



13 March 2023

Creso Pharma welcomes resolution of historical ASX Listing Rule breach and responds to ASX Censure decision

Dear shareholders,

On behalf of Creso Pharma Limited (ASX: CPH) (“Creso Pharma” or “the Company”), I would like to take this opportunity to address the decision made on 13 March 2023 by the Australian Securities Exchange (“ASX”) to censure the Company under ASX Listing Rule 18.8A, in response to the **previously announced** breach of ASX Listing Rule 10.11 (refer ASX announcement 25 October 2022 and the background set out in **Annexure A** for further information).

The Company would like to highlight that the censure relates to a breach of ASX Listing Rule 10.11. There have been no other breaches of the ASX Listing Rules by the Company.

The Company does not consider a formal censure appropriate and had provided submissions to the ASX on this basis on several grounds including, but not limited to, the fact that Creso Pharma provided the ASX with seven (7) examples of other listed companies breaching ASX Listing Rule 10.11 in the last three years which did not result in a censure. A copy of the Company’s submission to ASX is set out in Annexure B.

Whilst the Company does not consider a formal censure to be necessary for the reasons set out in this letter, the Company has accepted it, and rectified the error in accordance with the directives of ASX during FY2022. Creso Pharma confirms that other than the issuance of the formal censure notice by ASX, there are no ongoing consequences as a result of the breach of Listing Rule 10.11 or the censure itself, and is pleased that the matter is now resolved.

Additional steps to increase independence and governance focus:

During FY2022, the Company has established and embarked on a long-term strategy to optimise revenue growth and profitability across its portfolio of companies. This has included acquisitions, new director appointments and strengthened internal capabilities through shared services to unlock collective strengths and efficiencies, alongside reductions in staffing levels and a focus on the most profitable customer relationships. **I would like to state clearly, that alongside the significant work undertaken to optimise all of these parts of the group, that we have successfully been able to grow revenues meaningfully, while materially reducing costs in a year of unrivaled economic uncertainty (FY2022).**

As part of the Company’s journey, it has significantly revitalised its Board and management team through a number of new director appointments.

Alongside myself undertaking the role of CEO and Managing Director in January 2022, both Ms Jodi Scott and Ms Micheline MacKay have joined as Executive Directors, while Mr Bruce Linton, Mr Ben Quirin and Mr Peter Hatfull have all been appointed as Non-Executive Directors.

Prior to these appointments, Creso Pharma’s Board was estimated to have approximately 17% independence. However, following these recent appointments, the Company has significantly increased this metric to 43% and anticipates that the board will be majority independent by the end of FY2023.



Each new Director brings considerable depth, international experience and additional corporate governance expertise to the Company, which will be leveraged further as Creso Pharma continues its growth strategy.

The Company's new Board and management have since undertaken a thorough review of its internal processes, particularly focused on the settlement of placements. Upon completion of this review, Creso Pharma has implemented a refreshed set of controls to ensure a breach would not occur again in the future. Management have also made a commitment to regularly evaluate in-house practises as part of an ongoing review and focus on corporate governance.

Further, the Company and its new Board, which has been significantly refreshed to the Board that was in place at the time of the breach, will continue to seek opportunities to engage pragmatically with the ASX to establish open and ongoing dialogue.

With this matter now resolved, the Company looks forward to focusing on growth initiatives which are expected to unlock value for shareholders over the course of FY2023 and beyond.

Mr William Lay

Chief Executive Officer and Managing Director

-Ends-

Authority and Contact Details

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

For further information, please contact:

Investor Enquiries

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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.



Annexure A: Background to breach of ASX Listing Rule 10.11

In March 2022, the Company issued 67,851,467 shares under a placement to raise a total of \$5 million (**Placement**).

Some time later, while drafting a notice of meeting in relation to the Placement, the Company became aware that Suburban Holdings Pty Ltd (**Suburban**), an entity controlled by the parent of former director, Adam Blumenthal, had participated in the Placement and received 14,492,755 shares on the same commercial terms as other Placement participants. Pursuant to s228 of the Corporations Act 2001, a holding controlled by a parent of a director is deemed to be a related party of the Company. Accordingly, Suburban's participation in the Placement required prior shareholder approval under ASX Listing Rule 10.11 and therefore the issuance constituted a breach of Listing Rule 10.11.

The Company self-reported the breach to ASX, and following consultation with ASX, Suburban was directed to sell all of the 14,492,755 shares it received under the Placement. The Company understands that Suburban made a loss on disposal of the shares. Further whilst other Placement participants were entitled to free attaching options under the Placement, the ASX had directed the Company not to issue Suburban's free attaching options entitlement.

The decisions of ASX are consistent with Section 6 in ASX Listing Rules Guidance Note 25, and the Company has fully complied with all directives.

The breach was the result of an administrative oversight during the direct (dvp) settlement of the Placement between the broker who managed the Placement, and the Company's share registry, whereby the Company, itself, did not see the final allocation list before the securities were allotted, and did not get an opportunity to independently verify whether any related parties had participated in the Placement.

The Company has reviewed its internal processes around settlements of placements and has implemented appropriate controls to ensure such a breach does not happen in the future.



Annexure B: Creso Pharma submission to ASX

20 January 2023

Daniel Moran
Chief Compliance Officer
ASX Compliance Pty Ltd
Level 5, 100 Market Street
Sydney NSW 2000

By Email: Daniel.Moran@asx.com.au

CRESO PHARMA LIMITED – SUBMISSIONS TO CONSIDERATION OF CENSURE OF CRESO PHARMA LIMITED LETTER

Dear Mr Moran

Creso Pharma Limited (**CPH** or the **Company**) (ASX: CPH), makes the following submissions to ASX in response to the Consideration of Censure of Creso Pharma Limited letter dated 23 December 2022 (**ASX Letter**). Defined terms in this letter have the meaning ascribed to them in the ASX Letter unless stated otherwise.

The Company has considered the reasons set out in the ASX Letter for forming the view that there is a prima facie grounds warranting the exercise of ASX's powers to censure CPH (**Prima Facie Grounds**). In response to the ASX Letter, the Company submits that there is no Prima Facie Grounds because:

- (a) As announced on 14 September 2022, CPH had breached Listing Rule 10.11 by issuing shares to Suburban (a related party of CPH) (**Breach**) in March 2022 under a placement (**Placement**).
- (b) As announced on 25 October 2022, the Breach was the result of an administrative oversight during the direct settlement of the Placement.
- (c) As noted in CPH's letter to ASX dated 28 November 2022, key management personnel, the joint company secretaries and the CPH board of Directors were not, at the time of the issue of the shares under the Placement, aware of the fact that Suburban was subscribing for shares in the Placement. While Everblu had that information, it did not disclose that information to CPH at the time. Further, while Suburban was shown on the placement allocation schedule (prepared by Everblu and given directly to the Company's registrar for DvP settlement), the placement allocation schedule was not provided to CPH at the time of issuing the shares. Accordingly, there was no intentional, or knowing, breach of Listing Rule 10.11 by CPH.
- (d) The term 'egregious' is defined to mean something which is "outstandingly bad", "outrageous", "flagrant" or "glaring", something that is "extremely bad in a way that is

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very noticeable'. Notwithstanding the accepted importance of Listing Rule 10.11, and the accepted breach of Listing Rule 10.11 by CPH, the circumstances of this breach of Listing Rule 10.11, which arose from an administrative oversight by a third party, cannot properly be characterised as an 'egregious' breach by CPH warranting ASX censure.

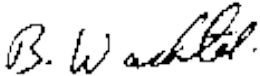
- (e) Further, Suburban complied with the direction from ASX to dispose of the shares within six weeks of the Company's announcement dated 25 October 2022. Suburban completed the disposal of the shares within the six week timeframe which resulted in a loss of approximately \$380,000. As such, no profits were available for donation to an entity that is listed with the Australian Charities and Not-For-Profits Commission as charity. Additionally, the free attaching options in relation to the Placement were not issued to Suburban, in accordance with the ASX direction. Details of ASX's direction are set out in the ASX announcement dated 25 October 2022.
- (f) After identifying the Breach, CPH self-reported the breach to the ASX. This was not a matter where the ASX (or a third party) brought the breach to CPH's attention. CPH then reviewed its internal processes around the settlement of placements and implemented appropriate controls to ensure that such a breach would not happen again in the future. Those new controls require the CPH board of Directors to personally review all placement allocation schedules, and to specifically confirm that none of the participants are related parties before any securities are issued.
- (g) Two equity placements and two convertible note raisings have been undertaken by CPH since the Breach was identified (some of which included related party participation) and no similar breach has arisen, demonstrating that the controls that have been implemented by CPH are both appropriate and effective.
- (h) The shares that are the subject of the Breach did not participate in any dividends or distributions of capital, and did not accrue any other benefits to Suburban during the period in which the shares were held.
- (i) The issue of shares to Suburban was not significant in terms of the overall capital of CPH. 14,492,755 shares were issued to the related party, representing (at the time of the Placement) approximately 1.18% of CPH's total shares on issue of 1,228,241,035 shares and 0.77% of CPH's total issued capital (on a fully diluted basis) of 1,882,218,110 securities.
- (j) In addition to the improvements to CPH's internal processes set out in paragraph (g), CPH has revitalised its board of Directors and management team through a number of Director resignations and new Director appointments. Through these appointments, each Director brings considerable depth, international experience and additional corporate governance expertise to CPH with the commitment to regularly evaluate in-house practices as part of an ongoing review and focus on corporate governance.
- (k) Prior to these Director changes, the CPH Board of Directors was estimated to have approximately 17% independence. However, following these recent Director changes, CPH has significantly increased this metric to 43%, further improving CPH's governance focus. Furthermore, CPH is committed to having a majority independent board by the end of calendar year 2023.
- (l) As announced on 10 October 2022, Adam Blumenthal (the relevant CPH director connected to Suburban) is no longer a Director of CPH.

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- (m) Annexure A of this letter sets out ASX listed companies that have breached Listing Rule 10.11 within the last three years, with a summary of the respective breaches and remedial actions. The circumstances surrounding each company's breach is similar to the Company and were not subject to a censure by ASX.
 - (n) The Company is only aware of one other ASX listed entity that has been the subject of a censure by ASX (Isignthis Ltd: ISX). It is the Company's view that the circumstances that resulted in the censure of ISX were of a far more serious nature than the breach of the Listing Rules by the Company and it would be gravely prejudicial and a material injustice to censure the Company given the submissions set out above.

Given the above, the Company considers that it would not be fair or reasonable for the ASX to censure CPH and that there is no prima facie grounds warranting ASX to exercise its power to censure CPH in relation to an unintentional breach of Listing Rule 10.11.

The Company reserves the right to release a copy of this letter to the market if ASX exercises its power of censure against the Company.

Your sincerely



Boaz Wachtel
Chairman
Creso Pharma Limited

ANNEXURE A

Company	10.11 breach notice and remedial action date	Breach and remedial action taken
Walkabout Resources Ltd	<p>21 November 2022 – Shares Issued in Breach of Listing Rule 10.11</p> <p>30 November 2022 – Unintentional Breach of LR10.11 and Remedial Action</p>	<p>Breach Walkabout Resources Ltd (Walkabout) breached Listing Rule 10.11, as a result of issuing its director 3,636,364 Shares at an issue price of \$0.11 per Share to raise \$400,000 without shareholder approval (Breach Shares).</p> <p>Walkabout confirmed that the Breach Shares were issued to the director due to an unintentional administrative oversight in the course of applying the shortfall allocation policy without the approval of shareholders (Breach).</p> <p>Further details set out in the ASX announcement dated 21 November 2022 – Shares Issued in Breach of Listing Rule 10.11</p> <p>Remedial action ASX confirmed that an acceptable remedy for the Breach was to have the Shares subject of the Breach (Breach Shares) transferred via off-market transfer to unrelated parties of Walkabout as identified by the Walkabout and its corporate advisers in a manner consistent with the shortfall allocation policy</p> <p>Walkabout noted that it was conducting a review of its procedures for ensuring compliance with the ASX Listing Rules, to ensure an error, such as the Breach, is not made again. Walkabout also noted that the review will include a review of the current corporate governance policy to ensure that its policies and procedures in relation issues of equity securities to persons in a position of influence, related party transactions and its risk management policy are appropriate. Walkabout will also undertake additional internal training to ensure the processes outlined in the corporate governance plan are adhered to.</p> <p>Further details set out in the ASX announcement dated 30 November 2022 – Unintentional Breach of LR10.11 and Remedial Action.</p>
Dough Ltd	<p>11 January 2021 – Response to ASX Queries</p> <p>19 January 2021- Response to ASX Queries</p>	<p>Breach Dough Ltd (Dough) received a query letter from ASX requesting that it appoint an independent third party law firm that ASX consents to review its register to identify whether any party received securities in breach of the Listing Rules, including but not limited to Listing Rule 10.11 for ASX's review. ASX had also requested Dough place a holding lock on any securities issued to related parties without shareholder approval.</p>

	<p>4 February 2021- DOU remedial action and Corporate Governance Update</p>	<p>Dough's investigation confirmed that shares had been issued to related parties without shareholder approval (Breach) and was due to unintentional administrative oversight.</p> <p>Further details set out in ASX announcement dated 11 January 2021 – Response to ASX Queries and 19 January 2021 – Response to ASX Queries.</p> <p>Remedial action ASX confirmed that the following are acceptable remedies:</p> <ul style="list-style-type: none"> in relation to the shares the subject of the Breach (Breach Shares) that were issued and still held by the related parties, Dough will hold a general meeting to seek shareholder approval to facilitate a selective capital reduction for consideration equal to the subscription price of the Breach Shares; and in relation to the Breach Shares sold on-market, the related parties will donate all profits gained from the disposal of the sold Breach Shares and be donated to entities registered with the Australian Charities and Not-for-Profit Commission. <p>Dough confirmed that it was undertaking a review of its corporate governance plan to strengthen its policies and procedures in relation to issues of equity securities to persons in a position of influence, related party transaction and the Company's risk management policy.</p> <p>Further details set out in the ASX announcement dated 4 February 2021 – DOU remedial action and Corporate Governance Update</p>
<p>Latin Resource Limited</p>	<p>1 December 2020</p>	<p>Breach Latin Resource Limited (Latin) was advised by ASX on 23 September 2023 that it had issued shares to related parties without shareholder approval (Breach) in connection with a placement. Latin confirms that the Breach was due to an administrative oversight.</p> <p>Remedial action The related party disposed of the shares the subject of the Breach (Breach Shares) on market and any profits were donated to a registered charity. ASX considered this an acceptable remedy and the remedy was implemented.</p> <p>Further details in relation to the breach and remedial action are set out in ASX announcement date 1 December 2020 – ASX Letter – Listing Rule 10.11.</p>
<p>Victor Group Holdings Limited</p>	<p>12 November 2020 – Breach of Listing Rule 10.11 and Remedial Action</p>	<p>Breach Victor Group Holdings Limited (Victor) had issued shares to a related party without shareholder approval (Breach) in connection with a placement. ASX identified the Breach following the lodgement of Victor's appendix 3Y in respect of a director.</p> <p>Remedial action</p>

		<p>Victor had consulted with ASX and it was determined that the following remedial actions need to be taken:</p> <ul style="list-style-type: none"> place a holding lock on the shares the subject of the Breach (Breach Shares); require the related party to dispose of the Breach Shares to an unrelated party. <p>Further details in relation to the breach and remedial action are set out in ASX announcement dated 12 November 2020 – Breach of Listing Rule 10.11 and Remedial Action.</p>
Tyranna Resources Limited	<p>24 August 2020 – Notice of Breach of ASX Listing Rule 10.11</p> <p>28 August 2020 – Ratification of Breach of ASX Listing Rule 10.11</p>	<p>Breach</p> <p>Tyranna Resources Limited (Tyranna) announced it had issued shares to a related party without shareholder approval (Breach) in connection to a placement. Tyranna confirms that the Breach was due to an administrative oversight and a review of its administrative policy and procedures is being undertaken to ensure compliance with the Listing Rules.</p> <p>Remedial action</p> <p>Tyranna confirmed that a holding lock was placed on the shares the subject of the Breach and will be disposed of on market. Any profits from the disposal of Breach Shares were donated to an entity that is listed with the Australian Charities and Not-For-Profits Commission.</p> <p>Further details in relation to the breach and remedial action are set out in ASX announcements dated 24 August 2020 – Notice of Breach of ASX Listing Rule 10.11 and 28 August 2020 – Ratification of Breach of ASX Listing Rule 10.11.</p>
Pearl Global Ltd (renamed Entyr Limited)	<p>28 May 2020 – Unintentional Breach of Listing Rule 10.11</p> <p>5 August 2020 – Removal of Holding Lock</p>	<p>Breach</p> <p>Pearl Global Ltd (Pearl) announced it had issued shares to a related party without shareholder approval (Breach) in connection to a placement. Pearl confirms that the Breach was due to an unintentional administrative oversight.</p> <p>Remedial action</p> <p>ASX requires the following remedial actions to be undertaken by the Company in regard to the Breach:</p> <ul style="list-style-type: none"> Pearl had to maintain a holding lock on the shares the subject of the Breach (Breach Shares) until the matter has been resolved to ASX's satisfaction. Pearl had to convene an extraordinary general meeting of shareholders and seek shareholder approval for the ratification of the issue of the Breach Shares. The notice of meeting needed to include: <ul style="list-style-type: none"> a resolution for the approval by Pearl's shareholders of the acquisition of the Breach Shares by the related party; details of the Breach and the consequences if shareholders do not ratify the issue of the Breach Shares; and an independent expert's report on whether the acquisition of the Breach Shares is fair and reasonable. <p>If shareholders did not approve the issue of the Breach Shares, Pearl had to either:</p>

		<ul style="list-style-type: none"> • procure the cancellation of the Breach Shares by way of a selective reduction of capital subject to approval by shareholders; or • procure an undertaking for the sale of the Breach Shares on market, with any profits donated to an entity registered with the Australian Charities and Not-for-profits Commission as a charity <p>On 5 August 2020, Pearl confirmed that it had received shareholder approval to ratify the issue of the Breach Shares.</p> <p>Further details in relation to the breach and remedial action are set out in ASX announcements dated 28 May 2020 – Unintentional Breach of Listing Rule 10.11 and 5 August 2020 – Removal of Holding Locks.</p>
<p>Adavale Resources Limited</p>	<p>17 April 2020 – Notice of Breach of ASX Listing Rule 10.11</p> <p>20 May 2020 – Rectification of ASX Listing Rule 10.11</p>	<p>Breach Adavale Resources Limited (Adavale) announced it had issued shares to a related party without shareholder approval (Breach) in connection to a placement. Adavale confirms that the Breach was due to an oversight. A review of its administrative policy of the ASX Listing Rules was undertaken.</p> <p>Remedial action The corrective action undertaken was to place a holding lock on the shares the subject of the Breach (Breach Shares). The Breach Shares are then to be disposed of with any transactions to be donated to any entity that is listed with the Australian Charities and Not-For-Profits Commission as a charity.</p> <p>Adavale confirmed it had rectified the Breach on 5 May 2020.</p> <p>Further details in relation to the breach and remedial action are set out in ASX announcements dated 17 April 2020 – Notice of Breach of ASX Listing Rule 10.11 and 20 May 2020 – Rectification of ASX Listing Rule 10.11.</p>