



ASX Announcement

2 December 2019

Creso Pharma well-funded to accelerate global operations Pursuing further commercialisation, certifications & partnerships to accelerate revenue growth

Investment Highlights

- Following the mutual termination of the proposed acquisition of Creso Pharma by PharmaCielo Ltd, Creso Pharma will pursue the commercialisation of its innovative product portfolio, securing key certifications, exploring strategic partnerships and accelerating revenue growth
- The Company has secured convertible debt and share placement financing to bolster its balance sheet and is now in a strong position to pursue its renewed growth strategy
- Creso Pharma's current portfolio consists of 13 high-quality, "Swiss Made", GMP certified products, four of which have already been commercialised with the others being prepared for commercialisation
- Creso Pharma's wholly-owned subsidiary Mernova Medical Inc. in Nova Scotia is revenue-generating and is in the advanced stages of securing European GMP certification
- Once it has secured GMP certification, Mernova will be one of very few EU GMP certified producers in Canada, allowing it to ship and sell to Europe, and specifically the high growth markets of Germany and Switzerland
- Creso Pharma continues to explore strategic partnerships as it aims to expand the availability of its approved products to international patients and consumers

Global pharmaceutical company Creso Pharma Limited (ASX:CPH) ('Creso Pharma' or 'the Company') is pleased to release an update on its strategic direction focused on plans to accelerate its global operations. The Company will aggressively pursue the further commercialisation of the remaining nine pharmaceutical-grade products in its current portfolio, key certifications and strategic partnerships and accelerating revenue growth. Creso Pharma expects its growth plans will be supported by secure funding, increasing revenue, prudent cost management and experienced leadership as it strives to unlock the full value of its operations on behalf of its shareholders.

Global operational opportunity

Creso Pharma was recently targeted as a prospective acquisition due to the breadth and strength of its current portfolio and operations within the cannabis industry. The Company's takeover offer from PharmaCielo Limited (TSXV:PCLO) is a validation of the inherent strength of the Company's business.



Creso Pharma believes the value of its fundamental operations continues to grow, supported by the Company’s portfolio of products, established operations, corporate interest and market opportunities. Creso Pharma has an innovative portfolio of assets and a leadership team with experience in ‘Big Pharma’. It is confident in its ability to successfully commercialise its products and continue its global expansion. By partnering with leading global companies in product development, manufacturing and distribution, Creso Pharma has been able to, and will continue to, accelerate the development and distribution of its products worldwide.

Creso Pharma’s product portfolio




Creso Pharma’s portfolio of cannabis and hemp-derived products focuses on four key areas: therapeutics, nutraceuticals, animal health, and cosmetics.



The Company currently has a portfolio of 13 products which have been developed with pharmaceutical expertise and methodological rigour by a qualified pharmaceutical team. Four products have been commercialised, and are generating sales, and nine are pending commercialisation.

Creso Pharma’s commercialised products

	<p>Nutraceuticals: cannaQIX®10 – Food Supplement</p> <ul style="list-style-type: none"> • cannaQIX®10 is a sugar free Food Supplement in an innovative proprietary buccal formulation containing CBD from full spectrum hemp oil extract, vitamins, and minerals. The product contains no THC. • cannaQIX®10 is commercialised in Switzerland, Liechtenstein, UK, Germany, and the Netherlands
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	<p>Therapeutics: cannaQIX®50</p> <ul style="list-style-type: none"> • cannaQIX® 50 is a CBD based full spectrum hemp extract Medicinal Cannabis product in innovative non-oil based proprietary buccal lozenge formulation with vitamins and minerals aiming to manage chronic pain • Launched in New Zealand, Australia and Brazil in 2019
	<p>Therapeutics: Medicinal CBD Oil</p> <ul style="list-style-type: none"> • Medicinal CBD Oil is a high-grade therapeutic CBD oil. Contains no THC • Launched in New Zealand in Q4 2019
	<p>Animal Health: anibidiol® range of products</p> <ul style="list-style-type: none"> • The anibidiol® range of products are Complementary Feed for companion animals with CBD from full spectrum hemp oil extract in an innovative granular proprietary buccal formulation for pets. The products contain no THC • Launched in Switzerland & Liechtenstein in November 2017 with Virbac, leader in global animal health • Commercialisation expanded to additional 13 countries in Europe starting Q2 2019

Creso Pharma's products pending commercialization

	<p>Nutraceuticals: cannaQIX® NITE- Food Supplement</p> <ul style="list-style-type: none"> • cannaQIX® NITE is a sugar free Food Supplement in an innovative proprietary buccal formulation containing CBD from full spectrum hemp oil extract, vitamins, minerals, and lemon balm. The product contains no THC • Targets sleep improvement, stress reduction and support of cognitive and psychological functions
	<p>Nutraceuticals: cannaQIX®25</p> <ul style="list-style-type: none"> • cannaQIX® 25 is a sugar free Food Supplement in an innovative buccal formulation containing CBD from broad spectrum hemp oil extract, vitamins and minerals. The product contains no THC.
	<p>Nutraceuticals: cannaPEAL® - Food Supplement</p> <ul style="list-style-type: none"> • cannaPEAL® is a sugar free Food Supplement in an innovative proprietary buccal formulation containing hemp seed oil and vitamins. The product contains no THC • Targets healthy aging and supports stress reduction in humans
	<p>Nutraceuticals: cannaPEAL® NITE - Food Supplement</p> <ul style="list-style-type: none"> • cannaPEAL® NITE is a sugar free Food Supplement in an innovative proprietary buccal formulation containing hemp seed oil, lemon balm and vitamins. The product contains no THC

	<p>Cosmetics: cannadol® Revitalize</p> <ul style="list-style-type: none"> • Creso has partnered with Frike Technologies (largest independent Swiss manufacturing group) to develop the cannadol® range of organic CBD-based functional topicals. The products contain no THC • The cannadol® product range will be launched in Q1 2020
	<p>Cosmetics: cannaQIX® Oral Care</p> <ul style="list-style-type: none"> • cannaQIX® Oral Care is a sugar free Oral Cosmetic in an innovative proprietary buccal formulation containing CBD, mint, and sage. The product contains no THC. • Helps restore oral health - reducing inflammation and supporting the cultivation of healthy oral bacteria
	<p>Animal Health: anibidiol® 80</p> <ul style="list-style-type: none"> • anibidiol® 80 is a CBD hemp oil-based Complementary Feed for large animals in granular form. The product contains no THC.
	<p>Animal Health: anibidiol® Oil 500</p> <ul style="list-style-type: none"> • anibidiol® Oil 500 is a CBD-based Complementary Feed for companion animals with beef aroma. The product contains no THC.
	<p>Animal Health: anibidiol® EQUI</p> <ul style="list-style-type: none"> • anibidiol® EQUI is a hemp grinded plant material for large animals with CBD and apple flavor. The product contains no THC.



Product portfolio commercialisation

Of the 13 products Creso Pharma has developed, four products have been commercialised with two apiece targeting human and animal health. All of Creso Pharma's products are made with standardised dosing and formulations through the application of pharmaceutical rigour, Good Manufacturing Practices (GMP) standards and proprietary, innovative delivery technologies. In addition, they carry the well known "Swiss Made" label that is synonymous with premium-quality products.

In human health, Creso Pharma anticipates signing with more commercial partners to expand the commercial reach of its two existing products cannaQIX® 10 and cannaQIX® 50 and to introduce the newly developed products in additional European countries. The Company is prioritising Spain, Portugal, the Scandinavian countries, Poland and Israel. Creso Pharma's launch of cannaQIX® 10 into South Africa is planned for Q1 2020 as the first CBD based product to be commercialized as CAM (Complementary Alternative Medicine), followed by a phased entry into other African countries as well as expanding to additional CBD based products with the same partner Pharma company.

In animal health, Creso Pharma's partner Virbac is introducing the two initial anibidiol® products into further countries in Europe and will be launching Creso Pharma's new animal health products in the near future.

For both human and animal health, Creso Pharma has initiated its reach into North America, where it is in discussions with a number of potential partners to introduce all 13 products, human and animal, into selected US states.

In South America, Creso Pharma has filed its animal health products in Argentina and Uruguay together with PharmaCielo and is at the last stage of approval. Commercial partners have been identified, terms negotiated, and a plan outlined for a long term collaboration on the existing range of products as well as on the new products that Creso Pharma has developed which are ready for launch.

Securing key certifications

Creso Pharma has worldwide rights for a number of innovative, proprietary and unique delivery technologies which enhance the bioavailability and absorption of cannabinoids. Securing key certifications within strategically attractive regions provides the Company with a pathway to enter and expand its product portfolio into important markets.

Creso Pharma's wholly-owned subsidiary, Mernova Medical Inc. ('Mernova'), was granted a licence to process cannabis by Health Canada on 13 September 2019. The processing licence expands Creso Pharma's offerings beyond the cultivation and sale of dried flower from the Halifax-based cannabis facility and enables the Company to produce and wholesale distribute cannabis oils, concentrates and other derivative products in Canada and abroad.



The Company is pleased to announce that Mernova is also actively engaged and in advanced stages of securing European GMP certification.



Mernova Medical cannabis cultivation facility in Nova Scotia, Canada

This certification is granted by the European Medicines Agency, with the Good Manufacturing Practice (GMP) describing the minimum standard that a medicine's manufacturer must meet in their production processes.

Once Creso Pharma has secured EU GMP certification, it will be one of only very few EU GMP certified producers in Canada, allowing the Company to export and sell to Europe and especially in Germany and Switzerland.

There is a very high demand in Germany and Switzerland for medicinal cannabis from European GMP-certified growing facilities and the Company is prepared to capitalise on this with the high-quality flower produced at Mernova's Nova Scotia facility. Germany, which legalized medical cannabis in March 2017 and has a population exceeding 80 million, is positioned to become one of the largest medicinal cannabis markets in Europe. Creso Pharma has already secured commercial partners in Switzerland and Germany to purchase flower and oil from Mernova, and is also negotiating long term monthly orders of larger quantities in these regions.

Creso Pharma has also introduced its first medicinal cannabis products into New Zealand and will follow with more products from Mernova. In Australia, the Company anticipates the launch of its medicinal cannabis product cannaQIX® 50 at end of November. cannaQIX® 50 is one of very few medicinal products which is not in oil form but formulated specifically in an attractive buccally absorbed lozenge to expand the choice for medicinal cannabis patients beyond oils. Lozenges have a more palatable taste compared to oils.

The formulation of the lozenge is standardized in dose and easier to manage than oils. Lozenges also allow the CBD to be buccally absorbed directly into the blood vessels in the mouth cavity, whereas oils are ingested and pass through the digestive system where a large part of the product bioavailability is lost without effect.



Update on termination of proposed acquisition by PharmaCielo of Creso Pharma

As previously announced in the ASX Announcement of 12 November 2019, as a result of the supplementary Independent Expert Report opining that the Share Scheme was neither fair nor reasonable and therefore not in the best interests of Creso Pharma shareholders, Creso Pharma and PharmaCielo agreed to a mutual termination and release of liabilities in connection with the Scheme Implementation Agreement or the related transaction documents.

While Creso Pharma's focus is now on accelerating its expansion into international markets, Creso Pharma and PharmaCielo remain willing to collaborate to unlock the synergies between the two companies, and will keep the market informed of any developments that arise from these discussions.

Funding secured to fund future growth

Creso Pharma has secured funding to accelerate its global operations as a result of its refined strategy and reallocation of resources.

This fund raising has, as at the date of this announcement, raised a total of approximately \$5.03 million for the Company immediately, through an issue of Convertible Securities (notes) ('First Tranche Notes') raising \$3.45 million and the completion of a share placement through the issue of shares at a price of \$0.191 to raise approximately \$1.58 million ('Placement').

The Company may also seek to raise a further \$2.05 million under the First Tranche Notes.

The First Tranche Notes have, so far, been issued to the L1 Capital Global Opportunities Master Fund ('L1 Capital'), Suburban Holdings Pty Ltd (an entity controlled by Alvin Blumenthal, the father of Adam Blumenthal, a director of the Company), Chifley Portfolios Pty Limited and Mozaik Asset Management Pty Ltd.

In addition, the Company has secured an additional draw down facility, with L1 Capital, for a further \$2.7 million through the issue of additional Convertible Securities ('Second Tranche Notes'). The first \$900,000 of the Second Tranche Notes can be drawn down subject to certain drawn down conditions at the sole election of the Company prior to receiving shareholder approval and will not be convertible until shareholder approval is obtained.

This brings the total funding currently received or available to the Company to \$5.93 million with a further \$3.85 million being potentially available.

The First Tranche Notes (and the Second Tranche Notes if issued) are secured by various securities including general security, guarantees and mortgages over the Company and property of Mernova Medicinal Inc which has been granted in favour of L1 Capital Global Opportunities Master Fund as 'Collateral Agent' for each of the lenders ('Securities').



A summary of the terms of the First Tranche Notes and Second Tranche Notes is set out the Schedule A to this announcement (the 'Terms').

The funds raised by the Company have been partially used to repay the loan from PharmaCielo Limited (approximately \$4.34 million) and the balance will be used for the Company's operations and working capital purposes.

ASX Waiver and Suburban Holdings Participation

As noted above, a related party of the Company, Suburban Holdings Pty Ltd (an entity controlled by Alvin Blumenthal, the father of Adam Blumenthal) will be participating in the issue of the First Tranche Notes through an investment of \$1.5 million. The Company will be seeking shareholder approval in accordance with ASX Listing Rule 10.11 in relation to the participation of Suburban Holdings Pty Ltd in the financing at a general meeting to be held in early January 2020, including the ability to convert the First Tranche Notes into shares, the issue of options, the issue of draw down fee shares and the issue of collateral shares, all of which are detailed in the Terms.

As announced on 28 November 2019, the Company obtained a waiver from ASX in relation to ASX Listing Rule 10.1 ('Waiver') to permit Suburban Holdings Pty Ltd to be issued the First Tranche Notes and, in particular, to be granted the Securities (through the Collateral Agent).

The directors of the Company satisfied themselves that the transaction with Suburban is being entered into on arm's length terms and is fair and reasonable from the perspective of the holders of the Company's ordinary securities because the terms were initially solely negotiated with L1 Capital (an arm's length third party) and thereafter Suburban Holdings Pty Ltd elected to participate.

Lead Manager

Everblu Capital Pty Ltd was lead manager to the financings contemplated by the First Tranche Notes, Placement and Second Tranche Notes.

In connection with this, Everblu will be paid a 6% cash fee on the funds raised by the Company under the First Tranche Notes and the Placement and will also be issued, subject to the receipt of prior shareholder approval in general meeting, 1 share and 1 option (3 year term, \$0.35 exercise price), for every \$3 raised by the Company in relation to the First Tranche Notes and Placement, together with 1 share and 1 option (3 year term, \$0.35 exercise price) for every \$6 committed under the Second Tranche Notes. The Company will also pay a 3% cash fee on the funds committed under the Second Tranche Notes (being a fee of \$81,000). This fee becomes immediately payable if the First Tranche Notes are fully subscribed or otherwise will become payable at the time the funds are drawn down under the Second Tranche Notes.

	Minimum Raising ¹				Maximum Raising ²			
	First Tranche Notes	Placement	Second Tranche Notes ³	Total	First Tranche Notes	Placement	Second Tranche Notes ³	Total
Capital Raise Fee and Management Fee	\$207,000	\$95,110	-	\$302,110	\$330,000	\$95,110	\$81,000	\$506,110
Shares	1,150,000	528,387	450,000	2,128,387	1,833,333	528,387	450,000	2,811,720
Options	1,150,000	528,387	450,000	2,128,387	1,833,333	528,387	450,000	2,811,720

Notes:

- Assumes only the minimum of \$3.45 million is raised under the First Tranche Notes and \$1,585,161 million is raised under the Placement. The Company confirms that the minimum of \$3.45 million under the First Tranche Notes has already been raised.
- Assumes \$5.5 million is raised under First Tranche Notes and \$1,585,161 million is raised under the Placement.
- An up-front capital raising fee of \$81,000 is payable to EverBlu Capital if the Debt Note Offer is fully subscribed. In the event that First Tranche Notes are not fully subscribed, a fee of 3% of the gross proceeds drawn down under the Second Tranche Notes is payable on a pro rata basis.

Additional Fees

As stated above, additional draw down fees are also payable and issueable to investors of the First Tranche and Second Tranche Notes. A summary is set out below:

	Minimum Raising		Maximum Raising	
	First Tranche Notes ¹	Second Tranche Notes ³	First Tranche Notes ²	Second Tranche Notes ³
Cash	\$153,333	-	\$244,444	-
Collateral Shares	7,666,667	-	12,222,222	-
Fee Shares	602,094	628,272 *	959,860	628,272 *
Options	6,272,725	3,000,000*	10,000,000	3,000,000 *

Notes:

- Assumes only the \$3.45 million is raised under the First Tranche Notes. The Company confirms that \$3.45 million has already been raised and accordingly the relevant Collateral Shares and Fee Shares have already been issued. Please refer to announcement on 28 November 2019.
- Assumes the full \$5.5 million is raised under the First Tranche Notes.
- Both scenarios above assume that the Second Tranche Notes are fully subscribed. The Company notes that fees for the Second Tranche Notes are only payable if the Company draws down on the Second Tranche Notes and are payable pro rata to the amount drawn down.

Cost Management

As part of the group's overall global strategy of growth in current and new markets, Creso has initiated several cost management initiatives which will reduce the monthly cash burn rate whilst having minimal impact on overall operations.

Increasing revenue from the nutraceuticals and animal health products

Creso Pharma expects to generate more than AUD \$3.6 million in revenue over the 2019 calendar year from its European nutraceuticals and Animal Complementary Feed products and sales from its Mernova facility in Canada, as summarized in the below table:

	Actual Revenues 12 months to 31 Dec 2018	Actual Revenues to 15 Nov 2019	Estimated Revenues 12 months to 31 Dec 2019	Estimated Growth on Prior Year %
Human Health	AUD 0.4 million	AUD 0.9 million	AUD 0.9 million	>100%
Animal Health	AUD 0.1 million	AUD 1.2 million	AUD 1.5 million	>1,100%
Mernova	-	AUD 0.7 million	AUD 1.2 million	-

In the year ahead, Creso Pharma will continue to focus on commercialising its product portfolio and increasing its market share. The Company expects this process to be supported by maintaining the high quality its products are known for, sustained marketing initiatives and the pursuit of key certification, and partnership opportunities.

Available Funding

As a result of the minimum raising of \$5.03 million, the Board believes the Company has sufficient working capital to adequately meet the Company's short-term commitments and working capital requirements as a result of the funds raised and funds generated through the Company's revenue streams (further explained above).

The Company further notes its ability to:

- a) raise up to a further \$2.05 million through the placement of additional First Tranche Notes; and
- b) subject to the satisfaction of certain conditions, draw down the first two tranches of the Second Tranche Notes (being up to \$900,000) at its discretion.

Additionally, subject to the receipt of Shareholder approval and agreement with L1 Capital, the Company can draw down the remaining balance of the Second Tranche Notes. Any further funds



drawn down under the First Tranche Notes or the Second Tranche Notes will be used towards operational and working capital expenses of the Company.

The Company intends to repay the First Tranche Notes at their maturity date and otherwise in accordance with the Terms. If the First Tranche Notes are not converted into shares, then it is likely that the Company will be required to raise further equity or debt finance to repay the First Tranche Notes.

The Company is presently considering other fundraising initiatives to meet the medium term working capital requirements of the Company and repayment of the First Tranche Notes and Second Tranche Notes in the future, if they are not converted into shares. The Company is confident that it will be able to generate further funding as and when available. Additionally, the Company continuously explores merger and acquisition opportunities with a view to strengthening its existing businesses and/or divesting operations.

Creso Pharma Co-Founder and CEO Dr Miri Halperin Wernli said: “On behalf of Creso Pharma's Board, our priority has always been to unlock the value inherent in our operations for our shareholders. While we continue to maintain a strong relationship with PharmaCielo, the transaction was no longer in the best interests of our shareholders and therefore it was mutually terminated.

Going forward, we are very confident of the quality of our research, development, products and commercially attractive opportunities that our operations present. Nutraceutical revenues increased 378% this year and we expect strong revenue growth in the year ahead. Further, 2020 will be Mernova's first full year of revenue. Creso Pharma has firm and broad foundations for growth and a highly qualified and experienced team in place to execute our strategy for global expansion.

We are encouraged by our recent operational milestones, refined strategy, secure funding and continued interest in our operations. I thank Creso Pharma's shareholders for their support over this period and look forward to generating value for them across the entire spectrum of our business.”

Ends.

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SCHEDULE A- TERMS OF FIRST TRANCHE NOTES AND SECOND TRANCHE NOTES

Tranche 1 Notes

The First Tranche Notes will be issued as debt securities until such time as shareholder approval is obtained to convert the notes into convertible securities, which approval will be sought at an upcoming meeting of shareholders proposed for January 2020.

Face Value	\$1.00 per First Tranche Note
Subscription Price	\$0.90 per First Tranche Note
Maturity Date	12 months from the date of issue of the First Tranche Notes.
Purchase Date	Within 4 business days of the date of execution of the Convertible Securities Agreement.
Interest Rate	4% per annum, with the first interest payment payable on the date which is 180 days after the Purchase Date and every 90 days thereafter.
Conversion of First Tranche Notes	The Company must seek shareholder approval for the conversion of the First Tranche Notes into convertible securities and the issue of the Tranche 1 Options within 60 days of the date of issue of the First Tranche Notes (Meeting Deadline). If Shareholder approval is not obtained, an event of default will have occurred.
Conversion Rights	Subject to the Company obtaining Shareholder approval for the conversion of the First Tranche Notes into convertible securities, the Tranche 1 Investors may elect to convert one or more of the First Tranche Notes into Shares at the at the Fixed Conversion Price (defined below) at any time prior to the Maturity Date.
Conversion Price	The First Tranche Notes will be convertible at \$0.35 each (Fixed Conversion Price). However, if the Company undertakes one or more capital raisings and raises at least \$2,500,000 in aggregate (excluding any funds raised under the Placement) at a price per Share lower than the Fixed Conversion Price, the Company must seek Shareholder approval to vary the Fixed Conversion Price to the issue price under the relevant capital raising. If Shareholder approval is not obtained within 60 days from the date of completion of the capital raising, an event of default will have occurred.



Periodic Redemptions	<p>The Company must redeem the First Tranche Notes by making a cash payment to the Tranche 1 Investors on the dates which are 180 days after the Purchase Date and 270 days after the Purchase Date.</p> <p>These payments must be equal to 102% of the lesser of:</p> <ul style="list-style-type: none"> the balance of the aggregate total of the Face Value of the outstanding First Tranche Notes, accrued interest and all other amounts payable by the Company in relation to the First Tranche Notes (Amount Outstanding); and the sum of 25% of the aggregate Face Value of the First Tranche Notes and all interest then accrued.
Redemption on Capital Raising	<p>If the Company conducts a capital raising, the Tranche 1 Investors will have the right to request up to 20% of the proceeds of the capital raising in partial redemption of the First Tranche Notes.</p>
Early Redemption by the Company	<p>At its sole discretion, the Company will have the right to redeem all of the outstanding First Tranche Notes by giving notice to the Tranche 1 Investors specifying that it intends to do so (an Early Redemption Notice).</p> <p>After the Company gives an Early Redemption Notice but before the First Tranche Notes the subject of the Early Redemption Notice are redeemed, a Tranche 1 Investor may give the Company a conversion notice for up to 50% of the First Tranche Notes the subject of the Early Redemption Notice.</p> <p>On or before the day which is 5 Business Days after the date on which the Company gives the Early Redemption Notice, the Company must pay to the Tranche 1 Investor 105% of the Amount outstanding.</p>
Mandatory Redemption	<p>If the First Tranche Notes have not been converted prior to the Maturity Date, the Company must repay 102% of the Amount Outstanding on the Maturity Date.</p>
Ranking on Conversion	<p>Shares issued on conversion of the First Tranche Notes will rank equally with existing Shares on issue.</p>
Security Documents	<p>The Notes will be secured by:</p>



	<ul style="list-style-type: none"> • a general security agreement by the Company in favour of the Collateral Agent, on terms acceptable to L1 Capital; • a general security, collateral security and a general assignment of rents and leases in favour of the Collateral Agent granted by Mernova Medicinal Inc. on terms acceptable to L1 Capital; • a collateral agency agreement between the Investor, each Co-Investor, the Collateral Agent, the Company, Mernova Medicinal Inc, 3321739 Nova Scotia Limited, Creso Canada Limited and Creso Pharma Switzerland GmbH on terms acceptable to L1 Capital; • a guarantee and indemnity in favour of the Collateral Agent granted by Mernova Medicinal Inc. on terms acceptable to L1 Capital; • a guarantee and indemnity in favour of the Collateral Agent granted by Creso Pharma Switzerland GmbH on terms acceptable to L1 Capital; and • from each of Creso Canada Limited and 3321739 Nova Scotia Limited: <ul style="list-style-type: none"> ○ a guarantee and indemnity in favour of the Collateral Agent granted by the relevant entity. on terms acceptable to L1 Capital; and ○ a general security agreement by the relevant entity in favour of the Collateral Agent (or such document is equivalent in the place of jurisdiction of the relevant entity, on terms acceptable to L1 Capital). <p>(together, the Security Documents).</p> <p>The security granted under the Security Documents will be held by the Collateral Agent on its own behalf and on behalf of the other Tranche 1 Investors.</p>
<p>Tranche 1 Options</p>	<p>Subject to obtaining Shareholder approval, the Company will issue the Tranche 1 Options to the Tranche 1 Investors.</p> <p>Where, for any reason, the Company does not or is not able to issue the Tranche 1 Options to the Tranche 1 Investors, then in lieu of the issue of the Tranche 1 Options , on the relevant date the Company must instead pay the Tranche 1 Investors the amount calculated in accordance with the following formula:</p> $PA = O \times V$ <p>Where:</p> <p>PA = the required payment amount;</p> <p>O = the number of Tranche 1 Options required to be issued on the relevant date</p> <p>V = the value of the Tranche 1 Options, determined using the Black & Scholes being \$0.0553.</p>
<p>Collateral Shares</p>	<p>Contemporaneously with the issue of the First Tranche Notes, the Company will issue the Collateral Shares to the Tranche 1 Investors, which will be subject to restrictions on disposal.</p> <p>If at any time the market value of the Collateral Shares is less than 20% of the Amount Outstanding, the Tranche 1 Investors may give the</p>

	<p>Company written notice requesting that the Company issue additional Shares to the Tranche 1 Investors as Collateral Shares, so that following the issue, the market value of the Collateral Shares will be at least 20% of the Amount Outstanding (Top-Up Notice). The issue of any Shares upon receipt of a Top-Up Notice will be subject to the Company obtaining Shareholder approval.</p> <p>Where at any time the Company is required to issue Shares to the Tranche 1 Investors under the Convertible Securities Agreement, then the Tranche 1 Investors may, by written notice to the Company, elect to partially or wholly satisfy the Company's obligation to issue the relevant Shares to the Tranche 1 Investors from the Collateral Shares. If the Tranche 1 Investors do so, then:</p> <ul style="list-style-type: none"> the number of Collateral Shares specified in the Tranche 1 Investors' notice will cease to be Collateral Shares (and may be freely dealt with by the Tranche 1 Investors); the Company's obligation to issue Shares to the Tranche 1 Investors will be satisfied to the same extent. <p>If an Event of Default occurs, the Tranche 1 Investors may at any time afterward by written notice to the Company elect to purchase a number of Collateral Shares.</p> <p>If:</p> <ul style="list-style-type: none"> the Convertible Securities Agreement terminates or expires; there is no Amount Outstanding; and there are any Collateral Shares, <p>then the Tranche 1 Investors must, in the time period stipulated by the Company and on the Company's strict instructions, sell the Collateral Shares on-market and pay 95% of the net sale proceeds to the Company.</p>
Tranche 1 Drawdown Fee	<p>The Company has agreed to pay a drawdown fee of 7% of the aggregate Face Value of the First Tranche Notes to the Tranche 1 Investors (Tranche 1 Drawdown Fee).</p> <p>The Tranche 1 Drawdown Fee will be payable:</p> <ul style="list-style-type: none"> 4/7 in cash on the Purchase Date; and 3/7 in Shares on the Purchase Date, with the number of Shares to be issued determined by dividing the relevant amount of the Tranche 1 Drawdown Fee by the issue price of Shares under the Placement, being \$0.191 per Share (Concurrent Placement Price).
Reconstruction of capital	<p>If at any time the Company undertakes a consolidation, subdivision or pro-rata cancellation of its issued capital, pays a dividend in Shares or undertakes a distribution of Shares, the Fixed Conversion Price will be reduced or increased in the same proportion as the issued capital of the Company is consolidated, subdivided or cancelled.</p>
Related Party Participation	<p>All issues of securities to Suburban Holdings Pty Ltd will be deferred and only issued when and if shareholder approval for their issue is obtained in accordance with Listing Rule 10.11.</p>

Second Tranche Notes

The Second Tranche Notes may be issued in up to six tranches with an aggregate Face Value of up to \$500,000 per tranche.

Subject to terms noted in the table below, the Company may elect to draw down funding of up to \$900,000 under the Second Tranche Notes at its election, by issuing up to 1,000,000 debt notes ('Debt Notes'). If the Company elects to issue the Debt Notes the Company must seek Shareholder approval for the Debt Notes to convert into or be replaced by Second Tranche Notes before the Meeting Deadline.

The issue of all Second Tranche Notes is subject to shareholder approval, which approval will be sought at an upcoming meeting of shareholders proposed for January 2020.

A summary of the material terms of Second Tranche Notes is set below.

Face Value	\$1.00 per Second Tranche Convertible Note
Subscription Price	\$0.90 per Second Tranche Convertible Note
Maturity Date	12 months from date of issue of the relevant Second Tranche Notes.
Debt Note Conditions	<p>The Company may not give notice to L1 Capital, indicating that it intends to issue the Debt Notes to L1 Capital (Purchase Request):</p> <ul style="list-style-type: none"> • if an event of default has occurred; • if after the date of execution of the Convertible Securities Agreement, the VWAP calculated over a five Trading Day period is less than \$0.16 (unless waived by L1 Capital); and <p>unless the average volume of Shares traded on ASX (as reported by Bloomberg LP) over the 5 Trading Day period immediately prior to the date of the Purchase Request is at least \$50,000.</p>
Purchase Date	<p>If the Company elects to issue the Debt Notes, the Purchase Date must occur by the Meeting Deadline.</p> <p>The issue of the Second Tranche Notes (other than those that replace any Debt Notes) must be at least 120 days after the issue of the First Tranche Notes and at least 45 days after issue of the previous tranche of Second Tranche Notes (unless otherwise agreed).</p>
Interest Rate	4% per annum, with the first interest payment payable on the date which is 180 days after the Purchase Date of the First Tranche Notes and every 90 days thereafter.
Conversion Rights for the first two tranches	The Company must seek shareholder approval for the conversion of the first two tranches of Second Tranche Notes into convertible securities and the issue of 1,000,000 Tranche 2 Options by the Meeting Deadline. If Shareholder approval is not obtained, an event of default will have occurred.
Conversion Rights	Subject to shareholder approval, L1 Capital may elect to convert one or more of the Second Tranche Notes into Shares at the at the Second Tranche Conversion Price (defined below) at any time prior to the respective Maturity Date.

<p>Second Tranche Conversion Price</p>	<p>The Second Tranche Notes may be converted at the lesser of:</p> <ul style="list-style-type: none"> 90% of the daily VWAP on the Trading Day immediately prior to the date of issue of a conversion notice, rounded down to the nearest A\$0.01; and the Fixed Conversion Price. <p>However, if the Company undertakes one or more capital raisings and raises of at least \$2,500,000 in aggregate (excluding any funds raised under the Placement) at a price per Share lower than the Fixed Conversion Price, the Company must seek Shareholder approval to vary the Fixed Conversion Price to the issue price under the relevant capital raising. If Shareholder approval is not obtained within 60 days from the date of completion of the capital raising, an event of default will have occurred.</p>
<p>Drawdown Fee</p>	<p>If the Company draws down on the Tranche 2 Convertible Note Facility the Company has agreed to pay a drawdown fee of 4% of the aggregate Face Value of the Second Tranche Notes issued under the Tranche 2 Convertible Note Facility (Tranche 2 Drawdown Fee). For the avoidance of doubt the Tranche 2 Drawdown Fee will only be payable in respect of actual funds drawn down and corresponding Second Tranche Notes issued.</p> <p>Subject to Shareholder approval, the applicable Tranche 2 Drawdown Fee will be payable, in Shares with the number of Shares to be issued determined by dividing the relevant amount of the Tranche 2 Drawdown Fee by the 10 day VWAP for the 10 Trading Days immediately prior to the issue of the Shares, rounded upward to the nearest whole number.</p> <p>If Shareholder approval is not obtained in respect of the issue of the drawn down shares for the Debt Notes, an event of default will have occurred.</p>
<p>Tranche 2 Options</p>	<p>If the Company draws down on the Tranche 2 Convertible Note Facility, the Company has agreed to issue L1 Capital that number of Tranche 2 Options which is equal to the Face Value of the Second Tranche Notes agreed to be issued at the relevant time. The issue of the Tranche 2 Options will be subject to the Company obtaining Shareholder approval.</p> <p>Where, for any reason, the Company does not or is not able to issue the Tranche 2 Options to L1 Capital, then in lieu of the issue of the Tranche 2 Options, on the relevant date the Company must instead pay L1 Capital the amount calculated in accordance with the following formula:</p> $PA = O \times V$ <p>Where:</p> <p>PA = the required payment amount;</p> <p>O = the number of Tranche 2 Options required to be issued on the relevant date</p>



	V = the value of the Tranche 2 Options, determined using the Black & Scholes being \$0.0553.
Security Agreement	The Second Tranche Notes will be secured by the same securities as the First Tranche Notes.
Mandatory Redemption	If the Second Tranche Notes have not been converted prior to the Maturity Date, the Company must repay 102% of the Amount Outstanding on the Maturity Date.
Ranking on Conversion	Shares issued on conversion of the Second Tranche Notes will rank equally with existing Shares on issue.
Reconstruction of capital	If at any time the Company undertakes a consolidation, subdivision or pro-rata cancellation of its issued capital, pays a dividend in Shares or undertakes a distribution of Shares, the Fixed Conversion Price will be reduced or increased in the same proportion as the issued capital of the Company is consolidated, subdivided or cancelled.

SCHEDULE B - INDICATIVE SHARE AND OPTIONS CAPITAL STRUCTURE

The capital structure set out below assumes a maximum raise of \$5.5million under First Tranche Notes and maximum raise of \$2.7million under Second Tranche Notes and the full raise of \$1.58million under the Placement.

Note: The Company also has other convertible securities (performance rights, performance shares and exchangeable shares) on issue which are not specifically impacted by the currently proposed fund raising and therefore are not contained below.

Shares (assuming no convertible securities other than the Convertible Notes are converted or exercised into Shares)	
Current Shares on Issue	151,544,332
Placement	
Shares to be issued to participants in a placement (assuming \$1.55million at \$0.191)	8,299,271
Shares proposed to be issued to EverBlu as fee ¹	528,387
First Tranche Notes	
Shares to be issued on conversion of the First Tranche Notes ^{1, 2, 3} (assuming full conversion)	17,460,317
Collateral Shares ⁴	12,222,222
Fee Shares	959,860
Shares to be issued to EverBlu Capital as fee ¹	1,833,333
Second Tranche Notes	
Shares to be issued on conversion of the Second Tranche Notes ^{1, 2, 3} (assumes full conversion at \$0.35)	8,571,429
Fee Shares ¹ (assuming a deemed issue price of \$0.191)	628,272
Shares to be issued to EverBlu as fee ¹	450,000
Other Proposed Issues	
Shares to be issued to third parties ¹	16,625,000
Indicative total Shares on issue at completion of the Convertible Note Offers^{1, 2, 3, 4}	219,122,423

1. The issue of these securities is wholly or partially subject to the Company obtaining shareholder approval.
2. Assuming full conversion of the Convertible Notes into Shares
3. If Creso completes a subsequent capital raising of an aggregate of \$2.5million at a lower price, then subject to shareholder approval the conversion price will be re-priced to the capital raising price. The above table assumes this does not occur.

4. If at any time the market value of the Collateral Shares is less than 20% of the Amount Outstanding under the convertible securities, the investors may request that the Company issues additional Collateral Shares (which will be subject to shareholder approval) The above table assumes this does not occur.

Options	
Current Listed CPHO Options on issue	72,796,411
Current Unlisted Options on issue	4,836,250
Placement	
Unlisted Options to be issued to EverBlu as fee ¹	528,387
Convertible Note Offer - Tranche 1	
Unlisted Options to be issued to investors under the Convertible Note Offer ¹	10,000,000
Unlisted Options to be issued to EverBlu as fee ¹	1,833,333
Convertible Note Offer - Tranche 2	
Unlisted Options to be issued to investors under the Tranche 2 Convertible Note Offer ¹	3,000,000
Unlisted Options to be issued to EverBlu as fee ¹	450,000
Indicative total Options on issue at completion of the Convertible Note Offers	93,444,381

1. The issue of these securities is wholly or partially subject to the Company obtaining shareholder approval.
2. Assuming no options are exercised into Shares.



About Creso Pharma

Creso Pharma Limited (ASX:CPH) brings the best of cannabis to better the lives of people and animals. It brings pharmaceutical expertise and methodological rigor to the cannabis world and strives for the highest quality in its products. It develops cannabis and hemp derived therapeutic, nutraceutical, and life style products with wide patient and consumer reach for human and animal health. Creso 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. To learn more please visit: www.cresopharma.com

Forward Looking statements

This announcement contains forward-looking statements with respect to Creso and its respective operations, strategy, investments, financial performance and condition. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "intends", "believe" or "continue" or the negative thereof or similar variations.

The actual results and performance of Creso could differ materially from those expressed or implied by such statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Some important factors that could cause actual results to differ materially from expectations include, among other things, general economic and market factors, competition and government regulation.

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