ABN: 89 609 406 911

ASX Announcement

5 February 2020

Creso Pharma secures further funding to accelerate global operations

On 28 November 2019 and 31 December 2019, Creso Pharma Limited (ASX:CPH) (**Creso Pharma** or the **Company**) announced that it had entered into convertible securities agreements with professional and sophisticated investors to enable the Company to raise up to $8,200,000 (**Original Convertible Securities Agreements**). The Company drew down $3,967,500 under the Original Convertible Securities Agreements.

The Company now confirms that it has entered into a new convertible securities agreement with L1 Capital Global Opportunities Master Fund (**L1 Capital**) to access up to an additional $17,482,500 (**New Convertible Securities Agreement**).

This funding will further secure Creso Pharma's position to accelerate its global operations as a result of its refined strategy and reallocation of resources.

Initial Advance

Under the New Convertible Securities Agreement, the Company may request an initial advance of $1,750,000, which will be advanced in two equal tranches (**Advance**). Prior to receiving the first tranche of the Advance, the Company must issue L1 Capital 9,000,000 fully paid ordinary shares as collateral shares. The Company must also pay L1 Capital a fee of 4% of the Advance. The Company has also agreed, that in certain situations (detailed in Part 2 of Schedule A), the Company may be required to issue to L1 Capital up to a further 11,000,000 additional collateral shares (i.e Additional Collateral Shares) without requiring shareholder approval. The issue of the 9,000,000 shares and the agreement to potentially issue of a further 11,000,000 shares falls within the Company's placement capacity under ASX Listing Rule 7.1.

In accordance with the terms of the New Convertible Securities Agreement, subject to the Company obtaining shareholder approval for the issue of securities to L1 Capital, the Company can off-set the Advance against a purchase of Convertible Notes under the New Convertible Securities Agreement (detailed below). This approval will be sought at an upcoming meeting of shareholders which is anticipated to occur in March 2020.

If shareholder approval is not obtained on or before 4 April 2020, the Advance must be repaid in full which may occur through the issue of Tranche 2 Convertible Notes (in accordance with shareholder approvals obtained by the Company on 28 January 2020).

A summary of the terms of the Advance is set out in Part 1 of Schedule A to this announcement.

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Convertible Note Facility

The Company may then subsequently be able to draw down further amounts totalling up to $15,732,500 under the New Convertible Securities Agreement. Each draw down under the New Convertible Securities Agreement is subject to the Company obtaining the agreement of L1 Capital and shareholder approval for the issue of securities to L1 Capital.

A summary of the terms of the convertible notes which may be issued under the New Convertible Securities Agreement (**Convertible Notes**) is set out in Part 2 of Schedule A to this announcement.

The funds raised by the Company under the New Convertible Securities Agreement will be used for the Company's operations and working capital purposes.

Lead Manager

EverBlu Capital Pty Ltd (**EverBlu**) acted as lead manager to this debt raising.

In connection with this, EverBlu will be paid a cash fee of $200,000 and will also be issued, subject to the receipt of prior shareholder approval, 4,000,000 shares and 4,000,000 options (3 year term, $0.25 exercise price).

In addition, EverBlu will be paid a 6% cash fee on the face value of the funds actually drawn down under the New Convertible Securities Agreement and will be issued, subject to the receipt of prior shareholder approval, 1 share for every $5 of the face value of the funds actually drawn down under the New Convertible Securities Agreement.

A summary of the fees payable to EverBlu, assuming the minimum and maximum raising under the New Convertible Securities Agreement is set out below.

	Minimum Raising[1]	**Maximum Raising**[2]
Capital Raise Fee and Management Fee	$316,667	$1,365,500
Shares	4,388,889	7,885,000
Options	4,000,000	4,000,000

Notes:

1. Assumes that the Company only raises $1,750,000 under the New Convertible Securities Agreement, being the Advance.
2. Assumes that the Company raises the maximum under the New Convertible Securities Agreement, being $17,482,500.

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Additional Fees

Additional draw down fees are also payable and issuable to L1 Capital in respect of the Convertible Notes. A summary is set out below:

	Minimum Raising[1]	Maximum Raising[2]
Cash	$70,000	$70,000
Collateral Shares[3]	9,000,000	9,000,000
Fee Shares[4]	Nil	3,884,568
Options[5]	Nil	107,916,667

Notes:

1. Assumes that the Company only raises $1,750,000 under the New Convertible Securities Agreement, being the Advance.
2. Assumes that the Company raises the maximum under the New Convertible Securities Agreement, being $17,482,500.
3. If, in respect of a requested draw down, immediately following the draw down the Collateral Shareholding Number (as defined in the Annexure) is less than the Threshold Amount (as defined in the Annexure), then on or before the relevant date of the draw down the Company must issue to L1 Capital (or its nominee) additional Collateral Shares, so that immediately following the draw down the Collateral Shareholding Number will be at the Threshold Amount.
4. The number of the number of Shares to be issued to L1 Capital as a drawdown fee is determined by dividing the relevant amount of the drawdown fee (of 4% of the aggregate Face Value of the Convertible Notes issued excluding any Convertible Notes issued in repayment of the Advance) by the 10 day VWAP for the 10 actual Trading Days immediately prior to the issue of the Shares, rounded upward to the nearest whole number. This table assumes that the 10-day VWAP is $0.18.
5. The number of Options to be issued to L1 Capital is equal to that number equivalent to the aggregate face value (in A$) of Convertible Notes being issued to L1 Capital at the relevant purchase, divided by the closing price on ASX of the Shares on the actual Trading Day immediately prior to the relevant purchase date. This table assumes that the closing price on ASX of the Shares on the actual Trading Day immediately prior to each purchase date is $0.18.

Original Convertible Securities Agreements

As a condition to entering the New Convertible Securities Agreement, the Company had to obtain the consent of the original Tranche 1 Investors. In order to obtain these consents the Company has agreed to permit the Tranche 1 Investors to freely deal with the collateral shares that had previously been issued to them (and may be issued to them in the future) and has agreed to amend the Variable Conversion Price in respect of the collateral shares[1], to be the lesser of 90% of the lowest daily VWAP during the 40 actual Trading Days immediately prior to (as relevant) the conversion notice date, date of the collateral purchase notice or date of the event of default collateral purchase notice, rounded down to the nearest A$0.01 and the Fixed Conversion Price. This is consistent with the treatment of the original collateral shares issued to L1 Capital as announced on 31 December 2019.

[1]Under the terms of the Original Convertible Securities Agreements, the "Variable Conversion Price" relates solely to collateral shares and operates only if there is an event of default and the Investor seeks to reduce the number of collateral shares it holds as a result.

The Company has also agreed to issue 1,000,000 Shares to Mozaik Asset Management Pty Ltd (ACN 136 347 101) (**Mozaik**), a Tranche 1 Investor, in consideration for the termination and settlement of the Original Convertible Securities Agreement (and the associated Debt Notes) between the Company and Mozaik. As a result of this termination, 222,222 Tranche 1 Convertible Notes will no longer be issued to Mozaik. The issue of the 1,000,000 Shares will be issued in accordance with the Company's placement capacity under ASX Listing Rule 7.1.

Authority
This announcement has been authorised for release by the Board of Creso Pharma Limited.

For further details or if there are any queries on this announcement please contact Erlyn Dale on +61 893 893 100.

Ends.

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SCHEDULE A

Part 1: Terms and Conditions of Advance

Terms and Conditions of Advance	
Face Value	Under the L1 Capital Agreement, L1 Capital will provide an advance of: • $875,000 within two business days after the date of execution of the L1 Capital Agreement (**Execution Date**) (**First Advance**) and • $875,000 within two business days after the date that the Company lodges a cleansing prospectus (**Second Advance**), (together, the **Advance**).
Collateral Shares	Prior to receiving the Advance, the Company must issue L1 Capital 9,000,000 Shares as collateral shares.
Drawdown Fee	The Company must also pay L1 Capital a fee of 4% of the Advance. The draw-down fee will be deducted from the amount of the First Advance and the Second Advance.
Repayment	The Company may repay the whole or any part of the outstanding amount of the Advance at any time. The Company must repay the whole of the Advance to the Investor on or before 120 days after the date the First Advance is provided to the Company. Within 60 days of the Execution Date, the Company must convene a shareholder meeting to seek approval for the issue of that number of Convertible Notes and Options, and any additional Collateral Shares required to be issued to L1 Capital to repay the outstanding amount of the Advance (at the time the meeting is called) and the issue of up to 15,000,000 Additional Collateral Shares (defined below) (**Shareholder Approval**). Subject to and conditional upon the Company obtaining the Shareholder Approval: • within 2 Business Days of the Company obtaining the Shareholder Approval, the Company must give L1 Capital a drawdown request for a drawdown of the outstanding amount of the Advance; and • the drawdown will be set off against and repay the outstanding amount of the Advance. If the Company does not obtain the Shareholder Approval within 60 days of the Execution Date, then: • within 2 Business Days of the day which is 60 days after the Execution Date, the Company must give L1 Capital "Purchase Requests" under the Convertible Security Agreement with L1 Capital (**Existing Facility Document**) for a net "Purchase Price" of the aggregate of the outstanding amount of the Advance; and • at the relevant "Purchases" under the Existing Facility Document, the "Purchase Prices" will be set off against and repay the outstanding amount of the Advance.

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Part 2: Terms and Conditions of Convertible Notes

Subject to terms noted in the table below, and the mutual agreement of L1 Capital, the Company may elect to draw down additional funding of up to $15,732,500 under the New Convertible Securities Agreement (in addition to the $1,750,000 drawn down under the Advance).

Terms and Conditions of Convertible Notes (and associated securities)	
Face Value	$1.00 per Convertible Note
Subscription Price	$0.90 per Convertible Note
Maturity Date	In respect of each tranche of Convertible Notes, the date that is 12 months from the Purchase Date of the relevant Convertible Notes, being the date specified by the Company in a valid written request by the Company in respect of the draw down and issue of the relevant Convertible Notes.
Purchase Request	Drawdown under the L1 Capital Agreement (other than in respect of the Advance) is subject to: • mutual agreement between the Company and L1 Capital; • the Company obtaining shareholder approval for the issue of Convertible Notes, Collateral Shares and Options the subject of the relevant purchase; • the draw down amount being less than A$800,000 (unless otherwise agreed); and • at least 45 days having passed since the issue of the previous tranche of Convertible Notes under the L1 Capital Agreement (unless otherwise agreed).
Interest Rate	4% per annum, with the first interest payment payable on the date which is 180 days after the date of the First Advance and every 90 days thereafter.
Conversion Rights	L1 Capital may elect to convert one or more of the Convertible Notes into Shares at the at the Conversion Price (defined below) at any time prior to the respective Maturity Date.
Conversion Price	The Convertible Notes may be converted at the lesser of: • 90% of the lowest daily VWAP during the 40 Actual Trading Days immediately prior to the date of issue of a conversion notice, rounded down to the nearest A$0.01; and • $0.35 (the **Fixed Conversion Price**). However, if the Company undertakes one or more capital raisings and raises of at least $2,500,000 in aggregate at a price per Share lower than the Fixed Conversion Price, the Company must seek Shareholder approval to vary the Fixed Conversion Price to the issue price under the relevant capital raising. If Shareholder approval is not obtained within 60 days from the date of completion of the capital raising, an event of default will have occurred.
Drawdown Fee	If the Company draws down under the L1 Capital Agreement, the Company has agreed to pay a drawdown fee of 4% of the aggregate Face Value of the Convertible Notes issued (excluding Convertible Notes issued in repayment of the Advance) (**Drawdown Fee**). For the avoidance of doubt the Drawdown Fee will only be payable in respect of actual funds drawn down and corresponding Convertible Notes issued. The applicable Drawdown Fee will be payable, in Shares with the number of Shares to be issued determined by dividing the relevant amount of the Drawdown Fee by the 10 day VWAP for the 10 Actual Trading Days immediately prior to the issue of the Shares, rounded upward to the nearest whole number.
Options	If the Company draws down under the L1 Capital Agreement, the Company has agreed to issue L1 Capital that number of Options which is equal to the aggregate Face Value (in A$) of Convertible Notes being issued at the relevant draw down, divided by the closing price

	on ASX of the Shares on the Actual Trading Day immediately prior to the relevant Purchase Date. The Options will be exercisable at 250% of the closing price on ASX of the Shares on the Actual Trading Day immediately prior to the relevant Purchase Date, and will expire on the date which is 36 calendar months after the date of issue of the relevant Options.
Security	The Convertible Notes will be secured by: • a general security agreement by the Company in favour of the Collateral Agent, on terms acceptable to L1 Capital; • a general security, collateral security and a general assignment of rents and leases in favour of the Collateral Agent granted by Mernova Medicinal Inc. on terms acceptable to L1 Capital; • a collateral agency agreement between the Investor, each Co-Investor, the Collateral Agent, the Company, Mernova Medicinal Inc, 3321739 Nova Scotia Limited, Creso Canada Limited and Creso Pharma Switzerland GmbH on terms acceptable to L1 Capital; • a guarantee and indemnity in favour of the Collateral Agent granted by Mernova Medicinal Inc. on terms acceptable to L1 Capital; • a guarantee and indemnity in favour of the Collateral Agent granted by Creso Pharma Switzerland GmbH on terms acceptable to L1 Capital; and • from each of Creso Canada Limited and 3321739 Nova Scotia Limited: ○ a guarantee and indemnity in favour of the Collateral Agent granted by the relevant entity. on terms acceptable to L1 Capital; and ○ a general security agreement by the relevant entity in favour of the Collateral Agent (or such document is equivalent in the place of jurisdiction of the relevant entity, on terms acceptable to L1 Capital). (together, the **Security Documents**).
Mandatory Redemption	If the Convertible Notes have not been converted prior to the respective Maturity Date, the Company must repay the aggregate total of the Face Values of the outstanding Convertible Notes, the outstanding amount of the Advance, accrued interest and all other amounts payable by the Company to L1 Capital in relation to the Convertible Notes (**Amount Outstanding**) on the respective Maturity Date.
Ranking on Conversion	Shares issued on conversion of the Convertible Notes will rank equally with existing Shares on issue.
Reconstruction of capital	If at any time the Company undertakes a consolidation, subdivision or pro-rata cancellation of its issued capital, pays a dividend in Shares or undertakes a distribution of Shares, the Fixed Conversion Price will be reduced or increased in the same proportion as the issued capital of the Company is consolidated, subdivided or cancelled.
Collateral Shares	Prior to the First Advance occurring, the Company will issue 9,000,000 Collateral Shares to L1 Capital (**Collateral Shareholding Number**). If, in respect of a requested draw down, immediately following the draw down, the Collateral Shareholding Number will be less than the greater of: • 9,000,000; and • 20% of the aggregate of the Amount Outstanding and the "Amount Outstanding" under the Existing Facility Document divided by the numeric average of the 10 daily VWAPs for the 10 Actual Trading Days immediately prior to the day on which the determination is made (the **Threshold Amount**), then on or before the relevant Purchase Date, subject to the Company first obtaining shareholder approval, the Company must issue to L1 Capital or its

	nominee additional Collateral Shares, so that immediately following the draw down, the Collateral Shareholding Number will be at least the Threshold Amount.
	L1 Capital may deal with the Collateral Shares freely upon receipt.
	Where at any time the Company is required to issue Shares to L1 Capital under the L1 Capital Agreement, then L1 Capital may, by written notice to the Company, elect to partially or wholly satisfy the Company's obligation to issue the relevant Shares to L1 Capital by reducing the Collateral Shareholding Number. If L1 Capital does so, then:
	• the Collateral Shareholding Number will be reduced by the number specified in the notice; and
	• the Company's obligation to issue Shares to L1 Capital will be satisfied to the same extent.
	L1 Capital may at any time by written notice to the Company elect to purchase a reduction in the Collateral Shareholding Number (**Collateral Purchase Notice**). Upon L1 Capital giving a Collateral Purchase Notice:
	• the Investor must either:
	    o advance in cleared funds to the Company an amount determined by multiplying the reduction in the Collateral Shareholding Number specified in the Collateral Purchase Notice (**Reduction Number**) by the Conversion Price (with the total amount being the Reduction Payment); or
	    o state in the Collateral Purchase Notice that:
	        ▪ the aggregate Amount Outstanding in respect of Convertible Securities or convertible securities under the Existing Facility Document specified by the Investor (which for clarity may but need not include accrued interest) has been reduced by 98% of the Reduction Payment; or
	        ▪ the outstanding amount of the Advance and (if the Investor so elects) some or all of the accrued interest has been reduced by 98% of the Reduction Payment; and
	• the Collateral Shareholding Number will be reduced by the Reduction Number.
	If an Event of Default occurs, L1 Capital may at any time afterward by written notice to the Company elect to reduce the Collateral Shareholding Number.
	If at any time the Collateral Shareholding Number is less than the Threshold Amount, L1 Capital may give the Company written notice requesting that the Company issue additional Shares to L1 Capital as Collateral Shares (**Additional Collateral Shares**), so that following the issue, the Collateral Shareholding Number will be at least the Threshold Amount (**Top-Up Notice**). The issue of any Shares upon receipt of a Top-Up Notice in excess of 11,000,000 Additional Collateral Shares will be subject to the Company obtaining Shareholder approval.
	If L1 Capital gives a Top-up Notice, the Company must issue the Additional Collateral Shares to the Investor:
	• where no Shareholder Approval is required, within 5 Business Days of the Top-up Notice; and
	• where Shareholder Approval is required, within 5 Business Days of Shareholder Approval (subject to and conditional upon Shareholder Approval).
	Other than as set out below, if:
	• the L1 Capital Agreement terminates or expires;
	• there is no Amount Outstanding under L1 Capital Agreement or the Existing Facility Document; and
	• the Collateral Shareholding Number is greater than zero,
	(**Completion Event**), then L1 Capital must, in the time period stipulated by the Company and on the Company's strict instructions, sell the Collateral Shareholding Number of Shares on-market (subject to the Shares being able to be traded on-market at the relevant

	time) and pay 95% of the net sale proceeds to the Company. For clarity, where at the relevant time L1 Capital does not hold at least the Collateral Shareholding Number of Shares, L1 Capital must first acquire them (at L1 Capital's cost). However, if a Completion Event occurs and the Shares are not able to be traded on-market (whether because of trading halt or suspension or otherwise) then: • L1 Capital's obligations set out above will be suspended for the period while the Shares are not able to be traded on-market; and • if the Shares are not able to be traded on-market for a continuous period of 60 days, then the Collateral Shareholding Number will be reduced to zero and L1 Capital will have no further obligations in respect of the Collateral Shares.

About Creso Pharma

Creso Pharma Limited (ASX:CPH) brings the best of cannabis to better the lives of people and animals. It brings pharmaceutical expertise and methodological rigor to the cannabis world and strives for the highest quality in its products. It develops cannabis and hemp derived therapeutic, nutraceutical, and life style products with wide patient and consumer reach for human and animal health. Creso Pharma uses GMP development and manufacturing standards for its products as a reference of quality excellence with initial product registrations in Switzerland. It has worldwide rights for a number of unique and proprietary innovative delivery technologies which enhance the bioavailability and absorption of cannabinoids. To learn more please visit: www.cresopharma.com

Forward Looking statements

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

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

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