date for the Share Scheme has not occurred on or before the End Date.

Creso Pharma may also terminate the Scheme Implementation Agreement by notice in writing to PharmaCielo, at any time prior to the Delivery Time on the Second Court Date if at any time before then each of that number of Creso Pharma Directors as constitutes a majority of the Creso Pharma Board publicly changes, withdraws or modifies his or her recommendation on the basis that:

- (a) Creso Pharma has received a Superior Proposal and (i) has entered into a legally binding agreement to undertake or give effect to that proposal or (ii) in the case of a proposal by way of takeover bid which is not subject to an agreement with Creso Pharma, an announcement has been made which attracts section 631(1) of the Corporations Act; or
- (b) the Independent Expert concludes in the Independent Expert's Report (either in its initial report or any subsequent update of its report) that the Share Scheme is not in the best interest of the Creso Pharma Shareholders (other than where the conclusion is due to the existence of a Competing Proposal).

PharmaCielo may also terminate the Scheme Implementation Deed prior to the Delivery Time on the Second Court Date if at any time before then any Creso Pharma Director:

- (a) fails to recommend the Share Scheme or the Option Scheme;
- (b) withdraws, adversely revises or adversely modifies their recommendation of the Proposed Transaction; or
- (c) makes a public statement indicating that they no longer recommend the Proposed Transaction or recommend, endorse or support a Competing Proposal, other than as a result of that Creso Pharma Director having withdrawn his or her recommendation, after taking advice from his or her legal adviser, that he or she should not continue to maintain any recommendation (positive or adverse) because that Creso Pharma Director has an interest in the Share Scheme that is so

materially different from other Creso Pharma Shareholders which would properly preclude him or her from providing any such recommendation. For the avoidance of doubt, this will not avoidance of doubt will not extend to any Creso Pharma Director adversely revising or adversely modifying his or her recommendation of the Proposed Transaction or making a public statement indicating that they recommend, endorse or support a Competing Proposal.

Further details on termination are set out in clause 14 of the Scheme Implementation Agreement.

17.6 Amendments to the Schemes

Creso Pharma must not consent to any modification of, or amendment to, or the making or imposition by the Court of any Scheme Condition in respect of the Schemes without the prior consent of PharmaCielo.

17.7 Representations and warranties

Each of Creso Pharma and PharmaCielo has given representations, warranties and covenants to the other that are considered to be standard warranties for an agreement of this kind. The representations, warranties and covenants given by each of Creso Pharma and PharmaCielo are set out in full in clause 11 of the Scheme Implementation Agreement.

18. ADDITIONAL INFORMATION

18.1 Introduction

This Section 18 sets out additional information required to be disclosed to Creso Pharma Listed Securityholders pursuant to the Corporations Act and the Corporations Regulations, together with other information that may be of interest to Creso Pharma Listed Securityholders.

18.2 Interests of Creso Pharma Directors in Creso Pharma Securities

The Creso Pharma Directors have Relevant Interests in the following Creso Pharma Listed Securities.

Creso Pharma Director	Creso Pharma Shares	Percentage of issued Creso Pharma Shares held	Creso Pharma Listed Options	Percentage of issued Creso Pharma Listed Options held
Boaz Wachtel	8,300,000	5.48%	3,000,000	4.12%
Dr. Miriam Halperin Wernli ¹	12,800,000	8.45%	4,147,950	5.70%
Adam Blumenthal ²	6,250,001	4.12%	2,750,000	3.78%
Dr James Ellingford	1,450,000	0.96%	550,000	0.76%

Notes:

- Includes 300,000 Shares and 75,000 Creso Pharma Listed Options held by Jorge Wernli, who is the spouse of Dr. Miriam Halperin Wernli.
- If the Share Scheme is implemented, EverBlu Capital, an entity of which Mr Blumenthal is a director and shareholder, will be entitled to receive a transaction success fee which will be paid through the issue of 458,256 PharmaCielo Shares. Refer to Section 18.8(b) for further details.

Boaz Wachtel also holds 1,600,000 Creso Pharma Performance Rights, comprising 800,000 CPHPERR6 Performance Rights and 800,000 CPHPERR7 Performance Rights. These Performance Rights vest upon satisfaction of the following vesting conditions:

- CPHPERR6 Performance Rights: Successfully identifying and concluding a collaboration or Joint Venture acquisition and remaining as a Creso Pharma Director for 12 months from date of issue of the Performance Rights (being 27 July 2017); and
- CPHPERR7 Performance Rights: Successfully identifying and concluding a collaboration or Joint Venture acquisition in Israel and remaining as a Creso Pharma Director for 12 months from date of issue of the Performance Rights (being 27 July 2017).

Each of the Creso Pharma Directors presently intends to vote all of the Creso Pharma Shares held or controlled by them in favour of the Share Scheme and all of the Creso Pharma Listed Options held by them in favour of the Option Scheme, in the absence of a Superior Proposal.

18.3 Interests of Creso Pharma Directors in PharmaCielo

No Creso Pharma Director has a Relevant Interest in any PharmaCielo Shares.

No Creso Pharma Director acquired or disposed of a Relevant Interest in PharmaCielo Shares in the four-month period ending on the date immediately before the Last Practicable Date.

18.4 Benefits to Creso Pharma officers in connection with retirement from office

The employment agreements for the Creso Pharma Directors relevantly provide as follows:

(a) Boaz Wachtel

- Salary: AUD\$10,000 per month (AUD\$140,000 per annum) (exclusive of VAT) (**Salary**).
- Annual Bonus: 50% of Salary, subject to meeting performance criteria agreed to with the Creso Pharma Board.
- Term: Mr Wachtel is engaged for a period of three years from the date of admission of Creso Pharma to the official list of the ASX (which occurred on 18 October 2016 and will therefore end on 18 October 2019), unless otherwise extended by agreement (**Term**).
- Termination:
 - Creso Pharma may terminate Mr Wachtel's employment at any time by giving Mr Wachtel at least 12 months' written notice. Creso Pharma may elect to require Mr Wachtel to serve this notice period or provide him payment in lieu of all or part of this notice period; and
 - Mr Wachtel may terminate his employment at any time by giving at least 12 months' written notice to Creso Pharma. Creso Pharma may elect to require Mr Wachtel to serve this notice period or provide him payment in lieu of all or part of this notice period.

Customary summary termination rights with no notice period also apply.

Following completion of the Term on 18 October 2019, Mr Wachtel will be retained as a consultant on a short term basis.

(b) Miriam Halperin Wernli

- Salary: USD\$250,000 per annum (including of any pension payments and other taxes other than such part of social security contributions) (**Salary**).
- Annual Bonus: 50% of the Salary, subject to meeting performance criteria agreed to with the Creso Pharma Board.
- Termination:
 - Creso Pharma may terminate Dr Halperin Wernli's employment at any time by giving Dr Halperin Wernli at least 12 months' written notice. Creso Pharma may elect to require Dr Halperin Wernli to serve this notice period or provide her payment in lieu of all or part of this notice period; and

- B. Dr Halperin Wernli may terminate her employment at any time by giving at least 12 months' written notice to Creso Pharma. Creso Pharma may elect to require Dr Halperin Wernli to serve this notice period or provide her payment in lieu of all or part of this notice period.

Customary summary termination rights with no notice period also apply.

The remuneration payable to non-executive directors of Creso Pharma is set out in Section 18.6.

Other than as set out in this Section 18, there are no current proposals for any payments or other benefit to be made or given to a director, secretary or executive officer of Creso Pharma or any Related Body Corporate of Creso Pharma as compensation for the loss of, or as consideration for or in connection with his or her retirement from office in Creso Pharma or any Related Body Corporate of Creso Pharma as a result of the Schemes.

18.5 Benefits to Creso Pharma Directors in connection with the Schemes

The Creso Pharma Directors have considered the advantages and disadvantages of the Schemes and concluded that the Schemes are in the best interest of Creso Pharma Listed Securityholders. The Creso Pharma Directors unanimously recommend that all Creso Pharma Listed Securityholders vote in favour of the Schemes, in the absence of a Superior Proposal.

In respect of the recommendations of Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel, Creso Pharma Listed Securityholders should have regard to the fact that, if the Share Scheme is implemented, Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel will receive various personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page 3 of this Scheme Booklet.

Creso Pharma Listed Securityholders should have regard to these arrangements when considering the Creso Pharma Directors' recommendation in relation to the Schemes. These arrangements are disclosed throughout this Scheme Booklet to allow Creso Pharma Listed Securityholders to consider the arrangements in the context of the Directors' recommendation. As stated in the Section titled "Important Information Regarding Directors' Recommendation" on page 3 of this Scheme Booklet, the Creso Pharma Directors consider that, despite these arrangements, it is appropriate for each of Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel to make a recommendation in relation to the Schemes. In coming to this conclusion, each of Mr Blumenthal, Dr Halperin Wernli and Mr Wachtel took independent legal advice as to the relevant factors to be considered based on recent judicial guidance regarding material personal interests and conflicts of interest.

18.6 Remuneration of Creso Pharma Directors

The Creso Pharma Directors are entitled to be paid fees for their services as directors of Creso Pharma and have been paid the following fees in the past two financial years (inclusive of superannuation entitlements):

Creso Pharma Director	FY 2018	FY2017
Mr Boaz Wachtel	\$727,000 ¹	\$883,376 ⁵
Dr Miriam Halperin Wernli	\$2,068,075 ²	\$1,034,501 ⁶
Mr Adam Blumenthal	\$870,620 ³	\$424,534 ⁷
Dr James Ellingford	\$202,180 ⁴	\$170,354 ⁸

Notes:

1. Comprising a cash payment of \$120,000 and a share-based payment of \$607,000.
2. Comprising a cash payment of \$470,677, a bonus of \$203,648 and a share-based payment of \$1,393,750.
3. Comprising a cash payment of \$121,000, a superannuation payment of \$11,495 and a share-based payment of \$738,125.
4. Comprising a cash payment of \$119,000, a superannuation payment of \$8,930 and a share-based payment of \$74,250.
5. Comprising a cash payment of \$120,000, a bonus payment of \$28,000 and a share-based payment of \$735,376.
6. Comprising a cash payment of \$331,227, a bonus payment of \$169,918 and a share-based payment of \$533,356.
7. Comprising a cash payment of \$60,333, a bonus payment of \$24,000, a superannuation payment of \$8,138 and a share-based payment of \$332,063.
8. Comprising a cash payment of \$58,833, a bonus payment of \$10,000, a superannuation payment of \$6,666 and a share-based payment of \$94,855.

18.7 Interests of PharmaCielo in Creso Pharma

No PharmaCielo Director has a Relevant Interest in any Creso Pharma Securities.

During the four months before the date of this document neither PharmaCielo nor any Associate of PharmaCielo has:

- provided, or agreed to provide, consideration for any Creso Pharma Listed Securities; or
- given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an Associate, to vote in favour of the Schemes or dispose of Creso Pharma Listed Securities which benefit is not offered to all Creso Pharma Listed Securityholders under the Schemes.

18.8 Agreements or arrangements connected with or conditional on the Schemes

(a) Employment Agreement

Under the terms of an executive employment agreement between PharmaCielo and Dr Miriam Halperin Wernli, PharmaCielo has agreed to appoint Dr Miriam Halperin Wernli as the President of PharmaCielo on a full-time basis with a focus on product and revenue generation commencing on the Implementation Date (the **Employment Agreement**). Dr Miriam Halperin Wernli will also join the PharmaCielo Board as a PharmaCielo Director.

Dr. Halperin Wernli will receive an annual base salary of C\$350,000 and be eligible for an annual bonus of 66.66% of her base salary if she achieves certain performance goals set mutually by her and PharmaCielo. In addition, Dr. Halperin Wernli will be granted 500,000 PharmaCielo options which will vest on the date that is 24 months after the Implementation Date, subject to the achievement of certain corporate objectives to be mutually determined by PharmaCielo and Dr. Halperin Wernli (**Incentive Options**). 153,450 of the 170,500 PharmaCielo Shares that Dr. Halperin Wernli will be granted if the Share Scheme becomes Effective, will be subject to a lock-up schedule in accordance with the following:

- Dr. Halperin Wernli will have full ownership and the right to dispose of 10% of the PharmaCielo Shares on the Implementation Date;
- Dr. Halperin Wernli will have full ownership and the right to dispose of an additional 30% of the PharmaCielo Shares on the date that is six months after the Implementation Date;
- Dr. Halperin Wernli will have full ownership and the right to dispose of an additional 30% of the PharmaCielo Shares on the date that is nine months after the Implementation Date; and
- Dr. Halperin Wernli will have full ownership and the right to dispose of an additional 30% of the PharmaCielo Shares on the date that is one year after the Implementation Date.

PharmaCielo may terminate Dr Halperin Wernli's employment at any time by giving Dr Halperin Wernli at least 12 months' written notice. Dr Halperin Wernli may terminate her employment at any time by giving at least 12 months' written notice to PharmaCielo. PharmaCielo may elect to require Dr Halperin Wernli to serve the relevant notice period or provide her payment in lieu of all or part of this notice period. Customary summary termination rights with no notice period also apply.

The Incentive Options held by Dr Halperin Wernli will immediately vest and be exercisable if the Employment Agreement is terminated by PharmaCielo without cause or by Dr Halperin Wernli for cause.

(b) **EverBlu Capital Mandate and Deed of Termination and Release**

On 30 June 2017, Creso Pharma entered into a transaction mandate with EverBlu Capital, pursuant to which Creso Pharma engaged EverBlu Capital as a financial adviser to Creso Pharma in relation to, amongst other things, the sale or issue and/or exchange of all or a portion of the ordinary shares, other securities or assets (or a combination thereof) of Creso Pharma (**Transaction**) (**EverBlu Capital Mandate**).

In accordance with the terms of the EverBlu Capital Mandate, Creso Pharma agreed to pay EverBlu Capital a fee of 3% of the total value of the shares, other securities and/or assets of Creso Pharma that are sold or issued and/or exchanged under the Transaction, in the event that the Transaction is successful (**Transaction Fee**). The Transaction Fee is payable by way of a cash payment or an equity issue.

PharmaCielo has entered into a deed of termination and release with Creso Pharma and EverBlu Capital, whereby the parties have agreed to terminate the existing mandates between Creso Pharma and EverBlu Capital (including the EverBlu Capital Mandate) (**Mandates**), with effect from the Implementation Date (**Deed of Termination and Release**).

In consideration for the termination and release, and subject to the implementation of the Share Scheme, PharmaCielo has agreed to issue EverBlu Capital 458,256 PharmaCielo Shares to satisfy the payment of the Transaction Fee. Once these PharmaCielo Shares are issued, the Mandates will be terminated and EverBlu Capital will release Creso Pharma and PharmaCielo from any obligations that may be owed under the Mandates.

Creso Pharma Director Adam Blumenthal is a director and shareholder of EverBlu Capital. Creso Pharma confirms that the Mandates and the Deed of Termination and Release were entered into on arm's length terms.

(c) **EverBlu Capital Lock-Up Agreement**

EverBlu Capital and its Associates currently hold 2,250,000 Creso Pharma Unlisted Options. EverBlu Capital has entered into a lock-up agreement with PharmaCielo whereby EverBlu Capital has agreed that all the PharmaCielo Shares that are received by EverBlu Capital or its Associates on implementation of the Share Scheme (including the PharmaCielo Shares set out above) (**EverBlu Capital Shares**) will be subject to a lock-up period beginning on the Effective Date (**EverBlu Capital Lock-Up Agreement**).

In accordance with the terms of the EverBlu Capital Lock-Up Agreement, 25% of the EverBlu Capital Shares will be subject to lock-up for a period of 90 days, 25% will be subject to lock-up for a period of 180 days, 25% will be subject to lock-up for a period of 270 days and 25% will be subject to lock-up for a period of 360 days.

(d) **Blumenthal Lock-Up Agreement**

Mr Blumenthal is a Creso Pharma Shareholder and a Creso Pharma Listed Optionholder. Mr Blumenthal has entered into a lock-up agreement with PharmaCielo whereby Mr Blumenthal has agreed that all the PharmaCielo Shares that he receives on implementation of the Share Scheme and the Option Scheme (**Blumenthal Shares**) will be subject to a lock-up period beginning on the Effective Date (**Blumenthal Lock-Up Agreement**).

In accordance with the terms of the Blumenthal Lock-Up Agreement, 50% of the Blumenthal Shares will be subject to lock-up for a period of three months and 50% will be subject to lock-up for a period of 6 months.

Other than as set out in this Section 18, there are no agreements or arrangements made between any Creso Pharma Director and another person in connection with, or conditional on, the outcome of the Schemes other than in their capacity as a Creso Pharma Listed Securityholder.

18.9 Creso Pharma Directors' interests in PharmaCielo contracts

Other than as disclosed in this Section 18, no Creso Pharma Director has any interest in any contract entered into with PharmaCielo, or any interest as a creditor of PharmaCielo.

18.10 Disclosure of payments and benefits to Creso Pharma Directors, secretaries and executive officers

Other than as set out in this Section 18, no Creso Pharma Director, secretary or executive officer of Creso Pharma (or any of its Related Bodies Corporate) has agreed to receive, or is entitled to receive, any payment or benefit from PharmaCielo which is conditional on, or is related to, the Schemes other than in their capacity as a Creso Pharma Securityholder.

18.11 Disclosure of interests

Except as disclosed below or elsewhere in this Scheme Booklet, no:

- (a) Creso Pharma Director or proposed director of Creso Pharma;
- (b) PharmaCielo Director or proposed director of PharmaCielo;
- (c) person named in this Scheme Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Scheme Booklet; or
- (d) promoter or underwriter of PharmaCielo,

(together **Interested Persons**) hold, or held at any time during the two years before the date of this Scheme Booklet any interests in:

- (a) the formation or promotion of PharmaCielo;
- (b) property acquired or proposed to be acquired by PharmaCielo in connection with the formation or promotion of PharmaCielo or the offer of New PharmaCielo Shares under the Schemes; or
- (c) the offer of New PharmaCielo Shares under the Schemes.

18.12 Disclosure of fees and other benefits

Except as disclosed elsewhere in this Scheme Booklet, neither PharmaCielo nor Creso Pharma has paid or agreed to pay any fees, or provided or agreed to provide any benefit to:

- (a) a director or proposed director of PharmaCielo to induce them to become or qualify as a director of PharmaCielo; or
- (b) any Interested Person for services provided by that person in connection with:
 - (i) the formation or promotion of PharmaCielo; or
 - (ii) the offer of New PharmaCielo Shares under the Schemes.

18.13 Creditors of Creso Pharma

The Schemes, if implemented, will not affect the interests of creditors of Creso Pharma.

Creso Pharma has paid and is paying all its creditors within normal terms of trade. It is solvent and is trading in an ordinary commercial manner.

18.14 Cancellation of Creso Pharma Unlisted Options

Creso Pharma has a total of 7,086,250 Creso Pharma Unlisted Options on issue.

As set out in Section 8.11, pursuant to the Option Cancellation Deeds, the Creso Pharma Unlisted Optionholders (other than Biologus in respect of the Creso Pharma Unlisted Options issued under tranche CPHOPT3) have agreed to cancel their Creso Pharma Unlisted Options in exchange for PharmaCielo issuing PharmaCielo Shares to them at a ratio set out in the Scheme Implementation Agreement. This will result in approximately 153,702 additional PharmaCielo Shares being issued to the Creso Pharma Unlisted Optionholders (or their nominees) (assuming that no Creso Pharma Unlisted Options are exercised before the Share Scheme Record Date).

18.15 Right to inspect and obtain copies of the Creso Pharma Register

A Creso Pharma Listed Securityholder has the right to inspect the Creso Pharma Register, which contains the name and address of each Creso Pharma Listed Securityholder and certain other prescribed details relating to Creso Pharma Listed Securities, without charge. A Creso Pharma Listed Securityholder also has the right to request a copy of the register, upon payment of a fee (if any) up to a prescribed amount.

18.16 Regulatory conditions and relief

(a) ASX waiver

ASX Listing Rule 6.23.2 provides that the cancellation of options for consideration requires the approval of shareholders. Creso Pharma has been granted a waiver of ASX Listing Rule 6.23.2 to permit the Creso Pharma Unlisted Options to be cancelled without requiring the approval of Creso Pharma Shareholders, subject to the Share Scheme being approved by the Requisite Majority of Creso Pharma Shareholders and the Court. Additionally, Creso Pharma has been granted a waiver of ASX Listing Rule 6.23.2 to permit the Creso Pharma Listed Options to be cancelled without requiring the approval of Creso Pharma Shareholders, subject to the Option Scheme being approved by the Requisite Majority of Creso Pharma Listed Optionholders and the Court. The waiver application was made on the basis that Creso Pharma Shareholders are provided with information of the proposed treatment of Creso Pharma Options in this Scheme Booklet and therefore able to consider this information when determining whether to vote in favour of the Schemes.

(b) ASIC relief

Clauses 8201(a), (b), (c), (d) and (e) and 8203(a) and (b) of Part 2 of Schedule 8 of the Corporations Regulations set out various content requirements in connection with the Option Scheme, including the requirement to name all of the Creso Pharma Listed Optionholders. ASIC has granted relief to Creso Pharma from compliance with these requirements.

(c) TSX-V

On 11 September 2019, the TSX-V granted conditional approval to PharmaCielo to list the New PharmaCielo Shares issued in connection with the Proposed Transaction on the TSX-V. The conditional approval contains customary conditions that the Combined Entity will need to fulfil prior to receiving final approval from the TSX-V to list the New PharmaCielo Shares.

18.17 No administrator

It is not proposed that any person be appointed to manage or administer the Schemes.

18.18 No relevant restrictions in the constitution of Creso Pharma

There are no restrictions on the right to transfer Creso Pharma Shares in Creso Pharma's constitution.

18.19 No unacceptable circumstances

The Creso Pharma Directors do not believe that the Schemes involve any circumstances in relation to the affairs of any member of Creso Pharma that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

18.20 Creso Pharma Listed Securityholders in jurisdictions outside Australia, New Zealand, Switzerland, Israel, Canada and Colombia

This Scheme Booklet and the Schemes are subject to Australian disclosure requirements that may be different to those applicable in other jurisdictions. Neither this Scheme Booklet nor the Schemes constitute or are intended to constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities law. PharmaCielo and Creso Pharma disclaim all liabilities to such persons.

No action has been taken to register or qualify the New PharmaCielo Shares or otherwise permit a public offering of such securities in any jurisdiction outside Australia.

Restrictions in certain jurisdictions outside Australia may make it impractical or unlawful for New PharmaCielo Shares to be issued under the Schemes to, or received under the Schemes by, Creso Pharma Listed Securityholders in those jurisdictions.

Any Creso Pharma Listed Securityholder whose address as shown in the Creso Pharma Register on the Share Scheme Record Date or the Option Scheme Record Date (as applicable) is outside of Australia or its external territories, New Zealand, Switzerland, Israel, Canada and Colombia will be an Ineligible Foreign Securityholder for the purposes of the Share Scheme and the Option Scheme, unless PharmaCielo is satisfied, acting reasonably, that it is permitted to allot and issue New PharmaCielo Shares to that Scheme Participant under the Share Scheme or Option Scheme (as relevant) by the laws of that holder's country of residence, either unconditionally or after compliance with conditions which PharmaCielo in its sole discretion regards as acceptable and not unduly onerous or impracticable. Ineligible Foreign Securityholders will not receive New PharmaCielo Shares. Instead, all Ineligible Foreign Securityholders will have the New PharmaCielo Shares that would otherwise have been issued to them under the Schemes issued to the Sale Agent, as nominee in trust for the Scheme Shareholders or Scheme Optionholders (as applicable), for sale on market following implementation of the Schemes.

Nominees, custodians and other Scheme Participants who hold Creso Pharma Listed Securities on behalf of a beneficial owner resident in Australia or its external territories, New Zealand, Switzerland, Israel, Canada and Colombia may forward this Scheme Booklet (or accompanying documents) to such beneficial shareholder but may not forward this Scheme Booklet to any person in any other country without the consent of PharmaCielo.

Creso Pharma Listed Securityholders who reside outside Australia should refer to the 'Foreign jurisdictions' section of the 'Important Information' Section at the beginning of this Scheme Booklet.

18.21 Privacy and personal information

Creso Pharma and PharmaCielo, their respective share registries and investor relations advisers may collect personal information about you in the process of implementing the Schemes. The personal information may include the names, contact details and details of the security holdings of Creso Pharma Listed Securityholders, and the names of individuals appointed by Creso Pharma Listed Securityholders as proxies, corporate representatives or attorneys at the Scheme Meetings. The personal information is collected for the primary purpose of implementing the Schemes.

Creso Pharma Listed Securityholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. Such individuals should contact the Creso Pharma Registry on 1300 636 752 (within Australia) or +61 2 8318 7933 (outside Australia) in the first instance if they wish to request access to that personal information.

Creso Pharma Listed Securityholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Scheme Meetings should inform that individual of the matters outlined above.

18.22 Supplementary information

Creso Pharma will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration by ASIC and the date of the Scheme Meetings:

- (a) a material statement in this Scheme Booklet that is false or misleading;
- (b) a material omission from this Scheme Booklet;
- (c) a significant change affecting a matter included in this Scheme Booklet; or
- (d) a significant new matter arising that would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC.

The form of the supplementary document and whether a copy will be sent to each Creso Pharma Listed Securityholder will depend on the nature and timing of the new or changed circumstances. Creso Pharma may circulate and publish any supplementary document by:

- (a) making an announcement to the ASX;
- (b) placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;

- (c) posting the supplementary document to Creso Pharma Listed Security holders at their registered address as shown in the Creso Pharma Register; or
- (d) posting a statement on Creso Pharma's website at www.cresopharma.com, as Creso Pharma in its absolute discretion considers appropriate.

18.23 Advisers and experts

(a) Roles of advisers and experts

The persons named in this Scheme Booklet as performing a function in a professional, advisory or other capacity in connection with the Schemes or the preparation or distribution of this Scheme Booklet are:

Name	Role
BDO Corporate Finance (WA) Pty Ltd	Independent Expert
BDO Corporate Finance (East Coast) Pty Ltd	Independent Accountant
BDO East Coast Partnership	Tax adviser to Creso Pharma
EverBlu Capital Pty Ltd	Financial adviser to Creso Pharma
Steinepreis Paganin	Legal adviser to Creso Pharma
Minter Ellison	Australian legal adviser to PharmaCielo
McMillan LLP	Canadian legal adviser to PharmaCielo
Cormark	Financial adviser to PharmaCielo
Automic	Creso Pharma's share registry
Computershare Investor Services Inc.	PharmaCielo's share registry

(b) Consents of advisers and experts

PharmaCielo has given its written consent to be named in this Scheme Booklet in the form and context in which it is named and to the inclusion of the information attributed to it in this Scheme Booklet in the form and context in which that information is included in this Scheme Booklet.

BDO Corporate Finance (WA) Pty Ltd has given its written consent to be named in this Scheme Booklet in the form and context in which it is named and to the inclusion of its Independent Expert's Report in this Scheme Booklet contained in Annexure A of this Scheme Booklet.

BDO Corporate Finance (East Coast) Pty Ltd has given its written consent to be named in this Scheme Booklet in the form and context in which it is named and to the inclusion of its Independent Limited Assurance Report contained in Annexure B of this Scheme Booklet.

BDO East Coast Partnership has given its written consent to be named in this Scheme Booklet in the form and context in which it is named and to the inclusion of information on the Australian taxation implications in Section 15.1 of this Scheme Booklet.

EverBlu Capital has given its written consent to be named in this Scheme Booklet in the form and context in which it is named. EverBlu Capital has not made any statement that is included in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based.

Steinepreis Paganin has given its written consent to be named in this Scheme Booklet in the form in which it is named. Steinepreis Paganin has not made any statement that is included in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based.

Minter Ellison has given its written consent to be named in this Scheme Booklet in the form in which it is named. Minter Ellison has not made any statement that is included in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based.

McMillan LLP has given its written consent to be named in this Scheme Booklet in the form and context in which it is named, to the inclusion of information on the Canadian taxation implications in Section 15.2 of this Scheme Booklet and the information on the Canadian law and the rights attaching to New PharmaCielo Shares set out within Annexure I of this Scheme Booklet.

Automic has given its consent to be named as the Creso Pharma Registry in this Scheme Booklet, in the form and context in which it is named. Automic has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

Computershare Investor Services Inc. has given its consent to be named in this Scheme Booklet, in the form and context in which it is named. Computershare Investor Services Inc. has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

Each person named in this Section 18.23 has given, and before the time of registration of this Scheme Booklet with ASIC, has not withdrawn, their consent to being named in this Scheme Booklet in the capacity indicated next to their name.

(c) Disclaimers of responsibility

Each person named in this Section 18.23 as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Scheme Booklet:

- (i) has not authorised or caused the issue of this Scheme Booklet or the making of the offer of New PharmaCielo Shares under the Schemes;
- (ii) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than a statement included in this Scheme Booklet with the written consent of that person as stated in Section 18.23(b); and
- (iii) makes no representations regarding, and to the maximum extent permitted by law, expressly disclaims and takes no responsibility for, any statements in or omissions from any part of this Scheme Booklet, other than a reference to its name and any statement or report that has been included in this Scheme Booklet with the consent of that person.

(d) Fees

Each person named in this Section 18.23 as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Scheme Booklet will be entitled to receive professional fees charged in accordance with their normal basis of charging.

In aggregate, if the Schemes are implemented Creso Pharma expects to pay approximately \$1,000,000 (excluding GST) in transaction costs. In aggregate, if the Schemes are not implemented Creso Pharma expects to pay approximately \$1,000,000 (excluding GST) in transaction costs.

18.24 These transaction costs do not include the Creso Pharma Break Fee or the Creso Pharma Reimbursement Fee that may be payable by Creso Pharma (see Section 17.3 for information on the circumstances in which the Creso Pharma Break Fee and the Creso Pharma Reimbursement Fee will be payable). No other material information

Other than as set out in this Scheme Booklet, including the Annexures to this Scheme Booklet, there is no information material to the making of a decision in relation to the Scheme or a decision by a Creso Pharma Listed Securityholder on how to vote on the Schemes, being information that is within the knowledge of any Creso Pharma Directors or of a Related Body Corporate of Creso Pharma and which has not previously been disclosed to Creso Pharma Listed Securityholders.

19. GLOSSARY OF DEFINED TERMS

The following defined terms used throughout this Scheme Booklet have the meaning set out below unless the context otherwise requires.

A\$ or \$ means the lawful currency of Australia.

Annexure means an annexure of this Scheme Booklet.

Announcement Date means 7 June 2019, being the date of announcement of the Proposed Transaction on ASX.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to it in section 12 of the Corporations Act.

ASX means ASX Limited (ABN 98 008 624 691).

ASX Listing Rules means the listing rules of ASX.

ASX Settlement Rules means the settlement rules of ASX Settlement Pty Limited (ACN 008 504 532).

Automatic or Creso Pharma Registry means Automatic Share Registry.

BCBA means the *British Columbia Business Corporations Act* (Canada).

Business Day means a day that is not a Saturday, Sunday or a public holiday or bank holiday in Melbourne, Australia or Toronto, Canada.

C\$ or CAD means the lawful currency of Canada.

Cash Proceeds means the net proceeds from the sale of New PharmaCielo Shares under the Sale Facility by the Sale Agent in respect of Ineligible Foreign Securityholders or Electing Small Securityholders, after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges.

CBD means cannabidiol.

Combined Group means the corporate group, following implementation of the Schemes, of which PharmaCielo will be the ultimate holding company.

Combined Group Board means the board of directors of the Combined Group.

Competing Proposal means any offer, proposal, transaction or expression of interest under which, if ultimately completed, a person or two or more persons who are Associates would:

- (a) directly or indirectly acquire Voting Power in Creso Pharma of more than 20% or otherwise acquire, or have a right to acquire, a legal, beneficial or economic interest in more than 20% of the Creso Pharma Shares or more than 50% of the share capital of any material subsidiary of Creso Pharma (including through one or more derivative contracts);
- (b) acquire control (within the meaning of section 50AA of the Corporations Act) of, or directly or indirectly merge with, Creso Pharma or a material subsidiary of Creso Pharma;
- (c) directly or indirectly acquire, become the holder of or have a right to acquire a legal, beneficial or equitable interest in, or control of, all or a substantial part of the property or any of the material assets of Creso Pharma Group, or otherwise acquire or have a right to acquire a legal, beneficial or economic interest in, or control of, such property or assets; or
- (d) enter into any agreement, arrangement or understanding requiring Creso Pharma to abandon, or otherwise fail to proceed with, the Proposed Transaction, whether by way of a takeover bid, scheme of arrangement, shareholder approved acquisition, capital reduction, buy back, sale, lease or purchase of shares, other securities or assets, assignment of assets or liabilities, joint venture, dual listed company (or other synthetic merger), deed of company arrangements, any debt for equity arrangement or other transaction or arrangement.

Convertible Notes has the meaning given to that term in Section 10.9.

Cormark means Cormark Securities Inc.

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Court means the Supreme Court of Western Australia, or any other court of competent jurisdiction under the Corporations Act as Creso Pharma and PharmaCielo may agree in writing.

Creso Pharma means Creso Pharma Limited (ACN 609 406 911).

Creso Pharma Board means the board of Creso Pharma Directors as at the date of this Scheme Booklet.

Creso Pharma Break Fee has the meaning given to that term in Section 17.3.

Creso Pharma Constitution means the constitution of Creso Pharma.

Creso Pharma Directors means the directors of Creso Pharma.

Creso Pharma Exchangeable Share means an exchangeable preferred share in Creso Canada Limited granted to the vendors (or their nominees) of the Mernova Acquisition.

Creso Pharma Exchangeable Share Holder means a person who holds a Creso Pharma Exchangeable Share.

Creso Pharma Group means Creso Pharma and its Related Bodies Corporate.

Creso Pharma Listed Option means an option granted by Creso Pharma to acquire by way of issue one Creso Pharma Share, which option is listed for quotation on ASX.

Creso Pharma Listed Optionholder means a person who is registered in the Creso Pharma Register as a holder of Creso Pharma Listed Options.

Creso Pharma Listed Security means a Creso Pharma Share and/or a Creso Pharma Listed Option (as applicable).

Creso Pharma Listed Securityholder means a Creso Pharma Shareholder and/or Creso Pharma Listed Optionholder (as applicable).

Creso Pharma Material Adverse Change has the meaning given to the term "Creso Pharma Material Adverse Change" in clause 1.1 of the Scheme Implementation Agreement.

Creso Pharma Option means a Creso Pharma Listed Options and/or a Creso Pharma Unlisted Option (as applicable).

Creso Pharma Performance Right means a right to acquire by way of issue a Creso Pharma Share for no or nominal consideration, subject to achieving certain defined milestones.

Creso Pharma Performance Rights Holder means a person who holds a Creso Pharma Performance Right.

Creso Pharma Performance Share means a performance share granted to the vendors (or their nominees) of the Kunna Acquisition.

Creso Pharma Performance Shareholder means a person who holds a Creso Pharma Performance Share.

Creso Pharma Prescribed Occurrence has the meaning given to the term “Creso Pharma Prescribed Occurrence” in clause 1.1 of the Scheme Implementation Agreement.

Creso Pharma Register means the register of shareholders and optionholders maintained by Creso Pharma under section 168(1) of the Corporations Act.

Creso Pharma Reimbursement Fee has the meaning given to that term in Section 17.3.

Creso Pharma Share means an issued fully paid ordinary share in the capital of Creso Pharma.

Creso Pharma Shareholder means a person who is registered in the Creso Pharma Register as a holder of Creso Pharma Shares.

Creso Pharma Unlisted Option means an option to acquire by way of issue one Creso Pharma Share, which option is not listed for quotation on ASX.

Creso Pharma Unlisted Optionholder means a person who is registered in the Creso Pharma Register as a holder of Creso Pharma Unlisted Options.

Creso Pharma Unlisted Securities means Creso Pharma Unlisted Options, Creso Pharma Performance Shares, Creso Pharma Performance Rights and/or Creso Pharma Exchangeable Shares (as applicable).

Deed Polls means the Share Scheme Deed Poll and the Option Scheme Deed Poll.

Delivery Time means, in relation to the Second Court Date, two hours before the commencement of the hearing (or if the commencement of the hearing is adjourned, two hours before the commencement of the adjourned hearing), of the Court to approve the Share Scheme in accordance with section 411(4)(b) of the Corporations Act.

Effective means when used in relation to the Share Scheme or the Option Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Share Scheme or the Option Scheme (as relevant).

Effective Date means the date on which the Share Scheme or the Option Scheme (as relevant) becomes Effective.

Electing Small Optionholder means a Small Optionholder that has validly elected to receive Cash Proceeds instead of being issued New PharmaCielo Shares to which it is entitled.

Electing Small Securityholder means an Electing Small Shareholder and/or an Electing Small Optionholder.

Electing Small Shareholder means a Small Shareholder that has validly elected to receive Cash Proceeds instead of being issued New PharmaCielo Shares to which it is entitled.

End Date means:

(a) 31 December 2019; or

(b) such other date and time agreed in writing between PharmaCielo and Creso Pharma.

EverBlu Capital means EverBlu Capital Pty Ltd (ACN 612 793 683).

Governmental Agency means, whether domestic or foreign, any government or representative of a state or federal government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister, ASIC, ASX, the Takeovers Panel, TSX-V and any regulatory organisation established under statute or any stock exchange.

Implementation Date means, with respect to the Share Scheme or the Option Scheme, the later of:

(a) the fifth Business Day following the Share Scheme Record Date or the Option Scheme Record Date (as relevant); or

(b) such other Business Day as Creso Pharma and PharmaCielo agree.

Independent Accountant means BDO Corporate Finance (East Coast) Pty Ltd (ACN 050 038 170).

Independent Expert means BDO Corporate Finance (WA) Pty Ltd (ACN 124 031 045) (AFSL 316 158).

Independent Expert’s Report means the report of the Independent Expert in relation to the Schemes as set out in Annexure A of this Scheme Booklet.

Independent Limited Assurance Report means the report of the Independent Accountant as set out in Annexure B of this Scheme Booklet.

Ineligible Foreign Optionholder means a Scheme Optionholder whose address as shown in the Creso Pharma Register (as at the Option Scheme Record Date) is located outside of:

(a) Australia and its external territories;

(b) New Zealand; and

(c) any other jurisdictions as may be agreed in writing by Creso Pharma and PharmaCielo (being Switzerland, Israel, Canada and Colombia),

(unless PharmaCielo is satisfied, acting reasonably, that it is permitted to allot and issue New PharmaCielo Shares to that Scheme Optionholder under the Option Scheme by the laws of that place either unconditionally or after compliance with conditions that PharmaCielo in its sole discretion regards as acceptable and not unduly onerous or impracticable).

Ineligible Foreign Securityholder means an Ineligible Foreign Shareholder and/or an Ineligible Foreign Optionholder.

Ineligible Foreign Shareholder means a Scheme Shareholder whose address as shown in the Creso Pharma Register (as at the Share Scheme Record Date) is located outside of:

(a) Australia and its external territories;

(b) New Zealand; and

(c) any other jurisdictions as may be agreed in writing by Creso Pharma and PharmaCielo (being Switzerland, Israel, Canada and Colombia),

(unless PharmaCielo is satisfied, acting reasonably, that it is permitted to allot and issue New PharmaCielo Shares to that Scheme Shareholder under the Share Scheme by the laws of that place either unconditionally or after compliance with conditions that PharmaCielo in its sole discretion regards as acceptable and not unduly onerous or impracticable).

Investors has the meaning given to that term in Section 10.9.

Kunna Acquisition means the acquisition by Creso Pharma of 100% of the shares in Kunna Canada Limited, a company registered in Canada, and its wholly owned subsidiary Kunna S.A.S, a company registered in Colombia.

Last Practicable Date means 1 October 2019, being the last practicable date before the finalisation of this Scheme Booklet.

Mernova means Mernova Medicinal Inc., a company registered in Canada.

Mernova Acquisition means the acquisition by Creso Pharma of 100% of the shares in Mernova.

Mernova Vendors means William Fleming, Marybeth Fleming and William Fleming, as trustee of the Fleming Family Trust (2011).

Milestone 1 means Creso Pharma’s announcement to the market of Mernova Medicinal Inc. securing a cultivation license from Health Canada under the ACMPR in relation to the cultivation facility within 18 months of settlement of the Mernova Acquisition.

Milestone 1 Exchangeable Shares means the 4,150,000 Creso Pharma Exchangeable Shares which, following the satisfaction of Milestone 1 on 18 February 2019, are exchangeable for Creso Pharma Shares.

Milestone 2 means Creso Pharma Limited's announcement to the market of the grant of a sales license to Mernova Medicinal Inc. under the Access to Cannabis for Medicinal Purposes Regulations (which have now been superceded), unless otherwise agreed between Creso Pharma and the Mernova Vendors. Milestone 2 must be achieved within 12 months of Milestone 1 being satisfied (being on or before 18 February 2020).

Milestone 2 Exchangeable Shares means 4,150,000 Creso Pharma Exchangeable Shares.

New PharmaCielo Share means a PharmaCielo Share to be issued under the terms of the Share Scheme as Share Scheme Consideration or under the terms of the Option Scheme as Option Scheme Consideration.

Option Cancellation Deeds means the deeds between Creso Pharma, PharmaCielo and the Creso Pharma Unlisted Optionholders relating to the cancellation of Creso Pharma Unlisted Options in exchange for the issue of PharmaCielo Shares in the ratio set out in the Scheme Implementation Agreement.

Option Scheme means the proposed creditors' scheme of arrangement between the proposed scheme of arrangement under Part 5.1 of the Corporations Act between Creso Pharma and Scheme Optionholders in respect of all Scheme Options as described in clause 5 of the Scheme Implementation Agreement and set out in Annexure D.

Option Scheme Consideration means the consideration to be provided to Scheme Optionholders (other than Ineligible Foreign Optionholders and Electing Small Optionholders) for the cancellation of each Scheme Option being the number of New PharmaCielo Shares for every Scheme Option specified in the Option Scheme Consideration Ratio.

Option Scheme Consideration Ratio means 0.0185 New PharmaCielo Shares per Scheme Option.

Option Scheme Deed Poll means the deed poll dated 11 September 2019 executed by PharmaCielo, whereby, amongst other things, PharmaCielo covenants to carry out its obligations under the Option Scheme, as set out in Annexure F.

Option Scheme Meeting means the meeting of the Creso Pharma Listed Optionholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Option Scheme and includes any meeting convened following any adjournment or postponement of that meeting. The notice convening the Option Scheme Meeting is contained in Annexure H.

Option Scheme Record Date means 4.00pm on the third Business Day (or such other Business Day as Creso Pharma and PharmaCielo agree in writing) following the Effective Date.

Option Scheme Resolution means the resolution set out in the Notice of Option Scheme Meeting set out in Annexure H.

PharmaCielo means PharmaCielo Ltd.

PharmaCielo Board means the board of PharmaCielo Directors as at the date of this Scheme Booklet.

PharmaCielo Break Fee has the meaning given to that term in Section 17.4.

PharmaCielo Directors means the directors of PharmaCielo.

PharmaCielo Group means PharmaCielo and each of its Related Bodies Corporate (excluding, at any time, Creso Pharma and its Subsidiaries to the extent that Creso Pharma and its Subsidiaries are Subsidiaries of PharmaCielo at that time).

PharmaCielo Information means the information concerning PharmaCielo, the Combined Group following implementation of the Schemes, provided by PharmaCielo or its advisers to Creso Pharma in writing for inclusion in this Scheme Booklet being:

- (a) letter from PharmaCielo's Chairman;
- (b) Section 6 of this Scheme Booklet only as it pertains to PharmaCielo, the PharmaCielo Directors and their respective Associates;
- (c) Section 11 of this Scheme Booklet;
- (d) Section 12 of this Scheme Booklet, except to the extent it pertains to Creso Pharma's contribution to the Combined Group;
- (e) Section 13 of this Scheme Booklet, except to the extent it pertains to Creso Pharma's contribution to the Combined Group;
- (f) Section 14.2 of this Scheme Booklet;
- (g) Section 18 of this Scheme Booklet as it pertains to PharmaCielo, the PharmaCielo Directors and their respective Associates;
- (h) any other information about PharmaCielo, other PharmaCielo subsidiaries, PharmaCielo's intentions for Creso Pharma and Creso Pharma employees; and
- (i) the information contained elsewhere in this Scheme Booklet repeating or based on the information referred to in (a) to (h) above.

PharmaCielo Loan has the meaning given to that term in Section 10.10.

PharmaCielo Material Adverse Change has the meaning given to the term "PharmaCielo Material Adverse Change" in clause 1.1 of the Scheme Implementation Agreement.

PharmaCielo Prescribed Occurrence has the meaning given to the term "PharmaCielo Prescribed Occurrence" in clause 1.1 of the Scheme Implementation Agreement.

PharmaCielo Share means an issued fully paid common share in the capital of PharmaCielo.

Proposed Transaction means the proposed acquisition by PharmaCielo, in accordance with the terms and conditions of the Scheme Implementation Agreement, of all of the Creso Pharma Shares through the implementation of the Share Scheme and all of the Creso Pharma Listed Options through the implementation of the Option Scheme and all of the associated transactions and steps contemplated by the Scheme Implementation Agreement.

Related Body Corporate means a related body corporate of that person under section 50 of the Corporations Act and includes a body corporate that would be a related body corporate if section 48(2) of the Corporations Act was omitted.

Relevant Interest has the meaning given to it in sections 608 and 609 of the Corporations Act.

Requisite Majority means in respect of the Share Scheme, approval by:

- (a) more than 50% in number of Creso Pharma Shareholders present and voting (whether in person, by proxy, by attorney or, in the case of a corporation, by corporate representative); and
 - (b) at least 75% of the total number of votes cast on the Share Scheme Resolution by Creso Pharma Shareholders,
- and, in respect of the Option Scheme, approval by:
- (c) more than 50% in number of Creso Pharma Listed Optionholders present and voting (whether in person, by proxy, by attorney or, in the case of a corporation, by corporate representative); and
 - (d) Creso Pharma Listed Optionholders whose Creso Pharma Listed Options represent at least 75% (by value) of the total amount of debts and claims of all Creso Pharma Listed Options present and voting at the Option Scheme Meeting on the Option Scheme Resolution.

For this purpose, the amount (or value) of each Creso Pharma Listed Optionholder's debt and claim will be the same as the Option Scheme Consideration payable for the cancellation of the Creso Pharma Listed Options held by that Creso Pharma Listed Optionholder under the Option Scheme (expressed in cents).

Sale Agent means Cormark, a nominee appointed by PharmaCielo to sell New PharmaCielo Shares on behalf of Ineligible Foreign Securityholders and Electing Small Securityholders.

Sale Facility means the mechanism by which Ineligible Foreign Securityholders and Electing Small Securityholders receive Cash Proceeds of any sale of New PharmaCielo Shares they would otherwise receive, as described in Section 9.3.

Scheme Booklet means this booklet that comprises the explanatory statement in respect of the Schemes to be approved by the Court and despatched to Creso Pharma Listed Securityholders and includes the Annexures to this booklet.

Scheme Conditions means the conditions for implementation of the Share Scheme as set out in clause 3.1 of the Scheme Implementation Agreement and clause 3 of the Share Scheme, and the conditions for implementation of the Option Scheme as set out in clause 3.3 of the Scheme Implementation Agreement, and clause 3 of the Option Scheme (as the context requires).

Scheme Consideration means the Share Scheme Consideration and/or the Option Scheme Consideration (as the context requires).

Scheme Implementation Agreement or **SIA** means the scheme implementation agreement dated 6 June 2019 between Creso Pharma and PharmaCielo relating to the implementation of the Schemes. A full copy of the Scheme Implementation Agreement was released on ASX on 7 June 2019 and is available on Creso Pharma's website (www.cresopharma.com).

Scheme Meeting means the Share Scheme Meeting and/or the Option Scheme Meeting (as applicable).

Scheme Option means a Creso Pharma Listed Option on issue as at the Option Scheme Record Date.

Scheme Optionholder means a person who holds one or more Scheme Options.

Scheme Participant means a Scheme Shareholder and/or a Scheme Optionholder (as the context requires).

Scheme Share means a Creso Pharma Share on issue as at the Share Scheme Record Date.

Scheme Shareholder means a person who holds one or more Scheme Shares.

Schemes means the Share Scheme and/or the Option Scheme (as the context requires).

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Share Scheme and/or the Option Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, the date on which the adjourned application is heard or scheduled to be heard.

Section means a section of this Scheme Booklet.

Secured Loan Agreements mean the loan agreements entered into between Creso Pharma and the Investors who provided loans totalling \$5,350,000 to Creso Pharma.

Share Scheme means the proposed scheme of arrangement under Part 5.1 of the Corporations Act between Creso Pharma and Scheme Shareholders in respect of all Scheme Shares as described in clause 4 of the Scheme Implementation Agreement and set out in Annexure C.

Share Scheme Consideration means New PharmaCielo Shares to be issued to Scheme Shareholders (other than Ineligible Foreign Shareholders and Electing Small Shareholders) under the terms of the Share Scheme in consideration for the transfer to PharmaCielo of the Scheme Shares.

Share Scheme Consideration Ratio means 0.0775 New PharmaCielo Shares per Scheme Share.

Share Scheme Deed Poll means the deed poll dated 11 September 2019 executed by PharmaCielo, whereby, amongst other things, PharmaCielo covenants to carry out its obligations under the Share Scheme, as set out in Annexure E.

Share Scheme Meeting means the meeting of Creso Pharma Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Share Scheme and includes any meeting convened following any adjournment or postponement of that meeting. The notice convening the Share Scheme Meeting is contained in Annexure G.

Share Scheme Record Date means 4.00pm on the third Business Day (or such other Business Day as Creso Pharma and PharmaCielo agree in writing) following the Effective Date.

Share Scheme Resolution means the resolution set out in the Notice of Share Scheme Meeting set out in Annexure G.

Small Optionholder means a Scheme Optionholder who is entitled to receive less than 62 New PharmaCielo Shares (being a Creso Pharma Listed Optionholder who holds less than 3,325 Creso Pharma Listed Options) on the Option Scheme Record Date.

Small Securityholder means a Small Shareholder and/or a Small Optionholder (as applicable).

Small Shareholder means a Scheme Shareholder who is entitled to receive less than 62 New PharmaCielo Shares (being a Creso Pharma Shareholder who holds less than 794 Creso Pharma Shares) on the Share Scheme Record Date.

Subsidiaries has the meaning given to that term in section 46 of the Corporations Act

Superior Proposal means a bona fide Competing Proposal (which the Creso Pharma Board, acting in good faith in the interests of the Creso Pharma Shareholders, and after taking written advice from its legal and financial advisers), determines:

- (a) is reasonably capable of being valued and completed taking into account all aspects of the Competing Proposal, including its conditions, the identity, reputation and financial credentials of the person making such proposal, and all relevant legal, regulatory and financial matters; and
- (b) would be more favourable to Creso Pharma Shareholders than the latest proposal provided by a member of the PharmaCielo Group to Creso Pharma, taking into account all aspects of the Competing Proposal and the latest proposal provided by a member of the PharmaCielo Group to Creso Pharma, including the identity, reputation and financial credentials of the person making such proposal, legal, regulatory and financial matters, certainty and any other matters affecting the probability of the relevant proposal being completed in accordance with its terms.

THC means tetrahydrocannabinol.

TSX-V means the TSX Venture Exchange.

US\$ or **USD** means the lawful currency of the United States of America.

Voting Power has the meaning given in section 610 of the Corporations Act.

Corporate Directory

Creso Pharma Limited

Directors

Mr Boaz Wachtel
Executive Chairman

Dr Miriam Halperin Wernli
Chief Executive Officer and Executive Director

Mr Adam Blumenthal
Non-Executive Director

Dr James Ellingford
Non-Executive Director

Company Secretary

Ms Eryn Dale and Mr Winton Willesee, jointly

Registered & Principal Office

L24, 300 Barangaroo Avenue,
BARANGAROO NSW 2000

Telephone: 61- 2 8067 8606

Solicitors to Creso Pharma

Steinepreis Paganin
Level 4, 16 Milligan Street
PERTH WA 6000

Auditor

BDO East Coast Partnership
Level 11
1 Margaret St
SYDNEY NSW 2000

Share Registry

Automic Share Registry
Level 2, 267 St Georges Terrace
PERTH WA 6000

PharmaCielo Ltd.

Directors

Simon Langelier
Chairman of the Board and Director

David Attard
Chief Executive Officer, President, and Director

Douglas Bache
Director

Henning von Koss
Director

Matteo Pellegrini
Director

Carlos Manuel Uribe
Director

Company Secretary

Alex Bruvels

Registered & Principal Office

1 Toronto Street, Suite 805
Toronto, Ontario M5C 2V6

Australian legal adviser to PharmaCielo

MinterEllison
Rialto Towers
525 Collins Street
MELBOURNE VIC 3000

Canadian legal adviser to PharmaCielo

McMillan LLP
181 Bay Street, Suite 4400
Toronto, Ontario M5J 2T3

Auditor

MNP LLP
111 Richmond Street W, Suite 300
Toronto, Ontario M5H 2G4

Share Registry

Computershare Investor Services Inc.
510 Burrard Street, 3rd Floor
Vancouver, British Columbia V6C 3B9

ANNEXURE A

CRESO PHARMA LIMITED

Independent Expert's Report

26 September 2019

Financial Services Guide

26 September 2019

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Creso Pharma Limited ('Creso Pharma') to provide an independent expert's report on the proposed acquisition of all of the issued shares in Creso Pharma by PharmaCielo Ltd. ('PharmaCielo'). You are being provided with a copy of our report because you are a shareholder of Creso Pharma and this Financial Services Guide ('FSG') is included in the event you are also classified under the Corporations Act 2001 ('the Act') as a retail client.

Our report and this FSG accompanies the Scheme Booklet required to be provided to you by Creso Pharma to assist you in deciding on whether or not to approve the proposal.

Financial Services Guide

This FSG is designed to help retail clients make a decision as to their use of our general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence No. 316158;
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

Information about us

We are a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide professional services primarily in the areas of audit, tax, consulting, mergers and acquisition, and financial advisory services.

We and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business and the directors of BDO Corporate Finance (WA) Pty Ltd may receive a share in the profits of related entities that provide these services.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients, and deal in securities for wholesale clients. The authorisation relevant to this report is general financial product advice.

When we provide this financial service we are engaged to provide an expert report in connection with the financial product of another person. Our reports explain who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. If you have any questions, or don't fully understand our report you should seek professional financial advice.

Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$70,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report and our directors do not hold any shares in Creso Pharma.

Other Assignments

BDO East Coast Partnership is the appointed Auditor of Creso Pharma. We do not consider that this impacts on our independence in accordance with the requirements of Regulatory Guide 112 'Independence of Experts'. We have completed a conflict search of BDO affiliated organisations within Australia. This conflict search incorporates all Partners, Directors and Managers of BDO affiliated organisations. We are not aware of any circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective assistance in this matter.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Creso Pharma for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority (**AFCA**).

AFCA is an external dispute resolution scheme that deals with complaints from consumers in the financial system. It is a not-for-profit company limited by guarantee and authorised by the responsible federal minister. AFCA was established on 1 November 2018 to allow for the amalgamation of all Financial Ombudsman Service (**FOS**) schemes into one. AFCA will deal with complaints from consumers in the financial system by providing free, fair and independent financial services complaint resolution. If an issue has not been resolved to your satisfaction you can lodge a complaint with AFCA at any time.

Our AFCA Membership Number is 12561. Further details about AFCA are available on its website www.afca.org.au or by contacting it directly via the details set out below.

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001
AFCA Free call: 1800 931 678
Website: www.afca.org.au
Email: info@afca.org.au

You may contact us using the details set out on page 1 of the accompanying report.

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Appendix 1 – Glossary and copyright notice

Appendix 2 – Valuation Methodologies

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 7 June 2019, Creso Pharma Limited ('Creso Pharma' or 'the Company') announced it had entered into a Scheme Implementation Agreement ('SIA') with PharmaCielo Ltd. ('PharmaCielo'), under which PharmaCielo will acquire the entire issued capital of Creso Pharma, by way of a scheme of arrangement under the Corporations Act 2001 (Cth) ('the Share Scheme'). Under the terms of the Share Scheme, each Creso Pharma shareholder ('Shareholders') will receive 0.0775 PharmaCielo shares for every Creso Pharma share held at the record date.

The SIA also includes an option scheme with PharmaCielo ('the Option Scheme'), pursuant to which, the holders of listed options in Creso Pharma ('Listed Optionholders') will receive 0.0185 PharmaCielo shares for every listed option in Creso Pharma held at the record date.

Our report refers to the Share Scheme and Option Scheme collectively as 'the Schemes'.

Creso Pharma and PharmaCielo are both public companies, listed on the Australian Securities Exchange ('ASX') and the TSX Venture Exchange ('TSXV'), respectively. Upon implementation of the Schemes, Creso Pharma will be delisted from the ASX, and will become a wholly owned subsidiary of PharmaCielo. Each share in PharmaCielo that a Shareholder or Listed Optionholder will receive as compensation under the Schemes will be a share in PharmaCielo (post-acquisition of Creso Pharma) following the Schemes ('the Proposed Merged Entity'), which will trade on the TSXV.

2. Summary and Opinion

2.1 Requirement for the report

The directors of Creso Pharma have requested that BDO Corporate Finance (WA) Pty Ltd ('BDO') prepare an independent expert's report ('our Report') to express the following opinions:

- Whether or not the Share Scheme is in the best interests of Shareholders; and
- Whether or not the Option Scheme is in the best interests of Listed Optionholders.

Our Report is prepared pursuant to section 411 of the Corporations Act 2001 ('Corporations Act' or 'the Act') and relevant Corporations Regulations, and is to be included in the scheme booklet for Creso Pharma, in order to assist the Shareholders and Listed Optionholders in their decision whether to approve the Share Scheme and Option Scheme ('Scheme Booklet').

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 60 'Schemes of Arrangements' ('RG 60'), Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Scheme as outlined in the body of this report. We have considered:

- How the value of a Creso Pharma share prior to the Schemes (on a control basis) compares to the value of 0.0775 shares in PharmaCielo (on a minority basis) following the Schemes;
- How the value of a Creso Pharma listed Option (the subject of the Option Scheme) prior to the Schemes compares to the value of 0.0185 shares in PharmaCielo (on a minority basis) following the Schemes;
- The likelihood of an alternative offer being made to Creso Pharma;
- Other factors which we consider to be relevant to the Shareholders and Listed Optionholders in their assessment of the Schemes; and
- The position of Shareholders and Listed Optionholders should the Schemes not proceed.

2.3 Opinion

2.3.1 Share Scheme

We have considered the terms of the Share Scheme as outlined in the body of this report and have concluded that, in the absence of an alternate offer, the Share Scheme is not fair but reasonable.

In our opinion, the Share Scheme is not fair because the value range of a share in Creso Pharma prior to the Schemes on a control basis, is greater than the value range of 0.0775 shares in the Proposed Merged Entity on a minority basis. However, we consider the Scheme to be reasonable because the advantages of the Scheme to Shareholders are greater than the disadvantages. In particular, Shareholders will receive shares in a global medical cannabis company with a strengthened balance sheet, vertically integrated supply chain, experienced board and management team and global distribution network, while also remaining exposed to Creso Pharma's operations.

Therefore, in the absence of a superior proposal, we conclude that the Share Scheme is in the best interest of Shareholders.

2.3.2 Option Scheme

We have considered the terms of the Option Scheme as outlined in the body of this report and have concluded that, in the absence of an alternate offer, the Option Scheme is fair and reasonable.

In our opinion, the Option Scheme is fair because the value range of a Creso Pharma listed option prior to the Schemes, is equivalent to the value range of 0.0185 shares in the Proposed Merged Entity. We consider the Option Scheme to be reasonable for the reasons described in section 2.3.1 and primarily, the risk that if the Share Scheme is approved, however the Option Scheme is not approved, Listed Optionholders may be left holding an option over an unlisted share.

Therefore, in the absence of a superior proposal, we conclude that the Option Scheme is in the best interest of Listed Optionholders.

2.4 Fairness

2.4.1 Share Scheme

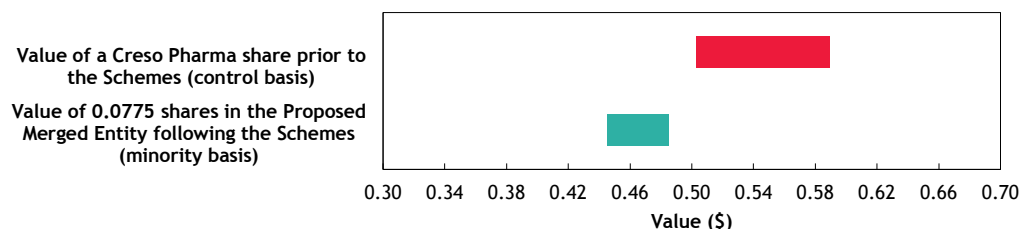
In section 15.1, we determined that the value of a share in Creso Pharma prior to the implementation of the Schemes, on a control basis, compares to the value of 0.0775 shares in the Proposed Merged Entity to be received by Shareholders as consideration under the Share Scheme, on a minority basis, as detailed below.

	Ref	Low \$	Preferred \$	High \$
Value of a Creso Pharma Share prior to the Schemes (control)	11.5	0.502	0.545	0.589
Value of 0.0775 shares in the Proposed Merged Entity (minority)	12.2	0.429	0.447	0.465

Source: BDO analysis

The above valuation ranges are graphically presented below:

Valuation Summary



The above pricing indicates that, in the absence of any other relevant information, the Scheme is not fair for Shareholders.

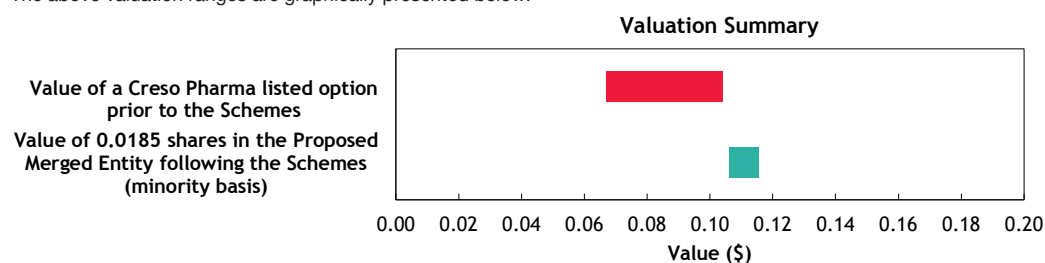
2.4.2. Option Scheme

In section 15.2, we determined that the value of a listed option in Creso Pharma prior to the implementation of the Schemes, on a control basis, compares to the value of 0.0185 shares in the Proposed Merged Entity to be received by Listed Optionholders as consideration under the Option Scheme, on a minority basis, as detailed below.

	Ref	Low \$	Preferred \$	High \$
Value of a Creso Pharma listed option prior to the Schemes	13.3	0.066	0.084	0.104
Value of 0.0185 shares in the Proposed Merged Entity (minority)	14.1	0.102	0.107	0.111

Source: BDO analysis

The above valuation ranges are graphically presented below:



2.5 Reasonableness

We have considered the analysis in section 16 of this report, in terms of both

- advantages and disadvantages of the Schemes; and
- other considerations, including the position of Shareholders if the Schemes does not proceed and the consequences of not approving the Schemes.

In our opinion, the position of Shareholders if the Schemes are approved is more advantageous than the position if the Schemes are not approved. Accordingly, in the absence of any other relevant information and/or a superior proposal, we believe that the Schemes are reasonable and in the best interests of Shareholders and Listed Optionholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
16.1.1	The Options Scheme is Fair	16.2.1	Dilution of Shareholders' interest
16.1.2	Continued participation for Creso Pharma security holders	16.2.2	Shareholders will no longer hold a direct interest in Creso Pharma
16.1.3	Creation of a merged entity with a stronger balance sheet		
16.1.4	Creation of a merged entity with a vertically integrated supply chain		
16.1.5	Access to PharmaCielo's commercial network		
16.1.6	Experienced board and management team of PharmaCielo		

Other key matters we have considered include:

Section	Description
16.3.1	Alternative proposal
16.3.2	Expenses incurred should the Schemes not be approved by Shareholders
16.3.3	The Share Scheme is value accretive for Shareholders
16.3.4	Change in jurisdiction
16.3.5	Holding TSXV listed shares
16.3.6	Shareholders' investment profile will change
16.3.7	Potential movement in share price
16.3.8	Listed Optionholders may be left holding an option over an unlisted share

3. Scope of the Report

3.1 Purpose of the Report

The Schemes are to be implemented pursuant to section 411 of the Corporations Act. Part 3 of Schedule 8 to the Corporations Act Regulations 2001 (**'Regulations'**) prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to section 411 of the Act (**'Section 411'**).

An independent expert's report must be obtained by a scheme company if:

- There is one or more common directors; or
- The other party to the scheme holds 30% or more of the voting shares in the scheme company.

The expert must be independent and must state whether or not, in his or her opinion, the proposed scheme is in the best interest of the members of the company the subject of the scheme and set out the reasons for that opinion.

There are no common directors of Creso Pharma and PharmaCielo, nor is there any other party to the Schemes that holds more than 30% or more of Creso Pharma. Accordingly, there is no requirement for this Report pursuant to Section 411. Notwithstanding the fact that there is no legal requirement to engage an independent expert to report on the Schemes, the directors of Creso Pharma have requested that BDO prepare this Report as if it were an independent expert's report pursuant to section 411, and to provide an opinion as to whether each of the Share Scheme and Option Scheme is fair and reasonable and in the best interests of Shareholders and Listed Optionholders, respectively.

3.2 Regulatory guidance

Neither the Act nor the Regulations defines the term 'in the best interests of'. In determining whether the Share Scheme is in the best interests of Shareholders, and whether the Option Scheme is in the best interests of Listed Optionholders, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

A key matter under RG 111 that an expert needs to consider when determining the appropriate form of analysis is whether or not the effect of the transaction is comparable to a takeover bid and is therefore representative of a change of 'control' transaction.

In the circumstance of a scheme that achieves the same outcome as a takeover bid, RG 111 suggests that the form of the analysis undertaken by the independent expert should be substantially the same as for a takeover. Independent expert reports required under the Act in the circumstance of a takeover are required to provide an opinion as to whether or not the takeover bid is 'fair and reasonable'. While there is no definition of 'fair and reasonable', RG 111 provides some guidance as to how the terms should be interpreted in a range of circumstances.

RG 111 suggests that an opinion as to whether transactions are fair and reasonable should focus on the purpose and outcome of the transaction, that is, the substance of the transaction rather than the legal mechanism to effect the transaction.

Schemes of arrangement pursuant to Section 411 can encompass a wide range of transactions. Accordingly, 'in the best interests' must be capable of a broad interpretation to meet the particular circumstances of each transaction. This involves a judgment on the part of the expert as to the overall commercial effect of the transaction, the circumstances that have led to the transaction and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposed transaction and form an overall view as to whether shareholders are likely to be better off if the proposed transaction is implemented than if it is not. This assessment is the same as that required for a 'fair and reasonable' assessment in the case of a takeover. If the expert would conclude that a proposal was 'fair and reasonable'; if it was in the form of a takeover bid, the expert will also be able to conclude that the scheme is in the best interests of shareholders. An opinion of 'in the best interests' does not imply the best possible outcome for security holders.

3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is equal to or greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison of each Scheme in the following parts:

- A comparison between the value of a Creso Pharma share, on a control basis, and the value of 0.0775 shares in the Proposed Merged Entity on a minority interest basis (fairness – see Section 15.1 'Are the Schemes Fair?');
- A comparison between the value of a Creso Pharma listed option, and the value of 0.0185 shares in the Proposed Merged Entity on a minority interest basis (fairness – see Section 15.2 'Are the Schemes Fair?');
- An investigation into other significant factors to which Shareholders and Listed Optionholders might give consideration, prior to approving the Schemes, after reference to the values derived above (reasonableness – see Section 16 'Are the Schemes Reasonable?'); and
- A consideration of whether the Share Scheme is in the best interests of Shareholders and whether the Option Scheme is in the best interests of Listed Optionholders.

RG 111 states that if a transaction is fair and reasonable then the expert can conclude that the transaction is in the best interests of security holders; if a transaction is not fair but reasonable an expert can still conclude that the transaction is in the best interests of security holders; if a transaction is neither fair nor reasonable then the expert would conclude that the transaction is not in the best interests of security holders.

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' (**'APES 225'**).

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

3.4 Previously issued version of our Report

Prior to the preparation and issue of this Report, BDO issued a previous version, dated 27 August 2019, that was lodged with the draft of the Scheme Booklet with ASIC by Creso Pharma for its statutory review ('Previous Report'). The Previous Report included the following opinions:

- The Share Scheme is not fair but reasonable and is in the best interests of Shareholders; and
- The Option Scheme is fair and reasonable and is in the best interests of Listed Optionholders.

As part of our obligations as an Expert under RG 111 paragraphs 102-104, we monitored market circumstances that drive valuation assumptions and consequential opinions. On 16 September 2019, we noted the current market pricing of PharmaCielo had declined to the level where we no longer considered the Schemes to be reasonable for Shareholders, and therefore, withdrew our opinions on the Schemes.

Since then, we have been notified of the following under RG 111.102:

- The Mernova Facility has been granted the Mernova Processing Licence (as detailed further in section 5);
- If the Schemes are not approved, Creso will bear significant costs as a result of the Schemes process. This will impact Creso's ability to maintain current operational and production growth as the Company will not have access to the necessary working capital required which would be provided from the stronger balance sheet of PharmaCielo on approval of the Schemes (as detailed further in section 16);

- PharmaCielo announced it had signed a sales agreement with General Extract LLC to provide bulk medicinal CBD isolate for sale in multiple states of the United States of America (as detailed further in section 6; and
- The performance of PharmaCielo's share price has improved from 16 September 2019 to the date of this Report (as detailed further in section 12).
- This report takes the above into consideration in our assessment of whether or not the Share Scheme and Option Schemes are in the best interests of Shareholders and Listed Optionholders, respectively.

4. Outline of the Schemes

On 7 June 2019, Creso Pharma announced that it had entered into a SIA with PharmaCielo, under which PharmaCielo will acquire the entire issued capital in Creso Pharma, by way of a scheme of arrangement under the Corporations Act.

At or about the date of Our Report, the entire issued capital of Creso Pharma comprised:

Class of securities	Number of Securities
Fully paid ordinary shares*	151,544,332
Listed options*	72,796,411
Unlisted options	7,086,250
Performance rights	5,596,000
Performance shares	2,212,120
Exchangeable shares†	8,300,000

Source: Creso Pharma Appendix 3B, 31 July 2019

*Includes securities issued in relation to 103 convertible notes issued and subsequently converted in repayment of the \$5.15 million balance of the Secured Loans, as required under the SIA. The Convertible Notes had a face value of \$50,000 each and were converted on the basis of \$0.50 per Creso Pharma share, together with three free attaching Creso Pharma listed options for every two Creso Pharma shares issued.

†Exchangeable shares are issued in Creso Canada and are exchangeable into Creso Shares on satisfaction of Milestones. See Section 4.1.1 for treatment under the Schemes.

The SIA covers both the Share Scheme and the Option Scheme, which are detailed below in section 4.1 and 4.2, respectively. The Share Scheme is not dependent on the Option Scheme proceeding. However, the Option Scheme will only proceed if the Share Scheme proceeds.

The Schemes must be approved by the Supreme Court of Western Australia ('the Court') in accordance with section 411(4)(b) of the Corporations Act.

Following implementation of the Schemes, Shareholders will hold approximately 13% of the issued shares in PharmaCielo, with PharmaCielo shareholders holding the remaining 87%.

Under the SIA, both Creso Pharma and PharmaCielo are liable to pay a break fee of \$1.2 million to the other party in the event of certain circumstances leading to the termination of the Schemes (**'Break Fee'**).

4.1 Share Scheme

Under the Share Scheme, Shareholders will receive 0.0775 PharmaCielo shares for each Creso Pharma share held.

For the Share Scheme to be implemented, it must be approved by:

- more than 50% in number of Creso Pharma Shareholders present and voting (whether in person, by proxy, by attorney or, in the case of a corporation, by corporate representative); and
- at least 75% of the total number of votes cast on the Share Scheme resolution by Creso Pharma Shareholders.

As a condition of the Share Scheme, PharmaCielo has also agreed to provide Creso Pharma with a C\$3.5 million secured bridge loan, under an amendment to the existing loan trust deed between Creso Pharma and PharmaCielo, originally entered into on 26 April 2019. The loan, which is expected to fund general working capital requirements, will be repayable on the later of: (i) 30 November 2019, and (ii) in the event that the Share Scheme is not approved by Shareholders, on the date that is four months after the date of the scheme meeting, subject to certain exceptions.

Creso Pharma will also be required to pay PharmaCielo \$450,000 for the reimbursement of costs (**'Reimbursement Fee'**).

4.1.1. Unlisted Securities in Creso Pharma

On approval of the Share Scheme by the relevant Australian court, unvested Creso Pharma performance rights and eligible performance shares will vest, and holders will be entitled to participate in the Share Scheme on the above terms as a Creso Pharma Shareholder.

All existing unlisted Creso Pharma options will be cancelled and exchanged for shares in the Proposed Merged Entity at specified ratios. Holders of other unlisted securities in Creso Pharma will also be offered PharmaCielo shares based on the terms below.

The following table provides a summary of the Creso Pharma unlisted securities outstanding prior to the execution of the SIA and the terms of consideration to be issued to holders of each category of unlisted securities under the Schemes. We note that a number of tranches of securities have subsequently been issued, cancelled or converted into shares in Creso Pharma in preparation for the implementation of the Schemes.

	Number of securities on issue	Consideration under the Schemes
Performance Rights	12,646,000*	Converted to shares in Creso Pharma on a 1-for-1 basis prior to implementation of the Schemes, allowing the holder to participate in the Share Scheme as a shareholder. *This includes 500,000 additional performance rights subsequently issued on 2 July 2019.
Performance Shares (Kunna Acquisition)	1,212,120	Converted to shares in Creso Pharma on a 1-for-1 basis, allowing the holder to participate in the Share Scheme as a Shareholder.
Performance Shares (Hemp Industries Acquisition)	1,000,000	Cancelled by Creso Pharma in July 2019.
CPHOPT3 Options	2,886,250	Will remain on issue until expiry, as the vesting condition relates to a subsequently discontinued part of Creso Pharma's business and therefore cannot be met.
CHOPT Unlisted Options (exercise price <\$0.63)	4,290,000	Difference between \$0.63 and the exercise price, with consideration being satisfied via the issue of shares in PharmaCielo at the PLCO VWAP.
CHOPT Unlisted Options (exercise price \$0.80)	1,000,000	\$0.15 per option, with consideration being satisfied via the issue of shares in PharmaCielo at the PCLO VWAP.
Exchangeable shares (Milestone 1)	4,150,000	Converted into 6,587,302 shares in Creso Pharma prior to implementation of Schemes, allowing holder to participate in Share Scheme as a Shareholder.
Exchangeable shares (Milestone 2)	4,150,000	Upon milestone 2 being achieved, receive a total of 510,516 shares in PharmaCielo.

Source: Creso Pharma Appendix 3B, 1 February 2019, Scheme Booklet

4.2 Option Scheme

Under the Option Scheme, Listed Optionholders will receive 0.0185 PharmaCielo shares for each listed option in Creso Pharma held.

For the Option Scheme to be implemented, it must be approved by:

- more than 50% in number of Creso Pharma listed option holders present and voting (whether in person, by proxy, by attorney or, in the case of a corporation, by corporate representative); and
- Creso Pharma listed option holders whose Creso Pharma listed options amount in aggregate to at least 75% (by value) of the total of all Creso Pharma listed options voted by Creso Pharma listed option holders present and voting.

We note that the Option Scheme will only progress if the Share Scheme is approved.

Should the Share Scheme only, be approved, Creso Pharma Listed Optionholders will continue to hold their Creso Pharma listed options. In that event, Creso Pharma will be delisted from the ASX and become a wholly owned subsidiary of PharmaCielo, meaning that the options themselves will no longer be listed and there will not be an active market for any Creso Pharma shares issued as the result of the exercise of the listed options.

Further information on the Schemes can be found in the Scheme Booklet.

4.3 Securities to be issued under the Schemes

The table below provides a summary of the number of shares in PharmaCielo to be issued as consideration under the Schemes.

Share structure following the Schemes		Percentage of Issued Shares
Share Scheme		
Creso Pharma shares on issue prior to the Schemes	151,544,332	
Creso Pharma shares issued upon conversion of performance shares	1,212,120	
Creso Pharma shares issued upon conversion of performance rights	5,596,000	
Creso Pharma shares issued upon conversion of exchangeable shares (Milestone 1)	6,587,302	
Total Creso Pharma shares on issue prior to the Record Date	164,939,754	
<i>Share Scheme Consideration for every Creso share held</i>	<i>0.0775</i>	
PharmaCielo shares to be issued under the Share Scheme	12,782,831	
Option Scheme		
Creso Pharma listed options on issue prior to the Schemes	72,796,411	
Total Creso Pharma listed options on issue prior to the Record Date	72,796,411	
<i>Option Scheme Consideration for every Creso share held</i>	<i>0.0185</i>	
PharmaCielo shares to be issued under the Option Scheme	1,346,734	
Unlisted Options		
PharmaCielo shares to be issued to unlisted optionholders	153,702	
Total PharmaCielo shares to be issued to Creso security holders	14,283,267	12.71%
PharmaCielo shares on issue prior to the Schemes	97,440,022	
PharmaCielo shares to be issued to Creso advisers and directors†	628,756	
Total PharmaCielo shares on issue following the Schemes	112,352,045	

Source: Scheme Booklet, BDO analysis

† see section 4.4 below

4.4 Additional securities to be issued to Creso Pharma Advisers and Directors

EverBlu

In the event that the Schemes are approved, Creso Pharma has agreed to pay a fee of 3% of the total value of securities issued and/or exchanged under the Schemes to the Company's financial adviser, EverBlu Capital Pty Ltd (**'EverBlu'**) (**'EverBlu Success Fee'**). As per the Scheme Booklet, PharmaCielo has entered into a deed of termination and release with Creso Pharma and EverBlu with respect to the EverBlu Success Fee, whereby PharmaCielo will issue EverBlu 458,256 PharmaCielo shares in consideration for the termination of the existing agreement. See section 18.8 of the Scheme Booklet for further details.

We note that Creso Pharma Director, Adam Blumenthal, is also director and shareholder of EverBlu.

Dr Miriam Halperin Wernli

In the event the Share Scheme is implemented, Dr Miriam Halperin Wernli will receive an incentive payment of 170,500 PharmaCielo Shares in connection with her appointment as the President of the Combined Group, in addition to 500,000 PharmaCielo options pursuant to her employment agreement with PharmaCielo.

4.5 Potential issue of additional securities

As per the Scheme Booklet, we note that further dilution may occur to Shareholders' interest in PharmaCielo as a result of the potential issue of the following shares.

Cormark

Upon successful completion of the Schemes, PharmaCielo will pay its adviser, Cormark Securities Inc. (**'Cormark'**), a success fee comprised C\$1.5 million in cash and C\$1.5 million in PharmaCielo shares (**'Cormark Success Fee'**). The shares will be issued to Cormark at the issue price which is the lesser of the 20-day VWAP of PharmaCielo shares for the period ending immediately prior to the implementation of the Schemes, and the issue price per PharmaCielo shares pursuant to the terms of any equity financing that is announced prior to the implementation of the Schemes.

Ubiquo

We also note that PharmaCielo has agreed to issue up to 23,409 additional PharmaCielo shares in connection with the recent acquisition of Ubiquo Telemedicina S.A.S. (**'Ubiquo'**). See section 12.1 of the Scheme Booklet for more details.

5. Profile of Creso Pharma

5.1 History

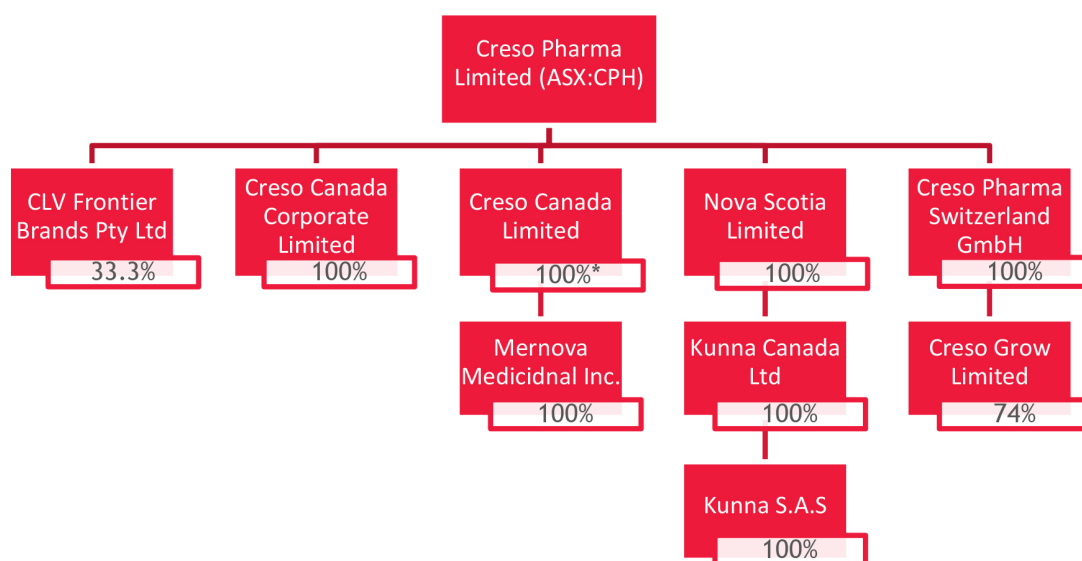
Creso Pharma is an ASX-listed medicinal cannabis company that develops, registers and commercialises hemp and cannabis products globally. The Company's product range covers four categories, including therapeutics, nutraceuticals, animal health and topicals. On 2 May 2017, Creso Pharma in collaboration with its partner Health House International Pty Ltd, were the first to import medicinal cannabis into Australia under the new government regime at the time. Creso Pharma was incorporated as a public unlisted company on 20 November 2015 and commenced trading on the ASX on 20 October 2016. Through Creso Pharma's subsidiaries and joint ventures, the Company currently has operations in Australia, Canada, Colombia, Switzerland and Israel.

The current directors of Creso Pharma are:

- Mr. Boaz Wachtel - Executive Chairman;
- Dr. Miriam Halperin Wernli - Managing Director and Chief Executive Officer;
- Mr. Adam Blumenthal - Non-Executive Director; and
- Dr. James Ellingford - Non-Executive Director.

5.2 Corporate Structure

The corporate structure of the Company is summarised below:



*8,300,000 exchangeable shares in Creso Canada Limited are owned by the Flemming Family Trust.

Source: Creso Pharma, BDO analysis

5.3 Recent Corporate Events

In July 2017, Creso Pharma announced the acquisition of Mernova Medicinal Inc (**'Mernova'**) in Canada for C\$10.1 million in cash and equity. The acquisition was part of the Company's strategy to gain exposure to the Canadian market, as well as to develop a cannabis production facility in Nova Scotia (**'Mernova Facility'**) for vertical integration of its supply chain.

In November 2017, Creso Pharma completed a share placement at an issue price of A\$1.10 per share to raise A\$15.5 million for the development of the Mernova Facility.

In December 2017, Creso Pharma announced the acquisition of Colombian medicinal cannabis group, Kunna S.A.S (**'Kunna'**) for US\$7.15 million in Company shares (**'Kunna Acquisition'**). The Kunna Acquisition was part of the Company's strategy to expand into the Colombian market, as well as to cultivate cannabis in Colombia.

In January 2018, Creso Pharma entered into a joint venture with LGC Capital and Baltic Beer Company to launch CLV Frontier Brands Pty Ltd (**'CLV'**) to develop cannabis and hemp derived beverages. Under the agreement, the Company owns 33.3% of CLV. CLV has since been discontinued.

In May 2018, Creso Pharma entered into a joint venture with Asaf Cohen of Cohen Propagation Nurseries Limited (**'Cohen Nurseries'**) to operate in the medical cannabis market in Israel. Under the agreement, the Company owns a 74% interest of the joint venture company, Creso Grow Limited (**'Creso Grow'**).

In July 2018, Creso Pharma completed a non-renounceable entitlement issue of 1 new option for every 2 shares held by shareholders to raise A\$1.2 million before costs. The funds raised were used to accelerate the development of the Mernova Facility.

In October 2018, Creso Pharma secured a \$2.7 million construction finance loan from L1 Capital Global Opportunities Master Fund (**'L1 Capital'**) and The Canadian Special Opportunity Fund. The loan had an interest rate of 10% p.a., a maturity date of 28 June 2019 and was secured over the assets of Mernova.

In January 2019, Creso Pharma completed a share placement to institutional and sophisticated investors to raise \$2.98 million (**'the Placement'**). The funds were raised through the issue of 6.6 million fully paid ordinary shares at \$0.45 per share, together with one free attaching listed option for every three shares.

In April 2019, Creso Pharma announced it had received commitments to raise \$5.35 million via a series of secured loans to sophisticated and institutional investors (**'Secured Loans'**), to accelerate the development of the Mernova Facility, repay the construction finance loan from L1 Capital, and to support sales and marketing of the Company's products. The Secured Loans are secured over the Cannabis Cultivation Facility and property mortgage over land owned by the Company's wholly owned subsidiary, Mernova.

In May 2019, at the Company's Annual General Meeting, Shareholders voted to approve the offer and issue of up to 107 secured convertible notes with a face value of \$50,000 each, to repay the principal of the Secured Loans (**'Convertible Notes'**).

In July 2019, Creso Pharma announced the repayment of the \$5.35 million in Secured Loans (excluding \$200,000 held by PharmaCielo), through the issue and subsequent conversion of the Convertible Notes into PharmaCielo shares and listed options. The repayment of the Secured Loans is a key condition precedent to the implementation of the Schemes.

In September 2019, Creso Pharma announced the Mernova Facility had been granted a processing licence by Health Canada to process cannabis (**'the Mernova Processing Licence'**). The Mernova Processing Licence enables the Company to produce and wholesale distribute cannabis oils, concentrates and other products

in Canada and abroad.

5.4 Products

Therapeutics

Creso Pharma's therapeutics segment is focussed on the development of medicinal cannabis products designed to treat medical conditions, under the supervision of a physician.

CannaQIX® 50 is a cannabidiol ('**CBD**') based medicinal cannabis product in a non-oil based, buccal lozenge form with vitamin and minerals, which assists with managing pain. CannaQIX50® is now commercialised in New Zealand.

Nutraceuticals

Creso Pharma's nutraceuticals segment is focussed on the development of CBD hemp-based food supplements for general wellbeing and mental health.

CannaQIX® 10 is a sugar free non-euphoric food supplement in buccal form and contains CBD from full plant hemp oil extract, vitamins and minerals. The product can be used without a prescription and is used to help manage stress. It is commercialised in Switzerland, the UK and the Netherlands.

CannaPEAL® is a food supplement, combining CBD with vitamins and minerals to support collagen synthesis, help reduce fatigue and help stimulate metabolism.

The cannaQIX® NITE is a food supplement, targeted at helping sleep and stress reduction.

Animal health

Creso Pharma's animal health segment is focussed on the development of CBD hemp based complementary feed products for the health and wellbeing of animals.

The anibidiol® line of products are complementary feeds for pets that contain CBD from full spectrum hemp oil extract, targeted at relieving stress, anxiety and age related ailments. The anibidiol® line of products is commercialized in Switzerland and is being introduced in 12 additional countries in Europe.

Topicals

Creso Pharma's topical segment is focussed on the development of topical, CBD hemp-based products to address the analgesic need in sports-related muscle injuries, arthritis and osteoarthritis.

CannaDOL® in topical form was developed in partnership with Frike Technologies and is designed to address muscle pain, arthritis and osteoarthritis.

5.5 Historical Statements of Financial Position

Statement of Financial Position	Audited as at 31-Dec-18 A\$	Audited as at 31-Dec-17 A\$	Audited as at 31-Dec-16 A\$
CURRENT ASSETS			
Cash and cash equivalents	6,390,538	12,424,913	3,046,054
Trade and other receivables	951,132	941,337	701,826
Inventories	443,535	912	2,519
Other current assets	495,489	1,228,351	-
TOTAL CURRENT ASSETS	8,280,694	14,595,513	3,750,399
NON-CURRENT ASSETS			
Property, plant and equipment	9,900,422	50,996	17,474
Intangible assets	4,101,178	-	-
Other non-current assets	-	6,949,395	-
TOTAL NON-CURRENT ASSETS	14,001,600	7,000,391	17,474
TOTAL ASSETS	22,282,294	21,595,904	3,767,873
CURRENT LIABILITIES			
Trade and other payables	2,970,505	563,748	525,828
Borrowings	2,776,450	-	-
Provisions	30,947	3,522	2,194
TOTAL CURRENT LIABILITIES	5,777,902	567,270	528,022
TOTAL LIABILITIES	5,777,902	567,270	528,022
NET ASSETS	16,504,392	21,028,634	3,239,851
EQUITY			
Contributed equity	38,222,883	35,138,519	5,479,612
Reserves	14,799,082	5,562,002	2,356,050
Accumulated losses	(36,427,923)	(19,671,887)	(4,595,811)
Non-controlling interest	(89,650)	-	-
TOTAL EQUITY	16,504,392	21,028,634	3,239,851

Source: Creso Pharma's audited financial statements for the years ended 31 December 2018, 31 December 2017 and 31 December 2016.

Commentary on Historical Statements of Financial Position

- Cash and cash equivalents increased from A\$3.05 million at 31 December 2016 to A\$12.42 million at 31 December 2017. The increase in cash and cash equivalents of A\$9.37 million was primarily the result of cash received from the issue of shares of A\$24.41 million, which was partially offset by payments to suppliers of A\$6.55 million, payments for research expense of A\$1.18 million, loans to other entities of A\$6.01 million and share issue costs of A\$1.65 million.
- Cash and cash equivalents decreased from A\$12.42 million at 31 December 2017 to A\$6.39 million at 31 December 2018. The decrease in cash and cash equivalents of A\$6.03 million was primarily the result of payments to suppliers and employees of A\$8.25 million as well as the purchase of plant and equipment for A\$6.73 million. This was partially offset by the cash received from the issue of shares, options and loans, which totalled A\$6.35 million.
- Inventories increased to A\$0.44 million at 31 December 2018 due to the Company procuring a larger quantity of finished goods for sale throughout the year ended 31 December 2018.
- Other current assets of A\$1.23 million at 31 December 2017 refer to pending cash received from the issue of shares that were all received at 31 December 2018. Other current assets of A\$0.50 million at 31 December 2018 refer to capitalised borrowing costs.
- Property, plant and equipment increased from A\$0.05 million at 31 December 2017 to A\$9.90 million at 31 December 2018. The increase of A\$9.85 million was primarily a result of the property, plant and equipment gained through the acquisition of Mernova that was completed in the financial year, as well as additional capital expenditure on the Mernova Facility.
- Intangible assets of A\$4.10 million at 31 December 2018 was the result of the acquisition of the Kunna license, the cultivation license held by Mernova and the intellectual property owned by Creso Pharma Switzerland GmbH.
- Other non-current assets of A\$6.95 million at 31 December 2017 primarily consisted of a loan to Mernova of A\$5.90 million, prior to the acquisition which was completed in February 2018.
- Trade and other payables increased from A\$0.56 million at 31 December 2017 to A\$2.97 million at 31 December 2018. The increase in trade and other payables of A\$2.41 million was primarily the result of increased business activity from Creso Pharma's product expansion and joint ventures, as well as the accelerated development of the Mernova Facility.

Borrowings totalling A\$2.78 million at 31 December 2018 comprised short term loans of A\$2.70 million and accrued interest of A\$0.08 million. The short-term loans were secured from L1 Capital and The Canadian Special Opportunities Fund with an interest rate of 10% p.a. and a maturity date of 28 June 2019.

5.6 Historical Statements of Profit or Loss and Other Comprehensive Income

Statement of Comprehensive Income	Audited for the year ended 31-Dec-18 A\$	Audited for the year ended 31-Dec-17 A\$	Audited for the year ended 31-Dec-16 A\$
Revenue			
Sales revenue	578,222	244,910	8,022
Cost of sales	(353,566)	(437,697)	(32,828)
Gross profit/(loss)	224,656	(192,787)	(24,806)
Other income	153,358	97,341	6,498
Total income/(loss)	378,014	(95,446)	(18,308)
Expenses			
Administration expenses	(1,547,470)	(1,224,943)	(463,727)
Compliance and regulatory expenses	(450,073)	(277,517)	(114,925)
Consultancy and legal expenses	(1,978,657)	(5,120,654)	(724,207)
Depreciation and amortisation expense	(38,721)	(6,638)	(1,318)
Employee benefit expenses	(3,041,271)	(1,174,438)	(294,457)
Exclusivity and facilitation fee	(1,449,929)	-	-
Finance costs	(432,216)	-	(36,751)
Impairment expenses	(527,977)	(1,074,104)	(344,705)
Marketing and investor relations	(1,231,530)	(1,826,482)	(238,225)
Occupancy expenses	(171,395)	(109,216)	(8,944)
Share based payments expense	(6,078,523)	(3,221,355)	(1,783,447)
Research and development expense	(286,539)	(788,623)	(488,978)
Other expenses	(43,035)	(100,635)	(39,539)
Foreign exchange losses	53,636	(56,025)	(26,708)
Total expenses	(17,223,700)	(14,980,630)	(4,565,931)
Loss from continuing operations before income tax	(16,845,686)	(15,076,076)	(4,584,239)
Income tax expense		-	-
Loss from continuing operations after income tax	(16,845,686)	(15,076,076)	(4,584,239)
Foreign currency translation differences	(206,421)	(15,403)	60,894
Total comprehensive loss for the year	(17,052,107)	(15,091,479)	(4,523,345)

Source: Creso Pharma's audited financial statements for the years ended 31 December 2018, 31 December 2017 and 31 December 2016.

Commentary on Historical Statements of Profit or Loss and Other Comprehensive Income

- Sales revenue increased from A\$0.24 million for the year ended 31 December 2017, to A\$0.58 million for the year ended 31 December 2018. The increase of \$0.34 million was the result of an increase in product sales of A\$0.47 million revenue. This was partially offset by the decrease in service revenue of A\$0.15 million.
- Administrative expenses increased from A\$1.22 million for the year ended 31 December 2017, to A\$1.55 million for the year ended 31 December 2018. The increase of A\$0.33 million was primarily due to an A\$0.29 million increase in accounting and company secretarial fees.
- Consultancy and legal expenses decreased from A\$5.12 million for the year ended 31 December 2017, to A\$1.98 million for the year ended 31 December 2018. The decrease of A\$3.14 million was primarily due to the A\$3.28 million decrease in corporate advisory and business development costs. [client to advise of reason for increase in 2017]
- Employee benefit expenses increased from A\$1.17 million for the year ended 31 December 2017, to A\$3.04 million for the year ended 31 December 2018. The increase of A\$1.87 million was primarily due to the A\$0.44 million increase in director fees and A\$1.19 million increase in wages and salaries related to the expansion of business operations.
- Exclusivity and facilitation fees totalled A\$1.45 million for the year ended 31 December 2018, of which A\$1.02 million was attributable to the facilitation fee for the Mernova acquisition and A\$0.43 million was attributable to exclusivity fees paid to Kunna in accordance with the terms of acquisition.
- Finance costs totalled A\$0.43 million for the year ended 31 December 2018 resulting from the loan servicing fee, loan drawdown fee and interest expense relating to the A\$2.7 million loan facility from L1 Capital and the Canadian Special Opportunity Fund.
- Impairment expenses totalled A\$1.07 million for the year ended 31 December 2017, which was attributable to the impairment of the receivables from Hemp M&S OG.
- Impairment expenses totalled A\$0.53 million for the year ended 31 December 2018, which was attributable to the impairment of receivables from CLV, which has since been discontinued.
- Marketing and investor relations remained relatively high and totalled A\$1.83 million for the year ended 31 December 2017 and A\$1.23 million for the year ended 31 December 2018. This was primarily due to the costs of marketing Creso Pharma products in Switzerland and Brazil.
- Share based payments expenses totalled A\$3.22 million for the year ended 31 December 2017, and primarily consisted of performance rights granted to the directors and consultants of Creso Pharma valued at A\$2.96 million.
- Share based payments expenses totalled A\$6.08 million for the year ended 31 December 2018, and primarily consisted of performance rights granted to the directors and consultants of Creso Pharma valued at A\$5.79 million.

5.7 Capital structure

The share structure of Creso Pharma as at 20 August 2019 is outlined below:

	Number
Total Ordinary Shares on Issue	151,544,332
Top 20 Shareholders	78,592,933
Top 20 Shareholders - % of shares on issue	51.86%

Source: Creso Pharma

The range of shares held in Creso Pharma as at 20 August 2019 is as follows:

Range of Shares Held	No. of Ordinary Shareholders	No. of Ordinary Shares	% Issued Capital
1-1,000	2,300	1,633,751	1.08%
1,001-5,000	4,472	11,657,081	7.69%
5,001-10,000	1,339	10,644,305	7.02%
10,001-100,000	1,351	35,329,890	23.31%
100,001 – and over	95	92,279,305	60.89%
TOTAL	9,557	151,544,332	100.00%

Source: Creso Pharma

The ordinary shares held by the most significant shareholders as at 25 August 2019 are detailed below:

Name	No. of Ordinary Shares Held	No. of Ordinary Shares
HSBC Custody Nominees (Australia) Limited*	21,154,981	13.96%
Miriam Halperin Wernli†	12,800,000	8.45%
International Water Energy Savers Ltd	8,300,000	5.48%
Jamber Investments Pty Ltd (The Amber Schwarz Family)	8,000,000	5.28%
Subtotal	50,254,981	33.16%
Others	101,289,351	66.84%
Total ordinary shares on Issue	151,544,332	100.00%

*No substantial holder notice has been lodged by HSBC Custody Nominees (Australia) Limited. Accordingly, Creso Pharma considers that the shares are held on behalf of several nominees.

†Includes 300,000 shares held by Jorge Wernli, who is the spouse of Miriam Halperin Wernli.

Source: Creso Pharma

We note that there has been no movements in significant shareholders up to the date of this Report. Therefore, we consider any movements in other shareholdings to be insignificant and inconsequential to the findings within this Report.

6. Profile of PharmaCielo

6.1 History

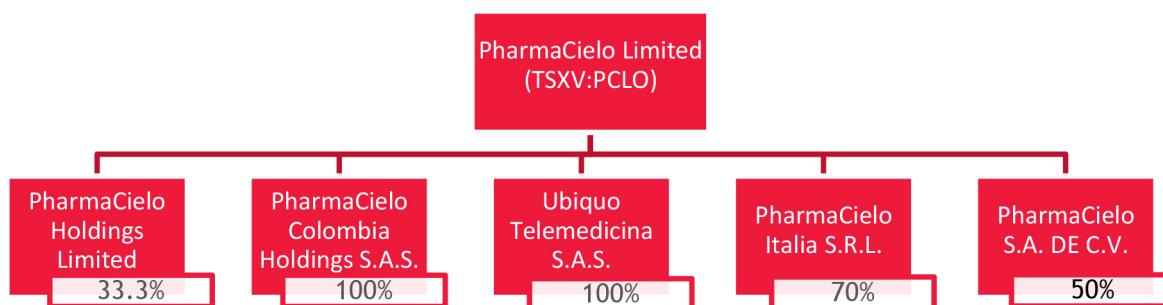
PharmaCielo is a global cannabis company headquartered in Canada and publicly traded on the TSXV. PharmaCielo, through its subsidiary, PharmaCielo Colombia Holdings S.A.S (**'PharmaCielo Colombia'**) cultivates, processes, produces and supplies medicinal-grade cannabis oil extracts and related products in Colombia and internationally. It provides CBD and tetrahydrocannabinol (**'THC'**) focused cannabis oil extracts for channel distributors, including pharmacies, medical clinics and cosmetic companies.

PharmaCielo listed on the TSXV on 18 January 2019 through the reverse acquisition of AAJ Capital 1 Corp (**'AAJ Capital'**).

The current directors and senior management of PharmaCielo are:

- Mr. Simon Langelier - Chairman;
- Mr. Douglas H. Bache, Director - Audit Committee Chair;
- Mr. Matteo Pellegrini - Director;
- Mr. Henning von Koss - Director;
- Mr. Carlos Manuel Uribe - Director; and
- Mr. David Attard, Director - Chief Executive Officer.

6.2 Corporate Structure



Source: Scheme Booklet

6.3 Recent Corporate Events

On 20 April 2018, PharmaCielo announced the acquisition of Ubiquo for C\$1.5 million. Ubiquo is a provider of telemedicine services in Colombia.

On 13 August 2018, PharmaCielo Holdings Ltd. (**'PharmaCielo Privateco'**) completed a private placement offering of approximately C\$39.2 million, co-led by Echelon Wealth Partners Inc., Cormark and GMP Securities L.P. The offering was conducted in connection with the business combination between AAJ Capital and PharmaCielo Privateco to list on the TSXV. The purpose of the proceeds are for the construction of its downstream oil processing facility, expand its client base and increase commercial production of oil extracts.

On 21 December 2018, PharmaCielo entered into a joint venture agreement (**'Eugene Joint Venture Agreement'**) with Eugene S.R.L., a company existing under the laws of Italy (**'Eugene'** and together with PharmaCielo, **'the Italian Parties'**). The Italian Parties agreed to establish a joint venture for the sales, marketing, and product development of PharmaCielo branded cannabis derivative therapeutic and cosmetic products and supplements in Italy.

On 18 January 2019, PharmaCielo commenced trading on the TSXV through the reverse acquisition of AAJ Capital, with the intention of expanding its Colombian operations.

On 28 January 2019, PharmaCielo established a joint venture with Mino Labs S.A. de C.V. (**'Mino Labs'**), a specialty pharmaceutical company and medical supply distributor in Mexico.

On 25 September 2019, PharmaCielo announced it had signed a sales agreement with General Extract LLC to provide bulk medicinal CBD isolate for sale in multiple states of the United States of America. Initial revenues under the contract provide C\$3 million over the remainder of 2019, with allowance for increased volumes within the period based on market demand and expansion on agreement renewal for subsequent periods.

6.4 Projects

Cultivation in Colombia

PharmaCielo operates through its principal and wholly-owned subsidiary PharmaCielo Colombia, which holds a nursery and propagation centre located in Rio Negro (**'Rio Negro Facility'**), Colombia. As of April 2019, 10 hectares of open-air greenhouses in the Rio Negro Facility was under cultivation, with a total cultivation under contract of 139 hectares. PharmaCielo is fully licensed to cultivate both psychoactive and non-psychoactive cannabis.

The advantages of cultivating cannabis in Colombia include the optimal temperate climate, extended periods of natural sunlight and natural water, as well as the optimal economic and regulatory advantages.

PharmaCielo's primary focus is the processing and distribution of CBD and THC-focus cannabis oil extracts to channel distributors like pharmacies, medical clinics and cosmetic companies.

6.5 Historical Statements of Financial Position

Statement of Financial Position	Audited as at 31-Dec-18 US\$	Audited as at 31-Dec-17 US\$	Audited as at 31-Jul-17 US\$
CURRENT ASSETS			
Cash and cash equivalents	33,480,480	12,741,612	9,761,682
Short-term investments	157,602	-	-
Marketable securities	112,154	9,964	-
Prepaid expenses and other receivables	456,864	300,690	367,660
Supplies	62,000	-	-
TOTAL CURRENT ASSETS	34,269,100	13,052,266	10,129,342
NON-CURRENT ASSETS			
Property, plant and equipment	14,303,737	11,909,971	10,266,786
Other assets	-	6,512	424,983
TOTAL NON-CURRENT ASSETS	14,303,737	11,916,483	10,691,769
TOTAL ASSETS	48,572,837	24,968,749	20,821,111
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	2,213,401	1,646,488	456,466
TOTAL LIABILITIES	2,213,401	1,646,488	456,466
NET ASSETS	46,359,436	23,322,261	20,364,645
EQUITY			
Share capital	50,876,014	40,613,121	35,018,714
Shares to be issued	26,685,236	2,706,336	-
Other comprehensive (loss) income	(648,837)	333,712	319,946
Deficit	(49,310,619)	(24,884,750)	(19,455,730)
Reserves	18,757,642	4,553,842	4,481,715
TOTAL EQUITY	46,359,436	23,322,261	20,364,645

Source: PharmaCielo's audited financial statements for the year ended 31 December 18, five months ended 31 December 2017 and year ended 31 July 2017.

Commentary on Historical Statements of Financial Position

- Cash and cash equivalents increased from US\$9.76 million at 31 July 2017, to US\$12.74 million at 31 December 2017. The increase of US\$2.98 million was primarily from the issuance of shares for cash of US\$5.45 million. This was partially offset by the purchase of property, plant and equipment of US\$1.00 million.
- Cash and cash equivalents increased from US\$12.74 million at 31 December 2017, to US\$33.48 million at 31 December 2018. The increase of US\$20.74 million was primarily from cash received for shares to be issued of US\$29.74 million. This was partially offset by the purchase of property, plant and equipment of US\$4.07 million and share issue costs of US\$2.59 million.
- Property, plant and equipment of US\$14.30 million at 31 December 2018 comprised land and buildings of US\$8.60 million, machinery and equipment of US\$3.00 million, computer and communication equipment of US\$0.30 million, office furniture and equipment of US\$0.08 million, vehicles of US\$0.07 million and equipment in transit of US\$2.25 million.
- Property, plant and equipment increased from US\$11.91 million at 31 December 2017, to US\$14.30 million at 31 December 2018. The increase of US\$2.39 million was primarily from the US\$1.69 million increase in the value of equipment in transit relating to the development of the Rio Negro Facility.

We note that PharmaCielo has also released an unaudited interim statement of financial position at 31 March 2019, expressed in Canadian Dollars. We have translated the statement of financial position to United States Dollars for comparability to the financial statements above using the exchange rate of \$1.3642 as disclosed in the notes to PharmaCielo's financial statements.

Statement of Financial Position	Unaudited as at 31-Mar-19 C\$	Translated as at 31-Mar-19 US\$
CURRENT ASSETS		
Cash and cash equivalents	24,572,145	18,012,128
Short-term investments	16,215,000	11,886,087
Marketable securities	393,000	288,081
Prepaid expenses and other receivables	690,819	506,391
Supplies	132,383	97,041
TOTAL CURRENT ASSETS	42,003,347	30,789,728
NON-CURRENT ASSETS		
Property, plant and equipment	21,189,036	15,532,206
Right-of-use assets	1,398,045	1,024,809
TOTAL NON-CURRENT ASSETS	22,587,081	16,557,016
TOTAL ASSETS	64,590,428	47,346,744
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	2,127,250	1,559,339
Lease obligations	120,109	88,044
TOTAL CURRENT LIABILITIES	2,247,359	1,647,382
NON-CURRENT LIABILITIES		
Lease obligations	1,322,736	969,606
TOTAL NON-CURRENT LIABILITIES	1,322,736	969,606
TOTAL LIABILITIES	3,570,095	2,616,989
NET ASSETS	61,020,333	44,729,755
EQUITY		
Share capital	106,533,605	78,092,365
Shares to be issued	83,875	61,483
Other comprehensive (loss) income	23,332,458	17,103,399
Deficit	1,650,209	1,209,652
Reserves	(70,583,559)	(51,739,891)
Non-controlling interest	3,745	2,745
TOTAL EQUITY	61,020,333	44,729,755

Source: PharmaCielo's unaudited interim consolidated financial statements for the three months ended 31 March 2019.

Commentary on Historical Statements of Financial Position

- Cash and cash equivalents decreased from US\$33.48 million at 31 December 2018, to US\$18.01 million at 31 March 2019. The decrease of US\$15.47 million was primarily from the purchase of short term investments of US\$11.73 million and purchase of property, plant and equipment of US\$1.65 million. This was partially offset by the exercise of options and warrants that resulted in cash received totalling US\$2.16 million.
- Short-term investments of US\$11.89 million at 31 March 2019 comprise of term deposits in Canadian banks only.
- Property, plant and equipment of US\$15.53 million at 31 March 2019 comprised land and building of US\$8.51 million, machinery and equipment of US\$3.26 million, computer and communication equipment of US\$0.29 million, office furniture and equipment of US\$0.42 million, vehicles of US\$0.10 million and equipment in transit of US\$2.95 million.
- Property, plant and equipment increased from US\$14.30 million at 31 December 2018, to US\$15.53 million at 31 March 2019. The increase of US\$1.23 million was primarily from the US\$0.96 million increase in the value of equipment in transit relating to the development of the Rio Negro Facility.
- Right-of-use assets of US\$1.02 million at 31 March 2019 comprised the new office space in Toronto for PharmaCielo's new company headquarters and the office in Medellin. The Toronto lease commenced on 1 January 2019.
- Lease obligations of US\$1.06 million (current and non-current) at 31 March 2019 comprise of the 60 month lease agreement for the new office space in Toronto that commenced on 1 January 2019 and for the office in Medellin.

6.6 Historical Statements of Profit or Loss and Other Comprehensive Income

Statement of Comprehensive Income	Audited for the year ended 31-Dec-18 US\$	Audited for the five months ended 31-Dec-17 US\$	Audited for the year ended 31-Jul-17 US\$
Expenses			
Agricultural pre-operational costs	(1,782,039)	-	-
Administration	(299,992)	(71,956)	(144,633)
Bank charges and interest expense	164,913	(10,828)	(12,747)
Consulting	(1,266,852)	(330,086)	(1,042,555)
Depreciation and Amortization	(275,246)	(267,312)	(294,541)
Filing and transfer agent fees	(86,463)	(6,708)	(42,717)
Exchange loss	(698,948)	(118,755)	(6,352)
Investor relations	(11,577)	-	(219,276)
Lease payment	(106,134)	(21,130)	(42,948)
Management fees	(893,934)	(389,348)	(480,320)
Market development and research	(589,470)	-	-
Media services	(401,781)	(88,340)	(114,560)
Office and miscellaneous	(274,900)	(128,886)	(454,481)
Other expenses	(83,238)	(104,968)	(303,143)
Professional fees	(1,229,450)	(3,133,850)	(472,828)
Share-based payments	(14,414,503)	(111,256)	(2,347,734)
Subcontractors	(392,602)	(19,418)	(423,597)
Travel and promotion	(759,942)	(186,649)	(465,725)
Unrealized gain on marketable securities	108,436	-	-
Wages	(949,999)	(358,226)	(500,455)
Web and database	(172,344)	(81,304)	(218,749)
Loss from continuing operations before income tax	(24,416,065)	(5,429,020)	(7,587,361)
Income tax expense	(9,804)	-	-
Loss from continuing operations after income tax	(24,425,869)	(5,429,020)	(7,587,361)
Foreign currency translation differences	982,549	13,766	(194,575)
Total comprehensive loss for the year	(23,443,320)	(5,415,254)	(7,781,936)

Source: PharmaCielo's audited financial statements for the year ended 31 December 18, five months ended 31 December 2017 and year ended 31 July 2017.

Commentary on Historical Statements of Profit or Loss and Other Comprehensive Income

- Agricultural pre-operational costs of US\$1.78 million for the year ended 31 December 2018 refer to the costs associated with the development of the Rio Negro Facility for the purpose of cultivating and sowing, as well as assembly of cannabis oil. US\$0.42 million of depreciation expense from the construction assets in transit are included in the agricultural pre-operational costs.
- Share-based payments of US\$14.41 million for the year ended 31 December 2018, related primarily to options granted to employees and directors who had worked for and developed the Company over the years. The only compensation for directors of the Company currently, has been through option grants.
- The increase in professional fees in for the five months ended 31 December 2017 was primarily the result of US\$1.88 million in legal fees relating to a debt transaction.

We note that PharmaCielo has also released an unaudited interim statement of profit or loss and other comprehensive income for the three months ended 31 March 2019, expressed in Canadian Dollars. We have translated the statement to United States Dollars for comparability to the financial statements above using the exchange rate of \$1.3642 disclosed in the notes to PharmaCielo's financial statements.

Statement of Comprehensive Income	Unaudited for the three months ended 31-Mar-19 C\$	Translated for the three months ended 31-Mar-19 US\$
Expenses		
Agricultural pre-operational costs	(906,225)	(664,290)
Amortization and depreciation	(141,955)	(104,057)
Bank charges and interest expense	(28,189)	(20,663)
Consulting	(323,343)	(237,020)
Exchange gain	202,788	148,650
Listing expense	(2,433,687)	(1,783,966)
Other non-operating expenses	(50,475)	(37,000)
Office and miscellaneous	(508,187)	(372,516)
Professional fees	(707,168)	(518,376)
Rent and lease payments	(42,606)	(31,231)
Share-based payments	(1,381,181)	(1,012,448)
Selling, marketing and promotion	(403,023)	(295,428)
Travel and accommodation	(404,725)	(296,676)
Unrealized gain on marketable securities	240,000	175,927
Wages	(850,403)	(623,371)
Loss from continuing operations before income tax	(7,738,379)	(5,672,467)
Income tax expense	-	-
Loss from continuing operations after income tax	(7,738,379)	(5,672,467)
Foreign currency translation differences	(593,823)	(435,291)
Total comprehensive loss for the year	(8,332,202)	(6,107,758)

Source: PharmaCielo's unaudited interim consolidated financial statements for the three months ended 31 March 2019.

Commentary on Historical Statements of Profit or Loss and Other Comprehensive Income

- Agricultural pre-operational costs of US\$0.66 million for the three months ended 31 March 2019 refer to the costs associated with the development of the Rio Negro Facility for the purpose of cultivating and sowing, as well as assembly of cannabis oil. US\$0.20 million of depreciation expense from the construction assets in transit are included in the agricultural pre-operational costs.
- Share-based payments of US\$1.01 million for the three months ended 31 March 2019, relate to the incentive stock options granted to directors, consultants, advisors and employees during the period.
- Listing expense of US\$1.78 million for the three months ended 31 March 2019 refer to the costs associated with the reverse takeover of AAJ Capital by PharmaCielo. The transaction did not meet the definition of a business combination under IFRS 3 – Business Combinations, and accordingly was accounted for in accordance with IFRS 2 – Share-based payments, which resulted in the recognition of a listing expense of US\$1.78 million.

6.7 Capital Structure

The share structure of PharmaCielo as at the date of the Scheme Booklet is outlined below:

	Number
Total Ordinary Shares on Issue	97,440,022
Options	13,128,000
Warrants	38,205
Restricted Share Units	1,258,000

Source: Scheme Booklet

7. Profile of the Proposed Merged Entity

Upon implementation of the Schemes, the Proposed Merged Entity will represent the consolidated assets of Creso Pharma and PharmaCielo. Creso Pharma will become a wholly owned subsidiary of PharmaCielo and will discontinue to be listed on the ASX. The Proposed Merged Entity will continue to be listed on the TSXV, under PharmaCielo's ticker, PCLO.

The board of directors of the Proposed Merged Entity is intended to be:

- Mr. Simon Langelier - Chairman;
- Mr. Douglas H. Bache, Director - Audit Committee Chair (PharmaCielo);
- Mr. Matteo Pellegrini - Director (PharmaCielo);
- Mr. Henning von Koss - Director (PharmaCielo);
- Mr. Carlos Manuel Uribe - Director (PharmaCielo);
- Mr. David Attard, Director - Chief Executive Officer (PharmaCielo); and
- Dr. Miriam Halperin Wernli – Director and President (Creso Pharma).

7.1 Capital structure

Class of securities	Number of Securities
Fully paid ordinary shares*	112,352,076
Options†	143,628,000
Warrants	38,205
Restricted Share Units	1,258,000

Source: Scheme Booklet, BDO Analysis

*Includes 920,211 Shares to be issued to Creso Pharma advisers and directors as set out in section 4.4 of our Report.

†Includes 500,000 options to be issued to Dr Miriam Halperin Wernli under her employment agreement with PharmaCielo as detailed in section 4.4 of our Report.

8. Economic analysis

8.1 Global

The global economy grew above trend in 2018, although it slowed in the second half of the year. While conditions in the global economy remain positive, the outlook has become more uncertain and downside risks have increased. This is partly due to the difficulty predicting how global trade policies will evolve, particularly between China and the US. Trade tensions between China and the US remain high and this contributed to the sharp decline in exports between the two countries.

Chinese Gross Domestic Product ('GDP') growth for 2018 was recorded at 6.6%. China's GDP growth is expected to moderate in 2019. Recently targeted fiscal and monetary policies have partially offset any negative effects arising from trade tensions. However, growing trade tensions have led to considerable uncertainty around future growth in China and countries with strong trade links to China.

Financial market conditions in most advanced economies tightened in late-2018. This followed a lengthy period of accommodative market conditions. The tightening of conditions resulted in: rising corporate funding costs, easing of new debt issuances, lower equity prices and rises in volatility in financial markets. These risks have since been partially reversed, and it is worth noting that risk premiums historically remain low. Long term government bond yields have also declined in recent months, due to the scaling back of expectations over the frequency of central bank interest rate increases as well as a decline in inflation expectations globally.

Core inflation in advanced economies including the USA, Canada, Norway, Sweden and the UK is around the respective central banks' targets. In other advanced economies however, inflation remains noticeably below target. Headline inflation has decreased recently, and is expected to decline further due to falling oil prices.

Although GDP growth rates are expected to ease in a number of advanced economies, ongoing capacity constraints are likely to put upward pressure on inflation. Once oil prices return to stable levels, inflation is expected to rebound slightly in European and Japan, whilst remaining close to target in the US.

Source: www.rba.gov.au Minutes of the Monetary Policy Meeting of the Reserve Bank Board 2 July 2019, Statement by Philip Lowe, Governor: Monetary Policy Decision 6 August 2019 and International Monetary Fund, World Economic Outlook, July 2019

8.2 Australia

Domestic growth

The Reserve Bank of Australia ('RBA') is expecting GDP growth of around 2.50% over 2019 and 2.75% over 2020, which is lower than previously forecast. Growth is anticipated to be supported by increased investment in infrastructure and a pick-up in activity in the resources sector, recent tax cuts, and the low level of interest rates. However, there remains some uncertainty around the outlook for household consumption and the housing market. Growth in household disposable income was 1.8% over the year to the March quarter, which is below the long run average. Consumption growth has slowed with low wages growth and declining housing prices.

In response, the RBA lowered interest rates in June 2019 for the first time since 2012 to 1.25%, before cutting rates further in July 2019 to a historic low of 1.0%. The interest rates remained at 1.00% in August 2019. The easing of monetary policy aims to support employment growth and increase inflation to be closer to the medium-term target of 2.0%.

Conditions in the housing market remain soft, although prices in Sydney and Melbourne have stabilised tentatively. Growth in housing credit has also stabilised, with mortgage rates at record lows and the strong competition for borrowers of high credit quality. However, overall demand for credit by investors continues to be subdued, with credit conditions for small and medium-sized businesses remaining tight.

Unemployment

Conditions in the Australian labour market have continued to improve, with the unemployment rate at 5.2%. This rate is expected to decline to 4.75% over the next couple of years. The strong employment growth has led to a pick-up in wages growth in the private sector, although overall wage growth remains low. The RBA continues to expect further wages growth in the near term.

Inflation

Domestic inflation remains low, and suggests subdued inflationary pressures across the economy. Over the year to the June 2019 quarter, both headline and underlying inflation was 1.6%. Inflation is anticipated to pick up with easing of monetary policy, with the central scenario for underlying inflation to reach 2.0% in 2020 and to increase further thereafter.

Currency movements

The Australian dollar is currently at the low end of the narrow range that it has been trading recently. Movements in the Australian dollar tend to be related to developments in commodity prices and interest rate differentials. Since the start of the year, these two forces have been working in offsetting directions, with commodity prices in iron ore and gold increasing significantly in June 2019 and Australian bond yields declining relative to those in other major markets.

Source: www.rba.gov.au Statement by Philip Lowe, Governor: Monetary Policy Decision 6 August 2019 and 2 July 2019 and Minutes of the Monetary Policy Meeting of the Reserve Bank Board

8.3 Canada

Following the decline in oil prices which started in 2014 and continued into 2016, Canada's economy took some time to adjust to the new environment of lower oil prices before, in mid-2017, the Bank of Canada ('BoC') was comfortable enough to begin withdrawing monetary stimulus which had been in place since 2015.

Inflation

In 2016, the BoC extended the inflation control target until 31 December 2021. Measured by the CPI the control range falls between 1.0% to 3.0%, with a midpoint of 2.0%. Prior to the end of 2019, inflation is forecast to ease temporarily reaching 1.5% in the third quarter before returning to the midpoint level of 2.0% by the end of 2019. Weakening oil prices and petrol prices in addition to weaker growth of the final quarter of 2018 and first quarter of 2019 are expected to contribute to widening the output gap and some additional disinflationary pressure, which will gradually ease over the projected horizon.

Labour

Conditions in the labour market remain strong, with the unemployment rate falling to a historic low of 5.6% in 2018. Wage growth increased marginally over 2018 to 2.5%, in comparison to the average of 2.0% over the past five-years. The adjustment in energy-intensive regions to lower oil prices has hindered further wages growth. Though, there have been other parts of the economy that have displayed stronger wage gains and signs of labour shortages.

GDP

The pace of economic activity in the fourth quarter of 2018 was weaker than expected. Business investment and exports were lower than anticipated, reflecting slower global demand and a greater impact from trade policy issues. Weak growth is estimated to have continued into the first quarter of 2019. The dampening effects on growth of low oil prices, changes to housing policies, and increases in borrowing rates in 2017-2018 are expected to dissipate over 2019. Since drivers of the recent weakness in trade are viewed as largely temporary, the BoC estimates that growth will pick up in the second quarter of 2019. GDP growth is expected to be 1.2% for 2019 and 2.1% for 2020.

Outlook

Labour markets in Canada continue to display healthy signs, with the unemployment rate remaining around a 40-year low, and the number of job vacancies near its record high in the fourth quarter of 2018. Exports are projected to grow at a moderate pace of approximately 3.0% over the projected horizon and strong foreign demand, the falling Canadian Dollar ('CAD'), and rising production capacity further support the positive outlook. Imports are projected to slow throughout 2019, mainly as the result of the weaker CAD and weaker domestic demand. However, an increase in business investment growth should support an increase in domestic imports.

Global trade tensions between the United States ('US') and China continue to weigh heavily on business confidence, resulting in reduced business investment and increased inflationary pressures from rising global input costs. However, with the strong job market, rising average household incomes and growing consumer confidence, the BoC continues to believe that the Canadian economy is adjusting well and a gradual approach to higher interest rates is appropriate.

Sources: *www.bankofcanada.ca An Update on Canada's Economic Resilience 6 September 2018, Monetary Policy Report April 2019, A Look Under the Hood of Canada's Job Market 31 January 2019.*

8.4 Colombia

Since mid-2014, Colombia has had to adjust to the trade shock experienced by its economy from the sharp fall of international prices of its main commodities, particularly oil as well as the slowdown in the economies of its major trading partners.

GDP

GDP growth decreased from 1.96% in 2016 to 1.77% by 2017 before increasing to 2.70% in 2018, with the soft-landing supported by sound macroeconomic policies and structural reforms undertaken in recent years. Over the recent years, Colombia underwent a significant adjustment in the non-oil fiscal deficit of nearly 3.3% of GDP, as a response to the decline in oil fiscal revenues.

Labour

Colombia's unemployment rate remains relatively high compared to the rest of the world at 9.7% in 2018 and 9.4% in 2017. Colombia has been receiving a large inflow of migrants from Venezuela, with approximately 1.2 million Venezuelans arriving in Colombia with the intention to stay as of September 2018. Colombia has adopted an open borders policy and has implemented good practices in the provision of services to migrants in the area of education, healthcare and employment.

Inflation

Inflation has decreased from 4.3% in 2017 to 3.18% in 2018 as a result of the Central Bank's efforts to reverse its monetary policy tightening, cutting the policy rate gradually by 350 basis points to 4.25% by early January 2018.

Outlook

Growth is expected to strengthen at a moderate pace over the 2019-21 period as private consumption growth continues to accelerate, and investment spending increasing with lower effective corporate taxes. Higher profitability in the oil sector is also expected to boost investments in exploration and exploitation.

Sources: *The World Bank - Colombia overview 4 April 2019, The World Factbook - Colombia 2017, Colombia Reports data 2018.*

9. Industry analysis

9.1 Medicinal cannabis

Medicinal cannabis is typically defined as cannabis products used under prescription or recommendation by a medical professional for a defined medical condition, although there is a growing market for cannabis or hemp-based health and wellbeing products. As the name suggests, medicinal cannabis products originate from the cannabis plant, which is known to have either stimulation or relaxation properties, depending on the species. Cannabis contains a number of active compounds known as cannabinoids, which act on receptors in the brain and nervous systems to invoke sensations related to appetite, pain and mood.

The most abundant form of cannabinoid is tetrahydrocannabinol or THC, which upon consumption stimulates a euphoric effect. The second most common form is cannabidiol or CBD, which has physical impacts on the body without the psychoactive effect of THC and is therefore more commonly used in medicinal applications.

Although cannabinoids can be extracted directly from the cannabis plant, many regulated medicines use synthetic cannabinoids whereby the active compounds are manufactured chemically. As these synthetic cannabinoids are not derived from cannabis itself, they avoid restrictions in markets where the production, sale or consumption of cannabis are illegal.

Conversely, the use of plant-extracted cannabinoids in regulated pharmaceuticals is currently very limited, primarily due to the limited clinical research given the regulatory and political barriers to cannabis. As such, most medicinal cannabis products are not regulated pharmaceuticals, but rather in the form of cannabis products whose cultivation, manufacture, distribution and consumption has been licensed by an appropriate national regulatory body.

The central discussion surrounding the medicinal cannabis industry is the regulatory environment across different markets. The International Opium Convention of 1925 applied the international drug control system to cannabis, particularly in restricting the export of cannabis without government certification. Although many countries have adjusted the legal controls over cannabis, legislation differs widely by country and sometimes differ on a state-level within the nation.

9.2 Applications

The illegalisation of cannabis usage in the past was primarily due to concerns about the illicit use of THC as a psychoactive drug, however, with the growing awareness of CBD and the cultivation of low-THC cannabis, there is an increased awareness of the medicinal benefits of cannabis, specifically in the area of therapy for a broad range of medical conditions. The main medical conditions for which cannabinoid therapy can be applied are:

- Multiple Sclerosis;
- Epilepsy;
- Chronic non-cancer pain;
- Chemotherapy induced nausea; and
- Palliative care.

Medicinal cannabis products can be delivered in different forms. Regulated pharmaceuticals such as Sativex and Epidolex are ingested orally in the form of an oromucosal spray and oral solution respectively, while licensed medicinal cannabis product formats include flos (whole dried flowers), oils, drops, solutions and capsules.

9.3 Australia

Regulation

The cultivation, production and manufacturing of medicinal cannabis products in Australia was legalised in October 2016, subject to the regulatory framework under the *Narcotic Drugs Amendment Act, 2016*. The three types of licenses for medicinal cannabis available are:

- License authorising cultivation or production or both;
- License authorising cannabis research; and
- License authorising manufacture of a drug or product.

These licenses are granted by the federal Department of Health through the Office of Drug Control ('ODC'). As at 8 August 2019, the ODC has granted 27 cultivation and production licences, 17 research licences and 24 manufacturer licences.

The quality, safety and efficacy of medicinal cannabis in Australia is regulated by the Therapeutic Goods Administration, which is also responsible in granting patient access to medicinal cannabis through the Authorised Prescriber or Special Access Scheme arrangements. The Authorised Prescriber Scheme allows a medical practitioner to issue specified therapeutic goods to patients with certain medical conditions. The Special Access Scheme allows for the import or supply of therapeutic goods for a single patient on a case-by-case basis. According to the August 2019 Australian Cannabis Industry Update by Canaccord Genuity, the number of patients approved under the Special Access Scheme is growing at a monthly compounding rate of approximately 21%, with approximately 25,000 patients forecast to be approved by the end of 2019, compared to just 2,282 at the end of 2018.

Australian legislation around the medicinal cannabis industry experienced a significant change in February 2018 through the *Narcotics Drugs Amendment (Cannabis) Regulations 2018*, which legalised the export of medicinal cannabis products from Australia. The main reason for the legalisation was to improve the medicinal cannabis industry through the increase in supply of medicinal cannabis for Australian patients, and growth in exports by Australian producers to overseas markets.

Conditions of exporting cannabis products under the regulations include that:

- It is done under a license and a permit issued by the ODC;
- It is made to countries that have granted import permission and who are compliant with the Single Convention on Narcotic Drugs, 1961;
- It is manufactured in Australia under a Good Manufacturing Practice license; and
- The product is listed as export-only or registered for domestic supply in the Australian Register of Therapeutic Goods.

Outlook

In conjunction with the changes in the regulatory environment, government support to boost industry growth in Australia is another key driver of the medicinal cannabis market. The growth of the medicinal cannabis industry represents an opportunity for domestic economic growth, therefore, increase in government expenditure toward the industry will aid to subsidise costs for market participants. For example, Victoria has developed an industry development plan for medicinal cannabis, designed to promote Victoria as the Australian hub for medicinal cannabis innovation, with objectives to create 500 new jobs and economic contributions of A\$90 million per year by 2028.

The market is also expanding with the increasing clinical evidence for the efficacy of medicinal cannabis in other medical conditions such as Alzheimer's disease, arthritis, anxiety and depression.

With the enactment of the regulatory framework for cultivation, production and sale of medicinal cannabis only happening in 2016, the Australian market for medicinal cannabis is still in development. The industry development plan of the Victorian government in 2018 estimates potential patient population in Australia to be 166,000 by 2028. Furthermore, the Australia legalisation of medicinal cannabis exports in 2018 represents an access to global market opportunities, particularly in Canada and USA.

9.4 Canada

Regulation

Canada is widely regarded as one of the world's most established markets for medicinal cannabis, with access to medicinal cannabis since 2001. The *Access to Cannabis for Medical Purposes Regulations* in April 2016 allowed authorised patients to use cannabis prescribed by their health care practitioners for medical purposes. Health care practitioners may authorise patients to access medicinal cannabis through licensed producers, or produce a limited amount of cannabis for their own use. There are currently 180 licenses granted for the production of medical cannabis in Canada.

Canada is also the first G7 country to fully legalize cannabis for recreational consumption under the Cannabis Act of October 2018. Adults aged 18 and over are permitted to possess up to one ounce of cannabis for recreational use, and grow up to four cannabis plants.

Outlook

The recent legalisation of recreational consumption of cannabis has had a significant impact on the market size in Canada. Market research conducted by Viridian Capital Advisors, shows that investment into TSX listed cannabis companies has increased from C\$43 million in the first half of 2016 to C\$770 million in the second half of 2017. Furthermore, the market share of life science companies on the TSXV has grown from 13% in December 2017, to 19% in January 2019, whereby 13% of the life science market on the TSXV was represented by cannabis companies. According to research from the Canadian Imperial Bank of Commerce, cannabis in Canada is forecast to become a US\$6.5 billion industry by 2020.

The number of cannabis consumers in Canada is also expected to increase with greater accessibility to cannabis through legal channels, despite its higher price when compared to cannabis sourced illegally. Market research has shown that consumers are willing to pay a premium on cannabis products which adhere to quality assurance regulations and good manufacturing practices, to ensure their products are ethically-produced and certified safe to use.

9.5 Colombia

Regulation

In 2017, Colombia established a regulatory framework on safe and informed access to medical and scientific use of cannabis. The new framework allows for the cultivation of psychoactive and non-psychoactive cannabis upon the grant of licenses regulated by The Ministry of Justice and the Ministry of Health and Social Welfare under resolutions 577, 578 and 579. Under the new resolutions, the four different licenses that may be granted are:

- License for the manufacture of cannabis derivatives;
- License for the sale and distribution of cannabis seeds;
- License for the cultivation of psychoactive cannabis; and
- License for the cultivation of non-psychoactive cannabis.

Despite the positive steps in the regulatory framework surrounding medicinal cannabis, cannabis for public consumption and commercial sale are still illegal in Colombia. President Ivan Duque signed Decree 1844 in late 2018 that allows national police to confiscate any quantity of drugs found in public, and authorises law enforcement to arrest offenders in possession of 20 grams or more. However, this is not hindering the economic success of the Cannabis industry in Colombia.

Outlook

Cultivation of cannabis is a rapidly growing industry in Colombia. In addition to the favourable regulatory environment, Colombia's suitable climate and soil conditions, geographic location and low production costs position make it an ideal location for cannabis cultivation.

Reportedly, the cost for producing a gram of cannabis is approximately US\$0.05 in Colombia compared to US\$1.50 in Canada. In a recent trend, a number of global cannabis companies including Clever Leaves, PharmaCielo and Khiron have moved production to Colombia to take advantage of these favourable conditions.

For the second consecutive year, in 2018, Colombia obtained a quota of 40.5 tonnes to legally produce cannabis for medicinal purposes, which was 44% of the total annual authorised production by the International Board for the Control of Narcotic Drugs ('INCB'). As the global demand for cannabis rises, Colombia is well positioned to strengthen its global market position and become the leading producer of psychoactive and non-psychoactive cannabis.

9.6 Global outlook

The market for medicinal cannabis is growing with the increasing number of countries that are changing the legal framework for medicinal cannabis. Notable countries such as Canada and Australia have made significant changes to regulations pertaining to medicinal cannabis that increase accessibility to medicinal cannabis. Other countries following a similar trend are USA, United Kingdom, Germany, France, Austria, Italy, Spain, Belgium, Argentina, Colombia, Mexico, Turkey and Uruguay. The allowance for cultivation, manufacture and export of medicinal cannabis will stimulate activity in the domestic and international market.

Source: *Canaccord Genuity: Australian Cannabis Industry Update August 2019, Frost & Sullivan Market Report: the Medicinal Cannabis Market, Department of Health: Access to medicinal cannabis products June 2019, Government of Canada: Licensed cultivators, processors and sellers of cannabis under the Cannabis Act 2019, Government of Victoria: Medicinal Cannabis Industry Development Plan January 2018, BDO Valuation Insights on the Cannabis Industry in Canada May 2019.*

10. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information.

10.1 Valuation of a Creso Pharma share prior to the Schemes

In our assessment of the value of Creso Pharma shares, we have chosen to employ the following methodologies:

- QMP as our primary methodology, which represents the value that a Shareholder can receive for a share if sold on the market;
- Market based assessment of the value of shares in Creso Pharma based on a recently completed placement to institutional and sophisticated investors, as the price at which the placement was completed represents the fair value of a Creso Pharma share as perceived by the market at the time of the placement; and
- NAV of Creso Pharma as a tertiary methodology, which represents the book value of the company's total assets and liabilities.

We note that in our assessment of the value of a Creso Pharma share, we have made an adjustment for the \$450,000 Reimbursement Fee that Creso Pharma will be required to pay, should the Share Scheme not be approved by Shareholders.

We have chosen these methodologies for the following reasons:

- Creso Pharma's shares are listed on the ASX, which means there is a regulated and observable market where Creso Pharma shares can be traded. We therefore consider the QMP methodology to be a relevant methodology, as it reflects the value that a Shareholder will receive if Creso Pharma shares are sold on the market. However, in order for the QMP methodology to be considered appropriate, Creso Pharma's shares should be liquid and the market fully informed of its activities. We have considered these factors in section 11.1 of Our Report;
- Creso Pharma recently completed the Placement in January 2019, raising \$2.98 million through the issue of 6.6 million shares and 2.2 million free attaching options, at \$0.45 per share. Note that for every three shares subscribed for, the shareholder received one free attaching option. The price at which Creso Pharma shares were issued through the Placement ('Placement Price') can be seen to represent the fair value of a Creso Pharma share at the time of the Placement. We have therefore considered the Placement Price as a cross check to our primary valuation methodology, as detailed in section 11.2.
- We have adopted the NAV methodology as our tertiary valuation methodology, to provide a cross check of the value of a Creso Pharma share on market, compared to the book value of assets and liabilities of the Company. The NAV of Creso Pharma is set out in section 11.3 of Our Report.

10.2 Valuation of a Creso Pharma listed option prior to the Schemes

In our assessment of the value of Creso Pharma listed options, we have chosen to employ the following methodologies:

- Black Scholes option pricing model as our primary methodology; and
- QMP of Creso Pharma listed options as a cross-check to our primary valuation methodology.

We have chosen these methodologies for the following reasons:

- The Black Scholes option pricing model is a widely accepted valuation methodology for calculating the value of options with non-market vesting conditions. As Creso Pharma listed options have no vesting conditions, we consider this an appropriate valuation methodology; and
- Creso Pharma listed options trade on the ASX, meaning there is a regulated and observable market on which the listed options can be traded. The market price of the listed options therefore represents the value a Listed Optionholder would receive if they were to sell the listed options on the market. We note that for the QMP methodology to be considered appropriate, Creso Pharma's listed options should be liquid and the market fully informed of its activities. We have considered these factors in section 13.2 of Our Report.

10.3 Valuation of a share in the Proposed Merged Entity

Under the Share Scheme, the consideration offered for every share held in Creso Pharma is 0.0775 shares in the Proposed Merged Entity. Under the Option Scheme, the consideration offered for every listed option held in Creso Pharma is 0.0185 shares in the Proposed Merged Entity.

When assessing non-cash consideration in control transactions, RG 111.31 suggests that a comparison should be made between the value of the securities being offered (allowing for a minority discount) and the value of the target entity's securities, assuming 100% of the securities are available for sale. This comparison reflects the fact that:

- (a) the acquirer is obtaining or increasing control of the target; and
- (b) the security holders in the target will be receiving scrip constituting minority interests in the combined entity.

Under RG 111.34 it is noted that if, in a scrip bid, the target is likely to become a controlled entity of the bidder, the bidder's securities can also be valued using a notionally combined entity. However, it should still be noted that the accepting holders are likely to hold minority interests in that combined entity. Following implementation of the Schemes, Creso Pharma is to become a controlled entity of PharmaCielo. Shareholders will hold approximately 13% of the issued shares in PharmaCielo, representing a minority interest.

Therefore, in our assessment of the value of consideration for the Share Scheme and Option Scheme, we have considered the value of 0.0775 and 0.0185 shares in the Proposed Merged Entity, respectively, on a minority basis.

In our assessment of the value of the Proposed Merged Entity, we have chosen to employ the following methodologies:

- QMP of PharmaCielo following the announcement of the Schemes as our primary approach, as this represents the value, on a minority basis, that a Shareholder can receive for a share in the Proposed Merged Entity if sold on the market.

We have chosen this methodology for the following reasons:

- The value of PharmaCielo shares following the announcement of the Schemes effectively represents the value of a share in the Proposed Merged Entity, assuming the Schemes are implemented. We consider the QMP methodology to be relevant given PharmaCielo shares are listed on the TSXV, which represents a regulated and observable markets where the shares can be traded. However, in order for the QMP methodology to be considered appropriate, the companies' shares should be liquid and the market should be fully informed as to its activities. RG 111.32 suggests that if we use the quoted market price of securities to value the offered consideration, then we must consider and comment on
 - a. the depth of the market for those securities;
 - b. the volatility of the market price; and
 - c. whether or not the market value is likely to represent the value if the takeover bid is successful.

We have considered these factors in section 12.1 of our Report.

11. Valuation of Creso Pharma

11.1 Quoted Market Prices for Creso Pharma shares

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

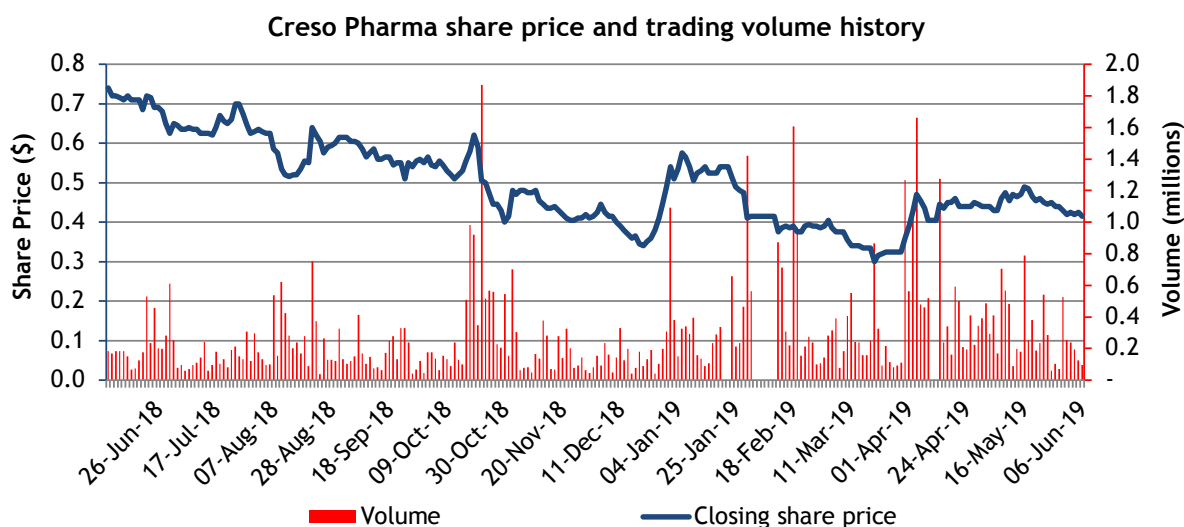
- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained, as will be the case if the Schemes are implemented, with PharmaCielo obtaining 100% of Creso Pharma. Therefore, our calculation of the quoted market price of a Creso Pharma share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

Minority interest value

Our analysis of the quoted market price of a Creso Pharma share is based on the pricing prior to the announcement of the Schemes. This is because the value of a Creso Pharma share after the announcement may effectively reflect the markets' view of the value per share that a Shareholder will receive as consideration if the Schemes are implemented.

Information on the Schemes was announced to the market on 7 June 2019. The following chart therefore provides a summary of the share price movement over the 12 months to 6 June 2019, which was the last trading day prior to the announcement.



Source: Bloomberg, BDO analysis

The daily price of Creso Pharma shares from 6 June 2018 to 6 June 2019 ranged from a high of \$0.74 on 6 June 2018 to a low of \$0.30 on 19 March 2019. Over the first ten months of the period, Creso Pharma's share price demonstrated an overall downward trend, with the exception of a brief rally in late December 2018 which continued into January 2019. Over the period from April 2019 to the date of the announcement, Creso Pharma's share price stabilised, and remained in the range from \$0.40 to \$0.50. The highest single day of trading was on 22 October 2018, when 1,869,351 shares were traded, although a significant number of shares were also traded on 18 February 2019 and 3 April 2019, with 1,605,103 and 1,661,111 shares traded, respectively.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement \$ (movement)			Closing Share Price 3 Days After Announcement \$ (movement)		
30/04/2019	BHC Distribution Agreement & Australian Import Permit	0.445	▼	1.1%	0.440	▼	1.1%
29/04/2019	Quarterly Update & Appendix 4C	0.450	▲	2.3%	0.440	▼	2.2%
18/04/2019	Brazil Import Licence Granted For CannaQIX	0.440	▼	4.3%	0.440	►	0.0%
11/04/2019	Creso to Raise AUD5.35m via Secured Loans	0.445	▲	9.9%	0.450	▲	1.1%
09/04/2019	Trading Halt	0.405	►	0.0%	0.435	▲	7.4%
05/04/2019	Response to ASX Aware Query	0.435	▼	4.4%	0.405	▼	6.9%
02/04/2019	Commercial Progress Across Premium Product Categories	0.430	▲	10.3%	0.435	▲	1.2%
28/02/2019	CEO's Report on Operations & Appendix 4E	0.390	▲	1.3%	0.375	▼	3.8%
18/02/2019	Creso Granted License to Cultivate Cannabis	0.390	▲	1.3%	0.390	►	0.0%
14/02/2019	Strategic Collaboration for CBD products with Hempmate Switz	0.390	▲	1.3%	0.375	▼	3.8%
12/02/2019	Reinstatement to Official Quotation	0.375	▼	9.6%	0.385	▲	2.7%
12/02/2019	Clarification and Reinstatement to Trading	0.375	▼	9.6%	0.385	▲	2.7%
04/02/2019	Suspension from Official Quotation	0.415	►	0.0%	0.415	►	0.0%
01/02/2019	Trading Halt	0.415	▲	1.2%	0.415	►	0.0%
01/02/2019	Pause In Trading	0.415	▲	1.2%	0.415	►	0.0%
31/01/2019	Quarterly Update & Appendix 4C	0.410	▼	13.7%	0.415	▲	1.2%
31/01/2019	Placement Update, Cleansing Statement & Appendix 3B	0.410	▼	13.7%	0.415	▲	1.2%
24/01/2019	Creso Raises \$3 Million in Institutional Placement	0.515	▼	4.6%	0.475	▼	7.8%
22/01/2019	Trading Halt	0.540	►	0.0%	0.490	▼	9.3%
21/02/2019	Creso Signs Supply Agreement with TerrAscend Canada	0.390	▲	4.0%	0.390	►	0.0%
07/01/2019	Strategic Collaboration in Sri Lanka for Medical Cannabis	0.575	▲	7.5%	0.505	▼	12.2%
02/01/2019	Creso builds on Israel's new Med Cannabis export law	0.540	▲	10.2%	0.575	▲	6.5%
20/12/2018	Settlement of Kunna Canada Acquisition - incl Appendix 3B	0.350	▲	2.9%	0.410	▲	17.1%
20/12/2018	US CBD hemp market opens to Creso	0.350	▲	2.9%	0.410	▲	17.1%
03/12/2018	Creso Pharma to Dual List on TSX-V Canada	0.425	▲	2.4%	0.415	▼	2.4%
14/11/2018	Exclusive Distribution Agreement for CPH Veterinary Products	0.435	▼	2.2%	0.430	▼	1.1%
01/11/2018	Creso to launch its first medical cannabis product in Brazil	0.480	▲	15.7%	0.480	►	0.0%
31/10/2018	Quarterly Activities Report and Appendix 4C	0.415	▲	3.7%	0.480	▲	15.7%
17/10/2018	Creso welcomes legalisation of recreational cannabis, Canada	0.580	▲	4.5%	0.505	▼	12.9%
08/10/2018	Licence application accepted & Construction Finance Loan	0.545	▼	1.8%	0.510	▼	6.4%
11/09/2018	Update on Colombian Acquisition & Notice of General Meeting	0.575	▲	1.8%	0.560	▼	2.6%
05/09/2018	Creso Pharma Lifestyle Portfolio Update	0.605	►	0.0%	0.565	▼	6.6%
28/08/2018	Half Yearly Report and Accounts	0.595	▲	0.8%	0.615	▲	3.4%
21/08/2018	UK commercialisation of cannaQIX with Pharmacare	0.640	▲	16.4%	0.575	▼	10.2%
17/08/2018	Entitlement Issue Shortfall Notice	0.555	▲	3.7%	0.620	▲	11.7%
14/08/2018	Commercial agreement for cannaQIX in Austria & East Europe	0.520	▲	1.0%	0.555	▲	6.7%
02/08/2018	Creso to launch cannaQIX in Israel and the Middle East	0.630	▼	0.8%	0.585	▼	7.1%
31/07/2018	Quarterly Activities Report & Appendix 4C	0.630	▲	0.8%	0.625	▼	0.8%
25/07/2018	Prospectus - Entitlement Issue	0.700	►	0.0%	0.625	▼	10.7%
23/07/2018	Options Entitlement Issue	0.660	▲	1.5%	0.675	▲	2.3%
23/07/2018	Creso to finalise Colombian Acquisition	0.660	▲	1.5%	0.675	▲	2.3%
17/07/2018	Creso now trading on the Frankfurt Stock Exchange	0.640	▲	3.2%	0.650	▲	1.6%
02/07/2018	Creso launches cannaQIX in New Zealand	0.650	▲	4.0%	0.635	▼	2.3%
25/06/2018	Creso JV launches infused terpene craft beers and beverages	0.690	▼	3.5%	0.650	▼	5.8%
21/06/2018	Creso welcomes decision to legalise Cannabis use in Canada	0.720	▲	5.1%	0.690	▼	4.2%
12/06/2018	Licence to cultivate Medicinal Cannabis in Colombia granted	0.715	▼	0.7%	0.710	▼	0.7%

Source: Bloomberg, BDO analysis

On 11 April 2019, Creso Pharma announced it had received commitments to raise \$5.35 million via the Secured Loans from sophisticated and professional investors, to accelerate the development of the Mernova Facility and to support sales and marketing of the Company's products. On the date of the announcement, the share price increased by 9.9%, to close at \$0.445. Over the three trading days subsequent to the announcement, the share price increased by a further 1.1% to close at \$0.450.

On 9 April 2019, Creso Pharma shares were placed in a trading halt at the request of the Company, pending the announcement of the Secured Loans. On the date of the trading halt, the share price was \$0.405. Over the three trading days subsequent to the trading halt, the share price increased by 7.4%, to close at \$0.434.

On 5 April 2019, the Company released an announcement responding to an ASX share price and volume query relating to the announcement made by Creso Pharma on 2 April 2019. On the date of the announcement, the share price decreased by 4.4%, to close at \$0.435 and over the three trading days subsequent decreased by a further 6.9% to close at \$0.405.

On 2 April 2019, Creso Pharma released a market update, highlighting commercial progress across its premium product categories. On the date of the announcement, the share price increased by 10.3%, to close at \$0.430, before increasing by a further 1.2% over the three trading days subsequent to close at \$0.435.

On 12 February 2019, Creso Pharma shares were reinstated to official quotation following the release of an announcement surrounding the application of Chapter 11 of ASX Listing Rules to potential transactions being negotiated by the Company. It was determined that the transactions were not sufficiently progressed to warrant disclosure at the time. On the date of the announcement, the share price decreased by 9.6%, to close at \$0.375. However, over the three trading days subsequent, increased by 2.7% to close at \$0.385.

On 31 January 2019, the Company released results for the December quarter, highlighting growth in distribution and sales for a number of products. Creso Pharma also provided an update on the Placement announced by the Company on 24 January, detailing the receipt of \$2.73 million in funds and the issue of the associated shares. On the date of the announcement, the share price decreased by 13.7%, to close at \$0.410, before increasing by 1.2% over the three trading days subsequent, to close at \$0.450.

On 24 January 2019, Creso Pharma announced that it had raised \$3.0 million via the Placement to institutional and sophisticated investors, which comprised the issue of 6.6 million shares at price of \$0.45 per share, together with one free attaching listed option for every three shares issued. On the date of the announcement, the share price decreased by 4.6%, to close at \$0.515, before decreasing a further 7.8% over the three trading days subsequent to close at \$0.475.

On 22 January 2019, shares in Creso Pharma were placed in a voluntary trading halt, pending the release of an announcement surrounding the Placement. On the date of the trading halt, the share price was \$0.540, however decreased by 7.8% over the three trading days subsequent to close at \$0.490.

On 7 January 2019, Creso Pharma announced it had signed a binding letter of intent with Sri Lankan pharmaceutical distribution company, Ceyoka Health, to geographically expand its distribution network of its medicinal cannabis products. On the date of the announcement, the share price increased by 7.5%, to close at \$0.575 before decreasing 12.2% over the three trading days subsequent to close at \$0.505.

On 2 January 2019, the Company made an announcement detailing the recent approval of legislation to export medicinal cannabis in Israel, which is an important step in Creso Pharma's strategic plan relating to its 74% joint venture interest in Creso Grow with Israeli-based Company, Cohen Nurseries. On the date of the announcement, the share price increased by 10.2%, to close at \$0.540, before increasing a further 6.5% over the three trading days subsequent to close at \$0.575.

On 20 December 2018, Creso Pharma announced the completion of the Kunna Acquisition including Kunna's recently granted Colombian cultivation licence. On the date of the announcement, the share price increased by 2.9%, to close at \$0.350, before increasing 17.1% over the three trading days subsequent to close at \$0.410.

On 1 November 2018, the Company announced the launch of its first medical cannabis product in Brazil, following the execution of an import agreement with Brazilian medical distribution company, MedDepot Brasil. On the date of the announcement, the share price increased by 15.7%, to close at \$0.480 and remained steady over the three trading days subsequent to close unchanged.

On 31 October 2018, Creso Pharma provided a company update and results for the September quarter, highlighting the acceptance of its application to become a licenced producer in Canada, progression of the Kunna Acquisition and sales growth across a number of product lines. On the date of the announcement, the share price increased by 3.7%, to close at \$0.415, before increasing a further 15.7% over the three trading days to close at \$0.480.

On 17 October 2018, Creso Pharma made an announcement highlighting the official legalisation of cannabis for recreational use in Canada and resulting market opportunity for the Company's Canadian subsidiary, Mervona. On the date of the announcement, the share price increased by 4.5%, to close at \$0.580, before decreasing 12.9% over the three trading days subsequent to close at \$0.505.

On 8 October 2018, Creso Pharma announced that Mervona's application for a cultivation licence had been accepted by Health Canada, allowing the subsidiary to become a licenced producer of medical cannabis. In the same release, the Company announced the receipt of a \$2.7 million construction finance loan for Mervona's cannabis growing facility. On the date of the announcement, the share price decreased by 1.8%, to close at \$0.545, before decreasing a further 6.4% over the three trading days subsequent to close at \$0.510.

On 5 September 2018, the Company provided an update on its portfolio of lifestyle products, highlighting growing market interest and further progression of Creso Pharma's cannabis infused food and beverage products. On the date of the announcement, the share price closed unchanged at \$0.605, before decreasing 6.6% over the three trading days subsequent to close at \$0.565.

On 21 August 2018, Creso Pharma announced that it had signed a commercial agreement with Pharmicare Europe for the marketing and distribution of a number of its products in the UK and potentially other European countries. On the date of the announcement, the share price increased by 16.4%, to close at \$0.640, before decreasing 10.2% over the three trading days subsequent to close at \$0.575.

On 17 August 2018, the Company announced a shortfall of \$1.6 million in the number of applications received in relation to the \$2.8 million option entitlement issue announced in July 2018. On the date of the announcement, the share price increased by 3.7%, to close at \$0.555, before increasing a further 11.7% over the three trading days subsequent to close at \$0.620.

On 14 August 2018, Creso Pharma announced that it had signed a commercial agreement with a member of the Hedoga Group based in Vienna, Austria, to launch and market a number of its products in Austria and Eastern and Northern European countries. On the date of the announcement, the share price increased by 1.0%, to close at \$0.520, before increasing a further 6.7% over the three trading days subsequent to close at \$0.555.

On 2 August 2018, Creso Pharma announced that it had entered into a commercial agreement with Israeli based company, SuperMedic, for the exclusive marketing and distribution rights of a number of its products in Israel and other Middle Eastern Countries. On the date of the announcement, the share price decreased by 0.8%, to close at \$0.630, before decreasing a further 7.1% over the three trading days subsequent to close at \$0.585.

On 25 July 2018, the Company released a prospectus for a non-renounceable entitlement issue of one new option for every 2 shares held in Creso Pharma at a price of \$0.05 per option, to raise up to \$2.8 million. On the date of the announcement, the share price closed unchanged at \$0.700, before decreasing 10.7% over the three trading days subsequent to close at \$0.625.

On 25 June 2018, Creso Pharma provided a market update on the progress of a number of adult beverage products, expected to launch in September 2018 under Creso Pharma's CLV joint venture with the Baltic Beer Company Ltd. On the date of the announcement, the share price decreased by 3.5%, to close at \$0.690, before decreasing a further 5.8% over the three trading days subsequent to close at \$0.650.

On 21 June 2018, Creso Pharma made an announcement welcoming the recent decision to legalise recreational cannabis use in Canada. On the date of the announcement, the share price increased by 5.1%, to close at \$0.720, before decreasing 4.2% over the three trading days subsequent to close at \$0.690.

To provide further analysis of the market prices for a Creso Pharma share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 6 June 2019.

	6 June 2019	10 Days	30 Days	60 Days	90 Days
Closing Price	\$0.415				
Weighted Average		\$0.435	\$0.453	\$0.424	\$0.415

Source: Bloomberg, BDO analysis

The above weighted average prices are prior to the date of the announcement of the Schemes, to avoid the influence of any change in the price of Creso Pharma shares that has occurred since the Schemes were announced.

An analysis of the volume of trading in Creso Pharma shares for the twelve months to 6 June 2019 is set out below:

	Share price low	Share price high	Cumulative Volume traded	As a % of Issued capital
1 day	\$0.415	\$0.415	94,655	0.07%
10 days	\$0.415	\$0.450	1,951,644	1.46%
30 days	\$0.415	\$0.490	9,284,207	6.94%
60 days	\$0.300	\$0.490	21,756,746	16.27%
90 days	\$0.300	\$0.490	32,560,641	24.35%
180 days	\$0.300	\$0.620	54,814,488	40.98%
1 year	\$0.300	\$0.740	69,648,726	52.08%

Source: Bloomberg, BDO analysis

This table indicates that Creso Pharma's shares display a moderate level of liquidity, with 24.35% of the Company's current issued capital being traded in a 90-day period. RG 111.69 states that for the quoted market price methodology to be an appropriate methodology there needs to be a 'liquid and active' market in the shares and allowing for the fact that the quoted price may not reflect their value should 100% of the securities not be available for sale. We consider the following characteristics to be representative of a liquid and active market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'liquid and active', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of Creso Pharma, shares have been traded regularly over the assessed period and there have been no significant, unexplained movements in share price. Furthermore, the volume of trades over the year averages approximately 1% of the Company's issued capital on a weekly basis, which indicates that there is a sufficiently deep market for the Company's shares.

Our assessment is that a range of values for Creso Pharma shares based on market pricing, after disregarding post announcement pricing, is between \$0.415 and \$0.453.

Control premium

We have reviewed the control premiums paid by acquirers of companies listed on the ASX. We have summarised our findings below:

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2019	22	5573.34	33.02
2018	40	1228.74	41.96
2017	28	1009.47	42.67
2016	42	718.51	49.58
2015	33	850.04	33.23
2014	45	518.59	40.00
2013	41	128.21	50.99
2012	52	472.10	51.68
2011	67	719.92	44.74
2010	54	575.28	44.05
2009	61	521.10	54.61

Source: Bloomberg, BDO Analysis

The mean and median of the entire data set comprising control transactions for all ASX listed companies over the past five and ten year periods is set out below.

Entire Data Set Metrics	Average Deal Value (AU\$m)	Average Control Premium (%)
2014 - 2019		
Mean (5 years)	1343.05	40.85
Median (5 years)	124.55	32.32
2009 - 2019		
Mean (10 years)	872.35	45.49
Median (10 years)	100.58	35.89

Source: Bloomberg, BDO Analysis

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;
- Ability to integrate the acquiree into the acquirer's business;
- Level of pre-announcement speculation of the transaction;
- Level of liquidity in the trade of the acquiree's securities.

When performing our control premium analysis, we considered completed transactions where the acquirer held a controlling interest, defined as 20% or above, pre transaction or proceeded to hold a controlling interest post transaction in the target company.

The table above indicates that the average control premium paid by acquirers of ASX listed companies over the past five- and ten-year periods was approximately 41% and 46%, respectively. However, in assessing the transactions included in the table, we noticed several outliers, including 39 transactions, for which the premium was in excess of 100%. In a population with the presence of outliers, the median can often represent a superior measure of central tendency when compared to the mean. We note the median announced control premium for all ASX listed companies over the past five- and ten-year periods was 32% and 36%, respectively. Based on the above analysis, we consider an appropriate premium for control to be between 30% and 40%, with a midpoint of 35%.

Quoted market price including control premium

Applying a control premium to Creso Pharma's quoted market share price results in the following quoted market price value including a premium for control:

	Note	Low \$	Midpoint \$	High \$
Quoted market price value		0.415	0.434	0.453
Control premium		30%	35%	40%
Quoted market price including premium for control		0.540	0.586	0.634
<i>Number of shares on issue prior to announcement</i>	a	144,044,332	144,044,332	144,044,332
Total equity value of Creso Pharma		77,711,917	84,395,574	91,352,915
Less: Mernova Payment	b	(887,250)	(887,250)	(887,250)
Less: \$450,000 Reimbursement fee	c	(450,000)	(450,000)	(450,000)
Add: Proceeds from the exercise of unlisted options (since 6 June 2019)	d	125,000	125,000	125,000
Add: Proceeds from the exercise of outstanding unlisted options	d	1,637,000	1,637,000	1,637,000
Adjusted total equity value of Creso Pharma		78,136,668	84,820,325	91,777,666
<i>Adjusted number of shares on issue</i>	f	155,744,332	155,744,332	155,744,332
Adjusted value per share		0.502	0.545	0.589

Source: BDO analysis

Note a) Number of shares on issue prior to the announcement of the Schemes

We have made an adjustment to the number of shares on issue prior to the announcement, to account for the number of shares issued in relation to the convertible notes. As the issue and immediate conversion of the convertible notes was approved by shareholders at the Company's AGM on 31 May 2019, which was prior to the announcement of the Schemes, we consider the market price to already reflect the number of shares that were to be issued. The adjustment is set out below:

Number of Creso Pharma shares on issue prior to announcement	
Number of shares on issue prior to announcement	133,744,332
Number of shares issued upon conversion of convertible notes	10,300,000
Number of Creso Pharma shares on issue prior to announcement	144,044,332

Note b) Mernova Payment

Following the grant of a processing licence to the Mernova Facility in September 2019, Creso Pharma is required to pay the vendors of Mernova C\$800,000 in relation to the satisfaction of Milestone 2 under the terms of the Mernova acquisition ('**Mernova Payment**').

We have assessed the CAD/AUD exchange closing rates over the month ended 25 September 2019 and calculated an average CAD/AUD exchange rate of 1.109. Converted at our assessed exchange rate, the Mernova Payment is equal to \$877,250.

Note c) Reimbursement Fee

As outlined in section 10.1, we have made an adjustment for the Reimbursement Fee that Creso Pharma would be required to pay PharmaCielo, should Shareholders not approve the Share Scheme.

Note d) Exercise of unlisted options

We have made an adjustment to the equity value of Creso Pharma to account for the proceeds of unlisted options which have been converted since the announcement date.

We have also made an adjustment for the proceeds to be received upon conversion of the remaining outstanding unlisted options in Creso Pharma.

Note e) Adjusted number of shares on issue

We have made an adjustment for the number of shares to be issued in relation to the Schemes as set out below, as the market price prior to the announcement of the Schemes does not reflect the additional shares to be issued.

We note that we have not made an adjustment for the Break Fee, as this will only be payable by Creso Pharma in the event that certain specific circumstances lead to the termination of the Schemes.

Adjusted number of Creso Pharma shares on issue	
Number of shares on issue prior to announcement	133,744,332
Number of shares issued upon conversion of convertible notes	10,300,000
Number of shares subsequently issued	7,500,000
Number of shares to be issued on exercise of unlisted options	4,200,000
Adjusted number of Creso Pharma shares on issue	155,744,332

Based on the above analysis, our valuation of a Creso Pharma share based on the quoted market price method and including a premium for control is between \$0.502 and \$0.589, with a midpoint value of \$0.545.

11.2 Placement Price of Creso Pharma

We have also assessed the price for a Creso Pharma share based on the recent Placement undertaken by Creso Pharma to institutional and sophisticated investors. Creso Pharma's most recent placement was completed in late January 2019, approximately four months prior to the announcement of the Schemes.

On 24 January 2019, Creso Pharma announced that it has raised \$3.0 million through the issue of 6.6 million shares at the Placement Price of \$0.45 per share, which included 2.2 million free attaching listed options (one free attaching option for every three shares issued under the Placement). The Placement Price represented a 16.67% discount to Creso Pharma's closing share price of \$0.54 on 23 January 2019.

Details of the Placement are summarised in the table below.

	Announcement date	Value \$	Price \$	Shares issued	Listed Options issued	% of total Company capital	Pre-announcement share price
Institutional Placement	24/01/2019	2,975,000	0.45	6,611,111	2,203,701	4.94%	0.54

Source: Bloomberg, BDO Analysis

We note that the Placement Price also includes the value of one free attaching listed option for every three shares issued under the Placement. We have calculated the value of the free attaching listed option below.

11.2.1. Option valuation of a Creso Pharma listed option at the Placement

We have used the Black Scholes option pricing model to calculate the value of Creso Pharma's listed options at the time of the Placement.

In valuing the listed options, we made the following assumptions regarding the inputs required for the option pricing model:

Value of the Underlying Shares

We have adopted the closing price of Creso Pharma shares of \$0.515 on 24 January 2019 as inputs into our option pricing model.

Exercise Price

The exercise price is the price at which the underlying ordinary shares will be issued. The exercise price of Creso Pharma listed options issued under the Placement is \$0.80.

Life of the Options

We have estimated the life of the listed options for the purpose of our valuation. The minimum life of an option is the length of any vesting period, while the maximum life is based on the expiry date.

There are many factors that determine the rationale for exercising options and therefore, the effective life of those options. Some of these factors include:

There is a limited track record of unlisted options being exercised early. Generally, early exercise occurs:

- If the options are deep in the money as it is profitable for the holder of the option to exercise the options
- If the stock pays a dividend as the opportunity cost of holding the option is high
- If the volatility of the underlying share price is low as the probability of the options becoming deeper in the money is low relative to a highly volatile stock
- When the options are held by junior level employees. Senior employees are more likely to continue their employment with the company and therefore there is no incentive to exercise their options.

For the purpose of valuing the listed options issued, we have estimated an exercise date as the expiry date of 21 August 2020, giving the listed options effective lives of 1.58 years from the announcement of the Placement, which we have input into the Black Scholes Pricing Model.

Expected Volatility of the Share Price

Expected volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over time.

Many techniques can be applied in determining volatility, with a summary of the methods we use below:

- The square root of the mean of the squared deviations of closing prices from a sample. This can be calculated using a combination of the opening, high, low, and closing share prices each day the underlying security trades for all days in the sample time period chosen
- The exponential weighted moving average model adopts the closing share price of the Company in a given time period. The model estimates a smoothing constant using the maximum likelihood method, which estimates volatility assuming that volatility is not a constant measure and is predicted to change in the future
- The generalised autoregressive conditional heteroscedasticity model. This model takes into account periods of time where volatility may be higher than normal and/or lower than normal, as well as the tendency for the volatility to run at its long run average level after such periods of abnormality. The model will calculate the rate at which this is likely to occur from the sample of prices thereby enabling estimates of future volatility by time to be made.

We calculated the volatility of the share price of Creso Pharma was calculated over one, two and three year periods prior to 24 January 2019, using data extracted from Bloomberg. On this basis, we used a future estimated volatility level of 75% for Creso Pharma in our pricing model.

Risk-free Rate of Interest

We have used the Australian Government 2-year bond rate of 1.83% as at 24 January 2019 as an input into our option pricing model.

Dividends Expected on the Options

Creso Pharma is currently unlikely to pay a dividend during the life of the Scheme Options. Therefore, we have assumed a dividend yield of nil.

Conclusion

We have set out below our conclusions as to the value of the Creso Pharma listed options:

Item	
Underlying closing share price	0.515
Exercise price	0.80
Expiry date	21-Aug-20
Time to expiry (years)	1.58
Volatility	75%
Risk-free rate	1.83%
Valuation per listed option	0.123
Value of 1/3 listed options	0.041

Source: BDO Analysis

The above pricing indicated that the value of a Creso Pharma listed option prior at the date of the Placement is \$0.123. Under the Placement, Shareholders received one free attaching option for every three shares subscribed to, therefore the Placement Price effectively includes the value of one third of a listed option, equal to \$0.041.

11.3 Assessment of the Placement Price of Creso Pharma

Based on the Placement Price and listed option valuation at the time of the Placement above, we have calculated the value of Creso Pharma on a control basis, as set out below.

	Low \$	Midpoint \$	High \$
Placement price value	0.450	0.450	0.450
Less: value of 1/3 of a listed option	0.041	0.041	0.041
Placement share price value	0.409	0.409	0.409
Control premium	30%	35%	40%
Quoted market price including premium for control	0.532	0.552	0.573

Source: BDO analysis

11.4 Net Asset Valuation of Creso Pharma

The value of Creso Pharma assets on a going concern basis is reflected in our valuation below:

Statement of Financial Position	Note	Audited as at 31-Dec-18 \$	Adjusted 30-Jun-19 \$
CURRENT ASSETS			
Cash and cash equivalents	a	6,390,538	3,659,538
Trade and other receivables		951,132	951,132
Inventories		443,535	443,535
Other current assets		495,489	495,489
TOTAL CURRENT ASSETS		8,280,694	5,549,694
NON-CURRENT ASSETS			
Property, plant and equipment		9,900,422	9,900,422
Intangible assets		4,101,178	4,101,178
Other non-current assets		-	-
TOTAL NON-CURRENT ASSETS		14,001,600	14,001,600
TOTAL ASSETS		22,282,294	19,551,294
CURRENT LIABILITIES			
Trade and other payables		2,970,505	2,970,505
Borrowings	b	2,776,450	260,450
Provisions		30,947	30,947
TOTAL CURRENT LIABILITIES		5,777,902	3,261,902
TOTAL LIABILITIES		5,777,902	3,261,902
NET ASSETS		16,504,392	16,289,392
Less: Mernova Payment			(887,250)
Less: \$450,000 Reimbursement fee			(450,000)
Add: Proceeds from the exercise of outstanding unlisted options			1,637,000
Adjusted net asset value			16,589,142
Adjusted number of shares on issue			155,744,332
Adjusted value per share			0.107

Source: Creso Pharma Appendix 4C for the quarter ended 30 June 2019, BDO analysis

We have been advised that there has not been any other significant change in the net assets of Creso Pharma since 31 December 2018 and that the above net assets and liabilities represents their fair values apart from the adjustments detailed below. Where the above balances differ materially from the reviewed position at 31 December 2018, we have obtained supporting documentation to validate the adjusted values used, which provides reasonable grounds for reliance.

Note a) Cash and cash equivalents

We have relied on the Appendix 4C quarterly cash update for the quarter ended 30 June 2019 to provide material changes to the cash and cash equivalents balance for the year to date. We have also made an adjustment for the payment of the Reimbursement Fee to PharmaCielo.

These adjustments are set out below.

Cash Movements	\$
Opening balance	6,390,538
Receipts from customers	(712,000)
R&D costs	(333,000)
Staff costs	(1,213,000)
Other operating cash flows	(3,748,000)
Interest received	25,000
Acquisition of PPE	(2,413,000)
Other investing cash flows	(879,000)
Net proceeds from the issue of shares	2,334,000
Proceeds from borrowings	5,350,000
Repayment of borrowings	(2,716,000)
Other financing cash flows	25,000
Proceeds from the exercise of unlisted options (since 30 June)	125,000
Adjusted cash and cash equivalents	3,659,538

Source: Appendix 4C for the quarter ended 30 June 2019, BDO Analysis

Note b) Borrowings

We have adjusted borrowings for the repayment of borrowings as disclosed in the Appendix 4C quarterly cash update for the quarter ended 31 March 2019.

The adjustment is set out below.

Borrowings Movements	\$
Opening balance	2,776,450
Proceeds from borrowings	5,350,000
Repayment of borrowings	(2,716,000)
Conversion of convertible notes	(5,150,000)
Adjusted borrowings	260,450

Source: Appendix 4C for the quarter ended 30 June 2019, BDO Analysis

11.5 Assessment of the value of a Creso Pharma share prior to the Schemes

The results of the valuations performed are summarised in the table below:

	Ref	Low \$	Preferred \$	High \$
Quoted Market Price	10.1	0.503	0.545	0.589
Placement Price	10.2	0.532	0.552	0.573
Net asset value	10.3	0.107	0.107	0.107

Source: BDO analysis

Based on the results above we consider the value of a Creso Pharma share prior to the implementation of the Schemes, on a control basis, to be between \$0.502 and \$0.589, with a preferred value of \$0.545. We consider the QMP approach to be the most appropriate methodology to value a share in Creso Pharma, as this represents the value that a Shareholder would receive if the shares were sold on market. We also consider there to be a regulated, observable and sufficiently deep market for Creso Shares required for the QMP methodology to be appropriate, as detailed in Section 11.1.

We note that:

- The Placement Price value broadly supports the value derived using the QMP methodology. We also note that the Placement took place in January 2019, approximately four months prior to the announcement of the Schemes – over which period several price sensitive announcements (detailed in Section 11.1) were released by Creso Pharma; and
- The net asset value is significantly lower than the assessed value derived using the QMP methodology. This is in line with expectation when analysing a company with a significant amount of internally generated goodwill and intangible assets at various stages of development, such as Creso Pharma, as the NAV methodology takes into account only the assets which may be recognised on the balance sheet under AASB 138 Intangible Assets.

12. Valuation of Share Scheme consideration

The Share Scheme Consideration is 0.0775 shares in the Proposed Merged Entity.

12.1 Quoted Market Prices for PharmaCielo securities

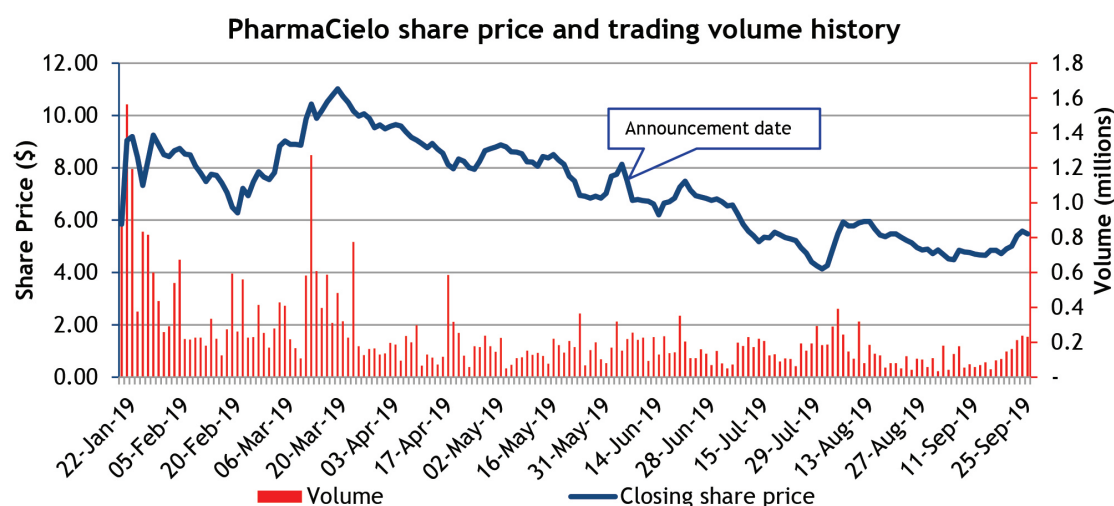
As our primary methodology for valuing the consideration under the Share Scheme, we have assessed the quoted market price of a PharmaCielo share. As noted in section 10.3, we consider the value of a PharmaCielo share following the announcement of the Schemes to be the most accurate reflection of the value of a share in the Proposed Merged Entity, as the market price takes into account any change in value perceived to result from the implementation of the Schemes.

The quoted market price of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company. If Shareholders accept the Share Scheme, they will become minority shareholders in PharmaCielo.

Minority interest value

Our analysis of the quoted market price of a PharmaCielo share is based on the pricing both prior to, and following the announcement of the Schemes.

The following chart provides a summary of the share price movement over the 5 months prior to the announcement of the Schemes, from 18 January 2019 (date of listing) to 5 June 2019, being the last full trading day prior to the announcement of the Schemes on the TSX ('Pre-announcement Period'), in addition to the period following the announcement from 6 June 2019 to 25 September 2019 ('Post-announcement Period').



Source: Bloomberg, BDO analysis

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement \$ (movement)	Closing Share Price 3 Days After Announcement \$ (movement)
25/09/2019	PharmaCielo Enters the U.S. with \$3 Million Q4 Sales Agreement and Completes Introductory Shipments to Multi-state Distributor General Extract LLC	5.47 ▼ 2.0%	n/a - n/a
27/08/2019	Interim financial statements/report	4.86 ▼ 2.0%	4.86 ► 0%
27/08/2019	MD&A	4.86 ▼ 2.0%	4.86 ► 0%
27/08/2019	PharmaCielo Announces Financial Results for the Second Quarter 2019	4.86 ▼ 2.0%	4.86 ► 0%
19/08/2019	PharmaCielo's First Commercial CBD Export from Colombia Lands in Europe	5.47 ▲ 1.9%	n/a - n/a
13/08/2019	PharmaCielo Expands Further into Latin America	5.95 ► 0.0%	5.37 ▼ 9.7%
08/08/2019	PharmaCielo Joins Canadian Market Cannabis Tracking and Verification Initiative	5.78 ► 0.0%	5.95 ▲ 2.9%
02/08/2019	PharmaCielo Colombia Holdings Appoints New Board of Directors	5.49 ▲ 12.5%	5.78 ▲ 5.3%
01/08/2019	PharmaCielo Achieves Twelfold Increase in Dried Cannabis Processing Capacity	4.88 ▲ 14.3%	5.78 ▲ 18.4%
26/07/2019	PharmaCielo Completes Acquisition of Ubiquo Telemedicina	4.40 ▼ 7.2%	4.27 ▼ 3.0%
25/07/2019	PharmaCielo First to Receive Colombian Government Export Approval for Commercial Sale of CBD Isolate	4.74 ▼ 4.2%	4.14 ▼ 12.7%
22/07/2019	PharmaCielo Colombia Appoints New COO	5.28 ▼ 1.1%	4.74 ▼ 10.2%
21/06/2019	PharmaCielo Announces Trading on the OTC Market	7.49 ▲ 3.0%	6.89 ▼ 8.0%
14/06/2019	Scheme Implementation Agreement with Creso Pharma	6.21 ▼ 6.2%	6.84 ▲ 10.1%
14/06/2019	Material change report	6.21 ▼ 6.2%	6.84 ▲ 10.1%
06/06/2019	PharmaCielo to Acquire International Cannabis Company Creso Pharma for A\$122 Million	7.50 ▼ 7.9%	6.75 ▼ 10.0%
29/05/2019	PharmaCielo Gears Up for U.S. Market Demand and appoints Special Advisor	6.92 ▲ 1.2%	7.68 ▲ 11.0%

Date	Announcement	Closing Share Price Following Announcement \$ (movement)			Closing Share Price Three Days After Announcement \$ (movement)		
27/05/2019	Interim financial statements/report	6.92	▼	0.4%	6.84	▼	1.2%
27/05/2019	MD&A	6.92	▼	0.4%	6.84	▼	1.2%
27/05/2019	PharmaCielo Announces Its Financial Results for the First Quarter 2019	6.92	▼	0.4%	6.84	▼	1.2%
24/05/2019	PharmaCielo Announces Results of AGM	6.95	▼	7.3%	6.92	▼	0.4%
29/04/2019	Notice of Meeting	8.66	▲	5.0%	8.88	▲	2.5%
29/04/2019	Other	8.66	▲	5.0%	8.88	▲	2.5%
29/04/2019	Management information circular	8.66	▲	5.0%	8.88	▲	2.5%
18/04/2019	MD&A	7.97	▼	2.0%	8.01	▲	0.5%
18/04/2019	Financial statements of RTO acquirer	7.97	▼	2.0%	8.01	▲	0.5%
18/04/2019	PharmaCielo Announces Financial Results for the Fourth Quarter and Fiscal Year 2018	7.97	▼	2.0%	8.01	▲	0.5%
09/04/2019	PharmaCielo appoints new and extended medical and scientific medical board	9.06	▼	1.1%	8.93	▼	1.4%
29/03/2019	PharmaCielo Doubles Its Portfolio of Proprietary Cannabis Strains Approved for Colombia's Cultivar Registration	9.64	▲	1.0%	9.65	▲	0.1%
22/03/2019	Notice of the meeting and record date	10.17	▼	3.1%	9.90	▼	2.7%
19/03/2019	PharmaCielo Receives Quality Assurance Certification for Cultivation and Processing Operations in Colombia	11.02	▲	2.2%	10.17	▼	7.7%
06/02/2019	PharmaCielo Receives Approval for Cultivar Registration of 10 Proprietary Cannabis Strains	8.50	▼	0.4%	7.48	▼	12.0%
29/01/2019	MD&A	8.88	▼	4.0%	8.65	▼	2.6%
21/01/2019	Other material contracts	9.05	▲	54.7%	7.33	▼	19.0%
21/01/2019	Material change report	9.05	▲	54.7%	7.33	▼	19.0%
18/01/2019	PharmaCielo Begins Trading on the TSX Venture Exchange Under Ticker PCLO	5.85	-	n/a	8.40	▲	43.6%

Source: Bloomberg, BDO analysis

On 25 September 2019, PharmaCielo announced it had signed a U.S. sales agreement and completed introductory shipments with General Extract LLC, an established multi-state distributor. On the day of the announcement, the share price decreased by 2% to close at C\$5.47.

On 27 August 2019, PharmaCielo released its interim financial statements and MD&A, detailing recent business developments, an improved cash position and net loss of C\$10.7 million for the three months ended 30 June 2019. On the day of the announcements, the share price decreased by 2% to close at C\$4.86 and remained steady over the subsequent three days to close unchanged.

On 19 August 2019, PharmaCielo announced that its first commercial CBD export from Colombia had been delivered to Creso Pharma's Headquarters in Switzerland. On the date of the announcement, the share price increased by 1.9% to close at C\$5.47 before declining 4.4% over the three days subsequent to close at C\$5.23

On 13 August 2019, PharmaCielo announced it had signed a 4.5 year sales agreement with Laboratories Adler for the sale of CBD extracts oils and other veterinary products, including Creso Pharma's anibidiol®, in Uruguay, Paraguay, Bolivia and Southern Brazil. On the date of the announcement the share price closed unchanged at C\$5.95 before decreasing by 9.7% over the three days subsequent to close at C\$5.37.

On 8 August 2019, PharmaCielo announced it had joined the Canadian market cannabis tracking and verification initiative. On the date of the announcement, the share price closed unchanged at C\$5.78, before increasing by 2.9% over the three days subsequent to close at C\$5.95.

On 2 August 2019, PharmaCielo announced the appointment of a new board of directors for its Colombian subsidiary. On the date of the announcement, the share price increased by 12.5% to close at C\$5.49 before increasing by a further 5.3% over the three days subsequent to close at C\$5.78.

On 1 August 2019, PharmaCielo announced it had achieved a twelvefold increase in its dried cannabis processing capacity in order to support international supply channels and product manufacturing following completion of the Schemes. On the date of the announcement, the share price increased by 14.3% to close at C\$4.88 before increasing by a further 18.4% over the three days subsequent to close at C\$5.78.

On 26 July 2019, PharmaCielo announced that it had completed the acquisition of all of the shares of Ubiquo Telemedicina, a knowledge management and medical consultation platform developed by the Government of Colombia and the private sector. On the date of the announcement, the share price decreased by 7.2% to close at C\$4.40 before decreasing a further 3.0% over the three days following to close at C\$4.27.

On 25 July 2019, PharmaCielo announced that its Colombian subsidiary had completed the necessary permitting process required to enable the commercial export and sale of CBD isolate, becoming the first company to receive export approval from the Colombian Government. On the date of the announcement, the share price decreased by 4.2% to close at C\$4.74, before decreasing by a further 12.7% over the three days subsequent to close at C\$4.14.

On 22 July 2019, PharmaCielo announced that it had appointed Andres Filipe Botero, Ex Director of Operations for the Andean Cluster of Phillip Morris International, as Chief Operations Officer of PharmaCielo Colombia. On the date of the announcement, the share price decreased by 1.1% to close at C\$5.28 before decreasing by a further 10.2% over the three days subsequent to close at C\$4.74.

On 21 June 2019, PharmaCielo announced it had commenced trading on the OTC Market, in order to increase access for U.S. and international investors, and provide greater liquidity and access to capital. On the date of the announcement, the share price increased by 3.0% to close at C\$7.49, before decreasing 8.0% in the three days subsequent, to close at C\$6.89.

On 14 June 2019, PharmaCielo released the SIA and the material change report relating to the Schemes. On the date of the announcement, the share price decreased by 6.2% to close at C\$6.21 before increasing by 10.1% over the three trading days subsequent to close at C\$6.84.

On 6 June 2019, PharmaCielo announced that it had entered into a binding agreement with Creso Pharma, to acquire all the shares of Creso Pharma for A\$122 million. The announcement highlighted the advantages of the Schemes to expand PharmaCielo's market reach and product portfolio. On the date of the announcement, the share price decreased by 7.9% to close at C\$7.50, before decreasing by a further 10.0% over the three trading days subsequent to close at C\$6.75.

On 29 May 2019, PharmaCielo announced that it had enlisted former US congressman Dana Rohrabacher as a special advisor to the Company. The announcement highlighted the significance of Mr Rohrabacher as an advisor to help PharmaCielo expand in the US market and internationally. On the date of the announcement, the share price increased by 1.2% to close at C\$6.92. Over the three trading days subsequent, the share price increased by a further 11.0%, to close at C\$7.68.

On 24 May 2019, PharmaCielo released the results of the Annual General and Special Meeting held on 23 May 2019, at which all items on the agenda had been approved. On the date of the announcement, the share price decreased by 7.3% to close at C\$6.95. Over the three trading days subsequent, the share price increased by a further 0.4%, to close at C\$6.92.

On 29 April 2019, PharmaCielo released the Notice of Meeting and relevant forms for the Annual General and Special Meeting to be held on 23 May 2019. On the date of the announcement, the share price increased by 5.0% to close at C\$8.66 before increasing a further 2.5% over the three trading days subsequent to close at C\$8.88.

On 19 March 2019, PharmaCielo announced that it had received ISO 9001 Quality Assurance Certification for its medicinal cannabis cultivation and processing operations in Colombia. On the date of the announcement, the share price increased by 2.2% to close at C\$11.02. Over the three trading days subsequent, the share price decreased by 7.7%, to close at C\$10.17.

On 6 February 2019, PharmaCielo announced that PharmaCielo Colombia received approval for cultivar registration for ten proprietary and unique THC and CBD strains. On the date of the announcement, the share price decreased by 0.4% to close at C\$8.50 before decreasing a further 12.0% over the three trading days subsequent to close at C\$7.48.

On 28 January 2019, PharmaCielo announced the establishment of a joint venture with Mino Labs for the purpose of bringing medicinal cannabis oil to the Mexican market. On the date of the announcement, the share price increased by 11.4% to close at C\$9.25 before decreasing by 8.9% over the three trading days subsequent to close at C\$8.43.

On 25 January 2019, PharmaCielo released a notice of intent to qualify, to file a short form prospectus under National Instrument 44-101: Short Form Prospectus Distributions. On the date of the announcement, the share price increased by 13.2% to close at C\$8.30. Over the three trading days subsequent, the share price increased by a further 2.5%, to close at C\$8.51.

On 21 January 2019, PharmaCielo released certain material contracts and the subscription receipt agreement relating to the reverse takeover transaction of AAJ Capital 1 Corp. On the date of the announcement, the share price increased by 54.7% to close at C\$9.05, before decreasing by 19.0% over the three trading days subsequent to close at C\$7.33.

On 18 January 2019, PharmaCielo commenced trading on the TSXV. On the date of listing, the share price closed at C\$5.85. Over the three trading days subsequent, the share price increased by 43.6% to close at C\$8.40.

Pre-announcement pricing

The daily price of PharmaCielo shares from the date of listing on 18 January 2019, to 5 June 2019 ranged from a low of C\$5.85 on 18 January 2019 to a high of C\$11.02 on 19 March 2019. The price increased sharply from the initial listing price of C\$5.85 on 18 January 2019 to reach C\$9.20 on 22 January 2019, before experiencing a downward trend to reach a low of C\$6.28 on 20 February 2019 and gradual reversal to peak at C\$11.02 on 19 March 2019. The highest single day of trading on the TSXV was on 21 January 2019, when 1,563,923 shares were traded. A significant number of shares were also traded on 12 March 2019 and 22 January 2019, with 1,273,410 and 1,192,965 shares traded, respectively.

To provide further analysis of the market prices for a PharmaCielo share over the Pre-announcement Period, we have also considered the VWAP of a PharmaCielo shares for the 10, 30, 60 and 90 trading day periods prior to 5 June 2019.

	5-Jun-2019	10 Days	30 Days	60 Days	90 Days
Closing Price	C\$8.140				
VWAP		C\$7.300	C\$7.980	C\$9.117	C\$8.688

Source: Bloomberg, BDO analysis

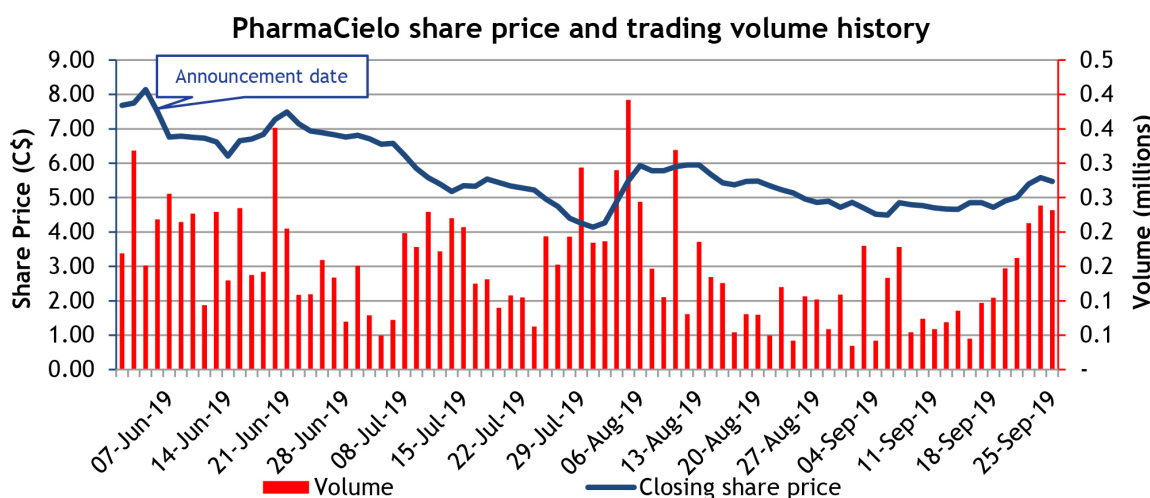
The above weighted average prices are prior to the announcement of the Schemes on the TSXV, to avoid the influence of any change in the price of PharmaCielo shares that has occurred since the Schemes were announced.

Based on the above analysis, our assessment of the range of values of PharmaCielo shares for the Pre-announcement Period, based on market pricing, is between C\$7.300 and C\$9.117.

Post-announcement pricing

On the date the Schemes were announced on the TSXV on 6 June 2019, PharmaCielo's share price decreased by 7.9% to close at C\$7.50. Over the Post-announcement Period since, the share price has trended generally lower than during the Pre-announcement Period, ranging from a high of C\$7.50 on 6 June 2019 to a low of \$4.14 on 30 July 2019. The highest single day of trading was on 2 August 2019, when 392,216 shares were traded.

We outline a detailed share price and trading volumes graph for the period prior to, and following the announcement to illustrate Post-announcement trading.



Source: Bloomberg, BDO analysis

To provide further analysis of the market prices for a PharmaCielo share over the Post-announcement Period, we have also considered the weighted average market price for the 10-, and 30-day periods to 25 September 2019.

	25-Sep-19	10 Days	30 Days	60 Days
Closing Price	C\$5.470			
VWAP		C\$5.095	C\$5.042	C\$5.242

Source: Bloomberg, BDO analysis

The above weighted average prices take into consideration any change in the value of PharmaCielo shares that has occurred since the Schemes were announced. Based on the above analysis, our assessment of the range of values of PharmaCielo shares for the Post-announcement Period, based on market pricing, is between C\$5.042 and C\$5.470.

Reliability of QMP Methodology

As previously discussed, in order for the quoted market price methodology to be an appropriate methodology, RG 111.69 states that there needs to be a 'liquid and active' market in the shares. We consider the following characteristics to be representative of a liquid and active market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'liquid and active', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

An analysis of the volume of trading in PharmaCielo shares from the date of listing to 25 September 2019 is set out below:

	Share price low	Share price high	Cumulative Volume traded	As a % of Issued capital
1 Day	C\$5.070	C\$5.750	231,662	0.24%
10 Days	C\$4.610	C\$5.800	1,392,830	1.43%
30 Days	C\$4.390	C\$5.840	3,208,908	3.29%
60 Days	C\$4.020	C\$7.050	8,352,757	8.57%
90 Days	C\$4.020	C\$8.560	13,682,068	14.04%
177 Days	C\$4.020	C\$11.500	40,440,413	41.50%

Source: Bloomberg, BDO analysis

This table indicates that PharmaCielo's shares display a moderate level of liquidity, with approximately 14% of the Company's current issued capital being traded in a 90-day period. Since the company was listed on the TSXV in January 2019, PharmaCielo shares have been traded regularly and approximately 1% of the company's issued capital has been traded on a weekly basis. Furthermore, there have been no significant, unexplained movements in share price. We therefore consider that there is a sufficiently deep market for PharmaCielo's shares.

Conclusion on Quoted Market Price for PharmaCielo

We have analysed the share price of PharmaCielo over the Post-announcement Period, which we consider to be representative of the value of a share in the Proposed Merged Entity if the Schemes are implemented. We have then made an adjustment to the equity value of PharmaCielo following the announcement for the Cormark Success Fee and related shares to be issued as set out below.

	Note	Low C\$	Midpoint C\$	High C\$
Quoted market price value		5.042	5.256	5.470
Number of shares on issue prior to announcement	a	111,723,289	111,723,289	111,723,289
Total equity value of Creso Pharma		563,352,300	587,239,345	611,126,391
Less: \$1.5m Cormark Success Fee		(1,500,000)	(1,500,000)	(1,500,000)
Adjusted total equity value of Creso Pharma		561,852,300	585,739,345	609,626,391
Adjusted number of shares on issue	b	112,656,035	112,656,035	112,656,035
Adjusted value per share		4.987	5.199	5.411

Source: BDO analysis

Note a) Number of shares on issue

We have made an adjustment to the number of shares on issue, to reflect the shares to be issued in relation to the Schemes. As the Schemes were announced on the TSXV on 6 June 2019, we consider the share price during Post-announcement Period to be reflective of the adjusted number of shares to be issued. The adjustment is set out below.

Number of shares on issue	
Number of shares on issue	97,440,022
Number of shares issued under the Schemes	14,283,298
Number of shares on issue	111,723,320

Note b) Adjusted number of shares on issue

As per section 4.5 of our Report, upon successful completion of the Schemes, PharmaCielo will pay its adviser, Cormark, a success fee comprised C\$1.5 million in cash and C\$1.5 million in PharmaCielo shares. The shares will be issued to Cormark at the issue price which is the lesser of the 20-day VWAP of PharmaCielo shares for the period ending immediately prior to the implementation of the Schemes, and the issue price per PharmaCielo shares pursuant to the terms of any equity

financing that is announced prior to the implementation of the Schemes. For the purpose of quantifying the number of shares to be issued to Cormark, we have assumed an issue price of \$5.1466 per share, which is the 20-day VWAP of PharmaCielo as at 20 August 2019, resulting in the issue of 291,455 shares.

We have made an adjustment for the number of shares to be issued in relation to the Cormark Success Fee as set out below. This has not been previously announced, and therefore the market price during the Post-announcement Period does not take this into consideration.

We have not made an adjustment for the number of shares to be issued to Ubiquo, as this is already public knowledge and the exact number of shares to be issued cannot yet be quantified.

Adjusted number of shares on issue

Number of shares on issue	97,440,022
Number of shares issued under the Schemes	14,283,298
Number of PharmaCielo shares to be issued to Creso Pharma advisers and directors	628,756
Number of PharmaCielo shares to be issued to Cormark	291,455
	112,643,531

Based on the above analysis, our valuation of a PharmaCielo shares based on the quoted market price method is between C\$5.189 and C\$5.652.

We have assessed the CAD/AUD exchange closing rates over the month ended 25 September 2019 and calculated an average CAD/AUD exchange rate of 1.109. Converted at our assessed exchange rate, this represents a PharmaCielo share price range between \$5.531 and \$6.002, with a preferred value of \$5.766.

12.2 Assessment of the value of Share Scheme consideration

Based on the above analysis, the value of 0.0775 shares in the Proposed Merged Entity is in the range from \$0.429 to \$0.465, with a preferred value of \$0.447.

	Ref	Low \$	Preferred \$	High \$
Quoted Market Price (minority interest)	12.1	5.531	5.766	6.002
0.0775 shares in the Proposed Merged Entity (minority interest)		0.429	0.447	0.465

Source: Bloomberg, BDO analysis

13. Valuation of a Creso Pharma listed option prior to the Schemes

The terms of the listed options in Creso Pharma are as follows:

Item	
Number of listed options	72,796,411
Exercise price	\$0.80
Expiry date	21-Aug-20
Time to expiry (years)	1.00
Exercise conditions	Nil

13.1 Option valuation of a Creso Pharma listed option prior to the Schemes

We have used the Black Scholes option pricing model to calculate the value of Creso Pharma's listed options.

In valuing the listed options, we made the following assumptions regarding the inputs required for the option pricing model:

Value of the Underlying Shares

Based on our assessment of the value of a Creso Pharma share in section 11.4, we have used the low, preferred and high values of \$0.502, \$0.545 and \$0.589 per share as the value of the underlying share to obtain the low, preferred and high values for the listed options.

Exercise Price

The exercise price is the price at which the underlying ordinary shares will be issued. The exercise price of Creso Pharma listed options is \$0.80.

Life of the Options

We have estimated the life of the listed options for the purpose of our valuation. The minimum life of an option is the length of any vesting period, while the maximum life is based on the expiry date.

There are many factors that determine the rationale for exercising options and therefore, the effective life of those options. Some of these factors include:

There is a limited track record of unlisted options being exercised early. Generally, early exercise occurs:

- If the options are deep in the money as it is profitable for the holder of the option to exercise the options
- If the stock pays a dividend as the opportunity cost of holding the option is high
- If the volatility of the underlying share price is low as the probability of the options becoming deeper in the money is low relative to a highly volatile stock
- When the options are held by junior level employees. Senior employees are more likely to continue their employment with the company and therefore there is no incentive to exercise their options.

For the purpose of valuing the listed options, we have estimated the life of an option as 1 year, which we have input into the Black Scholes option pricing model. This represents the approximate time from the expected Scheme meeting date and the expiry date of 21 August 2020.

Expected Volatility of the Share Price

Expected volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over time.

Many techniques can be applied in determining volatility, with a summary of the methods we use below:

- The square root of the mean of the squared deviations of closing prices from a sample. This can be calculated using a combination of the opening, high, low, and closing share prices each day the underlying security trades for all days in the sample time period chosen
- The exponential weighted moving average model adopts the closing share price of the Company in a given time period. The model estimates a smoothing

constant using the maximum likelihood method, which estimates volatility assuming that volatility is not a constant measure and is predicted to change in the future

- The generalised autoregressive conditional heteroscedasticity model. This model takes into account periods of time where volatility may be higher than normal and/or lower than normal, as well as the tendency for the volatility to run at its long run average level after such periods of abnormality. The model will calculate the rate at which this is likely to occur from the sample of prices thereby enabling estimates of future volatility by time to be made.

The recent volatility of the share price of Creso Pharma was calculated over one, two and three year periods prior to the announcement of the Schemes, using data extracted from Bloomberg. On this basis, we used a future estimated volatility level of 70% for Creso Pharma in our pricing model.

Risk-free Rate of Interest

We have used the Australian Government 2-year bond rate of 1.07% as at the valuation date as an input into our option pricing model.

Dividends Expected on the Options

Creso Pharma is currently unlikely to pay a dividend during the life of the Scheme Options. Therefore, we have assumed a dividend yield of nil.

Conclusion

We have set out below our conclusions as to the value of the Creso Pharma listed options below.

Item	Low	Preferred	High
Underlying closing share price	0.502	0.545	0.589
Exercise price	0.80	0.80	0.80
Expiry date		21-Aug-20	
Time to expiry (years)		1.00	
Volatility		70%	
Risk-free rate		1.07%	
Number of listed options		72,796,411*	
Valuation per listed option	0.066	0.084	0.104
Total value of listed option	4,804,563	6,114,899	7,570,827

Source: BDO Analysis

*Number of listed options on issue at or about the date of Our Report, as per Creso Pharma Appendix 3B released 31 July 2019.

The above pricing indicated that the value of a Creso Pharma listed option prior to the Schemes is in the range of \$0.066 to \$0.104, with a preferred value of \$0.084.

13.2 Quoted Market Price a Creso Pharma listed option prior to the Schemes

To provide a comparison to the valuation of Creso Pharma listed options in Section 11.2, we have also performed an analysis of the market price for a Creso Pharma listed option.

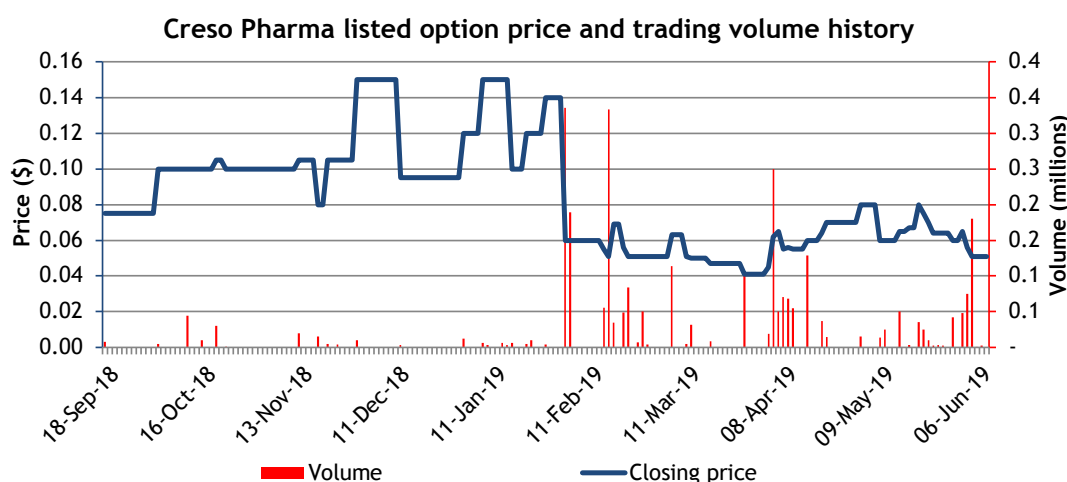
The quoted market value of a company's securities is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

As discussed in section 11.1 of our Report, RG 111.11 suggests that when considering the value of a company's securities the expert should consider a premium for control. Therefore, our calculation of the quoted market price of a Creso Pharma listed option including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

Minority interest value

Our analysis of the quoted market price of a Creso Pharma listed option is based on the pricing prior to the announcement of the Schemes. This is because the value of a Creso Pharma listed option after the announcement may effectively reflect the markets' view of the value per listed option that a Listed Optionholder will receive as consideration if the Schemes are implemented.

Information on the Schemes was announced to the market on 7 June 2019. The following chart therefore provides a summary of the listed option price movement over the period from 14 September 2018, which was the first trading day of Creso Pharma listed options, to 6 June 2019, which was the last trading day prior to the announcement.



Source: BDO analysis

The daily price of Creso Pharma listed options from 14 September 2018 to 6 June 2019 ranged from a low of \$0.041 on 25 March 2019 to a high of \$0.150 on a number of dates throughout November 2018 and January 2019. The highest single day of trading was on 31 January 2019, when 335,648 listed options were traded. To provide further analysis of the market prices for a Creso Pharma listed option, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 6 June 2019.

	6 June 2019	10 Days	30 Days	60 Days	90 Days
Closing Price	\$0.051				
Weighted Average		\$0.057	\$0.061	\$0.058	\$0.058

Source: Bloomberg, BDO analysis

The above weighted average prices are prior to the date of the announcement of the Schemes, to avoid the influence of any change in the price of Creso Pharma listed option that has occurred since the Schemes were announced.

An analysis of the volume of trading in Creso Pharma listed options for the period from 14 September 2018 to 6 June 2019 is set out below.

	Option price low	Option price high	Cumulative Volume traded	As a % of listed options
1 day	\$0.051	\$0.051	-	0.00%
10 days	\$0.051	\$0.065	351,529	0.48%
30 days	\$0.051	\$0.080	534,739	0.73%
60 days	\$0.041	\$0.080	1,337,370	1.84%
90 days	\$0.041	\$0.140	2,629,896	3.61%

Source: Bloomberg, BDO analysis

This table indicates that Creso Pharma listed options display a low level of liquidity, with only 3.61% of the Company's current listed options being traded in a 90-day period. We therefore do not consider there to be a 'liquid and active' market for Creso Pharma listed options in accordance with RG 111.69, and as such, do not consider it appropriate to rely on the QMP methodology in valuing Creso Pharma listed options.

Control premium

In section 11.1 we performed an analysis of historic control premiums paid by acquirers of companies listed on the ASX over five- and ten-year periods. Based on this analysis, we consider an appropriate premium for control to be between 30% and 40%, with a midpoint of 35%.

Quoted market price including control premium

Applying the above control premium to Creso Pharma's quoted market share price results in the following quoted market price value including a premium for control:

Item	Low \$	Midpoint \$	High \$
Quoted market price value	0.051	0.056	0.061
Control premium	30%	35%	40%
Quoted market price including premium for control	0.066	0.076	0.085

Source: BDO analysis

Therefore, our valuation of a Creso Pharma listed option based on the quoted market price method and including a premium for control is between \$0.066 and \$0.085, with a midpoint value of \$0.076.

13.3 Assessment of the value of a Creso Pharma listed option prior to the Schemes

	Ref	Low \$	Preferred \$	High \$
Value of a Creso Pharma listed option (Black Scholes)	13.1	0.066	0.084	0.104
Value of a Creso Pharma listed options (QMP)	13.2	0.066	0.076	0.085

Source: BDO Analysis

Based on the results above we consider the value of a Creso Pharma listed option prior to the implementation of the Schemes, to be between \$0.066 and \$0.104, with a preferred value of \$0.084. We consider the Black Scholes option pricing model to be the most appropriate methodology to value the listed options, as this represents the fair value of the listed options. We note that:

- As discussed in section 13.2, we do not consider there to be a 'liquid and active' market for Creso Pharma listed options trading on the ASX, therefore we do not consider it appropriate to rely on the QMP valuation methodology. We consider this lack of liquidity in the market for the Creso Pharma listed options may be a contributing factor to the discount evident in the QMP value.

14. Valuation of Option Scheme consideration

As determined in section 12.1, we consider the value of a share in the Proposed Merged Entity on a minority interest basis to be in the range from \$5.531 and \$6.002, with a preferred value of \$5.766.

Pursuant to the Option Scheme, Listed Optionholders will receive 0.0185 shares in the Proposed Merged Entity for every listed option in Creso Pharma held.

14.1 Assessment of the value of Option Scheme consideration

Based on the above analysis, we have assessed the value of 0.0185 shares in the Proposed Merged Entity to be in the range from \$0.102 to \$0.111, with a preferred value of \$0.1107.

	Ref	Low \$	Preferred \$	High \$
Quoted Market Price (minority interest)	12.1	5.531	5.766	6.002
0.0185 shares in the Proposed Merged Entity (minority interest)		0.102	0.107	0.111

Source: Bloomberg, BDO analysis

15. Are the Schemes Fair?

15.1 Share Scheme

The value of a share in Creso Pharma prior to the implementation of the Schemes on a control basis, and the value of 0.0775 shares in the Proposed Merged Entity following the implementation of the Schemes on a minority interest basis, is compared below:

	Ref	Low \$	Preferred \$	High \$
Value of a Creso Pharma Share prior to the Schemes (control)	11.5	0.502	0.545	0.589
Value of 0.0775 shares in the Proposed Merged Entity (minority)	12.2	0.429	0.447	0.465

The above comparison indicates that, in the absence of any other relevant information, the Share Scheme is not fair for the Shareholders of Creso Pharma.

15.2 Option Scheme

The value of a listed option in Creso Pharma prior to the implementation of the Schemes, and the value of 0.0185 shares in the Proposed Merged Entity following implementation of the Schemes on a minority interest basis, is compared below:

	Ref	Low \$	Preferred \$	High \$
Value of a Creso Pharma listed option prior to the Schemes	13.3	0.066	0.084	0.104
Value of 0.0185 shares in the Proposed Merged Entity (minority)	14.1	0.102	0.107	0.111

The above comparison indicates that, in the absence of any other relevant information and a superior proposal, the Option Scheme is fair for the Listed Optionholders of Creso Pharma.

16. Are the Schemes reasonable?

16.1 Advantages of approving the Schemes

16.1.1. The Option Scheme is Fair

As set out in section 15.2, the Option Scheme is fair. RG 111.12 states that an offer is reasonable if it is fair.

16.1.2. Continued participation for Creso Pharma security holders

If the Schemes are implemented, Shareholders and Listed Optionholders will receive 0.0775 and 0.0185 shares in the Proposed Merged Entity in consideration for each share and listed option held, respectively. By receiving shares in the Proposed Merged Entity, Shareholders and Listed Optionholders will continue to hold an interest in a global medical cannabis company and participate in the growing medical cannabis industry. They will also retain some exposure to the upside and downside potential of Creso Pharma's products, albeit to a lesser extent, through their diluted shareholding in the Proposed Merged Entity.

16.1.3. Creation of a merged entity with a stronger balance sheet

Following implementation of the Schemes, the Proposed Merged Entity will feature a stronger balance sheet, boosted by an improved cash position and a larger and more diversified portfolio of assets.

For the quarter ending 30 June 2019, excluding the proceeds from the Convertible Notes, Creso Pharma recorded a net cash outflow of \$3.01 million and has estimated outflows of \$3.62 million for the September quarter, as disclosed in the Company's Appendix 4C. Creso Pharma has also recently undertaken a number of debt and equity raisings, including \$5.35 million via the recent issue and subsequent conversion of the Convertible Notes, \$2.98 million Placement in January 2019, \$2.7 million construction finance loan from L1 Capital in October 2018 and the \$1.2 million entitlement issue in July 2018. Following implementation of the Schemes, Shareholders will hold shares in a company with an improved cash position, including PharmaCielo's cash reserves of US\$33.48 at 31 December 2018, which will be better placed to meet the ongoing cash requirements of Creso Pharma.

The Proposed Merged Entity will also feature an enhanced portfolio of assets, comprising PharmaCielo's Rio Negro cultivation and processing facility and Creso Pharma's intellectual property and Mernova production facility. By increasing the diversification of the company's asset portfolio, shareholders gain exposure to a range of assets with varying risk profiles.

The stronger balance sheet and greater diversification of the company's asset portfolio may also make it more attractive to potential investors, improving the ability of the Proposed Merged Entity to raise capital, as well as potentially increasing the liquidity of its shares.

16.1.4. Creation of a merged entity with a vertically integrated supply chain

If the Schemes are implemented and Creso Pharma becomes a subsidiary of PharmaCielo, the Proposed Merged Entity will benefit from the companies complimentary business models, establishing a vertically integrated supply chain.

Creso Pharma brings its portfolio of human and animal cannabis-based products to the Proposed Merged Entity, while PharmaCielo offers its established cannabis cultivation, production and extraction operations. The resulting vertically integrated supply chain may offer potential cost advantages and operational synergies for the production of Creso Pharma's products, whilst also reducing the unsystematic risk of the Proposed Merged Entity.

The Proposed Merged Entity will also hold both cultivation and processing licences in Canada and Colombia, which will further strengthen the Proposed Merged Entity's market position.

16.1.5. Access to PharmaCielo's commercial network

PharmaCielo has an established sales presence in South America, Mexico and Italy, which will further compliment Creso Pharma's commercial network, currently in 5 countries. If the Schemes are implemented, the Proposed Merged Entity will have an enhanced global commercial presence, allowing for the expansion of Creso Pharma's product distribution network.

By way of example, in order for Creso Pharma to extract value from the recent granting of the Mernova Processing Licence, it would need to identify distribution channels and partners for the sale of its products. Creso Pharma has advised that it has currently identified one channel and establishing the relevant relationships would likely take significant time and resources of the Company's current personnel. PharmaCielo has already identified, and has existing relationships with, companies who have advised of their interest to discuss distribution agreements for products (both flower and oils) that could eventually be processed and sold out of the Mernova Facility.

We have also been advised that PharmaCielo has access to industry specialists that are able to assist the Mernova operations in obtaining the required EU good manufacturing practice ('GMP') certification needed to sell to many European countries. Without PharmaCielo, Creso Pharma does not have these contacts and it is likely that such GMP certification could be delayed by 12 months.

16.1.6. Experienced board and management team of PharmaCielo

The Proposed Merged Entity will be led by PharmaCielo's experienced management team and board, further strengthened by the addition of Creso Pharma's Co-Founder and CEO, Dr Miriam Halperin Wernli. Current board members of PharmaCielo comprises executives from a collection of prominent global companies,

including Phillip Morris International, the World Health Organisation, Bayer, Citigroup and American Express, which may offer strategic value to Creso Pharma's existing product range and sales network.

16.2 Disadvantages of approving the Schemes

16.2.1. Dilution of Shareholders' interest

Following implementation of the Schemes, Shareholders' interest in Creso Pharma will be diluted from holding 100% of Creso Pharma, to holding a maximum of 13% of the Proposed Merged Entity. Shareholders will no longer hold a combined controlling interest in Creso Pharma, rather a minority interest in the Proposed Merged Entity.

16.2.2. Shareholders will no longer hold a direct interest in Creso Pharma

If the Schemes are implemented and Creso Pharma becomes a wholly owned subsidiary of PharmaCielo, Shareholders' and Listed Optionholders' will retain only an indirect interest in the assets of Creso Pharma through their holding in PharmaCielo. Therefore, Shareholders and Listed Optionholders' ability to benefit from any potential upside of Creso Pharma operations will be significantly reduced.

16.3 Other considerations

16.3.1. Alternative proposal

We are unaware of any alternative proposal that might offer the Shareholders of Creso Pharma a premium over the value resulting from the Schemes.

16.3.2. Expenses incurred should the Share Scheme not be approved by Shareholders

In the event the Share Scheme is not approved by Shareholders, the Company will be required to pay PharmaCielo the Reimbursement Fee of \$450,000.

Furthermore, we note that over the duration of the implementation of the Schemes process, Creso Pharma has become increasingly reliant on funding currently being provided by PharmaCielo, mainly through the outstanding C\$3.5 million secured bridge loan facility from PharmaCielo. If the Schemes are not approved, Creso Pharma would have to raise sufficient capital to repayment of outstanding loans and fund significant working capital requirements to maintain the strong growth planned for the Creso Pharma operations. Any significant equity raising by Creso Pharma would have to be undertaken at a discount to current market conditions, or debt could be raised on relatively unfavourable terms.

In the scenario where Creso Pharma cannot raise sufficient funds to repay outstanding loans and fund ongoing working capital requirements of a growing business, it is likely that Creso Pharma would be required to reduce the scope of its operations and scale back its current business activities.

16.3.3. The Share Scheme is value accretive for Shareholders

Given that the majority of Shareholders hold a minority interest in Creso Pharma, the compensation that they receive under the Share Scheme is value accretive on a minority basis, as demonstrated in the table below.

	Ref	Low \$	Preferred \$	High \$
Value of a Creso Pharma share (minority)	11.1	0.415	0.434	0.453
Value of 0.0775 shares in the Proposed Merged Entity (minority)	14.1	0.429	0.447	0.465

16.3.4. Change in jurisdiction

If the Schemes are implemented, Shareholders and Listed Optionholders will become shareholders in the Proposed Merged Entity, which was incorporated in Canada and is listed on the TSXV. Shareholders will therefore be exposed to country-specific risks such as political and regulatory risks.

In particular, PharmaCielo, as a company incorporated in Canada, is not subject to compliance with the Corporations Act or ASX Listing Rules by which Creso Pharma is currently governed. Therefore, Shareholders and Listed Optionholders may not be familiar with the laws and listing regulations with which PharmaCielo must comply.

16.3.5. Holding TSXV listed shares

Following the implementation of the Schemes, Shareholders and Listed Optionholders will no longer hold shares in an ASX listed company, instead holding shares in the Proposed Merged Entity listed on the TSXV. A number of considerations for international investors are set out below.

Ease of trading

A number of Australian online trading platforms now offer international trading, making it possible for Australian investors holding TSXV listed shares to trade these with relative ease. Furthermore, on 21 June 2019, PharmaCielo announced it had commenced trading on the OTC Market under the ticker OTC:PHCEF, in addition to the TSXV, order to increase access for U.S. and international investors. The OTC Market is an over-the-counter market which allows securities to be traded via a broker-dealer network, allowing investors to trade international shares without having an international trading account.

A key challenge for Australian investors holding shares on the TSXV as opposed to the ASX however, is the time zone difference. The ASX operates within the UTC +10 time zone while the TSXV operates within the UTC -5 time zone, resulting in a 15-hour delay. This may be a disadvantage to international investors, particularly when price sensitive announcements and trades are made.

Currency risk

By holding shares in the Proposed Merged Entity, as opposed to Creso Pharma, Shareholders and Listed Optionholders will become subject to foreign currency risk. Income and capital gains or losses arising from international investments must be converted into AUD for taxation purposes, meaning Australian shareholders in the Proposed Merged Entity will be exposed to the additional risk arising from fluctuations in the CAD to AUD exchange rate.

Industry size & participation

In late 2018, Canada became the second country to legalise recreational cannabis use and is one of only a handful of countries in which it is legal to export medical cannabis. As a result, investment in listed Canadian cannabis companies has increased almost 18-fold in recent years according to market research conducted by Viridian Capital Advisors, from C\$43 million in the first half of 2016 to C\$770 million in the second half of 2017.

Based on Capital IQ data as at 20 August 2019, there is now approximately 50 TSX and TSXV listed medical and recreational cannabis cultivation, processing and distribution companies, with a combined market capitalisation of approximately \$37 billion. This is compared to only 11 ASX listed cannabis companies, with a combined market capitalisation of approximately \$860 million.

By receiving shares in the TSXV listed Proposed Merged Entity, Shareholders and Listed Optionholders have the opportunity to participate in a much larger and more established cannabis market. Benefits of which include greater analyst coverage, a deeper market understanding and strong investor interest, which may increase the liquidity of shares.

Tax Implications

Investment income from international investments has different treatment to income from domestic investments for Australian residents for tax purposes. Holding shares in the TSXV listed Proposed Merged Entity, compared to shares in ASX listed Creso Pharma, may therefore have unfavourable taxation implications for Shareholders and Listed Optionholders.

Shareholders and Listed Optionholders are directed to Section 15 of the Scheme Booklet for a more detailed explanation of the tax implications of the Schemes for Shareholders and Listed Optionholders.

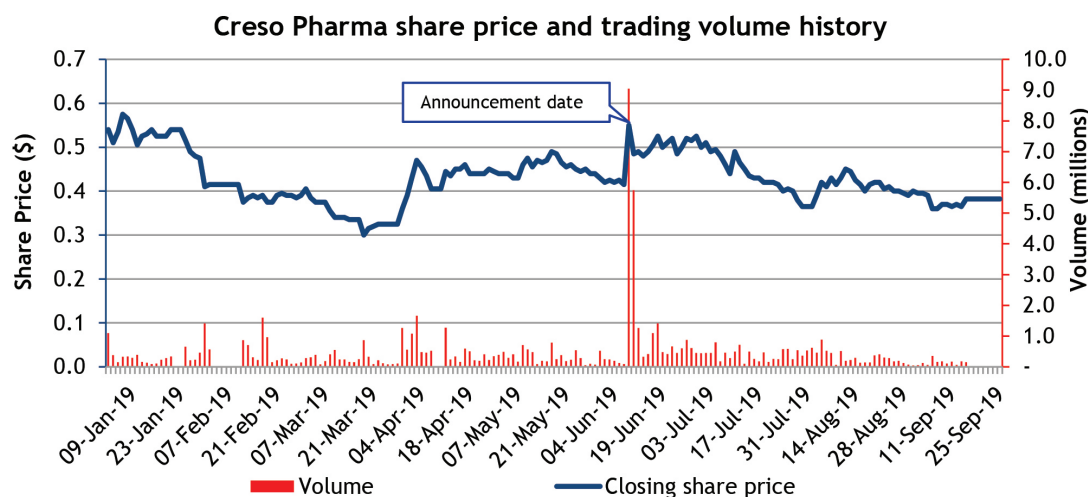
We emphasise that the tax implications for each security holder will vary depending on their individual circumstances, and advise individual security holders to obtain their own tax advice.

16.3.6. Shareholders' investment profile will change

Following the implementation of the Schemes, the Proposed Merged Entity may be subject to a number of risks to which Creso Pharma is not currently exposed. This may include differences between the operational profile, capital structure, size, share liquidity and geographic exposure of PharmaCielo compared to Creso Pharma. As a result of the above, Shareholders' investment profile will change, and it is possible that the new risk profile of the Proposed Merged Entity may not match Shareholders' investment criteria.

16.3.7. Potential movement in share price

If the Schemes are not approved, it is possible that Creso Pharma's share price will return to pre-announcement levels. In order to understand the potential impact on the share price, we have analysed movements in Creso Pharma's share price since the Schemes were announced on 7 June 2019. We note that while the implementation of the Schemes is active, the Creso Pharma share price may be interpreted as following the trends of the PharmaCielo share price, given the proposed consideration of the Schemes is a factor of PharmaCielo shares. A graph of Creso Pharma's share price leading up to and following the announcement of the Schemes is set out below.



Source: Bloomberg, BDO analysis

The daily closing price of Creso Pharma shares over the period from 2 January 2019 to 25 September 2019 ranged from a high of \$0.58 on the 7 January 2019 to a low of \$0.30 on 19 March 2019. On the day of the announcement, the share price increased by 32.5% to close at \$0.55 and an eighteen-month high of 9.05 million shares were traded, which represents approximately 6.0% of the Company's total issued capital. On 11 June 2019, the first full day of trading following the announcement, the share price decreased by 11.8% to close at \$0.49. In the month following the announcement, the share price of Creso Pharma remained above pre-announcement levels, however has since followed an overall decreasing trend to close at \$0.38 on 16 September 2019 when the Company entered a trading halt and then voluntary suspension. We note that the Creso Pharma share price has broadly followed the trends of the PharmaCielo share price, as outlined above.

The table below details the VWAP of Creso Pharma shares for the 10- and 20-day periods pre and post announcement of the Schemes on 7 June 2019 (excluding the day of the announcement).

Share Price per unit	10 days pre	10 days post	20 days pre	20 days post
Volume weighted average price (VWAP)	\$0.435	\$0.510	\$0.457	\$0.508

Source: Bloomberg, BDO analysis

Following the announcement of the Schemes, Creso Pharma's 10-day VWAP increased by 17.2%, from \$0.435 over the 10 days prior to the announcement, to \$0.510 over the 10 days subsequent to the announcement.

Given the above analysis, if the Schemes are not approved, Creso Pharma's share price may return to pre-announcement levels.

16.3.8. Listed Optionholders may be left holding an option over an unlisted share

If the Share Scheme is approved by Shareholders and the Court, but the Option Scheme is not approved, Creso Pharma Listed Optionholders will continue to hold their Creso Pharma listed options.

In that event, Creso Pharma will be delisted from the ASX and become a wholly owned subsidiary of PharmaCielo, meaning there will not be an active market for any Creso Pharma shares issued as the result of the exercise of the listed options.

Therefore, there is a risk to Listed Optionholder that if the Share Scheme is approved but the Option Scheme is not approved, Listed Optionholders will be unable to sell their shares if they were to exercise the listed options. This will reduce the value of the underlying asset and therefore the value of the listed options.

17. Conclusion

We have considered the terms of the Share Scheme as outlined in the body of this report and have concluded that the Share Scheme is not fair but reasonable and in the best interests of the Shareholders of Creso Pharma.

We have considered the terms of the Option Scheme as outlined in the body of this report and have concluded that the Option Scheme is fair and reasonable and in the best interests of the Listed Optionholders of Creso Pharma.

18. Sources of information

This report has been based on the following information:

- Draft Scheme Booklet on or about the date of this report;
- Scheme Implementation Agreement;
- Audited financial statements of Creso Pharma for the years ended 31 December 2018, 31 December 2017 and 31 December 2016;
- Audited financial statements of PharmaCielo for the year ended 31 December 2018, five months ended 31 December 2017 and year ended 31 July 2017;
- Share registry information;

- Option registry information;
- Bloomberg;
- S&P Capital IQ;
- RBA: Monetary Policy Decision 4 June 2019 and Statement on Monetary Policy May 2019;
- BOC: Update on Canada's Economic Resilience 6 September 2018, Monetary Policy Report April 2019 and Look Under the Hood of Canada's Job Market 31 January 2019;
- The World Bank: Overview on Colombia 4 April 2019;
- The World Factbook: Colombia 2017 and Colombia Reports data 2018;
- Canaccord Genuity: Australian Cannabis Industry Update August 2019;
- Frost & Sullivan Market Report: the Medicinal Cannabis Market
- Department of Health: Access to medicinal cannabis products June 2019
- Government of Canada: Licensed cultivators, processors and sellers of cannabis under the Cannabis Act 2019
- Government of Victoria: Medicinal Cannabis Industry Development Plan January 2018
- BDO Valuation Insights on the Cannabis Industry in Canada May 2019;
- Information in the public domain; and
- Discussions with Directors and Management of Creso Pharma.

19. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$70,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Creso Pharma in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Creso Pharma, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Creso Pharma and PharmaCielo and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Creso Pharma and PharmaCielo and their respective associates.

The provision of our services is not considered a threat to BDO East Coast Partnerships' independence as auditors under Professional Statement APES 110 – Professional Independence. The services provided have no material impact on the financial report of Creso Pharma.

A draft of this report was provided to Creso Pharma and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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20. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants Australia & New Zealand. He has over 30 years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 300 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Corporate Finance Practice Group Leader of BDO in Western Australia, the Global Natural Resources Leader for BDO and a former Chairman of BDO in Western Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 20 years in the Audit and Assurance and Corporate Finance areas. Adam is a CA BV Specialist and has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

21. Disclaimers and consents

This report has been prepared at the request of Creso Pharma for inclusion in the Scheme Booklet which will be sent to all Creso Pharma Shareholders. Creso Pharma engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider whether the Share Scheme and Option Scheme are in the best interests of Shareholders and Listed Optionholders, respectively.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Scheme Booklet. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Scheme Booklet other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to PharmaCielo. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders and Listed Optionholders obtain their own taxation advice, in respect of the Schemes, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders or Listed Optionholders of Creso Pharma, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD



Sherif Andrawes
Director

Adam Myers
Director

Appendix 1 – Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 Cth
AFCA	Australian Financial Complaints Authority
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUD	Australian Dollar
BDO	BDO Corporate Finance (WA) Pty Ltd
Break Fee	\$1.2 million fee payable by either party to the other in the event of certain circumstances leading to the termination of the Schemes
CAD	Canadian Dollar
CBD	Cannabidiol
CLV	Creso Pharma's subsidiary, CLV Frontier Brands Pty Ltd
Cohen Nurseries	Creso Pharma's joint venture partner, Cohen Propagation Nurseries Limited
The Company	Creso Pharma Limited
The Convertible Notes	The \$5.15 million in convertible notes issued and subsequently converted by Creso Pharma in July 2019 in repayment of the Secured Loans
Cormark	Cormark Securities Inc.
Cormark Success Fee	The success fee comprised C\$1.5 million in cash and C\$1.5 million in PharmaCielo shares to be issued to Cormark by PharmaCielo upon successful completion of the Schemes
Corporations Act	The Corporations Act 2001 Cth
Creso Grow	Creso Pharma's subsidiary, Creso Grow Limited
Creso Pharma	Creso Pharma Limited
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EverBlu	EverBlu Capital Pty Ltd
EverBlu Success Fee	The fee paid by Creso Pharma to its adviser EverBlu upon successful completion of the Schemes, to be settled by way of issue of 458,256 PharmaCielo shares
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
GMP	Good manufacturing practice
INCB	International Board for the Control of Narcotic Drugs
Kunna	Creso Pharma's Colombian subsidiary Kunna S.A.S
Mernova	Creso Pharma's Canadian subsidiary Mernova Medicinal Inc
Mernova Facility	Mernova's cannabis production facility in Nova Scotia, Canada

Reference	Definition
NAV	Net Asset Value
ODC	The Australian Federal Department of Health's Office of Drug Control
The Option Scheme	The Option Scheme under which each Creso Pharma Listed Optionholder will receive 0.0185 PharmaCielo shares for every Creso Pharma listed option held at the record date
PCLO VWAP	PharmaCielo volume weighted average price for the three days ending 4 June 2019 of \$8.1261
PharmaCielo	PharmaCielo Limited
PharmaCielo Colombia	PharmaCielo's Colombian subsidiary, PharmaCielo Colombia Holdings S.A.S
The Placement	The \$2.98 million placement undertaken by Creso Pharma on January 2019
Placement Price	The price of \$0.45 per share at which Creso Pharma shares were issued through the Placement
Pre-announcement Period	The share price of PharmaCielo over the period from 18 January 2019 to 5 June 2019
Post-announcement Period	The share price of PharmaCielo over the period from 6 June 2019 to 15 July 2019
The Proposed Merged Entity	The combined entity following the implementation of the Schemes, comprising PharmaCielo and Creso Pharma as a wholly owned subsidiary of PharmaCielo
QMP	Quoted market price
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
Reimbursement Fee	\$450,000 fee required to be paid by Creso Pharma to PharmaCielo in the event the Share Scheme is not approved by Shareholders
Our Report	This Independent Expert's Report prepared by BDO
RG 60	Schemes of arrangement (September 2011)
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Rio Negro Facility	PharmaCielo's cannabis nursery and propagation centre located in Rio Negro, Colombia
The Schemes	The Share Scheme and Option Scheme
Section 411	Section 411 of the Corporations Act
Section 611	Section 611 of the Corporations Act
The Secured Loans	The \$5.35 million in secured loans from institutional investors to Creso Pharma entered into in April 2019 and subsequently repaid through the issue and conversion of convertible notes
The Share Scheme	The Share Scheme under which each Creso Pharma shareholder will receive 0.0775 PharmaCielo shares for every Creso Pharma share held at the record date
Shareholders	Shareholders of Creso Pharma
Sum-of-Parts	A combination of different methodologies used together to determine an overall value where separate assets and liabilities are valued using different methodologies
THC	Tetrahydrocannabinol
TSXV	Toronto Stock Exchange Venture Exchange
Ubiquo	Ubiquo Telemedicina S.A.S.
Unsuccessful Transaction Fee	The fee of 0.75% of the total value of securities that would have been issued and/or exchanged under the Schemes that Creso Pharma may be liable to pay EverBlu should the Schemes not be approved
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital

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The Directors
BDO Corporate Finance (WA) Pty Ltd
38 Station Street
SUBIACO, WA 6008
Australia

Appendix 2 – Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1 **Net asset value ('NAV')**

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:
Orderly realisation of assets method
Liquidation of assets method
Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 **Quoted Market Price Basis ('QMP')**

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a liquid and active market in that security.

3 **Capitalisation of future maintainable earnings ('FME')**

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

4 **Discounted future cash flows ('DCF')**

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

5 **Market Based Assessment**

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

ANNEXURE B

CRESO PHARMA LIMITED

Independent Limited Assurance Report

26 August 2019

The Directors
Creso Pharma Limited
Level 24, Three International Towers 300 Barangaroo Avenue
BARANGAROO NSW 2000

26 August 2019 Dear Directors
Independent Limited Assurance Report

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000 Australia

INTRODUCTION

BDO Corporate Finance (East Coast) Pty Ltd (BDO) has been engaged by Creso Pharma Limited (**Creso Pharma** or the **Company**) to prepare this Independent Limited Assurance Report (**Report**) for inclusion in the scheme booklet to be dated on or about 27 August 2019, and to be issued by Creso Pharma (**Scheme Booklet**) in relation to the proposed acquisition of Creso Pharma by PharmaCielo Ltd. (**PharmaCielo**).

Unless stated otherwise in this Report, expressions defined in the Scheme Booklet have the same meaning in this Report.

This Report has been prepared for inclusion in the Scheme Booklet. We disclaim any assumption of responsibility for any reliance on this Report or on the financial information to which it relates for any purpose other than that for which it was prepared.

SCOPE

You have requested BDO to perform a limited assurance engagement in relation to the financial information described below and disclosed in the Scheme Booklet.

The financial information is presented in the Scheme Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by International Financial Reporting Standards (**IFRS**) or Australian equivalents to International Financial Reporting Standard (**AIFRS**) and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

SCOPE OF REVIEW OF THE PRO FORMA HISTORICAL FINANCIAL INFORMATION

You have requested BDO review the following pro forma historical financial information included in the Prospectus:

- the pro forma historical statement of financial position as at 31 December 2018 as set out in Section 12.4 (f) of the Scheme Booklet; and
- the pro forma historical statements of profit and loss for the 12 months ended 31 December 2018 as set out in Section 12.4 (g) of the Scheme Booklet

which assume completion of the transaction and include the pro forma adjustments described in Sections 12.4 (f) and (g) of the Scheme Booklet.

(Hereafter the **Pro Forma Historical Financial Information**)

The Pro Forma Historical Financial Information has been:

- derived from the audited consolidated financial statements of PharmaCielo for the year ended 31 December 2018, which was audited by MNP LLC in accordance with Canadian generally accepted accounting standards on which an unqualified audit opinion was issued;
- derived from the audited consolidated financial statements of Creso Pharma for the year ended 31 December 2018, which was audited by RSM Australia Partners in accordance with Australian Auditing Standards on which an unqualified audit opinion was issued; and
- adjusted for the effects of pro forma adjustments described in Sections 12.4 (f) and (g) of the Scheme Booklet.

The Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in the IFRS other than that it includes adjustments which have been prepared in a manner consistent with IFRS, that reflect (i) the exclusion of certain transactions that occurred in the relevant period, and (ii) the impact of certain transactions as if they had occurred at 31 December 2018 in the pro forma historical consolidated statement of financial position and from 1 January 2018 in the pro forma historical consolidated income statement.

Due to its nature, the Pro Forma Historical Financial Information does not represent the company's actual or prospective financial position.

Directors' Responsibility

The directors of Creso Pharma are responsible for the preparation of the statutory historical financial information and Pro Forma Historical Financial Information, including the selection and determination of pro forma adjustments made to the statutory historical financial information and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of the statutory historical financial information and Pro Forma Historical Financial Information that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the financial information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with IFRS or AIFRS and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Review statement on the Pro Forma Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as described in Section 12.4 of the Scheme Booklet, and comprising the pro forma historical consolidated income statement of the combined group for the 12 months ended 31 December 2018 and the pro forma historical consolidated statement of financial position of the combined group as at 31 December 2018, is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in Section 12.4 (b) of the Scheme Booklet.

SUBSEQUENT EVENTS

Apart from the matters dealt with in this Report, and having regard to the scope of this Report and the information provided by the Directors, to the best of our knowledge and belief no material transaction(s) or event(s) outside of the ordinary business of Creso Pharma or PharmaCielo not described in the Scheme Booklet, has come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

INDEPENDENCE

BDO is a member of BDO International Ltd. BDO does not have any interest in the outcome of the Scheme Booklet other than in connection with the preparation of this Report and participation in due diligence procedures, for which professional fees will be received.

GENERAL ADVICE WARNING

This Report has been prepared, and included in the Scheme Booklet, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to be a substitute for professional advice and potential investors should not make specific investment decisions in reliance on the information contained in this Report. Before acting or relying on any information, potential investors should consider whether it is appropriate for their objectives, financial situation or needs.

Without modifying our conclusions, we draw attention to Section 12.4 (a) of the Scheme Booklet, which describes the purpose of the financial information, being for inclusion in the Scheme Booklet. As a result, the financial information may not be suitable for use for another purpose.

BDO has consented to the inclusion of this Report in the Scheme Booklet in the form and context in which it is included. At the date of this Report this consent has not been withdrawn. However, BDO has not authorised the issue of the Scheme Booklet. Accordingly, BDO makes no representation regarding, and takes no responsibility for, any other statements or material in or omissions from the Scheme Booklet.

FINANCIAL SERVICES GUIDE

Our Financial Services Guide follows this Report. This guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

BDO CORPORATE FINANCE (EAST COAST) PTY LTD



DANIEL COOTE

Director

FINANCIAL SERVICES GUIDE

Dated: 26 August 2019

This Financial Services Guide (**FSG**) helps you decide whether to use any of the financial services offered by BDO Corporate Finance (East Coast) Pty Ltd (**BDO Corporate Finance, we, us, our**).

The FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 247420
- Remuneration that we and/or our staff and any associates receive in connection with the financial services
- Any relevant associations or relationships we have
- Our complaints handling procedures and how you may access them.

FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide financial product advice to retail and wholesale clients about securities and certain derivatives (limited to old law securities, options contracts and warrants). We can also arrange for customers to deal in securities, in some circumstances. Whilst we are authorised to provide personal and general advice to retail and wholesale clients, we only provide *general* advice to retail clients.

Any general advice we provide is provided on our own behalf, as a financial services licensee.

GENERAL FINANCIAL PRODUCT ADVICE

Our general advice is typically included in written reports. In those reports, we provide general financial product advice that is prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of the general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We charge fees for providing reports. These fees are negotiated and agreed to with the person who engages us to provide the report. Fees will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. In this instance, the Company has agreed to pay us A\$60,000 for preparing the Report.

Except for the fees referred to above, neither BDO Corporate Finance, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of general advice.

All our employees receive a salary. Our employees are eligible for bonuses based on overall company performance but not directly in connection with any engagement for the provision of a report.

REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

ASSOCIATIONS AND RELATIONSHIPS

BDO Corporate Finance is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The general financial product advice in our report is provided by BDO Corporate Finance and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

COMPLAINTS RESOLUTION

Internal Complaints Resolution Process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. Complaints can be in writing, addressed to the Complaints Officer, BDO Corporate Finance, Level 11, 1 Margaret St, Sydney NSW 2001 or by telephone or email, using the contact details at the top of this FSG.

When we receive a complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

If a complaint relating to general advice to a retail client is not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority (AFCA). AFCA is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Corporate Finance is a member of AFCA (Member Number 11843).

Further details about AFCA are available at the AFCA website www.afca.org.au or by contacting them directly via the details set out below.

Australian Financial Complaints Authority
GPO Box 3
MELBOURNE VIC 3001
Toll free: 1800 931 678
Email: info@afca.org.au

COMPENSATION ARRANGEMENTS

BDO Corporate Finance and its related entities hold Professional Indemnity insurance for the purpose of compensating retail clients for loss or damage suffered because of breaches of relevant obligations by BDO Corporate Finance or its representatives under Chapter 7 of the Corporations Act 2001. These arrangements and the level of cover held by BDO Corporate Finance satisfy the requirements of section 912B of the Corporations Act 2001.

CONTACT DETAILS

You may provide us with instructions using the details set out at the top of this FSG or by emailing - cf.ecp@bdo.com.au

ANNEXURE C

Share Scheme of Arrangement Creso Pharma Limited ACN 608 409 911 Scheme Shareholders

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Details

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

Between the parties

Creso Pharma Limited ACN 608 409 911 (**Creso Pharma**) of Level 24, 300 Barangaroo Avenue, Barangaroo, New South Wales 2000

and

Each Scheme Shareholder

1. Definitions and interpretation

1.1 Defined terms

In this Share Scheme, unless the context requires otherwise:

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691, or as the context requires or permits, the financial market known as the Australian Securities Exchange operated by it.

Business Day means a day that is not a Saturday, Sunday or a public holiday or bank holiday in

- (a) Melbourne, Australia; or
- (b) Toronto, Canada.

CHESS means the clearing house electronic subregister system of share transfers operated by ASX Settlement Pty Limited ABN 49 008 504 532.

CHESS Holding has the meaning given in the Settlement Rules.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of Western Australia or any other court of competent jurisdiction under the Corporation Act agreed in writing between Creso Pharma and PharmaCielo.

Creso Pharma Listed Option means an option granted by Creso Pharma to acquire by way of issue one or more Creso Pharma Shares, which option is listed for quotation on ASX.

Creso Pharma Performance Right means a right to acquire by way of issue a Creso Pharma Share subject to the satisfaction of vesting conditions.

Creso Pharma Performance Share means a performance share issued by Creso Pharma.

Creso Pharma Register means the register of members of Creso Pharma maintained by Creso Pharma under section 168(1) of the Corporations Act.

Creso Pharma Share means an issued fully paid ordinary share in the capital of Creso Pharma.

Creso Pharma Shareholder means each person who is registered in the Creso Pharma Register as a holder of Creso Pharma Shares.

Creso Pharma Unlisted Option means an option to acquire by way of issue one Creso Pharma Share, which option is not listed for quotation on ASX.

Delivery Time means, in relation to the Second Court Date, 2 hours before the commencement of the hearing (or if the commencement of the hearing is adjourned, the commencement of the adjourned hearing), of the Court to approve this Share Scheme in accordance with section 411(4)(b) of the Corporations Act.

Effective means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act in relation to this Share Scheme.

Effective Date means the date on which this Share Scheme becomes Effective.

End Date means the 'End Date' determined in accordance with the Scheme Implementation Agreement.

Implementation Date means the fifth Business Day following the Share Scheme Record Date or such other Business Day as agreed between Creso Pharma and PharmaCielo.

Ineligible Foreign Shareholder means a Scheme Shareholder whose address as shown in the Creso Pharma Register (as at the Share Scheme Record Date) is located outside of:

- (a) Australia and its external territories;
- (b) New Zealand; and
- (c) any other jurisdictions as may be agreed in writing by Creso Pharma and PharmaCielo,

(provided that PharmaCielo is satisfied, acting reasonably, that it is permitted to allot and issue New PharmaCielo Shares to that Scheme Shareholder under the Share Scheme by the laws of that place either unconditionally or after compliance with conditions that PharmaCielo in its sole discretion regards as acceptable and not unduly onerous or impracticable).

Issuer Sponsored Holding has the meaning given in the Settlement Rules.

New PharmaCielo Shares means the new PharmaCielo Shares to be issued under the terms of this Share Scheme as Share Scheme Consideration.

PharmaCielo means PharmaCielo Ltd. of 1 Toronto Street, Suite 805, Toronto, ON M5C 2V6.

PharmaCielo Group means PharmaCielo and each of its Related Bodies Corporate (excluding, at any time, Creso Pharma and its Subsidiaries to the extent that Creso Pharma and its Subsidiaries are Subsidiaries of PharmaCielo at that time). A reference to a member of the **PharmaCielo Group** or a **PharmaCielo Group Member** is a reference to PharmaCielo or any such Related Bodies Corporate.

PharmaCielo Shares means an issued fully paid common share in the capital of PharmaCielo.

Registered Address means, in relation to a Creso Pharma Shareholder, the address shown in the Creso Pharma Register as at the Share Scheme Record Date.

Regulatory Authority means:

- (a) any government or governmental, semi-governmental, administrative, monetary, fiscal or judicial body, tribunal, agency or entity;
- (b) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; or
- (c) any regulatory organisation established under statute, in Australia or Canada whether federal, state, territorial or local

Related Body Corporate of a person means a related body corporate of that person under section 50 of the Corporations Act and includes any body corporate that would be a related body corporate if section 48(2) of the Corporations Act was omitted.

Sale Agent means a person appointed by PharmaCielo, in consultation with Creso Pharma, to sell the Sale Shares under clauses 7.3(b) and 7.4.

Sale Proceeds means the gross proceeds of sale of the Sale Shares under clause 7.3(b), less any applicable taxes and charges incurred by PharmaCielo or the Sale Agent in connection with the sale.

Sale Shares means the New PharmaCielo Shares to which Ineligible Foreign Shareholders would have been entitled under this Share Scheme but for the operation of clause 7.3.

Scheme Implementation Agreement means the scheme implementation agreement dated 6 June 2019 between Creso Pharma and PharmaCielo.

Scheme Share means a Creso Pharma Share on issue as at the Share Scheme Record Date.

Scheme Shareholder means a person who holds one or more Scheme Shares.

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving this Share Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

Settlement Rules means the ASX Settlement Operating Rules, being the official operating rules of the settlement facility provided by ASX Settlement Pty Ltd.

Share Registry means Automatic Share Registry of Level 2, 267 St Georges Terrace, Perth WA 6000 or any replacement provider of share registry services to Creso Pharma.

Share Scheme means this scheme of arrangement under Part 5.1 of the Corporations Act between Creso Pharma and the Scheme Shareholders, subject to any alterations or conditions that are:

- (a) agreed to in writing by Creso Pharma and PharmaCielo, and approved by the Court; or
- (b) made or required by the Court under section 411(6) of the Corporations Act and agreed to by Creso Pharma and PharmaCielo.

Share Scheme Consideration means the consideration to be provided to Scheme Shareholders under the terms of this Share Scheme, being the number of New PharmaCielo Shares for every Scheme Share specified in the Share Scheme Consideration Ratio.

Share Scheme Consideration Ratio means 0.0775 New PharmaCielo Shares per Scheme Share.

Share Scheme Deed Poll means the deed poll dated 11 September 2019 executed by PharmaCielo under which PharmaCielo covenants in favour of the Scheme Shareholders to perform the actions attributed to PharmaCielo under this Share Scheme.

Share Scheme Meeting means the meeting of Creso Pharma Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on this Share Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

Share Scheme Record Date means 7.00pm on the third Business Day (or such other Business Day as agreed between Creso Pharma and PharmaCielo) following the Effective Date.

Small Securityholder means a Scheme Shareholder who is entitled to receive New PharmaCielo Shares equal to a value of less than \$500 (or such other amount as may be agreed between PharmaCielo and Creso Pharma in writing) on the Share Scheme Record Date.

Subsidiary has the meaning given to that term in section 46 of the Corporations Act.

Trust Account means an Australian dollar denominated trust account operated by Creso Pharma as trustee for the benefit of Ineligible Foreign Shareholders.

TSXV means the Toronto Venture Exchange.

1.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a clause or schedule is a reference to a clause of or schedule to this Share Scheme.
- (f) A reference to an **agreement** or **document** (including a reference to this Share Scheme) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this Share Scheme or that other agreement or document, and includes the recitals, schedules and annexures to that agreement or document.
- (g) A reference to a party to this Share Scheme or an agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).
- (h) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to conduct includes an omission, statement or undertaking, whether or not in writing.
- (j) A reference to an agreement includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.
- (k) A reference to **dollars** and **\$** is to Australian currency.
- (l) All references to time are to Melbourne, Australia time.
- (m) Mentioning anything after *includes*, *including*, *for example*, or similar expressions, does not limit what else might be included.
- (n) A reference to, an officer or subsidiary is to that term as it is defined in the Corporations Act.

1.3 Business Day

Where the day on or by which any act, matter or thing under this Share Scheme is to be done is not a Business Day, that act, matter or thing must be done on or by the next Business Day.

1.4 Listing requirements included as law

A listing rule or operating rule of a financial market and a Market Integrity Rule will be regarded as a law, and a reference to such a rule is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

2. Preliminary

2.1 Creso Pharma

- (a) Creso Pharma is a public company limited by shares, registered in Western Australia and admitted to the official list of ASX.
- (b) As at 1 October 2019:
 - (i) 151,544,332 Creso Pharma Shares were on issue which are officially quoted on ASX;
 - (ii) 72,796,411 Creso Pharma Listed Options were on issue which are officially quoted on ASX;
 - (iii) 7,086,250 Creso Pharma Unlisted Options were on issue which are not quoted on any financial market;
 - (iv) 5,596,000 Creso Pharma Performance Rights were on issue which are not quoted on any financial market; and
 - (v) 1,212,120 Creso Pharma Performance Shares were on issue which are not quoted on any financial market.

2.2 PharmaCielo

PharmaCielo is a public company limited by shares and its common shares are listed on the TSXV.

2.3 General

- (a) Creso Pharma and PharmaCielo have agreed by executing the Scheme Implementation Agreement to propose this Share Scheme and, if it becomes Effective, to implement it.
- (b) This Share Scheme attributes actions to PharmaCielo but does not itself impose an obligation on it to perform those actions, as PharmaCielo is not a party to this Share Scheme. PharmaCielo has agreed, by executing the Share Scheme Deed Poll, to perform the actions attributed to it under this Share Scheme, including the provision of the Share Scheme Consideration to the Scheme Shareholders.

2.4 Consequence of this Share Scheme becoming Effective

If this Share Scheme becomes Effective:

- (a) PharmaCielo will apply for all New PharmaCielo Shares to be quoted on TSXV;
- (b) PharmaCielo will provide or procure the provision of the Share Scheme Consideration to Scheme Shareholders in accordance with this Share Scheme; and
- (c) all the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, will be transferred to PharmaCielo, and Creso Pharma will enter PharmaCielo in the Creso Pharma Register as the holder of the Scheme Shares with the result that Creso Pharma will become a wholly owned subsidiary of PharmaCielo.

3. Conditions

- (a) This Share Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:
 - (i) all the conditions precedent in clause 3.1 of the Scheme Implementation Agreement (other than the condition in clause 3.1(i) of the Scheme Implementation Agreement (Court approval)) having been satisfied or waived in accordance with the terms of the Scheme Implementation Agreement by no later than the Delivery Time on the Second Court Date;
 - (ii) neither the Scheme Implementation Agreement nor the Share Scheme Deed Poll having been terminated in accordance with their terms as at the Delivery Time on the Second Court Date;
 - (iii) approval of this Share Scheme by the Court under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act as are agreed to in writing by Creso Pharma and PharmaCielo;
 - (iv) any other conditions imposed by the Court under section 411(6) of the Corporations Act in respect of the Share Scheme, as are acceptable to Creso Pharma and PharmaCielo, having been satisfied or waived; and
 - (v) the orders of the Court made under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving this Share Scheme coming into effect, pursuant to section 411(10) of the Corporations Act, on or before the End Date (or any later date Creso Pharma and PharmaCielo agree in writing).
- (b) The satisfaction of the conditions referred to in clause 3(a) of this Share Scheme is a condition precedent to the operation of clauses 6 and 7, with the exception of clause 6.2 which will only be conditional on the satisfaction of the conditions referred to in clauses 3(a)(i) to 3(a)(iv) inclusive.

4. End Date

This Share Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date.

5. Termination

Without limiting any rights under the Scheme Implementation Agreement, if the Scheme Implementation Agreement is terminated in accordance with its terms before this Share Scheme becomes Effective, each of Creso Pharma and PharmaCielo are released from:

- (a) any further obligation to take steps to implement this Share Scheme; and
- (b) any liability with respect to this Share Scheme.

6. Implementation

6.1 Certificate

At or before the Court hearing on the Second Court Date, Creso Pharma and PharmaCielo will each provide to the Court certificates, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not the conditions precedent to this Share Scheme (other than the condition precedent in clauses 3(a)(iii) to 3(a)(v) above and the condition precedent in clause 3.1(i) of the Scheme Implementation Agreement) have been satisfied or waived. The certificates given by Creso Pharma and PharmaCielo constitute conclusive evidence that the relevant conditions have been satisfied or waived.

6.2 Lodgement of Court orders

Creso Pharma must lodge with ASIC office copies of any Court orders under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving this Share Scheme as soon as reasonably practicable after the Court approves this Share Scheme and in any event no later than by 5.00pm on the first Business Day after the Court approves this Share Scheme.

6.3 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to PharmaCielo confirming in writing to Creso Pharma by no later than 12 noon (or such later time as PharmaCielo and Creso Pharma may agree) on the Implementation Date that the Share Scheme Consideration has been provided in the manner contemplated by clause 7.2(a), the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, will be transferred to PharmaCielo, without the need for any further act by any Scheme Shareholder (other than acts performed by Creso Pharma or its officers as agent and attorney of the Scheme Shareholders under clause 10.6 or otherwise), by:
 - (i) Creso Pharma delivering to PharmaCielo a duly completed and executed share transfer form to transfer all the Scheme Shares to PharmaCielo, executed on behalf of each Scheme Shareholder as a transferor by Creso Pharma; and
 - (ii) PharmaCielo duly executing that transfer form as transferee and delivering it to Creso Pharma for registration; and
- (b) immediately after receipt of the transfer form in accordance with clause 6.3(a)(ii), Creso Pharma must enter, or procure the entry of, the name of PharmaCielo in the Creso Pharma Register in respect of the Scheme Shares transferred to PharmaCielo in accordance with this Share Scheme.

7. Share Scheme Consideration

7.1 Amount of Share Scheme Consideration

Subject to clause 7.3, each Scheme Shareholder is entitled to receive the Share Scheme Consideration.

7.2 Provision of Share Scheme Consideration

- (a) PharmaCielo must, by no later than 12 noon (or such later time as PharmaCielo and Creso Pharma may agree) on the Implementation Date:
 - (i) procure the issue of all of the New PharmaCielo Shares which it is obliged to issue to Scheme Shareholders under this Share Scheme and provide Creso Pharma with written confirmation that Pharma Cielo has done so;
 - (ii) procure that the name of each Scheme Shareholder entitled to receive New PharmaCielo Shares under this Share Scheme is entered in PharmaCielo's register of members as the holder of those New PharmaCielo Shares (having the same holding name and address and other details as the holding of the relevant Scheme Shares).
- (b) On or before the date that is five Business Days after the Implementation Date, PharmaCielo must send or procure the sending of a share certificate, direct registration system advice or holding statement to each Scheme Shareholder entitled to receive New PharmaCielo Shares under this Share Scheme, reflecting the issue of such New PharmaCielo Shares.

7.3 Ineligible Foreign Shareholders

- (a) PharmaCielo will be under no obligation under this Share Scheme to issue, and will not issue, any New PharmaCielo Shares to any Ineligible Foreign Shareholder.
- (b) Instead, unless PharmaCielo and Creso Pharma agree, PharmaCielo will procure that:
 - (i) the New PharmaCielo Shares that would otherwise have been issued to the Ineligible Foreign Shareholders be issued to the Sale Agent on the Implementation Date (rounded up or down, in the case of fractional entitlements, to the nearest whole number, in accordance with clause 7.6);
 - (ii) as soon as reasonably practicable after the Implementation Date, the Sale Agent sells the New PharmaCielo Shares issued to it on-market in such manner, at such price and on such other terms as the Sale Agent determines in good faith;
 - (iii) promptly after the last sale of those New PharmaCielo Shares, PharmaCielo will procure that the Sale Agent pays the Sale Proceeds to PharmaCielo (for payment by PharmaCielo to the Ineligible Foreign Shareholders in accordance with clause 7.3(e)).
- (c) None of PharmaCielo, Creso Pharma or the Sale Agent gives any assurance as to the price that will be achieved for the sale of the Sale Shares by the Sale Agent. The sale of Sale Shares by the Sale Agent will be at the risk of the Ineligible Foreign Shareholders.
- (d) Each Ineligible Foreign Shareholder appoints Creso Pharma as its agent to receive on its behalf any financial services or other notices (including any update of those documents) that the Sale Agent is required to provide to the Ineligible Foreign Shareholder under the Corporations Act
- (e) The Sale Proceeds may be paid by PharmaCielo doing any of the following at its election:
 - (i) dispatching (or procuring the dispatching of) the Sale Proceeds to the Ineligible Foreign Shareholder's Registered Address by cheque in Australian currency drawn out of the Trust Account; or
 - (ii) depositing (or procuring the deposit of) the Sale Proceeds into an account with any Australian ADI (as defined in the Corporations Act) notified to Creso Pharma (or the Share Registry) by an appropriate authority from the Ineligible Foreign Shareholder.

7.4 Small Securityholder

- (a) Each Small Securityholder may, instead of being issued its entitlement to New PharmaCielo Shares in accordance with clause 7.2, elect to have the New PharmaCielo Shares to which it is entitled issued to the Sale Agent. Any such election must be in writing in a form approved by PharmaCielo and received by 5.00pm two Business Days prior to the Implementation Date.
- (b) Where the Small Securityholder makes a valid election under clause 7.4(a), PharmaCielo will be under no obligation under this Share Scheme to issue, and will not issue, any New PharmaCielo Shares to that Small Securityholder. Instead, PharmaCielo will procure that.

- (i) the New PharmaCielo Shares that would otherwise have been issued to the Small Securityholder be issued to the Sale Agent on the Implementation Date (rounded up or down, in the case of fractional entitlements, to the nearest whole number, in accordance with clause 7.6);
 - (ii) as soon as reasonably practicable after the Implementation Date, the Sale Agent sells the New PharmaCielo Shares issued to it on-market in such manner, at such price and on such other terms as the Sale Agent determines in good faith;
 - (iii) promptly after the last sale of those New PharmaCielo Shares, PharmaCielo will procure that the Sale Agent pays the Sale Proceeds to PharmaCielo (for payment by PharmaCielo to the Small Securityholder in accordance with clause 7.4(e)).
- (c) None of PharmaCielo, Creso Pharma or the Sale Agent gives any assurance as to the price that will be achieved for the sale of the Sale Shares by the Sale Agent. The sale of Sale Shares by the Sale Agent will be at the risk of the Small Securityholders.
 - (d) Each Small Securityholder appoints Creso Pharma as its agent to receive on its behalf any financial services or other notices (including any update of those documents) that the Sale Agent is required to provide to the Small Securityholder under the Corporations Act
 - (e) The Sale Proceeds may be paid by PharmaCielo doing any of the following at its election:
 - (i) dispatching (or procuring the dispatching of) the Sale Proceeds to the Small Securityholder's Registered Address by cheque in Australian currency drawn out of the Trust Account; or
 - (ii) depositing (or procuring the deposit of) the Sale Proceeds into an account with any Australian ADI (as defined in the Corporations Act) notified to Creso Pharma (or the Share Registry) by an appropriate authority from the Small Securityholder.

7.5 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any New PharmaCielo Shares comprised in the Share Scheme Consideration are to be registered in the names of the joint holders;
- (b) any cheque required to be sent under this Share Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the Creso Pharma Register as at the Share Scheme Record Date; and
- (c) any other document required to be sent under this Share Scheme, will be forwarded to the holder whose name appears first in the Creso Pharma Register as at the Share Scheme Record Date.

7.6 Fractional entitlements

- (a) Where the calculation of the number of New PharmaCielo Shares to be issued to a Scheme Shareholder would result in the issue of a fraction of a New PharmaCielo Share, the fractional entitlement will be rounded up or down to the nearest whole number of New PharmaCielo Shares (rounded up if the fractional entitlement is equal to or greater than 0.5, and rounded down if the fractional entitlement is less than 0.5).
- (b) Where the calculation of the Share Scheme Consideration to be issued to the Sale Agent in the case of either an Ineligible Foreign Shareholder or Small Securityholder who makes an election under clause 7.4(a) would result in the Ineligible Foreign Shareholder or Small Securityholder becoming entitled to a fraction of a cent, that fractional entitlement will be rounded up or down to the nearest whole cent (rounded up if the fractional entitlement is equal to or greater than 0.5, and rounded down if the fractional entitlement is less than 0.5).
- (c) If PharmaCielo is of the reasonable opinion that two or more Scheme Shareholders (each of whom holds a number of Scheme Shares which results in rounding in accordance with clauses 7.6(a) or 7.6(b) or each of whom holds less than or equal to the number of Scheme Shares required to classify as a Small Securityholder) have, before the Share Scheme Record Date, been party to shareholding splitting or division in an attempt to obtain unfair advantage by reference to such rounding, PharmaCielo may give notice to those Scheme Shareholders:
 - (i) setting out their names and Registered Addresses;
 - (ii) stating that opinion; and
 - (iii) attributing to one of them specifically identified in the notice the Scheme Shares held by all of them,

and, after such notice has been given, the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares will, for the purposes of the other provisions of this Share Scheme, be taken to hold all of those Scheme Shares and each of the other Scheme Shareholders whose names and Registered Addresses are set out in the notice will, for the purposes of the other provisions of this Share Scheme, be taken to hold no Scheme Shares. PharmaCielo, in complying with the other provisions of this Share Scheme relating to it in respect of the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares, will be taken to have satisfied and discharged its obligations to the other Scheme Shareholders named in the notice under the terms of this Share Scheme.

7.7 Unclaimed monies

- (a) Creso Pharma may cancel a cheque sent under this clause 7 if the cheque:
 - (i) is returned to Creso Pharma; or
 - (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During 11 months commencing on the Implementation Date, on request in writing from a Scheme Shareholder to Creso Pharma (or the Share Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), Creso Pharma must reissue a cheque that was previously cancelled under clause 7.7(a).
- (c) The Unclaimed Moneys Act 1990 (WA) will apply in relation to any Share Scheme Consideration which becomes *unclaimed money* (as defined in section 3 of the Unclaimed Moneys Act 1990 (WA)).
- (d) Any interest or other benefit accruing from unclaimed Share Scheme Consideration will be to the benefit of PharmaCielo.

7.8 Status of New PharmaCielo Shares

Subject to this Share Scheme being Effective, PharmaCielo must:

- (a) issue (or procure the issue of) the New PharmaCielo Shares required to be issued under this Share Scheme on terms such that each such New PharmaCielo Share will rank equally in all respects with each other PharmaCielo Share;
- (b) ensure that each New PharmaCielo Share required to be issued under this Share Scheme is duly issued and is fully paid and free from any mortgage, charge, lien, encumbrance or other security interest; and
- (c) do everything reasonably necessary to ensure that the New PharmaCielo Shares are approved for conditional listing on TSXV and that trading in the New PharmaCielo Shares commences as soon as practicable after the Effective Date.

7.9 Order of a court or Regulatory Authority

If:

- (a) written notice is given to Creso Pharma (or the Share Registry) of an order or direction made by a court of competent jurisdiction or by another Regulatory Authority that requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable to that Scheme Shareholder by Creso Pharma in accordance with this clause 7, then Creso Pharma may procure that payment is made in accordance with that order or direction; or
- (b) written notice is given to Creso Pharma (or the Share Registry) of an order or direction made by a court of competent jurisdiction or by another Regulatory Authority that prevents Creso Pharma from making a payment to any particular Scheme Shareholder in accordance with clause 7.2, or that payment is otherwise prohibited by applicable law, Creso Pharma may retain an amount equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Share Scheme Consideration until the time that the payment in accordance with this clause 7 is permitted by that order or direction or otherwise by law, and the payment or retention by Creso Pharma (or the Share Registry) will constitute the full discharge of Creso Pharma's obligations under clause 7.2 with respect of the amount so paid or retained until, in the case of clause 7.9(b), it is no longer required to be retained.

7.10 Definition of sending

For the purposes of clause 7, the expression *sending* means, in relation to each Scheme Shareholder:

- (a) sending by ordinary pre paid post or courier to the Registered Address of that Scheme Shareholder as at the Share Scheme Record Date; or
- (b) delivery to the Registered Address of that Scheme Shareholder as at the Share Scheme Record Date by any other means at no cost to the recipient.

8. Dealings in Shares

8.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Creso Pharma Shares or other alterations to the Creso Pharma Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Creso Pharma Register as the holder of the relevant Creso Pharma Shares on or before 7.00pm on the Share Scheme Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before 5.00pm on the day that is the Share Scheme Record Date at the place where the Creso Pharma Register is kept,

and Creso Pharma will not accept for registration, nor recognise for any purpose (except a transfer to PharmaCielo under this Share Scheme and any subsequent transfer by PharmaCielo or its successors in title), any transfer or other request received after those times, or received prior to those times but not in registrable or actionable form, as appropriate.

8.2 Register

- (a) **(Registration of transfers)** Creso Pharma must register registrable transmission applications or transfers of the kind referred to in clause 8.1(b) by or as soon as reasonably practicable after the Share Scheme Record Date, provided that for the avoidance of doubt nothing in this clause 8.2 requires Creso Pharma to register a transfer that would result in a Creso Pharma Shareholder holding a parcel of Creso Pharma Shares that is less than a 'marketable parcel' (as defined in the Settlement Rules).
- (b) **(No registration after Share Scheme Record Date)** Creso Pharma will not accept for registration or recognise for any purpose any transfer in respect of Creso Pharma Shares received after 5.00pm on the Share Scheme Record Date, other than to PharmaCielo in accordance with this Share Scheme and any subsequent transfer by PharmaCielo or its successors in title.
- (c) **(Maintenance of Creso Pharma Register)** For the purpose of determining entitlements to the Share Scheme Consideration, Creso Pharma must maintain the Creso Pharma Register in accordance with the provisions of this clause until the Share Scheme Consideration has been delivered to the Scheme Shareholders. The Creso Pharma Register in this form will solely determine entitlements to the Share Scheme Consideration.
- (d) **(No disposal after Share Scheme Record Date)** From the Share Scheme Record Date until registration of PharmaCielo in respect of all Scheme Shares under clause 6, no Creso Pharma Shareholder may dispose or otherwise deal with Creso Pharma Shares in any way except as set out in this Share Scheme and any attempt to do so will have no effect and Creso Pharma shall be entitled to disregard any disposal or dealing of this nature.
- (e) **(Statements of holding from Share Scheme Record Date)** All statements of holding for Creso Pharma Shares (other than statements of holding in favour of PharmaCielo) will cease to have effect from the Share Scheme Record Date as documents of title in respect of those Creso Pharma Shares. As from the Share Scheme Record Date, each entry current at that date on the Creso Pharma Register will cease to have effect except as evidence of entitlement to the Share Scheme Consideration in respect of the Creso Pharma Shares relating to that entry.
- (f) **(Provision of Scheme Shareholder details)** As soon as practicable on or after the Share Scheme Record Date and in any event within one Business Day after the Share Scheme Record Date, Creso Pharma will ensure that details of the names, Registered Addresses and holdings of Creso Pharma Shares for each Scheme Shareholder are available to PharmaCielo in the form PharmaCielo reasonably requires.

9. Suspension and delisting

- (a) Creso Pharma will apply to ASX to suspend trading on the ASX in Creso Pharma Shares with effect from the close of trading on the Effective Date.
- (b) On a date after the Implementation Date to be determined by PharmaCielo, and to take effect only after the transfer of the Scheme Shares has been registered in accordance with clause 6.3(b), Creso Pharma will apply:
 - (i) for termination of the official quotation of Creso Pharma Shares on ASX; and
 - (ii) to have itself removed from the official list of ASX.

10. General Share Scheme provisions

10.1 Consent to amendments to this Share Scheme

If the Court proposes to approve this Share Scheme subject to any alterations or conditions:

- (a) Creso Pharma may, by its counsel or solicitors, consent on behalf of all persons concerned to those alterations or conditions to which PharmaCielo has consented in writing; and
- (b) each Scheme Shareholder agrees to any alterations or conditions to which counsel for Creso Pharma has consented.

10.2 Binding effect of Share Scheme

This Share Scheme binds Creso Pharma and all Scheme Shareholders (including those who did not attend the Share Scheme Meeting, those who do not vote at that meeting, or voted against this Share Scheme at that meeting) and, to the extent of any inconsistency, overrides the constitution of Creso Pharma.

10.3 Scheme Shareholders' agreements and acknowledgment

Each Scheme Shareholder:

- (a) agrees to the transfer of their Scheme Shares together with all rights and entitlements attaching to those Scheme Shares in accordance with this Share Scheme;
- (b) who holds their Scheme Shares in a CHESS Holding agrees to the conversion of those Scheme Shares to an Issuer Sponsored Holding and irrevocably authorises Creso Pharma to do anything necessary or expedient (whether required by the Settlement Rules or otherwise) to effect or facilitate such conversion;
- (c) agrees to any variation, cancellation or modification of the rights attached to their Scheme Shares constituted by or resulting from this Share Scheme;
- (d) agrees on the direction of PharmaCielo, to destroy any holding statements or share certificates relating to their Scheme Shares;
- (e) agrees to become a shareholder of PharmaCielo and to be bound by its constitution; and
- (f) acknowledges and agrees that this Share Scheme binds Creso Pharma and all Scheme Shareholders (including those who did not attend the Share Scheme Meeting or did not vote at that meeting or voted against this Share Scheme at that Share Scheme Meeting).

10.4 Warranties by Scheme Shareholders

- (a) Each Scheme Shareholder is deemed to have warranted to Creso Pharma, in its own right and for the benefit of PharmaCielo, that as at the Implementation Date:
 - (i) all of its Scheme Shares which are transferred to PharmaCielo under this Share Scheme, including any rights and entitlements attaching to those Scheme Shares, will, at the time of transfer, be free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any *security interests* within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind;
 - (ii) all of its Scheme Shares which are transferred to PharmaCielo under this Share Scheme will, on the date on which they are transferred to PharmaCielo, be fully paid;
 - (iii) it has full power and capacity to transfer its Scheme Shares to PharmaCielo together with any rights attaching to those Scheme Shares; and
 - (iv) it has no existing right to be issued any Creso Pharma Shares, options, performance rights, performance shares or any other Creso Pharma securities, other than, in the case of any Scheme Shareholder who is also the holder of, options, performance rights or performance shares, the right to be issued Creso Pharma Shares on the exercise of those options, performance rights or performance shares before the Share Scheme Record Date in accordance with their terms.
- (b) Creso Pharma undertakes that it will provide the warranties in clause 10.4(a) to PharmaCielo as agent and attorney of each Scheme Shareholder.

10.5 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares (including any right and entitlements attaching to the Scheme Shares) transferred under this Share Scheme will be transferred free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any *security interests* within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind.
- (b) On and from the Implementation Date, immediately after PharmaCielo provides (or procures the provision of) the Share Scheme Consideration in the manner contemplated by clause 7.2(a), PharmaCielo will be beneficially entitled to the Scheme Shares transferred to it under this Share Scheme pending registration by Creso Pharma of PharmaCielo in the Creso Pharma Register as the holder of the Scheme Shares.

10.6 Authority given to Creso Pharma

- (a) Scheme Shareholders will be deemed to have authorised Creso Pharma to do and execute all acts, matters, things and documents on the part of each Scheme Shareholder necessary for or incidental to the implementation of this Share Scheme, including executing, as agent and attorney of each Scheme Shareholder, a share transfer or transfers in relation to Scheme Shares as contemplated by clause 6.3.
- (b) Each Scheme Shareholder, without the need for any further act, irrevocably appoints Creso Pharma and each of its directors, secretaries and officers (jointly and severally) as its attorney and agent for the purpose of:
 - (i) enforcing the Share Scheme Deed Poll against PharmaCielo; and
 - (ii) executing any document necessary to give effect to this Share Scheme including, a proper instrument of transfer of its Scheme Shares for the purposes of section 1071B of the Corporations Act which may be a master transfer of all the Scheme Shares,and Creso Pharma accepts such appointment.

10.7 Appointment of sole proxy

Immediately after PharmaCielo provides (or procures the provision of) the Share Scheme Consideration in the manner contemplated by clause 7.2(a) and until Creso Pharma registers PharmaCielo as the holder of all Scheme Shares in the Creso Pharma Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed PharmaCielo as its attorney and agent (and directed PharmaCielo in that capacity) to appoint an officer or agent nominated by PharmaCielo as its sole proxy and, where applicable, corporate representative to attend shareholders' meetings of Creso Pharma, exercise the votes attaching to the Scheme Shares registered in its name and sign any shareholders' resolution;
- (b) undertakes not to otherwise attend shareholders' meetings, exercise the votes attaching to Scheme Shares registered in their names or sign or vote on any resolutions (whether in person, by proxy or by corporate representative) other than as under clause 10.7(a);
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as PharmaCielo reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 10.7(a), PharmaCielo and any officer or agent nominated by PharmaCielo under clause 10.7(a) may act in the best interests of PharmaCielo as the intended registered holder of the Scheme Shares.

10.8 Instructions and elections

If not prohibited by law (and including where permitted or facilitated by relief granted by a Regulatory Authority), all instructions, notifications or elections by a Scheme Shareholder to Creso Pharma binding or deemed binding between the Scheme Shareholder and Creso Pharma relating to Creso Pharma or Scheme Shares (including any email addresses, instructions relating to communications from Creso Pharma, whether dividends are to be paid by cheque or into a specific bank account, notices of meetings or other communications from Creso Pharma) will be deemed from the Implementation Date (except to the extent determined otherwise by PharmaCielo in its sole discretion), by reason of this Share Scheme, to be made by the Scheme Shareholder to PharmaCielo until that instruction, notification or election is revoked or amended in writing addressed to PharmaCielo at its registry.

11. General

11.1 Stamp duty

PharmaCielo must pay all stamp duty payable in connection with the transfer of the Scheme Shares to PharmaCielo.

11.2 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this document is sent by post to Creso Pharma, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Creso Pharma's registered office or at the office of the Share Registry.
- (b) The accidental omission to give notice of the Share Scheme Meeting or the non receipt of a notice by any Scheme Shareholder may not, unless so ordered by the Court, invalidate the Share Scheme Meeting or the proceedings of the Share Scheme Meeting.

11.3 Further assurances

- (a) Creso Pharma must do anything necessary (including executing agreements and documents) or incidental to give full effect to this Share Scheme and the transactions contemplated by it.
- (b) Each Scheme Shareholder consents to Creso Pharma doing all things necessary or incidental to give full effect to this Share Scheme and the transactions contemplated by it.

11.4 No liability when acting in good faith

Each Scheme Shareholder agrees that neither Creso Pharma nor any director, officer, secretary or employee of any of Creso Pharma shall be liable for anything done or omitted to be done in the performance of this Share Scheme or the Share Scheme Deed Poll in good faith.

11.5 Governing law and jurisdiction

- (a) This Share Scheme is governed by the laws of Western Australia.
- (b) The parties irrevocably submit to the non exclusive jurisdiction of courts exercising jurisdiction in Western Australia and courts of appeal from them in respect of any proceedings arising out of or in connection with this Share Scheme.

ANNEXURE D

Option Scheme of Arrangement Creso Pharma Limited ACN 608 409 911 Scheme Optionholders

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Details

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

Between the parties

Creso Pharma Limited ACN 608 409 911 (Creso Pharma) of Level 24, 300 Barangaroo Avenue, Barangaroo, New South Wales 2000

and

Each Scheme Optionholder

1. Definitions and interpretation

1.1 Defined terms

In this Option Scheme, unless the context requires otherwise:

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691, or as the context requires or permits, the financial market known as the Australian Securities Exchange operated by it.

Business Day means a day that is not a Saturday, Sunday or a public holiday or bank holiday in

- (a) Melbourne, Australia; or
- (b) Toronto, Canada.

CHESS means the clearing house electronic subregister system of security transfers operated by ASX Settlement Pty Limited ABN 49 008 504 532.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Supreme Court of Western Australia or any other court of competent jurisdiction under the Corporation Act agreed in writing between Creso Pharma and PharmaCielo.

Creso Pharma Listed Option means an option granted by Creso Pharma to acquire by way of issue one or more Creso Pharma Shares, which option is listed for quotation on ASX.

Creso Pharma Listed Optionholder means each person who is registered in the Creso Pharma Register as a holder of Creso Pharma Listed Options.

Creso Pharma Performance Right means a right to acquire by way of issue a Creso Pharma Share subject to the satisfaction of vesting conditions.

Creso Pharma Performance Share means a performance share issued by Creso Pharma.

Creso Pharma Register means the register of Creso Pharma Listed Optionholders maintained in accordance with the Corporations Act.

Creso Pharma Share means an issued fully paid ordinary share in the capital of Creso Pharma.

Creso Pharma Unlisted Option means an option to acquire by way of issue one Creso Pharma Share, which option is not listed for quotation on ASX.

Delivery Time means, in relation to the Second Court Date, 2 hours before the commencement of the hearing (or if the commencement of the hearing is adjourned, the commencement of the adjourned hearing), of the Court to approve this Option Scheme in accordance with section 411(4)(b) of the Corporations Act.

Effective means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Option Scheme.

Effective Date means the date on which this Option Scheme becomes Effective.

End Date means the 'End Date' determined in accordance with the Scheme Implementation Agreement.

Implementation Date means the fifth Business Day following the Option Scheme Record Date or such other Business Day as agreed between Creso Pharma and PharmaCielo.

Ineligible Foreign Optionholder means a Scheme Optionholder whose address as shown in the Creso Pharma Register (as at the Option Scheme Record Date) is located outside of:

- (a) Australia and its external territories;
- (b) New Zealand; and
- (c) any other jurisdictions as may be agreed in writing by Creso Pharma and PharmaCielo,

(provided that PharmaCielo is satisfied, acting reasonably, that it is permitted to allot and issue New PharmaCielo Shares to that Scheme Optionholder under the Option Scheme by the laws of that place either unconditionally or after compliance with conditions that PharmaCielo in its sole discretion regards as acceptable and not unduly onerous or impracticable).

New PharmaCielo Shares means the new PharmaCielo Shares to be issued under the terms of this Option Scheme as Option Scheme Consideration.

Option Registry means Automatic Share Registry of Level 2, 267 St Georges Terrace, Perth WA 6000 or any replacement provider of option registry services to Creso Pharma.

Option Scheme means this scheme of arrangement under Part 5.1 of the Corporations Act between Creso Pharma and the Scheme Optionholders, subject to any alterations or conditions that are:

- (a) agreed to in writing by Creso Pharma and PharmaCielo, and approved by the Court; or
- (b) made or required by the Court under section 411(6) of the Corporations Act and agreed to by Creso Pharma and PharmaCielo.

Option Scheme Consideration means the consideration to be provided to Scheme Optionholders under the terms of this Option Scheme, being the number of New PharmaCielo Shares for every Scheme Option specified in the Option Scheme Consideration Ratio.

Option Scheme Consideration Ratio means 0.0185 New PharmaCielo Shares per Scheme Option.

Option Scheme Deed Poll means the deed poll dated 11 September 2019 executed by PharmaCielo under which PharmaCielo covenants in favour of the Scheme Optionholders to perform the actions attributed to PharmaCielo under this Option Scheme.

Option Scheme Meeting means the meeting of Creso Pharma Listed Optionholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on this Option Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

Option Scheme Record Date means 7.00pm on the third Business Day (or such other Business Day as agreed between Creso Pharma and PharmaCielo) following the Effective Date.

PharmaCielo means PharmaCielo Ltd. of 1 Toronto Street, Suite 805, Toronto, ON M5C 2V6.

PharmaCielo Group means PharmaCielo and each of its Related Bodies Corporate (excluding, at any time, Creso Pharma and its Subsidiaries to the extent that Creso Pharma and its Subsidiaries are Subsidiaries of PharmaCielo at that time). A reference to a member of the **PharmaCielo Group** or a **PharmaCielo Group Member** is a reference to PharmaCielo or any such Related Bodies Corporate.

PharmaCielo Shares means an issued fully paid common share in the capital of PharmaCielo.

Registered Address means, in relation to a Creso Pharma Listed Optionholder, the address shown in the Creso Pharma Register as at the Option Scheme Record Date.

Regulatory Authority means:

- (a) any government or governmental, semi-governmental, administrative, monetary, fiscal or judicial body, tribunal, agency or entity;
- (b) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; or
- (c) any regulatory organisation established under statute,

in Australia or Canada whether federal, state, territorial or local

Related Body Corporate of a person means a related body corporate of that person under section 50 of the Corporations Act and includes any body corporate that would be a related body corporate if section 48(2) of the Corporations Act was omitted.

Sale Agent means a person appointed by PharmaCielo, in consultation with Creso Pharma, to sell the Sale Shares under clauses 7.3(b) and 7.4.

Sale Proceeds means the gross proceeds of sale of the Sale Shares under clause 7.3(b), less any applicable taxes and charges incurred by PharmaCielo or the Sale Agent in connection with the sale.

Sale Shares means the New PharmaCielo Shares to which Ineligible Foreign Optionholders would have been entitled under this Option Scheme but for the operation of clause 7.3.

Scheme Implementation Agreement means the scheme implementation agreement dated 6 June 2019 between Creso Pharma and PharmaCielo.

Scheme Option means a Creso Pharma Listed Option on issue as at the Option Scheme Record Date.

Scheme Optionholder means a person who holds one or more Scheme Options.

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving this Option Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

Settlement Rules means the ASX Settlement Operating Rules, being the official operating rules of the settlement facility provided by ASX Settlement Pty Ltd.

Small Securityholder means a Scheme Optionholder who is entitled to receive New PharmaCielo Shares equal to a value of less than \$500 (or such other amount as may be agreed between PharmaCielo and Creso Pharma in writing) on the Option Scheme Record Date.

Subsidiary has the meaning given to that term in section 46 of the Corporations Act.

Trust Account means an Australian dollar denominated trust account operated by Creso Pharma as trustee for the benefit of Ineligible Foreign Optionholders.

TSXV means the Toronto Venture Exchange.

1.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a clause or schedule is a reference to a clause of or schedule to this Option Scheme.
- (f) A reference to an **agreement** or **document** (including a reference to this Option Scheme) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this Option Scheme or that other agreement or document, and includes the recitals, schedules and annexures to that agreement or document.
- (g) A reference to a party to this Option Scheme or an agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).
- (h) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to conduct includes an omission, statement or undertaking, whether or not in writing.
- (j) A reference to an agreement includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.
- (k) A reference to **dollars** and **\$** is to Australian currency.
- (l) All references to time are to Melbourne, Australia time.
- (m) Mentioning anything after *includes, including, for example,* or similar expressions, does not limit what else might be included.
- (n) A reference to, an officer or subsidiary is to that term as it is defined in the Corporations Act.

1.3 Business Day

Where the day on or by which any act, matter or thing under this Option Scheme is to be done is not a Business Day, that act, matter or thing must be done on or by the next Business Day.

1.4 Listing requirements included as law

A listing rule or operating rule of a financial market and a Market Integrity Rule will be regarded as a law, and a reference to such a rule is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

2. Preliminary

2.1 Creso Pharma

- (a) Creso Pharma is a public company limited by shares, registered in Western Australia and admitted to the official list of ASX.
- (b) As at 1 October 2019:
 - (i) 151,544,332 Creso Pharma Shares were on issue which are officially quoted on ASX;
 - (ii) 72,796,411 Creso Pharma Listed Options were on issue which are officially quoted on ASX;
 - (iii) 7,086,250 Creso Pharma Unlisted Options were on issue which are not quoted on any financial market;
 - (iv) 5,596,000 Creso Pharma Performance Rights were on issue which are not quoted on any financial market; and
 - (v) 1,212,120 Creso Pharma Performance Shares were on issue which are not quoted on any financial market.

2.2 PharmaCielo

PharmaCielo is a public company limited by shares and its common shares are listed on the TSXV.

2.3 General

- (a) Creso Pharma and PharmaCielo have agreed by executing the Scheme Implementation Agreement to propose this Option Scheme and, if it becomes Effective, to implement it.
- (b) This Option Scheme attributes actions to PharmaCielo but does not itself impose an obligation on it to perform those actions, as PharmaCielo is not a party to this Option Scheme. PharmaCielo has agreed, by executing the Option Scheme Deed Poll, to perform the actions attributed to it under this Option Scheme, including the provision of the Option Scheme Consideration to the Scheme Optionholders.

2.4 Consequence of this Option Scheme becoming Effective

If this Option Scheme becomes Effective:

- (a) PharmaCielo will apply for all New PharmaCielo Shares to be quoted on TSXV;
- (b) PharmaCielo will provide or procure the provision of the Option Scheme Consideration to Scheme Optionholders in accordance with this Option Scheme; and
- (c) all the Scheme Options, together with all rights and entitlements attaching to the Scheme Options at the Implementation Date, will be cancelled, and Creso Pharma will remove the names of all Scheme Optionholders from the Creso Pharma Register.

3. Conditions

- (a) This Option Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:
 - (i) all the conditions precedent in clause 3.3 of the Scheme Implementation Agreement (other than the condition in clause 3.3(e) of the Scheme Implementation Agreement (Court approval)) having been satisfied or waived in accordance with the terms of the Scheme Implementation Agreement by no later than the Delivery Time on the Second Court Date;
 - (ii) neither the Scheme Implementation Agreement nor the Option Scheme Deed Poll having been terminated in accordance with their terms as at the Delivery Time on the Second Court Date;
 - (iii) approval of this Option Scheme by the Court under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act as are agreed to in writing by Creso Pharma and PharmaCielo;
 - (iv) any other conditions imposed by the Court under section 411(6) of the Corporations Act, as are acceptable to Creso Pharma and PharmaCielo, having been satisfied or waived; and
 - (v) the orders of the Court made under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving this Option Scheme coming into effect, pursuant to section 411(10) of the Corporations Act, on or before the End Date (or any later date Creso Pharma and PharmaCielo agree in writing).
- (b) The satisfaction of the conditions referred to in clause 3(a) of this Option Scheme is a condition precedent to the operation of clauses 6 and 7, with the exception of clause 6.2 which will only be conditional on the satisfaction of the conditions referred to in clauses 3(a)(i) to 3(a)(iv) inclusive.

4. End Date

This Option Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date.

5. Termination

Without limiting any rights under the Scheme Implementation Agreement, if the Scheme Implementation Agreement is terminated in accordance with its terms before this Option Scheme becomes Effective, each of Creso Pharma and PharmaCielo are released from:

- (a) any further obligation to take steps to implement this Option Scheme; and
- (b) any liability with respect to this Option Scheme.

6. Implementation

6.1 Certificate

At or before the Court hearing on the Second Court Date, Creso Pharma and PharmaCielo will each provide to the Court certificates, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not the conditions precedent to this Option Scheme (other than the condition precedent in clauses 3(a)(iii) to 3(a)(v) above and the condition precedent in clause 3.3(e) of the Scheme Implementation Agreement) have been satisfied or waived. The certificates given by Creso Pharma and PharmaCielo constitute conclusive evidence that the relevant conditions have been satisfied or waived.

6.2 Lodgement of Court orders

Creso Pharma must lodge with ASIC office copies of any Court orders under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving this Option Scheme as soon as reasonably practicable after the Court approves this Option Scheme and in any event no later than by 5.00pm on the first Business Day after the Court approves this Option Scheme.

6.3 Cancellation of Scheme Options

- (a) On the Implementation Date:
- (i) subject to PharmaCielo confirming in writing to Creso Pharma by no later than 12 noon (or such later time as PharmaCielo and Creso Pharma may agree) on the Implementation Date that the Option Scheme Consideration has been provided in the manner contemplated by clause 7.2, the Scheme Options, together with all rights and entitlements attaching to the Scheme Options at the Implementation Date, will be cancelled, without the need for any further act by any Scheme Optionholder (other than acts performed by Creso Pharma or its officers as agent and attorney of the Scheme Optionholders under clause 10.6 or otherwise), and each Scheme Optionholder:
 - (A) releases Creso Pharma from all obligations in relation to those Scheme Options;
 - (B) releases and waives any and all rights they may have had (including to be issued Creso Pharma Shares) in relation to those Scheme Options (including under the terms of the relevant Scheme Options); and
 - (C) authorises Creso Pharma to update the Creso Pharma Register recording the cancellation of the Scheme Options.
- (b) Under clause 6.3(a), Creso Pharma will ensure the cancellation of the Scheme Options.

7. Option Scheme Consideration

7.1 Amount of Option Scheme Consideration

Subject to clause 7.3, each Scheme Optionholder is entitled to receive the Option Scheme Consideration.

7.2 Provision of Option Scheme Consideration

- (a) PharmaCielo must, by no later than 12 noon (or such later time as PharmaCielo and Creso Pharma may agree) on the Implementation Date:
- (i) procure the issue of all of the New PharmaCielo Shares which it is obliged to issue to Scheme Optionholders under this Option Scheme and provide Creso Pharma with written confirmation that Pharma Cielo has done so;
 - (ii) procure that the name of each Scheme Optionholder entitled to receive New PharmaCielo Shares under this Option Scheme is entered in PharmaCielo's register of members as the holder of those New PharmaCielo Shares (having the same holding name and address and other details as the holding of the relevant Scheme Options).
- (b) On or before the date that is five Business Days after the Implementation Date, PharmaCielo must send or procure the sending of a share certificate, direct registration system advice or holding statement to each Scheme Optionholder entitled to receive New PharmaCielo Shares under this Option Scheme, reflecting the issue of such New PharmaCielo Shares.

7.3 Ineligible Foreign Optionholders

- (a) PharmaCielo will be under no obligation under this Option Scheme to issue, and will not issue, any New PharmaCielo Shares to any Ineligible Foreign Optionholder.
- (b) Instead, unless PharmaCielo and Creso Pharma agree, PharmaCielo will procure that:
- (i) the New PharmaCielo Shares that would otherwise have been issued to the Ineligible Foreign Optionholders be issued to the Sale Agent on the Implementation Date (rounded up or down, in the case of fractional entitlements, to the nearest whole number, in accordance with clause 7.6);
 - (ii) as soon as reasonably practicable after the Implementation Date, the Sale Agent sells the New PharmaCielo Shares issued to it on-market in such manner, at such price and on such other terms as the Sale Agent determines in good faith; promptly after the last sale of those New PharmaCielo Shares, PharmaCielo will procure that the Sale Agent pays the Sale Proceeds to PharmaCielo (for payment by PharmaCielo to the Ineligible Foreign Optionholders in accordance with clause 7.3(e)).
- (c) None of PharmaCielo, Creso Pharma or the Sale Agent gives any assurance as to the price that will be achieved for the sale of the Sale Shares by the Sale Agent. The sale of Sale Shares by the Sale Agent will be at the risk of the Ineligible Foreign Optionholders.
- (d) Each Ineligible Foreign Optionholder appoints Creso Pharma as its agent to receive on its behalf any financial services or other notices (including any update of those documents) that the Sale Agent is required to provide to the Ineligible Foreign Optionholder under the Corporations Act
- (e) The Sale Proceeds may be paid by PharmaCielo doing any of the following at its election:
- (i) dispatching (or procuring the dispatch of) the Sale Proceeds to the Ineligible Foreign Optionholder's Registered Address by cheque in Australian currency; or
 - (ii) depositing (or procuring the deposit of) the Sale Proceeds into an account with any Australian ADI (as defined in the Corporations Act) notified to Creso Pharma (or the Option Registry) by an appropriate authority from the Ineligible Foreign Optionholder.

7.4 Small Securityholder

- (a) Each Small Securityholder may, instead of being issued its entitlement to New PharmaCielo Shares in accordance with clause 7.2, elect to have the New PharmaCielo Shares to which it is entitled issued to the Sale Agent. Any such election must be in writing in a form approved by PharmaCielo and received by 5.00pm two Business Days prior to the Implementation Date.
- (b) Where the Small Securityholder makes a valid election under clause 7.4(a), PharmaCielo will be under no obligation under this Option Scheme to issue, and will not issue, any New PharmaCielo Shares to that Small Securityholder. Instead, PharmaCielo will procure that:
 - (i) the New PharmaCielo Shares that would otherwise have been issued to the Small Securityholder be issued to the Sale Agent on the Implementation Date (rounded up or down, in the case of fractional entitlements, to the nearest whole number in accordance with clause 7.6);
 - (ii) as soon as reasonably practicable after the Implementation Date, the Sale Agent sells the New PharmaCielo Shares issued to it on-market in such manner, at such price and on such other terms as the Sale Agent determines in good faith;
 - (iii) promptly after the last sale of those New PharmaCielo Shares, PharmaCielo will procure that the Sale Agent pays the Sale Proceeds to PharmaCielo (for payment by PharmaCielo to the Small Securityholder in accordance with clause 7.4(e)).
- (c) None of PharmaCielo, Creso Pharma or the Sale Agent gives any assurance as to the price that will be achieved for the sale of the Sale Shares by the Sale Agent. The sale of Sale Shares by the Sale Agent will be at the risk of the Small Securityholders.
- (d) Each Small Securityholder appoints Creso Pharma as its agent to receive on its behalf any financial services or other notices (including any update of those documents) that the Sale Agent is required to provide to the Small Securityholder under the Corporations Act
- (e) The Sale Proceeds may be paid by PharmaCielo doing any of the following at its election:
 - (i) dispatching (or procuring the dispatching of) the Sale Proceeds to the Small Securityholder's Registered Address by cheque in Australian currency drawn out of the Trust Account; or
 - (ii) depositing (or procuring the deposit of) the Sale Proceeds into an account with any Australian ADI (as defined in the Corporations Act) notified to Creso Pharma (or the Option Registry) by an appropriate authority from the Small Securityholder.

7.5 Joint holders

In the case of Scheme Options held in joint names:

- (a) any New PharmaCielo Shares comprised in the Option Scheme Consideration are to be registered in the names of the joint holders;
- (b) any cheque required to be sent under this Option Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the Creso Pharma Register as at the Option Scheme Record Date; and
- (c) any other document required to be sent under this Option Scheme, will be forwarded to the holder whose name appears first in the Creso Pharma Register as at the Option Scheme Record Date.

7.6 Fractional entitlements

- (a) Where the calculation of the number of New PharmaCielo Shares to be issued to a Scheme Optionholder would result in the issue of a fraction of a New PharmaCielo Share, the fractional entitlement will be rounded up or down to the nearest whole number of New PharmaCielo Shares (rounded up if the fractional entitlement is equal to or greater than 0.5, and rounded down if the fractional entitlement is less than 0.5).
- (b) Where the calculation of the Option Scheme Consideration to be issued to the Sale Agent in the case of either an Ineligible Foreign Optionholder or Small Securityholder who makes an election under clause 7.4(a) would result in the Ineligible Foreign Optionholder or Small Securityholder becoming entitled to a fraction of a cent, that fractional entitlement will be rounded down to the nearest whole cent, (rounded up if the fractional entitlement is equal to or greater than 0.5, and rounded down if the fractional entitlement is less than 0.5).
- (c) If PharmaCielo is of the reasonable opinion that two or more Scheme Optionholders (each of whom holds a number of Scheme Options which results in rounding in accordance with clauses 7.6(a) or 7.6(b) or each of whom holds less than or equal to the number of Scheme Options required to classify as a Small Securityholder) have, before the Option Scheme Record Date, been party to optionholder splitting or division in an attempt to obtain unfair advantage by reference to such rounding, PharmaCielo may give notice to those Scheme Optionholders:
 - (i) setting out their names and Registered Addresses;
 - (ii) stating that opinion; and
 - (iii) attributing to one of them specifically identified in the notice the Scheme Options held by all of them,

and, after such notice has been given, the Scheme Optionholder specifically identified in the notice as the deemed holder of all the specified Scheme Options will, for the purposes of the other provisions of this Option Scheme, be taken to hold all of those Scheme Options and each of the other Scheme Optionholders whose names and Registered Addresses are set out in the notice will, for the purposes of the other provisions of this Option Scheme, be taken to hold no Scheme Options. PharmaCielo, in complying with the other provisions of this Option Scheme relating to it in respect of the Scheme Optionholder specifically identified in the notice as the deemed holder of all the specified Scheme Options, will be taken to have satisfied and discharged its obligations to the other Scheme Optionholders named in the notice under the terms of this Option Scheme.

7.7 Unclaimed monies

- (a) Creso Pharma may cancel a cheque sent under this clause 7 if the cheque:
 - (i) is returned to Creso Pharma; or
 - (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During 11 months commencing on the Implementation Date, on request in writing from a Scheme Optionholder to Creso Pharma (or the Option Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), Creso Pharma must reissue a cheque that was previously cancelled under clause 7.7(a).
- (c) The Unclaimed Moneys Act 1990 (WA) will apply in relation to any Option Scheme Consideration which becomes *unclaimed money* (as defined in section 3 of the Unclaimed Moneys Act 1990 (WA)).
- (d) Any interest or other benefit accruing from unclaimed Option Scheme Consideration will be to the benefit of PharmaCielo.

7.8 Status of New PharmaCielo Shares

Subject to this Option Scheme being Effective, PharmaCielo must:

- (a) issue (or procure the issue of) the New PharmaCielo Shares required to be issued under this Option Scheme on terms such that each such New PharmaCielo Share will rank equally in all respects with each other PharmaCielo Share;
- (b) ensure that each New PharmaCielo Share required to be issued under this Option Scheme is duly issued and is fully paid and free from any mortgage, charge, lien, encumbrance or other security interest; and
- (c) do everything reasonably necessary to ensure that the New PharmaCielo Shares are approved for conditional listing on TSXV and that trading in the New PharmaCielo Shares commences as soon as practicable after the Effective Date.

7.9 Order of a court or Regulatory Authority

If:

- (a) written notice is given to Creso Pharma (or the Option Registry) of an order or direction made by a court of competent jurisdiction or by another Regulatory Authority that requires payment to a third party of a sum in respect of Scheme Options held by a particular Scheme Optionholder, which would otherwise be payable to that Scheme Optionholder by Creso Pharma in accordance with this clause 7, then Creso Pharma may procure that payment is made in accordance with that order or direction; or
- (b) written notice is given to Creso Pharma (or the Option Registry) of an order or direction made by a court of competent jurisdiction or by another Regulatory Authority that prevents Creso Pharma from making a payment to any particular Scheme Optionholder in accordance with clause 7.2, or that payment is otherwise prohibited by applicable law, Creso Pharma may retain an amount equal to the number of Scheme Options held by that Scheme Optionholder multiplied by the Option Scheme Consideration until the time that the payment in accordance with this clause 7 is permitted by that order or direction or otherwise by law,

and the payment or retention by Creso Pharma (or the Option Registry) will constitute the full discharge of Creso Pharma's obligations under clause 7.2 with respect of the amount so paid or retained until, in the case of clause 7.9(b), it is no longer required to be retained.

7.10 Definition of *sending*

For the purposes of clause 7, the expression *sending* means, in relation to each Scheme Optionholder:

- (a) sending by ordinary pre paid post or courier to the Registered Address of that Scheme Optionholder as at the Option Scheme Record Date; or
- (b) delivery to the Registered Address of that Scheme Optionholder as at the Option Scheme Record Date by any other means at no cost to the recipient.

8. Dealings in Creso Pharma Listed Options

8.1 Determination of Scheme Optionholders

To establish the identity of the Scheme Optionholders, dealings in Creso Pharma Listed Options or other alterations to the Creso Pharma Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESSE, the transferee is registered in the Creso Pharma Register as the holder of the relevant Creso Pharma Listed Options on or before 7.00pm on the Option Scheme Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before 5.00pm on the Option Scheme Record Date at the place where the Creso Pharma Register is kept,

and Creso Pharma will not accept for registration, nor recognise for any purpose, any transfer or other request received after those times, or received prior to those times but not in registrable or actionable form, as appropriate.

8.2 Register

- (a) **(Registration of transfers)** Creso Pharma must register registrable transmission applications or transfers of the kind referred to in clause 8.1(b) by or as soon as reasonably practicable after the Option Scheme Record Date, provided that for the avoidance of doubt nothing in this clause 8.2 requires Creso Pharma to register a transfer that would result in a Creso Pharma Listed Optionholder holding a parcel of Creso Pharma Listed Options that is less than a 'marketable parcel' (as defined in the Settlement Rules).
- (b) **(No registration after Option Scheme Record Date)** Creso Pharma will not accept for registration or recognise for any purpose any transfer in respect of Creso Pharma Listed Options received after 5.00pm on the Option Scheme Record Date.
- (c) **(Maintenance of Creso Pharma Register)** For the purpose of determining entitlements to the Option Scheme Consideration, Creso Pharma must maintain the Creso Pharma Register in accordance with the provisions of this clause until the Option Scheme Consideration has been delivered to the Scheme Optionholders. The Creso Pharma Register in this form will solely determine entitlements to the Option Scheme Consideration.
- (d) **(No disposal after Option Scheme Record Date)** From the Option Scheme Record Date until registration of PharmaCielo in respect of all Scheme Options under clause 6, no Creso Pharma Listed Optionholder may dispose or otherwise deal with Creso Pharma Listed Options in any way except as set out in this Option Scheme and any attempt to do so will have no effect and Creso Pharma shall be entitled to disregard any disposal or dealing of this nature.
- (e) **(Statements of holding from Option Scheme Record Date)** All statements of holding for Creso Pharma Listed Options will cease to have effect from the Option Scheme Record Date as documents of title in respect of those options. As from the Option Scheme Record Date, each entry current at that date on the Creso Pharma Register will cease to have effect except as evidence of entitlement to the Option Scheme Consideration in respect of the Creso Pharma Listed Options relating to that entry.
- (f) **(Provision of Scheme Optionholder details)** As soon as practicable on or after the Option Scheme Record Date and in any event within one Business Day after the Option Scheme Record Date, Creso Pharma will ensure that details of the names, Registered Addresses and holdings of Creso Pharma Listed Options for each Scheme Optionholder are available to PharmaCielo in the form PharmaCielo reasonably requires.

9. Suspension

Creso Pharma will apply to ASX to suspend trading on the ASX in Creso Pharma Listed Options with effect from the close of trading on the Effective Date.

10. General Option Scheme provisions

10.1 Consent to amendments to this Option Scheme

If the Court proposes to approve this Option Scheme subject to any alterations or conditions:

- (a) Creso Pharma may, by its counsel or solicitors, consent on behalf of all persons concerned to those alterations or conditions to which PharmaCielo has consented in writing; and
- (b) each Scheme Optionholder agrees to any alterations or conditions to which counsel for Creso Pharma has consented.

10.2 Binding effect of Option Scheme

This Option Scheme binds Creso Pharma and all Scheme Optionholders (including those who did not attend the Option Scheme Meeting, those who do not vote at that meeting, or voted against this Option Scheme at that meeting) and, to the extent of any inconsistency, overrides the constitution of Creso Pharma.

10.3 Scheme Optionholders' agreements and acknowledgment

Each Scheme Optionholder:

- (a) agrees to the cancellation of their Creso Pharma Listed Options together with all rights and entitlements attaching to those Creso Pharma Listed Options in accordance with this Option Scheme;
- (b) agrees on the direction of PharmaCielo, to destroy any holding statements or option certificates relating to their Creso Pharma Listed Options;
- (c) agrees to become a shareholder of PharmaCielo and to be bound by its constitution; and
- (d) acknowledges and agrees that this Option Scheme binds Creso Pharma and all Scheme Optionholders (including those who did not attend the Option Scheme Meeting or did not vote at that meeting or voted against this Option Scheme at that Option Scheme Meeting).

10.4 Warranties by Scheme Optionholders

- (a) Each Scheme Optionholder is deemed to have warranted to Creso Pharma, in its own right and for the benefit of PharmaCielo, that as at the Implementation Date:
 - (i) all of its Creso Pharma Listed Options which are cancelled under this Option Scheme, including any rights and entitlements attaching to those Creso Pharma Listed Options, will, at the time of transfer, be free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any *security interests* within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind;
 - (ii) it has no existing right to be issued any Creso Pharma Listed Options, Creso Pharma Shares, Creso Pharma Unlisted Options, Creso Pharma Performance Rights, Creso Pharma Performance Shares or any other Creso Pharma securities, other than:
 - (A) in the case of any Scheme Optionholder who is also the holder of, Creso Pharma Unlisted Options, Creso Pharma Performance Rights or Creso Pharma Performance Shares, the right to be issued Creso Pharma Shares on the exercise of those Creso Pharma Unlisted Options, Creso Pharma Performance Rights or Creso Pharma Performance Shares before the Option Scheme Record Date in accordance with their terms;
 - (B) the right to be issued Creso Pharma Shares on the exercise of their Creso Pharma Listed Options in accordance with their terms.
- (b) Creso Pharma undertakes that it will provide the warranties in clause 10.4(a) to PharmaCielo as agent and attorney of each Scheme Optionholder.

10.5 Title to and rights in Scheme Options

To the extent permitted by law, the Scheme Options (including any right and entitlements attaching to the Scheme Options) cancelled under this Option Scheme will be cancelled free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any *security interests* within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on cancellation of any kind.

10.6 Authority given to Creso Pharma

- (a) Scheme Optionholders will be deemed to have authorised Creso Pharma to do and execute all acts, matters, things and documents on the part of each Scheme Optionholder necessary for or incidental to the implementation of this Option Scheme, including the cancellation of the Scheme Options as contemplated by clause 6.3.
- (b) Each Scheme Optionholder, without the need for any further act, irrevocably appoints Creso Pharma and each of its directors, secretaries and officers (jointly and severally) as its attorney and agent for the purpose of:
 - (i) enforcing the Option Scheme Deed Poll against PharmaCielo; and
 - (ii) executing any document necessary to give effect to this Option Scheme including, including the cancellation of the Scheme Options as contemplated by clause 6.3,and Creso Pharma accepts such appointment.

10.7 Appointment of sole proxy

Immediately after PharmaCielo provides (or procures the provision of) the Option Scheme Consideration in the manner contemplated by clause 7.2(a) and until all Scheme Options in the Creso Pharma Register are cancelled, each Scheme Optionholder:

- (a) is deemed to have irrevocably appointed PharmaCielo as its attorney and agent (and directed PharmaCielo in that capacity) to appoint an officer or agent nominated by PharmaCielo as its sole proxy and, where applicable, corporate representative to attend meetings of Creso Pharma Listed Optionholders, exercise the votes attaching to the Scheme Options registered in its name and sign any resolution of the Creso Pharma Listed Optionholders;
- (b) undertakes not to otherwise attend meetings of Creso Pharma Listed Optionholders, exercise the votes attaching to Scheme Options registered in their names or sign or vote on any resolutions (whether in person, by proxy or by corporate representative) other than as under clause 10.7(a);
- (c) must take all other actions in the capacity of a registered holder of Scheme Options as PharmaCielo reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 10.7(a), PharmaCielo and any officer or agent nominated by PharmaCielo under clause 10.7(a) may act in the best interests of PharmaCielo as the intended registered holder of the Scheme Options.

10.8 Instructions and elections

If not prohibited by law (and including where permitted or facilitated by relief granted by a Regulatory Authority), all instructions, notifications or elections by a Scheme Optionholder to Creso Pharma binding or deemed binding between the Scheme Optionholder and Creso Pharma relating to Creso Pharma or Scheme Options (including any email addresses, instructions relating to communications from Creso Pharma, whether dividends are to be paid by cheque or into a specific bank account, notices of meetings or other communications from Creso Pharma) will be deemed from the Implementation Date (except to the extent determined otherwise by PharmaCielo in its sole discretion), by reason of this Option Scheme, to be made by the Scheme Optionholder to PharmaCielo until that instruction, notification or election is revoked or amended in writing addressed to PharmaCielo at its registry.

11. General

11.1 Stamp duty

PharmaCielo must pay all stamp duty payable in connection with the cancellation of the Scheme Options.

11.2 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this document is sent by post to Creso Pharma, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Creso Pharma's registered office or at the office of the Option Registry.
- (b) The accidental omission to give notice of the Option Scheme Meeting or the non-receipt of a notice by any Scheme Optionholder may not, unless so ordered by the Court, invalidate the Option Scheme Meeting or the proceedings of the Option Scheme Meeting.

11.3 Further assurances

- (a) Creso Pharma must do anything necessary (including executing agreements and documents) or incidental to give full effect to this Option Scheme and the transactions contemplated by it.
- (b) Each Scheme Optionholder consents to Creso Pharma doing all things necessary or incidental to give full effect to this Option Scheme and the transactions contemplated by it.

11.4 No liability when acting in good faith

Each Scheme Optionholder agrees that neither Creso Pharma nor any director, officer, secretary or employee of any of Creso Pharma shall be liable for anything done or omitted to be done in the performance of this Option Scheme or the Option Scheme Deed Poll in good faith.

11.5 Governing law and jurisdiction

- (a) This Option Scheme is governed by the laws of Western Australia.
- (b) The parties irrevocably submit to the non exclusive jurisdiction of courts exercising jurisdiction in Western Australia and courts of appeal from them in respect of any proceedings arising out of or in connection with this Option Scheme.

ANNEXURE E

Share Scheme Deed Poll PharmaCielo Ltd. (PharmaCielo)

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Details

11 September 2019

Parties

Name	PharmaCielo Ltd.
Short form name	PharmaCielo
Notice details	1 Toronto Street, Suite 805, Toronto, ON M5C 2V6 Email: d.attard@pharmacielo.com Attention: David Attard

Background

- A On 6 June 2019, Creso Pharma and PharmaCielo entered into the Scheme Implementation Agreement to provide for (among other matters) the implementation of the Share Scheme.
- B The effect of the Share Scheme will be to transfer all Scheme Shares to PharmaCielo in return for the Share Scheme Consideration.
- C PharmaCielo enters into this deed poll to covenant in favour of Scheme Shareholders to:
- (i) perform the actions attributed to it under the Share Scheme; and
 - (ii) provide the Share Scheme Consideration in accordance with the Share Scheme.

Agreed terms

1. Defined terms & interpretation

1.1 Defined terms

In this document:

Creso Pharma means Creso Pharma Limited ACN 609 406 911 of Level 24, 300 Barangaroo Avenue, Barangaroo, New South Wales 2000 as trustee for the Scheme Shareholders.

Sale Agent has the meaning given in the Share Scheme.

Sale Shares has the meaning given in the Share Scheme.

Scheme Implementation Agreement means the Scheme Implementation Agreement dated 6 June 2019 between Creso Pharma and PharmaCielo.

1.2 Terms defined in Scheme Implementation Agreement

Words and phrases defined in the Scheme Implementation Agreement have the same meaning in this deed poll unless the context requires otherwise.

1.3 Incorporation by reference

The provisions of clauses 1.2, 1.3 and 1.4 of the Scheme Implementation Agreement form part of this *deed poll* as if set out at length in this deed poll but with deed poll substituted for *agreement* and with any reference to *party* being taken to include the Scheme Shareholders.

2. Nature of this deed poll

PharmaCielo agrees that this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not a party to it.

3. Conditions

3.1 Conditions

The obligations of PharmaCielo under this deed poll are subject to the Share Scheme becoming Effective.

3.2 Termination

This deed poll and the obligations of PharmaCielo will automatically terminate and this deed poll will be of no further force or effect if:

- (a) the Scheme Implementation Agreement is terminated in accordance with its terms before the Share Scheme becomes Effective; or
- (b) the Share Scheme is not Effective on or before the End Date or any later date as the Court, with the consent of Creso Pharma and PharmaCielo, may order, unless PharmaCielo and Creso Pharma otherwise agree in writing.

3.3 Consequences of termination

If this deed poll terminates under clause 3.2, in addition and without prejudice to any other rights, powers or remedies available to them:

- (a) PharmaCielo is released from its obligation to further perform this deed poll; and
- (b) each Scheme Shareholder retains the rights they have against PharmaCielo in respect of any breach of this deed poll which occurred before it terminated.

4. Performance of obligations

4.1 Generally

Subject to clause 3, PharmaCielo covenants in favour of Scheme Shareholders to perform the actions attributed to it under the Share Scheme and otherwise comply with the Share Scheme as if PharmaCielo was a party to the Share Scheme.

4.2 Provision of Share Scheme Consideration

- (a) Subject to clause 3, PharmaCielo covenants in favour of each Scheme Shareholder to provide or procure the provision of the Share Scheme Consideration to each Scheme Shareholder in accordance with the terms of the Share Scheme.
- (b) The obligation of PharmaCielo under clause 4.2(a) will be satisfied by PharmaCielo:
 - (i) no later than 12 noon (or such later time as PharmaCielo and Creso Pharma may agree) on the Implementation Date, procuring the issue of all of the New PharmaCielo Shares which it is obliged to issue to Scheme Shareholders under the Share Scheme and PharmaCielo provides Creso Pharma with written confirmation that Pharma Cielo has done so;
 - (ii) no later than 12 noon (or such later time as PharmaCielo and Creso Pharma may agree) on the Implementation Date, procuring that the name of each Scheme Shareholder entitled to receive New PharmaCielo Shares under the Share Scheme is entered in PharmaCielo's register of members as the holder of those New PharmaCielo Shares (having the same holding name and address and other details as the holding of the relevant Scheme Shares);
 - (iii) no later than 12 noon (or such later time as PharmaCielo and Creso Pharma may agree) on the Implementation Date, procuring the issue to the Sale Agent all the New PharmaCielo Shares required to be issued to the Sale Agent under the Share Scheme other than to an Ineligible Foreign Securityholder or a Small Securityholder who elects to receive cash proceeds instead of New PharmaCielo Shares, and entering the name of the Sale Agent in PharmaCielo's register of members as the holder of those New PharmaCielo Shares;
 - (iv) on or as soon as practicable after the Implementation Date (and in any event within [five] Business Days of that date), sending or procuring the sending of a share certificate, direct registration system advice or holding statement to each Scheme Shareholder entitled to receive New PharmaCielo Shares under this Share Scheme. reflecting the issue of such New PharmaCielo Shares; and
 - (v) procuring, as soon as reasonably practicable that the Sale Agent sell any New PharmaCielo Shares issued to it and remit the proceeds to the relevant Ineligible Foreign Securityholders and Small Securityholders, in accordance with the Share Scheme.

5. Warranties

PharmaCielo represents and warrants to each Scheme Shareholder that:

- (a) **(status)** it is a corporation duly incorporated and validly existing under the laws of the place of its incorporation;
- (b) **(power)** it has the power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) **(corporate authorisations)** it has taken all necessary corporate action to authorise the entry into and performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) **(documents binding)** this deed poll is valid and binding on it and enforceable against it in accordance with its terms;
- (e) **(transactions permitted)** the execution and performance by it of this deed poll and each transaction contemplated by this deed poll did not and will not violate in any respect a provision of:
 - (i) a law or treaty or a judgment, ruling, order or decree of a Governmental Agency binding on it;
 - (ii) its constitution or other constituent documents; or
 - (iii) any other document which is binding on it or its assets; and
- (f) **(solvency)** it is solvent and no resolutions have been passed nor has any other step been taken or legal action or proceedings commenced or threatened against it for its winding up, deregistration or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets.

6. Continuing Obligations

6.1 Deed poll irrevocable

This deed poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- (a) PharmaCielo having fully performed its obligations under this deed poll; or
- (b) termination of this deed poll under clause 3.2.

6.2 Variation

A provision of this deed poll may not be varied unless:

- (a) before the Second Court Date, the variation is agreed to in writing by Creso Pharma (which agreement may be given or withheld without reference to or approval by any Creso Pharma Shareholder); or
- (b) on or after the Second Court Date, the variation is agreed to in writing by Creso Pharma and is approved by the Court (which agreement may be given or withheld without reference to or approval by any Creso Pharma Shareholder),

in which event PharmaCielo will enter into a further deed poll in favour of each Scheme Shareholder giving effect to the amendment.

7. Notices

Any notice, demand or other communication (a **Notice**) to PharmaCielo in respect of this deed poll:

- (a) must be in writing and signed by the sender or a person duly authorised by it;
- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand or email to the email address specified in the Details; and
- (c) will be conclusively taken to be duly given or made:
 - (i) **(in the case of post)** on the third Business Day after the date of posting to an address within Australia, and on the fifth Business Day after the date of posting (if posted to an address outside Australia);
 - (ii) **(in the case of delivery by hand)** on delivery at the address of the addressee as provided in the Details, unless that delivery is not made on a Business Day, or after 5.00pm on a Business Day, then that communication will be deemed to be received at 9.00am on the next Business Day; and
 - (iii) **(in the case of email)** immediately after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered, unless that local time is not a Business Day, or is after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day.

8. General Provisions

8.1 Assignment

- (a) The rights and obligations of PharmaCielo and each Scheme Shareholder under this deed poll are personal. They cannot be assigned, charged, encumbered or otherwise dealt with at law or in equity without the prior written consent of PharmaCielo.
- (b) Any purported dealing in contravention of clause 8.1(a) is invalid.

8.2 Cumulative rights

The rights, powers and remedies of PharmaCielo and each Scheme Shareholder under this deed poll are cumulative with and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.3 No waiver

- (a) PharmaCielo may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.
- (b) If a Scheme Shareholder does not exercise a right arising from a breach of this deed poll at a given time, it may, unless it has waived that right in writing, exercise the right at a later point in time.
- (c) No Scheme Shareholder may rely on words or conduct of PharmaCielo as a waiver of any right unless the waiver is in writing and signed by PharmaCielo.
- (d) The meanings of the terms used in this clause 8.3 are set out below.

conduct includes delay in the exercise of a right.

right means any right arising under or in connection with this deed poll and includes the right to rely on this clause.

waiver includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

8.4 Stamp duty

PharmaCielo:

- (a) must pay or procure the payment of all stamp duty (if any) and any related fines, penalties and interest in respect of the Share Scheme and this deed poll (including the acquisition or transfer of Scheme Shares pursuant to the Share Scheme), the performance of this deed poll and each transaction effected by or made under or pursuant to the Share Scheme and this deed poll; and
- (b) indemnifies and undertakes to keep indemnified each Scheme Shareholder against any liability arising from failure to comply with clause 8.4(a).

8.5 Further assurances

PharmaCielo will, at its own expense, do all things reasonably required of it to give full effect to this deed poll.

8.6 Governing law and jurisdiction

This deed poll is governed by the laws of the State of Western Australia. In relation to it and related non contractual matters PharmaCielo irrevocably submits to the non-exclusive jurisdiction of courts with jurisdiction there.

Signing page

EXECUTED as a deed poll.

SIGNED, SEALED AND DELIVERED by
PharmaCielo Ltd. in the presence of:

 (seal)
Signature of authorised signatory


Signature of witness
David Gordon

David Attard, Chief Executive Officer and Director
Name and capacity of authorised signatory (print)

DAVID GORDON
Name of witness (print)
David Gordon

 (seal)
Signature of authorised signatory


Signature of witness
David Gordon

Scott Laitinen, Chief Financial Officer
Name and capacity of authorised signatory (print)

DAVID GORDON
Name of witness (print)
David Gordon

ANNEXURE F

Option Scheme Deed Poll PharmaCielo Ltd. (PharmaCielo)

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Details

11 September 2019

Parties

Name	PharmaCielo Ltd.
Short form name	PharmaCielo
Notice details	1 Toronto Street, Suite 805, Toronto, ON M5C 2V6 Email: d.attard@pharmacielo.com Attention: David Attard

Background

- A On 6 June 2019, Creso Pharma and PharmaCielo entered into the Scheme Implementation Agreement to provide for (among other matters) the implementation of the Share Scheme.
- B The effect of the Share Scheme will be to transfer all Scheme Shares to PharmaCielo in return for the Share Scheme Consideration.
- C PharmaCielo enters into this deed poll to covenant in favour of Scheme Shareholders to:
- (i) perform the actions attributed to it under the Share Scheme; and
 - (ii) provide the Share Scheme Consideration in accordance with the Share Scheme.

Agreed terms

1. Defined terms & interpretation

1.1 Defined terms

In this document:

Creso Pharma means Creso Pharma Limited ACN 609 406 911 of Level 24, 300 Barangaroo Avenue, Barangaroo, New South Wales 2000 as trustee for the Scheme Optionholders.

Sale Agent has the meaning given in the Option Scheme.

Sale Shares has the meaning given in the Option Scheme.

Scheme Implementation Agreement means the Scheme Implementation Agreement dated 6 June 2019 between Creso Pharma and PharmaCielo.

1.2 Terms defined in Scheme Implementation Agreement

Words and phrases defined in the Scheme Implementation Agreement have the same meaning in this deed poll unless the context requires otherwise.

1.3 Incorporation by reference

The provisions of clauses 1.2, 1.3 and 1.4 of the Scheme Implementation Agreement form part of this deed poll as if set out at length in this deed poll but with *deed poll* substituted for *agreement* and with any reference to party being taken to include the Scheme Optionholders.

2. Nature of this deed poll

PharmaCielo agrees that this deed poll may be relied on and enforced by any Scheme Optionholder in accordance with its terms even though the Scheme Optionholders are not a party to it.

3. Conditions

3.1 Conditions

The obligations of PharmaCielo under this deed poll are subject to the Option Scheme becoming Effective.

3.2 Termination

This deed poll and the obligations of PharmaCielo will automatically terminate and this deed poll will be of no further force or effect if:

- (a) the Scheme Implementation Agreement is terminated in accordance with its terms before the Option Scheme becomes Effective; or
- (b) the Option Scheme is not Effective on or before the End Date or any later date as the Court, with the consent of Creso Pharma and PharmaCielo, may order, unless PharmaCielo and Creso Pharma otherwise agree in writing.

3.3 Consequences of termination

If this deed poll terminates under clause 3.2, in addition and without prejudice to any other rights, powers or remedies available to them:

- (a) PharmaCielo is released from its obligation to further perform this deed poll; and
- (b) each Scheme Optionholder retains the rights they have against PharmaCielo in respect of any breach of this deed poll which occurred before it terminated.

4. Performance of obligations

4.1 Generally

Subject to clause 3, PharmaCielo covenants in favour of Scheme Optionholders to perform the actions attributed to it under the Option Scheme and otherwise comply with the Option Scheme as if PharmaCielo was a party to the Option Scheme.

4.2 Provision of Option Scheme Consideration

- (a) Subject to clause 3, PharmaCielo covenants in favour of each Scheme Optionholder to provide or procure the provision of the Option Scheme Consideration to each Scheme Optionholder in accordance with the terms of the Option Scheme.
- (b) The obligation of PharmaCielo under clause 4.2(a) will be satisfied by PharmaCielo:
 - (i) no later than 12 noon (or such later time as PharmaCielo and Creso Pharma may agree) on the Implementation Date, procuring the issue of all of the New PharmaCielo Shares which it is obliged to issue to Scheme Optionholders under the Option Scheme and PharmaCielo provides Creso Pharma with written confirmation that Pharma Cielo has done so;
 - (ii) no later than 12 noon (or such later time as PharmaCielo and Creso Pharma may agree) on the Implementation Date, procuring that the name of each Scheme Optionholder entitled to receive New PharmaCielo Shares under the Option Scheme is entered in PharmaCielo's register of members as the holder of those New PharmaCielo Shares (having the same holding name and address and other details as the holding of the relevant Scheme Options);
 - (iii) no later than 12 noon (or such later time as PharmaCielo and Creso Pharma may agree) on the Implementation Date, procuring the issue to the Sale Agent all the New PharmaCielo Shares required to be issued to the Sale Agent under the Option Scheme other than to an Ineligible Foreign Securityholder or a Small Securityholder who elects to receive cash proceeds instead of New PharmaCielo Shares, and entering the name of the Sale Agent in PharmaCielo's register of members as the holder of those New PharmaCielo Shares;
 - (iv) on or as soon as practicable after the Implementation Date (and in any event within [five] Business Days of that date), sending or procuring the sending of a share certificate, direct registration system advice or holding statement to each Scheme Optionholders entitled to receive New PharmaCielo Shares under the Option Scheme. reflecting the issue of such New PharmaCielo Shares; and
 - (v) procuring, as soon as reasonably practicable that the Sale Agent sell any New PharmaCielo Shares issued to it and remit the proceeds to the relevant Ineligible Foreign Securityholders and Small Securityholders, in accordance with the Option Scheme.

5. Warranties

PharmaCielo represents and warrants to each Scheme Optionholder that:

- (a) **(status)** it is a corporation duly incorporated and validly existing under the laws of the place of its incorporation;
- (b) **(power)** it has the power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) **(corporate authorisations)** it has taken all necessary corporate action to authorise the entry into and performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) **(documents binding)** this deed poll is valid and binding on it and enforceable against it in accordance with its terms;
- (e) **(transactions permitted)** the execution and performance by it of this deed poll and each transaction contemplated by this deed poll did not and will not violate in any respect a provision of:
 - (i) a law or treaty or a judgment, ruling, order or decree of a Governmental Agency binding on it;
 - (ii) its constitution or other constituent documents; or
 - (iii) any other document which is binding on it or its assets; and
- (f) **(solvency)** it is solvent and no resolutions have been passed nor has any other step been taken or legal action or proceedings commenced or threatened against it for its winding up, deregistration or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets.

6. Continuing Obligations

6.1 Deed poll irrevocable

This deed poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- (a) PharmaCielo having fully performed its obligations under this deed poll; or
- (b) termination of this deed poll under clause 3.2.

6.2 Variation

A provision of this deed poll may not be varied unless:

- (a) before the Second Court Date, the variation is agreed to in writing by Creso Pharma (which agreement may be given or withheld without reference to or approval by any Creso Pharma Listed Optionholder); or
- (b) on or after the Second Court Date, the variation is agreed to in writing by Creso Pharma and is approved by the Court (which agreement may be given or withheld without reference to or approval by any Creso Pharma Listed Optionholder),

in which event PharmaCielo will enter into a further deed poll in favour of each Scheme Optionholder giving effect to the amendment.

7. Notices

Any notice, demand or other communication (a **Notice**) to PharmaCielo in respect of this deed poll:

- (a) must be in writing and signed by the sender or a person duly authorised by it;
- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand or email to the email address specified in the Details; and
- (c) will be conclusively taken to be duly given or made:
 - (i) **(in the case of post)** on the third Business Day after the date of posting to an address within Australia, and on the fifth Business Day after the date of posting (if posted to an address outside Australia);
 - (ii) **(in the case of delivery by hand)** on delivery at the address of the addressee as provided in the Details, unless that delivery is not made on a Business Day, or after 5.00pm on a Business Day, then that communication will be deemed to be received at 9.00am on the next Business Day; and
 - (iii) **(in the case of email)** immediately after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered, unless that local time is not a Business Day, or is after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day.

8. General Provisions

8.1 Assignment

- (a) The rights and obligations of PharmaCielo and each Scheme Optionholder under this deed poll are personal. They cannot be assigned, charged, encumbered or otherwise dealt with at law or in equity without the prior written consent of PharmaCielo.
- (b) Any purported dealing in contravention of clause 8.1(a) is invalid.

8.2 Cumulative rights

The rights, powers and remedies of PharmaCielo and each Scheme Optionholder under this deed poll are cumulative with and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.3 No waiver

- (a) PharmaCielo may not rely on the words or conduct of any Scheme Optionholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Optionholder granting the waiver.
- (b) If a Scheme Optionholder does not exercise a right arising from a breach of this deed poll at a given time, it may, unless it has waived that right in writing, exercise the right at a later point in time.

(c) No Scheme Optionholder may rely on words or conduct of PharmaCielo as a waiver of any right unless the waiver is in writing and signed by PharmaCielo.

(d) The meanings of the terms used in this clause 8.3 are set out below.

conduct includes delay in the exercise of a right.

right means any right arising under or in connection with this deed poll and includes the right to rely on this clause.

waiver includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

8.4 Stamp duty

PharmaCielo:

(a) must pay or procure the payment of all stamp duty (if any) and any related fines, penalties and interest in respect of the Option Scheme and this deed poll (including the acquisition or transfer of Scheme Options pursuant to the Option Scheme), the performance of this deed poll and each transaction effected by or made under or pursuant to the Option Scheme and this deed poll; and

(b) indemnifies and undertakes to keep indemnified each Scheme Optionholder against any liability arising from failure to comply with clause 8.4(a).

8.5 Further assurances

PharmaCielo will, at its own expense, do all things reasonably required of it to give full effect to this deed poll.

8.6 Governing law and jurisdiction

This deed poll is governed by the laws of the State of Western Australia. In relation to it and related non contractual matters PharmaCielo irrevocably submits to the non-exclusive jurisdiction of courts with jurisdiction there.

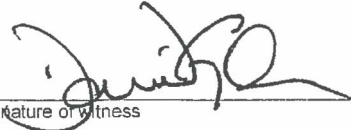
Signing page

EXECUTED as a deed poll.

SIGNED, SEALED AND DELIVERED by
PharmaCielo Ltd. in the presence of:

 (seal)
Signature of authorised signatory

David Attard, Chief Executive Officer and Director
Name and capacity of authorised signatory (print)


Signature of witness
David Gordon

DAVID GORDON
Name of witness (print)
David Gordon

 (seal)
Signature of authorised signatory

Scott Laitinen, Chief Financial Officer
Name and capacity of authorised signatory (print)


Signature of witness
David Gordon

DAVID GORDON
Name of witness (print)
David Gordon

ANNEXURE G

NOTICE OF SHARE SCHEME MEETING

Notice of Court Ordered Meeting of Creso Pharma Shareholders

Notice is hereby given that, by order of the Supreme Court of Western Australia (Court) made on 3 October 2019 pursuant to section 411(1) of the Corporations Act, the Court has directed that a meeting of Creso Pharma Shareholders will be held at the offices of Steinepreis Paganin at Level 4, 16 Milligan Street, Perth, Western Australia on Monday, 11 November 2019 commencing at 10:00am (WST) (**Share Scheme Meeting**).

The Court has also directed that Mr Stephen Penrose, act as chairman of the Share Scheme Meeting, or failing him, Mr Grant Paterson, and has directed the chairman to report the result of the Share Scheme Meeting to the Court. Both Mr Penrose and Mr Paterson are independent to the Creso Pharma board of directors and have no interest in the Schemes.

Purpose of the Share Scheme Meeting

The purpose of the Share Scheme Meeting is to consider and, if thought fit, to agree (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) to a scheme of arrangement (the **Share Scheme**) proposed to be made between Creso Pharma and the Creso Pharma Shareholders.

A copy of the Share Scheme and the explanatory statement required by section 412 of the Corporations Act in relation to the Share Scheme are contained in the Scheme Booklet of which this Notice forms part. Terms and abbreviations used (and not otherwise defined) in this Notice have the same meaning as set out in the glossary of defined terms in Section 20 of the Scheme Booklet.

Resolution – Approval of Share Scheme

The Share Scheme Meeting will be asked to consider, and if thought fit, to pass (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) the following resolution:

“That pursuant to and in accordance with section 411 of the Corporations Act, the members agree to the arrangement proposed between Creso Pharma Limited and the holders of its fully paid ordinary shares, designated the Share Scheme, as contained in and more particularly described in the Scheme Booklet accompanying the notice convening this meeting (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) and, subject to approval of the Share Scheme by the Court, the Board of Directors of Creso Pharma Limited is authorised to implement the Share Scheme with any such alterations or conditions.”

DATED 2 October 2019

BY ORDER OF THE COURT



Erlyn Dale

Joint Company Secretary

NOTES TO THE NOTICE OF COURT ORDERED SHARE SCHEME MEETING

General

This notice should be read in conjunction with the entire Scheme Booklet of which this notice forms part. The Scheme Booklet contains important information to assist you in determining how to vote on the proposed resolution. The Scheme Booklet includes a copy of the Share Scheme (refer Annexure C) and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Share Scheme (the explanatory statement being all Sections of this Scheme Booklet, other than this Annexure G and Annexure H).

Majority Required

In accordance with section 411(4)(a)(ii) of the Corporations Act, the resolution to approve the Share Scheme must be passed at the Share Scheme Meeting by:

- unless the Court orders otherwise, a majority in number (more than 50%) of the Creso Pharma Shareholders present and voting (whether in person, by proxy, by attorney or, in the case of a Creso Pharma Shareholder that is a corporation, by corporate representative); and
- at least 75% of the total number of votes cast on the resolution by Creso Pharma Shareholders present and voting (whether in person, by proxy, by attorney or, in the case of a Creso Pharma Shareholder that is a corporation, by corporate representative).

Court Approval

In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Share Scheme (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) must also be approved by an order of the Court and an office copy of the orders of the Court approving the Share Scheme must be lodged with ASIC. If the resolution put to the Share Scheme Meeting is passed by the majority required, and the other Share Scheme Conditions (other than approval by the Court) are satisfied or waived by the time required under the Share Scheme, Creso Pharma intends to apply to the Court for the necessary orders to approve the Share Scheme.

Creso Pharma Shareholders who are Entitled to Vote

Pursuant to section 411 of the Corporations Act and all other enabling powers, the Court has determined that the time for determining a person's entitlement to vote at the Share Scheme Meeting is **12:00pm (WST) on Saturday, 9 November 2019**. Only those Creso Pharma Shareholders entered on the Creso Pharma Register as at that time will be entitled to attend and vote at the Share Scheme Meeting either in person, by proxy, by attorney or, in the case of a Creso Pharma Shareholder that is a corporation, by corporate representative. Registrable transfers or transmission applications received after this time will be disregarded in determining entitlements to vote at the Share Scheme Meeting.

How to Vote

Voting at the Share Scheme Meeting will be by poll rather than by show of hands.

Creso Pharma Shareholders can vote in one of the following ways:

- by attending the Share Scheme Meeting and voting in person or by attorney or, in the case of a Creso Pharma Shareholder that is a corporation, by corporate representative; or
- by appointing one or more proxies to attend and vote on their behalf, using the proxy form enclosed with the Scheme Booklet or lodging a proxy vote online in accordance with the instructions on the Proxy Form.

Attendance

Creso Pharma Shareholders or their attorneys, proxyholders or corporate representatives who plan to attend the Share Scheme Meeting are asked to bring some form of personal identification (such as their driver's licence) and arrive at the venue 30 minutes prior to the time designated for the Share Scheme Meeting so that the shareholding can be checked against the Creso Pharma Register and attendances can be noted.

Additional Voting Instructions

Means	Voting Instructions
<p>In Person</p>	<p>If you wish to vote in person, you must attend the Share Scheme Meeting.</p> <p>All persons entitled to vote must register their attendance by disclosing their name at the point of entry to the Share Scheme Meeting.</p>
<p>By Proxy</p>	<p>To appoint a proxy to vote on your behalf in respect of the Share Scheme, you can complete the enclosed personalised Proxy Form in accordance with the instructions and return it to Automic. Alternatively, you can lodge your proxy online in accordance with the instructions on the Proxy Form.</p> <p>If your proxy is signed by an attorney, please also enclose the authority under which the proxy is signed (or a certified copy of the authority). Proxy Forms and powers of attorney must be received by the Creso Pharma Registry by no later than 10:00am (WST) on Saturday, 9 November 2019 (or if the Share Scheme Meeting is adjourned, at least 48 hours before the resumption of the Share Scheme Meeting). Proxy Forms and powers of attorney received after this time will not be valid. Accordingly, you should ensure that it is posted, delivered or lodged online in sufficient time for it to be received by the Creso Pharma Registry by that time. In addition, as this is not a business day, if you intend to mail your proxy form or return your proxy form in person, you should ensure that you allow sufficient time for it to be received by the Creso Pharma Registry by close of business (WST) on Friday, 8 November 2019.</p> <p>If you are entitled to cast two or more votes, you may appoint two proxies. You may specify the names of each proxy. You may specify the proportion or the number of votes that each proxy is appointed to exercise. If numbers or proportions of votes are not specified, each proxy may exercise half of the votes you are entitled to cast. Fractions of votes will be disregarded.</p> <p>If you hold Creso Pharma Shares jointly with one or more other persons, in order for your proxy appointment to be valid, each of you must sign the Proxy Form.</p> <p>A proxy may, but need not be, a Creso Pharma Shareholder.</p> <p>If a proxy is instructed to abstain from voting on any item of business, that person is directed not to vote on the Creso Pharma Shareholder's behalf on a poll and the Creso Pharma Shares the subject of the proxy appointment will not be counted in computing the required majority.</p> <p>If a proxy is not directed how to vote on an item of business, the proxy may vote or abstain from voting, as that person thinks fit.</p> <p>If an appointment directs the way the proxy is to vote on the resolution:</p> <ul style="list-style-type: none"> • if the proxy is the chair - the proxy must vote on the poll and must vote in the way directed; and • if the proxy is not the chair - the proxy need not vote on the poll, but if the proxy does so, the proxy must vote in the way directed. <p>Creso Pharma Shareholders who return their proxy forms with a direction on how to vote but without nominating the identity of their proxy will be taken to have appointed the chairman of the Share Scheme Meeting as their proxy to vote on their behalf.</p> <p>Creso Pharma confirms that it will appoint an independent lawyer to act as chairman of the Share Scheme Meeting.</p> <p>If:</p> <ul style="list-style-type: none"> • a Creso Pharma Shareholders nominates the chairman of the Share Scheme Meeting as their proxy; or • the chairman of the Share Scheme Meeting is otherwise appointed to act as proxy, <p>then the person acting as chairman of the Share Scheme Meeting in respect of an item of business at the meeting must act as proxy in respect of the resolution to be considered at the Share Scheme Meeting.</p> <p>If a proxy form is returned but the nominated proxy does not attend the Share Scheme Meeting or attends but does not vote on the poll, the chairman of the Share Scheme Meeting will act in place of the nominated proxy and vote in accordance with any instructions.</p> <p>The chairman of the Share Scheme Meeting intends to vote undirected proxies of which he is appointed as proxy in favour of the resolution to approve the Share Scheme (in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Share Scheme is in the best interest of Creso Pharma Shareholders).</p> <p>A vote cast in accordance with the appointment of a proxy is valid even if before the vote was cast the appointor:</p> <ul style="list-style-type: none"> • died; • became mentally incapacitated; • revoked the power; or • transferred the Creso Pharma Shares in respect of which the vote was cast, <p>unless Creso Pharma received written notification of the death, mental incapacity, revocation or transfer before the meeting or, if applicable, the resumption of any adjourned meeting.</p> <p>Appointing a proxy will not preclude you from attending the Share Scheme Meeting in person and voting at the Share Scheme Meeting instead of your proxy. In this scenario the appointment of your proxy is not revoked but your proxy must not speak or vote at the meeting while you are so present.</p>

Means	Voting Instructions
By Power of Attorney	<p>Your vote may be cast by a duly authorised attorney. An attorney need not be a Creso Pharma Shareholder.</p> <p>If you intend to appoint an attorney to attend the Share Scheme Meeting and vote on your behalf, you may do so by providing a power of attorney duly executed by you in the presence of at least one witness, and specifying your name, the company (that is, Creso Pharma Limited), and the attorney, and also specify the meeting at which the appointment may be used. The appointment may be a standing one.</p> <p>The original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by Automic by no later than 10:00am (WST) on Saturday, 9 November 2019. In addition, as this is not a business day, if you intend to provide the relevant document by mail or in person, you should ensure that you allow sufficient time for it to be received by the Creso Pharma Registry by close of business (WST) on Friday, 8 November 2019.</p> <p>The power of attorney must be delivered by posting it to Automic in accordance with the instructions on the Proxy Form.</p> <p>Alternatively, the attorney may bring a certified copy of the power of attorney to the Share Scheme Meeting.</p> <p>Your appointment of an attorney does not preclude you from attending in person and voting at the Share Scheme Meeting. The appointment of your attorney is not revoked merely by your attendance and taking part in the Share Scheme Meeting, but if you vote on a resolution, the attorney is not entitled to vote, and must not vote, as your attorney on that resolution.</p> <p>A vote cast in accordance with the appointment of a power of attorney is valid even if before the vote was cast the appointor:</p> <ul style="list-style-type: none"> • died; • became mentally incapacitated; • revoked the power; or • transferred the Creso Pharma Shares in respect of which the vote was cast, <p>unless Creso Pharma received written notification of the death, mental incapacity, revocation or transfer before the meeting or, if applicable, the resumption of any adjourned meeting.</p>
By Corporate Representative	<p>A Creso Pharma Shareholder that is a body corporate may appoint an individual to act as its representative at the Share Scheme Meeting.</p> <p>To vote by corporate representative at the Share Scheme Meeting, a corporate Creso Pharma Shareholder should obtain an "Appointment of Corporate Representative" form from Automic and complete that form in accordance with its instructions.</p> <p>Corporate representative appointment forms should be provided to Automic by no later than 10:00am (WST) on Saturday, 9 November 2019, or alternatively brought to the Share Scheme Meeting. In addition, as this is not a business day, if you intend to provide this form by mail, you should ensure that you allow sufficient time for it to be received by the Creso Pharma Registry by close of business (WST) on Friday, 8 November 2019.</p>
Further Information	<p>For further information, you can call Automic on 1300 636 752 (within Australia) or +61 2 8318 7933 (outside Australia).</p>

Jointly Held Creso Pharma Shares

If the Creso Pharma Shares are jointly held, only one of the joint shareholders is entitled to vote. If more than one Creso Pharma Shareholder votes in respect of jointly held Creso Pharma Shares, only the vote of the Creso Pharma Shareholder whose name appears first on the Creso Pharma Register will be counted.

Advertisement

Where this notice of meeting is advertised unaccompanied by the Scheme Booklet, a copy of the Scheme Booklet can be obtained by anyone entitled to attend the Share Scheme Meeting from Creso Pharma's website <https://www.cresopharma.com>, or by contacting the Company Secretary of Creso Pharma Limited or the Creso Pharma Registry.

ANNEXURE H

NOTICE OF OPTION SCHEME MEETING

Notice of Court Ordered Meeting of Creso Pharma Listed Optionholders

Notice is hereby given that, by order of the Supreme Court of Western Australia (Court) made on 2 October 2019 pursuant to section 411(1) of the Corporations Act, the Court has directed that a meeting of Creso Pharma Listed Optionholders will be held at the offices of Steinepreis Paganin at Level 4, 16 Milligan Street, Perth, Western Australia on Monday, 11 November 2019 commencing at the later of 10:30am and the conclusion of the Share Scheme Meeting (**Option Scheme Meeting**).

The Court has also directed that Mr Stephen Penrose act as chairman of the Option Scheme Meeting, or failing him, Mr Grant Paterson, and has directed the chairman to report the result of the Option Scheme Meeting to the Court. Both Mr Penrose and Mr Paterson are independent to the Creso Pharma board of directors and have no interest in the Schemes.

Purpose of the Option Scheme Meeting

The purpose of the Option Scheme Meeting is to consider and, if thought fit, to agree (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) to a scheme of arrangement (the **Option Scheme**) proposed to be made between Creso Pharma and the Creso Pharma Listed Optionholders.

A copy of the Option Scheme and the explanatory statement required by section 412 of the Corporations Act in relation to the Option Scheme are contained in the Scheme Booklet of which this Notice forms part. Terms and abbreviations used (and not otherwise defined) in this Notice have the same meaning as set out in the glossary of defined terms in Section 20 of the Scheme Booklet.

Resolution – Approval of Option Scheme

The Option Scheme Meeting will be asked to consider, and if thought fit, to pass (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) the following resolution:

“That pursuant to and in accordance with section 411 of the Corporations Act, the creditors agree to the arrangement proposed between Creso Pharma Limited and the holders of options exercisable at \$0.80 each on or before 21 August 2020, designated the Option Scheme, as contained in and more particularly described in the Scheme Booklet accompanying the notice convening this meeting (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) and, subject to approval of the Option Scheme by the Court, the Board of Directors of Creso Pharma Limited is authorised to implement the Option Scheme with any such alterations or conditions.”

DATED 2 October 2019

BY ORDER OF THE COURT



.....
Eryn Dale

Joint Company Secretary

NOTES TO THE NOTICE OF COURT ORDERED OPTION SCHEME MEETING

General

This notice should be read in conjunction with the entire Scheme Booklet of which this notice forms part. The Scheme Booklet contains important information to assist you in determining how to vote on the proposed resolution. The Scheme Booklet includes a copy of the Option Scheme (refer Annexure D) and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Option Scheme (the explanatory statement being all Sections of this Scheme Booklet, other than Annexure G and this Annexure H).

Majority Required

In accordance with section 411(4)(a)(i) of the Corporations Act, the resolution to approve the Option Scheme must be passed at the Option Scheme Meeting by:

- a majority in number (more than 50%) of the Creso Pharma Listed Optionholders present and voting (whether in person, by proxy, by attorney or, in the case of a Creso Pharma Listed Optionholder that is a corporation, by corporate representative); and
- Creso Pharma Listed Optionholders whose Creso Pharma Listed Options amount in aggregate to at least 75% (by value) of the total of all Creso Pharma Listed Options voted by Creso Pharma Listed Optionholders present and voting (whether in person, by proxy, by attorney or, in the case of a Creso Pharma Listed Optionholder that is a corporation, by corporate representative) at the Option Scheme Meeting on the Option Scheme Resolution. The value of the Option Scheme Consideration that would be payable to a Creso Pharma Listed Optionholder will be used to determine the value of voting entitlements on the Option Scheme Resolution.

Court Approval

In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Option Scheme (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) must also be approved by an order of the Court and an office copy of the orders of the Court approving the Option Scheme must be lodged with ASIC. If the resolution put to the Option Scheme Meeting is passed by the majority required, and the other Option Scheme Conditions (other than approval by the Court) are satisfied or waived by the time required under the Option Scheme, Creso Pharma intends to apply to the Court for the necessary orders to approve the Option Scheme.

Creso Pharma Listed Optionholders who are Entitled to Vote

Pursuant to section 411 of the Corporations Act and all other enabling powers, the Court has determined that the time for determining a person's entitlement to vote at the Option Scheme Meeting is **12:00pm (WST) on Saturday, 9 November 2019**. Only those Creso Pharma Listed Optionholders entered on the Creso Pharma Register as at that time will be entitled to attend and vote at the Option Scheme Meeting either in person, by proxy, by attorney or, in the case of a Creso Pharma Listed Optionholder that is a corporation, by corporate representative. Registrable transfers or transmission applications received after this time will be disregarded in determining entitlements to vote at the Option Scheme Meeting.

How to Vote

Voting at the Option Scheme Meeting will be by poll rather than by show of hands.

Creso Pharma Listed Optionholders can vote in one of the following ways:

- by attending the Option Scheme Meeting and voting in person or by attorney or, in the case of a Creso Pharma Listed Optionholder that is a corporation, by corporate representative; or
- by appointing one or more proxies to attend and vote on their behalf, using the proxy form enclosed with the Scheme Booklet or lodging a proxy vote online in accordance with the instructions on the Proxy Form.

Attendance

Creso Pharma Listed Optionholders or their attorneys, proxyholders or corporate representatives who plan to attend the Option Scheme Meeting are asked to bring some form of personal identification (such as their driver's licence) and arrive at the venue 30 minutes prior to the time designated for the Option Scheme Meeting so that the optionholding can be checked against the Creso Pharma Register and attendances can be noted.

Additional Voting Instructions

Means	Voting Instructions
<p>In Person</p>	<p>If you wish to vote in person, you must attend the Option Scheme Meeting.</p> <p>All persons entitled to vote must register their attendance by disclosing their name at the point of entry to the Option Scheme Meeting.</p>
<p>By Proxy</p>	<p>To appoint a proxy to vote on your behalf in respect of the Option Scheme, you can complete the enclosed personalised Proxy Form in accordance with the instructions and return it to Automic. Alternatively, you can lodge your proxy online in accordance with the instructions on the Proxy Form.</p> <p>If your proxy is signed by an attorney, please also enclose the authority under which the proxy is signed (or a certified copy of the authority). Proxy Forms and powers of attorney must be received by the Creso Pharma Registry by no later than 10:30am (WST) on Saturday, 9 November 2019 (or if the Option Scheme Meeting is adjourned, at least 48 hours before the resumption of the Option Scheme Meeting). Proxy Forms and powers of attorney received after this time will not be valid. Accordingly, you should ensure that it is posted, delivered or lodged online in sufficient time for it to be received by the Creso Pharma Registry by that time. In addition, as this is not a business day, if you intend to mail your proxy form or return it in person, you should ensure that you allow sufficient time for it to be received by the Creso Pharma Registry by close of business (WST) on Friday, 8 November 2019.</p> <p>If you are entitled to cast two or more votes, you may appoint two proxies. You may specify the names of each proxy. You may specify the proportion or the number of votes that each proxy is appointed to exercise. If numbers or proportions of votes are not specified, each proxy may exercise half of the votes you are entitled to cast. Fractions of votes will be disregarded.</p> <p>If you hold Creso Pharma Listed Options jointly with one or more other persons, in order for your proxy appointment to be valid, each of you must sign the Proxy Form.</p> <p>A proxy may, but need not be, a Creso Pharma Listed Optionholder.</p> <p>If a proxy is instructed to abstain from voting on any item of business, that person is directed not to vote on the Creso Pharma Listed Optionholder's behalf on a poll and the Creso Pharma Listed Options the subject of the proxy appointment will not be counted in computing the required majority.</p> <p>If a proxy is not directed how to vote on an item of business, the proxy may vote or abstain from voting, as that person thinks fit.</p> <p>If an appointment directs the way the proxy is to vote on the resolution:</p> <ul style="list-style-type: none"> • if the proxy is the chair - the proxy must vote on the poll and must vote in the way directed; and • if the proxy is not the chair - the proxy need not vote on the poll, but if the proxy does so, the proxy must vote in the way directed. <p>Creso Pharma Listed Optionholders who return their proxy forms with a direction on how to vote but without nominating the identity of their proxy will be taken to have appointed the chairman of the Option Scheme Meeting as their proxy to vote on their behalf.</p> <p>Creso Pharma confirms that it will appoint an independent lawyer to act as chairman of the Option Scheme Meeting.</p> <p>If:</p> <ul style="list-style-type: none"> • a Creso Pharma Listed Optionholder nominates the chairman of the Option Scheme Meeting as their proxy; or • the chairman of the Option Scheme Meeting is otherwise appointed to act as proxy, <p>then the person acting as chairman of the Option Scheme Meeting in respect of an item of business at the meeting must act as proxy in respect of the resolution to be considered at the Option Scheme Meeting.</p> <p>If a proxy form is returned but the nominated proxy does not attend the Option Scheme Meeting or attends but does not vote on the poll, the chairman of the Option Scheme Meeting will act in place of the nominated proxy and vote in accordance with any instructions.</p> <p>The chairman of the Option Scheme Meeting intends to vote undirected proxies of which he is appointed as proxy in favour of the resolution to approve the Option Scheme (in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Option Scheme is in the best interest of Creso Pharma Listed Optionholders).</p> <p>A vote cast in accordance with the appointment of a proxy is valid even if before the vote was cast the appointor:</p> <ul style="list-style-type: none"> • died; • became mentally incapacitated; • revoked the power; or • transferred the Creso Pharma Listed Options in respect of which the vote was cast, <p>unless Creso Pharma received written notification of the death, mental incapacity, revocation or transfer before the meeting or, if applicable, the resumption of any adjourned meeting.</p> <p>Appointing a proxy will not preclude you from attending the Option Scheme Meeting in person and voting at the Option Scheme Meeting instead of your proxy. In this scenario the appointment of your proxy is not revoked but your proxy must not speak or vote at the meeting while you are so present.</p>

Means	Voting Instructions
<p>By Power of Attorney</p>	<p>Your vote may be cast by a duly authorised attorney. An attorney need not be a Creso Pharma Listed Optionholder.</p> <p>If you intend to appoint an attorney to attend the Option Scheme Meeting and vote on your behalf, you may do so by providing a power of attorney duly executed by you in the presence of at least one witness, and specifying your name, the company (that is, Creso Pharma Limited), and the attorney, and also specify the meeting at which the appointment may be used. The appointment may be a standing one.</p> <p>The original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by Automic by no later than 10:30am (WST) on Saturday, 9 November 2019. In addition, as this is not a business day, if you intend to provide the relevant document by mail or in person, you should ensure that you allow sufficient time for it to be received by the Creso Pharma Registry by close of business (WST) on Friday, 8 November 2019.</p> <p>The power of attorney must be delivered by posting it to Automic in accordance with the instructions on the Proxy Form.</p> <p>Alternatively, the attorney may bring a certified copy of the power of attorney to the Option Scheme Meeting.</p> <p>Your appointment of an attorney does not preclude you from attending in person and voting at the Option Scheme Meeting. The appointment of your attorney is not revoked merely by your attendance and taking part in the Option Scheme Meeting, but if you vote on a resolution, the attorney is not entitled to vote, and must not vote, as your attorney on that resolution.</p> <p>A vote cast in accordance with the appointment of a power of attorney is valid even if before the vote was cast the appointor:</p> <ul style="list-style-type: none"> • died; • became mentally incapacitated; • revoked the power; or • transferred the Creso Pharma Listed Options in respect of which the vote was cast, <p>unless Creso Pharma received written notification of the death, mental incapacity, revocation or transfer before the meeting or, if applicable, the resumption of any adjourned meeting.</p>
<p>By Corporate Representative</p>	<p>A Creso Pharma Listed Optionholder that is a body corporate may appoint an individual to act as its representative at the Option Scheme Meeting.</p> <p>To vote by corporate representative at the Option Scheme Meeting, a corporate Creso Pharma Listed Optionholder should obtain an “Appointment of Corporate Representative” form from Automic and complete that form in accordance with its instructions.</p> <p>Corporate representative appointment forms should be provided to Automic by no later than 10:30am (WST) on Saturday, 9 November 2019, or alternatively brought to the Option Scheme Meeting. In addition, as this is not a business day, if you intend to provide this form by mail, you should ensure that you allow sufficient time for it to be received by the Creso Pharma Registry by close of business (WST) on Friday, 8 November 2019.</p>
<p>Further Information</p>	<p>For further information, you can call Automic on 1300 636 752 (within Australia) or +61 2 8318 7933 (outside Australia).</p>

Jointly Held Creso Pharma Listed Options

If the Creso Pharma Listed Options are jointly held, only one of the joint optionholders is entitled to vote. If more than one Creso Pharma Listed Optionholder votes in respect of jointly held Creso Pharma Listed Options, only the vote of the Creso Pharma Listed Optionholder whose name appears first on the Creso Pharma Register will be counted.

Advertisement

Where this notice of meeting is advertised unaccompanied by the Scheme Booklet, a copy of the Scheme Booklet can be obtained by anyone entitled to attend the Option Scheme Meeting from Creso Pharma’s website <https://www.cresopharma.com>, or by contacting the Company Secretary of Creso Pharma Limited or the Creso Pharma Registry.

ANNEXURE I - COMPARISON OF AUSTRALIAN AND CANADIAN LAWS AND A SUMMARY OF THE RIGHTS ATTACHING TO NEW PHARMACIELO SHARES

	CRESO PHARMA	PHARMACIELO
Meeting of Shareholders - Notice of Meetings	<p>Notice of a general meeting of Creso Pharma Shareholders must be given at least 28 days before the date of the meeting. Creso Pharma Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of Creso Pharma.</p> <p>No business shall be transacted at any general meeting unless a quorum is present comprising two Creso Pharma Shareholders present in person, by proxy, attorney or representative. If a quorum is not present within 30 minutes after the time appointed for a general meeting, the meeting, if convened upon a requisition shall be dissolved, but in any other case, it shall stand adjourned to a date and at the time and place to be fixed by the Directors. If at such adjourned meeting a quorum is not present within 30 minutes after the time appointed for the adjourned meeting, the meeting is dissolved.</p>	<p>The British Columbia Business Corporations Act (Canada) (BCBCA) requires that at least 21 days' notice and not more than 60 days' notice be given for all meetings. In addition, as a 'reporting issuer' under Canadian securities legislation, PharmaCielo must make an advance notice filing, giving notice of the meeting and record date to all depositaries, to the applicable securities regulatory authority and TSX-V prior to the record date (subject to the fulfilment of certain conditions). Under the BCBCA, the record date for determining who the shareholders are for the purposes of receiving notice of a meeting must not be less than 21 days nor more than 60 days prior to the date for the meeting, and the record date for determining which shareholder may vote at the meeting must not be more than 60 days prior to the date for the meeting. Under applicable securities laws, the record date for notice must not be less than 30 days or more than 60 days in advance of the meeting date, subject to certain exceptions.</p> <p>Under the BCBCA, PharmaCielo is required to give notice only to registered shareholders entitled to attend the meeting as well as its directors and auditors. Under applicable Canadian securities laws, PharmaCielo is also required to give notice to certain beneficial shareholders.</p> <p>Management proxy circulars, in the required form, are required to be provided under applicable Canadian securities laws for any solicitation of proxies by management.</p> <p>PharmaCielo's articles provide that if a meeting of shareholders is adjourned for less than 30 days, it is not necessary to give notice of the adjourned meeting, and no business shall be transacted at an adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.</p> <p>PharmaCielo's articles provide that, subject to the special rights and restrictions attached to the shares of any class or series of shares, the presence of two persons present in person or represented by proxy, shareholders in the aggregate, hold at least 5%, will constitute a quorum for that meeting. A quorum need not be present throughout the meeting provided a quorum is present at the opening of the meeting.</p>

	CRESO PHARMA	PHARMACIELO
Meeting of Shareholders – Voting Entitlements	<p>Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of Creso Pharma Shareholders:</p> <ul style="list-style-type: none"> (i) each Creso Pharma Shareholder entitled to vote may vote in person or by proxy, attorney or representative; (ii) on a show of hands, every person present who is a Creso Pharma Shareholder or a proxy, attorney or representative of a Creso Pharma Shareholder has one vote; and (iii) on a poll, every person present who is a Creso Pharma Shareholder or a proxy, attorney or representative of a Creso Pharma Shareholder shall, in respect of each fully paid Creso Pharma Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for each Creso Pharma Share held, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such Creso Pharma Shares registered in the Creso Pharma Shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited). <p>At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded by:</p> <ul style="list-style-type: none"> (i) the chairman of the meeting; (ii) at least 5 Creso Pharma Shareholders present in person or by proxy, attorney or representative having the right to vote on the resolution; or (iii) any one or more Creso Pharma Shareholders holding not less than 5% of the total voting rights of all Creso Pharma Shareholders having the right to vote on the resolution. <p>Subject to the requirements of the Corporations Act and the Creso Pharma Constitution, a resolution is taken to be carried if a majority of the votes cast on the resolution are in favour of it.</p> <p>The Corporations Act requires certain matters to be resolved by a special resolution of the shareholders of a company, including:</p> <ul style="list-style-type: none"> (i) amending or repealing the constitution of the company; (ii) changing the name of the company; (iii) changing the type of the company; (iv) conducting a selective reduction of capital or selective share buy-back; and (v) deciding to voluntarily wind up the company. <p>A special resolution must be passed by at least 75% of the votes cast by Creso Pharma Shareholders entitled to vote.</p> <p>The Creso Pharma Constitution also requires certain matters to be resolved by a special resolution of Creso Pharma Shareholders, including the variation of class rights attaching to shares and the exercise of powers by a liquidator on a winding up.</p>	<p>Unless the BCBCA requires a special resolution, resolutions are passed by a simple majority of votes cast on the resolution. PharmaCielo's articles provide that a special resolution must be passed by a majority of not less than two-thirds of the votes cast by shareholders entitled to vote.</p> <p>Under the BCBCA, in general, ordinary resolutions are required for matters that do not significantly affect a company or its value. Special resolutions are required to approve matters with significant consequences to a company. The BCBCA requires certain matters to be approved by special resolution, including, among other matters:</p> <ul style="list-style-type: none"> (i) amendment to the company's articles, in certain circumstances; (ii) amalgamation with another arm's length company; (iii) continuance under the laws of another jurisdiction; and (iv) the sale, lease or disposition otherwise of all or substantially all of the company's undertaking other than in the ordinary course of business. <p>Pursuant to PharmaCielo articles, any meeting of shareholders that is not an annual general meeting, all business is special business except relating to the conduct of or voting at the meeting. In addition, at an annual general meeting, all business of PharmaCielo must be passed by special resolution except for the following:</p> <ul style="list-style-type: none"> (i) business relation to the conduct of or voting at the meeting; (ii) consideration of any financial statements of the company presented to the meeting; (iii) consideration of any reports of the directors or auditor; (iv) the setting or changing of the number of directors; (v) the election or appointment of directors; (vi) the appointment of an auditor; (vii) the setting of remuneration of an auditor; (viii) business arising out of a report of the directors not requiring the passing of a special resolution or an exceptional resolution; and (ix) any business which under the Articles of the company or the BCBCA may be transacted at a meeting of shareholders without prior notice of the business being given to the shareholders. <p>The BCBCA provides that, unless a company's articles provide otherwise, each share of a company entitles the holder to one vote at a meeting of shareholders. Except in certain circumstances, a vote may be held on a show of hands. On a show of hands, each holder of PharmaCielo Shares present in person or by proxy and entitled to vote has one vote. If a ballot is called, each holder of PharmaCielo Shares present in person or by proxy will have one vote for each PharmaCielo Share held. PharmaCielo's articles provide that a ballot may be demanded by the chair of a meeting or any shareholder or proxyholder entitled to vote at the meeting. The BCBCA also provides that holders of shares of a class or a series are entitled to vote separately as a class or series on certain proposals to amend the articles that affect the rights of such holders, whether or not such shares carry the right to vote.</p> <p>Applicable securities laws allow the PharmaCielo Board to specify in a notice calling a meeting of shareholders a time, not exceeding 48 hours (excluding Saturdays and holidays) preceding the meeting or an adjournment of the meeting, before which time proxies to be used at the meeting must be deposited with the company or its agent, unless the chairman of the meeting elects to exercise his/her discretion to accept proxies received subsequently.</p>

	CRESO PHARMA	PHARMACIELO
Meeting of Shareholders – Shareholders’ Rights to Bring a Resolution Before a Meeting	<p>The Corporations Act prescribes that Creso Pharma Shareholders holding at least 5% of the votes that may be cast on a resolution or at least 100 Creso Pharma Shareholders who are entitled to vote at a general meeting may, by written notice to Creso Pharma, propose a resolution for consideration at the next general meeting.</p>	<p>Under the BCBCA, a proposal may be made by certain registered or beneficial holders of shares entitled to be voted at an annual meeting of shareholders. To be eligible to submit such a proposal, a shareholder must be the registered or beneficial holder of, or have the support of the registered or beneficial holders of:</p> <ul style="list-style-type: none"> (i) at least 1% of the total number of outstanding voting shares of the company; or (ii) voting shares whose fair market value is at least C\$2,000. <p>Such registered or beneficial holder(s) must have held such shares for an uninterrupted period of at least 2 years immediately prior to the date of the signing of the proposal and such shareholder shall not have, within 2 years before the date of the signing of the proposal, failed to present, in person or by proxy, at an annual general meeting, an earlier proposal submitted by such shareholder in response to which the company complied with its obligations under the BCBCA. A proposal under the BCBCA must include the name and address of the person submitting the proposal, the names and addresses of the person’s supporters, and the number of shares of the company carrying the right to vote at annual general meetings that are owned by such person(s).</p> <p>If the proposal is submitted at least 3 months before the anniversary date of the previous annual meeting and the proposal meets other specified requirements, then the company shall either set out the proposal, including the names and mailing addresses of the submitting person and supporters, in the proxy circular of the company, or attach the proposal thereto. In addition, if provided by the person submitting the proposal, the company shall include in or attach to the proxy circular a statement in support of the proposal by the person and the name and address of such person.</p> <p>If the submitter is a qualified shareholder at the time of the annual general meeting to which its proposal relates, the company must allow the submitter to present the proposal, in person or by proxy, at such meeting. If 2 or more proposals received by the company in relation to the same annual general meeting are substantially the same, the company only needs to comply with such requirements in relation to the first proposal received and not any others. The company may also refuse to process a proposal in certain other circumstances including when the directors have called an annual general meeting to be held after the date the proposal is received and have sent a notice of meeting, when substantially the same proposal was submitted to shareholders in a notice of meeting or an information circular relating to an annual general meeting of shareholders held within 5 years preceding the receipt of the request and the proposal did not obtain the prescribed level of support, or when a proposal deals with matters beyond the company’s power to implement.</p> <p>If a company refuses to process a proposal, the company shall notify the person making such proposal in writing within 21 days after its receipt of the proposal of its decision in relation to the proposal and the reasons therefore. In any such event, the person submitting the proposal may make application to a court for a review of the company’s decision and a court may restrain the holding of the annual general meeting and make any further order it considers appropriate. In addition, a company may apply to a court for an order permitting the company to refrain from processing the proposal and the court may make such order as it considers appropriate.</p>
Directors – Directors’ Management of the Business of the Company	<p>Subject to the Corporations Act, the Listing Rules and the Creso Pharma Constitution, the business of Creso Pharma shall be managed by the Creso Pharma Directors, who may pay all expenses incurred in promoting and forming Creso Pharma, and may exercise all such powers of Creso Pharma as are not, by the Corporations Act or the Listing Rules or by the Creso Pharma Constitution, required to be exercised by Creso Pharma in general meeting.</p>	<p>The BCBCA provides that the directors of a corporation shall manage, or supervise the management of, the business and affairs of the corporation. Subject to the articles, the directors may appoint officers of the corporation and may specify their duties.</p> <p>PharmaCielo’s articles provide that the directors may, for each officer:</p> <ul style="list-style-type: none"> (i) determine the functions and duties of the officer; (ii) delegate to the officer any of the powers exercisable by the directors on such terms and conditions and with such restrictions as the directors think fit; and (iii) revoke, withdraw, alter or vary all or any of the functions, duties and powers of the officer.

	CRESO PHARMA	PHARMACIELO
Directors – Number and Election of Directors	<p>The Creso Pharma Constitution provides that Creso Pharma must have no less than three and no more than nine directors. The Creso Pharma Board may at any time appoint any person to be a Creso Pharma Director, either to fill a casual vacancy or as an addition to the existing Creso Pharma Directors. Additional Creso Pharma Directors may also be appointed by a resolution passed in general meeting.</p> <p>In accordance with the Corporations Act, two Creso Pharma Directors must ordinarily reside in Australia.</p> <p>At Creso Pharma's annual general meeting in every year, one-third of the Creso Pharma Directors, or, if their number is not a multiple of three, then the number nearest one-third (rounded upwards in case of doubt), shall retire from office, provided always that no Creso Pharma Director except a Managing Director shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself for re-election. A retiring Creso Pharma Director is eligible for re-election.</p>	<p>The BCBCA and PharmaCielo's articles set a minimum of 3 directors so long as PharmaCielo is a public company. The BCBCA does not contain residency requirements for directors. PharmaCielo's articles provide that the election of directors shall take place at each annual meeting of shareholders and all the directors then in office shall retire but, if qualified, shall be eligible for re-election. The number of directors to be elected must be the number then in office unless the directors or shareholders determine otherwise. Casual vacancies between annual meetings may be filled by the PharmaCielo Board, and the PharmaCielo Board has the power to appoint as additional directors up to one-third of the number of directors elected at the previous annual meeting.</p>
Directors – Removal of Directors	<p>Creso Pharma Shareholders may by resolution remove any Creso Pharma Director before the expiration of his period of office and may by resolution appoint another person in his place.</p>	<p>The BCBCA provides that the shareholders of a company may, by special resolution, remove any director or directors from office.</p> <p>The PharmaCielo Directors cannot themselves remove a director from his or her office or require a director to vacate his or her office, unless the director is convicted of an indictable offence or if the director ceases to be qualified to act as a director of a company and does not promptly resign as required by PharmaCielo's articles.</p>
Amendments to Constituent Documents	<p>In accordance with the Corporations Act, the Creso Pharma Constitution can only be amended by a special resolution passed by at least three quarters of Creso Pharma Shareholders present and voting at the general meeting. In addition, at least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.</p>	<p>PharmaCielo's constituent documents consist of its notice of articles and articles. Under the BCBCA, the notice of articles are the base constituent document of a company and set out details including the company's name, the mailing and delivery address of the registered and records offices of the company, the classes and number of shares the company is authorised to issue (and, where applicable, the rights, privileges, restrictions and conditions attaching to each class or series of shares), and the full name of, and prescribed address for, each of the directors. Subject to the BCBCA, the articles regulate the business and affairs of the company and provide for matters including meetings, elections of the board of directors and appointment of officers, filling of vacancies, notices, types and duties of officers, committees and other routine conduct.</p> <p>In accordance with the BCBCA, any amendment to PharmaCielo's articles must be approved by the type of resolution specified by the BCBCA and/or PharmaCielo's articles, in the particular circumstances. Pursuant to PharmaCielo's articles, alterations to the company's articles may be made by ordinary resolution if the BCBCA is silent on the type of resolution required for such alteration. A shareholder entitled to vote at an annual meeting of shareholders and who has been a registered owner or beneficial owner of one or more such shares for an uninterrupted period of at least 2 years before the date of signing of the proposal may also make a proposal by way of written notice setting out a matter that the submitter wishes to have considered at the next annual general meeting in accordance with the procedure described above.</p>

	CRESO PHARMA	PHARMACIELO
Issue of New Shares	<p>Subject to restrictions on the issue or grant of securities contained in the ASX Listing Rules, the Creso Pharma Constitution and the Corporations Act (and without affecting any special right previously conferred on the holders of any existing shares or class of shares), the Creso Pharma Directors may issue Creso Pharma Shares as they shall, in their absolute discretion, determine.</p> <p>In accordance with ASX Listing Rule 7.1, Creso Pharma may, during any 12 month period, issue or agree to issue that number of equity securities which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period. ASX Listing Rule 7.2 sets out several exceptions to ASX Listing Rule 7.1 including the issue of securities under a pro rata issue or a securities purchase plan.</p> <p>In addition, as Creso Pharma is an eligible entity (as defined within the Listing Rules), it may seek the approval of Creso Pharma Shareholders by special resolution passed at an annual general meeting to have the capacity to issue up to that number of quoted equity securities equal to 10% of its issued capital without using its existing 15% annual placement capacity granted under ASX Listing Rule 7.1.</p> <p>Subject to certain exceptions, Listing Rules 10.11 and 10.14 require the approval of Creso Pharma Shareholders by ordinary resolution in order for Creso Pharma to issue securities to related parties.</p>	<p>According to PharmaCielo's articles, PharmaCielo is authorised to issue an unlimited number of common shares and an unlimited number of preferred shares. Subject to the BCBCA, shares may be issued for such consideration as the directors may determine.</p> <p>Shares issued by a BCBCA regulated company are non- assessable and may only be issued if consideration for such shares is fully paid.</p> <p>As PharmaCielo is listed on the TSX-V, PharmaCielo will be subject to the policies of the TSX-V in relation to the issue of securities. Below is an overview of the various TSX-V policies in relation to the issue of securities (references relate to the TSX Venture Exchange Corporate Finance Manual, which can be viewed in its entirety at the following link: https://www.tsx.com/resource/en/701).</p> <p>For distributions of listed securities in reliance on a prospectus exemption (for example, a private placement), the TSX-V must provide final acceptance of a private placement and may require shareholder approval: if the issuance of the shares through the private placement and the listed shares issued upon conversion of a convertible security will result in a new control person, if the issuance of securities pursuant to the private placement is in relation to a defensive tactic to a takeover bid, or if the issuance of securities constitutes a related party transaction. Shareholder approval may be obtained by ordinary resolution.</p> <p>If the issuance of securities pursuant to a private placement constitutes a related party transaction, or any transaction where the number of securities issued or issuable to non-arm's length parties as a group as payment for the price of an acquisition, exceeds 10% of the number of securities outstanding on a non-diluted basis, shareholder approval will be required and the related party may not vote their securities.</p> <p>The TSX-V also requires shareholder approval of securities-based compensation arrangements, including any compensation or mechanism involving the potential issuance of securities from treasury. The TSX-V prescribes specific disclosure requirements for the materials provided to PharmaCielo Shareholders for the purposes of such approval, including all material information that shareholders may reasonably require to approve the arrangements. Certain substantive requirements are imposed that must be complied with: exercise prices for any stock options granted under a security based compensation arrangement may not be lower than the last market price of the securities prior to the date the stock options are granted; there must be a maximum number or percentage of securities issuable under such compensation arrangement; and most amendments also require shareholder approval.</p>
Variation of Class Rights	<p>If at any time the share capital of Creso Pharma is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not Creso Pharma is being wound up, may be varied or abrogated with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.</p>	<p>The BCBCA provides that rights attaching to a class or series of shares may not be prejudiced or interfered with unless the shareholders of the class or series of shares consent by a separate special resolution.</p>

	CRESO PHARMA	PHARMACIELO
<p>Protection of Minority Shareholders/ Oppression Remedy</p>	<p>Under the Corporations Act, any Creso Pharma Shareholder can bring an action in cases of conduct which is contrary to the interests of Creso Pharma Shareholders as a whole, or oppressive to, unfairly prejudicial to, or unfairly discriminatory against, any Creso Pharma Shareholder(s), whether in their capacity as a Creso Pharma Shareholder or in any other capacity. Former Creso Pharma Shareholder can also bring an action if it relates to the circumstances in which they ceased to be a Creso Pharma Shareholder.</p> <p>A statutory derivative action may also be instituted by a Creso Pharma Shareholder, a former Creso Pharma Shareholder or a person entitled to be registered as a Creso Pharma Shareholder. In all cases, leave of the court is required to bring an action. Such leave will be granted if the court is satisfied that:</p> <ul style="list-style-type: none"> (i) it is probable that Creso Pharma will not itself bring the proceedings or properly take responsibility for them or for the steps in them; (ii) the applicant is acting in good faith; (iii) it is in the best interests of Creso Pharma that the applicant be granted leave; (iv) if the applicant is applying for leave to bring proceedings, there is a serious question to be tried; and (v) either at least 14 days before making the application, the applicant gave written notice to Creso Pharma of the intention to apply for leave and the reasons for applying, or it is otherwise appropriate to grant leave. <p>In addition to the above, a Creso Pharma Securityholder may be able to bring a claim against Creso Pharma based on the general laws of contract, tort or other laws applicable in Australia.</p>	<p>Canadian securities laws provide certain procedural protections for securityholders, including minority approval rights, valuation requirements and enhanced disclosure requirements, for certain non-arm's length transactions such as issuer bids, insider bids, related party transactions and business combinations.</p> <p>The BCBCA provides that on the application of one or more PharmaCielo shareholders who, in aggregate, hold at least 20% of the issued shares of PharmaCielo, may apply to the Supreme Court of British Columbia for an order to appoint an inspector to conduct an investigation of PharmaCielo, and to determine the manner and extent of the investigation. Under the BCBCA, a company may also, by special resolution, appoint an inspector to investigate the affairs and management of the company, and to report in the manner and to the persons the resolution directs.</p> <p>For the court to make such an order of investigation, among other requirements, it must appear to the court that there are reasonable grounds for believing that: (a) the affairs of the company are being or have been conducted, or the powers of the directors are being or have been exercised, in a manner that is oppressive or unfairly prejudicial to one or more shareholders, within the meaning of the BCBCA, including the applicant; (b) the business of the company is being or has been carried on with intent to defraud any person; (c) the company was formed for a fraudulent or unlawful purpose or is to be dissolved for a fraudulent or unlawful purpose; or (d) persons concerned with the formation, business or affairs of the company have, in connection with it, acted fraudulently or dishonestly.</p> <p>In addition, a shareholder (which, for the purposes of the relevant section of the BCBCA, includes a beneficial owner of a share of the company and any other persons whom the court considers to be appropriate persons to make an application under the relevant section of the BCBCA) who applies to the court for an order on the grounds that:</p> <ul style="list-style-type: none"> (i) the affairs of PharmaCielo are being or have been conducted, or that the powers of the directors are being or have been exercised, in a manner oppressive to one or more of the shareholders, including the applicant; or (ii) some act of PharmaCielo has been done or is threatened, or that some resolution of the shareholders has been passed or is proposed, that is unfairly prejudicial to one or more of the shareholders, including the applicant. <p>This remedy is known as the 'oppression remedy'. The powers of the court under the BCBCA in making an order are broad – it may make any order it considers appropriate, including, but not limited to, an order directing or prohibiting any act, removing any director, varying and setting aside a transaction, or directing that a company be liquidated and dissolved.</p> <p>Representative shareholder actions or derivative actions are also available under the BCBCA to 'complainants' (which includes shareholders and directors of the company, and any other person whom the court considers appropriate to bring a derivative action). The statutory provisions of the BCBCA allow complainants to prosecute a legal proceeding in the name and on behalf of the company: (a) to enforce a right, duty or obligation owed to the company that could be enforced by the company itself, or (b) to obtain damages for any such breach of said right, duty or obligation. The BCBCA also allows complainants to defend a legal proceeding brought against the company.</p> <p>To bring a derivative action or defend a legal proceeding brought against a company under the BCBCA, it is first necessary to obtain the leave of the court. The granting of leave is not automatic but requires the court to exercise judicial discretion. The court may grant leave, on terms it considers appropriate, if:</p> <ul style="list-style-type: none"> (i) the complainant has made reasonable efforts to cause the directors of the company to prosecute or defend the legal proceeding; (ii) notice of the application for leave has been given to the company and to any other person the court may order; (iii) the complainant is acting in good faith; and (iv) it appears to the court that it is in the best interests of the company for the legal proceeding to be prosecuted or defended. <p>The court has broad powers to direct the conduct of any such legal proceeding. No legal proceeding prosecuted or defended under the derivative actions provisions of the BCBCA may be discontinued, settled or dismissed without the approval of the court.</p> <p>The BCBCA provides that shareholders, whether or not the shareholders' shares carry the right to vote, are entitled to exercise dissent rights and demand payment for the fair value of their shares, provided that they comply strictly with the requirements in the BCBCA. Dissent rights exist when there is a vote upon matters such as:</p> <ul style="list-style-type: none"> (i) altering the articles to alter restrictions on the powers of the company or on the business it is permitted to carry on; (ii) adopting an amalgamation agreement; (iii) approving an amalgamation into a foreign jurisdiction; (iv) approving an arrangement, the terms of which arrangement permit dissent; (v) authorising or ratifying the sale, lease or other disposition of all or substantially all of the company's undertaking; (vi) authorising the continuation of the company into a jurisdiction other than British Columbia; (vii) any other resolution, if dissent is authorised by the resolution; or (viii) any court order permitting dissent. <p>However, a shareholder is not entitled to dissent in certain circumstances as provided in the BCBCA, including if the court determines that the dissenter is not entitled to dissent.</p>

	CRESO PHARMA	PHARMACIELO
Source and Payment of Dividends	<p>The Creso Pharma Constitution provides that subject to the rights of any preference shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividend, the Creso Pharma Directors may from time to time declare a dividend to be paid to the Creso Pharma Shareholders entitled to the dividend which shall be payable on all Creso Pharma Shares according to the proportion that the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) in respect of such Creso Pharma Shares.</p> <p>The Creso Pharma Directors may from time to time pay to the Creso Pharma Shareholders any interim dividends as they may determine. No dividend shall carry interest as against Creso Pharma. The Creso Pharma Directors may set aside out of the profits of Creso Pharma any amounts that they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of Creso Pharma may be properly applied.</p> <p>Subject to the ASX Listing Rules and the Corporations Act, Creso Pharma may, by resolution of the Creso Pharma Directors, implement a dividend reinvestment plan on such terms and conditions as the Creso Pharma Directors think fit and which provides for any dividend which the Creso Pharma Directors may declare from time to time payable on Creso Pharma Shares which are participating Creso Pharma Shares in the dividend reinvestment plan, less any amount which Creso Pharma shall either pursuant to the Creso Pharma Constitution or any law be entitled or obliged to retain, be applied by Creso Pharma to the payment of the subscription price of Creso Pharma Shares.</p>	<p>The BCBCA provides that a company may pay a dividend – out of profits, capital, or otherwise – by issuing shares or warrants or (subject to the following sentence) in property, including in money. A company may declare or pay a dividend in property, including in money, unless there are reasonable grounds for believing that the company is insolvent, or the payment of the dividend would render the company insolvent. 'Insolvent' under the BCBCA means, in relation to a company, unable to pay its debts as they become due in the ordinary course of business. Dividends may be subject to withholding taxes.</p>
Remuneration of Directors and Officers	<p>The total maximum remuneration of non-executive Creso Pharma Directors is initially set by the constitution of Creso Pharma and subsequent variation is by ordinary resolution of Creso Pharma Shareholders in general meeting in accordance with the Creso Pharma Constitution, the Corporations Act and the ASX Listing Rules. The determination of non-executive Creso Pharma Directors' remuneration within that maximum will be made by the Creso Pharma Board having regard to the inputs and value to Creso Pharma of the respective contributions by each non-executive Creso Pharma Director. The current amount has been set at an amount not to exceed \$300,000 per annum.</p> <p>The Corporations Act requires that at a listed company's annual general meeting, a resolution that the remuneration report be adopted must be put to the shareholders. However, such a resolution is advisory only and does not bind the company or the directors of the company.</p> <p>A company is required to put to its shareholders a resolution proposing the calling of another meeting of shareholders to consider the appointment of directors of the company (Spill Resolution) if, at consecutive annual general meetings, at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report and at the first of those annual general meetings a Spill Resolution was not put to vote. If required, the Spill Resolution must be put to vote at the second of those annual general meetings.</p> <p>If more than 50% of votes cast are in favour of the Spill Resolution, the company must convene a shareholder meeting (Spill Meeting) within 90 days of the second annual general meeting.</p> <p>All of the directors of the company who were in office when the directors' report (as included in the company's annual financial report for the most recent financial year) was approved, other than the managing director of the company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting.</p> <p>Following the Spill Meeting those persons whose election or re-election as directors of the company is approved will be the directors of the company.</p>	<p>Under PharmaCielo's articles, the directors may fix the remuneration of the directors, officers and employees of PharmaCielo. Under applicable Canadian securities laws, a statement of executive compensation in a prescribed form is required to be included in the management proxy circular in connection with a PharmaCielo meeting: (a) that is an annual general meeting; (b) at which the company's directors are to be elected; or (c) at which the company's shareholders will be asked to vote on a matter relating to executive compensation.</p>

	CRESO PHARMA	PHARMACIELO
Retirement Benefits	<p>The Corporations Act and the ASX Listing Rules place restrictions upon the payment of retirement benefits to a person in connection with a person's retirement from a board or managerial office. The Corporations Act prohibits the giving of a benefit in connection with a person's retirement from a board or managerial office unless the relevant benefit falls within one of the exceptions or is below the prescribed monetary threshold.</p> <p>Additionally, the Listing Rules provide that Creso Pharma must ensure that no officer of the company may be entitled to termination benefits (or any increase in them) if a change occurs in the shareholding or control of Creso Pharma. Further, Creso Pharma Shareholder approval is required if the value of the termination benefits that are or may become payable to all officers together exceeds 5% in aggregate of Creso Pharma equity interests (as stated in the latest accounts).</p>	<p>PharmaCielo is not subject to any restrictions on the quantum of retirement benefits that it may pay to its directors and officers.</p>
Fiduciary Duties of Directors and Officers	<p>Directors are subject to a wide range of common law duties and statutory duties under the Corporations Act, including the:</p> <ul style="list-style-type: none"> (i) duty to act in good faith in the interests of the company as a whole; (ii) duty not to act for an improper purpose; (iii) duty of care and diligence; (iv) duty to avoid conflicts of interest; (v) duty not to disclose confidential information; (vi) duty not to abuse corporate opportunities; (vii) duty to act with care and diligence; (viii) duty not to misuse position or information; (ix) duty to disclose a material personal interest; and (x) duty to prevent the company trading whilst insolvent. 	<p>In accordance with the BCBCA, applicable Canadian securities laws and Canadian common law, every director and officer of PharmaCielo, in exercising their powers and discharging their duties, must:</p> <ul style="list-style-type: none"> (i) act honestly and in good faith with a view to the best interests of PharmaCielo (commonly referred to as the 'duty of loyalty'); (ii) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances (commonly referred to as the 'duty of care'); (iii) avoid conflicts of interest; (iv) act in accordance with the BCBCA and the corresponding regulations; and (v) in accordance with PharmaCielo's articles.
Release from Liability and Indemnification of Directors and Officers	<p>Creso Pharma and its Related Bodies Corporate cannot exempt an officer from liability to it incurred in his capacity as an officer or indemnify an officer against a liability owed to it or a Related Body Corporate. However, Creso Pharma may indemnify an officer against a liability owed to someone other than Creso Pharma or a Related Body Corporate (and also the cost of any related legal proceedings), provided the liability does not arise out of conduct involving a lack of good faith or the liability is not a penalty or compensation order made under the Corporations Act. For the purposes of these provisions, an 'officer' includes a director, secretary or senior manager of Creso Pharma.</p> <p>Creso Pharma has entered into a deed of indemnity, insurance and access with each of the Creso Pharma Directors. Under these deeds, Creso Pharma agrees to indemnify each officer to the extent permitted by the Corporations Act against any liability arising as a result of the officer acting as an officer of Creso Pharma and its Related Bodies Corporate.</p>	<p>PharmaCielo's articles require PharmaCielo to indemnify its directors and officers, and former directors and officers, and alternate directors, and their respective heirs and personal or other legal representatives, against all eligible penalties to which such person may be liable, as permitted by the BCBCA. The BCBCA allows a company to indemnify an eligible party (directors, officers and former directors and officers) against all judgments, penalties or fines awarded or imposed in, or an amount paid in settlement of, a proceeding in which an eligible party, by reason of being or having been a director or officer of the company or holding or having held an equivalent position, is or may be joined as a party, or is or may be liable for any expenses related to such proceedings or fines.</p> <p>PharmaCielo's articles and the BCBCA also provide that PharmaCielo must pay the expenses reasonably actually and reasonably incurred by such eligible party after the final disposition of a proceeding. PharmaCielo may not indemnify any eligible party described above unless the eligible party:</p> <ul style="list-style-type: none"> (i) acted honestly and in good faith with a view to the best interests of PharmaCielo or, as the case may be, to the best interests of the associated entity for which he or she acted as a director or officer or in a similar capacity; and (ii) in the case of an eligible proceeding other than a civil proceeding, the individual had reasonable grounds for believing that his or her conduct in respect of which the proceeding was brought was lawful. <p>Furthermore, under the BCBCA, a director or officer or former director or officer that meets the two conditions above and is, after final disposition of a proceeding, wholly successful, on the merits or otherwise, in the outcome of the proceeding or is substantially successful on the merits in the outcome of the proceeding, is entitled to mandatory payment from PharmaCielo in respect of all expenses actually and reasonably incurred by the eligible party in respect of that proceeding provided the eligible party has not been reimbursed for those expenses.</p> <p>The BCBCA and PharmaCielo's articles also authorise PharmaCielo to purchase and maintain liability insurance for the benefit of the eligible parties described against any liability incurred by an eligible party in his or her capacity as director or officer, or equivalent position, of PharmaCielo or an associated corporation.</p>

	CRESO PHARMA	PHARMACIELO
<p>Transactions Involving Directors, Officers, or Related Parties</p>	<p>The Corporations Act prohibits Creso Pharma from giving a related party a financial benefit unless it:</p> <ul style="list-style-type: none"> (i) obtains the approval of Creso Pharma Shareholders and gives the benefit within 15 months after such approval; or (ii) the giving of the benefit falls within one of the prescribed exceptions (including, but not limited to the payment of reasonable remuneration and the giving of a financial benefit on arm's length terms). <p>In accordance with the Listing Rules, Creso Pharma must obtain the approval of Creso Pharma Shareholders prior to issuing securities to a related party, unless the issue falls within one of the prescribed exceptions. These exceptions include the issue of securities under a pro rata issue and the issue of securities on the conversion of convertible securities.</p> <p>Additionally, the Listing Rules prohibit Creso Pharma from acquiring a substantial asset, being an asset the value or consideration for which is 5% or more of Creso Pharma's equity interests, from, or disposing of a substantial asset to, a related party, unless it obtains the approval of Creso Pharma Shareholders.</p>	<p>PharmaCielo is subject to Multilateral Instrument 61-101 – <i>Protection of Minority Security Holders in Special Transactions (MI 61-101)</i>, which imposes valuation, minority approval and disclosure requirements on entities involved in certain related party transactions. The TSX-V requires all issuers comply with MI 61-101 as a matter of policy. A related party transaction includes a transaction between an issuer and a person that is a related party to the issuer at the time that the transaction is agreed to, whether or not there are also other parties to the transaction, as a consequence of which, either through the transaction itself or together with a connected transaction, the issuer directly or indirectly, among other things:</p> <ul style="list-style-type: none"> (i) purchases or acquires an asset from a related party for valuable consideration; (ii) sells, transfers or disposes of an asset to a related party; (iii) leases property to or from a related party; (iv) acquires a related party or combines with a related party through an amalgamation, arrangement or otherwise, whether alone or with joint actors; (v) issues a security to, or subscribes for a security of, a related party; (vi) assumes or otherwise becomes subject to a liability of the related party; (vii) borrows money from or lends money to a related party, or enters into a credit facility with the related party; (viii) releases, cancels, forgives a debt or liability owed by or to a related party; (ix) materially amends the terms of an outstanding debt or liability owed by or to the related party, or the terms of an outstanding credit facility with the related party; or (x) provides a guarantee or collateral security for a debt or liability of the related party, or materially amends the terms of the guarantee or security. <p>Unless a specific exemption is available, MI 61-101 requires a formal valuation of assets or securities involved in a related party transaction. The valuation must be prepared by an appropriately qualified independent valuator and no more than 120 days before the earlier of the date that a disclosure document for the transaction is first sent to securityholders (if applicable) and the date that a disclosure document is filed with the relevant securities regulatory authorities. The valuation must contain certain required content and provide sufficient disclosure to allow the securityholders to understand the principal judgments and underlying reasoning of the valuator so as to form a reasoned judgment of the valuation.</p> <p>Minority approval of a related party transaction is also required under MI 61-101, unless a specific exemption is available. Minority approval for these purposes consists of the approval of the proposed transaction by a majority of the votes cast by holders of each class of affected securities at a meeting of security holders of that class called to consider the transaction, excluding the votes attached to the securities of the issuer held or controlled, directly or indirectly, by the issuer, any interested party, their respective directors or senior officers, and any related parties or joint actors of such persons. If minority approval is required, it must be obtained from the holders of every class of affected securities of the issuer, in each case voting separately as a class.</p> <p>There are additional specific rules in MI 61-101 regarding obtaining minority approval, including the determination of the excluded votes and the disclosure required to be sent to securityholders.</p> <p>MI 61-101 also requires an issuer to include certain detailed disclosure regarding related party transactions in a material change report that is required to be filed under applicable securities laws and in an information circular that is being sent to securityholders to obtain minority approval in respect of a related party transaction.</p>

	CRESO PHARMA	PHARMACIELO
<p>Directors' Declaration and Interests</p>	<p>In accordance with the Corporations Act, a Creso Pharma Director who has a material personal interest in a matter that relates to the affairs of Creso Pharma must give the other Creso Pharma Director notice of that interest, unless the matter is exempt from the notice requirements (i.e. an interest which arises because the Creso Pharma Director is a Creso Pharma Shareholder and such interest is held in common with the other Creso Pharma Shareholders). Provided that the matter is not exempt from the notice requirements, that Creso Pharma Director must not be present at a meeting where the matter is being considered or vote on the matter unless:</p> <ul style="list-style-type: none"> (i) the other Creso Pharma Directors are satisfied that the material personal interest of the relevant Creso Pharma Director should not disqualify the Creso Pharma Director from voting or being present at the meeting; or (ii) ASIC makes a declaration or a class order permitting the Creso Pharma Director to be present and vote on the matter. <p>Failure of a Creso Pharma Director to disclose a material personal interest, or voting despite a material personal interest, does not affect the validity of any resolution.</p>	<p>The BCBCA requires directors and senior officers to disclose to PharmaCielo the nature and extent of any interest that they may have in a material contract or transaction, whether made or proposed, with PharmaCielo, if the director or senior officer:</p> <ul style="list-style-type: none"> (i) has a material interest in the contract or transaction; or (ii) is director or officer of, or has a material interest in, a party who has a material interest in the contract or transaction. <p>Except as provided in the BCBCA, no director having such a disclosable interest may vote on any resolution to approve such contract or transaction. The BCBCA provides that a director or senior officer does not hold a disclosable interest in a contract or transaction merely because the contract or transaction, among other things:</p> <ul style="list-style-type: none"> (i) relates to his or her remuneration as a director or senior officer in that person's capacity as director officer, employee or agent of the company or an affiliate of the company; (ii) relates to an indemnity or insurance under the BCBCA; or (iii) has been or will be made with or for the benefit of a corporation that is affiliated with the company and the director or senior officer is also a director or senior officer of that corporation or an affiliate of that corporation. <p>Subject to the BCBCA, a director or senior officer of a company is liable to account to the company for any profit that accrues to the director or senior officer under or as a result of a contract or transaction in which the director or senior officer holds a disclosable interest. A director who has a disclosable interest in a contract or transaction and who is present at the meeting of directors at which the contract or transaction is considered for approval may be counted in the quorum at the meeting whether or not the director votes on any or all of the resolutions considered at the meeting.</p> <p>Under the BCBCA, a director or senior officer is not accountable to the company or its shareholders for any profit realised from the contract or transaction in, among others, any of the following circumstances:</p> <ul style="list-style-type: none"> (i) the contract or transaction is approved by the directors in accordance with the BCBCA, after the nature and extent of the disclosable interest has been disclosed to the directors; (ii) the contract or transaction is approved by a special resolution in accordance with the BCBCA, after the nature and extent of the disclosable interest has been disclosed to the shareholders entitled to vote on that resolution; (iii) whether or not the contract or transaction is approved in accordance with certain sections of the BCBCA: <ul style="list-style-type: none"> o the company entered into the contract or transaction before the director or senior officer became a director or senior officer of the company, o the disclosable interest is disclosed to the directors or the shareholders, and o the director or senior officer does not participate in, and, in the case of a director, does not vote as a director on, any decision or resolution touching on the contract or transaction. <p>Even if the above conditions are not met, a contract or transaction is not invalid merely because: (a) a director or senior officer of the company has an interest, direct or indirect, in the contract or transaction; (b) a director or senior officer has not disclosed such interest; or (c) the directors or shareholders of the company have not approved the contract or transaction in which the director or senior officer has an interest. Furthermore, even if the director or senior officer takes no steps to properly disclose his or her interest in the contract or transaction, the director or senior officer may still be relieved of the obligation to account for profits by the court if, on application, the court finds that the transaction was fair and reasonable to the company.</p>

	CRESO PHARMA	PHARMACIELO
Takeovers – Takeover Requirements	<p>Under the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:</p> <ul style="list-style-type: none"> (i) from 20% or below to more than 20%; or (ii) from a starting point that is above 20% and below 90%. <p>There are a number of exceptions to this prohibition, including where the acquisition:</p> <ul style="list-style-type: none"> (i) has been approved by shareholders; (ii) occurs under a rights issue; or (iii) the acquisition is made under a scheme of arrangement or takeover bid. 	<p>In Canada, takeover bids are regulated primarily by provincial and territorial securities legislation and related rules and, to a limited extent, the corporate statutes under which the target company is incorporated. Unless an exemption from the formal takeover bid requirements under securities legislation is available or can be obtained, persons or companies making an offer to acquire shares in a jurisdiction where the subject shares, together with the offeror's securities (including any securities held by joint offerors), constitute in aggregate 20% or more of the outstanding shares of the company at the time of the offer are required to extend the offer to all securityholders in the jurisdiction under National Instrument 62-104 – <i>Take-Over Bids and Issuer Bids</i> (NI 62-104). NI 62-104 requires, among other things, the production, filing and mailing of a takeover bid circular to shareholders of the target company. These provisions are applicable for securityholders whose address in the books of the company is in Canada.</p> <p>Takeover bids must treat all securityholders alike and must not involve any collateral agreements, with certain exceptions for employment compensation arrangements, severance arrangements, or other employment benefit arrangements. Takeover bids must remain open for a minimum of 105 days from the date of the commencement of the takeover bid, but the target company's board may shorten this period to 35 days, after which time all securities deposited under the offer may be taken up.</p> <p>For the protection of target securityholders, the takeover bid rules contain various additional requirements, such as restrictions applicable to conditional offers and the withdrawal, amendment or suspension of offers. Securities regulators also retain a general 'public interest jurisdiction' to regulate takeovers and may intervene to halt or prevent activity that is abusive. Issuer bids are regulated similarly to takeover bids.</p> <p>There are extensive disclosure requirements associated with takeover bids, beginning with 'early warning' disclosure required when an acquirer crosses the 10% ownership threshold under NI 62-104. Generally, further disclosure is required for additional purchases or disposes of 2% or more of the outstanding security for which such early warning disclosure is required under NI 62-104 and National Instrument 62-103 – <i>The Early Warning System and Related Take-Over Bid and Insider Reporting Issues</i> (NI 62-103). Purchases outside the bid before, during and after the bid are also restricted. Following a bid, second step transactions where the acquirer brings its percentage ownership to 100% are governed by the BCBCA. If the acquirer obtained 90% of the outstanding securities owned by shareholders during the bid, other than shares already held at the date of the offer by the acquirer or its affiliate, then the acquirer may, within 5 months after making the offer, send written notice to any offeree who did not accept the offer, that the acquirer wants to acquire the shares of the offeree shareholder that were not involved in the bid. The acquirer must acquire all of the shares of that offeree for the same price and on the same terms contained in the bid, unless the court orders otherwise on an application made by the offeree shareholder. Otherwise, a meeting must be called and associated regulations complied with for an acquisition, including obtaining a two-thirds majority approval. The acquirer is generally permitted to vote the shares acquired pursuant to the bid at such meeting. Appraisal (or dissent) rights are available for objecting shareholders who fulfil certain procedural requirements.</p> <p>Canadian securities laws allow certain exemptions to the formal bid requirements, on specified conditions. For example, private agreements to purchase securities from up to 5 persons are permitted if the purchase price does not exceed 115% of the market price, including brokerage fees or commissions if there is a published market for the relevant class of securities acquired. Under the normal course purchase exception, the offeror (together with any joint offerors) may acquire up to 5% of a class of securities within a 12-month period if there is a published market for the relevant class and the consideration paid does not exceed the market price at the date of acquisition plus reasonable brokerage fees or commissions paid.</p>

	CRESO PHARMA	PHARMACIELO
Takeovers – Takeover Defence Mechanisms	<p>Under Australian takeovers legislation and policy, boards of target companies are limited in the defensive mechanisms that they can put in place to discourage or defeat a takeover bid.</p>	<p>The Canadian securities regulatory authorities (CSA) have recognised that takeover bids play an important role in the economy by acting as a discipline on corporate management and as a means of reallocating economic resources to their best uses. In considering the merits of a takeover bid, there is a possibility that the interests of management of the target company will differ from those of its shareholders. The CSA considers the primary objective of the takeover bid provisions of Canadian securities legislation to be the protection of the bona fide interests of the shareholders of the target company. Because certain defensive measures taken by management of a target company may have the effect of denying shareholders the ability to make a fully formed decision and frustrating an open takeover bid process, the CSA will therefore examine target company defensive tactics in specific cases to determine whether they are abusive of shareholder rights.</p> <p>Without limiting the foregoing, defensive tactics that may come under scrutiny if undertaken during the course of a bid, or immediately before a bid (if the board of directors has reason to believe that a bid might be imminent) include:</p> <ul style="list-style-type: none"> (i) the issuance of or granting of an option on securities representing a significant percentage of the outstanding securities of the target company, including the introduction of a shareholders' rights plan; (ii) the sale, acquisition, optioning, or agreement to sell or acquire assets of a material amount; and (iii) the entering into a contract or taking corporate action other than in the normal course of business. (iv) Shareholder approval of corporate action may be a factor in the decision as to whether the tactics are appropriate. <p>Notwithstanding the above, defensive tactics may be taken by a board of directors of a target company in a genuine attempt to obtain a better bid; however, tactics that are likely to deny or limit severely the ability of the shareholders to respond to a takeover bid or a competing bid may result in action by the CSA.</p>
Disclosure of Substantial Shareholders	<p>In accordance with the provisions of the Corporations Act, if a person acquires a 'substantial holding' in Creso Pharma, that person will be required to publicly disclose prescribed information relating to the acquisition, including the person's name and address, details of the relevant interest and the name of each associate who has a relevant interest in the Creso Pharma Shares. Additional disclosure must be made if a movement of at least 1% occurs to that person's substantial holding, or if the person ceases to have a substantial holding in Creso Pharma.</p> <p>A person will have a substantial holding in Creso Pharma if they, alone or together with their associates, have a relevant interest in 5% or more of the total number of votes attached to voting shares in Creso Pharma.</p>	<p>The rules under applicable Canadian securities laws regarding early warning of acquisitions of securities are contained in NI 62-103 and NI 62-104. Under these two instruments, if a person or any person acting jointly or in concert acquires beneficial ownership of, control or direction over, voting or equity securities of any class of a reporting issuer or securities convertible into voting or equity securities of any class of PharmaCielo that, together with the person's existing holdings, would constitute 10% or more of the outstanding securities of that class, such person is required to disseminate a news release containing certain prescribed information and file a report of the acquisition on SEDAR within two (2) business days of the trade. In addition, each additional acquisition or disposition of 2% or more of the outstanding securities of the class, or acquisition of securities convertible into 2% or more of the outstanding securities of such class, acquired or a change in a material fact contained in the most recent report filed, will require the person to disseminate a further news release and file another acquisition report on SEDAR.</p> <p>Furthermore, certain reporting insiders, including, amongst others, directors, the chief executive officer, chief financial officer and chief operating officer, and significant shareholders (i.e. a person or company that has beneficial ownership of, or control or direction over, whether direct or indirect, or a combination of beneficial ownership of, and control or direction over, whether direct or indirect, securities of PharmaCielo carrying more than 10% of the voting rights attached to all of PharmaCielo's outstanding voting securities) (Insiders) are required to file an Insider report under National Instrument 55-104 – <i>Insider Reporting Requirements and Exemptions</i>. Insider reports set out the number of PharmaCielo Shares, as well as ownership positions in any other securities of PharmaCielo (this includes the grant of options or other convertible securities to such persons or the exercise by them of such options or convertible securities) that the Insider owns or exercises control or direction over. Insider reports are publicly disclosed on SEDI (www.sedi.ca) and must be filed within 10 days of a person becoming an Insider and within 5 days of a change of that person's holdings in PharmaCielo in accordance with National Instrument 55-104 – <i>Insider Reporting Requirements and Exemptions</i> (or within 10 days in the case of the application of section 107(1) of the <i>Ontario Securities Act</i>).</p>
Right to Inspect Register of Shareholders	<p>In accordance with the Corporations Act, Creso Pharma maintains a register of shareholders and a register of option holders at its registered office or principal place of business. These registers must be available for inspection by Creso Pharma Shareholder and Creso Pharma Optionholder (without charge) or by other parties upon the payment of the requested fee. If a person asks Creso Pharma for a copy of the register (or any part of the register) and pays the requested fee (up to a prescribed amount), Creso Pharma must give that person the copy within 7 days of the date on which Creso Pharma receives such payment.</p>	<p>Under the BCBCA, directors and shareholders may, without charge, inspect certain records of the company. Former shareholders and directors may also inspect certain records, free of charge, but only those records pertaining to the times that they were shareholders or directors.</p> <p>Public companies must allow all persons to inspect certain records of the company free of charge. Under the BCBCA, any persons wishing to examine the central securities register of PharmaCielo must first make a request to PharmaCielo, accompanied by an affidavit stating that the list will not be used except for certain purposes permitted under the BCBCA.</p> <p>As permitted by the BCBCA, PharmaCielo's articles prohibit shareholders from inspecting or obtaining any accounting records of the company, unless the directors determine otherwise, or unless otherwise determined by ordinary resolution.</p>

	CRESO PHARMA	PHARMACIELO
Winding-Up	<p>In accordance with the Corporations Act, an insolvent company may be wound up by a liquidator appointed by either creditors or the court.</p> <p>Shareholders of a solvent company may decide to wind up the company if the directors are able to form the view that the company will be able to pay its debts in full within 12 months after the commencement of the winding-up. A decision to wind up a solvent company requires an approval by at least 75% of votes cast by the shareholders present and voting.</p> <p>The Creso Pharma Constitution provides that on winding-up, the liquidator may, with the authority of a special resolution, distribute among Creso Pharma Shareholders, the whole or any part of the property of Creso Pharma as the liquidator thinks fit.</p>	<p>A company will cease to exist if it is voluntarily dissolved, if it is liquidated or if its certificate of incorporation is cancelled by the relevant official under the BCBCA. The principal distinction between dissolution and liquidation is the identity of the person or persons who carry out the steps required to terminate a company's existence. A dissolution is handled by the existing managers of the company, whereas liquidation is generally managed by another person appointed solely for that purpose.</p> <p>Liquidation and dissolution may be proposed by a director or a shareholder entitled to vote at an annual meeting (i.e. voluntary liquidation) or by the court on the application of a shareholder, creditor or other person authorised under the legislation (i.e. involuntary or compulsory liquidation). A liquidation may begin as a voluntary, shareholder driven proceeding, but then be continued under court supervision upon the application of any interested person.</p> <p>The Registrar under the BCBCA may also dissolve a company under certain circumstance A company will cease to exist if it is voluntarily dissolved, if it is liquidated or if its certificate of incorporation is cancelled by the relevant official under the BCBCA. The principal distinction between dissolution and liquidation is the identity of the person or persons who carry out the steps required to terminate a company's existence. A dissolution is handled by the existing managers of the company, whereas liquidation is generally managed by another person appointed solely for that purpose.</p> <p>The Registrar under the BCBCA may also dissolve a company under certain circumstances, such as failure to comply with an order of the Registrar. In all cases, the company must be neither insolvent nor bankrupt to have its existence terminated under the BCBCA. Liquidation of a company may also take place completely outside the framework of the BCBCA. A company may also be liquidated under the provisions of the Bankruptcy and Insolvency Act 1985 (Canada), either by way of assignment into bankruptcy (voluntary) or on petition by a creditor (involuntary) or under the Companies' Creditors Arrangement Act 1985 (Canada). Finally, a company may be liquidated informally under contractual arrangement, usually by way of the private appointment of a receiver and manager.</p> <p>Voluntary liquidation under the BCBCA may be initiated or proposed by the directors or shareholders but must be sanctioned by a special resolution of the shareholders. A company must settle its debts, obligations or liabilities prior to dissolution.</p> <p>Dissolution or liquidation by the court under the BCBCA may be commenced by application of the company, a shareholder, a director, or any other person (including a creditor of the company) whom the court considers an appropriate person to make such an application. The court may order the company be liquidated or dissolved if the court is satisfied that there has been conduct that is oppressive or unfairly prejudicial to the interests of shareholders, creditors, directors or officers or that it is just and equitable that company should be liquidated and dissolved. A liquidator may be appointed by the court. Voluntary liquidation under the BCBCA may be initiated or proposed by the directors or shareholders but must be sanctioned by a special resolution of the shareholders. A company must settle its debts, obligations or liabilities prior to dissolution.</p>

