

**CRESO PHARMA LIMITED**  
**ACN 609 406 911**

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## **ENTITLEMENT ISSUE PROSPECTUS**

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For a non-renounceable entitlement issue of 1 New Option for every 2 Shares held by those Shareholders registered at the Record Date at an issue price of \$0.05 per New Option to raise up to \$2,826,889 (based on the number of Shares on issue as at the date of this Prospectus) (**Offer**).

### **IMPORTANT NOTICE**

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the New Options being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser.

The New Options offered by this Prospectus should be considered as speculative.

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## TABLE OF CONTENTS

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|     |   |    |
|-----|---|----|
| 1.  | CORPORATE DIRECTORY.....  | 1  |
| 2.  | TIMETABLE AND SUMMARY OF OFFER .....                                  | 2  |
| 3.  | IMPORTANT NOTES.....  | 3  |
| 4.  | DETAILS OF THE OFFER.....   | 7  |
| 5.  | PURPOSE AND EFFECT OF THE OFFER.....                                  | 13 |
| 6.  | RIGHTS AND LIABILITIES ATTACHING TO NEW OPTIONS AND UNDERLYING SHARES | 20 |
| 7.  | RISK FACTORS .....  | 25 |
| 8.  | ADDITIONAL INFORMATION .....  | 35 |
| 9.  | DIRECTORS' AUTHORISATION .....  | 42 |
| 10. | GLOSSARY.....   | 43 |

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1. **CORPORATE DIRECTORY**

**Directors**

Boaz Wachtel  
*Non-Executive Chairman*

Miriam Halperin Wernli  
*Chief Executive Officer & Managing Director*

Adam Blumenthal  
*Non-Executive Director*

James Ellingford  
*Non-Executive Director*

**Company Secretary**

Sarah Smith

**Share Registry\***

Automic Registry Services  
Level 2, 267 St Georges Tce  
West Perth WA 6000

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**Registered Office in Australia**

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Email: [info@cresopharma.com.au](mailto:info@cresopharma.com.au)  
Website: [www.cresopharma.com](http://www.cresopharma.com)

**Auditor**

RSM Australia Partners  
Level 32, Exchange Tower  
Perth WA 6000

**Solicitors**

Steinepreis Paganin  
Lawyers and Consultants  
Level 4  
The Read Buildings  
16 Milligan Street  
Perth WA 6000

\*This entity is included for information purposes only. It has not been involved in the preparation of this Prospectus and has not consented to being named in this Prospectus.

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## 2. TIMETABLE AND SUMMARY OF OFFER

### 2.1 Timetable

|   |                |
|---|----------------|
| Announcement of Offer   | 23 July 2018   |
| Lodgement of Prospectus with the ASIC   | 25 July 2018   |
| Lodgement of Prospectus & Appendix 3B with ASX  | 25 July 2018   |
| Notice sent to Optionholders  | 26 July 2018   |
| Notice sent to Shareholders   | 27 July 2018   |
| Ex date   | 30 July 2018   |
| Record Date for determining Entitlements  | 31 July 2018   |
| Prospectus despatched to Shareholders & Company announces despatch has been completed | 3 August 2018  |
| Last day to extend the Closing Date   | 9 August 2018  |
| Closing Date*   | 14 August 2018 |
| ASX notified of under subscriptions   | 17 August 2018 |
| Issue date/New Options entered into Shareholders' security holdings                   | 21 August 2018 |

\* The Directors may extend the Closing Date of the Offer by giving at least 3 Business Days' notice to the ASX prior to the Closing Date.

### 2.2 Key Offer Information

|   |                                    |
|---|------------------------------------|
| Ratio   | 1 for 2 Shares held at Record Date |
| Issue Price per New Option:                               | \$0.05                             |
| Exercise Price of New Options                             | \$0.80                             |
| Expiry Date of New Options <sup>1</sup>                   | 21 August 2020                     |
| Quotation terms   | Unquoted                           |
| Maximum New Options to be issued under Offer <sup>2</sup> | 56,537,772                         |
| Maximum proceeds of Offer <sup>2</sup>                    | \$2,826,889                        |

#### Notes:

1. Assuming the issue date of the New Options is 21 August 2018.
2. Assumes that no additional Shares are issued, including by conversion of Performance Rights or exercise of Options, prior to the Record Date.

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### 3. IMPORTANT NOTES

This Prospectus is dated 25 July 2018 and was lodged with the ASIC on that date. The ASIC, the ASX and their respective officers take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

No New Options may be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

No person is authorised to give information or to make any representation in connection with this Prospectus, which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

It is important that investors read this Prospectus in its entirety and seek professional advice where necessary. The New Options the subject of this Prospectus should be considered highly speculative.

Applications for New Options offered pursuant to this Prospectus can only be submitted on an original Entitlement and Acceptance Form or Shortfall Application Form.

This Prospectus is a transaction specific prospectus for an offer of continuously quoted New Options (as defined in the Corporations Act) and has been prepared in accordance with section 713 of the Corporations Act. It does not contain the same level of disclosure as an initial public offering prospectus. In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

#### 3.1 Risk factors

Potential investors should be aware that subscribing for New Options in the Company involves a number of risks. Key risk factors that are specific to the Company include:

- (a) access to active ingredients;
- (b) competition;
- (c) changes to applicable regulations and laws;
- (d) inherit risk of exposure to product liability and other claims;
- (e) reliance on third parties including contractual risks and licencing maintenance;
- (f) cultivation risks;
- (g) intellectual property protections risks;
- (h) public controversy; and
- (i) potential for dilution.

Additionally, as announced on 23 July 2018, the Company is contemplating a potential listing on the Canadian TSX Venture Exchange (**TSX-V**) to become a dually listed company. Further details regarding the potential TSX-V listing and risks associated are set out in Section 7.3 of this Prospectus.

The key risk factors of which investors should be aware are set out in more detail at Section 7 of this Prospectus. These risks together with other general risks applicable to all investments in listed securities not specifically referred to, may affect the value of the New Options in the future. Accordingly, an investment in the Company should be considered highly speculative. Investors should consider consulting their professional advisers before deciding whether to apply for New Options pursuant to this Prospectus.

### 3.2 Directors interests in Securities

The relevant interest of each of the Directors in the securities of the Company as at the date of this Prospectus, together with their respective New Options, is set out in the table below.

| Director                     | Shares <sup>9</sup>     | Options | Performance Rights     | Entitlement (New Options) | Entitlement (\$) |
|------------------------------|-------------------------|---------|------------------------|---------------------------|------------------|
| Boaz Wachtel <sup>1</sup>    | 6,800,000               | Nil     | 3,100,000 <sup>5</sup> | 3,400,000 <sup>2</sup>    | 170,000          |
| Miriam Halperin Wernli       | 8,250,000               | Nil     | 4,250,000 <sup>6</sup> | 4,125,000                 | 206,250          |
| Adam Blumenthal <sup>3</sup> | 5,500,001 <sup>10</sup> | Nil     | 750,000 <sup>7</sup>   | 2,750,001 <sup>4</sup>    | 137,500          |
| James Ellingford             | 1,000,000               | Nil     | 450,000 <sup>8</sup>   | 500,000                   | 25,000           |

#### Notes

- All these Shares are indirectly held through International Water Energy Savers Ltd, an entity controlled by Mr Watchel. Shares are subject to escrow until 20 October 2018.
- The New Options are to be indirectly held through International Water Energy Savers Ltd, an entity controlled by Mr Watchel.
- 4,000,000 of these Shares are indirectly held through Anglo Australasia Holdings Pty Ltd <Anglo Australasia A/C> (**Anglo**) an entity controlled by Mr Blumenthal. Shares are subject to escrow until 20 October 2018.
- The New Options are to be indirectly held through Anglo.
- Being 1,500,000 Tranche 4A Performance Rights, 800,000 Tranche 1 Performance Rights and 800,000 Tranche 2 Performance Rights which all still remain subject to vesting conditions. The Tranche 4A Performance Rights are subject to escrow until 20 October 2018.
- Being 1750,000 Tranche 4A Performance Rights which are subject to vesting conditions, 1,250,000 Tranche 3 Performance Rights which have vested but have not been converted and 1,250,000 Tranche 4 Performance Rights which have vested but have not been converted. The Tranche 4A Performance Rights are subject to escrow until 20 October 2018.
- Being 750,000 Tranche 4A Performance Rights which still remain subject to vesting conditions. The Tranche 4A Performance Rights are subject to escrow until 20 October 2018.
- Being 250,000 Tranche 4A Performance Rights, 100,000 Tranche 7 Performance Rights and 100,000 Tranche 8 Performance Rights which all still remain subject to vesting conditions. The Tranche 4A Performance Rights are subject to escrow until 20 October 2018.

9. Subject to note 10 the Shares held are subject to escrow until 20 October 2018.
10. 1,500,000 of the Shares held by Anglo are not subject to the escrow period as noted in note 9.

The Board recommends all Shareholders take up their Entitlements and advises that all Directors intend to take up their respective Entitlements.

### 3.3 Substantial holders

Based on publicly available information as at the date of this Prospectus those persons which (together with their associates) have a relevant interest in 5% or more of the Shares on issue are set out below:

| Shareholder  | Shares    | %      |
|--|-----------|--------|
| HSBC Custody Nominees (Australia) Limited          | 8,898,142 | 7.86%  |
| Miriam Halperin Wernli <sup>1</sup>                | 8,250,000 | 7.30%  |
| International Water Energy Savers Ltd <sup>2</sup> | 6,800,000 | 6.01 % |

#### Notes

1. Miriam Halperin Wernli is a Director of the Company. The Shares are subject to escrow until 20 October 2018.
2. International Water Energy Savers Ltd is an entity controlled by Mr Boaz Watchel a Director of the Company. The Shares are subject to escrow until 20 October 2018.

The Offer will have no effect on the quantity of Shares held by these substantial shareholders or the relevant interests held as only Options are being issued.

### 3.4 Underwriting

The Offer is not underwritten.

### 3.5 Effect on Control and Potential dilution to Shareholder

As the only securities to be issued under the Offer are Options, there will be no change to control or any Shareholder's voting power as a result of the Offer.

Where New Options are exercised into Underlying Shares, the voting power of the Shareholders who exercise the New Options would increase. However, based on the current substantial holders as at the date of this Prospectus (set out above in Section 3.3) no exercise of New Options would result in an applicant acquiring a voting power in the Company of more than 20%. Additionally, it is a specific term of the New Options, that New Options cannot be exercised where it would cause a breach of section 606 of the Corporation Act.

The likelihood of the New Options being exercised is dependent on the price of the Shares from time to time until the New Options expire.

No dilution will occur as a result of the issue of the New Options covered by this document. Subsequent exercise of any, or all the New Options, will result in dilution.

In addition, Shareholders should note that, assuming all Shortfall Options are issued, if they do not participate in the Offer, their holdings, upon the future exercise of the New Options, are likely to be diluted by approximately 33% (as

compared to their holdings and number of Shares on issue as at the date of the Prospectus).

### 3.6 Market price of shares

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are enhanced disclosure securities quoted on ASX.

The highest, lowest and last market sale prices of the Shares on ASX during the three months immediately preceding the date of lodgement of this Prospectus with the ASIC and the respective dates of those sales were:

|         |         |                                 |
|---------|---------|---------------------------------|
| Highest | \$0.885 | 30 April 2018                   |
| Lowest  | \$0.605 | 29 June and 12 and 16 July 2018 |
| Last    | \$0.700 | 24 July 2018                    |

### 3.7 Forward-looking statements

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of our Company, the Directors and our management.

We cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

We have no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this prospectus, except where required by law.

These forward looking statements are subject to various risk factors that could cause our actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 7 of this Prospectus.



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## 4. DETAILS OF THE OFFER

### 4.1 The Offer

The Offer is being made as a non-renounceable entitlement issue of 1 New Option for every 2 Shares held by Shareholders registered at the Record Date at an issue price of \$0.05 per New Option. Fractional entitlements will be round up to the nearest whole number.

Based on the capital structure of the Company as at the date of this Prospectus (and assuming no additional Shares are issued, including by conversion of Performance Rights or exercise of Options, prior to the Record Date), a maximum of 56,537,772 New Options will be issued pursuant to this Offer to raise up to \$2,826,889.

As at the date of this Prospectus the Company has:

- (a) 7,426,250 Options;
- (b) 1,000,000 Performance Shares; and
- (c) 14,946,000 Performance Rights,

on issue.

Prior to the Record Date, 3,450,000 Options and 4,500,000 Performance Rights may be exercised or converted into Shares in order to participate in the Offer. The other Options and Performance Rights on issue are subject to vesting conditions and accordingly, cannot be exercised or converted into Shares prior to the Record date. No Performance Shares may be converted to Shares prior to the Record Date as they still remain subject to performance milestones.

Please refer to Section 5.4 of this Prospectus for information on the terms of existing Options, Performance Shares and Performance Rights on issue.

All of the New Options offered under this Prospectus will be issued on the terms and conditions set out in Section 6.1 of this Prospectus.

All of the Shares issued upon the future exercise of the New Options offered under this Prospectus, the Underlying Shares, will rank equally with the Shares on issue at the date of this Prospectus. Please refer to Section 6.2 for further information regarding the rights and liabilities attaching to the Underlying Shares.

The purpose of the Offer and the intended use of funds raised are set out in Section 5.1 of this Prospectus.

### 4.2 Acceptance

Your acceptance of the Offer must be made on the Entitlement and Acceptance Form accompanying this Prospectus. Your acceptance must not exceed your Entitlement as shown on that form. If it does, your acceptance will be deemed to be for the maximum Entitlement.

You may participate in the Offer as follows:

- (a) if you wish to accept your **full** Entitlement:
  - (i) complete the Entitlement and Acceptance Form; and

- (ii) attach your cheque, drawn on an Australian bank or bank draft made payable in Australian currency, for the amount indicated on the Entitlement and Acceptance Form; or
- (b) if you only wish to accept **part** of your Entitlement:
  - (i) fill in the number of New Options you wish to accept in the space provided on the Entitlement and Acceptance Form; and
  - (ii) attach your cheque, drawn on an Australian bank or bank draft made payable in Australian currency, for the appropriate application monies (at \$0.05 per New Option); or
- (c) if you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

#### 4.3 Payment by cheque/bank draft

All cheques must be drawn on an Australian bank or bank draft made payable in Australian currency to "Creso Pharma Limited – Entitlement Issue Account" and crossed "Not Negotiable".

Your completed Entitlement and Acceptance Form and cheque must reach the Company's share registry no later than 5:00 pm WST on the Closing Date.

#### 4.4 Payment by BPAY®

For payment by BPAY®, please follow the instructions on the Entitlement and Acceptance Form. You can only make a payment via BPAY® if you are the holder of an account with an Australian financial institution that supports BPAY® transactions. Please note that should you choose to pay by BPAY®:

- (a) you do not need to submit the Entitlement and Acceptance Form but are taken to have made the declarations on that Entitlement and Acceptance Form; and
- (b) if you do not pay for your Entitlement in full, you are deemed to have taken up your Entitlement in respect of such whole number of Shares which is covered in full by your application monies.

**It is your responsibility to ensure that your BPAY® payment is received by the share registry by no later than 4:00 pm (WST) on the Closing Date. You should be aware that your financial institution may implement earlier cut-off times with regards to electronic payment and you should therefore take this into consideration when making payment.** Any application monies received for more than your final allocation of Shares (only where the amount is \$1.00 or greater) will be refunded. No interest will be paid on any application monies received or refunded.

The Offer is non-renounceable. Accordingly, a Shareholder may not sell or transfer all or part of their Entitlement.

#### 4.5 Shortfall Offer

Any Entitlement not taken up pursuant to the Offer will form the Shortfall Offer.

The Shortfall Offer is a separate offer made pursuant to this Prospectus and will remain open for up to three months following the Closing Date. The issue price

for each New Option to be issued under the Shortfall Offer shall be \$0.05 being the price at which New Options have been offered under the Offer.

The Directors reserve the right to issue Shortfall Options at their absolute discretion. Accordingly, do not apply for Shortfall Options unless instructed to do so by the Directors. If instructed to do so, applicants may apply for the Shortfall Offer by completing a Shortfall Application Form.

#### **4.6 Issue**

New Options issued pursuant to the Offer will be issued in accordance with the ASX Listing Rules and timetable set out at the commencement of this Prospectus.

New Options issued pursuant to the Shortfall Offer will be allotted on a progressive basis. Where the number of New Options issued is less than the number applied for, or where no allotment is made surplus application monies will be refunded without any interest to the Applicant as soon as practicable after the closing date of the Shortfall Offer.

Pending the issue of the New Options or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

Holding statements for New Options issued under the Offer will be mailed in accordance with the ASX Listing Rules and timetable set out at the commencement of this Prospectus and for Shortfall Options issued under the Shortfall Offer as soon as practicable after their issue.

#### **4.7 Quotation**

The Company does not propose to apply for quotation of the New Options. The New Options will therefore form an unquoted class of Securities.

#### **4.8 Overseas shareholders**

This document is only intended to be distributed and made available to existing Shareholders of the Company and is personal to each Shareholder to whom it has been delivered. This Offer does not, and is not intended to, constitute an offer in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus.

It is not practicable for the Company to comply with the securities laws of overseas jurisdictions having regard to the number of overseas Shareholders, the number and value of New Options these Shareholders would be offered and the cost of complying with regulatory requirements in each relevant jurisdiction. Accordingly, the Offer is not being extended and Securities will not be issued to Shareholders with a registered address which is outside Australia, New Zealand, Switzerland, Israel or Singapore.

The distribution of this Prospectus in jurisdictions outside Australia, New Zealand, Switzerland, Israel and Singapore may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify the Securities the subject of this Prospectus or otherwise permit a public offering of the

Securities the subject of this Prospectus in any jurisdiction outside Australia, New Zealand, Switzerland, Israel or Singapore..

If you are outside Australia, New Zealand, Switzerland, Israel or Singapore it is your responsibility to obtain all necessary approvals for the issue of the Securities pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by you that all relevant approvals have been obtained.

### **Important Information for New Zealand Investors**

This Offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act 2001 (Aust) and regulations made under that Act. In New Zealand, this is subpart 6 of Part 9 of the Financial Markets Conduct Act 2013 and Part 9 of the Financial Markets Conduct Regulations 2014.

This Offer and the content of the offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act 2001 (Aust) and the regulations made under that Act set out how the offer must be made.

There are differences in how financial products are regulated under Australian law. For example, the disclosure of fees for managed investment schemes is different under the Australian regime.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian financial products may differ from the rights, remedies, and compensation arrangements for New Zealand financial products.

Both the Australian and New Zealand financial markets regulators have enforcement responsibilities in relation to this Offer. If you need to make a complaint about this Offer, please contact the Financial Markets Authority, New Zealand (<http://www.fma.govt.nz>). The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian financial products is not the same as for New Zealand financial products.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The Offer may involve a currency exchange risk. The currency for the financial products is not New Zealand dollars. The value of the financial products will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

If you expect the financial products to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

If the financial products are able to be traded on a financial product market and you wish to trade the financial products through that market, you will have to make arrangements for a participant in that market to sell the financial products on your behalf. If the financial product market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the financial products and trading may differ from financial product markets that operate in New Zealand.

### **Important Information for Swiss Investors**

The New Options may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (**SIX**) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the New Options may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the New Options have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Securities will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This document is personal to the recipient only and not for general circulation in Switzerland.

### **Important Information for Israeli Investors**

The Company does not intend to offer the New Options to the public in Israel within the meaning of the Israeli Securities Law, 1968, or offer New Options, within any specific year, to more than 35 offerees resident in Israel. The New Options have not been approved or disapproved by the Israeli Securities Authority (**ISA**), nor have such New Options been registered for sale in Israel. The New Options may not be offered or sold, directly or indirectly, to the public in Israel, absent the publication of a prospectus. The ISA has not issued permits, approvals or licenses in connection with the offering or publishing of this document; nor has it authenticated the details included herein, confirmed their reliability or completeness, or rendered an opinion as to the quality of the New Options being offered. Any resale in Israel, directly or indirectly, to the public of the New Options offered by this document is subject to restrictions on transferability and must be effected only in compliance with the Israeli securities laws and regulations.

### **Important Information for Singaporean Investors**

This document and any other materials relating to the New Options have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Options may not be issued, circulated or distributed, nor may these securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (**SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are an existing holder of the Company's shares. In the event that you are not such a shareholder, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Options being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Options. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

#### ***Nominees and custodians***

Shareholders, including nominees and custodians, resident in Australia, New Zealand, Switzerland, Israel or Singapore holding Shares on behalf of persons who are resident overseas are responsible for ensuring that taking up an Entitlement under the Offer does not breach regulations in the relevant overseas jurisdiction. Return of a duly completed Entitlement and Acceptance Form will be taken by the Company to constitute a representation that there has been no breach of those regulations.

#### **4.9 Enquiries**

Any questions concerning the Offer should be directed to the Company's share registry on 1300 288 664 (within Australia) +61 (0)2 9698 5414 (outside Australia), email [hello@automic.com.au](mailto:hello@automic.com.au).

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## 5. PURPOSE AND EFFECT OF THE OFFER

### 5.1 Purpose of the Offer

The purpose of the Offer is to reward the Company's long-term Shareholders for their loyalty, many of them having committed their capital at or before the Company's initial public offer. The Offer will also serve to help maintain Shareholder loyalty and Share ownership for any Shareholders who have purchased Shares since the Company's Shares commenced quotation on the ASX. In addition, the Offer will raise up to \$2,826,889 (less costs of the Offer) and the funds raised from the Offer are planned to be used in accordance with the table set out below:

| Item | Proceeds of the Offer  | Full Subscription (\$) | %           |
|------|--|------------------------|-------------|
| 1.   | Costs required to fast track the construction of the cannabis growing facility and corresponding product development at the Mernova Medicinal Inc. site in Nova Scotia, Canada | 2,200,000              | 77.82       |
| 2.   | Expenses of the Offer <sup>1</sup>   | 40,000                 | 1.41        |
| 3.   | Working capital  | 586,889                | 20.76       |
|      | <b>Total</b>   | <b>2,826,889</b>       | <b>100%</b> |

**Notes:**

1. Refer to Section 8.7 of this Prospectus for further details relating to the estimated expenses of the Offer.

In the event the Company raises less than the full subscription, allocation of funds, after payment of the expenses of the Offers, will be scaled back first from general working capital and then the growing facility costs on a pro-rata basis.

The above table is a statement of current intentions as of the date of this Prospectus. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

### 5.2 Effect of the Offer

The principal effect of the Offer, assuming all New Options offered under the Prospectus are issued and no additional Shares are issued prior to the Record Date (including by conversion of Performance Rights or exercise of Options), will be to:

- (a) increase the cash reserves by \$2,786,889 (after deducting the estimated expenses of the Offer) immediately after completion of the Offer;
- (b) increase the number of Options on issue from 7,426,250 as at the date of this Prospectus to 63,964,022 Options; and
- (c) the Company will receive \$0.80 for each New Option exercised and raise additional funds of approximately \$43,802,217. The likelihood of the Company raising the additional capital through the exercise of the New

Options is dependent on the price of the Shares from time to time until the New Options expire.

### **5.3 Pro-forma balance sheet**

The audited balance sheet as at 31 December 2017 and the unaudited pro-forma balance sheet as at 31 December 2017 shown below have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position.

The pro-forma balance sheet has been prepared assuming all New Options offered under the Prospectus are issued and no additional Shares are issued, prior to the Record Date, including by conversion of Performance Rights or exercise of Options.

The audited balance sheet as at December 2017 has also been adjusted for events subsequent to December 2017 (as further described below).

The pro-forma balance sheet has been prepared to provide investors with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below. The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.



|                                  | AUDITED<br>31-Dec-17 | UNAUDITED<br>SUBSEQUENT<br>ADJUSTMENTS<br>(Notes 1, 2, 3, 4<br>and 5) | UNAUDITED<br>ADJUSTMENTS<br>FOR OFFER<br>(Notes 7 and<br>8) | PRO FORMA<br>AFTER ISSUE<br>(Note 6) |
|----------------------------------|----------------------|---|---|--------------------------------------|
|                                  | \$                   | \$  | \$  | \$                                   |
| <b>CURRENT ASSETS</b>            |                      |   |   |                                      |
| Cash and cash equivalents        | 12,424,913           | (4,225,876)   | 2,786,889   | 10,985,926                           |
| Trade and other receivables      | 941,337              | -   | -   | 941,337                              |
| Inventories                      | 912                  | -   | -   | 912                                  |
| Other assets                     | 1,228,351            | (1,228,351)   | -   | -                                    |
| <b>TOTAL CURRENT ASSETS</b>      | <b>14,595,513</b>    | <b>(5,454,227)</b>  | <b>2,786,889</b>  | <b>11,928,175</b>                    |
|                                  |                      |   |   |                                      |
| <b>NON-CURRENT ASSETS</b>        |                      |   |   |                                      |
| Plant and equipment              | 50,996               | -   | -   | 50,996                               |
| Other assets                     | 6,949,395            | 519,474   | -   | 7,468,869                            |
| <b>TOTAL NON-CURRENT ASSETS</b>  | <b>7,000,391</b>     | <b>519,474</b>  | <b>-</b>  | <b>7,519,865</b>                     |
|                                  |                      |   |   |                                      |
| <b>TOTAL ASSETS</b>              | <b>21,595,904</b>    | <b>(4,934,753)</b>  | <b>2,786,889</b>  | <b>19,448,040</b>                    |
|                                  |                      |   |   |                                      |
| <b>CURRENT LIABILITIES</b>       |                      |   |   |                                      |
| Trade and Other Payables         | 563,748              | -   | -   | 563,748                              |
| Provisions                       | 3,522                | -   | -   | 3,522                                |
| Other liabilities                | -                    | 230,648   | -   | 230,648                              |
| <b>TOTAL CURRENT LIABILITIES</b> | <b>567,270</b>       | <b>230,648</b>  | <b>-</b>  | <b>797,918</b>                       |
|                                  |                      |   |   |                                      |
| <b>TOTAL LIABILITIES</b>         | <b>567,270</b>       | <b>230,648</b>  | <b>-</b>  | <b>797,918</b>                       |
|                                  |                      |   |   |                                      |
| <b>NET ASSETS</b>                | <b>21,028,634</b>    | <b>(5,165,401)</b>  | <b>2,786,889</b>  | <b>18,650,122</b>                    |
|                                  |                      |   |   |                                      |
| <b>EQUITY</b>                    |                      |   |   |                                      |
| Issued Capital                   | 35,138,519           | -   | -   | 35,138,519                           |
| Reserves                         | 5,562,002            |   | 2,826,889   | 8,388,891                            |
| Retained loss                    | (19,671,887)         | (5,165,401)   | (40,000)  | (24,877,288)                         |
| <b>TOTAL EQUITY</b>              | <b>21,028,634</b>    | <b>(5,165,401)</b>  | <b>2,786,889</b>  | <b>18,650,122</b>                    |

**Notes:**

**Unaudited adjustments for subsequent events following 31 December 2017:**

1. Working capital movements and payments to suppliers;
2. Cash consideration for the Mernova acquisition of C\$200,000 (A\$202,000) paid on 28 February 2018;
3. Exclusivity Fee of US\$250,000 (A\$313,283) paid to vendors under terms of the Kunna

Acquisition agreement;

4. EUR 150,000 (A\$159,795) provided to the CLV Frontier Brands Joint Venture as announced in March 2018 and EUR 100,000 (A\$157,679) provided to the CLV Frontier Brands Joint Venture in June 2018;
5. Placement cash funds of \$1,228,351 and Share Purchase Plan funds of \$230,648 received by Company subsequent to 31 December 2017.
6. The cash balance after the Offer includes C\$7.4 million (A\$7.6 million) held in a trust account. The funds are committed to the construction of the Mernova production facility in Nova Scotia.

**Adjustments for Offer:**

7. Amount to be raised under the Offer assuming, assuming all New Options offered under the Prospectus are issued and no additional Shares are issued, including by conversion of Performance Rights or exercise of Options, prior to the Record Date.
8. Expenses of the Offer \$40,000.

#### 5.4 Effect on capital structure

The effect of the Offer on the capital structure of the Company (assuming all New Options offered under the Prospectus are issued and no additional Shares are issued, including by conversion of Performance Rights or exercise of Options, prior to the Record Date prior to the Record Date) is set out below.

#### Shares

|  | Number                           |
|--|----------------------------------|
| Shares currently on issue                                  | 113,075,544 <sup>1</sup>         |
| Shares offered pursuant to the Offer                       | Nil                              |
| <b>Total Shares on issue after completion of the Offer</b> | <b>113,075,544<sup>2,3</sup></b> |

**Note:**

1. The Shares currently on issue include 23,200,001 Shares subject to escrow to 20 October 2018.
2. This does not include the 8,300,000 exchangeable shares currently on issue in Creso's Canadian subsidiary, Creso Canada Limited, that were issued as consideration for the Company's acquisition of Mernova Medicinal Inc (**Mernova**). The 8,300,000 exchangeable shares are exchangeable for Shares in Creso on the satisfaction of milestones. For more information of the acquisition of Mernova and relevant terms please refer to the announcements dated 19 February 2018, 13 February 2018 and 27 July 2017.
3. This total does not include the 8,212,121 Shares that, subject to Shareholder approval, are to be issued in consideration for the acquisition of Kunna Canada Ltd (**Acquisition Shares**) (**Kunna Acquisition**). The notice of meeting to obtain shareholder approval for the issue of the Acquisition Shares is with ASX for approval, and the general meeting is expected to be held in end of August/early September 2018. For further details on the Kunna Acquisition please refer to the announcements dated 18 December 2017, 14 February 2018, 6 April 2018 and 31 May 2018 and 23 July 2018.

## Options

|  | Number                        |
|--|-------------------------------|
| <b>Options currently on issue (as set out below)</b>   | 7,426,250                     |
| (Unquoted exercisable at \$0.40 on or before 20 October 2018, subject to escrow until 20 October 2018) | 250,000                       |
| (Unquoted exercisable at \$0.40 on or before 27 June 2020, subject to vesting conditions)              | 600,000 <sup>1</sup>          |
| (Unquoted exercisable at \$0.20 on or before 13 October 2020, subject to vesting conditions)           | 2,886,250 <sup>2</sup>        |
| (Unquoted exercisable at \$0.20 on or before 13 October 2019, subject to escrow until 20 October 2018) | 2,500,000                     |
| (Unquoted exercisable at \$0.50 on or before 23 January 2021, 200,000 subject to vesting conditions)   | 300,000 <sup>3</sup>          |
| (Unquoted exercisable at \$0.60 on or before 27 July 2020)   | 100,000                       |
| (Unquoted exercisable at \$0.40 on or before 27 July 2021, subject to vesting conditions)              | 140,000 <sup>4</sup>          |
| (Unquoted exercisable at \$0.30 on or before 27 July 2019)   | 250,000                       |
| (Unquoted exercisable at \$0.80 on or before 13 April 2019)  | 250,000                       |
| (Unquoted exercisable at \$0.80 on or before 13 July 2021 subject to vesting conditions)               | 150,000 <sup>5</sup>          |
| <b>New Options offered pursuant to the Offer</b>   |                               |
| (Unquoted exercisable at \$0.80 on or before two years from the date of issue)                         | 56,537,772                    |
| <b>Total Options on issue after completion of the Offer</b>  | <b>63,964,022<sup>6</sup></b> |

### Notes:

- 200,000 Options will vest and become exercisable upon the completion of 36 months of continued service to the Company (11 November 2019); 400,000 Options will vest and become exercisable upon the completion of 48 months of continued service to the Company by the holder (24 May 2020).
- These Options will vest upon the satisfaction of milestones related to the development of a sublingual formulation using the BioLingus technology as further detailed in Section 12.3 of the Company's replacement prospectus dated 25 July 2016.
- 100,000 Options have vested however have not been converted to Shares as at the date of this Prospectus; 100,000 Options will vest and become exercisable upon the completion of 24 months of continued service to the Company (1 January 2019); 100,000 Options will vest and become exercisable upon the completion of 36 months of continued service to the Company by the holder (1 January 2020).
- 70,000 Options will vest and become exercisable upon the completion of 24 months of continued service to the Company (1 February 2019); 70,000 Options will vest and become exercisable upon the completion of 36 months of continued service to the Company (1 February 2020).
- 75,000 Options will vest and become exercisable upon the completion of 12 months of continued service to the Company (1 April 2019). The remaining Options will vest and become exercisable upon the completion of 24 months of continued service to the Company by the holder (1 April 2020).

6. This does not include the 3,658,480 options that, subject to satisfaction of relevant conditions precedent, will be issued in relation to the joint venture proposed to be formed to cultivate and manufacture high-grade medical cannabis in Israel (please refer to the Company's ASX Announcement dated 16 May 2018 for further details). If issued, these Options will have a nil exercise price, but will be subject to the vesting conditions outlined in the Company's ASX Announcement dated 16 May 2018.

### Performance Rights

|   | Number                 |
|---|------------------------|
| <b>Performance Rights currently on issue (as set out below)<sup>2</sup></b>                               | 14,946,000             |
| Tranche 1 Performance Rights (subject to vesting conditions)  | 800,000                |
| Tranche 2 Performance Rights (subject to vesting conditions)  | 800,000                |
| Tranche 3 Performance Rights  | 1,250,000 <sup>1</sup> |
| Tranche 4A Performance Rights (subject to vesting conditions and subject to escrow until 20 October 2018) | 5,000,000              |
| Tranche 4B Performance Rights   | 1,250,000 <sup>1</sup> |
| Tranche 7 Performance Rights (subject to vesting conditions)  | 300,000                |
| Tranche 8 Performance Rights (subject to vesting conditions)  | 100,000                |
| Tranche 9 Performance Rights (subject to vesting conditions)  | 150,000                |
| Tranche 11 Performance Rights   | 2,000,000 <sup>1</sup> |
| Tranche 12 Performance Rights (subject to vesting conditions)   | 2,000,000              |
| Tranche 16 Performance Rights (subject to vesting conditions)   | 100,000                |
| Tranche 17 Performance Rights (subject to vesting conditions)   | 100,000                |
| Tranche 18 Performance Rights (subject to vesting conditions)   | 50,000                 |
| Tranche 19 Performance Rights (subject to vesting conditions)   | 50,000                 |
| Tranche 20 Performance Rights (subject to vesting conditions)   | 132,000                |
| Tranche 21 Performance Rights (subject to vesting conditions)   | 132,000                |
| Tranche 22 Performance Rights (subject to vesting conditions)   | 132,000                |
| Tranche 23 Performance Rights (subject to vesting conditions)   | 100,000                |
| Tranche 24 Performance Rights (subject to vesting conditions)   | 200,000                |
| Tranche 25 Performance Rights (subject to vesting conditions)   | 200,000                |
| Tranche 26 Performance Rights (subject to vesting conditions)   | 100,000                |
| <b>Performance Rights offered pursuant to the Offer</b>   | Nil                    |
| <b>Total Performance Rights on issue after completion of the Offer</b>                                    | <b>14,946,000</b>      |

#### Notes:

1. The Performance Rights have vested however the holders have not elected to convert these into Shares prior to the lodgement of this Prospectus.
2. Refer to glossary for details on vesting conditions where applicable.

## Performance Shares

|  | Number                         |
|--|--------------------------------|
| Performance Shares currently on issue <sup>1,2</sup>                   | 1,000,000                      |
| Performance Shares offered pursuant to the Offer                       | Nil                            |
| <b>Total Performance Shares on issue after completion of the Offer</b> | <b>1,000,000<sup>1,2</sup></b> |

### Notes

1. The Company confirms that the milestone for the Performance Shares will not be achieved by the satisfaction date of 13 October 2019. As set out in the 31 December 2017 accounts, Creso's investment in Hemp Industries SRO has been written off. The Company confirms it is looking at divesting of its interest in Hemp Industries. Accordingly, the Company may look to cancel the Performance Shares in accordance with the necessary requirements under the Corporations Act.
2. This total does not include the 1,212,121 Performance Shares that, subject to Shareholder approval, are to be issued in consideration for the Kunna Acquisition. For further details on the Kunna Acquisition and the milestone attaching to the performance shares please refer to the announcements dated 23 July 2018.

The capital structure on a fully diluted basis as at the date of this Prospectus would be 136,447,794 Shares and on completion of the Offer (assuming all Entitlements are accepted and no additional Shares are issued, including by conversion of Performance Rights or exercise of Options, prior to the Record Date) would be 192,985,566 Shares.

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## 6. RIGHTS AND LIABILITIES ATTACHING TO NEW OPTIONS AND UNDERLYING SHARES

### 6.1 New Options

(a) **Entitlement**

Each New Option entitles the holder to subscribe for one Share upon exercise of the New Option.

(b) **Exercise Price**

Subject to paragraph (j), the amount payable upon exercise of each New Option will be \$0.80 (**Exercise Price**).

(c) **Expiry Date**

Each New Option will expire at 5:00 pm (WST) two years from the date of issue (**Expiry Date**). A New Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The New Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The New Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the New Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each New Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each New Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Subject to paragraph (h), within 15 Business Days after the Exercise Date, the Company will:

- (i) issue the number of Shares required under these terms and conditions in respect of the number of New Options specified in the Notice of Exercise and for which cleared funds have been received by the Company.
- (ii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the New Options.

The Company makes no representation that the Shares will be freely tradeable upon issue and the holder acknowledges that the Shares may be subject to on-sale restrictions contained in sections 706 and 707 of the Corporation Act. In such circumstances, the holder agrees not to trade

the Shares for so long as the Shares are subject to restrictions. The Company acknowledges that, where required, it will give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors as soon as is practicable for the Company.

(h) **Restrictions under the Corporations Act**

(i) If the issue of Shares upon exercise of New Options specified in an Notice of Exercise would result in any person being in contravention of section 606 of the Corporations Act then the issue of such Shares will, subject to any restrictions imposed by ASX or the Listing Rules, be deferred until such time or times that the issue would not result in a contravention of section 606 of the *Corporations Act*.

(ii) A holder must give notification to the Company in writing no later than the time of providing an Notice of Exercise if they consider that the issue of Shares upon exercise of the Options may result in the contravention of section 606 of the *Corporations Act*, failing which the Company will be entitled to assume that the issue of Shares upon exercise of the New Options will not result in any person being in contravention of section 606 of the *Corporations Act*.

(i) **Shares issued on exercise**

Shares issued on exercise of the New Options rank equally with the then issued shares of the Company.

(j) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(k) **Participation in new issues**

There are no participation rights or entitlements inherent in the New Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the New Options without exercising the New Options.

(l) **Change in exercise price**

A New Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the New Option can be exercised.

(m) **Transferability**

The New Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

## 6.2 Shares

The following is a summary of the more significant rights and liabilities attaching to Shares, being the underlying securities of the New Options offered pursuant to this Prospectus (**Underlying Shares**). This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights and liabilities attaching to Shares are set out in the Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

### (a) General meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with section 249D of the Corporations Act and the Constitution of the Company.

### (b) Voting rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

- (i) each 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 Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (iii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for each 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 Shares registered in the Shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

### (c) Dividend rights

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 Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend which shall be payable on all 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 Shares.

The Directors may from time to time pay to the Shareholders any interim dividends as they may determine. No dividend shall carry interest as against the Company. The Directors may set aside out of the profits of the Company 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 the Company may be properly applied.

Subject to the ASX Listing Rules and the Corporations Act, the Company may, by resolution of the Directors, implement a dividend reinvestment plan on such terms and conditions as the Directors think fit and which provides for any dividend which the Directors may declare from time to time payable on Shares which are participating Shares in the dividend reinvestment plan, less any amount which the Company shall either pursuant to the Constitution or any law be entitled or obliged to retain, be applied by the Company to the payment of the subscription price of Shares.

(d) **Winding-up**

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

The liquidator may, with the authority of a special resolution, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any shares or other securities in respect of which there is any liability.

(e) **Shareholder liability**

As the Shares issued will be fully paid shares, they will not be subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(f) **Transfer of shares**

Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act and the ASX Listing Rules.

(g) **Future increase in capital**

The allotment and issue of any new Shares is under the control of the Directors of the Company. Subject to restrictions on the issue or grant of Securities contained in the ASX Listing Rules, the Constitution and the Corporations Act (and without affecting any special right previously conferred on the holder of an existing share or class of shares), the Directors may issue Shares as they shall, in their absolute discretion, determine.

(h) **Variation of rights**

Under section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to shares.

If at any time the share capital 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 the Company 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.

(i) **Alteration of constitution**

In accordance with the Corporations Act, the Constitution can only be amended by a special resolution passed by at least three quarters of 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.

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## 7. RISK FACTORS

### 7.1 Introduction

The New Options offered under this Prospectus and the Underlying Shares are considered highly speculative. An investment in the Company is not risk free and the Directors strongly recommend potential investors consider the risk factors described below, together with information contained elsewhere in this Prospectus and to consult their professional advisers before deciding whether to apply for New Options pursuant to this Prospectus.

There are specific risks which relate directly to the Company's business. In addition, there are other general risks, many of which are largely beyond the control of the Company and the Directors. The risks identified in this section, or other risk factors, may have a material impact on the financial performance of the Company and the market price and value of the New Options and Underlying Shares.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

### 7.2 Company specific

Key risk factors that are specific to the Company and the Offer include:

#### General Risks

##### (a) Potential for dilution

Upon implementation of the Offer, assuming all New Options offered under the Prospectus are issued and no additional Shares are issued, including by conversion of Performance Rights or exercise of Options, prior to the Record Date, the number of Options in the Company will increase from 7,426,250 currently on issue to 63,964,022.

This means that if the New Options are exercised and Underlying Shares are issued on exercise of those New Options, each Share will represent a significantly lower proportion of the ownership of the Company.

It is not possible to predict what the value of the Company or a Share or New Option will be following the completion of the Offer being implemented and the Directors do not make any representation as to such matters.

The last trading price of Shares on ASX prior to the prospectus being lodged of \$0.700 on 24 July 2018 is not a reliable indicator as to the potential value of New Options after implementation of the Offer.

##### (b) Potential TSX-V listing

As announced on 23 July 2018, the Company is currently pursuing a listing on the Canadian TSX Venture Exchange (**TSX-V**) to become a dually listed company. Even if the Company makes its formal decision to seek admission to the TSX-V, there can be no guarantee that the Company will be able to comply with TSX-V's requirements or that the Shares will become listed on TSX-V. In the event the Company is unable to comply

with these requirements, the Company will remain listed on the ASX, but will not become dual listed.

### **Risks relating to Creso Products**

#### **(a) Access to active ingredients**

Some of Creso's current and future products (**Creso Products**) will/do contain active cannabis or hemp derived ingredients from full plant extracts. Creso needs to access to these materials. An inability to access these raw materials with the required specifications or quality could mean that some of the Creso products are compromised or delayed.

Creso may, from time to time, enter into agreements with other suppliers of active cannabis or hemp derived ingredients. There is a risk that the Company may have protracted negotiations on commercial terms and this may result in delays in the development of the Company's products and/or increase in the Company's costs of development and production.

#### **(b) Changes to regulatory thresholds**

Creso's Products consist of nutraceutical and therapeutic products. Due to the regulatory threshold of the nutraceutical market, nutraceutical products do not currently require clinical data in order to file for registration. Accordingly, the Company will not be exposed to expensive and time consuming clinical trials.

However, in the situation where changes would occur in applicable regulatory policies and regulations, the Company may be exposed to increased compliance costs, including need to carry out some limited clinical trials. Designing and implementing large clinical trials is expensive and time consuming.

Regulatory authorities or the Company may suspend, delay or terminate trials, laboratory tests or development programs at any time for various reasons which could have a material adverse effect on our business, results of operations and financial condition.

#### **(c) Inherit risk of exposure to product liability claims, regulatory action and litigation**

These risks will arise if any Creso Products are alleged to have caused significant loss or injury. Previously unknown adverse reaction resulting from human consumption of medical cannabis/and or hemp alone or in combination with other medication or substances could occur. The Company may be subject to various product liability claims, including among others that the Creso Products caused injury or illness, inadequate instructions for use or warnings concerning possible side effects. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally and could have a material adverse effect on our results of operations and financial conditions. To mitigate such risks, Creso maintains product liability insurance cover.

(d) **Risk of generating public controversy**

Some of the Creso Products contain controlled substances and their regulatory approval may generate public controversy. Political and social pressures and adverse publicity could lead to delays in approval of, and increased expenses for, Creso Products. These pressures could also limit or restrict the introduction and marketing of Creso Products. Adverse publicity from cannabis misuse or adverse side effects from cannabis or other cannabinoid products may adversely affect the commercial success or market penetration achievable by our products. The nature of Creso's business attracts a high level of public and media interest, and in the event of any resultant adverse publicity, our reputation may be harmed.

**Risks related to our business – cultivation**

(a) **Agricultural risks**

Part of the Company's business involves the cultivation and growing of medical cannabis and/or hemp, which are agricultural products. As such the business may be subject to the risks inherent in the agricultural industry, such as insects, plant diseases, invasive plant species, storm, fire, frost, flood, drought, water availability, water salinity, pests, bird damage and force majeure events. However, to minimise such risks, Creso will construct growing facilities designed to provide optimum protection for its crops.

(b) **Key inputs and related costs of cultivation facilities**

The key inputs include raw material and supplies related to growing operations as well as electricity, water and other local utilities. Any significant interruptions or negative changes in the availability of economics of the supply chain for the inputs could materially impact the business, financial condition and operating results of our Company. Due to the nature of the product some of these inputs may only be available from single suppliers or a limited group of suppliers. Any restrictions on the ability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact of the business, financial condition and operating results of the Company.

(c) **Construction risks**

The Company is in the process of constructing a cannabis growing facility at its wholly owned subsidiary's (Mernova Medicinal Inc.) site in Nova Scotia, Canada.

Construction of the growing facility carries construction and timing risks which may affect the total development costs, and the timing and level of proceeds derived from the revenue generating activities at the completed facility. Any delays in development timetable (for example, as a result of industrial disruptions, work stoppages and accidents) may mean additional expense and reducing the returns received by the Company. Conversely, any acceleration of a development timetable could accelerate returns received by the Company.

Additionally, there is no guarantee that subcontractors and other consultants that are engaged by the Company or its subsidiaries will perform as anticipated.

## **Risks related to our reliance upon third parties**

### **(a) Maintaining licenses relating to the cultivation, possession and supply of controlled substances**

Creso's activities are conducted across various jurisdictions. Creso's grow operations are subject to the licenses required and other applicable legislation and regulations enforced in those countries. Accordingly, the amount of medical cannabis and hemp Creso is able to produce may be capped and ultimately this will restrict the amount we can sell, at least whilst no further legislation is in operation.

Additionally, in order to carry out research and manufacture on medical cannabis and hemp, licenses from the relevant authorities in each country are generally required to handle the product.

### **(b) Reliance on third parties**

Creso's operations are in part dependent upon the continued reliable operation of the operating systems and networks of third parties. If these third parties do not provide reliable operation, Creso's ability to develop and commercialise the Creso Products and our operating results could be harmed.

### **(c) Contractual Risk**

The Company's ability to efficiently conduct its operations in a number of respects depends upon a number of contracts. This also includes the conditional agreement for the Kunna Acquisition.

As in any contractual relationship, the ability for the Company to ultimately receive the benefit of the contract is dependent upon the relevant third party complying with its contractual obligations. To the extent that such third parties default in their obligations, it may be necessary for the Company to enforce its rights under any of the contracts and pursue legal action. Such legal action may be costly and no guarantee can be given by the Company that a legal remedy will ultimately be granted on appropriate terms.

### **(d) Joint Venture Risk**

In addition to the general contractual risk, the Company acknowledges as announced in January it has entered a joint venture arrangement in respect of developing and commercialising alcoholic and non-alcoholic beverages with cannabis and hemp ingredients. Additionally as announced on 16 May 2018, subject to satisfaction of a number of conditions precedent, the Company is also proposing to enter a joint venture to cultivate and manufacture high-grade medical cannabis in Israel.

The Company is subject to the risk that changes in the status of the proposed joint venture (including changes caused by financial failure or default by the other joint venture parties) may adversely affect the operations and performance of the joint venture and the Company's investment. Further, if the other joint venture parties default in the performance of their obligations, it may be necessary for the Company to approach a court to seek a legal remedy, which could be costly.

## **Risks related to intellectual property**

### **(a) Intellectual property rights**

Creso 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, Creso'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 Creso's ability to develop and commercialise Creso 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 Creso's business. Further, because the content of much of Creso'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.

### **(b) Protection of proprietary technology**

Part of Creso's success will depend, in part, on Creso's ability to obtain patents, protect trade secrets and operate without infringing on the proprietary rights of others. If Creso fails to adequately protect our intellectual property, it may face competition from companies who attempt to create a generic product to compete with a Creso Product. We may also face competition from companies who develop a substantially similar product to one of the Creso Products that is not covered by any protection.

Many companies have encountered significant problems in protecting and enforcing intellectual property rights in foreign jurisdictions. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

## **7.3 Industry specific**

### **(a) Changes in laws and regulations**

The Company's operations are subject to a variety of laws, regulations and guidelines. The medical cannabis and hemp industries are evolving worldwide and have been identified as possibly posing risks in relation to law enforcement and government regulation. It is likely that many governments worldwide will continue to explore the benefits, risks, regulations and operations of Company's involved in medical cannabis and hemp. Whilst, to the knowledge of management, the Company is currently in compliance with all current laws, changes to laws and regulations due to matters beyond the control of the Company may cause adverse effects to its operations.

The introduction of new legislation or amendments to existing legislation by governments, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial position and financial performance of the Company and its Shares.

In addition, there is a risk that legal action may be taken against the Company in relation to commercial, legal, regulatory or other matters.

(b) **Controlled substance legislation may restrict or limit ability to develop and commercialise Creso Products**

Most countries are parties to the Single Convention on Narcotic Drugs 1961, which governs international trade and domestic control of narcotic substances, including cannabis extracts. Countries may interpret and implement their treaty obligations in a way that creates a legal obstacle to our obtaining marketing approval for our proposed products in those countries. These countries may not be willing or able to amend or otherwise modify their laws and regulations to permit Creso Products to be marketed, or achieving such amendments to the laws and regulations may take a prolonged period of time.

(c) **Additional acquisitions**

Creso may in the future seek to acquire additional businesses, products or technologies that it believes could complement or expand the Creso Product offerings, enhance Creso's technical capabilities or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated. If Creso acquires additional businesses, we may not be able to integrate the acquired personnel, operations and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including,

Acquisitions may also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business fails to meet our expectations, our business, results of operations and financial condition may be adversely affected.

(d) **Competition**

The pharmaceutical and nutraceutical industries are highly competitive and subject to rapid change. The industries continue to expand and evolve as an increasing number of competitors and potential competitors enter the market. Many of these competitors and potential competitors have substantially greater financial, technological, managerial and research and development resources and experience than Creso. Some of these competitors and potential competitors have similar or more experience than Creso in the development of pharmaceutical products, including validation procedures and regulatory matters. In addition, Creso Products compete with, product offerings from large and well-established companies that have greater marketing and sales experience and capabilities than we or our future collaboration partners may have. If Creso is unable to compete successfully, it may be unable to generate, grow and sustain our revenue.

(e) **Growth and consolidation in the industry**

The medical cannabis and global hemp industries are undergoing rapid growth and substantial change, which has recently resulted in increasing consolidation and formation of strategic relationships. Creso's Board



expects this consolidation and strategic partnering to continue. Acquisitions or other consolidating transactions could harm Creso in a number of ways, including:

- (i) we could lose strategic relationships if third parties with whom Creso has arrangements with, are acquired by or enter into contractual relationships with competitors;
- (ii) the relationship between Creso and such third parties may deteriorate and cause an adverse effect on our business; and
- (iii) current competitors could become stronger, or new competitors could form, as a result of future consolidations.

Any of these events could put Creso at a competitive disadvantage, which could cause us to lose research facilities or access to technology. Consolidation could also force Creso to use greater resources to meet new or additional competitive threats, which could also harm results.

(f) **Product liability and uninsured risks**

Through its intended business, the Company is exposed to potential product liability risks which are inherent in the research and development, manufacturing, marketing and use of its products or products developed with future co-development alliance partners. It will be necessary to secure insurance to help manage such risks. The Company may not be able to maintain insurance for product or service liability on reasonable terms in the future and, in addition, the Company's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on claims.

Although the Company endeavors to work to rigorous standards there is still the potential for the products to contain defects which may result in system failures. These defects or problems could result in the loss of or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, and damage to the Company's reputation or increased insurance costs.

If the Company fails to meet its clients' expectations, the Company's reputation could suffer and it could be liable for damages.

Further, the Company is exposed to the risk of catastrophic loss to necessary laboratory equipment, computer equipment or other facilities which would have a serious impact on the Company's operations. The Company gives no assurance that all such risks will be adequately managed through its insurance policies to ensure that catastrophic loss does not have an adverse effect on its performance.

(g) **Research and development**

There are many risks inherent in the development of biotechnology products, particularly where the products are in the early stages of development. Projects can be delayed or fail to demonstrate any benefit, or research may cease to be viable for a range of scientific and commercial reasons.

(h) **Unforeseen expenditure risk**

Expenditure may need to be incurred that has not been taken into account in the preparation of this Prospectus. Although the Company is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of the Company.

(i) **Management of growth**

There is a risk that management of the Company will not be able to implement the Company's growth strategy after completion of the Offer. The capacity of the Company's management to properly implement and manage the strategic direction of the Group may affect the Company's financial performance.

#### 7.4 **General risks**

(a) **Economic**

General economic conditions, introduction of tax reform, new legislation, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's research and development programmes, as well as on its ability to fund those programmes.

(b) **Market conditions**

Share market conditions may affect the value of the Company's New Options and Underlying Shares regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) introduction of tax reform or other new legislation;
- (iii) interest rates and inflation rates;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and biotechnology stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(c) **Additional requirements for capital**

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised under the Offer. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve

restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its development and research programmes as the case may be. There is however no guarantee that the Company will be able to secure any additional funding or be able to secure funding on terms favourable to the Company.

(d) **Reliance on key personnel**

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel including the members of the Scientific Advisory Committee. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.

(e) **Dependence on outside parties**

The Company may pursue a strategy that forms strategic business relationships with the other organisations for the manufacture and distribution of products and services. The manufacture and global distribution of products and services is important to the overall success of the Company. There can be no assurance that the Company will be able to attract such prospective organisations and to negotiate appropriate terms and conditions with these organisations.

(f) **Funding risk**

The Company's ability to effectively implement its business and operations plans in the future, to take advantage of opportunities for acquisitions, joint ventures or other business opportunities and to meet any unanticipated liabilities or expenses which the Company may incur may depend in part on its ability to raise additional funds. The Company may seek to raise further funds through equity or debt financing, joint ventures, production sharing arrangements or other means. Failure to obtain sufficient financing for the Company's activities and future projects may result in delay and indefinite postponement of development or research. There can be no assurance that additional finance will be available when needed or, if available, the terms of the financing might not be favourable to the Company and might involve substantial dilution to Shareholders.

Further, the Company, in the ordinary course of its operations and developments, is required to issue financial assurances, particularly insurances and bond/bank guarantee instruments to secure statutory and environmental performance undertakings and commercial arrangements. The Company's ability to provide such assurances is subject to external financial and credit market assessments, and its own financial position.

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 the Company may contain covenants, undertakings and other provisions which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that the Company would be able to repay such loans in the event of an acceleration. Enforcement of any security

granted by the Company or default under a finance lease could also result in the loss of assets.

The Company is exposed to risks associated with its financial instruments (consisting of cash, receivables, accounts payable and accrued liabilities due to third parties from time to time). This includes the risk that a third party to a financial instrument fails to meet its contractual obligations; the risk that the Company will not be able to meet its financial obligations as they fall due; and the risk that market prices may vary which will affect the Company's income.

(g) **Insurance risks**

The Company intends to insure its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

**7.5 Investment speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the New Options offered under this Prospectus and the Underlying Shares.

Therefore, the New Options and the Underlying Shares carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

Potential investors should consider that the investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

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## 8. ADDITIONAL INFORMATION

### 8.1 Litigation

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

### 8.2 Continuous disclosure obligations

The Company is a “disclosing entity” (as defined in section 111AC of the Corporations Act) for the purposes of section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company’s securities.

This Prospectus is a “transaction specific prospectus”. In general terms a “transaction specific prospectus” is only required to contain information in relation to the effect of the issue of securities on a company and the rights attaching to the securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquires as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 3 months before the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the Closing Date:
  - (i) the annual financial report most recently lodged by the Company with the ASIC;

- (ii) any half-year financial report lodged by the Company with the ASIC after the lodgement of the annual financial report referred to in (i) and before the lodgement of this Prospectus with the ASIC; and
- (iii) any continuous disclosure documents given by the Company to ASX in accordance with the ASX Listing Rules as referred to in section 674(1) of the Corporations Act after the lodgement of the annual financial report referred to in (i) and before the lodgement of this Prospectus with the ASIC.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

Details of documents lodged by the Company with ASX since the date of lodgement of the Company's latest annual financial report and before the lodgement of this Prospectus with the ASIC are set out in the table below.

| Date          | Description of Announcement                                 |
|---------------|---|
| 23 July 2018  | Appendix 3Y – Vesting of Performance Rights                 |
| 23 July 2018  | Conversion of Performance Rights & Appendix 3B              |
| 23 July 2018  | Options Entitlement Issue                                   |
| 23 July 2018  | Creso to finalise Colombian Acquisition                     |
| 17 July 2018  | Creso now trading on Frankfurt Stock Exchange               |
| 16 July 2018  | Appendix 3B   |
| 2 July 2018   | Creso launches cannaQIX in New Zealand                      |
| 25 June 2018  | Creso JV launches infused terpene craft beers and beverages |
| 21 June 2018  | Creso welcomes decision to legalise Cannabis use in Canada  |
| 14 June 2018  | Creso appoints Chief Operating Officer, Americas            |
| 12 June 2018  | Licence to cultivate Medicinal Cannabis in Colombia granted |
| 31 May 2018   | Results of Meeting  |
| 31 May 2018   | Update of Colombian Acquisition                             |
| 21 May 2018   | Commercial start of cannaQIX in Benelux with first orders   |
| 16 May 2018   | Creso expands into Israeli Medical Cannabis                 |
| 14 May 2018   | Trading Halt  |
| 2 May 2018    | Notice of Annual General Meeting                            |
| 30 April 2018 | Quarterly Activities Report & Appendix 4C                   |
| 30 April 2018 | Global Expansion of anibidiol                               |
| 18 April 2018 | Creso's JV to launch Global Beers and Tonics                |
| 16 April 2018 | Corporate Update  |
| 6 April 2018  | Update on Colombian Acquisition                             |
| 15 March 2018 | Creso launches cannaDOL product range                       |

|                  |                                |
|------------------|--------------------------------|
| 27 February 2018 | Corporate Governance Statement |
| 27 February 2018 | Appendix 4G                    |

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours.

The announcements are also available through the Company's [www.cresopharma.com](http://www.cresopharma.com).

### 8.3 Interests of Directors

Other than as set out in this Prospectus, no Director or proposed Director holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with:
  - (i) its formation or promotion; or
  - (ii) the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to a Director or proposed Director:

- (d) as an inducement to become, or to qualify as, a Director; or
- (e) for services provided in connection with:
  - (i) the formation or promotion of the Company; or
  - (ii) the Offer.

#### ***Security holdings***

The relevant interest of each of the Directors in the Shares of the Company as at the date of this Prospectus, together with their respective Entitlement, is set out in Section 3.2.

#### ***Remuneration***

The remuneration of an executive Director is decided by the Board, without the affected executive Director participating in that decision-making process. The total maximum remuneration of non-executive Directors is initially set by the Constitution and subsequent variation is by ordinary resolution of Shareholders in general meeting in accordance with the Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive Director. The current amount has been set at an amount not to exceed \$300,000 per annum.

A Director may be paid fees or other amounts (ie non-cash performance incentives such as Options, subject to any necessary Shareholder approval) as the other Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. In addition, Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The following table shows the total (and proposed) annual remuneration paid to both executive and non-executive directors.

| Director               | Proposed 2018 | 2017        | 2016      |
|------------------------|---------------|-------------|-----------|
| Boaz Wachtel           | \$727,000     | \$883,376   | \$588,369 |
| Miriam Halperin Wernli | \$804,500     | \$1,034,501 | \$719,172 |
| Adam Blumenthal        | \$524,004     | \$424,534   | \$314,220 |
| James Ellingford       | \$188,254     | \$170,354   | \$119,098 |

**Notes:**

- 1 Remuneration to Mr Boaz Wachtel includes cash payments of \$120,000 and \$607,000 share-based payments expense in relation to Performance Rights vested over the period.
- 2 Remuneration to Ms Miri Halperin Wernli includes cash payments of \$432,000 and \$372,500 share-based payments expense in relation to performance rights vested over the period.
- 3 Remuneration to Mr Adam Blumenthal includes cash payments of \$116,004 and \$408,000 share-based payments expense in relation to performance rights vested over the period. The Company notes that Mr Blumenthal is currently the chairman of EverBlu Capital Pty Ltd (**EverBlu**) who was lead manager for the Company's initial public offer and continues to provide corporate advisor services to the Company. Since August 2017 Mr Blumenthal has been a director of EverBlu and has held a 63% interest in EverBlu. Since Everblu became an entity controlled by Mr Blumenthal, the Company has paid EverBlu fees equal to \$1,166,226. Under the terms of EverBlu's current mandate with Creso (which subject to extension, expires on 31 December 2018) Creso will continue to pay EverBlu a \$10,000 monthly fee for corporate advisory services. EverBlu will be eligible for additional lead manager fees where EverBlu raises capital for Creso. As EverBlu is a related party by virtue of being controlled by Mr Blumenthal, a Director of Creso, every agreement entered into between Creso and EverBlu is negotiated at arms lengths in accordance with Creso's related party policy (refer to Section 8.4).
- 4 Remuneration to Mr James Ellingford includes cash payments of \$114,004 and \$74,250 share-based payments expense in relation to performance rights vested over the period.

#### 8.4 Agreements with Directors and Related Parties

The Company's policy in respect of related party arrangements is:

- (a) a Director with a material personal interest in a matter is required to give notice to the other Directors before such a matter is considered by the Board; and
- (b) for the Board to consider such a matter, the Director who has a material personal interest is not present while the matter is being considered at the meeting and does not vote on the matter.

#### 8.5 Interests of experts and advisers

Other than as set out below or elsewhere in this Prospectus, no:



- (a) person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (b) promoter of the Company; or
- (c) underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in this Prospectus as a financial services licensee involved in the issue,

holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (d) the formation or promotion of the Company;
- (e) any property acquired or proposed to be acquired by the Company in connection with:
  - (i) its formation or promotion; or
  - (ii) the Offer; or
- (f) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of these persons for services provided in connection with:

- (g) the formation or promotion of the Company; or
- (h) the Offer.

Steinepreis Paganin has acted as the solicitors to the Company in relation to the Offer. The Company estimates it will pay Steinepreis Paganin \$15,000 (excluding GST and disbursements) for these services.

## 8.6 Consents

Chapter 6D of the Corporations Act imposes a liability regime on the Company (as the offeror of the Securities), the Directors, the persons named in the Prospectus with their consent as proposed directors, any underwriters, persons named in the Prospectus with their consent having made a statement in the Prospectus and persons involved in a contravention in relation to the Prospectus, with regard to misleading and deceptive statements made in the Prospectus. Although the Company bears primary responsibility for the Prospectus, the other parties involved in the preparation of the Prospectus can also be responsible for certain statements made in it.

Each of the parties referred to in this section:

- (a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this section; and
- (b) in light of the above, only to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section.

Steinepreis Paganin has given its written consent to being named as the solicitors to the Company in this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

RSM Australia Partners has given its written consent to being names as the auditors of the Company in this Prospectus and the inclusion of the 31 December 2017 audited balance sheet of the Company in Section 5.3. RSM Australia Partners has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

## 8.7 Expenses of the offer

In the event that all Entitlements are accepted, the total expenses of the Offer are estimated to be approximately \$40,000 (excluding GST) and are expected to be applied towards the items set out in the table below:

|                           |                 |
|---------------------------|-----------------|
|                           | \$              |
| ASIC fees                 | 3,206           |
| Legal fees                | 15,000          |
| Printing and distribution | 17,600          |
| Miscellaneous             | 4,194           |
| <b>Total</b>              | <b>\$40,000</b> |

## 8.8 Electronic prospectus

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Forms. If you have not, please phone the Company's share registry on 1300 288 664 (within Australia) +61 (0)2 9698 5414 (outside Australia), email [hello@automic.com.au](mailto:hello@automic.com.au), or the Company on +61 8 6559 1792 and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus, or both. Alternatively, you may obtain a copy of this Prospectus from the Company's website at [www.cresopharma.com](http://www.cresopharma.com).

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

## 8.9 Financial forecasts

The Directors have considered the matters set out in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Company are inherently uncertain. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

## 8.10 Clearing House Electronic Sub-Register System (CHESS) and Issuer Sponsorship

The Company will not be issuing option certificates. The Company is a participant in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of New Options allotted to them under this Prospectus. The notice will also advise holders of their Holder Identification Number or Security Holder Reference Number and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

## **8.11 Privacy Act**

If you complete an application for New Options, you will be providing personal information to the Company (directly or by the Company's share registry). The Company collects, holds and will use that information to assess your application, service your needs as a holder of equity securities in the Company, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company's share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its share registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

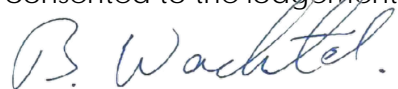
Collection, maintenance and disclosure of certain personal information is governed by legislation including the *Privacy Act 1988* (Cth) (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the application for New Options, the Company may not be able to accept or process your application.

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9. **DIRECTORS' AUTHORISATION**

This 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 Prospectus with the ASIC.



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**Boaz Wachtel**  
**Non-executive Chairman**  
**For and on behalf of**  
**CRESO PHARMA LIMITED**

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10. **GLOSSARY**

**\$** means the lawful currency of the Commonwealth of Australia.

**Applicant** means a Shareholder who applies for New Options pursuant to the Offer or a Shareholder or other party who applies for Shortfall Options pursuant to the Shortfall Offer.

**Application Form** means an Entitlement and Acceptance Form or Shortfall Application Form as the context requires.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the financial market operated by it as the context requires.

**ASX Listing Rules** means the listing rules of the ASX.

**ASX Settlement Operating Rules** means the settlement rules of the securities clearing house which operates CHES.

**Board** means the board of Directors unless the context indicates otherwise.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day that ASX declares is not a business day.

**Closing Date** means the date specified in the timetable set out at the commencement of this Prospectus (unless extended).

**Company** means Creso Pharma Limited (ACN 609 406 911).

**Constitution** means the constitution of the Company as at the date of this Prospectus.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Directors** means the directors of the Company as at the date of this Prospectus.

**Entitlement** means the entitlement of a Shareholder who is eligible to participate in the Offer.

**Entitlement and Acceptance Form** means the entitlement and acceptance form either attached to or accompanying this Prospectus.

**New Options** means the Options offered under this Prospectus, the terms and conditions of which are set out in Section 6.1 of this Prospectus.

**Offer** means the non-renounceable entitlement issue the subject of this Prospectus.

**Official Quotation** means official quotation on ASX.

**Option** means an option to acquire a Share.

**Optionholder** means a holder of an Option.

**Performance Rights** means performance rights that can convert into Shares subject to satisfaction of vesting conditions.

**Performance Rights Plan** means an employee incentive plan adopted by the Company on terms and conditions summarised in Company's prospectus dated 8 August 2016.

**Prospectus** means this prospectus.

**Record Date** means the date specified as the record date for determining Entitlements in the timetable set out at the commencement of this Prospectus.

**Section** means a section of this Prospectus.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a holder of a Share.

**Shortfall** means the New Options not applied for under the Offer (if any).

**Shortfall Application Form** means the shortfall application form either attached to or accompanying this Prospectus.

**Shortfall Offer** means the offer of the Shortfall on the terms and conditions set out in Section 4.5 of this Prospectus.

**Shortfall Options** means those New Options issued pursuant to the Shortfall.

**Tranche 1 Performance Rights** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the Company successfully identifying and concluding a collaboration or joint venture acquisition, and remaining as a Director until 27 July 2018.

**Tranche 2 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon identifying and concluding a collaboration or joint venture acquisition in Israel, and remaining as a Director until 27 July 2018.

**Tranche 3 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and which is no longer subject to any vesting conditions.

**Tranche 4A Performance Rights** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the Company (or one of its controlled entity's) achieving gross sales revenue from one or more products equal to or exceeding A\$500,000.

**Tranche 4B Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and which is no longer subject to any vesting conditions.

**Tranche 7 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon 27 July 2018 subject to continued engagement with the Company (or one of its controlled entities).

**Tranche 8 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one

Share upon 27 July 2019 subject to continued engagement with the Company (or one of its controlled entities).

**Tranche 9 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the holder completing satisfactory services in relation to collaborations in Switzerland for the material benefit of the Company (and its controlled entities) as determined by the Board and completion of continued engagement with the Company until 27 July 2018.

**Tranche 11 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and which is no longer subject to any vesting conditions.

**Tranche 12 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the successful completion of an acquisition or material transaction introduced by the holder in any jurisdiction around the world.

**Tranche 16 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the holder successfully assisting the CEO on local and international initiatives as determined by the CEO, and the completion of 18 months of continued engagement with the Company from the date of issue.

**Tranche 17 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the creation of local collaborations to the material benefit of the Company as determined by the CEO, and completion of 36 months of continued engagement with the Company from the date of issue.

**Tranche 18 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the Company (or one of its controlled subsidiaries) executing a distribution agreement for cannaQIX as medicinal cannabis in New Zealand.

**Tranche 19 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the Company (or one of its controlled subsidiaries) executing a distribution agreement for cannaSEED (hemp seed throat health) in Asia.

**Tranche 20 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon Mernova Medicinal Inc. achieving gross sales revenue of C\$150,000.

**Tranche 21 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon Mernova Medicinal Inc. achieving gross sales revenue of C\$500,000.

**Tranche 22 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon Mernova Medicinal Inc. achieving gross sales revenue of C\$1,500,000.

**Tranche 23 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the Company (or one of its controlled subsidiaries) secures a commercial deal in Australia in relation to cannaQIX10 or cannaQIX50 introduced and managed by the recipient,

**Tranche 24 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the Company (or one of its controlled subsidiaries) secures a commercial deal for Creso in Japan in relation to cannaQIX10 or anibidiol introduced and managed by the recipient.

**Tranche 25 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the Company (or one of its controlled subsidiaries) secures a commercial deal for Creso in an Asian country (excluding Japan) introduced and managed by the recipient.

**Tranche 26 Performance Right** means a Performance Right that was issued under and on the terms of the Performance Rights Plan and can be converted into one Share upon the recipient completes 12 months of continuous service with the Company from the date of issue of the Performance Rights.

**Underlying Shares** has the meaning given to it in Section 6.2.

**WST** means Western Standard Time as observed in Perth, Western Australia.