

CRESO PHARMA LIMITED
ACN 609 406 911

SUPPLEMENTARY PROSPECTUS

IMPORTANT INFORMATION

This is a supplementary prospectus (**Supplementary Prospectus**) intended to be read with the prospectus dated 7 February 2020 (**Prospectus**) issued by Creso Pharma Limited (ACN 609 406 911) (**Company**).

This Supplementary Prospectus is dated 10 February 2020 and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date. The ASIC, the ASX and their respective officers take no responsibility for the contents of this Supplementary Prospectus.

This Supplementary Prospectus should be read together with the Prospectus. Other than as set out below, all details in relation to the Prospectus remain unchanged. Terms and abbreviations defined in the Prospectus have the same meaning in this Supplementary Prospectus. If there is a conflict between the Prospectus and this Supplementary Prospectus, this Supplementary Prospectus will prevail.

This Supplementary Prospectus will be issued with the Prospectus in hard copy or as an electronic copy and may be accessed on the Company's website at www.cresopharma.com.

This is an important document and should be read in its entirety. If you do not understand it, you should consult your professional advisers without delay.

1. PURPOSE OF THIS DOCUMENT

The Supplementary Prospectus has been prepared to provide investors with updated information in relation to the Prospectus, specifically to:

- (a) extend the Closing Date for the Convertible Note Offers and the Option Offers;
- (b) advise investors that the Company has entered into an agreement with an existing creditor to convert \$200,000 in outstanding fees into equity through the issue of 1,333,334 Shares at an issue price of \$0.15 each (**Additional Shares**); and
- (c) clarify and confirm the summaries of the convertible note terms as contained in Section 7.2 (Terms and Conditions of Tranche 1 Convertible Notes) and Section 7.3 (Terms and Conditions of Tranche 2 Convertible Notes) as disclosed in the Prospectus.

The amendments to the Prospectus outlined in Section 2 below should be read in conjunction with the Prospectus.

2. AMENDMENTS TO THE PROSPECTUS

The circumstances referenced in section 1 above necessitate the following amendments to the Prospectus.

2.1 Timetable and Closing Date of the Offers

The Board wishes to advise that the Closing Date of the Convertible Note Offers and the Option Offers have been extended until 4:00pm (WST) on 11 February 2020.

Accordingly, the Indicative Timetable as set out in Section 2 of the Prospectus is deleted and replaced as follows:

“INDICATIVE TIMETABLE

Lodgement of Prospectus with the ASIC and ASX	7 February 2020
Opening Date of the Offers	7 February 2020
Issue of Securities under the Proposed Security Issues*	11 February 2020
Closing Date of the Convertible Note Offers and the Option Offers*	11 February 2020
Closing Date of the Cleansing Offer*	11 February 2020
Issue of Securities under the Offers*	12 February 2020

* The Directors reserve the right to extend or reduce the Closing Date or extend the issue date of any of the Offers at any time after the Opening Date without notice.”

Additionally, Section 5.8 is deleted and replaced as follows:

“The Opening Date of the Offers will be 7 February 2020, the Closing Date for the Convertible Note Offers and the Option Offers will be 4:00pm WST on 11 February 2020.

The Directors reserve the right to close any of the Offers early or extend the Closing Dates (as the case may be), should it be considered by them necessary to do so.”

2.2 Effect on the Capital Structure

Section 6.4 (Effect on the capital structure) is amended by including an additional Note to the “Shares” table under Section 6.4 of the Prospectus.

“15. The Company intends to issue an additional 1,333,334 Shares in lieu of fees owing to an existing creditor (**Additional Shares**) prior to the Closing Date of the Cleansing Offer.”

The Shares will be issued prior to the Closing Date of the Cleansing Offer.

As a result of the issue it is intended that assuming that the Additional Shares and the maximum number of Securities are issued under the Proposed Security Issues and no other Securities are issued or exercised or converted prior to the Closing Date of the Cleansing Offer, the number of Shares on issue following the Closing Date of the Cleansing Offer will be 199,438,479.

As noted in Notes 13 and 14 of the Shares table under Section 6.4 of the Prospectus, the Company may also issue an additional 532,000 Shares on conversion of 532,000 vested Performance Rights and an additional 850,000 Shares to consultants and advisers. Assuming these Shares are also issued prior to the Closing Date of the Cleansing Offer, the maximum number of Shares on issue following the Closing Date of the Cleansing Offer will be 200,820,479.

2.3 Terms of Tranche 1 Convertible Notes

Section 7.2 (Terms of Tranche 1 Convertible Notes) is deleted and replaced as follows:

A summary of the material terms and conditions of the Tranche 1 Convertible Notes is set out below.

Face Value	\$1.00 per Tranche 1 Convertible Notes
Maturity Date	27 November 2020
Purchase Date	27 November 2019
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 Rights	The Tranche 1 Noteholders may elect to convert one or more of the Tranche 1 Convertible Notes into Shares at the at the Fixed Conversion Price (defined below) at any time prior to the Maturity Date.
Conversion Price	The Tranche 1 Convertible 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 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	The Company must redeem the Tranche 1 Convertible Notes by making a cash payment to the Tranche 1 Noteholders on the dates which are 180 days after the Purchase Date and 270 days after the Purchase Date. These payments must be equal to 102% of the lesser of: <ul style="list-style-type: none"> the balance of the aggregate total of the Face Value of the outstanding Tranche 1 Convertible Notes, accrued interest and all other amounts payable by the Company in relation to the Tranche 1 Convertible Notes (Amount Outstanding); and the sum of 25% of the aggregate Face Value of the Tranche 1 Convertible Notes and all interest then accrued.
Redemption on Capital Raising	If the Company conducts a capital raising, the Tranche 1 Noteholders will have the right to request up to 20% of the proceeds of the capital raising in partial redemption of the Tranche 1 Convertible Notes.
Early Redemption by the Company	At its sole discretion, the Company will have the right to redeem all of the outstanding Tranche 1 Convertible Notes by giving notice to the Tranche 1 Noteholders specifying that it intends to do so (an Early Redemption Notice). After the Company gives an Early Redemption Notice but before the Tranche 1 Convertible Notes the subject of the Early Redemption Notice are redeemed, a Tranche 1 Investor may give the Company a

	<p>conversion notice for up to 50% of the Tranche 1 Convertible 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	If the Tranche 1 Convertible 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 Tranche 1 Convertible Notes will rank equally with existing Shares on issue.
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 Tranche 1 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 outstanding Tranche 1 Investors). <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 Noteholders.</p>
Tranche 1 Options	The Company agreed to issue 6,272,725 Convertible Note Options to the Tranche 1 Investors. In satisfaction of this the Company is offering 6,272,725 Convertible Note Options under the Convertible Note Options Offer.
Collateral Shares	<p>The Company have issued or have agreed to issue to the Tranche 1 Noteholders that number of Shares which is equal to the number of Tranche 1 Convertible Notes multiplied by 2. The Collateral Shares will not be subject to restrictions on disposal.</p> <p>The number of Collateral Shares issued to a Tranche 1 Noteholder (as increased or reduced from time to time in accordance with the terms summarised below) is referred to as the Collateral Shareholding Number.</p> <p>If at any time the market value of the Collateral Shareholding Number of Shares held by a Tranche 1 Noteholder is less than 20% of the Amount</p>

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	<p>Outstanding in respect of that Tranche 1 Investor, the Tranche 1 Noteholder may give the Company written notice requesting that the Company issue additional Shares to the Tranche 1 Noteholder as Collateral Shares, so that following the issue, the market value of the Collateral Shareholding Number of Shares (as increased by the issued of the additional 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 a Tranche 1 Noteholder under the Convertible Securities Agreement, the Tranche 1 Noteholder 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 Noteholder from the Collateral Shares. If a Tranche 1 Noteholder does so, then:</p> <ul style="list-style-type: none"> • the Collateral Shareholding Number will be reduced by the number specified in the notice; and • the Company's obligation to issue Shares to the Tranche 1 Noteholder will be satisfied to the same extent. <p>If an event of default occurs, a Tranche 1 Noteholder 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 • the Collateral Shareholding Number is greater than zero, <p>then the Tranche 1 Noteholder must, in the time period stipulated by the Company and on the Company's strict instructions, sell the Collateral Shareholding Number of Shares on-market (subject to the Shares being able to be traded on-market at the relevant time) and pay 95% of the net sale proceeds to the Company. For clarity, where at the relevant time the Tranche 1 Noteholder does not hold at least the Collateral Holding Number of Shares the Tranche 1 Noteholder must first acquire them (at the Tranche 1 Noteholder's cost).</p>
<p>Tranche 1 Drawdown Fee</p>	<p>At the Purchase Date the Company paid a drawdown fee of 7% of the aggregate Face Value of the Tranche 1 Convertible Notes to the Tranche 1 Investors (Tranche 1 Drawdown Fee).</p> <p>The Tranche 1 Drawdown Fee was 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 \$0.191 per Share. <p>The issue of the Tranche 1 Drawdown Fee Shares to Suburban Holdings Pty Ltd required Shareholder approval and is therefore being issued under the Proposed Security Issues.</p>
<p>Reconstruction of capital</p>	<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>

2.4 Terms of Tranche 2 Convertible Notes

Section 7.3 (Terms of Tranche 2 Convertible Notes) is deleted and replaced as follows:

A summary of the material terms and conditions of the Tranche 2 Convertible Notes is set out below.

Face Value	\$1.00 per Tranche 2 Convertible Note
Purchase Date	31 December 2019
Maturity Date	31 December 2020
Interest Rate	4% per annum, with the first interest payment payable on the date which is 180 days after the Purchase Date of the Tranche 1 Convertible Notes and every 90 days thereafter.
Conversion Rights	L1 Capital may elect to convert one or more of the Tranche 2 Convertible Notes into Shares at the Tranche 2 Conversion Price (defined below) at any time prior to the respective Maturity Date.
Tranche 2 Conversion Price	<p>The Tranche 2 Convertible Notes may be converted at the lesser of:</p> <ul style="list-style-type: none"> 90% of the lowest daily VWAP during the 40 Actual Trading Days 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 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>
Mandatory Redemption	If the Tranche 2 Convertible 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 Tranche 2 Convertible Notes will rank equally with existing Shares on issue.
Security Documents	The Tranche 2 Convertible Notes will be secured by the Security Documents.
Tranche 2 Options	<p>The Company has agreed to issue L1 Capital that number of Tranche 2 Options which is equal to the Face Value of the Tranche 2 Convertible Notes.</p> <p>In satisfaction of this, the Company is offering L1 Capital 575,000 Convertible Note Options under the Convertible Note Option Offer.</p>
Tranche 2 Drawdown Fee	The Company has agreed to issue L1 Capital 139,394 Tranche 2 Fee Shares as a drawdown fee (Tranche 2 Fee Shares). The Company intends to issue these Shares prior to the Closing Date of the Cleansing Offer as part of the Proposed Security Offers.
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.

3. DIRECTORS' AUTHORISATION

This Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Supplementary Prospectus with the ASIC.



Boaz Wachtel
Execution Chairman
For and on behalf of
CRESO PHARMA LIMITED