



6 March 2023

Creso Strengthens Balance Sheet through \$2.5m Convertible Notes issue, Rollover and Extinguishment of Existing Debt

Highlights:

- Funds to be deployed to support marketing and sales of existing products in Canada, Europe, and the US, further advancement of Halucenex's Phase II clinical trial, completion of pending M&A opportunities, and general working capital
- Proceeds of the issue also to be used to repay Obsidian Global GP, LLC in full
- La Plata Capital, LLC has also agreed to rollover its entire remaining loan (US\$467,500) to the Company's US Subsidiary, Sierra Sage Herbs, LLC, into Creso secured convertible notes on terms consistent with the Creso secured convertible notes announced to the market on 1 November 2022, providing a 6 month maturity extension
- New funding, repayment of Obsidian GP, LLC in full and debt rollover provide financial flexibility as Creso Pharma continues to pursue revenue growth opportunities, while operating expenditure continues to decrease
- Creso has also taken further steps to advance the Abby and Finn LLC transaction announced to the market on 27 January 2023

Creso Pharma Limited (ASX:CPH, OTC:COPHF, FRA:1X8) ('Creso Pharma' or 'the Company') is pleased to advise that it has secured commitments to raise \$2.5m through the issuance of secured convertible notes ('Secured Notes') to SBC Global Investment Fund ('SBC') comprising of one tranche with an aggregate purchase price of \$1,700,000 pursuant to a convertible securities agreement (**First Convertible Securities Agreement**) and a second tranche with an aggregate purchase price of \$800,000 pursuant to a second convertible securities agreement (**Second Convertible Securities Agreement**). Full details of the Secured Notes are set out in Appendix A.

The funds will be deployed to support marketing and sales of the Company's existing products in Canada, Europe, and the US, further advancement of Halucenex's Phase II clinical trial, completion of pending M&A activities, repayment of debt to Obsidian Global GP, LLC and general working capital.

The new funding provides the Company with financial flexibility to continue its focus on sustained revenue growth and consistent operating expenditure reduction. Creso Pharma has continued to demonstrate its ability to progress this strategic initiative, over recent months (please refer recent ASX announcements).

Management commentary:

CEO and Managing Director, Mr William Lay said: "We are pleased to have commenced this relationship with SBC. SBC has a successful track record of supporting ASX listed growth companies and we are confident that this financing will allow us to continue progressing various opportunities being presented in the current macroeconomic environment. The new funding, alongside the rollover and extinguishment of existing debt provides the company increased financial flexibility as it pursues its strategic objectives.



“Creso remains well positioned to deliver shareholder value via ongoing penetration into the various, high growth, plant-based verticals that it currently resides in and we look forward to providing additional updates to our shareholders as these opportunities materialise.”

Strategic rationale and commentary with respect to ASX Listed Compliance Update no. 05/20:

In assessing the Secured Notes, the Company has undertaken a significant review of the available sources of capital in the currently challenging and volatile capital markets environment, both in Australia and abroad. As communicated in ASX releases, Creso Pharma has made significant recent progress on multiple fronts, and over the entire course of FY22. These include:

- Posting record annual revenue A\$9m in FY22, a 44% increase over FY21, while reducing cash outflows from operations by 32% over the same period (refer to ASX announcement: 31 January 23)
- Strong performance across various business units to start FY23, including Sierra Sage Herbs LLC securing distribution for a selection of its products across 3,000 stores in the United States (including Walmart and Walgreens), the expansion of Mernova Medicinal Inc. into two additional provinces and the receipt of its largest ever purchase order in the month of January, significant expansion of the Swiss CBD business with new purchase orders in Korea and Belgium, and a maiden wholesale purchase order ('PO') for recently launched impACTIVE (refer ASX announcements: 9 February 2023 and 24 January 2023)
- The improvement in the quality and independence of the Company's board and management functions over the course of FY22, noting that board independence rose from 0% at the end of FY21, to 43% at the end of FY23

As such, the Company believes that it has clearly identified a pathway to creating value for shareholders via ongoing revenue growth and reducing operating outflows in a push towards a cash flow positive state.

Creso Pharma believes that the terms of the Secured Notes are on fair and equitable terms, and notes that the Secured Notes can be repaid through Amortisation Payments (defined below) and/or conversion of the Secured Notes at the election of SBC ('Conversion Payment'). The Amortisation Payments is a regular principal repayment considered standard for all loans whereas the Conversion Payment is alternative repayment method where the loan is redeemed at commercially attractive terms for the Company. The Amortisation Payments will be made on the terms summarised in Appendix A which Creso Pharma considers fair and equitable as the option to settle a portion of the Amortisation Payment in shares is of commercial value to it as it provides some flexibility in its repayment. Additionally, Creso Pharma considers the terms of the Conversion Payment as fair and equitable because when a conversion occurs the shares will be issued to settle a portion of the First Purchase or Second Purchase (defined below) at a materially higher price than the Company's share price (at the time of funding), which significantly reduces dilution compared to any form of equity or equity linked capital raising occurring at the Company's share price (at the time of funding). A summary of the terms for the Amortisation Payments and Conversion Payment is set out in Appendix A.

While Creso Pharma continues its trajectory to a cash flow positive state on an aggregate basis, it requires additional capital to pursue its strategic objectives. The Company has considered with its corporate advisor, EverBlu Capital Corporate Pty Ltd ('Everblu'), various funding options potentially available to it to raise capital, ranging from traditional equity and debt raises, to convertible structures

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from several different parties. A summary of the options considered is set out in the table in Appendix B below.

The Company also independently commenced discussions with an alternate corporate advisor to EverBlu. In considering funding options that could be provided by alternate corporate advisors, the Company was cognisant of its exclusivity arrangement under the mandate with EverBlu, whereby (subject to agreement otherwise by Everblu), capital raising fees would remain payable to Everblu in addition to any fees paid to an alternate funder. Ultimately, the Company did not believe that another corporate advisor could achieve as successful a result as Everblu, irrespective of the Company's exclusivity arrangement with Everblu. Ultimately, the Company considered three key factors in assessing its proposed path forward: aggregate size of capital available, timeline to receiving capital and overall cost of capital. In this assessment the Company determined that the funding from SBC was the best available source of capital for the Company at the present time.

Lead Manager

EverBlu acted as lead manager on both SBC Secured Note raisings. Per its mandate with the Company and as announced to the market on 21/01/2020 and again on 26/03/21, Everblu, or its nominees, will earn a 6% cash fee (up to \$150,000). Subject to shareholder approval, Everblu, or its nominees, will also receive 100 million broker options per \$2.5 million of funds raised under the SBC Secured Notes. These options will be on the same terms as Creso's existing listed class of options trading under ASX code "CPHOD" (exercise price A\$0.08 and expiring 31 January 2027). In the event shareholder approval is not obtained, a cash equivalent fee will be payable to EverBlu based on the market price of the CPHOD options at the time. As at the date of this announcement, the cash fee would be equal to \$0.002 per option (the last traded price of the CPHOD options on ASX).

Shareholder Approval

The Company has agreed to issue the Maximum Share Number (defined in Appendix A) out of its existing 7.1 Placement Capacity. The Quoted Options and Unquoted Options (both defined in Appendix A), and Secured Notes issued in relation to the Second Convertible Securities Agreement (described in Annexure A below) are subject to shareholder approval, to be sought within six weeks.

Shareholder approval for the issue of options to EverBlu may also be sought at the same meeting, or at a later meeting.

Other Updates

The Company has executed a payoff letter to repay its entire balance owing to Obsidian GP, LLC ('Obsidian') of ~US\$1.1m under the terms and conditions of the convertible notes announced to the market on 1 November 2022. Under the terms of the payoff letter, the Company will make a cash payment of ~US\$485,000 from proceeds of the SBC Secured Notes. The Company will also issue 13,440,924 shares to Obsidian in satisfaction of the balance of the First Purchase Convertible Notes, as approved by shareholders at the General Meeting held on 29 December 2022. On completion of these activities, the Obsidian convertible notes will be cancelled, along with the agreement governing these notes. Additionally, both Obsidian and the Company will release and discharge each other from all obligations, claims, demands and liabilities arising under or in connection with the Obsidian agreement.

The Company has agreed to roll over the entire remaining balance (US\$467,500) of La Plata Capital, LLC's ('La Plata') existing loan to the Company's subsidiary, Sierra Sage Herbs, LLC into Creso secured convertible notes on terms consistent with the Creso secured convertible notes announced to the



market on 1 November 2022. The full terms of Creso secured convertible notes can be reviewed in the prior ASX announcement. The issue of these convertible notes is subject to shareholder approval, which is intended to be sought in April 2023. This rollover results in an extension of maturity of the La Plata loan of 6 months, providing additional financial flexibility to the Company and strengthening the alignment between the Company and La Plata.

Additionally, the Company has taken further steps to formalise its intended acquisition of the assets of Abby and Finn LLC ('Abby and Finn') (refer to ASX announcement: 27 January 2023) by participating in La Plata's existing loan to Abby and Finn. Under the terms of the participation agreement, the Company will acquire a 31.25% interest in La Plata's existing Loan to Abby and Finn ('Abby and Finn Loan') (face value of US\$500,000). As consideration, the Company will provide La Plata with US\$500,000 of Creso secured convertible notes on terms consistent with the existing La Plata secured convertible notes announced to the market on 27 January 2023. Notably the new tranche of secured convertible notes will have a term of 1 year (rather than 6 months) and half of the interest payable will be deferred to maturity. The remaining terms of the Creso secured convertible notes can be viewed in the previously mentioned ASX announcement. The participation in the Abby and Finn Loan will provide the Company additional negotiating power in its ongoing discussions with Abby and Finn and is secured against the assets of Abby and Finn, therefore potentially providing the Company access to valuable intangible assets should the deal not conclude on terms satisfactory to the Company. The Company looks forward to providing further updates regarding the Abby and Finn transaction in due course.

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Appendix A:

SBC issue to raise \$2.5m

Key Indicative Terms

- Agreement for the issue of convertible securities with an aggregate purchase price of **A\$2,500,000**
- **First Purchase of A\$1,700,000** to occur 5 business days after the execution date.
- **Second Purchase of A\$800,000** to occur 5 business days after the company obtains shareholder approval (within 6 weeks of the execution date) for the issue of the convertible securities proposed to be issued at the second purchase
- **Face Value** = A\$1.1111 per convertible security
- **Maturity Date:** The date which is 9 months after the purchase date of the relevant Purchase
- **Conversion Price:** The lower of (A) A\$0.04 or (B) 150% of the average of the 5 daily VWAPs during the 5 actual trading days prior to each Purchase, rounded down to the nearest \$0.001, subject to adjustment (as described below and following issues of equity below the Conversion Price, to that price)
- **Minimum Amortisation Price:** A\$0.008, applies to the Convertible Securities the subject of the First Purchase and Second Purchase and is subject to adjustment (as described below) and in relation to the Convertible Securities the subject of the Second Purchase only, following issues of equity that is below the Minimum Amortisation Price, to that price.
- **Interest:** 8% of the Face Value

Other Conditions

- **Amortisation Payments:** Beginning 60 days after the respective Purchase date until the Maturity Date, and every monthly anniversary thereafter (**Amortisation Payment Date**), the Company must redeem \$250,000 (in relation to the First Purchase) and \$125,000 (in relation to the Second Purchase) of the outstanding balance of the convertible securities by either (A) paying the amortisation amount in cash, or (B) issuing shares, with the value of shares to be capped at 66% (in relation to the First Purchase) and 34% (in relation to the Second purchase) of the average value of shares traded per trading day over the preceding 12 trading days, excluding the two most liquid and two least liquid days. If shares are issued, the deemed price for the shares (**Amortisation Price**) will be the lower of (A) the Conversion Price and (B) 93% of the lowest 1-day VWAP during the 10 actual trading days preceding the redemption. If the Amortisation is less than the Minimum Amortisation Price, then the amortisation amount is only payable in cash. While there is an Amortisation Amount outstanding, SBC may in its sole discretion give the Company a conversion notice with the Amortisation Price applying instead of the Conversion Price, in relation to some or all of the Convertible Securities with an aggregate Face Value up to the Amortisation Amount outstanding.
- **Accelerated Amortisation:** The Company and SBC may mutually agree in writing at any time prior to an Amortisation Payment Date to accelerate the payment of up to an aggregate of three Amortisation Amounts during the term of the Convertible Securities. Where the Parties do so, the adjusted Amortisation Amount is due at the earlier of the date agreed by the Parties or the next Amortisation Payment Date.
- **Conversion at Election of Investor:** SBC may at discretion elect to convert one or more Secured Note by providing written notice to the Company. Such conversion would be based on the Conversion Price.



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- **Compulsory Redemption at Maturity:** On the Maturity Date (to the extent not redeemed), the Company must redeem the outstanding convertible securities by paying the outstanding amount to SBC in cash.
- **Compulsory Redemption following raising or asset sale:** Within 5 business days of the Company group completing a raising or series of raisings, whether by debt, equity or equity-linked securities (including options), or an asset sale or series of assets sales (**Redemption Event**), the Company must use 35% of the aggregate gross proceeds from such events where the gross proceeds are \$1,250,000 or less or otherwise 50% of the aggregate gross proceeds from such events (**Redemption Amount**) to redeem convertible securities as follows (A) the Company must give written notice to SBC of a Redemption Event at completion of the Redemption Event; and (B) subject to SBC giving written notice to the Company within 5 business days of receipt of notice from the Company of the Redemption Event requiring the Company to use the Redemption Amount to redeem convertible securities, the Company must pay the Redemption Amount to the SBC to redeem the relevant quantity of convertible securities (**Redemption Notes**). Upon the Company doing so, the Redemption Notes will be redeemed and the Amount Outstanding will be reduced by the aggregate face value of the Redemption Notes. For the avoidance of doubt, if SBC does not give written notice under this clause then the Company is not required to use the Redemption Amount to redeem the Redemption Notes
- **Commitment Options:** 70,000,000 commitment options, comprising 50,000,000 CPHOD quoted options (\$0.08, expiry 31/01/27) (**Quoted Options**) and 20,000,000 unquoted options with an exercise price of A\$0.03 and an expiry date the same as for the Quoted Options (**Unquoted Options**).
- **Commitment Fee:** On the execution date, the Company must pay SBC in cash an amount equal to 3% of the total face value of all convertible securities to be issued in relation to the First Purchase and Second Purchase.
- **Maximum Share Number:** Only relevant for the First Purchase – 218,976,674 shares (being the Company's LR7.1 capacity) is the maximum number of shares that the Company may issue on conversion of the Convertible Securities the subject of the First Purchase.
- **Adjustments:** Each time when a Security Structure Event (i.e. any consolidation (including Share consolidation), subdivision or pro-rata cancellation of the Company's issued capital or distribution of Shares to holders of its outstanding ordinary shares; which for the avoidance of doubt, does not include a rights offering or a bonus issue) occurs, the Conversion Price, the Minimum Amortisation Price and the Maximum Share Number balance will be reduced or, as the case may be, increased, in the same proportion as the issued capital of the Company is, as the case may be, consolidated, subdivided or cancelled.
- **Conditions Precedent for First Purchase:** The Company must deliver to SBC all of the relevant forms and circular resolutions required to issue of the relevant securities under the agreement, received written confirmation from ASX that the disclosure requirements set out in item 4 of the Listed Compliance Update 05/20 have been complied with in the announcement in respect of the terms of the convertible notes and that Listing Rule 6.1 confirmation is not required, the Company has given a convertible securities cleansing statement to ASX in respect of the Secured Notes, the Company has obtained deed polls in favour of SBC from such shareholders of the Company holding no less than an aggregate of 200,000,000 Shares irrevocably committing to vote in favour of the resolutions required to obtain Shareholder Approval for the Second Purchase and the issue of the Commitment Options, or such other documentation to the satisfaction of SBC, the Company has provided to SBC, evidence to the satisfaction of SBC that the funds



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from the First Purchase are sufficient to repay all amounts owing under a convertible security facility entered with Obsidian Global GP LLC (**Obsidian**), following which Obsidian will have no further rights against the Group, and Obsidian confirms the Company is not in default under its documents with Obsidian, evidence to the satisfaction of SBC that no less than USD\$250,000 of the loan between La Plata Capital LLC and the Company has been repaid since completion of the placement announced by the Company on 17 February 2023, leaving a balance no more than \$467,500 and the resulting balance of the obligations to La Plata Capital LLC, including any security interests, has been reassigned so no encumbrances exist over the Company's subsidiaries incorporated in the United States of America the Company has provided to SBC, evidence to the satisfaction of SBC of the debt outstanding for each member of the Group as at the execution date; no event of default or potential event of default would occur as a consequence of the First Purchase or has occurred (irrespective of whether it has been remedied or any grace period has expired); the Company has provided to SBC and SBC has approved for release by the Company the Company's proposed announcements in respect of the convertible securities agreement and the First Purchase, SBC has performed or complied in all material respects with all obligations required by the convertible securities agreement to be performed or complied with by SBC, and the representations and warranties of SBC contained in the convertible securities agreement are true and correct in all material respects as of the date or dates as of which they are made or deemed to be made or repeated under the convertible securities agreement.

- **Conditions Precedent for the Second Purchase:** SBC has no obligation in respect of the second purchase until the Company has delivered to SBC all of the relevant forms and circular resolutions required to issue of the relevant securities under the agreement, received written confirmation from ASX that the disclosure requirements set out in item 4 of the Listed Compliance Update 05/20 have been complied with in the announcement in respect of the terms of the convertible notes and that Listing Rule 6.1 confirmation is not required, the Company has offered the Commitment Options pursuant to a prospectus which remains open for application by SBC on the Purchase Date and the Company has applied for quotation of the Quoted Options on the date of issue of the Option Prospectus, the Company has given a convertible securities cleansing statement to ASX in respect of the Secured Notes, the Company has obtained the shareholder approval to issue the Secured Notes in respect of the Second Purchase and the Commitment Options, and the Company must use reasonable endeavours to satisfy the shareholder approval condition within six weeks of the execution date otherwise the agreement will terminate without further obligation under that agreement on behalf of either party; the Company has issued the convertible securities and the Commitment Options in the manner contemplated by the First Convertible Securities Agreement; the Company has provided to SBC, evidence to the satisfaction of SBC that all amounts owing under a convertible security facility entered with Obsidian have been repaid in full and that Obsidian has no further rights in relation to the Group; no event of default has occurred under the First Convertible Securities Agreement; the Company has provided to SBC and SBC has approved for release by the Company the Company's proposed announcements in respect of the convertible securities agreement and the Second Purchase, SBC has performed or complied in all material respects with all obligations required by the convertible securities agreement to be performed or complied with by SBC, and the representations and warranties of SBC contained in the convertible securities agreement are true and correct in all material respects as of the date or dates as of which they are made or deemed to be made or repeated under the convertible securities agreement.



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- Security:** as a Condition of the transaction, the Company has entered into the following agreements to secure the Secured Notes: (i) a general security deed to a first ranking security over all present and after acquired property of the Company, (ii) security agreement between Creso Pharma US, Inc. (a wholly owned subsidiary of the Company) and SBC in relation to, amongst other things, a first priority lien on and a security interest in and to all of Creso Pharma US, Inc.'s right, title and interest in all of its properties and assets whether now owned or hereafter acquired and whether now existing or hereafter coming into existence (US Security Agreement), (iii) a pledge agreement between the Company and SBC in relation to the Company pledging all of the issued and outstanding equity interests of Creso Pharma US, Inc to SBC, (iv) a pledge agreement between Creso Pharma US, Inc. and SBC in relation to Creso Pharma US, Inc. pledging all of the issued and outstanding equity interests of pledging Sierra Sage Herbs, LLC (a wholly owned subsidiary of the Company) to SBC; and (v) a guarantee between Creso Pharma US, Inc., Sierra Sage Herbs, LLC and SBC in relation to guaranteeing the obligations under the US Security Agreement. For clarity, the security interest granted to SBC will, to the extent they relate to Mernova Medicinal Inc., be subordinate to existing securities registered against Mernova Medicinal Inc., and as agreed to between the Company and SBC.
- Events of Default:** The agreements provide that following an event of default, the face value of the convertible securities shall be increased by 10% and an additional 5% on the occurrence of each subsequent event of default. Unremedied or irremediable events of default shall give SBC the right to call for payment of monies owing (subject to the face value uplift) and or terminate the agreements. The agreements are subject to events of default considered customary for a commercial agreement of this type. If an event of default occurs, interest shall be payable on the then aggregate Face Value at a rate of 1% per month, which interest shall accrue daily and shall be compounded monthly, from the date of the Event of Default until the Company discharges the amount outstanding in full or remedies the event of default to the satisfaction of SBC.



Appendix B:

Funding Source	Reasons Not Undertaken
Equity Placement	The Company formed the view, on the basis of advice from its corporate advisor, that in order to attract a level of demand equivalent to the SBC financing, a significant discount to the current market price of Creso's shares would likely have been required that may have rendered such financing potentially more dilutive than the SBC agreement.
Rights Issue	The Company formed the view that, given it has limited experience in conducting successful rights issues, this method could have been significantly challenging and have a low probability of success. The Company also notes that it is relatively widely held and that, as such, there could be no certainty that an acceptable level of funds would be forthcoming.
Other Convertible Instrument 1	The Company considered another convertible instrument and considered the terms to be less attractive, on aggregate, than those proposed by SBC.
Other Convertible Instrument 2	The Company considered another convertible instrument and considered the terms to be less attractive, on aggregate, than those proposed by SBC.
Traditional Unsecured Debt	This source of financing was not available to the Company in the current market climate.
Additional Secured Debt	This source of financing was not available to the Company in the current market climate.



-Ends-

Authority and Contact Details

This announcement has been authorised for release by the Disclosure Committee of Creso Pharma Limited.

For further information, please contact:

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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 (Good Manufacturing Practice) 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

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Forward Looking statements

This announcement contains forward-looking statements with respect to Creso and its respective operations, strategy, investments, financial performance and condition. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "intends", "believe" or "continue" or the negative thereof or similar variations. The actual results and performance of Creso could differ materially from those expressed or implied by such statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Some important factors that could cause actual results to differ



materially from expectations include, among other things, general economic and market factors, competition and government regulation.

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

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