



11 July 2022

Dear Shareholder,

### **General Meeting – Notice and Proxy Form**

Notice is hereby given that a General Meeting ('Meeting') of Shareholders of Creso Pharma Limited ('Company') will be held by virtual meeting facility at 10:00am (AEST) on Tuesday, 9 August 2022.

Pursuant to the Treasury Laws Amendment (2021 Measures No. 1) Act 2021, the Company has made the decision to not dispatch physical copies of the Notice of Meeting ('Notice'). Instead, a copy of the Notice is available on the ASX Company's Announcement Platform at [www2.asx.com.au](http://www2.asx.com.au) (ASX:CPH).

If you have elected to receive notices by email, a copy of your personalised proxy form will be emailed to you. If you have not elected to receive notices by email, a copy of your personalised proxy form will be posted to you, together with this letter for your convenience.

All shareholders will be able to participate in the Meeting by:

- (a) attending and voting their Shares at the Meeting to be held virtually at 10:00am (AEST) on 9 August 2022;
- (b) voting prior to the Meeting by lodging your proxy instructions by no later than 48 hours prior to the Meeting (by 10:00am (AEST) on 7 August 2022) either by **voting online at** <https://investor.automic.com.au/#/loginsah>, or lodging a proxy form, as follows:
  - **by post to:** Automic, GPO Box 5193, Sydney, NSW, 2001; or
  - **in person to:** Automic, Level 5, 126 Phillip Street, Sydney, NSW, 2000; or
  - **by email to:** [meetings@automicgroup.com.au](mailto:meetings@automicgroup.com.au)

Your proxy voting instruction must be received not less than 48 hours before the commencement of the Meeting. Any proxy voting instructions received after that time will not be valid for the Meeting;

- (c) lodging questions in advance of the Meeting by emailing the questions to Winton Willesee, Joint Company Secretary at [winton@azc.com.au](mailto:winton@azc.com.au), by no later than 2 August 2022.

**If you are a shareholder, please follow the below step-by-step process to be able to access, vote and ask questions at the meeting:**

1. Open your internet browser and go to [investor.automic.com.au](http://investor.automic.com.au).
2. Login with your username and password or click "**register**" if you haven't already created an account. **Shareholders are encouraged to create an account prior to the start of the meeting to ensure there is no delay in attending the virtual meeting.**
3. After logging in, a banner will be displayed at the top once the meeting is open for registration, click on "**View**" when this appear.
4. Click on "**Register**" and follow the steps.
5. Click on the URL to join the virtual meeting facility where you can join and listen to the meeting.
6. Once the Chair of the Meeting has declared the poll open for voting click on "**Refresh**" to be taken to the voting screen.



7. Select your voting direction and click “**confirm**” to submit your vote. **Note that you cannot amend your vote after it has been submitted.**

The Notice is important and should be read in its entirety. If you are in doubt as to the course of action you should follow, you should consult your financial adviser, lawyer, accountant or other professional adviser. If you have any difficulties obtaining a copy of the Notice, or for any other relevant information please contact the Company Secretary on +61 8 9389 3180 or [winton@azc.com.au](mailto:winton@azc.com.au).

Authorised for release by the Board of Creso Pharma Limited.

Sincerely,



**Winton Willesee**  
Joint Company Secretary  
Creso Pharma Limited

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**CRESO PHARMA LIMITED**  
**ACN 609 406 911**  
**NOTICE OF GENERAL MEETING**

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Notice is given that the Meeting will be held at:

**TIME:** Tuesday, 9 August 2022  
**DATE:** 10:00am AEST  
**PLACE:** By Virtual Meeting Facility

***The business of the Meeting affects your shareholding and your vote is important.***

***This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.***

***The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 5:00pm AEST on 7 August 2022.***

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## BUSINESS OF THE MEETING

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### AGENDA

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#### 1. RESOLUTION 1 - APPROVAL TO ISSUE OPTIONS TO LENDERS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

*"That, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 4,315,790 Options to the Lenders (or their nominee/s) on the terms and conditions set out in the Explanatory Statement."*

**A voting exclusion statement applies to this Resolution. Please see below.**

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#### 2. RESOLUTION 2 - APPROVAL TO ISSUE PLACEMENT OPTIONS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

*"That, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 23,684,144 Options to the Placement Participants (or their nominee/s) on the terms and conditions set out in the Explanatory Statement."*

**A voting exclusion statement applies to this Resolution. Please see below.**

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#### 3. RESOLUTION 3 – RATIFICATION OF PRIOR ISSUE OF CONSIDERATION SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 1,965,455 Shares to the Founders (or their nominee/s) on the terms and conditions set out in the Explanatory Statement."*

**A voting exclusion statement applies to this Resolution. Please see below.**

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#### 4. RESOLUTION 4 – APPROVAL TO ISSUE PERFORMANCE SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to the passing of Resolution 5, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 6,000,000 Performance Shares to the Founders (or their nominee/s) on the terms and conditions set out in the Explanatory Statement."*

**A voting exclusion statement applies to this Resolution. Please see below.**

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**5. RESOLUTION 5 — CREATION OF A NEW CLASS OF SECURITIES – PERFORMANCE SHARES**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

*“That, subject to the passing of Resolution 4, the purpose of section 246B of the Corporations Act and for all other purposes, the Company is authorised to issue Performance Shares as a new class of shares on the terms and conditions set out in the Explanatory Statement.”*

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**6. RESOLUTION 6 – RATIFICATION OF PRIOR ISSUE OF OPTIONS TO BRETT AYERS**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 500,000 Options to Brett Ayers on the terms and conditions set out in the Explanatory Statement.”*

**A voting exclusion statement applies to this Resolution. Please see below.**

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**7. RESOLUTION 7 – RATIFICATION OF PRIOR ISSUE OF OPTIONS TO KEVIN TANSEY**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 500,000 Options to Kevin Tansey on the terms and conditions set out in the Explanatory Statement.”*

**A voting exclusion statement applies to this Resolution. Please see below.**

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**8. RESOLUTION 8 – RATIFICATION OF PRIOR ISSUE OF OPTIONS TO ODEON NOMINEES**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 24,000,000 Options to Odeon Nominees on the terms and conditions set out in the Explanatory Statement.”*

**A voting exclusion statement applies to this Resolution. Please see below.**

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**9. RESOLUTION 9 – RATIFICATION OF PRIOR ISSUE OF SHARES TO NOBLE HOUSE CONSULTING LTD**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 5,000,000 Shares to Noble House Consulting Ltd on the terms and conditions set out in the Explanatory Statement.”*

**A voting exclusion statement applies to this Resolution. Please see below.**

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**10. RESOLUTION 10 – APPROVAL OF ISSUE OF SECURITIES - SECTION 611 (ITEM 7) OF THE CORPORATIONS ACT**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purposes of section 611 (item 7) of the Corporations Act and for all other purposes, approval is given for the Company to issue the Consideration Shares, Milestone 1 Shares and Milestone 2 Shares (together, the **New Shares**) to the Vendors on the terms and conditions set out in the Explanatory Statement, which will result in the Vendors' voting power increasing from 0% to 70.4% in the capital of the Company."*

**A voting prohibition statement applies to this Resolution. Please see below.**

**Expert's Report:** Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required under section 611 Item 7 of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of this Resolution to the non-associated Shareholders in the Company.

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**Dated:** 11 July 2022

**By order of the Board**



**Winton Willesee**  
**Joint Company Secretary**

## Voting Prohibition Statement

<b>Resolution 10 – Approval of issue of securities – section 611 (Item 7) of the Corporations Act</b>	<p>No votes may be cast in favour of this Resolution by:</p> <p>(a) the person proposing to make the acquisition and their associates; or</p> <p>(b) the persons (if any) from whom the acquisition is to be made and their associates.</p> <p>Accordingly, the Company will disregard any votes cast on this Resolution by the Vendors and any of its associates.</p>
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## Voting Exclusion Statements

In accordance with Listing Rule 14.11, the Company will disregard any votes cast in favour of the resolution set out below by or on behalf of the following persons:

<b>Resolution 1 – Approval to issue Options to Lenders</b>	The Lenders (or their nominee/s) or any other person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the Company) or an associate of that person (or those persons).
<b>Resolution 2 – Approval to issue Placement Options</b>	The Placement Participants (or their nominee/s) or any other person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the Company) or an associate of that person (or those persons).
<b>Resolution 3 – Ratification of prior issue of Consideration Shares</b>	The Founders (or their nominee/s) or any other person who participated in the issue or is a counterparty to the agreement being approved or an associate of that person or those persons.
<b>Resolution 4 – Approval to issue Performance Shares</b>	The Founder (or their nominee/s) or any other person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the Company) or an associate of that person (or those persons).
<b>Resolution 6 – Ratification of prior issue of Options to Brett Ayers</b>	Brett Ayers or any other person who participated in the issue or is a counterparty to the agreement being approved or an associate of that person or those persons.
<b>Resolution 7 – Ratification of prior issue of Options to Kevin Tansey</b>	Kevin Tansey or any other person who participated in the issue or is a counterparty to the agreement being approved or an associate of that person or those persons.
<b>Resolution 8 – Ratification of prior issue of Options to Odeon Capital Group LLC</b>	Odeon Nominees or any other person who participated in the issue or is a counterparty to the agreement being approved or an associate of that person or those persons.
<b>Resolution 9 – Ratification of prior issue of Shares to William Lay</b>	Noble House Consulting Ltd or any other person who participated in the issue or is a counterparty to the agreement being approved or an associate of that person or those persons.

However, this does not apply to a vote cast in favour of the Resolution by:

- (a) a person as a proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with the directions given to the proxy or attorney to vote on the Resolution in that way; or

- (b) the Chair as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with a direction given to the Chair to vote on the Resolution as the Chair decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
  - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and
  - (ii) the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.



## Voting by proxy

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To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast two (2) or more votes may appoint two (2) proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints two (2) proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Shareholders and their proxies should be aware that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

## Voting in person

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In light of the status of the evolving COVID-19 situation, the Directors have made a decision that Shareholders will not be able to physically attend the Meeting in person.

**Accordingly, the Directors strongly encourage all Shareholders to either lodge a directed proxy form prior to the Meeting or attend and vote online at the Virtual Meeting.**

## Voting online via Virtual Meeting

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*The company is pleased to provide shareholders with the opportunity to attend and participate in a virtual Meeting through an online meeting platform powered by Automic, where shareholders will be able to watch, listen, and vote online.*

To access the virtual meeting:

3. Open your internet browser and go to **investor.automic.com.au**
2. Login with your username and password or click "**register**" if you haven't already created an account. **Shareholders are encouraged to create an account prior to the start of the meeting to ensure there is no delay in attending the virtual meeting.**
4. After logging in, a banner will be displayed at the top once the meeting is open for registration, click on "**View**" when this appears
5. Click on "**Register**" and follow the steps
6. Click on the URL to join the webcast where you can view and listen to the virtual meeting
7. Once the Chair of the Meeting has declared the poll open for voting click on "**Refresh**" to be taken to the voting screen
8. Select your voting direction and click "**confirm**" to submit your vote. **Note that you cannot amend your vote after it has been submitted**

You may still attend the meeting and vote at the Virtual Meeting even if you have appointed a proxy. If you have previously submitted a Proxy Form, your attendance at the Virtual Meeting will not revoke your proxy appointment unless you actually vote at the meeting for which the proxy is proposed to be used, in which case, the proxy's appointment will be deemed to be revoked with respect to voting on that resolution.

**Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 8 9389 3180.**

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## EXPLANATORY STATEMENT

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This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

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### 1. RESOLUTION 1 – APPROVAL TO ISSUE OPTIONS TO THE LENDERS

#### 1.1 General

On 31 December 2020, the Company entered into short term loan agreements with unrelated third-party lenders, Chifley Portfolios Pty Ltd, Jamber Investments Pty Ltd and L1 Capital Opportunities Master Fund pursuant to which the Company drew down an aggregate of \$3,000,000 (**Loans**).

On or around 29 March 2021, L1 Capital Opportunities Master Fund assigned its rights and obligations under the short term loan agreements to SBC Global Investment Funds.

The unrelated third party lenders now comprise of Chifley Portfolios Pty Ltd, Jamber Investments Pty Ltd and SBC Global Investment Funds (**Lenders**).

On 26 March 2021, there was an aggregate of \$3,529,412 outstanding in respect of the Loans (being the principal loans and accrued interest). The Company agreed to repay the outstanding Loans by:

- (a) issuing the Lenders an aggregate of 17,263,158 Shares at a deemed issue price of \$0.19 per Share (**Lender Shares**) together with one free attaching Option for every four Shares subscribed for and issued (**Lender Options**); and
- (b) making an aggregate cash payment of \$249,411.80 to the Lenders (**Cash**). The Cash was paid to the Lenders on 30 April 2021.

The Lender Shares were issued on 26 March 2021 and ratified by Shareholders at the Company's annual general meeting which was held on 24 June 2021 (**AGM**).

The issue of the Lender Options is subject to the Company obtaining Shareholder approval. The Company obtained Shareholder approval for the issue of the Lender Options at the AGM. However, this approval lapsed on 24 September 2021. Accordingly, the Company is seeking a fresh Shareholder approval for the issue of the Lender Options.

Subject to compliance with the Listing Rules, the Company intends to apply for quotation of the Lender Options. The Lender Options will only be quoted when all the requirements of Listing Rule 2.5 (condition 6) are met.

Resolution 1 seeks Shareholder approval for the issue of the Lender Options pursuant to Listing Rule 7.1.

#### 1.2 Listing Rules 7.1 and 7.1A

Broadly speaking and subject to a number of exceptions, Listing Rule 7.1 limits the amount of equity securities that a listed company can issue without the approval of its shareholders over any 12 month period to 15% of the fully paid ordinary securities it had on issue at the start of that 12 month period.

Under Listing Rule 7.1A, an eligible entity can seek approval from its members, by way of a special resolution passed at its annual general meeting, to increase this 15% limit by an extra 10% to 25%.

The Company obtained approval to increase its limit to 25% at the AGM.

The proposed issue of the Lender Options falls within exception 17 of Listing Rule 7.2. It therefore requires the approval of Shareholders under Listing Rule 7.1.

### **1.3 Technical information required by Listing Rule 14.1A**

If Resolution 1 is passed, the Company will be able to proceed with the issue of the Lender Options. In addition, the issue of the Lender Options will be excluded from the calculation of the number of equity securities that the Company can issue without Shareholder approval under Listing Rule 7.1.

If Resolution 1 is not passed, the Company will not be able to proceed with the issue of the Lender Options.

### **1.4 Technical information required by Listing Rule 7.1**

Pursuant to and in accordance with Listing Rule 7.3, the following information is provided in relation to Resolution 1:

- (a) the Lender Options will be issued to the Lenders (or their nominee/s);
- (b) the maximum number of Lender Options to be issued is 4,315,790;
- (c) The terms and conditions of the Lender Options are set out in Schedule 1. Subject to compliance with the Listing Rules, the Company intends to apply for quotation of the Lender Options. The Lender Options will only be quoted when all the requirements of Listing Rule 2.5 (condition 6) are met;
- (d) the Lender Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules) and it is intended that issue of the Lender Options will occur on the same date;
- (e) the Lender Options will be issued at a nil issue price, free attaching with the Lender Shares (on the basis of one Lender Option for every four Lender Shares issued). Accordingly, no funds will be raised from the issue of the Lender Options (other than funds received on exercise of the Lender Options);
- (f) the purpose of the issue of the Lender Options is to satisfy the Company's obligations under the loan repayment agreements;
- (g) the Lender Options are being issued in accordance with the loan repayment agreements reached with each of the Lenders. A summary of the material terms of these agreements is set out in Section 1.1; and
- (h) the Lender Options are not being issued under, or to fund, a reverse takeover.

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## **2. RESOLUTION 2 – APPROVAL TO ISSUE PLACEMENT OPTIONS**

### **2.1 General**

As announced on 26 March 2021, the Company received firm commitments from institutional, professional and sophisticated investors (**Placement Participants**) to raise up to A\$18 million (before costs) through the issue of 94,736,843 Shares (**Placement Shares**) at an issue price of \$0.19 per Share (**Placement**). The Placement Shares were issued pursuant to the Company's placement capacity under Listing Rule 7.1 A on 1 April 2021 and ratified by Shareholders at the AGM.

The Company agreed, subject to obtaining Shareholder approval, to issue the Placement Participants one Option for every four Shares subscribed for and issued under the Placement (**Placement Options**). The Company obtained Shareholder approval for the issue of the Placement Options at the AGM. However, the approval lapsed on 24 September 2021. Accordingly, the Company is seeking a fresh Shareholder approval for the issue of the Placement Options.

Resolution 2 seeks Shareholder approval for the issue of the Placement Options pursuant to Listing Rule 7.1.

Subject to compliance with the Listing Rules, the Company intends to apply for quotation of the Placement Options. The Placement Options will only be quoted when all the requirements of Listing Rule 2.5 (condition 6) are met.

Further information in respect of the Placement and the issue of the Placement Shares and Placement Options is set out in Company's Notice of Annual General Meeting released on 21 May 2021.

### **2.2 Listing Rules 7.1 and 7.1A**

A summary of Listing Rules 7.1 and 7.1A is set out in Section 1.2 above.

The proposed issue of the Placement Options falls within exception 17 of Listing Rule 7.2. It therefore requires the approval of Shareholders under Listing Rule 7.1.

### **2.3 Technical information required by Listing Rule 14.1A**

If Resolution 2 is passed, the Company will be able to proceed with the issue of the Placement Options. In addition, the issue of the Placement Options will be excluded from the calculation of the number of equity securities that the Company can issue without Shareholder approval under Listing Rule 7.1.

If Resolution 2 is not passed, the Company will not be able to proceed with the issue of the Placement Options.

### **2.4 Technical information required by Listing Rule 7.1**

Pursuant to and in accordance with Listing Rule 7.3, the following information is provided in relation to Resolution 2:

- (a) the Placement Options will be issued to the Placement Participants (or their nominee/s). the Placement Participants, who are professional

and sophisticated investors who are clients of EverBlu Capital. The Placement Participants were identified through a bookbuild process, which involved EverBlu Capital seeking expressions of interest to participate in the capital raising from non-related parties of the Company;

- (b) in accordance with paragraph 7.2 of ASX Guidance Note 21, the Company confirms that none of the recipients will be:
  - (i) related parties of the Company, members of the Company's Key Management Personnel, substantial holders of the Company, advisers of the Company or an associate of any of these parties; and
  - (ii) issued more than 1% of the issued capital of the Company
- (c) the maximum number of Placement Options to be issued is 23,684,211;
- (d) the terms and conditions of the Placement Options are set out in Schedule 1. Subject to compliance with the Listing Rules, the Company intends to apply for quotation of the Placement Options. The Placement Options will only be quoted when all the requirements of Listing Rule 2.5 (condition 6) are met;
- (e) the Placement Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules) and it is intended that issue of the Placement Options will occur on the same date;
- (f) the purpose of the issue of the Placement Options is to satisfy the Company's obligations under the Placement. The issue price of the Placement Options will be nil as they will be issued free attaching with the Shares issued pursuant to the Placement (on the basis of one Placement Option for every four Shares subscribed for and issued). Accordingly, no funds will be raised from the issue of the Placement Options;
- (g) the Placement Options are not being issued under an agreement; and
- (h) the Placement Options are not being issued under, or to fund, a reverse takeover.

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### 3. BACKGROUND TO RESOLUTIONS 3 TO 7

#### 3.1 General

As announced on 25 October 2021, the Company has entered into an asset purchase agreement with ImpACTIVE Holdings Ltd (a corporation incorporated in Canada) (**ImpACTIVE**) pursuant to which the Company will acquire the brand and product portfolio assets owned by ImpACTIVE (the **ImpACTIVE Assets**) through a newly incorporated subsidiary of the Company, Creso ImpACTIVE Ltd (**ImpACTIVE Agreement**). The acquisition of the IMPACTIVE Assets completed on 25 October 2021. A summary of the material terms of the ImpACTIVE Agreement are set out in Section 3.2.

With effect from completion of the acquisition of the ImpACTIVE Assets, ImpACTIVE's co-founders Brett Ayers and Kevin Tansey entered into employment

agreements with Creso ImpACTIVE Ltd (each, an **Employment Agreement**). A summary of the material terms of the Employment Agreements is set out in Section 3.3.

### 3.2 ImpACTIVE Agreement

A summary of the material terms of the ImpACTIVE Agreement are set out below

<b>Acquisition</b>	ImpACTIVE agreed to sell, transfer, assign, convey and deliver to Creso ImpACTIVE Ltd ( <b>Creso ImpACTIVE</b> ) and Creso ImpACTIVE agrees to purchase all right, title and interest in the brand and product portfolio of ImpACTIVE ( <b>ImpACTIVE Assets</b> ), and all intellectual property, goodwill, client base, website and media related to ImpACTIVE.
<b>Consideration</b>	<p>In consideration for the Acquisition, the Company agreed to issue ImpACTIVE:</p> <ul style="list-style-type: none"> <li>(a) CAD\$200,000 worth of Shares based on the average closing price of Shares for the three trading days prior to the date of the ImpACTIVE Agreement (being 1,965,455 Shares) (<b>ImpACTIVE Shares</b>) to Brett Ayers and Kevin Tansey (or their nominee/s) (together, the <b>Founders</b>). The ImpACTIVE Shares were issued on 25 October 2021; and</li> <li>(b) Subject to ASX and Shareholder approval, an aggregate of 6,000,000 Performance Shares to the <b>Founders</b>, comprising: <ul style="list-style-type: none"> <li>(i) 3,000,000 Performance Shares which will convert into Shares at the election of the holder upon Creso ImpACTIVE reaching C\$20,000,000 in audited gross sales based on the US GAAP definition of gross sales (<b>First Milestone</b>), at or prior to 25 October 2024 (<b>Class A Performance Shares</b>); and</li> <li>(ii) 3,000,000 Performance Shares which will convert into Shares at the election of the holder upon Creso ImpACTIVE achieving the First Milestone and upon Creso ImpACTIVE reaching an additional C\$20,000,000 in audited gross sales (being an aggregate amount of C\$40,000,000 in audited gross sales between 25 October 2021 and 25 October 2026 based on the US GAAP definition of gross sales (<b>Second Milestone</b>), at or prior to 25 October 2026 (<b>Class B Performance Shares</b>),</li> </ul> <p>(together, the <b>ImpACTIVE Performance Shares</b>).</p> <p>Creso ImpACTIVE must use Commercially Reasonable Efforts to achieve the First Milestone and the Second Milestone. Commercially Reasonable Efforts means reasonable, diligence, good-faith efforts to accomplish the requirement or objective which efforts shall not be less than the efforts that other similarly situated companies would normally use to accomplish a similar requirement or</p> </li> </ul>

	objective under similar circumstances exercising reasonable business judgement, and with respect to development or commercialisation objectives, for a product owned by it or to which it has rights, that is of similar overall market potential and that is at a similar stage in its product lifecycle, taking into account, the competitiveness of the marketplace, the proprietary position of the product, the regulatory structure involved, the profitability of the product and other relevant factors.
<b>Other Terms</b>	The ImpACTIVE Agreement otherwise contains provisions considered standard for an agreement of this nature (including representations and warranties).

### 3.3 Employment Agreements

	<b>Brett Ayers</b>	<b>Kevin Tansey</b>
<b>Position</b>	General Manager – ImpACTIVE Division	Director of Sales – ImpACTIVE Division
<b>Condition Precedent</b>	<p>The employment (and continued employment) is conditional upon:</p> <p>(a) receipt and maintenance of any necessary security clearance, as and when required pursuant to the The Cannabis Act and any other applicable laws related to the employment;</p> <p>(b) a criminal record check satisfactory to Creso; and</p> <p>(c) the maintenance for eligibility to work in Canada.</p>	
<b>Term</b>	36 months from 25 October 2021	
<b>Base Salary</b>	CAD\$100,000 per annum.	CAD\$80,000 per annum.
<b>Incentive Remuneration</b>	<p>(a) Annual discretionary bonus of 50% - 100% of Base Salary (as noted above) as determined by the Board or remuneration committee; and</p> <p>(b) 500,000 Options on the terms and conditions set out in Schedule 3. These Options were issued on 25 October 2021 pursuant to the Company's available placement capacity under Listing Rule 7.1.</p>	
<b>Termination</b>	If termination is effected early by the Company without cause, the Company must provide six weeks' notice of termination or payment in lieu.	
<b>Other Terms</b>	The Employment Agreements otherwise contains provisions considered standard for an agreement of this nature (including representations and warranties and confidentiality provisions).	

### 3.4 Summary of Resolutions

Pursuant to this Notice, the Company is seeking:

- (a) Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the ImpACTIVE Shares pursuant to Resolution 3;

- (b) Shareholder approval for the purposes of Listing Rule 7.1 for the issue of the ImpACTIVE Performance Shares pursuant to Resolution 4;
- (c) Shareholder approval for the purposes of section 246B of the Corporations Act for the creation of a new class of securities, being the Performance Shares pursuant to Resolution 5; and
- (d) Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the Employee Options pursuant to Resolutions 6 and 7.

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#### **4. RESOLUTION 3 – RATIFICATION OF PRIOR ISSUE OF CONSIDERATION SHARES**

##### **4.1 General**

Resolution 3 seeks Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the ImpACTIVE Shares.

##### **4.2 Listing Rules 7.1 and 7.1A**

A summary of Listing Rules 7.1 and 7.1A is set out in Section 1.2 above.

The issue of the ImpACTIVE Shares does not fit within any of the exceptions set out in Listing Rule 7.2 and, as it has not yet been approved by Shareholders, it effectively uses up part of the 15% limit in Listing Rule 7.1, reducing the Company's capacity to issue further equity securities without Shareholder approval under Listing Rule 7.1 for the 12 month period following the date of issue of the ImpACTIVE Shares.

##### **4.3 Listing Rule 7.4**

Listing Rule 7.4 allows the shareholders of a listed company to approve an issue of equity securities after it has been made or agreed to be made. If they do, the issue is taken to have been approved under Listing Rule 7.1 and so does not reduce the company's capacity to issue further equity securities without shareholder approval under that rule.

The Company wishes to retain as much flexibility as possible to issue additional equity securities in the future without having to obtain Shareholder approval for such issues under Listing Rule 7.1. Accordingly, the Company is seeking Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the ImpACTIVE Shares.

##### **4.4 Technical information required by Listing Rule 14.1A**

If Resolution 3 is passed, the ImpACTIVE Shares will be excluded in calculating the Company's combined 25% limit in Listing Rules 7.1 and 7.1A, effectively increasing the number of equity securities the Company can issue without Shareholder approval over the 12 month period following the date of issue of the ImpACTIVE Shares.

If Resolution 3 is not passed, the ImpACTIVE Shares will be included in calculating the Company's 15% limit in Listing Rule 7.1, effectively decreasing the number of equity securities that the Company can issue without Shareholder approval over the 12 month period following the date of issue of the ImpACTIVE Shares.



#### **4.5 Technical information required by Listing Rule 7.5**

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to Resolution 3:

- (a) the ImpACTIVE Shares were issued to the Founders, comprising of:
  - (i) 982,728 Impactive Shares to Brett Ayers (or his nominees); and
  - (ii) 982,727 Impactive Shares to Kevin Tansey (or his nominees);
- (b) 1,965,455 ImpACTIVE Shares were issued and the ImpACTIVE Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (c) the ImpACTIVE Shares were issued on 25 October 2021;
- (d) the ImpACTIVE Shares were issued at a nil issue price, in consideration for the acquisition of the ImpACTIVE Assets. The Company has not and will not receive any other consideration for the issue of the ImpACTIVE Shares;
- (e) the purpose of the issue of the ImpACTIVE Shares is to satisfy the Company's obligations under the ImpACTIVE Agreement; and
- (f) the ImpACTIVE Shares are being issued under the ImpACTIVE Agreement, a summary of the material terms of which is set out in Section 3.2.

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### **5. RESOLUTION 4 – APPROVAL TO ISSUE PERFORMANCE SHARES**

#### **5.1 General**

Resolution 4 seeks Shareholder approval for the purposes of Listing Rule 7.1 for the issue of the ImpACTIVE Performance Shares.

#### **5.2 Listing Rules 7.1 and 7.1A**

A summary of Listing Rules 7.1 and 7.1A is set out in Section 1.2 above.

The proposed issue of the ImpACTIVE Performance Shares falls within exception 17 of Listing Rule 7.2. It therefore requires the approval of Shareholders under Listing Rule 7.1.

#### **5.3 Technical information required by Listing Rule 14.1A**

If Resolution 4 is passed, the Company will be able to proceed with the issue of the ImpACTIVE Performance Shares. In addition, the issue of the ImpACTIVE Performance Shares will be excluded from the calculation of the number of equity securities that the Company can issue without Shareholder approval under Listing Rule 7.1.

If Resolution 4 is not passed, the Company will not be able to proceed with the issue of the ImpACTIVE Performance Shares and the Company may be considered in breach of contract.

#### **5.4 Technical information required by Listing Rule 7.1**

Pursuant to and in accordance with Listing Rule 7.3, the following information is provided in relation to Resolution 4:

- (a) the ImpACTIVE Performance Shares will be issued to the Founders (or their nominee/s);
- (b) the maximum number of ImpACTIVE Performance Shares to be issued is 6,000,000. The terms and conditions of the ImpACTIVE Performance Shares are set out in Schedule 2;
- (c) the ImpACTIVE Performance Shares will be issued no later than three months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules) and it is intended that issue of the ImpACTIVE Performance Shares will occur on the same date;
- (d) the ImpACTIVE Performance Shares will be issued at a nil issue price, in part consideration for the acquisition of the ImpACTIVE Assets;
- (e) the purpose of the issue of the ImpACTIVE Performance Shares is to satisfy the Company's obligations under the ImpACTIVE Agreement;
- (f) the ImpACTIVE Performance Shares are being issued to the Founders under the ImpACTIVE Agreement. A summary of the material terms of the ImpACTIVE Agreement is set out in Section 3.2; and
- (g) the ImpACTIVE Performance Shares are not being issued under, or to fund, a reverse takeover.

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## **6. RESOLUTION 5 – CREATION OF NEW CLASS OF SECURITIES – PERFORMANCE SHARES**

Resolution 5 seeks Shareholder approval for the Company to be authorised to create the necessary class of and issue the Performance Shares.

A company with a single class of shares on issue which proposes to issue new shares not having the same rights as its existing shares, is taken to vary the rights of existing shareholders unless the Constitution already provides for such an issue.

Under clause 2.2 of the Company's Constitution and, subject to the Corporations Act and the Listing Rules, the Company may issue Shares on any terms and for any consideration as the Directors resolve.

Section 246B of the Corporations Act and clause 2.4 of the Constitution provides that the rights attaching to a class of shares may be varied:

- (a) with the written consent of the holders of 75% of the issued shares of the affected class; or
- (b) by special resolution passed at a separate meeting of the holders of the issued shares of the affected class.

Pursuant to the ImpACTIVE Agreement, the Company has agreed to issue up to 6,000,000 Performance Shares, on the terms and conditions set out in Schedule 2.

The Company currently has only one class of shares on issue being fully paid ordinary shares. The terms of the Performance Shares are not the same as the Shares. Accordingly, the Company seeks approval from Shareholders for the issue of the Performance Shares.

Resolution 5 is a special resolution and is subject to and conditional to the passing of Resolution 4. Accordingly, at least 75% of votes cast by Shareholders present

and eligible to vote at the Meeting must be in favour of Resolution 5 for it to be passed.

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## **7. RESOLUTIONS 6 AND 7 – RATIFICATION OF PRIOR ISSUE OF EMPLOYEE OPTIONS**

### **7.1 General**

Resolutions 6 and 7 seek Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the Employee Options.

### **7.2 Listing Rules 7.1 and 7.1A**

A summary of Listing Rules 7.1 and 7.1A is set out in Section 1.2 above.

The issue of the Employee Options does not fit within any of the exceptions set out in Listing Rule 7.2 and, as it has not yet been approved by Shareholders, it effectively uses up part of the 15% limit in Listing Rule 7.1, reducing the Company's capacity to issue further equity securities without Shareholder approval under Listing Rule 7.1 for the 12 month period following the date of issue of the Employee Options.

### **7.3 Listing Rule 7.4**

A summary of Listing Rule 7.4 is set out in Section 4.3 above.

The Company wishes to retain as much flexibility as possible to issue additional equity securities in the future without having to obtain Shareholder approval for such issues under Listing Rule 7.1. Accordingly, the Company is seeking Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the Employee Options.

### **7.4 Technical information required by Listing Rule 14.1A**

If Resolutions 6 and 7 are passed, the Employee Options will be excluded in calculating the Company's combined 25% limit in Listing Rules 7.1 and 7.1A, effectively increasing the number of equity securities the Company can issue without Shareholder approval over the 12 month period following the date of issue of the Employee Options.

If Resolutions 6 and 7 are not passed, the Employee Options will be included in calculating the Company's 15% limit in Listing Rule 7.1, effectively decreasing the number of equity securities that the Company can issue without Shareholder approval over the 12 month period following the date of issue of the Employee Options.

### **7.5 Technical information required by Listing Rule 7.5**

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to Resolutions 6 and 7:

- (a) the Employee Options were issued to the following persons:
  - (i) Brett Ayers (the subject of Resolution 6); and
  - (ii) Kevin Tansey (the subject of Resolution 7);
- (b) 1,000,000 Employee Options were issued comprising:

- (i) 500,000 Employee Options issued to Brett Ayers (the subject of Resolution 6); and
  - (ii) 500,000 Employee Options issued to Kevin Tansey (the subject of Resolution 7).
- (c) the Employee Options were issued on the terms and conditions set out in Schedule 3;
  - (d) the Employee Options were issued on 25 October 2021;
  - (e) the Employee Options were issued at a nil issue price, as part of Brett Ayers and Kevin Tansey's remuneration packages under the Employment Agreements. The Company has not and will not receive any other consideration for the issue of the Employee Options (other than in respect of funds received on exercise of the Employee Options);
  - (f) the purpose of the issue of the Employee Options was to satisfy the Company's obligations under the Employment Agreements; and
  - (g) the Employee Options were issued to Brett Ayers and Kevin Tansey under the Employment Agreements. A summary of the material terms of the Employment Agreements is set out in Section 3.3.

## 8. RESOLUTION 8 – RATIFICATION OF PRIOR ISSUE OF OPTIONS TO ODEON NOMINEES

### 8.1 General

On 31 August 2021, the Company issued 24,000,000 Options to Edward Sugar, Rogier de la Rambelje and Matthew Bonner as nominees of the nominees of Odeon Capital Group LLC (**Odeon Nominees**) (**Odeon Options**), in consideration for advisory services provided by EAS pursuant to the consultancy agreement entered into between Odeon, EAS and the Company on 1 September 2021 (**Odeon Agreement**).

A summary of the material terms of the Odeon Agreement is set out below.

<b>Consulting Services</b>	<p>The Company agrees to retain EAS, acting through Odeon to provide general corporate advice and guidance and strategic services as the Company may reasonably request of Odeon from time to time, comprising of:</p> <ul style="list-style-type: none"> <li>(a) strategy and consultation on investor relations;</li> <li>(b) advice on general corporate issues and participation in strategic planning;</li> <li>(c) assisting with the preparation and review of marketing documentation and market announcements;</li> <li>(d) introductions to equity research providers in order to secure analyst coverage (both paid and regular);</li> <li>(e) advice and counsel with respect to equity capital markets;</li> </ul>
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	<p>(f) introduction to potential strategic investors and assist in generating investor awareness (USA, Australia, Asia and Europe);</p> <p>(g) assist with financial modelling, presentation preparation and external data room maintenance,</p> <p>(together, the <b>Consulting Services</b>).</p>
<b>Consideration</b>	In consideration for the Consulting Services, the Company agrees to pay a monthly retainer of US\$12,000 per month and issue of 24,000,000 options on the terms and conditions set out in Schedule 4.
<b>Term</b>	The Odeon Agreement commenced on 1 September 2021 and continue for a period of twelve (12) months ( <b>Initial Term</b> ). Upon conclusion of the Initial Term (or any Renewal Term), all provisions of the Odeon Agreement will, subject to written agreement of the parties, renew for a successive twelve (12) month period (each, a <b>Renewal Term</b> ).
<b>Termination</b>	Notwithstanding the above, either party may unilaterally terminate the Odeon Agreement at any time on three (3) months' written notice to the Party.
<b>Other Terms</b>	The Odeon Agreement otherwise contains provisions considered standard for an agreement of this nature (including representations and warranties).

Resolution 8 seeks Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the Odeon Options.

## 8.2 Listing Rules 7.1 and 7.1A

A summary of Listing Rules 7.1 and 7.1A is set out in Section 1.2 above.

The issue of the Odeon Options does not fit within any of the exceptions set out in Listing Rule 7.2 and, as it has not yet been approved by Shareholders, it effectively uses up part of the 15% limit in Listing Rule 7.1, reducing the Company's capacity to issue further equity securities without Shareholder approval under Listing Rule 7.1 for the 12 month period following the date of issue of the Odeon Options.

## 8.3 Listing Rule 7.4

A summary of Listing Rule 7.4 is set out in Section 4.3 above.

The Company wishes to retain as much flexibility as possible to issue additional equity securities in the future without having to obtain Shareholder approval for such issues under Listing Rule 7.1. Accordingly, the Company is seeking Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the Odeon Options.

## 8.4 Technical information required by Listing Rule 14.1A

If Resolution 8 is passed, the Odeon Options will be excluded in calculating the Company's combined 25% limit in Listing Rules 7.1 and 7.1A, effectively increasing the number of equity securities the Company can issue without Shareholder

approval over the 12 month period following the date of issue of the Odeon Options.

If Resolution 8 is not passed, the Odeon Options will be included in calculating the Company's 15% limit in listing Rule 7.1, effectively decreasing the number of equity securities that the Company can issue without Shareholder approval over the 12 month period following the date of issue of the Odeon Options.

## 8.5 Technical information required by Listing Rule 7.5

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to Resolution 8:

- (a) the Odeon Options were issued to the Odeon Nominees, comprising of:
  - (i) 18,000,000 Odeon Options to Edward Sugar;
  - (ii) 2,400,000 Odeon Options to Rogier de la Rambelje; and
  - (iii) 3,600,000 Odeon Options to Matthew Bonner;
- (b) 24,000,000 Odeon Options were issued and the Odeon Options were issued on the terms and conditions set out in Schedule 4;
- (c) the Odeon Options were issued on 31 August 2021;
- (d) the Odeon Options were issued at a nil issue price, in consideration for advisory services provided by Odeon under the corporate advisory mandate entered into between EAS and the Company (**EAS Mandate**). The Company has not and will not receive any other consideration for the issue of the Odeon Options (other than in respect of funds received on exercise of the Odeon Options);
- (e) the purpose of the issue of the Odeon Options was to satisfy the Company's obligations under the EAS Mandate; and
- (f) the Odeon Options were issued to the Odeon Nominees under the EAS Mandate. A summary of the material terms of the EAS Mandate is set out in Section 8.1.

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## 9. RESOLUTION 9 – RATIFICATION OF PRIOR ISSUE OF SHARES TO WILLIAM LAY

### 9.1 General

On 2 September 2021, the Company, William Lay and Noble House Consulting Ltd (**Consultant**) entered into a consultancy services agreement to govern the terms on which at that point, Mr Lay was engaged as Executive Vice President (Strategy, Origination and Operations) of the Company (**Consultancy Agreement**).

A summary of the material terms of the Consultancy Agreement is set out below.

<b>Position</b>	<b>Executive Vice President – Strategy, Origination and Operations</b>
<b>Term</b>	4 years
<b>Base Remuneration</b>	CAD\$350,000 per annum

<b>Non Cash Benefits</b>	<p>Subject to compliance with the ASX Listing Rules and the Corporations Act, the Company agreed to issue to Mr Lay (or his nominee) the following securities within ten (10) business days of the effective date of the Consultancy Agreement:</p> <ul style="list-style-type: none"> <li>(a) 5,000,000 Shares (<b>Consultancy Shares</b>);</li> <li>(b) 15,000,000 Performance Rights; and</li> <li>(c) 20,000,000 Options.</li> </ul> <p>The securities were issued on 6 September 2021.</p>
<b>Termination by the Company</b>	<p>The Company may terminate the Consultancy Agreement, by giving notice effective immediately where:</p> <ul style="list-style-type: none"> <li>(a) the Consultant goes into liquidation or makes a composition or arrangement with creditors or takes advantage of any statute for the relief of insolvent debtors; or</li> <li>(b) if at any time Mr Lay or the Consultant is convicted of a major criminal offence, commits any serious or persistent breach of the Consultancy Agreement that is not remedied in 14 days, breaches the price sensitive information clause of the agreement, in the reasonable opinion of the Board, is absent in or demonstrates incompetence with regard to the performance of duties under the agreement, is guilty of any grave misconduct or wilful neglect, or is unsound of mind.</li> </ul> <p>The Company may terminate the Consultancy Agreement without cause, by giving 2 months notice to the Consultant.</p>
<b>Termination by the Consultant</b>	<p>The Consultant may terminate the Consultancy Agreement effective immediately, where the Company has materially breached the agreement and has not remedied the breach within 60 business days of receipt of written notice to do so.</p> <p>The Consultant may terminate the Consultancy Agreement without cause, by giving 2 months notice to the Company, which the Company can elect to be effective immediately.</p>
<b>Other Terms</b>	<p>The Consultancy Agreement otherwise contains provisions considered standard for an agreement of this nature (including representations and warranties and confidentiality provisions).</p>

For avoidance of doubt, Mr Lay recently became the CEO of the Company. Details and edits to the material terms of Mr Lay's engagement are set out in the announcement released on 17 January 2022.

Resolution 9 seeks Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the Consultancy Shares.

## 9.2 Listing Rules 7.1 and 7.1A

A summary of Listing Rules 7.1 and 7.1A is set out in Section 1.2 above.

The issue of the Consultancy Shares does not fit within any of the exceptions set out in Listing Rule 7.2 and, as it has not yet been approved by Shareholders, it effectively uses up part of the 15% limit in Listing Rule 7.1, reducing the Company's

capacity to issue further equity securities without Shareholder approval under Listing Rule 7.1 for the 12 month period following the date of issue of the Consultancy Shares.

### **9.3 Listing Rule 7.4**

A summary of Listing Rule 7.4 is set out in Section 4.3 above.

The Company wishes to retain as much flexibility as possible to issue additional equity securities in the future without having to obtain Shareholder approval for such issues under Listing Rule 7.1. Accordingly, the Company is seeking Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the Consultancy Shares.

### **9.4 Technical information required by Listing Rule 14.1A**

If Resolution 9 is passed, the Consultancy Shares will be excluded in calculating the Company's combined 25% limit in Listing Rules 7.1 and 7.1A, effectively increasing the number of equity securities the Company can issue without Shareholder approval over the 12 month period following the date of issue of the Consultancy Shares.

If Resolution 9 is not passed, the Consultancy Shares will be included in calculating the Company's 15% limit in Listing Rule 7.1, effectively decreasing the number of equity securities that the Company can issue without Shareholder approval over the 12 month period following the date of issue of the Consultancy Shares.

### **9.5 Technical information required by Listing Rule 7.5**

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to Resolution 9:

- (a) the Consultancy Shares were issued to William Lay;
- (b) 5,000,000 Consultancy Shares were issued and the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (c) the Consultancy Shares were issued on 6 September 2021;
- (d) the Consultancy Shares were issued at a nil issue price, as a non-cash benefit in relation to Mr Lay's appointment as Executive Vice President of Strategy, Origination and Operations. For avoidance of doubt, Mr Lay recently became the CEO of the Company. Details and edits to the material terms of Mr Lay's engagement are set out in the announcement released on 17 January 2022.
- (e) The Company has not and will not receive any other consideration for the issue of the Consultancy Shares;
- (f) the purpose of the issue of the Consultancy Shares was to satisfy the Company's obligations under the Consultancy Agreement; and
- (g) the Consultancy Shares were issued to Mr Lay under the Consultancy Agreement. A summary of the material terms of the Consultancy Agreement is set out in Section 9.1.



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## 10. RESOLUTION 10 – APPROVAL OF ISSUE OF SECURITIES – SECTION 611 (ITEM 7) OF THE CORPORATIONS ACT

### 10.1 Background

On 3 February 2022, the Company announced it had entered into a membership interest purchase agreement (**Purchase Agreement**) to acquire Colorado based consumer packaged goods company, Sierra Sage Herbs, LLC (**Sierra**) (**Acquisition**).

Under the Purchase Agreement, the Company has agreed to issue the New Shares, as consideration for 100% of the share capital of Sierra (**Issue**). The New Shares comprise of the Consideration Shares, Milestone 1 Shares and Milestone 2 Shares.

358,069,697 Consideration Shares will be issued to the Vendors which is equal to USD\$21 million based on a 10-day volume weighted average price as at the date of execution of the Purchase Agreement, being \$0.083, and the Australian dollars to United State dollars exchange rate (**Exchange Rate**) as at the date of closing, assumed to be \$0.7066 (**Consideration Shares**). Subject to the date of closing, the number of Consideration Shares may change because of a change in the Exchange Rate.

The number of Milestone 1 Shares to be issued is subject to the following milestones being met:

- (a) US\$15 million worth of Shares upon the CY2022 revenues generated by Sierra are at least US\$10 million, and an adjusted EBITDA margin of > -10% is achieved; or
- (b) US\$11.25 million worth of Shares upon CY2022 revenues generated by Sierra are at least US\$8.5m, and an adjusted EBITDA margin of > -7% is achieved, (being 75% of the maximum milestone payment available); or
- (c) US\$7.5 million worth of Shares upon the CY2022 revenues generated by Sierra are at least US\$7.5m, and an adjusted EBITDA margin of > -5.5% is achieved, (being 50% of the maximum milestone payment available),

(together, **Milestone 1**).

The number of Milestone 2 Shares to be issued is subject to the following milestones being met:

- (a) US\$23.5 million worth of Shares upon the CY2023 revenues generated by Sierra are at least US\$20 million, and a positive adjusted EBITDA margin is achieved; or
- (b) US\$17.625m worth of Shares upon the CY2023 revenues generated by Sierra are at least US\$17.5m, and a positive adjusted EBITDA margin is achieved, (being 75% of the maximum milestone payment available); or
- (c) US\$11.75m worth of Shares upon the CY2023 revenues generated by Sierra are at least US\$15m, and a positive adjusted EBITDA margin is achieved (being 50% of the maximum milestone payment available),

(together, **Milestone 2**).

The Milestone 1 Shares and Milestone 2 Shares will be calculated based upon the higher of the 10-day volume weighted average price of the Shares as of one (1) day prior to calculating the relevant Milestone, or, \$0.02 and the Exchange Rate as at two (2) days prior to the date of calculating Milestone 1 or Milestone 2.

At the sole discretion of the Company, it may elect to pay cash instead of issuing the Milestone 1 Shares or the Milestone 2 Shares.

For the purpose of this Notice, the maximum number of Milestone 1 Shares and Milestone 2 Shares to be issued has been calculated using an issue price of \$0.02 per Share and the Exchange Rate as \$0.7066 as set out in the Independent Expert Report.

## **10.2 General**

Resolution 10 seeks Shareholder approval for the purpose of Item 7 of section 611 of the Corporations Act to allow the Company to issue 358,069,697 Consideration Shares, up to 1,061,420,889 Milestone 1 Shares and up to 1,662,892,726 Milestone 2 Shares (**New Shares**) to the Vendors pursuant to the Purchase Agreement. The issue of the New Shares will result in the Vendors' voting power in the Company increasing from 0% to 70.4%.

Pursuant to ASX Listing Rule 7.2 (Exception 8) and ASX Listing Rule 10.11 (Exception 6), Listing Rule 7.1 and Listing Rule 10.11 do not apply to an issue of securities approved for the purpose of Item 7 of section 611 of the Corporations Act. Accordingly, if Shareholders approve the issue of securities pursuant to Resolution 10, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 and the additional 10% annual capacity set out in ASX Listing Rule 7.1A without the requirement to obtain prior Shareholder approval.

## **10.3 Item 7 of Section 611 of the Corporations Act**

### **(a) Section 606 of the Corporations Act – Statutory Prohibition**

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (i) from 20% or below to more than 20%; or
- (ii) from a starting point that is above 20% and below 90%.

**(Prohibition).**

### **(b) Voting Power**

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

### **(c) The Vendors' existing holdings in the Company**

The Vendors, either directly or through their controlled entities, currently hold the following Securities in the Company:

**Current holdings of the Vendors:**

Vendors	Shares	Options <sup>1</sup>	Voting Power
Bruce Linton	0	30,000,000	0%
Other Vendors <sup>2</sup>	0	0	0%
<b>TOTAL</b>	0	30,000,000	0%

**Notes:**

1. Unlisted Options exercisable at \$0.039 on or before 23 December 2025. Subject to future Shareholder approval, Mr Linton will be issued 10,000,000 Options exercisable at \$0.09 on or before 17 January 2022.
2. Includes the Vendors in Schedule 5, not including Bruce Linton.

**(d) Associates**

For the purposes of determining voting power under the Corporations Act, a person (**second person**) is an "associate" of the other person (**first person**) if:

- (i) (pursuant to section 12(2) of the Corporations Act) the first person is a body corporate and the second person is:
  - (A) a body corporate the first person controls;
  - (B) a body corporate that controls the first person; or
  - (C) a body corporate that is controlled by an entity that controls the person;
- (ii) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- (iii) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company's affairs.

Associates are, therefore, determined as a matter of fact. For example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the entity's business affairs.

**(e) Relevant Interests**

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (i) are the holder of the securities;
- (ii) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or

- (iii) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, section 608(3) of the Corporations Act provides that a person has a relevant interest in securities that any of the following has:

- (i) a body corporate in which the person's voting power is above 20%;
- (ii) a body corporate that the person controls.

**(f) Associates of the Vendors**

For the purposes of the Corporations Act, each Vendor is deemed to be an associate of each other Vendor for the period commencing on the execution of the Purchase Agreements and ending on Completion (together, the **Vendor Associates**).

**10.4 Reason Section 611 Approval is Required**

Item 7 of section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

Following the issue of the New Shares, the Vendors' voting power in the Company will increase from 0% to 70.4%. Each of the Vendors relevant interest in the New Shares in the Company are set out in Schedule 5. This assumes that no other Shares are issued (including by conversion of Performance Rights or exercise of Options).

Accordingly, Resolution 10 seeks Shareholder approval for the purpose of section 611 Item 7 and all other purposes to enable the Company to issue the New Shares to the Vendors.

Shareholder approval is required to enable these parties to acquire a relevant interest in the securities issued to the Vendors as their voting power in the Company could also increase above 20%.

**10.5 Specific Information required by section 611 Item 7 of the Corporations Act and ASIC Regulatory Guide 74**

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by BDO Corporate annexed to this Explanatory Statement.

**(a) Identity of the Acquirer and its Associates**

It is proposed that the Vendors will be issued the New Shares in accordance with the terms of the Purchase Agreement.

The names of the Vendors at the date of completion under the Purchase Agreement are set out in Schedule 5.

**(b) Relevant Interest and Voting Power**

The effect on the relevant interests and voting power of the Vendors as a result of the proposed issue of New Shares is set out in detail in Schedule 5.

**(c) Reasons for the proposed issue of securities**

As set out in section 10.1 of this Explanatory Statement, the reason for the issue of securities to the Vendors is to satisfy the Company's obligations under the Purchase Agreement.

**(d) Date of proposed issue of securities**

The New Shares the subject of Resolution 10 will be issued on a date after the Meeting to be determined by the Company and the Vendors.

**(e) Material terms of proposed issue of securities**

The Company is proposing to issue:

- (i) 358,069,697 Consideration Shares at a price of \$0.083 per Consideration Share;
- (ii) up to 1,061,420,889 Milestone 1 Shares at a price of \$0.02 per Milestone 1 Share; and
- (iii) up to 1,662,892,726 Milestone 2 Shares at a price of \$0.02 per Milestone 2 Share.

Further details on the calculation of the issue price are set out in Section 10.1 above.

BDO Corporate has not considered Milestone 1 and Milestone 2 as part of the fairness assessment, as it does not consider there to be reasonable grounds to assess the probability of Sierra meeting the earn out hurdles.

**(f) The Vendors' Intentions**

Other than as disclosed elsewhere in this Explanatory Statement, the Company understands that the Vendors:

- (i) have no present intention of making any significant changes to the business of the Company;
- (ii) have no present intention to inject further capital into the Company;
- (iii) have no present intention of making changes regarding the future employment of the present employees of the Company;
- (iv) do not intend to redeploy any fixed assets of the Company;
- (v) do not intend to transfer any property between the Company and the Vendors; and
- (vi) have no intention to change the Company's existing policies in relation to financial matters or dividends; and

- (vii) intend to appoint Jodi Scott to the Board as outlined in section 10.5(g) below.

These intentions are based on information concerning the Company, its business and the business environment which is known to the Vendors at the date of this document.

These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

**(g) Identity, associations and qualifications of Nominee Director**

In accordance with the terms of the Purchase Agreement, the Company will appoint Jodi Scott as an executive director and president of US Operations with effect promptly after the Closing Date (**Nominee Director**).

The Nominee Director is the co-founder and chief executive officer of Sierra.

The Nominee Director holds an MS in Health Psychology from Texas State University and prior to founding Sierra worked in private practice of her own helping chronically ill, sufferers of traumatic brain injury, and impoverished patients.

Jodi Scott holds a Bachelor of Science in Psychology and Biology and a Masters in Health Psychology from Texas State University. She was pre-med when she started her first company. After graduation she built multiple small businesses while working in private practice. Jodi founded Sierra with her sister and mother in 2009. In the decade that followed, Jodi Scott has led Sierra as the CEO and President of Sales. She built the company from the farmer's market to over 100K points of distribution while preserving their roots; making plant-based, lipid-infused, first aid topical therapeutics. She led over \$30 million in sales, established a strong logistics and manufacturing foundation, and worked with hundreds of retailers. Sierra was one of the first B Corps in the US. She has mentored businesses on FDA registration for natural companies and is a leader in plant-based solutions. Jodi has developed products for multiple international companies and retailers. She has served as the key business developer on an international board working to assist women refugees with economic development by helping them create small businesses. Jodi is passionate about applying science-based efficacy to plant-based solutions in one of the fastest growing sectors of CPG.

Neither the Nominee Director nor any of her associates currently holds or has a relevant interest in any Securities in the Company.

**(h) Interests and Recommendations of Directors**

- (i) The Directors recommend that Shareholders vote in favour of Resolution 10, other than Bruce Linton, a Director who abstains from making any recommendation on this Resolution on the basis that Bruce Linton is a Vendor and will also receive Shares in consideration for the Acquisition should Resolution 10 pass.

- (ii) The Company confirms that no other Director has a material personal interest in the outcome of this Resolution.
- (iii) The Directors are not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 10.

#### (i) **Capital Structure**

Below is a table showing the Company's current capital structure and the possible capital structure on completion of the Issue.

	Shares	Options	Performance Rights
Balance at the date of this Notice	1,296,392,953	634,777,624	17,399,000
Balance after Completion and Issue of the Consideration Shares	1,654,462,650	634,777,624	17,399,000
Balance after issue of the Milestone 1 Shares	2,715,883,539	634,777,624	17,399,000
Balance after issue of the Milestone 2 Shares	4,378,776,265	634,777,624	17,399,000

#### **Assumptions:**

- no additional Shares are issued (including by conversion of Performance Rights or exercise of Options) by the Company; and
- the New Shares have been calculated as set out in Section 10.1.

#### (j) **Substantial Holders**

Set out in Schedule 6 are details showing the Company's substantial holders as at the date of this Notice and upon completion of Issue. Further details of the Vendor's voting powers can be found in Schedule 5.

### **10.6 Advantages of the Issue – Resolution 10**

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 10:

- (a) Sierra has an established footprint, relationship with large retail groups and consumers which the Company will leverage as a platform to introduce its CBD product suite to US consumers;
- (b) the acquisition of Sierra will help facilitate the Company's entry into:
  - (i) the US CBD market and establishment of a strong foundation to rapidly scale up operations, product developments, sales and further merger & acquisition transactions; and

- (ii) jurisdictions where the sale of CBD products are restricted by introducing Sierra's non-CBD products to build a rapport and relationship with future partners that may result in the Company positioning itself as a trusted counterparty to sell CBD products if and when the CBD regulations ease in the certain jurisdictions;
- (c) the acquisition of Sierra will provide the Company with the opportunity to further scale sales growth, with Sierra covering 110,000 points of sale established with key US retailers which includes, AAFES (Army & Air Force Exchange Service), CVS, Walgreens, Rite Aid, Albertsons Companies, Walmart and AmazonUS amongst others;
- (d) Sierra has an extensive presence through ecommerce channels currently reaching 145,000 direct to customer relationships in America and international markets;
- (e) Sierra has a manufacturing partner which the Company intends to utilise for ImpACTIVE and Swiss products to lower lead time on orders, create favourable minimum order quantities and streamline the supply chain for US sales;
- (f) Sierra has scaled a novel method for extraction, the lipid infusion process. This process is more "natural" than incumbents and can be utilized for CBD products as well, replacing ethanol or carbon dioxide extraction which is a point of differentiation and a value driver. The lipid infusion process preserves the integrity of the plant, known as the entourage effect, allowing additional plant properties such as terpenes and chlorophyll to contribute to the overall efficacy and product performance. This waterless process is also shown to be more sustainable and eco-friendly;
- (g) upon completion of the Acquisition the Company will have an established operating subsidiary in the US, which is anticipated to help the Company swiftly capitalise on any legislative changes regarding the use of recreational cannabis on a federal level that may occur;
- (h) the cash reserves of the Company will be conserved as the consideration for the Acquisition is comprised of Shares; and
- (i) BDO Corporate has concluded that the issue of the New Shares is **NOT FAIR BUT REASONABLE**.

## 10.7 Disadvantages of the Issue – Resolution 10

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 10:

- (a) the issue of the New Shares to the Vendors will increase the voting power of the Vendors from 0% to 70.4% reducing the voting power of non-associated Shareholders in aggregate from 100% to 29.6%. Set out in Schedule 7 is a table summarising the change of the shareholdings in the Company by the Vendors before and after the issue of the New Shares;
- (b) the Company will be responsible for meeting 100% of the funding required for all capital and operating expenditure of Sierra. The Company anticipates that it will inject up to \$3,000,000 to implement its plan to reach profitability based on internal projections of the Sierra business. As at



the date of this Notice, the Company has already provided \$2,300,000. The company does not anticipate that it will need to undertake further capital raising for the final \$700,000, which will be paid from existing cash reserves;

- (c) on 8 June 2021, Sierra was named as a defendant in a trademark dispute with Garcoa, Inc (**Garcoa**). Garcoa claims it adopted Blue Goo as a trademark and promoted it throughout the US long before Sierra started to manufacture, identify, distribute and advertise its product under the trademark Green Goo. Furthermore, Garcoa claims the trademark used by Sierra wrongfully appropriates the Blue Goo trademark.

Garcoa is seeking judgement to stop the use of the Green Goo trademark, to destroy all materials with the trademark, to pay damages of USD\$100,000 and to restitute all profits realised from the trademark, to Garcoa.

Litigation proceedings are currently ongoing in the California Central District Court. However, Creso Pharma has been advised after undertaking legal due diligence, that the exposure to liability in respect of this claim is limited;

- (d) future outlays of funds from the Company may be required for its proposed business operations; and
- (e) acquiring Sierra will expose the Company to additional risks and include, among others:
  - (i) litigation risks are noted in Section 10.7(c);
  - (ii) an uncertain regulatory environment subject to change;
  - (iii) an unclear future in the US hemp regulation;
  - (iv) risk relating to compliance with legal, regulatory and industry standards;
  - (v) an uncertainty in the future designation of cannabinoids; and
  - (vi) an uncertainty in the US Food and Drug Administrations interpretation of the regulation resulting in enforcement actions;

## 10.8 Independent Expert's Report – Resolution 10

The Independent Expert's Report prepared by BDO Corporate (a copy of which is attached as Annexure A to this Explanatory Statement) assesses whether the transactions contemplated by Resolution 10 are fair and reasonable to the non-associated Shareholders of the Company.

The Independent Expert's Report concludes that the transactions contemplated by Resolution 10 are **NOT FAIR BUT REASONABLE** to the non-associated Shareholders of the Company.

The Independent Expert notes that the key advantages of the proposal raised in Resolution 10 to the Company and existing Shareholders are as follows:

**(a) Entry into the US market**

The Company will acquire an established US company with existing relationships in the US market. This will provide the Company with a platform to enter the US market, as Sierra currently has over 110,000 points of sale, with its products being sold across large retailers such as Whole Foods, Amazon, Target and Kroger. Further, US cannabis market currently has an inconsistent regulatory environment, where legislation is commonly dissimilar across national and state governments. Having a US operating subsidiary will allow the Company to better act on any future regulatory changes in the US, specifically regarding the legalisation of THC products, should they arise.

By acquiring Sierra, Shareholders will gain access to a large and established CBD market, which may come with the benefit of greater product recognition, more analyst coverage, a deeper market understanding and stronger investor interest.

**(b) Access to Sierra's existing network and supply chain**

Approval of the Acquisition will gain the Company access to Sierra's existing networks, relationships and supply chain. Sierra currently sources raw materials only from approved vendors, has access to an FDA approved facility operating under US goods manufacturing practices, and distributes its products through large retailers and its e-commerce website. Following the Acquisition, Sierra will market and distribute the Company's flagship CannaQIX®50 lozenge product under its Good Goo brand, providing the Company with an opportunity to immediately generate revenue through Sierra's existing network.

Management of Sierra has advised that its proprietary lipid-infusion process allows for greater production efficiencies, as it is being undertaken at all times. As a result of this, Sierra experiences lower minimum order quantities and reduced lead times in production. Access to this will provide the Company with a production location for swift integration into the US market, and potentially allow for the development of additional the Company products using Sierra's proprietary processes.

Further, the Company is hoping to grow its ImpACTIVE product offering through the marketing of its products through Sierra's existing channels of distributors. If successfully implemented, the Company will be able to manufacture ImpACTIVE products at Sierra's existing facility in the US, to then sell the products through its distribution channels, streamlining the sales process and potentially leading to savings as the products would not need to be manufactured outside the US.

**(c) Diversification of product offering**

The Company specialises in the development and commercialisation of hemp and cannabis products. More specifically, the Company produces CBD-based therapeutic and nutraceutical products to the global market. Additionally, through its wholly owned subsidiary, Halucenex, the Company is involved in the psychedelic drug market, currently testing the efficacy of psilocybin for use in treatment resistant post traumatic stress disorder.

Following the Acquisition, the Company will acquire a cash generating unit that is not principally dependent on the production and sale of drug

based products. Sierra's Green Goo and Southern Butter brands produce non-CBD wellness products, such as sanitizers, hand soap, natural skin care, deodorant, body butters, massage oils and pet products, which currently account for approximately 83% of the revenue generated by Sierra. This allows for a diversification in product offering for the Company and will also allow for the sale of Sierra's non-CBD products to existing partners that were previously unable to sell the Company's products due to CBD regulations.

Exposure to a suite of non-CBD based wellness products may diversify away part of the industry specific risk associated with holding Shares in a company that only sells cannabis or psychedelic drug based products.

**(d) Increased experience and broader expertise of the board of directors and management team of the Company**

If the Acquisition is approved by Shareholders, Jodi Scott will join the Board. The addition of Jodi Scott to the board provides the Company with an individual with extensive experience in the US market, having been primarily responsible for the strategic direction of Sierra since 2008, overseeing Sierra's sales of approximately US\$30 million over the period.

The management team of Sierra has progressed it to its current position, however in the event that the Acquisition is approved, Sierra will have the benefit of having access to a broader management team with a more diversified set of credentials and experience.

**(e) Acquiring Sierra through the issue of equity rather than cash will not have a negative impact on the Company's working capital**

Approval of the Acquisition means that the Company will issue an estimated 358,069,697 Shares as part of the consideration. An alternative strategy may be to enter into an acquisition agreement where the Company would pay cash to acquire another entity, which would impact the Company's working capital position.

Should Sierra not satisfy the performance hurdles of Milestone 1 and Milestone 2, the Company will not be required to pay any additional consideration to the Vendors as part of the Acquisition. However, if Sierra does satisfy the performance hurdles of Milestone 1 and Milestone 2, the Company may elect, at its sole discretion to settle the payments in either cash or the Company scrip. As such, should the Company elect to issue Shares to settle Milestone 1 and Milestone 2, its working capital position will not be negatively impacted.

The key disadvantages noted by the Independent Expert are as follows:

**(a) Dilution to Shareholders' interests**

The issue of Shares as part of the Acquisition is dilutive to current Shareholders.

**(b) Restrictions of special resolutions**

Following the Proposed Transaction, should Sierra satisfy any of the earn-out hurdles across 2022 or 2023, the Vendors of Sierra will likely hold more than a 25% shareholding in the Company. As such, the Vendors will be

able to exercise a significant level of control, including the ability to block special resolutions.

**(c) Reduction in earnings as a result of Milestone 1 and Milestone 2**

The Vendors may be entitled to the cash or Shares, subject to the satisfaction of performance milestones over the coming years. Milestone 1 is up to US\$15 million, payable where 2022 revenue generated by Sierra is at least US\$10 million, with an adjusted EBITDA margin of -10%. Milestone 2 is up to US\$23.5 million, where 2023 revenue generated by Sierra is at least US\$20 million, with a positive adjusted EBITDA margin.

For Milestone 1, up to US\$15 million could be payable to the Vendors if Sierra generates revenue of US\$10 million, with an adjusted EBITDA margin of -10%. As revenue increases, Sierra is then entitled to generate a proportionally larger negative adjusted EBITDA. This scenario could lead to a further operating loss for the Company, which made a total comprehensive loss of \$28.95 million for the year ended 31 December 2021.

Milestone 2 only requires a positive adjusted EBITDA margin, meaning that over the two year earn-out period, Sierra could be entitled to payments of up to US\$38.5 million for generating a total negative EBITDA.

The potential value uplift of the achievement of the earn-out hurdles from a revenue standpoint, appears to be favourable for the Company and its Shareholders. In the case of earnings, the Milestone Payments appear to be less favourable, with the potential to lead to greater operating losses over the two year period. Further, having the criteria of a negative EBITDA margin as a performance hurdle can also encourage behaviour that is not in the best interest of Shareholders, in that Sierra management may attempt to maximise revenue without worrying about cost minimisation or efficient operation in order to meet the earn-out hurdles and receive the Milestone Payments. Overall, the Milestone Payments may lead to sustained operating losses for the Company in the near-term. However, we do note that a number of the comparable companies are loss making, with enterprise value's primarily derived by revenue and the opportunity of creating future earnings in the long term.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation, the sources of information and assumptions made and the advantages and disadvantages of the Acquisition.

**10.9 Chapter 2E of the Corporations Act**

The Directors (other than Bruce Linton who has a material personal interest in Resolution 10) consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of the New Issue because the Shares will be issued to Bruce Linton (or their nominee) on the same terms as Shares issued to non-related party participants in the Purchase Agreement and as such the giving of the financial benefit is on arm's length terms.

**10.10 ASX Listing Rule 7.1 and ASX Listing Rule 10.11**

Approval under ASX Listing Rule 7.1 and ASX Listing Rule 10.11 is not required for the issue of New Shares as approval is being obtained for the purposes of Item 7 of section 611 of the Corporations Act, which is an exception to ASX Listing Rule

7.1 and 10.11. Accordingly, the issue of the New Shares to the Vendors will not be included in the use of the Company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

#### **10.11 Pro forma balance sheet**

A pro forma balance sheet of the Company post the completion of the issue of New Shares is set out in Schedule 8.

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## GLOSSARY

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**\$** means Australian dollars.

**Acquisition** has the meaning provided in Section 10.1.

**Purchase Agreement** has the meaning provided in Section 10.1.

**AGM** has the meaning set out in Section 1.1.

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

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

**BDO Corporate** means BDO Corporate Finance (WA) Pty Ltd (ABN 27 124 031 045).

**Board** means the current board of directors of the Company.

**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.

**CBD** means Cannabidiol.

**Chair** means the chair of the Meeting.

**Closely Related Party** of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

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

**Completion** means completion under the Purchase Agreement.

**Constitution** means the Company's constitution.

**Consultancy Agreement** has the meaning set out in Section 9.1.

**Consultancy Shares** has the meaning set out in Section 9.1.

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

**Directors** means the current directors of the Company.

**EAS** means EAS Advisors LLC.

**EAS Mandate** has the meaning set out in Section 8.5.

**EBITDA** means Earnings before interests, tax, depreciation and amortisation.

**Employee Options** has the meaning set out in Section 7.1.

**Employment Agreements** has the meaning set out in Section 3.3.

**EverBlu Capital** means EverBlu Capital Pty Ltd (ACN 612 793 683).

**Exchange Rate** has the meaning set out in Section 10.1.

**Explanatory Statement** means the explanatory statement accompanying the Notice.

**First Milestone** has the meaning set out in Section 3.2.

**Founders** has the meaning set out in Section 3.2.

**Garcoa** has the meaning set out in Section 10.7(c).

**General Meeting** or **Meeting** means the meeting convened by the Notice.

**Halucenex** means Halucenex Life Sciences Inc.

**ImpACTIVE** means ImpACTIVE Holdings Ltd (a corporation incorporated in Canada).

**ImpACTIVE Agreement** has the meaning set out in Section 3.1.

**ImpACTIVE Performance Shares** has the meaning set out in Section 3.2.

**ImpACTIVE Shares** has the meaning set out in Section 3.2.

**Independent Expert Report** means the Independent Experts Report prepared by BDO Corporate which is attached to this Notice as Annexure A.

**Issue** means the proposed issue of the New Shares as outlined in Section 10.1 of the Explanatory Statement.

**Key Management Personnel** has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

**Lender Options** has the meaning set out in Section 1.1.

**Lender Shares** has the meaning set out in Section 1.1.

**Lenders** has the meaning set out in Section 1.1.

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

**Loans** has the meaning set out in Section 1.1.

**New Securities** the New Shares.

**New Shares** means a Share being issued by the Company pursuant to the Issue outlined in section 10.2 of the Explanatory Statement.

**Notice** or **Notice of Meeting** means this notice of meeting including the Explanatory Statement and the Proxy Form.

**Odeon** means Odeon Capital Group LLC.

**Odeon Nominees** has the meaning set out in Section 8.1.

**Odeon Options** has the meaning set out in Section 8.1.

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

**Placement** has the meaning set out in Section 2.1.

**Placement Options** has the meaning set out in Section 2.1.

**Placement Participants** has the meaning set out in Section 2.1.

**Placement Shares** has the meaning set out in Section 2.1.

**Prohibition** is defined in section 10.3(a) of the Explanatory Statement.

**Proxy Form** means the proxy form accompanying the Notice.

**Vendors** means the shareholders named in Schedule 5.

**Resolutions** means the resolutions set out in the Notice, or any one of them, as the context requires.

**Section** means a section of the Explanatory Statement.

**Securities Issue** means the issue of the New Shares.

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

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

**THC** means Tetrahydrocannabinol.

**US** means the United States of America.

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



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## SCHEDULE 1 – TERMS AND CONDITIONS OF THE LENDER OPTIONS AND THE PLACEMENT OPTIONS

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(a) **Entitlement**

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

(b) **Exercise Price**

Subject to paragraph (j), the amount payable upon exercise of each Option will be \$0.38 (**Exercise Price**).

(c) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on the date that is 12 months after the date of issue (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

At any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each 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 Option being exercised in cleared funds (**Exercise Date**).

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

Within five 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 Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, 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; and
- (iii) 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 Options.

If a notice delivered under paragraph (g) (ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such

notice being ineffective, 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 investor.

(h) **Shares issued on exercise**

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

(i) **Reconstruction of capital**

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

(j) **Participation in new issues**

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

(k) **Change in exercise price**

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

(l) **Transferability**

The Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws and any further direction by the Board.

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## **SCHEDULE 2 – TERMS AND CONDITIONS OF THE IMPACTIVE PERFORMANCE SHARES**

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(a) **Entitlement**

Each Performance Share entitles the holder to subscribe for one Share upon satisfaction of the Milestone (defined below) and issue of the Conversion Notice (defined below) by the holder.

(b) **Notice of satisfaction of Milestone**

The Company shall give written notice to the holder promptly following satisfaction of a Milestone (defined below) or lapse of a Performance Share where the Milestone is not satisfied.

(c) **No voting rights**

A Performance Share does not entitle the holder to vote on any resolutions proposed by the Company except as otherwise required by law.

(d) **No dividend rights**

A Performance Share does not entitle the holder to any dividends.

(e) **No rights to return of capital**

A Performance Share does not entitle the holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.

(f) **Rights on winding up**

A Performance Share does not entitle the holder to participate in the surplus profits or assets of the Company upon winding up.

(g) **Not transferable**

A Performance Share is not transferable.

(h) **Reorganisation of capital**

If at any time the issued capital of the Company is reconstructed, all rights of a holder will be changed in a manner consistent with the applicable Listing Rules and Corporations Act at the time of reorganisation.

(i) **Application to ASX**

The Performance Shares will not be quoted on ASX. However, the Company must apply for the official quotation of a Share issued on conversion of a Performance Share on ASX within the time period required by the Listing Rules.

(j) **Participation in new issues**

A Performance Share does not entitle a holder (in their capacity as a holder of a Performance Share) to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.

(k) **No other rights**

A Performance Share gives the holder no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

**Conversion of the Performance Shares**

(l) **Milestones**

A Performance Share will be able to be converted into a Share by a holder subject to the achievement of the following milestones:

- (i) 3,000,000 Performance Shares converting into Shares upon Creso ImpACTIVE reaching C\$20,000,000 in audited gross sales based on the US GAAP definition of gross sales (**First Milestone**), at or prior to 25 October 2024(**Class A Performance Shares**); and
- (ii) 3,000,000 Performance Shares converting into Shares upon Creso ImpACTIVE achieving the First Milestone and upon Creso ImpACTIVE reaching an additional C\$20,000,000 in audited gross sales (being an aggregate amount of C\$40,000,000 in audited gross sales between 25 October 2021 and 25 October 2026) based on the US GAAP definition of gross sales (**Second Milestone**), at or prior to 25 October 2026(**Class B Performance Shares**).

Creso ImpACTIVE must use Commercially Reasonable Efforts to achieve the First Milestone and the Second Milestone (each, a **Milestone**). For the purposes of this clause, Commercially Reasonable Efforts means reasonable, diligence, good-faith efforts to accomplish the requirement or objective which efforts shall not be less than the efforts that other similarly situated companies would normally use to accomplish a similar requirement or objective under similar circumstances exercising reasonable business judgement.

(m) **Independent Verification**

The Performance Shares will only be able to be converted into a Share subject to the achievement of the First Milestone and Second Milestone, respectively, after the Company's or Creso ImpACTIVE's auditor verifies that, based on Creso ImpACTIVE's audited accounts:

- (i) the First Milestone or Second Milestone, as applicable, has been met; and
- (ii) the audited gross sale revenue generated to meet the First Milestone or Second Milestone, as applicable, is directly attributable to the business of the Company.

Creso ImpACTIVE shall provide the holder with a detailed notice setting out the calculation and related documents used in the independent verification of the achievement of the First Milestone and Second Milestone, as applicable.

(n) **Conversion of Performance Shares**

A Performance Share may be converted by the holder giving written notice to the Company prior to the date that is three months after the date that the First Milestone or Second Milestone, as applicable, is achieved (unless extended by the Company in its sole discretion). No payment is required to be made for conversion of a Performance Share to a Share.

(o) **Conversion on change of control**

Subject to paragraph (p) and notwithstanding the relevant Milestone has not been satisfied, upon the occurrence of either:

- (i) a takeover bid under Chapter 6 of the *Corporations Act 2001* (Cth) having been made in respect of the Company having received acceptances for more than 50% of the Company's shares on issue and being declared unconditional by the bidder; or
- (ii) a Court granting orders approving a compromise or arrangement for the purposes of or in connection with a scheme of arrangement for the reconstruction of the Company or its amalgamation with any other company or companies,

that number of Performance Shares that is equal to not more than 10% of the Shares on issue immediately following conversion under this paragraph will convert into an equivalent number of Shares. The conversion will be completed on a pro rata basis across each class of Performance Shares then on issue as well as on a pro rata basis for each Holder. Performance Shares that are not converted into Shares under this paragraph will continue to be held by the holders on the same terms and conditions.

(p) **Deferral of conversion if resulting in a prohibited acquisition of Shares**

If the conversion of a Performance Share under paragraphs (o) or (l) would result in any person being in contravention of section 606(1) of the *Corporations Act* (**General Prohibition**) then the conversion of that Performance Share shall be deferred until such later time or times that the conversion would not result in a contravention of the General Prohibition. In assessing whether a conversion of a Performance Share would result in a contravention of the General Prohibition:

- (i) Holders may give written notification to the Company if they consider that the conversion of a Performance Share may result in the contravention of the General Prohibition. The absence of such written notification from the Holder will entitle the Company to assume the conversion of a Performance Share will not result in any person being in contravention of the General Prohibition.
- (ii) The Company may (but is not obliged to) by written notice to a Holder request a holder to provide the written notice referred to in paragraph (p)(i) within seven days if the Company considers that the conversion of a Performance Share may result in a contravention of the General Prohibition. The absence of such written notification from the holder will entitle the Company to assume the conversion of a Performance Share will not result in any person being in contravention of the General Prohibition.

(q) **Automatic conversion where Milestone expires**

Each Performance Share shall expire on the date set out below:

- (i) **Class A Performance Shares:** the earlier to occur of:
  - (A) the date that is three months after the date that the First Milestone is achieved (unless extended by the Company in its sole discretion) and

(B) 25 October 2024; and

(ii) **Class B Performance Shares:**

(A) the date that is three months after the date that the First Milestone is achieved (unless extended by the Company in its sole discretion) and

(B) 25 October 2026,

(each, an **Expiry Date**).

If the Milestone has not been achieved by the Expiry Date, then all Performance Shares held by the holder will lapse. For the avoidance of doubt, a Performance Share will not lapse in the event the Milestone is met before the Expiry Date and the Shares the subject of a conversion are deferred in accordance with paragraph (p) above.

(r) **Issue of Shares**

The Company will issue the Share on conversion of a Performance Share within 10 business days following the conversion or such other period required by the Listing Rules.

(s) **Holding statement**

The Company will issue the holder with a new holding statement for any Share issued upon conversion of a Performance Share within 10 business days following the issue of the Share.

(t) **Ranking upon conversion**

The Share into which a Performance Share may convert will rank pari passu in all respects with existing Shares.

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## SCHEDULE 3 – TERMS AND CONDITIONS OF EMPLOYEE OPTIONS

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(a) **Entitlement**

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

(b) **Exercise Price**

Subject to paragraph (l), the amount payable upon exercise of each Option will be \$0.1375 per Option (**Exercise Price**).

(c) **Vesting Conditions**

The Options will vest and become exercisable as follows:

- (i) 1/3 of all the Options shall vest on 25 October 2022;
- (ii) 1/3 of all the Options shall vest on 25 October 2023;
- (iii) 1/3 of all the Options shall vest on 25 October 2024,

(together, the **Vesting Dates**).

(d) **Automatic Vesting**

All Options will automatically vest on each of the respective Vesting Dates in paragraph (c), subject to compliance with the Listing Rules and Corporations Act.

(e) **Automatic Lapse**

If the Option holder's employment is terminated before any of the Vesting Dates above, the Company reserves its discretion to lapse any vested or unvested Options.

(f) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on 25 October 2024 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(g) **Exercise Period**

The Options are exercisable at any time on and from the satisfaction of the relevant vesting conditions set out in paragraph (c) until the Expiry Date (**Exercise Period**).

(h) **Notice of Exercise**

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

(i) **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 Option being exercised in cleared funds (**Exercise Date**).

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

Within five 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 Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, 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; and
- (iii) 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 Options.

If a notice delivered under paragraph 1.1.1(g)1.1.1(o)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, 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.

(k) **Shares issued on exercise**

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

(l) **Reconstruction of capital**

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

(m) **Participation in new issues**

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

(n) **Change in exercise price**

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

(o) **Transferability**

The Options are not transferable.



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## SCHEDULE 4 – TERMS AND CONDITIONS OF ODEON OPTIONS

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(a) **Entitlement**

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

(b) **Exercise Price**

Subject to paragraph (i), the amount payable upon exercise of each Option will be as follows:

(i) 12,000,000 Options at \$0.15 per Option; and

(ii) 12,000,000 Options at \$0.18 per Option,

(each, an **Exercise Price**).

(c) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on 1 August 2024 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

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

(e) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each 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 Option being exercised in cleared funds (**Exercise Date**).

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

Within five 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 Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;

(ii) if required, give ASX a notice that complies with section 708A(5) 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; and

- (iii) 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 Options.

If a notice delivered under paragraph (g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, 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.

(h) **Shares issued on exercise**

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

(i) **Reconstruction of capital**

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

(j) **Participation in new issues**

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

(k) **Change in exercise price**

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

(l) **Transferability**

The Options are not transferable.

## SCHEDULE 5 – VENDORS

Shareholder Name	Respective Proportion	Consideration Shares	Milestone 1 Shares	Milestone 2 Shares	Maximum Voting Power
Jodi Scott	58.54%	209,631,373	621,407,286	973,538,081	41.21%
Jennifer Scott	8.12%	29,068,728	86,168,014	134,996,555	5.71%
Kathy Scott	7.58%	27,151,395	80,484,492	126,092,370	5.34%
TAI Holding Company, L.P.	3.22%	11,518,654	34,144,582	53,493,179	2.26%
Access Realty Group 2	2.54%	9,087,233	26,937,156	42,201,544	1.79%
C3 Capital Partners III, L.P.	2.43%	8,714,138	25,831,195	40,468,872	1.71%
La Plata Capital LLC	2.06%	7,381,955	21,882,224	34,282,150	1.45%
Sharon Stammerjohn	1.96%	7,023,908	20,820,870	32,619,364	1.38%
Roaring Fork Capital	1.86%	6,677,514	19,794,060	31,010,693	1.31%
Kathy Hoyt	1.73%	6,194,031	18,360,878	28,765,375	1.22%
Bruce Linton	1.51%	5,418,776	16,062,799	25,165,052	1.07%
Etta Sanders	1.45%	5,208,435	15,439,289	24,188,220	1.02%
Winfield Scott III	1.11%	3,968,961	11,765,133	18,432,042	0.78%
Indelible Consulting	0.71%	2,535,306	7,515,371	11,774,081	0.50%
Don Van Winkle	0.61%	2,193,552	6,502,316	10,186,962	0.43%
Winfield Scott IV	0.61%	2,193,552	6,502,316	10,186,962	0.43%
Albert Shea Martin	0.58%	2,093,924	6,206,989	9,724,283	0.41%
ARG Legacy Trust	0.46%	1,653,660	4,901,921	7,679,676	0.33%
Jeff Owen	0.34%	1,222,513	3,623,877	5,677,408	0.24%

Cynthia Senn	0.34%	1,221,979	3,622,295	5,674,929	0.24%
April Oberstellar	0.31%	1,101,784	3,266,004	5,116,739	0.22%
Michelle Douglas	0.31%	1,101,784	3,266,004	5,116,739	0.22%
Patricia Saputo	0.25%	905,466	2,684,061	4,205,029	0.18%
John Dudsak	0.22%	801,298	2,375,275	3,721,265	0.16%
Michael Internicola	0.22%	801,298	2,375,275	3,721,265	0.16%
Efrain Caldera	0.21%	751,217	2,226,821	3,488,686	0.15%
Ed Wittman	0.20%	701,135	2,078,366	3,256,107	0.14%
Terry Johnson	0.11%	400,649	1,187,638	1,860,632	0.08%
Steve Hughes	0.09%	333,841	989,599	1,550,372	0.07%
Katy Saeger	0.05%	181,093	536,812	841,006	0.04%
Shaq Thompson	0.05%	181,093	536,812	841,006	0.04%
Kevin Brouillette	0.04%	133,516	395,780	620,056	0.03%
Pat Douglas	0.03%	120,195	356,291	558,190	0.02%
Michael and Kathleen Steel	0.03%	100,162	296,909	465,158	0.02%
Jeff Shockley	0.02%	82,684	245,099	383,988	0.02%
Crystal Shockley	0.02%	82,684	245,099	383,988	0.02%
Jasmine Rautert	0.02%	70,114	207,837	325,611	0.01%
Michelle Murphy	0.02%	60,097	178,146	279,095	0.01%
<b>Total</b>	<b>100.00%</b>	<b>358,069,697</b>	<b>1,061,420,889</b>	<b>1,662,892,726</b>	<b>70.39%</b>

Note that the following assumptions have been made in calculating the above:

- the Company has 1,296,392,953 Shares on issue as at the date of this Notice;

- no other Shares are issued (including by conversion of Performance Rights or exercise of Options);
- the number of New Shares has been calculated as set out in Section 10.1 and are estimations only due to being subject to variables, being exchange rates and issue prices at different point in time. The numbers above are also subject to small round adjustments.

## SCHEDULE 6 – SUBSTANTIAL HOLDERS

### Substantial holders as at the date of this Notice

	Holdings at the date of this Notice		Holdings after Completion of the issue of the Consideration Share		Holdings after issue of the Milestone 1 Shares		Holdings after issue of the Milestone 2 Shares	
Substantial Holders	Shares	Voting Power	Shares	Voting Power	Shares	Voting Power	Shares	Voting Power
Atlantic Capital Pty Ltd <Atlantic Capital A/C>	113,665,432	8.77%	113,665,432	6.87%	113,665,432	4.19%	113,665,432	2.60%

#### Assumptions:

- there are 1,296,392,953 Shares on issue at the date of this Notice;
- no additional Shares are issued (including by conversion of Performance Rights or exercise of Options) by the Company.

### Substantial holders upon completion of the Issue

	Holdings at the date of this Notice		Holdings after Completion and issue of the Consideration Share		Holdings after issue of the Milestone 1 Shares		Holdings after issue of the Milestone 2 Shares	
Substantial Holders	Shares	Voting Power	Shares	Voting Power	Shares	Voting Power	Shares	Voting Power
Jodi Scott	0	0%	209,631,373	12.67%	831,038,659	30.60%	1,804,576,740	41.21%
Kathy Scott	0	0%	27,151,395	1.64%	107,635,886	3.96%	233,728,256	5.34%
Jennifer Scott	0	0%	29,068,728	1.76%	115,236,741	4.24%	250,233,297	5.71%

### Assumptions:

- there are 1,296,392,953 Shares on issue at the date of this Notice;
  - no additional Shares are issued (including by conversion of Performance Rights or exercise of Options) by the Company; and
- the New Shares have been calculated as set out in Section 10.1. They are estimations only due to being subject to variables, being exchange rates and issue prices at different point in time and the numbers above are subject to small rounding adjustments.

## SCHEDULE 7 – CAPITAL STRUCTURE FOLLOWING THE ACQUISITION

Description	Existing Shareholders	Vendors of Sierra Sage	Total
Shares on issue at the date of our Report	1,296,392,953	-	1,296,392,953
<i>% holdings prior to the Proposed Transaction</i>	<i>100.00%</i>	<i>0.00%</i>	<i>100.00%</i>
Shares to be issued for the Upfront Consideration	-	358,069,697	358,069,697
Shares on issue following Upfront Consideration	1,296,392,953	358,069,697	1,654,462,650
<b><i>% holdings following Upfront Consideration</i></b>	<b><i>78.36%</i></b>	<b><i>21.64%</i></b>	<b><i>100.00%</i></b>
Shares to be issued under Milestone Payment 1	-	1,061,420,889	1,061,420,889
Shares on issue following Milestone Payment 1	<b>1,296,392,953</b>	<b>1,419,490,586</b>	<b>2,715,883,539</b>
<i>% holdings following Milestone Payment 1</i>	<i>47.73%</i>	<i>52.27%</i>	<i>100.00%</i>
Shares to be issued under Milestone Payment 2	-	1,662,892,726	1,662,892,726
Shares on issue following Milestone Payment 2	<b>1,296,392,953</b>	<b>3,082,383,312</b>	<b>4,378,776,265</b>
<b><i>% holdings following Milestone Payment 2</i></b>	<b><i>29.61%</i></b>	<b><i>70.39%</i></b>	<b><i>100.00%</i></b>

The above table has been prepared on the basis of the assumptions set out in Section 10.1 of the Explanatory Statement and are estimations only due to being subject to variables, being exchange rates and issue prices at different point in time.



## SCHEDULE 8 – PRO FORMA BALANCE SHEET

	AUDITED 31 December 2021	TOTAL PRO-FORMA ADJUSTMENTS 31 December 2021	PRO-FORMA 31 December 2021
	(\$000s)	(\$000s)	(\$000s)
<b>Assets</b>			
<u>Current Assets</u>			
Cash and Cash Equivalents	7,184	4,467	11,651
Trade and Other Receivables	1,102	734	1,836
Inventory	1,398	2,067	3,465
Biological Assets	457	0	457
Other Assets	0	0	0
<b>Total Current Assets</b>	<b>10,141</b>	<b>7,268</b>	<b>17,409</b>
<u>Non Current Assets</u>			
Property, plant and equipment	10,435	32	10,467
Intangible assets	8,314	86,906	95,220
Other assets	424	-407	17
Net investment in associate	0	0	0
<b>Total Non Current Assets</b>	<b>19,173</b>	<b>86,530</b>	<b>105,703</b>
<b>Total Assets</b>	<b>29,314</b>	<b>93,799</b>	<b>123,113</b>
<b>Liabilities</b>			
<u>Current Liabilities</u>			
Trade and Other Payables	1,471	2,581	4,052
Provisions	84	0	84
Borrowings	0	2,835	2,835
<b>Total Current Liabilities</b>	<b>1,555</b>	<b>5,416</b>	<b>6,971</b>
<u>Non-Current Liabilities</u>			
Borrowings	0	0	0
Provisions	0	0	0
<b>Total Non-Current Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Liabilities</b>	<b>1,555</b>	<b>5,416</b>	<b>6,971</b>
<b>Net Assets</b>	<b>27,759</b>	<b>88,383</b>	<b>116,142</b>
<b>Equity</b>			
Issued Capital	109,951	88,718	198,669
Reserves	12,631	604	13,235

	AUDITED 31 December 2021	TOTAL PRO-FORMA ADJUSTMENTS 31 December 2021	PRO-FORMA 31 December 2021
	(\$000s)	(\$000s)	(\$000s)
Accumulated Losses	-94,824	-940	-95,764
<b>Total Equity</b>	<b>27,759</b>	<b>88,383</b>	<b>116,142</b>

**Notes:**

The above pro-forma balance sheet has been prepared including the assumptions below:

1. The New Shares comprise of the Consideration Shares, Milestone 1 Shares and Milestone 2 Shares. The calculations used to determine the number of New Shares are set out in Section 10.1.
2. As announced on 25 February 2022, the Company secured firm commitments from institutional, professional and sophisticated investors to raise \$5 million (before costs) through the issue of approximately 72.4 million new fully paid ordinary shares at an issue price of \$0.069 per Share with one free attaching Option for every one new Share issued (**Placement**). The Placement includes a commitment for participation for approximately \$318,250 from Non- Executive Director, Adam Blumenthal (**Blumenthal Placement**).

On 2 March 2022, the Company issued 67,851,467 Shares to unrelated participants in the Placement at an issue price of \$0.069 per Share pursuant to the Placement to raise approximately \$4,681,750. The Blumenthal Placement is the subject of Shareholder approval to be sought at a future general meeting.

3. On 7 February 2022, the Company provided US\$1.7m (\$2.4m) in cash to Sierra, and a further \$0.30m (\$0.44) was provided in cash to Sierra on 4 July 2022, in partial payment of a loan secured by a promissory note in the amount of US\$2.7m issued by Sierra to fund working capital and business development initiatives. The promissory note pays interest of 3% pa. The remaining US\$0.7m (approx. \$1.02m) of the loan is payable to Sierra within 5 business days of the closing date of the Sierra Acquisition.
4. Unlisted options exercised in March 2022, for cash proceeds of \$264,170.
5. Share-based payments expensed in March 2022 amounting to \$339,709.
6. The estimated acquisition balance sheet of Sierra as at 31 December 2021 and the usual consolidation adjustments giving effect to the inclusion of Sierra in the group accounts of the Company.

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## ANNEXURE A – INDEPENDENT EXPERT REPORT

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# **CRESO PHARMA LIMITED** **Independent Expert's Report**

11 July 2022



## Financial Services Guide

11 July 2022

**BDO Corporate Finance (WA) Pty Ltd** ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Creso Pharma Limited ('Creso Pharma') to provide an independent expert's report on the proposal to acquire 100% of the share capital in Sierra Sage, for the estimated consideration of 358,069,697 shares in Creso Pharma, increasing the voting interest of the vendors of Sierra Sage Herbs, LLC to 21.64%. You are being provided with a copy of our report because you are a shareholder of Creso Pharma and this Financial Services Guide ('FSG') is included in the event you are also classified under the Corporations Act 2001 ('the Act') as a retail client.

Our report and this FSG accompanies the Notice of Meeting required to be provided by Creso Pharma to assist you in deciding on whether or not to approve the proposal.

### Financial Services Guide

This FSG is designed to help retail clients make a decision as to their use of our general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

### Information about us

We are a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide professional services primarily in the areas of audit, tax, consulting, mergers and acquisition, and financial advisory services.

We and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business and the directors of BDO Corporate Finance (WA) Pty Ltd may receive a share in the profits of related entities that provide these services.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients, and deal in securities for wholesale clients. The authorisation relevant to this report is general financial product advice.

When we provide this financial service we are engaged to provide an expert report in connection with the financial product of another person. Our reports explain who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. If you have any questions, or don't fully understand our report you should seek professional financial advice.

### Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$60,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report and our directors do not hold any shares in Creso Pharma.

**Other Assignments** - For the period from July to November 2019, BDO Corporate Finance (WA) Pty Ltd prepared an independent expert's report in relation to the proposed acquisition of the entire issued capital of Creso Pharma by PharmaCielo Limited, for the total fees of approximately \$70,000. BDO provided an independent expert's report to Creso Pharma on 26 September 2019 which concluded that the schemes were in the best interests of Creso Pharma shareholders. Subsequently, on 1 November 2019, as a result of changing market conditions, BDO provided a supplementary report to Creso Pharma which concluded that the share scheme was no longer in the best interests of Creso Pharma shareholders. On 11 November 2019, Creso Pharma and PharmaCielo mutually agreed to terminate the share implementation agreement.

For the period from June to August 2021, BDO Corporate Finance (WA) Pty Ltd prepared an independent expert's report in relation to the proposed scheme of arrangement with Red Light Holland Corp. On 31 August 2021, Creso Pharma notified the market that the proposed scheme of arrangement had been terminated as a result of market conditions and COVID-19 limitations. BDO received approximately \$26,000 in total fees for work completed up to the point of termination.

BDO Services Pty Ltd provided taxation advisory services to Creso Pharma over the period from 30 June 2020 to 1 July 2021 for total fees of approximately \$100,000.

BDO Audit Pty Ltd is the appointed Auditor of Creso Pharma. We do not consider that this impacts on our independence in accordance with the requirements of Regulatory Guide 112 'Independence of Experts'. We have completed a conflict search of BDO affiliated organisations within Australia. This conflict search incorporates all Partners, Directors and Managers of BDO affiliated organisations. We are not aware of any circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective assistance in this matter.

#### **Remuneration or other benefits received by our employees**

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Creso Pharma for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

#### **Referrals**

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

#### **Complaints resolution**

##### *Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. Complaints can be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700, West Perth WA 6872 or, by telephone or email using the contact details within the following report.

When we receive a complaint we will record the complaint, acknowledge receipt of the complaint in writing within 1 business day or, if the timeline cannot be met, then as soon as practicable and investigate the issues raised. As soon as practical, and not more than 30 days after receiving the complaint, we will advise the complainant in writing of our determination.

#### **Referral to External Dispute Resolution Scheme**

If a complaint is made and the complainant is dissatisfied with the outcome of the above process, or our determination, the complainant has the right to refer the matter to the Australian Financial Complaints Authority Limited ('AFCA').

AFCA is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers. Our AFCA Membership Number is 12561. Further details about AFCA are available on its website [www.afca.org.au](http://www.afca.org.au) or by contacting it directly via the details set out below.

Australian Financial Complaints Authority Limited  
GPO Box 3  
Melbourne VIC 3001  
AFCA Free call: 1800 931 678  
Website: [www.afca.org.au](http://www.afca.org.au)  
Email: [info@afca.org.au](mailto:info@afca.org.au)

You may contact us using the details set out on page 1 of the accompanying report.

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11 July 2022

The Directors  
Creso Pharma Limited  
Suite 5, 145 Stirling Highway  
Nedlands, WA, 6009

Dear Directors

## INDEPENDENT EXPERT'S REPORT

### 1. Introduction

On 3 February 2022, Creso Pharma Limited ('Creso Pharma' or 'the Company') announced that it had executed a membership interest purchase agreement ('Agreement') with Sierra Sage Herbs, LLC ('Sierra Sage') and its vendors ('Vendors'), to acquire a 100% interest in Sierra Sage for the consideration of US\$21 million, payable by way of fully paid ordinary shares in Creso Pharma ('Upfront Consideration') ('Proposed Transaction'). Additionally, Sierra Sage Vendors may also be entitled to earn-out payments of up to US\$38.5 million, subject to the satisfaction of performance milestones over the coming years ('Milestone Payments').

The Upfront Consideration is payable to the Vendors by way of fully paid ordinary shares in Creso Pharma at the 10-day volume weighted average price ('VWAP') of the Company's shares prior to the execution of the Agreement, being \$0.083, and the Australian dollar ('A\$', '\$' or 'AUD') to United States dollar ('USD' or 'US\$') exchange rate at the date of closing. As the Company is seeking approval for the issue of a certain number of shares, we have adopted the Company's advised AUD/USD exchange rate of 0.7066 for use in the calculation of the number of shares to be issued under the Proposed Transaction. We note that this exchange rate differs from observed exchange rates as at the date of our Report, however, the Company has adopted this rate to ensure they have some headroom in determining the number of shares to be issued. Using these figures, the Upfront Consideration equates to the issue of 358,069,697 new shares in Creso Pharma, equating to an interest of approximately 21.64%. For all other conversions in our Report we have used exchange rates sourced from Bloomberg.

Pursuant to the terms of the Proposed Transaction, the Vendors may also be entitled to earn-out payments of up to US\$15 million in 2022, and US\$23.5 million in 2023, which are payable either in cash, or by the issue of Creso Pharma shares at the higher of the 10-day VWAP as of one day prior to calculating the relevant Milestone Payment, or \$0.02, with the AUD/USD exchange rate as at two days prior to the date of calculating the relevant Milestone Payment.

As the Proposed Transaction will result in the Vendors of Sierra Sage's interest in Creso Pharma increasing from below 20% to more than 20%, approval from Creso Pharma shareholders not associated with Sierra Sage ('Shareholders') is required for the Company to enter into the Proposed Transaction.

Further details of the Proposed Transaction are outlined in Section 4 of our Report. All figures are quoted in AUD unless otherwise stated.



We note that following the provision of a final draft report to the Company on 12 April 2022, we were provided with additional information regarding the ownership structures of Creso Pharma and Sierra Sage, and a promissory note agreement between Creso Pharma and Sierra Sage.

As such, we have made an adjustment for the shareholding structure of Creso Pharma and Sierra Sage in Section 5 and Section 6 of our Report, respectively, with Creso Pharma shareholding changes also being accounted for in our valuation. The promissory note agreement between Creso Pharma and Sierra Sage is detailed in Section 6.3 of our Report. The above changes did not result in a change to our opinion.

## 2. Summary and Opinion

### 2.1 Requirement for the report

The directors of Creso Pharma have requested that BDO Corporate Finance (WA) Pty Ltd (**'BDO'**) prepare an independent expert's report (**'our Report'**) to express an opinion as to whether or not the Proposed Transaction is fair and reasonable to Shareholders.

Our Report is prepared pursuant to item 7 of section 611 of the Corporations Act 2001 Cth (**'Corporations Act'** or **'the Act'**) and is to be included in the Notice of Meeting for Creso Pharma in order to assist the Shareholders in their decision whether to approve the Proposed Transaction.

### 2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission (**'ASIC'**) Regulatory Guide 74 'Acquisitions Approved by Members' (**'RG 74'**), Regulatory Guide 111 'Content of Expert's Reports' (**'RG 111'**) and Regulatory Guide 112 'Independence of Experts' (**'RG 112'**).

In arriving at our opinion, we have assessed the terms of the Proposed Transaction as outlined in the body of this report. We have considered:

- How the value of a Creso Pharma share prior to the Proposed Transaction on a control basis compares to the value of a Creso Pharma share following the Proposed Transaction on a minority interest basis;
- The likelihood of an alternative offer being made to Creso Pharma;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Proposed Transaction; and
- The position of Shareholders should the Proposed Transaction not proceed.

### 2.3 Opinion

We have considered the terms of the Proposed Transaction as outlined in the body of this report and have concluded that, in the absence of an alternative offer, the Proposed Transaction is not fair but reasonable to Shareholders.

In our opinion, the Proposed Transaction is not fair because the value of a Creso Pharma share prior to the Proposed Transaction on a control basis is greater than the value of a Creso Pharma share following the Proposed Transaction on a minority interest basis. However, we consider the Proposed Transaction to be reasonable because the advantages of the Proposed Transaction to Shareholders are greater than the disadvantages.

In particular, the Company will gain access to the US CBD market, which is expected to undergo substantial growth in the medium-term. Sierra Sage has an existing manufacturing and distribution network which Creso Pharma can take advantage of in order to expand the reach of its products and its

presence in the US market. Additionally, the Proposed Transaction allows for the diversification of Creso Pharma's product offering, as Sierra Sage has a number of brands whose products are not principally dependent on the sale of cannabis or psychedelic products, diversifying away part of the industry specific risk of holding shares in a company that only sells drug-based products.

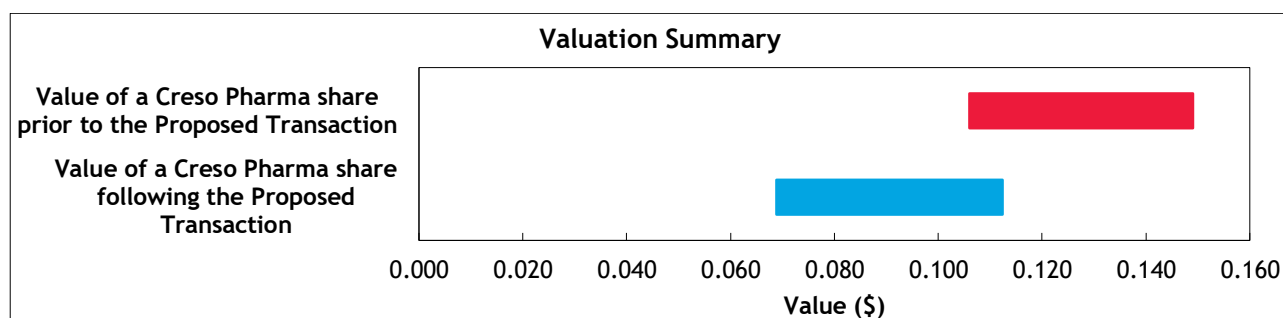
## 2.4 Fairness

In section 12 we determined that the value of a Creso Pharma share prior to the Proposed Transaction compares to the value of a Creso Pharma share following the Proposed Transaction as detailed below.

	Ref	Low \$	Preferred \$	High \$
Value of a Creso Pharma share prior to the Proposed Transaction on a control basis	10.3	0.106	0.128	0.149
Value of a Creso Pharma share following the Proposed Transaction on a minority interest basis	11.4	0.069	0.090	0.112

Source: BDO analysis

The above valuation ranges are graphically presented below:



The above pricing indicates that, in the absence of any other relevant information, and an alternative offer, the Proposed Transaction is not fair for Shareholders.

We note that RG 111 states that an offer is fair if the value of the offer price or consideration is equal to or greater than the value of the securities which are the subject of the offer. Despite this, our assessment is that the Proposed Transaction is not fair as our valuation of Creso Pharma following the Proposed Transaction is less than our valuation of Creso Pharma prior to the Proposed Transaction at each of the low, mid, and high points of our valuation ranges.

Further, we note that whilst the low valuation point prior to the Proposed Transaction and the high valuation point following the Proposed Transaction overlap, it would be inappropriate to compare these two points, as our valuation of Creso Pharma following the Proposed Transaction is inclusive of our pre-transaction value. As a result, comparing these points would imply two different values for the same assets. Therefore, the above valuations must be compared on a like for like basis at individual points, rather than across the range.

Our fairness assessment only considers the Upfront Consideration, and not the Milestone Payments, as we do not have reasonable grounds to undertake a valuation of Sierra Sage on the basis of the Milestone Payments. We have considered the impact of the Milestone Payments in Section 13.4 of our Report, in which we have concluded that we believe the earn-out is structured in a way that is more likely to provide an uplift in value to Shareholders than not.

In addition, as outlined in Section 13.6.3 of our Report, we note that there are various possible outcomes associated with the Milestone Payments as they apply to both revenue and earnings metrics. Particularly, we note that it is possible for Sierra Sage to earn the maximum possible Milestone Payments across the two-year period, whilst generating a negative EBITDA. Further, negative EBITDA hurdles may encourage behaviour that is not in the best interest of Shareholders. Please refer to sections 13.4 and 13.6.3 of our Report for a more detailed analysis of the Milestone Payments.

## 2.5 Reasonableness

We have considered the analysis in section 13 of this report, in terms of both:

- advantages and disadvantages of the Proposed Transaction; and
- other considerations, including the position of Shareholders if the Proposed Transaction does not proceed and the consequences of not approving the Proposed Transaction.

In our opinion, the position of Shareholders if the Proposed Transaction is approved is more advantageous than the position if the Proposed Transaction is not approved. Accordingly, in the absence of any other relevant information and/or an alternative proposal we believe that the Proposed Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
13.5.1	Entry into the US market	13.6.1	Dilution of Shareholders' interests
13.5.2	Access to Sierra Sage's existing network and supply chain	13.6.2	Restrictions on special resolutions
13.5.3	Diversification of product offering	13.6.3	Reduction in earnings as a result of the Milestone Payments
13.5.4	Increased experience and broader expertise of the board of directors and management team of Creso Pharma		
13.5.5	Acquiring Sierra Sage through the issue of equity rather than cash will not have a negative impact on Creso Pharma's working capital		

Other key matters we have considered include:

Section	Description
13.1	Alternative Proposal
13.2	Practical Level of Control
13.3	Consequences of not approving the Proposed Transaction

Section	Description
13.4	Deferred Consideration

### 3. Scope of the Report

#### 3.1 Purpose of the Report

Section 606 of the Corporations Act (**'Section 606'**) expressly prohibits the acquisition of further shares by a party if the party acquiring the interest does so through a transaction and because of the transaction, that party (or someone else's voting power in the company) increases from 20% or below to more than 20%.

Section 611 of the Corporations Act (**'Section 611'**) provides exceptions to the Section 606 prohibition and item 7 Section 611 (**'item 7 s611'**) permits such an acquisition if the shareholders of Creso Pharma have agreed to the acquisition. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by the party to the acquisition or any party who is associated with the acquiring party.

Item 7 s611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

RG 74 states that to satisfy the obligation to provide all material information on how to vote on the item 7 s611 resolution, Creso Pharma can commission an Independent Expert's Report.

The directors of Creso Pharma have commissioned this Independent Expert's Report to satisfy this obligation.

#### 3.2 Regulatory guidance

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Proposed Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111 which provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

RG 111 suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism used to effect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Proposed Transaction is a control transaction as defined by RG 111 and we have therefore assessed the Proposed Transaction as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

#### 3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is equal to or greater than the value of the securities which are the subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities which are the subject of the offer in a control transaction it is inappropriate for the expert to apply a discount on the

basis that the shares being acquired represent a minority or portfolio interest, as such, the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between value of a Creso Pharma share prior to the Proposed Transaction on a control basis and the value of a Creso Pharma share following the Proposed Transaction on a minority interest basis (fairness - see Section 12 'Is the Proposed Transaction Fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness - see Section 13 'Is the Proposed Transaction Reasonable?').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('**APES 225**').

A Valuation Engagement is defined by APES 225 as follows:

*'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'*

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

## 4. Outline of the Proposed Transaction

On 3 February 2022, Creso Pharma announced that it had entered into the Agreement to acquire 100% of the share capital of Sierra Sage through the issue of new ordinary shares in Creso Pharma to the value of US\$21 million, and, subject to the achievement of performance milestones, future payments of up to US\$38.5 million. Sierra Sage is a US-based producer of both cannabidiol ('CBD') and non-CBD containing wellness products.

Under the terms of the Proposed Transaction, the consideration payable to the Vendors of Sierra Sage will be split into the Upfront Consideration and the Milestone Payments. The Upfront Consideration, based on the 10-day VWAP of Creso Pharma shares prior to the execution of the Agreement, being \$0.083, and our adopted AUD/USD exchange rate of 0.7066 equates to the issue of 358,069,697 new shares in Creso Pharma, which will increase the collective Vendor interest in Creso Pharma to 21.64%. The Upfront Consideration will be payable in the following manner:

- 25% of the Upfront Consideration shall be freely tradable upon issue;
- In the case of specific key management personnel of Sierra Sage, being Jodi Scott, Kathy Scott and Jennifer Scott, their remaining proportion of the Upfront Consideration will be subject to voluntary escrow restrictions, being:
  - 37.5% to be escrowed for a period of six months from the closing date of the Proposed Transaction ('Closing Date'); and
  - The remaining 37.5% to be escrowed for a period of 12 months from the Closing Date.
- In the case of all other vendors of Sierra Sage, the remaining proportion of the Upfront Consideration payable to them will be subject to voluntary escrow restrictions as follows:
  - 25% to be escrowed for a period of 4 months from the Closing Date;
  - 25% to be escrowed for a period of 8 months from the Closing Date; and
  - 25% to be escrowed for a period of 12 months from the Closing Date.

The Vendors may also be entitled to the Milestone Payments, subject to the satisfaction of performance milestones over the coming years. The Milestone Payments are subject to the following hurdles:

- Milestone Payment 1 - 2022 Earn-out:
  - US\$15 million payable where 2022 revenues generated by Sierra Sage are at least US\$10 million, and an adjusted earnings before interest, tax, depreciation and amortisation ('EBITDA') margin of greater than -10% is achieved; or
  - US\$11.25 million payable where 2022 revenues generated by Sierra Sage are at least US\$8.5 million, and an adjusted EBITDA margin of greater than -7% is achieved; or
  - US\$7.5 million payable where 2022 revenues generated by Sierra Sage are at least US\$7.5 million, and an adjusted EBITDA margin of greater than -5.5% is achieved.
- Milestone Payment 2 - 2023 Earn-out:
  - US\$23.5 million payable where 2023 revenues generated by Sierra Sage are at least US\$20 million, and a positive adjusted EBITDA margin is achieved; or
  - US\$17.625 million payable where 2023 revenues generated by Sierra Sage are at least US\$17.5 million, and a positive adjusted EBITDA margin is achieved; or

- US\$11.75 million payable where 2023 revenues generated by Sierra Sage are at least US\$15 million, and a positive adjusted EBITDA margin is achieved.

The Milestone Payments are payable by either cash, or the issue of Creso Pharma shares based on the higher of the 10-day VWAP of Creso Pharma shares as of one day prior to calculating the relevant Milestone Payment, or \$0.02, and the exchange rate as at two days prior to the date of calculating the relevant Milestone Payment.

### Conditions Precedent

The Agreement between Creso Pharma, Sierra Sage and the Vendors is subject a number of conditions precedent, which are summarised below:

- All warranties and representations contained in the Agreement must be accurate as at the Closing Date;
- All parties shall have performed and complied in all material respects with all of the covenants and agreements of the Agreement;
- There shall not be any order in effect or law enacted preventing consummation, or any proceeding seeking to restrain, prevent, change or delay the consummation of any of the transactions contemplated by the Agreement;
- No material adverse changes through to the Closing Date;
- A resolution of Creso Pharma's Shareholders approving the Proposed Transaction in accordance with ASX Listing Rules and the Corporations Act;
- A resolution of Creso Pharma's Board of Directors approving the Proposed Transaction;
- All necessary approvals and confirmations in respect of the organisational documents of each party, and of the issuance and quotation of the securities the subject of the Upfront Consideration and Milestone Payments; and
- Each party delivering to the others all relevant certificates, agreements, and other documents as outlined in the Agreement.

### Capital Structure following the Proposed Transaction

As outlined in the Notice of Meeting, Creso Pharma are seeking approval to issue the Vendors the Upfront Consideration and the Milestone Payments to increase their interest to up to 70.39% of the issued capital in Creso Pharma, on an undiluted basis. As at the date of our Report, the Vendors of Sierra Sage do not hold a relevant interest in Creso Pharma. Set out in the table below is a summary of the change in shareholding in Creso Pharma by the Vendors before and after the issue of shares as part of the Proposed Transaction.

In calculating the Milestone Payments below, we have utilised the floor value of \$0.02 for Creso Pharma shares, and our adopted AUD/USD exchange rate of 0.7066. We have also assumed that the maximum Milestone Payments will be achieved by Sierra Sage, which will be paid to the Vendors in Creso Pharma shares. We note that as at the date of our Report, Creso Pharma shares trade substantially above the \$0.02 floor value, and that utilising this floor value in our calculation of the Milestone Payments effectively presents the maximum dilution possible from the issue of shares the subject of the Milestone Payments. As a result, the below information is subject to change, and is for illustrative purposes only.

Description	Existing Shareholders	Vendors of Sierra Sage	Total
Shares on issue at the date of our Report	1,296,392,953	-	1,296,392,953
<i>% holdings prior to the Proposed Transaction</i>	<i>100.00%</i>	<i>0.00%</i>	<i>100.00%</i>
Shares to be issued for the Upfront Consideration	-	358,069,697	358,069,697
Shares on issue following Upfront Consideration	1,296,392,953	358,069,697	1,654,462,650
<b><i>% holdings following Upfront Consideration</i></b>	<b><i>78.36%</i></b>	<b><i>21.64%</i></b>	<b><i>100.00%</i></b>
Shares to be issued under Milestone Payment 1	-	1,061,420,889	1,061,420,889
Shares on issue following Milestone Payment 1	<b>1,296,392,953</b>	<b>1,419,490,586</b>	<b>2,715,883,539</b>
<b><i>% holdings following Milestone Payment 1</i></b>	<b><i>47.73%</i></b>	<b><i>52.27%</i></b>	<b><i>100.00%</i></b>
Shares to be issued under Milestone Payment 2	-	1,662,892,726	1,662,892,726
Shares on issue following Milestone Payment 2	<b>1,296,392,953</b>	<b>3,082,383,312</b>	<b>4,378,776,265</b>
<b><i>% holdings following Milestone Payment 2</i></b>	<b><i>29.61%</i></b>	<b><i>70.39%</i></b>	<b><i>100.00%</i></b>

Source: BDO analysis

We note that, as at the date of our Report, the Vendors' collectively hold 30,000,000 unlisted options in Creso Pharma, exercisable at \$0.039 on or before 23 December 2025. Should only these options be exercised, based on the above figures, the Vendors could hold a collective interest of 70.6% in Creso Pharma.



## 5. Profile of Creso Pharma

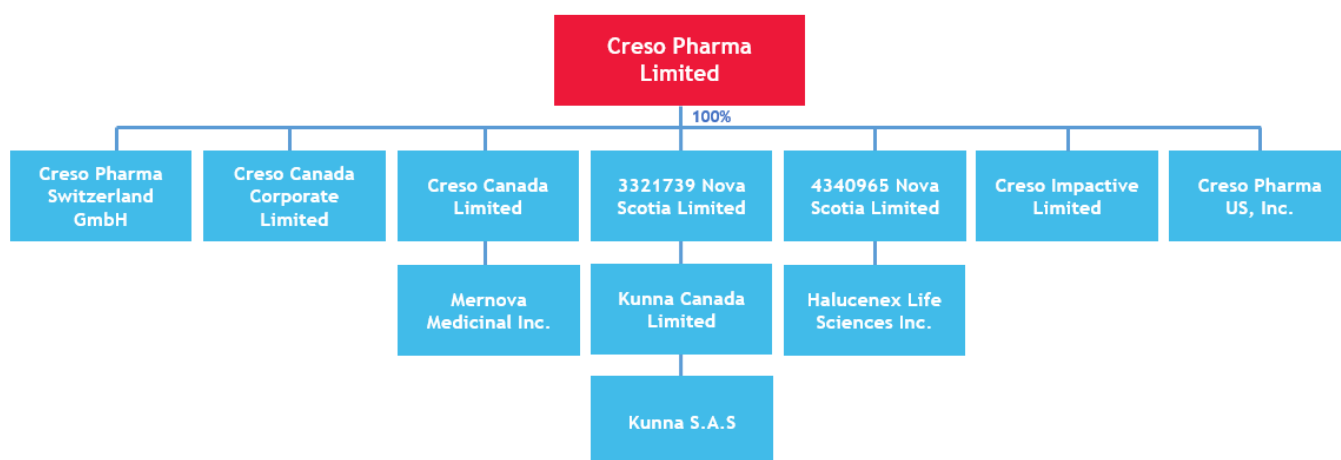
### 5.1 History

Creso Pharma is an ASX-listed company that develops, registers and commercialises hemp and cannabis products globally. The Company and its subsidiaries develop products in four key categories, being therapeutics, nutraceuticals, animal health and cosmetics. Creso Pharma was incorporated as a public unlisted company in November 2015 and commenced trading on the ASX in October 2016. Creso Pharma's head office is located in Perth, Western Australia, however through the Company's subsidiaries, it currently has operations in Australia, Canada, Columbia and Switzerland.

The Company's board of directors are:

- Dr. James Ellingford - Non-Executive Chairman;
- Mr. William Lay - Chief Executive Officer and Managing Director;
- Mrs. Micheline MacKay - Executive Director;
- Mr. Adam Blumenthal - Non-Executive Director;
- Mr. Boaz Wachtel - Non-Executive Director; and
- Mr. Bruce Linton - Non-Executive Director.

Creso Pharma has a number of wholly owned subsidiaries, as outlined below:



Source: Creso Pharma annual report for the year ended 31 December 2021 and management of Creso Pharma.

### 5.2 Products and Operations

#### Therapeutics

Creso Pharma's therapeutics segment is focussed on the development of medicinal cannabis products designed with the aim of bettering the lives of humans and animals. Creso Pharma's therapeutics sector is based around the CannaQIX®50 product and the Company's medicinal CBD oil, and contributed to approximately 42% of the Company's revenue for the year ended 31 December 2021.

Creso Pharma's flagship product, CannaQIX®50 is a CBD-based medicinal cannabis product in a non-oil based, buccal lozenge form with vitamin and minerals, which is designed to support the management of chronic pain. CannaQIX50® is produced in Switzerland and is available in select jurisdictions around the

world via relationships with commercial partners. Creso Pharma's medicinal CBD oil is a high-grade therapeutic CBD oil, containing no tetrahydrocannabinol ('THC'), which was first launched in New Zealand in the December quarter of 2019. The CBD oil is a non-hallucinogenic product designed to influence the body's endogenous receptors to assist in the management of chronic pain.

### Nutraceuticals

Creso Pharma's nutraceuticals segment is focussed on the development of CBD hemp-based food supplements for general wellbeing and mental health. The Company's nutraceutical products aim to assist in reducing stress and pain by supplementing the body's natural cannabinoids and assisting the regulation of homeostasis. The Company's nutraceutical segment is centred on a number of CannaQIX® and CannaPEAL products, as outlined below:

- CannaQIX®10 is a sugar free, non-euphoric food supplement in buccal form and contains CBD from full plant hemp oil extract, vitamins and minerals. The product can be used without a prescription to help manage stress. It is commercialised in Switzerland, the UK and the Netherlands.
- CannaQIX®25 is similar to CannaQIX®10, however contains CBD from broad spectrum hemp oil extract, rather than full spectrum, and is used to help manage stress and also to support psychological and nervous system functions.
- CannaQIX®10 NITE is a sugar free food supplement containing full spectrum hemp oil extract, vitamins, minerals and lemon balm, developed to target sleep improvement, stress reduction and the support of cognitive and psychological functions.
- CannaQIX® Hemp Teas contain natural hemp flour with approximately 5-10 milligrams of CBD, lemon balm and vitamins. The Hemp Teas are produced to support sleep, psychological and cognitive functions, and contribute to a normal nervous system.
- CannaPEAL is a sugar free food supplement containing hemp seed oils and vitamins, targeting healthy aging and supporting the reduction of stress in humans.
- CannaPEAL NITE is a sugar free food supplement similar to CannaPEAL, targeting sleep improvement, healthy aging and supporting the reduction of stress in humans.

### Animal Health

Creso Pharma's animal health segment is focussed on assisting in the health and wellbeing of animals through the development of CBD hemp-based complementary feed products to target the animals' endocannabinoid system.

The Anibidiol® line of products are complementary feed for cats and dogs with natural hemp oil, developed to support the immune system, behaviour balance, psychological function and the nervous system. Anibidiol® is also said to reduce tiredness and fatigue, is commercialized in Switzerland, and is available through veterinarians across Europe. Anibidiol® products range from oils and granular form to plant form.

More recently, the Company announced the finalisation of the development of Anibidiol® Swine, a product aimed at supporting stress reduction in pigs, addressing tail biting in pig herds reared both indoors and outdoors.

## Cosmetics

Creso Pharma's cosmetic segment is focussed on the development of topical and skin care products designed to support health and appearance, through the development of CBD hemp-based products, under the CannaDOL® and CannaQIX® Oral Care brands.

CannaDOL® is a range of functional topical products developed by partnering with Frike Technologies, and is designed to address muscle pain, arthritis and osteoarthritis, whilst CannaQIX® Oral Care is a sugar free oral cosmetic containing CBD, mint and sage, developed to help restore oral health by reducing inflammation and supporting the cultivation of healthy oral bacteria.

## Mernova Medicinal Inc

Mernova Medicinal Inc ('Mernova') is a wholly owned subsidiary of Creso Pharma, and is a licensed cultivation producer under the Canadian Cannabis Act. Mernova received its sales licence from Health Canada in May 2020, which provides for the sale of dried and fresh cannabis products to authorised retailers, and for direct retail sales for medicinal purposes.

Creso Pharma acquired Mernova in February 2018 as part of the Company's plans to expand into the Canadian market. The consideration for the acquisition was \$10.2 million through a combination of cash and equity in the Company. Other than the strategic entrance into the Canadian market, Creso Pharma outlined Mernova's production facility as a key part of the transaction, with the capacity to scale up to 200,000 square feet to produce up to 40 million grams of cannabis annually. The Company also outlined its intention to build a carbon dioxide extraction facility to enable the Company to sell cannabis extracts into the Canadian market, and for use in Creso Pharma's other products.

Mernova is currently intending to expand through the development and launch of new handheld vaporisers, and the testing and development of new strains of cannabis for use in Mernova's products. Over the year ended 31 December 2021, Mernova contributed \$3.63 million to Creso Pharma's total revenue, which was a 199% increase from its contribution to 2020 revenue. This increase was primarily a result of the uptake of Mernova's new products, largely through purchase orders in Canada and Israel.

## Halucenex Life Sciences

In July 2021, Creso Pharma completed the acquisition of Halucenex Life Sciences Inc. ('Halucenex'), a Canadian psychedelics company focussed on developing treatments for depression from post-traumatic stress disorder ('PTSD') and other mental health illnesses.

In August 2021, Halucenex secured a Controlled Drugs and Substances Dealer's License ('Dealer's License') from Health Canada, allowing Halucenex to possess, sell, provide, transport, deliver and conduct research and development on psychedelic substances on an approved list. Subsequently, this license was amended by Health Canada to also allow Halucenex to also produce, package and assemble psychedelic substances, being the most extensive license that can be awarded by Health Canada. Additionally, Halucenex was included on a list of approved suppliers to Canadian healthcare professionals, allowing for the supply of psilocybin to patients under certain circumstances.

Psilocybin is a psychoactive ingredient being utilised from both a medical and recreational standpoint. Medically, psilocybin is used to conduct psilocybin therapy, focussed on assisting patients in dealing with distress, depression, psychological treatments, and palliative care. Additionally, its recreational purpose has been to help users control their minds to be calm and peaceful.

Halucenex is currently in the clinical trial phase to study the efficacy of psilocybin when used to treat treatment resistant PTSD. It expects to undertake the next stage of its study over the course of 2022. On

10 May 2022, Creso Pharma announced that Halucenex had been awarded a permit to import one kilogram psilocybe cubensis by Health Canada, which is planned to be used for ongoing research and development initiatives. Further, on 30 May 2022, the Company announced that Halucenex had entered into a binding, exclusive supply of goods agreement with Optimi Health Corp. for the supply of natural, GMP grade psilocybin and functional mushrooms for health and wellness markets. The initial term of the agreement is one year, which will automatically renew for a second year unless either party notifies the other of their intention to not renew the agreement.

### 5.3 Recent Corporate Events

#### Heads of Agreement with Dr Pickles Pty Ltd

On 23 May 2022, Creso Pharma announced that it had signed a non-binding, non-exclusive heads of agreement with Dr Pickles Pty Ltd, an Australian tattoo post-care company. Dr Pickles Pty Ltd is a Brisbane-based company established to provide a cruelty free, all natural tattoo post-care product. Under the heads of agreement, the parties have also agreed to enter into a collaborative agreement on or before 29 July 2022. Creso Pharma stated that the agreement provides the Company with a potential pathway into the Australian body care market.

#### Capital Raising

On 25 February 2022, Creso Pharma announced it had secured commitments from institutional, professional and sophisticated investors to raise \$5 million through the issue of approximately 72.4 million new fully paid ordinary shares at an issue price of \$0.069 (**'Placement'**), together with one free-attaching option for every share subscribed for under the Placement, exercisable at \$0.14 on or before 18 months from the date of issue.

Of the shares to be issued, 67.85 million were issued to non-related parties, whilst 4.61 million are expected to be issued to Non-Executive Director, Adam Blumenthal, subject to Shareholder approval. In addition, it was agreed that EverBlu Capital Pty Ltd, the Company's corporate advisor and related party of Adam Blumenthal, would receive a 6% cash fee for acting as the lead manager to the Placement, estimated to be \$300,000, as well as one additional option for every option issued as part of the Placement, on the same terms.

#### Acquisition of ImpACTIVE Holding's Assets

In October 2021, Creso Pharma announced that it had entered into an asset purchase agreement with ImpACTIVE Holdings Limited (**'ImpACTIVE'**), a Canadian life sciences company, to acquire its assets and brand through a new Creso Pharma subsidiary, Creso ImpACTIVE Limited. ImpACTIVE produces topical anti-inflammatory relief to athletes suffering from chronic muscular and joint pain through its eight CBD-based products, all containing less than 0.3% THC. The acquisition was part of Creso Pharma's strategy to enter the global topical pain relief market through ImpACTIVE's existing brand and network.

#### Scheme with Red Light Holland

In June 2021, Creso Pharma announced that it had entered into a definitive scheme implementation deed to merge with Red Light Holland Corp. (**'RLH'**), a Canadian-based psychedelics company, to create The HighBrid Lab. The transaction was to be carried out by way of scheme of arrangement under the Corporations Act, where RLH would acquire all of the issued capital of Creso Pharma.

Subsequently, on 31 August 2021, Creso Pharma announced the termination of the proposed merger with RLH as a result of an ongoing review of market conditions, consultation with Shareholders and institutional

investors, and COVID-19 limitations. Creso Pharma and RLH believed the termination of the merger was in the best interest of both parties and their respective shareholders.

## 5.4 Historical Statement of Financial Position

Statement of Financial Position	Audited as at 31-Dec-21 \$	Audited as at 31-Dec-20 \$	Audited as at 31-Dec-19 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7,184,405	6,047,091	2,800,318
Trade and other receivables	1,101,790	636,720	1,698,499
Inventories	1,398,064	1,108,963	1,992,931
Biological assets	457,027	143,192	423,627
<b>TOTAL CURRENT ASSETS</b>	<b>10,141,286</b>	<b>7,935,966</b>	<b>6,915,375</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10,435,308	9,907,853	11,270,479
Intangible assets	8,314,320	1,276,789	4,477,755
Other assets	423,192	-	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>19,172,820</b>	<b>11,184,642</b>	<b>15,748,234</b>
<b>TOTAL ASSETS</b>	<b>29,314,106</b>	<b>19,120,608</b>	<b>22,663,609</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	1,471,148	2,162,911	2,111,075
Provisions	84,346	49,772	51,255
Borrowings	-	3,255,754	3,227,318
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,555,494</b>	<b>5,468,437</b>	<b>5,389,649</b>
<b>TOTAL LIABILITIES</b>	<b>1,555,494</b>	<b>5,468,437</b>	<b>5,389,649</b>
<b>NET ASSETS</b>	<b>27,758,612</b>	<b>13,652,171</b>	<b>17,273,960</b>
<b>EQUITY</b>			
Issued capital	109,950,694	71,794,123	46,528,519
Reserves	12,631,327	23,858,528	22,602,786
Accumulated losses	(94,823,409)	(82,000,480)	(51,482,304)
Non-controlling interest	-	-	(375,041)
<b>TOTAL EQUITY</b>	<b>27,758,612</b>	<b>13,652,171</b>	<b>17,273,960</b>

Source: Creso Pharma audited financial statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021.

We note that the Company's auditor highlighted the ability of Creso Pharma to continue as a going concern as a key audit matter, in its reports for the years ended 31 December 2019, 31 December 2020 and 31 December 2021.

## Commentary on Historical Statement of Financial Position

- The significant cash flow movements in the cash and cash equivalents balance over the assessed periods are outlined in the table below:

Significant cash flow movements	Audited as at 31-Dec-21 \$	Audited as at 31-Dec-20 \$	Audited as at 31-Dec-19 \$
Opening cash and cash equivalents	6,047,091	2,800,318	6,390,538
Receipts from customers	5,910,220	3,609,478	2,706,242

Significant cash flow movements	Audited as at 31-Dec-21 \$	Audited as at 31-Dec-20 \$	Audited as at 31-Dec-19 \$
Payments to suppliers and employees	(27,938,714)	(13,121,485)	(12,370,813)
Proceeds from the issue of shares	18,000,000	12,474,140	9,710,160
Proceeds from exercise of options	8,528,092	-	125,000
Net cash flows from borrowings	(200,625)	2,897,964	499,732
Other cash flow movements	(3,161,659)	(2,613,324)	(4,260,541)
<b>Closing cash and cash equivalents</b>	<b>7,184,405</b>	<b>6,047,091</b>	<b>2,800,318</b>

- Inventories of \$1.40 million as at 31 December 2021 comprise medicinal cannabis packaged products of \$0.16 million, harvested cannabis plant products of \$1.15 million, and consumables of \$0.09 million.
- Movements in biological assets over the assessed period are outlined below:

Biological assets	Audited as at 31-Dec-21 \$	Audited as at 31-Dec-20 \$	Audited as at 31-Dec-19 \$
<b>Opening balance</b>	<b>143,192</b>	<b>423,672</b>	<b>-</b>
Production costs capitalised	4,402,561	3,359,907	1,852,120
Increase/(decrease) in fair value due to biological transformation	(1,619,173)	(937,109)	802,907
Foreign exchange translation	14,474	(14,708)	-
Less: Transfer to inventory upon harvest	(2,484,027)	(2,688,570)	(2,231,355)
<b>Closing balance</b>	<b>457,027</b>	<b>143,192</b>	<b>423,672</b>

- Property, plant and equipment over the assessed period is comprised below:

Property, plant and equipment	Audited as at 31-Dec-21 \$	Audited as at 31-Dec-20 \$	Audited as at 31-Dec-19 \$
Land & buildings	8,591,584	8,245,272	9,174,933
Plant & equipment	190,916	100,219	144,284
Machine & equipment	185,464	162,786	191,917
Irrigation & lighting	1,198,721	1,102,205	1,381,760
Security system	268,623	297,371	374,971
Work in progress	-	-	2,614
<b>Total</b>	<b>10,435,308</b>	<b>9,907,853</b>	<b>11,270,479</b>

- Intangible assets of \$8.31 million as at 31 December 2021 comprise intellectual property of \$7.16 million, and Mernova's Canadian cultivation license granted by Health Canada valued at \$1.16 million. Intellectual property is largely comprised of results of clinical trials for the formulation of a synthetic psilocybin, that were acquired from Halucenex.
- Borrowings of \$3.26 million as at 31 December 2020 comprised drawdowns from a loan facility with a face value of \$3.15 million, with the remaining balance being loans provided by Rimoyne Pty Ltd. The balance of the loans were repaid in full in January 2021.

## 5.5 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Audited for the year ended 31-Dec-21 \$	Audited for the year ended 31-Dec-20 \$	Audited for the year ended 31-Dec-19 \$
<b>Revenue from continuing operations</b>			
Revenue	6,218,558	2,464,977	3,659,692
Cost of sales	(4,999,775)	(5,393,067)	(1,201,710)
<b>Gross profit</b>	<b>1,218,783</b>	<b>(2,928,090)</b>	<b>2,457,982</b>
Other income	34,812	177,829	82,561
<b>Expenses</b>			
Loss on fair value adjustments	(1,619,173)	(937,109)	(298,827)
Administrative expenses	(23,172,861)	(7,089,440)	(6,195,067)
Depreciation and amortisation expenses	(266,150)	(352,429)	(401,667)
Employee benefit expenses	(3,687,121)	(2,367,632)	(2,692,551)
Finance costs	(1,706,332)	(11,440,980)	(2,090,013)
Impairment of intangibles, receivables and other assets	-	(4,671,418)	(3,040,934)
Share-based payment expenses	(122,679)	(179,216)	(2,356,008)
Other expenses	(703,661)	(497,199)	(655,505)
Gain/(loss) on disposal of investments and settlement of convertible notes	-	(544,034)	-
Foreign exchange gain/(loss)	(6,585)	50,137	(149,743)
<b>Loss from continuing operations before income tax</b>	<b>(30,030,967)</b>	<b>(30,779,581)</b>	<b>(15,339,772)</b>
Income tax expense	-	-	-
<b>Loss for the year from continuing operations</b>	<b>(30,030,967)</b>	<b>(30,779,581)</b>	<b>(15,339,772)</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations	1,081,662	(1,257,285)	1,306,551
<b>Total comprehensive loss for the year</b>	<b>(28,949,305)</b>	<b>(32,036,866)</b>	<b>(14,033,221)</b>

Source: Creso Pharma audited financial statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021.

As noted above, the Company's auditor highlighted the ability of Creso Pharma to continue as a going concern as a key audit matter, in its reports for the years ended 31 December 2019, 31 December 2020 and 31 December 2021.

### Commentary on Historical Statement of Profit or Loss and Other Comprehensive Income

- A summary of the revenue generated by Creso Pharma over the assessed period is outlined below:

Revenue	Year ended 31-Dec-21 \$	Year ended 31-Dec-20 \$	Year ended 31-Dec-19 \$
Medicinal cannabis packaged products	2,580,102	1,232,918	2,765,824
Dried cannabis plant products	3,638,235	1,214,843	860,603
Royalty income	221	17,216	33,265
<b>Total</b>	<b>6,218,558</b>	<b>2,464,977</b>	<b>3,659,692</b>



- Administrative expenses grew substantially from \$7.09 million for the year ended 31 December 2020, to \$23.17 million for the year ended 31 December 2021. The increase of approximately \$14.08 million was primarily the result of increases in consulting fees, corporate advisory and business development fees, and marketing fees, as outlined below:

Administrative expenses	Year ended 31-Dec-21 \$	Year ended 31-Dec-20 \$
Consulting fees	(8,308,025)	(3,511,590)
Corporate advisory and business development fees	(4,037,735)	(644,171)
Legal fees	(1,612,269)	(996,952)
Investor and media relations	(1,386,479)	(516,772)
Marketing	(3,079,524)	(469,407)
US based marketing and media relations	(2,759,314)	-
Other	(1,989,515)	(950,548)
<b>Total</b>	<b>(23,172,861)</b>	<b>(7,089,440)</b>

Management have advised that the increase in administrative expenses over the year ended 31 December 2021 was largely the result of one-off costs related to a number of initiatives, including the winding up of the RLH merger, the Company's over-the-counter listing in the US, and compliance with ASIC investigations. Creso Pharma expects administrative expenses to decline substantially over the year ended 31 December 2022.

- Employee benefits expenses increased from \$2.37 million for the year ended 31 December 2020 to \$3.69 million for the year ended 31 December 2021. The increase of \$1.32 million was primarily the result of an increase in wages and salaries of \$0.93 million, and an increase in director fees of \$0.15 million. We have been advised that the increase in employee benefits expenses was the result of the Company not having a CEO or a full suite of senior managers over the year ended 31 December 2021. This resulted in Board members undertaking management roles over the period which were outside their scope of engagement, leading to increased fees.
- Finance costs declined substantially from \$11.44 million for the year ended 31 December 2020 to \$1.71 million for the year ended 31 December 2021. The significant movements in finance costs over the years are outlined below:

Finance costs	Year ended 31-Dec-21 \$	Year ended 31-Dec-20 \$
Capital raising fees	(147,750)	(1,672,953)
Loan settlement fees	-	(3,905,000)
Loss on extinguishment of liabilities	(1,022,879)	(210,350)
Loss on embedded derivative	-	(1,961,750)
Interest expense	(523,669)	(3,179,883)
Other	(12,034)	(511,044)
<b>Total</b>	<b>(1,706,332)</b>	<b>(11,440,980)</b>

- Impairment of intangibles, receivables and other assets of \$4.67 million for the year ended 31 December 2020 is in relation to the impairment of the Company's licenses held in Canada and Switzerland, as well as the Company's trademarks, brands and patents.



- Gain/loss on disposal of investments and settlement of convertible notes for the year ended 31 December 2020 comprises the loss on disposal of Creso Grow Limited of \$1.44 million, and a gain on settlement of convertible notes of \$0.90 million.

## 5.6 Capital Structure

The share structure of Creso Pharma as at 15 June 2022 is outlined below:

	Number
Total ordinary shares on issue	1,296,392,953
Top 20 shareholders	390,946,558
Top 20 shareholders - % of shares on issue	30.16%

Source: Creso Pharma share registry information

The range of shares held in Creso Pharma as at 15 June 2022 is as follows:

Range of Shares Held	No. of Ordinary Shareholders	No. of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	1,791	1,141,085	0.09%
1,001 - 5,000	8,643	27,213,586	2.10%
5,001 - 10,000	4,718	38,055,193	2.94%
10,001 - 100,000	9,513	330,945,974	25.53%
100,001 - and over	1,603	899,037,115	69.35%
<b>TOTAL</b>	<b>26,268</b>	<b>1,296,392,953</b>	<b>100.00%</b>

Source: Creso Pharma share registry information

The ordinary shares held by the most significant shareholders as at 15 June 2022 are detailed below:

Name	No. of Ordinary Shares	Percentage of Issued Shares (%)
Atlantic Capital Holdings Pty	100,415,432	7.75%
Jamber Investments Pty Ltd	52,469,403	4.05%
Mr Tyson Scholz	34,524,240	2.66%
HSBC Custody Nominees (Australia) Limited	32,562,326	2.51%
<b>Subtotal</b>	<b>219,971,401</b>	<b>16.97%</b>
Others	1,076,421,552	83.03%
<b>Total ordinary shares on Issue</b>	<b>1,296,392,953</b>	<b>100.00%</b>

Source: Creso Pharma share registry information

The derivative securities on issue as at 15 June 2022 are outlined below:

Description	Number
Listed options exercisable at \$0.050 on or before 22 January 2023	63,958,997
Listed options exercisable at \$0.25 on or before 2 November 2024	400,941,788
Unlisted options exercisable at \$0.80 on or before 27 July 2022	200,000
Unlisted options exercisable at \$0.80 on or before 15 September 2022	300,000
Unlisted options exercisable at \$0.35 on or before 12 February 2023	2,128,387
Unlisted options exercisable at \$0.40 on or before 12 February 2023	6,847,725
Unlisted options exercisable at \$0.25 on or before 1 March 2023	250,000
Unlisted options exercisable at \$0.1386 on or before 25 June 2023	5,752,688
Unlisted options exercisable at \$0.17 on or before 2 June 2023	27,764,706
Unlisted options exercisable at \$0.25 on or before 2 June 2023	4,000,000
Unlisted options exercisable at \$0.20 on or before 2 June 2023	8,000,000
Unlisted options exercisable at \$0.20 on or before 23 December 2023	833,333
Unlisted options exercisable at \$0.039 on or before 23 December 2025	30,000,000
Unlisted options exercisable at \$0.235 on or before 11 January 2023	8,000,000
Unlisted options exercisable at \$0.27 on or before 11 January 2023	8,000,000
Unlisted options exercisable at \$0.30 on or before 11 January 2023	8,000,000
Unlisted options exercisable at \$0.40 on or before 11 January 2023	2,800,000
Unlisted options exercisable at \$0.38 on or before 14 July 2024	12,000,000
Unlisted options exercisable at \$0.15 on or before 1 August 2024	12,000,000
Unlisted options exercisable at \$0.18 on or before 1 August 2024	12,000,000
Unlisted options exercisable at \$0.18 on or before 6 September 2024	10,000,000
Unlisted options exercisable at \$0.25 on or before 6 September 2024	10,000,000
Unlisted options exercisable at \$0.1375 on or before 25 October 2024	1,000,000
CPHAM Performance Rights	2,399,000
CPHAAQ Performance Rights	15,000,000
<b>Total</b>	<b>652,176,624</b>

Source: Creso Pharma share registry information

## 6. Profile of Sierra Sage

### 6.1 History

Sierra Sage is a US-based company focused on the production and sale of plant-based wellness products under the Green Goo, Southern Butter and Good Goo brands. Sierra Sage's products fulfil a number of different uses, being body care, first aid, beauty, sexual wellness, women's health and pet care, with products being distributed across the US by retailers including Whole Foods, Amazon, Target and Kroger. Sierra Sage's brands also have e-commerce websites allowing for direct-to-consumer sales across the US and other international markets. Sierra Sage was founded in 2008 and is based in Denver, Colorado.

The Company's key management personnel are:

- Jodi Scott - Chief Executive Officer and Co-Founder;
- Kathy Scott - Director of Design Operations and Co-Founder; and
- Jennifer Scott - Director of Product Development and Co-Founder.

Following the approval of the Proposed Transaction, Jodi Scott will join the Creso Pharma Board as an Executive Director.

### 6.2 Brands and Products

#### Green Goo

Green Goo is the largest of Sierra Sage's brands, which produces and sells a natural product line focussed on potent, portable first aid and body care products that are created using a lipid-infusion process, utilising plants such as calendula, chamomile, arnica, sage, lavender, rose hip, beeswax and comfrey, rather than using pre-made extracts. Green Goo products include sanitizers, hand soap, pain relief, natural skin care, deodorant, and pet products. The Green Goo brand accounted for approximately 81% of Sierra Sage's revenue over the year ended 31 December 2021.

Sierra Sage's proprietary lipid-infusion process (owned by the company) is undertaken at its US Food and Drug Administration ('FDA') approved facility, operating under goods manufacturing practices in Utah. As its lipid-infusion processes are being undertaken at all times, management has advised that its minimum order quantities and lead times are substantially lower than other manufacturers, providing flexibility and responsiveness to customer needs.

#### Southern Butter

The Southern Butter brand was launched in 2021 as a cruelty free, stand-alone brand in the sexual wellness category. The brand is focused on intimate skin care products targeted at both women and men. Southern Butter currently has eleven unique products, including its body butters, massage oils and backdoor balm. Sierra Sage has not actively marketed its Southern Butter brand, however, as Southern Butter products are available on the Green Goo website, management has advised that approximately 10% of Green Goo customers will also purchase a Southern Butter product.

#### Good Goo

The Good Goo brand was launched in 2020 with a CBD-based line of products containing full-spectrum hemp oil. The brand's product suite includes seven products across beauty, body and sleep categories. These include a full-spectrum hemp infused collection of skin salves, face wash, massage and body oils.

Additional products are expected to be added to the line over time, including entire body and animal care products.

Full-spectrum hemp oil is derived from the whole of the hemp plant, which Sierra Sage organically produces in the US. Good Goo uses a patented, full-spectrum hemp line of products that is not dependent on the use of alcohol, carbon dioxide or other solvents for extraction. The organic, full-spectrum hemp oil used undergoes several rounds of testing across its development to ensure an adequate standard of CBD content. Due to the hemp oil, these products cater to individuals seeking solutions to skin inflammation and sensitivities.

### 6.3 Recent Corporate Events

#### Garcoa Dispute

On 8 June 2021, Sierra Sage was named as a defendant in a trademark dispute with Garcoa, Inc. ('Garcoa'). Garcoa claims to have adopted a trademark for Blue Goo, and promoted it throughout the US, and claims that long after this trademark was adopted, Sierra Sage manufactured, identified, distributed and advertised its product under the trademark Green Goo. Garcoa further claims that the trademark used by Sierra Sage wrongfully appropriates the Blue Goo trademark.

Garcoa is seeking judgement against Sierra Sage to stop using the Green Goo trademark, to destroy all materials with the trademark, to pay damages of US\$100,000, and to retribute all profits realised from the trademark, to Garcoa.

Litigation proceedings are currently ongoing in the California Central District Court. However, Creso Pharma has been advised after undertaking legal due diligence, that there is no concern regarding the Garcoa dispute.

#### Loan with Creso Pharma

Management has advised that Creso Pharma has loaned Sierra Sage US\$1.0 million under a promissory note agreement, dated 2 February 2022. A further US\$0.7 million loan from Creso Pharma is due after the close of the Proposed Transaction.

We have not accounted for the loans the subject of the promissory note agreements in our assessment of whether the Proposed Transaction is fair to Shareholders, as both within each entity, and upon consolidation, the loans will have an offsetting effect.

## 6.4 Historical Statement of Financial Position

Statement of Financial Position	Management accounts as at 31-Dec-21 US\$	Reviewed as at 31-Dec-20 US\$	Reviewed as at 31-Dec-19 US\$
<b>CURRENT ASSETS</b>			
Cash	269,433	557,536	482,629
Restricted cash	-	-	270,000
Accounts receivable	419,429	712,532	850,741
Inventory	1,500,117	3,256,643	1,534,040
Prepaid expenses and other current assets	54,512	206,027	536,472
<b>TOTAL CURRENT ASSETS</b>	<b>2,243,491</b>	<b>4,732,738</b>	<b>3,673,882</b>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	299,058	39,057	54,690
Other assets	4,800	850,761	769,630
<b>TOTAL NON-CURRENT ASSETS</b>	<b>303,858</b>	<b>889,818</b>	<b>824,320</b>
<b>TOTAL ASSETS</b>	<b>2,547,349</b>	<b>5,622,556</b>	<b>4,498,202</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable	805,356	899,579	852,181
Line of credit	2,358,229	1,950,478	2,175,317
Accrued liabilities	545,918	575,015	210,471
Related party loan	300,000	37,340	37,340
Other current liabilities	183,104	-	7,833
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,192,607</b>	<b>3,462,412</b>	<b>3,283,142</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term debt	37,340	-	11,167
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>37,340</b>	<b>-</b>	<b>11,167</b>
<b>TOTAL LIABILITIES</b>	<b>4,229,947</b>	<b>3,462,412</b>	<b>3,294,309</b>
<b>NET ASSETS</b>	<b>(1,682,598)</b>	<b>2,160,144</b>	<b>1,203,893</b>

Source: Sierra Sage reviewed financial accounts for the years ended 31 December 2019 and 31 December 2020, and management accounts for the year ended 31 December 2021.

We have not undertaken a review of Sierra Sage's unaudited accounts in accordance with Australian Auditing and Assurance Standard 2405 'Review of Historical Financial Information' and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest the financial information within the reviewed financial accounts or management accounts has not been prepared on a reasonable basis.

We note that Sierra Sage's interim financial statements for the period ended 30 September 2021 were reviewed, being labelled as generally GAAP compliant, providing comfort that the management accounts as at 31 December 2021 were prepared on a reasonable basis.

## Commentary on Historical Statement of Financial Position

- Cash declined from US\$0.56 million as at 31 December 2020 to US\$0.27 million as at 31 December 2021. The decrease of US\$0.29 million was primarily the result of an operating loss of US\$3.78 million, and investment in fixed assets of US\$0.26 million. This was partially offset by cash generated from the issue of equity of US\$1.44 million.
- Sierra Sage has a US\$2.0 million term loan with LaPlata Capital, initially drawn down on 30 June 2021 and incurring 13% interest per annum. The expiry date of the loan was recently extended from 28 June 2022 to 30 September 2022. Additionally, Sierra Sage has a member loan of US\$37,340, originating in 2014.

## 6.5 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Management accounts for the year ended 31-Dec-21 US\$	Reviewed for the year ended 31-Dec-20 US\$	Reviewed for the year ended 31-Dec-19 US\$
<b>Income</b>			
Revenue	4,972,711	7,489,163	6,438,518
Cost of sales	(4,469,000)	(5,093,425)	(3,648,258)
<b>Gross profit</b>	<b>503,711</b>	<b>2,395,738</b>	<b>2,790,260</b>
General and administrative expenses	(4,697,450)	(5,431,275)	(2,885,725)
<b>Loss from operations</b>	<b>(4,193,739)</b>	<b>(3,035,537)</b>	<b>(95,465)</b>
<b>Other income and expenses</b>			
Interest expense	-	(136,026)	(166,428)
Other income and expenses	413,756	324,700	-
<b>Net loss</b>	<b>(3,779,983)</b>	<b>(2,846,863)</b>	<b>(261,893)</b>

Source: Sierra Sage reviewed financial accounts for the years ended 31 December 2019 and 31 December 2020, and management accounts for the year ended 31 December 2021.

As noted above, we have not undertaken a review of Sierra Sage's unaudited accounts in accordance with Australian Auditing and Assurance Standard 2405 'Review of Historical Financial Information' and do not express an opinion on this financial information.

## Commentary on Historical Statement of Profit or Loss and Other Comprehensive Income

- A summary of the revenue generated by Sierra Sage over the year ended 31 December 2021 is outlined below. Other revenue relates to revenue generated from private label manufacturing and shipping.

Revenue	Year ended 31-Dec-21 US\$
Green Goo	4,633,909
Southern Butter	156,164
Good Goo	126,508
Other	928,110
Returns, discounts and refunds	(871,980)
<b>Total</b>	<b>4,972,711</b>

- Revenue declined from US\$7.49 million for the year ended 31 December 2020 to US\$4.97 million for the year ended 31 December 2021. The decrease of approximately US\$2.52 million was primarily attributed to the impact of COVID-19 on consumer buying habits. Specifically, Sierra Sage experienced a sharp decline in deodorant and sanitizer sales over the year ended 31 December 2021.

## 6.6 Capital Structure

We note that C3 Capital Partners III, L.P. ('C3') is currently in the process of selling the majority of its approximately 15% interest in Sierra Sage to Jodi Scott, with an estimated closing date of 30 June 2022. As such, the following shareholding breakdowns assume the completion of the sale of C3's interests to Jodi Scott.

The share structure of Sierra Sage prior to the Proposed Transaction is outlined below:

	Number
Total ordinary shares on issue	35,749
Top 20 shareholders	34,959
Top 20 shareholders - % of shares on issue	97.79%

Source: Sierra Sage share registry information

The ordinary shares held by the most significant shareholders are detailed below:

Name	No. of Ordinary Shares	Percentage of Issued Shares (%)
Jodi Scott	20,929	58.54%
Jennifer Scott	2,902	8.12%
Kathy Scott	2,711	7.58%
TAI Holding Company, L.P.	1,150	3.22%
<b>Subtotal</b>	<b>27,692</b>	<b>77.46%</b>
Others	8,057	22.54%
<b>Total ordinary shares on issue</b>	<b>35,749</b>	<b>100.00%</b>

Source: Sierra Sage share registry information

## 7. Economic analysis

Creso Pharma is primarily exposed to the risks and opportunities of the Australian and Canadian markets through its operations and its listing on the ASX. Following the acquisition of Sierra Sage, Creso Pharma will have exposure to the risks and opportunities associated with the US. As such, we have presented an economic analysis on the global economy, and more specifically, Australia, Canada, and the US.

### 7.1 Global Economy

Global growth is expected to decline from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. This decrease is largely burdened by the two largest economies globally, China and the US. In the US, the cessation of the Build Back better fiscal policy, accompanied by the earlier than expected withdrawal of monetary support and ongoing supply shortages provoked a decline in forecast growth. In China, zero-tolerance COVID-19 policies and the inability to isolate the financial distresses within the property development market from the wider economy also alluded to a decrease in forecast growth. The Russian invasion of Ukraine is expected to further slow global growth in 2022, as sanctions continue to be imposed on Russia, and European countries scale back energy imports. The IMF's forecast global growth of 3.6% in 2023 assumes that the conflict is confined to the Ukraine.

The ongoing conflict between Russia and Ukraine is expected to impact the economy via three key avenues: commodities prices, financial sanctions and supply-chain disruptions. In February 2022, the US and the European Union disclosed sanction packages targeting the Central Bank of Russia. These sanctions effectively prohibit the Central Bank of Russia from accessing approximately half of the US\$643 billion that it holds in foreign exchange reserves.

Economists expect that the most critical impact on the global economy will come from higher commodities prices. The combination of supply chain concerns, destruction of physical infrastructure and financial sanctions is expected to dramatically impact oil and gas prices. Additionally, several base metals produced by Russia, including aluminium, titanium, palladium and nickel are expected to experience price increases of smaller magnitudes. On a global level, developed economies will ultimately suffer from an energy, supply-chain and trade shock, however, should supply-demand imbalances be rectified, and monetary policies successfully target inflation, these pressures should ease. It is expected that downward revisions will be made on European and global growth forecasts as the war progresses.

The economic strains wrought by the COVID-19 pandemic appear to be subsiding around the world, as countries look to be progressing beyond the acute phase of the pandemic. Most economies appear to be returning to normal capacity as COVID-19 is counteracted by vaccination and effective treatment. However, China has remained stalwart in containing the spread of COVID, implementing wide-spread lockdowns in key manufacturing and trade hubs, consequently, exacerbating the pre-existing supply chain disruptions faced by most developed economies.

Central banks in developed economies expect inflation to stabilise in 2022, with many central banks ceasing or reducing the pace of asset purchases. Yields on government bonds are rapidly increasing in an attempt to curb rising global inflation. As such, there remains substantial economic uncertainty across the globe.

Source: [www.imf.org](https://www.imf.org) World Economic Outlook Update April 2022, [www.eiu.com](https://www.eiu.com) Global economic implications of the Russia-Ukraine war 3 March 2022.



## 7.2 Australia

### Overview

In its May 2022 Statement of Monetary Policy, the Reserve Bank of Australia ('RBA') stated that it expects the Gross Domestic Product ('GDP') in Australia to grow by 4.5% over 2022. However, the RBA also elucidated caution around rising inflationary pressures, projecting consumer price inflation to peak at 6% in the latter half of 2022.

Both the Australian and global outlooks for growth and inflation remain uncertain in light of substantial geopolitical disruptions, emerging from several supply side factors, pandemic related disturbances in China, and Russia's invasion of Ukraine. Moreover, it is uncertain how the withdrawal of extraordinary policy support will affect consumer demand. In many advanced economies, inflation has exceeded initial forecasts and central bank targets, and remains a key source of market volatility. Elevated inflation is likely to complicate the trade-offs central banks face between containing price pressures and preserving economic growth.

Bond yields have increased, and equity prices have contracted, as the market outlook remains uncertain amongst market participants. The Australian equity market has outperformed other developed markets, as resource companies have capitalised on the recent wave of high commodity prices. In Australia and most advanced economies, fixed borrowing rates remain low for most borrowers, however, borrowing rates have increased from previous lows, in line with rising bond yields and other market interest rates. The RBA increased the cash rate by 0.5% in June and July 2022, which were the largest single rises in 22 years.

Australia has not mirrored the energy price shocks seen across Europe, which is largely attributable to the fact that Asian gas has remained relatively stable throughout the recent period. This is on the back of China's slump in manufacturing output in the wake of the country's strict zero-tolerance COVID-19 policy.

### Economic Indicators

Inflation in Australia has increased quicker than expected, but still remains lower than many advanced economies. In the March quarter of 2022, headline inflation for the quarter reached 2%, and 5% over the year. Additionally, the outlook for inflation is higher than forecast earlier in the year. Headline annual inflation is expected to peak at around 6% in the second half of 2022, largely owing to higher petrol prices and rapid increases in the cost of new dwellings. As supply side issues are rectified, inflation is forecast to ease, however, with labour market conditions becoming increasingly tight, growth in labour costs is expected to pick up in the coming years. Inflation is expected to increase further over the remainder of the year but then decline toward the top of the 2% to 3% range in 2023.

The labour market has generated significant momentum on the back of the pandemic, and demand for labour is strong. The unemployment rate is currently 3.9%, which is the lowest rate in almost 50 years. Demand for employment has been met by firms increasing headcount and hours of existing staff, as restrictions and capacity limits are abolished across the country. Relatedly, labour underutilisation has declined significantly across most industries, and has been particularly prominent in industries where employment has grown strongly, such as professional services. The level of job vacancies remains very high, at a time where labour participation rate and the ratio of employment to working-age population are already at historical highs. The RBA forecasts the unemployment rate to further decline to around 3.5% in early 2023 citing Australia's sizeable impending economic expansion, relative to other developed economies.

The combination of a tight labour market and a higher inflationary environment means that firms are generally better at compensating employees with higher wages and other benefits to attract and retain

staff. However, despite low unemployment rates, wage growth has not matched inflation, consequently, real wages have declined. Consumer sentiment has fallen as households maintain a pessimistic outlook in light of declining real incomes and rising living costs. The expected decline in consumer spending will likely be cushioned by strong household balance sheets. Wage growth remained relatively stagnant through 2021, recovering to levels seen pre-pandemic. However, more recent evidence from liaison and business surveys indicate that larger wage increases have been occurring or are planned in many private-sector firms.

The Australian dollar has been highly volatile when paired with the United States dollar since the onset of the COVID-19 pandemic, having depreciated substantially in early 2020 before recovering on the back of strong demand for Australian commodity exports. Since mid-May 2021, the Australian dollar entered another depreciating trend against the United States dollar following several price shocks to key commodity markets as a result of Russia's invasion of Ukraine, to currently sit below 0.70 as at early-July 2022. The recent depreciation in the Australian dollar is linked to weaker forecast economic growth in China.

Through Creso Pharma's primary operations, the Company is exposed to foreign currency risk and interest rate risk. As the Company generates revenue and holds cash in Swiss francs, USD and Canadian dollars, the strength of the AUD in relation to these currencies will have a direct impact on the financial position of Creso Pharma.

## Outlook

Overall, the Australian economy has demonstrated resilience in light of recent macroeconomic and geopolitical events. In Australia and globally, financial conditions have become slightly less accommodative, but generally remain supportive. The outlook for inflation is rapidly evolving and increasing faster than initially anticipated. As such, the response to the widespread withdrawal of monetary support remains shrouded in uncertainty. Since the middle of 2021, upward revisions have been made on inflation estimates. The RBA's inflation forecast is largely underpinned by the pass-through of upstream cost pressures associated with supply bottlenecks both domestically and internationally. As supply issues are rectified, it is expected that inflation will gradually normalise, returning to baseline levels by the end of the forecast period. Australian GDP is forecast to grow by 4.25% in 2022 on the back of strong household balance sheets, high real household disposable income and robust labour market growth. Subsequently, GDP growth in Australia is expected to taper off to 2% over 2023. Importantly, these forecasts are highly subject to change as the respective outlooks are heavily weighed on the assumptions that the conflict remains confined to Ukraine, and monetary policy targeted toward rising inflation prevails beyond the short term.

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement by Phillip Lowe, Governor: Monetary Policy Decision dated 5 July 2022 and prior periods, [www.rba.gov.au](http://www.rba.gov.au) Statement on Monetary Policy May 2022 and prior periods, [budget.gov.au](http://budget.gov.au) Australian Government 2022-23 Budget Overview and [imf.org](http://imf.org) World Economic Outlook dated April 2022.

## 7.3 Canada

### Domestic Growth and Overview

The Bank of Canada forecasts economic growth to be 4.25% in 2022 and 3.25% in 2023. The Canadian economy grew strongly over the first half of 2022, largely owing to the removal of public health restrictions, greater foreign demand, and rises in commodity prices. As indicated by the Bank of Canada's Business Outlook Survey, hiring intentions of Canadian employers registered record highs heading into 2022, as wide labour shortages were evident across the country. Positive growth and employment

conditions have been marred by increasing inflation, largely as a result of strong demand coupled with supply side constraints and increased prices of inputs.

### Inflation

Inflation is expected to persist at close to 6% over the first half of 2022. The Bank of Canada attributes elevated inflation levels to current global supply chain issues and higher energy prices. As a result of monetary policy support, and the dissipation of supply chain issues, inflation is expected to ease to the 2% target in 2024. As events unfold further in Ukraine, it is possible that upward revisions will be made on inflation estimates as economic sanctions on Russia's energy and resource sectors become more prevalent in the long-term. Moreover, Canada's natural resources sector, particularly its natural gas and oil industry, positions the country to capitalise on the impending energy supply and inflationary shocks across Europe. It is expected that Canada will assist European countries in reducing their dependence on Russian energy imports, and as a result, Canada can expand its role as a geopolitically stable and dependable source of fossil fuels.

### Unemployment

Over May 2022, the Labour Force Survey conducted by Statistics Canada depicted an increase in domestic employment by approximately 40,000 jobs, being a 0.2% decrease in the unemployment rate down to 5.1%. The employment increase was largely driven by gains in full-time work amongst women, which was spread across multiple industries, but led by the wholesale and retail trade industries. The Bank of Canada has reported that a number of measures indicate strong Canadian labour market health, including employment and total hours working surpassing pre-COVID-19 levels. Employers are struggling to fill labour shortages, as strong demand for products and services has led to need for workforces to expand. Wage growth has recovered to near pre-COVID-19 levels, with firms reporting a difficulty in retaining staff due to the willingness of the current workforce to change jobs in search of higher wages.

### Outlook

There is a high degree of uncertainty surrounding economic projections in light of the conflict in Eastern Europe. As such, it is likely that revisions will be made to the Bank of Canada's growth projections of 4.25% in 2022 and 3.25% in 2023, as the global economy reacts to the conflict, and as economic sanctions on Russia become more tangible beyond the short-term. However, it should be noted that financial conditions remain accommodative across Canada.

Canada is currently one of the principal regions of operation for Creso Pharma and its subsidiaries. As such, should Canada experience positive economic conditions and increased consumer confidence, this may lead to an increase in demand for cannabis. Alternatively, if containment measures or the situation in Ukraine were to worsen, it may also create positive demand conditions for Creso Pharma as it has been reported that cannabis consumption during COVID-19 lockdowns increased as a result of increased levels of stress, boredom and loneliness.

Source: [www.bankofcanada.ca](http://www.bankofcanada.ca) Monetary Policy Report April 2022 [www.nbc.ca](http://www.nbc.ca) Monthly Economic Monitor February 2022, [www.Bloomberg.com](http://www.Bloomberg.com) Canada Oil Can Help Replace Russia Crude Imports to US 9 March 2022, Statistics Canada.

## 7.4 United States

### Domestic Growth and Overview

The US economy is the largest in the world, representing approximately 15% of total global output. The economy features a highly-developed and technologically-advanced services sector, which accounts for about 80% of the nation's output. Service-oriented companies in areas such as technology, financial services, healthcare and retail dominate the economy.

In the US, real GDP growth is projected to weaken to 2.5% in 2022 and 1.2% in 2023. The normalisation of monetary policy, fiscal consolidation, ongoing supply disruptions and volatile oil prices are expected to weigh on growth. However, the reorientation of domestic demand back towards the service sector should alleviate some of the supply shortages. Wage growth is expected to remain strong, as the labour market is forecast to remain tight despite increased participation as COVID-19 associated health risks recede and workers return to the labour force. Inflation is expected to peak around mid-2022 and gradually decline thereafter. Inflation is expected to remain above the Federal Reserve's 2% target for the foreseeable future, due to persistent wage pressures from a tight labour market.

### Inflation

Consumer price inflation rose from 5.8% in December 2021 to 6.3% in April 2022, its highest level since the 1980's. The increase was driven by an acceleration of retail food and energy prices. Oil prices remain elevated and volatile. However, the direct trade implications on the US of the war in Ukraine and sanctions on Russia are limited, with just 3% of crude oil imports and 1% of total crude oil processed by US refineries being derived from Russia. Furthermore, the US is a net exporter of natural gas and the second-largest wheat exporter in the world. Nonetheless, the recent embargo declared on Russian oil imports by the European Union is expected to push oil prices higher in 2023.

The Federal Open Market Committee ('FOMC') has begun monetary policy normalisation in response to significant ongoing inflationary pressures and a tightening labour market. Accordingly, in its March 2022 meeting, the FOMC raised the target range for the federal funds rate off the effective lower bound to a range of 0.25% to 0.50%. Subsequently, the FOMC increased the target range again in May 2022 and June 2022, bringing the targeted range to 1.50% to 1.75%. The FOMC indicated that further increases are likely to be forthcoming.

### Unemployment

Demand for labour continues to outstrip available supply across various areas of the economy, and nominal wages have continued to increase. While labour demand has remained strong, labour supply has only increased modestly. Consequently, the labour market tightened further between December 2021 and May 2022, with job gains averaging 488,000 per month in the first five months of 2022. During this period, unemployment fell from 3.9% to 3.6%, just above the bottom of its range over the past 50 years. Employment and earnings of nearly all major demographic groups are near or above their levels before the pandemic.

Creso Pharma will have exposure to the US market through Sierra Sage's existing operations. A continued high inflationary environment could decrease the uptake of discretionary spending on wellness products across the US. However, as inflation settles and the US economy stabilises in the medium term, positive demand conditions may arise for the US wellness product market.

**Source:** Board of Governors of the Federal Reserve System, Monetary Policy Report, June 2022 and prior periods, The World Bank, OECD, IMF, Reuters.

## 8. Industry analysis

Creso Pharma is a company producing cannabis and other plant derived products with the aim of bettering the lives of humans and animals through its many brands. Following Shareholder approval of the Proposed Transaction, Shareholders will gain exposure to Sierra Sage's operations, which are centred on the production of plant-based wellness products. As such, we have presented an industry analysis on the medicinal cannabis market, which we believe broadly sums up one of the key markets and regulatory environments that Creso Pharma is exposed to, and wellness product market specific to Sierra Sage.

### 8.1. Medicinal Cannabis

Medicinal cannabis is typically defined as cannabis products used under prescription or recommendation by a medical professional for a defined medical condition, although there is a growing market for cannabis or hemp-based health and wellbeing products. As the name suggests, medicinal cannabis products originate from the cannabis plant, which is known to have either stimulation or relaxation properties, depending on the species, which is prescribed by medical professionals to alleviate certain health conditions. Cannabis contains several active compounds known as cannabinoids, which act on receptors in the brain and nervous systems to invoke sensations related to appetite, pain and mood.

The most abundant form of cannabinoid is THC, which upon consumption stimulates a euphoric effect. The second most common form is CBD, which has physical impacts on the body without the psychoactive effect of THC and is therefore more commonly used in medicinal applications.

Although cannabinoids can be extracted directly from the cannabis plant, many regulated medicines use synthetic cannabinoids whereby the active compounds are manufactured chemically. As these synthetic cannabinoids are not derived from cannabis itself, they avoid restrictions in markets where the production, sale or consumption of cannabis are illegal.

Conversely, the use of plant-extracted cannabinoids in regulated pharmaceuticals is currently very limited, primarily due to the limited clinical research given the regulatory and political barriers to cannabis. As such, most medicinal cannabis products are not regulated pharmaceuticals, but rather in the form of cannabis products whose cultivation, manufacture, distribution and consumption has been licensed by an appropriate national regulatory body.

The central discussion surrounding the medicinal cannabis industry is the regulatory environment across different markets. The International Opium Convention of 1925 applied the international drug control system to cannabis, particularly in restricting the export of cannabis without government certification. Although many countries have adjusted the legal controls over cannabis, legislation differs widely by country and sometimes differ on a state-level within the nation.

#### 8.1.1. Applications

The illegalisation of cannabis usage in the past was primarily due to concerns about the illicit use of THC as a psychoactive drug, however, with the growing awareness of CBD and the cultivation of low-THC cannabis, there is an increased awareness of the medicinal benefits of cannabis, specifically in the area of therapy for a broad range of medical conditions. The main medical conditions for which cannabinoid therapy can be applied are:

- Multiple Sclerosis;
- Epilepsy;
- Chronic non-cancer and neuropathic pain;

- Chemotherapy induced nausea; and
- Palliative care.

Medicinal cannabis products can be delivered in different forms. Regulated pharmaceuticals can be ingested orally in the form of an oromucosal spray and oral solution, respectively, while licensed medicinal cannabis product formats include whole dried flowers, oils, drops, solutions and capsules.

### 8.1.2. Regulations

#### Australia

The cultivation, production and manufacturing of medicinal cannabis products in Australia was legalised in October 2016, subject to the regulatory framework under the *Narcotic Drugs Amendment Act, 2016*. The three types of licenses for medicinal cannabis available are:

- License authorising cultivation or production or both;
- License authorising cannabis research; and
- License authorising manufacture of a drug or product.

These licenses are granted by the Federal Department of Health through the Office of Drug Control ('ODC'). As of 11 November 2021, the ODC has granted 45 cultivation and production licences and 17 research licences, whilst as at 24 December 2021, there are currently 44 Australian manufacturers, and 32 companies that are licensed to import medicinal cannabis products.

The quality, safety and efficacy of medicinal cannabis in Australia is regulated by the Therapeutic Goods Administration ('TGA'), which is also responsible in granting patient access to medicinal cannabis through the Authorised Prescriber or Special Access Scheme arrangements, and clinical trials. The Authorised Prescriber Scheme allows a medical practitioner to issue specified therapeutic goods to patients with certain medical conditions. The Special Access Scheme allows for the import or supply of therapeutic goods for a single patient on a case-by-case basis. Clinical trials are also subject to regulatory controls to ensure the safety of participants, regulated by the TGA. According to the TGA, the number of applicants approved under the Special Access Scheme has grown by an average of 3.1% per month over the twelve months leading up to January 2022, a growth rate that has been reduced due lower approvals in January 2022. Currently, the TGA has approved over 210,000 applications for unapproved medicinal cannabis products.

Australian legislation around the medicinal cannabis industry experienced a significant change in February 2018 through the *Narcotics Drugs Amendment (Cannabis) Regulations 2018*, which legalised the export of medicinal cannabis products from Australia. The primary objective of the legalisation was the improvement of the medicinal cannabis industry through the increase in supply of medicinal cannabis for Australian patients, and growth in exports by Australian producers to overseas markets.

In December 2020, the TGA announced a final decision to down-schedule certain low-dose CBD from prescription medicine to pharmacist only medicine, allowing low-dose CBD containing products with up to 150 milligrams per day to be sold over-the-counter by a pharmacist, without a prescription. This decision became effective from 1 February 2021. In addition, the *Narcotic Drugs Amendment (Medicinal Cannabis) Bill 2021* was passed by the House of Representatives and the Senate in June 2021, which aims to replace the current three-license structure into a single license to reduce regulatory burden, and create a perpetual license and periodic permit structure for the majority of medicinal cannabis activities. These amendments are currently in the process of being implemented, and as such, the industry is expected to undergo a high degree of change in the short to medium term.



## Canada

Canada is widely regarded as one of the world's most established markets for medicinal cannabis, having allowed access to medicinal cannabis since 2001. The *Access to Cannabis for Medical Purposes Regulations* in April 2016 allowed authorised patients to use cannabis prescribed by their health care practitioners for medical purposes. Health care practitioners may authorise patients to access medicinal cannabis through licensed producers, or produce a limited amount of cannabis for their own use. As of July 2021, there are currently 712 licenses granted for the cultivation, production or sale of medical cannabis in Canada.

Canada was also the first G7 country to fully legalise cannabis for recreational consumption under the Cannabis Act of October 2018. Under the Cannabis Act, adults aged 18 and over are legally permitted to possess and share up to 30 grams of legal cannabis for recreational use, buy dried or fresh cannabis and cannabis oil from a provincially-licensed retailer, grow up to four cannabis plants per residence for personal use, and make cannabis products, such as food and drinks at home. As of October 2019, cannabis edible products, extracts, topicals and concentrates became legal for sale.

## United States

In line with global cannabis market trends, the cannabis industry in the US is rapidly growing, however nationally medical cannabis is still not completely legal. As at February 2022, 37 states, along with 4 territories, have legalised the use of medical cannabis, with varying levels of regulation applied by each state's jurisdiction. Federally, cannabis is still classified as an illegal substance, and therefore local regulatory inconsistencies are prominent in the US.

Sierra Sage, which is based in Denver, Colorado, primarily operates within a state that has legalised medical and recreational cannabis use since 2012. The cannabis market has continued to grow within the state, totalling \$2 billion in revenue in 2020. The Marijuana Enforcement Division is the governing body surrounding the regulation and licensing of cannabis use within Colorado, which has over 3,000 license holders as at July 2021 for various business and recreational functions.

California, which is known as the most proactive state for medical and retail cannabis use, has legalised both medical and recreational uses of cannabis since 2016 and has since recorded an influx in market growth, achieving revenue of \$4.4 billion in 2020. The legalisation of cannabis use and cultivation in 2016 was passed through Proposition 64, better known as the Adult-Use Marijuana Act. The passing of the Medicinal and Adult-Use Cannabis Regulation and Safety Act in 2017 has overseen cannabis activity in California, putting in place 21 license classifications for various sub-sets of the cannabis industry, including cultivation, manufacturing, distribution, testing and retail functions.

The regulatory environment surrounding cannabis in the US is evolving at various rates within the 51 states/provinces and as such pose red-tape barriers to the cannabis industry. States such as California and Colorado were the first to legalise medical and recreational cannabis, in 1996 and 2012 respectively, whereas laggard states including Idaho and Nebraska still deem cannabis use of any kind as illegal.

### 8.1.3. Outlook

The market for medicinal cannabis continues to grow with an increasing number of countries changing their legal frameworks. Notable countries such as Canada and Australia have made significant changes to regulations that increase accessibility to medicinal cannabis. Other countries following a similar trend are the US, United Kingdom, Germany, France, Austria, Italy, Spain, Belgium, Argentina, Colombia, Mexico, Turkey, South Africa, and Uruguay. The allowance for cultivation, manufacture and export of medicinal cannabis will stimulate activity in the domestic and international market.

As a result of recent regulatory changes, the Australian cannabis market is set to skyrocket. Since changes to the regulatory environment in 2016, the Australian medical cannabis industry has seen more than 50 companies operating within the country, with IBISWorld forecasting medical cannabis manufacturing revenue to rise at an annualised 79.1% over the five years through 2026 to reach \$575 million. The Canadian market is forecast to follow a similar trend, albeit to a much lesser degree, with revenue expected to grow by an annualised 4.7% to C\$4.4 billion over the five years to 2025, after previously growing by an annualised 116% over the five years to 2020.

Globally, there appears to be a shifting regulatory outlook regarding cannabis, which will benefit the industry worldwide, and more specifically, Creso Pharma. Strong growth and the opening up of legal barriers will also see Creso Pharma benefit from larger target markets across the world.

**Sources:** The Office of Drug Control, February 2021, The Parliament of the Commonwealth of Australia; Narcotic Drugs Amendment (Medicinal Cannabis) Bill 2021 Explanatory Memorandum, Narcotic Drugs Amendment (Cannabis) Regulations 2018, Therapeutic Goods Administration; Medicinal Cannabis July 2021, Canadian Department of Justice; Cannabis Legalisation and Regulation, Government of Canada; Licenced Cultivators under the Cannabis Act, IBISWorld; Industry Insider January 2021, Thompson Coburn 2021, MTPC 2021.

## 8.2. Wellness Products

Sierra Sage also operates with the non-CBD wellness industry, with their Green Goo and Southern Butter product range offering natural wellbeing remedies for health and recreational uses. According to BusinessWire, the global sexual wellness market has grown at a compound annual growth rate of 7% from 2018 to 2022, a market in which Sierra Sage operates in through their Southern Butter products. Additionally, Sierra Sage's Green Goo products are expected to form part of a global organic skin care market which is set to grow to \$10.6 billion by 2027, with a compounded annual growth rate of 10.9%. Continued and sustained growth in the organic skin care industry has been primarily driven by the average increase in health consciousness of the standard consumer, increases in real household income and increasing environmental, social and governance ratings of organic cosmetic providers.

In the US, the cosmetic industry is heavily regulated by the FDA through the Federal Food, Drug and Cosmetic Care Act, which generally supervises the industry for false and misleading information as well as misbranding of cosmetic products. The safety of products in the US cosmetic industry are the legal responsibility of the producing company, with no legal or FDA enforced regulations surrounding benchmarked safety tests and standards. Additionally, producers of cosmetic products are not required to distribute safety information of their brands to the FDA, however must ensure they are not dangerous to the general public.

**Sources:** IBISWorld Organic Cosmetics and Toiletries Distributors in Australia, June 2021; BusinessWire, US Food and Drug Administration.



## 9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME');
- Discounted cash flow ('DCF');
- Quoted market price basis ('QMP');
- Net asset value ('NAV'); and
- Market based assessment.

A summary of each of these methodologies is outlined in Appendix 2.

### 9.1 Valuation of a Creso Pharma share prior to the Proposed Transaction

In our assessment of the value of a Creso Pharma share prior to the Proposed Transaction we have chosen to employ the following methodologies:

- QMP as our primary methodology, which represents the value that a Shareholder may receive for a share if it were sold on the market. The value derived from this methodology reflects a minority interest value; and
- An assessment of the value of shares in Creso Pharma using trading and transaction revenue multiples as our secondary methodology, based on information identified from comparable listed companies and transactions in the Australian and North American markets. The value derived from this methodology also reflects a minority interest value.

We have chosen these methodologies for the following reasons:

- The QMP basis is a relevant methodology because Creso Pharma's shares are listed on the ASX. This means there is a regulated and observable market where Creso Pharma's shares can be traded. However, in order for the QMP methodology to be considered appropriate, the listed shares should be liquid and the market should be fully informed of the company's activities. As detailed in Section 10.1, we consider there to be a liquid and active market for Creso Pharma shares, therefore we have utilised the QMP approach as our primary valuation methodology in determining the value of a Creso Pharma share prior to the Proposed Transaction;
- The FME methodology is most commonly applicable to profitable businesses with steady growth histories and forecasts. The use of the FME methodology and earnings multiples would be inappropriate for an emerging, loss making company such as Creso Pharma. Earnings multiples are also better suited for sectors that have relatively stable earnings (not losses);
- Management is unable to determine and provide us with future cash flows prepared with a reasonable basis as Creso Pharma is in an expansionary phase in an emerging industry. Using the DCF method is therefore not possible; and
- Companies in emerging industries, such as the medicinal cannabis industry, are typically valued using revenue multiples. Revenue multiples are generally available for medicinal cannabis companies, unlike earnings, which may be negative or nil, therefore providing an inexact representation of the market as it eliminates underperforming or loss making companies from the analysis. Additionally, revenue multiples are typically not as volatile as earnings multiples, which can increase the reliability of use in valuations. Earnings can often be influenced by accounting policies and decision making, whereas revenue is difficult to manipulate. Therefore we have utilised revenue multiples in valuing a Creso Pharma share prior to the Proposed Transaction.

## 9.2 Valuation of a Creso Pharma share following the Proposed Transaction

Under the Proposed Transaction, the Upfront Consideration offered to acquire 100% of the share capital in Sierra Sage is US\$21 million, payable by way of fully paid ordinary shares in Creso Pharma. As part of our valuation of Creso Pharma following the Proposed Transaction, we have not considered the payment of the Milestone Payments, as we do not consider there to be reasonable grounds to assess the probability of Sierra Sage meeting the earn-out hurdles. As such, we have considered the Milestone Payments and the associated impact on Shareholders in Section 13.4 of our Report.

When assessing non-cash consideration in control transactions, RG 111.31 suggests that a comparison should be made between the value of the securities being offered (allowing for a minority discount) and the value of the target entity's securities, assuming 100% of the securities are available for sale. This comparison reflects the fact that:

- (a) the acquirer is obtaining or increasing control of the target; and
- (b) the security holders in the target will be receiving scrip constituting minority interests in the combined entity.

Under RG 111.34 it is noted that if, in a scrip bid, the target is likely to become a controlled entity of the bidder, the bidder's securities can also be valued using a notionally combined entity. However, it should still be noted that the accepting holders are likely to hold minority interests in that combined entity. Following implementation of the Proposed Transaction, Sierra Sage is to become a controlled entity of Creso Pharma. Sierra Sage Vendors collectively will hold approximately 21.64% of the issued share capital in the Creso Pharma but on an individual basis will hold a minority interest.

In our assessment of the value of Creso Pharma following the Proposed Transaction, we have chosen to employ a market based assessment, incorporating the following methodologies:

- QMP of Creso Pharma following the announcement of the Proposed Transaction as our primary approach, as this represents the value, on a minority basis, that a Shareholder can receive for a share in Creso Pharma if sold on the market;
- A Sum-of-Parts approach as our secondary approach, incorporating our valuation of Creso Pharma prior to the Proposed Transaction and a market valuation of Sierra Sage, representing the value of the combined entities; and
- Recent market sales and precedent transactions involving the sale of the Company's shares, commonly in the form of capital raisings, placements and joint ventures, as our tertiary approach, to provide a cross check of the value of a Creso Pharma share on the market.

We have chosen this methodology for the following reasons:

- The value of Creso Pharma shares following the announcement of the Proposed Transaction effectively represents the value of a share in the notionally combined entity, assuming the Proposed Transaction is implemented. We consider the QMP methodology to be relevant given Creso Pharma shares are listed on the ASX, which represents a regulated and observable market where the shares can be traded. As outlined in Section 11.1, we consider there to be a liquid and active market for Creso Pharma securities.
- It is possible for a combination of different methodologies to be used together to determine an overall value. When such a combination of methodologies is used, it is referred to as a 'Sum-of-Parts' valuation. Our Sum-of-Parts valuation effectively combines our valuation of Creso Pharma

prior to the Proposed Transaction with a market valuation of Sierra Sage, utilising revenue multiples, which are often used to value companies in emerging industries, and those with negative earnings. Our valuation also includes the adjusted number of shares on issue following the completion of the Proposed Transaction.

- Consideration can also be given to precedent transactions involving the sale of the Company's shares. In order for this methodology to be effective, the transactions must fulfil the definition of an arm's length transaction between a willing buyer and willing seller, and the interest subscribed for must be substantial enough to indicate the Company's value. We have assessed these factors in Section 11.2 of our Report.

## 10. Valuation of Creso Pharma prior to the Proposed Transaction

### 10.1 Quoted Market Prices for Creso Pharma Securities

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.43 suggests that when considering the value of a company's shares the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

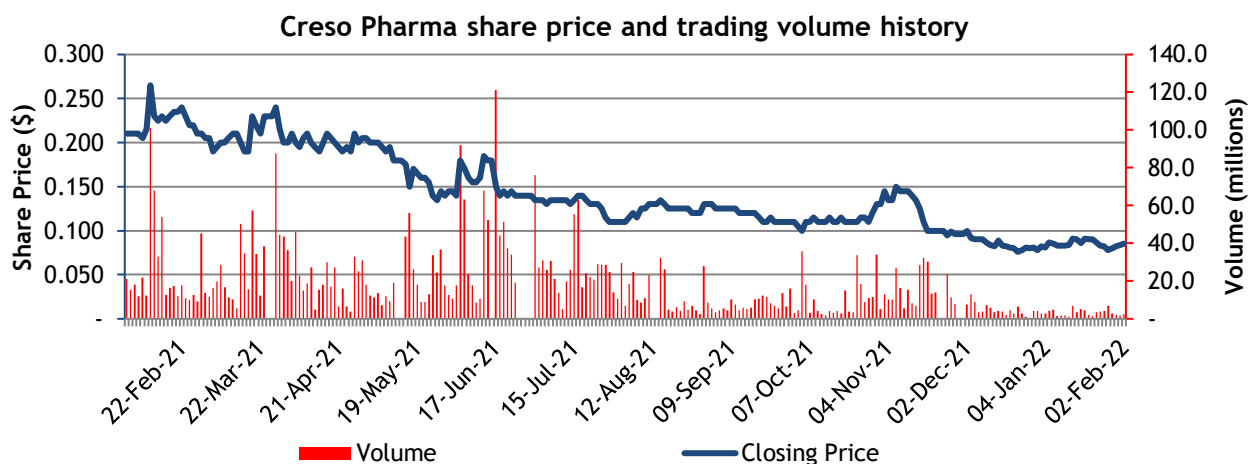
Whilst Sierra Sage will not be obtaining 100% of Creso Pharma, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. The expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 13.

Therefore, our calculation of the quoted market price of a Creso Pharma share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

#### Minority interest value

Our analysis of the quoted market price of a Creso Pharma share is based on the pricing prior to the announcement of the Proposed Transaction. This is because the value of a Creso Pharma share after the announcement may include the effects of any change in value as a result of the Proposed Transaction.

Information on the Proposed Transaction was announced to the market on 3 February 2022. Therefore, the following chart provides a summary of the share price movement over the 12 months to 2 February 2022, which was the last trading day prior to the announcement.



Source: Bloomberg

The daily price of Creso Pharma shares from 2 February 2021 to 2 February 2022 has ranged from a low of \$0.076 on 21 December 2021 to a high of \$0.275 on 10 February 2021. The highest single trading day over the assessed period was 17 June 2021, where 121,080,742 shares were traded, representing approximately 9.34% of the Company's current issued capital.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement \$ (movement)			Closing Share Price Three Days After Announcement \$ (movement)		
02/12/2021	Halucenex Awarded Dealer's License Amendment	0.100	▲	4.2%	0.090	▼	10.0%
15/11/2021	Creso Pharma Completes Integration of ImpACTIVE Assets	0.135	▼	3.6%	0.100	▼	25.9%
08/11/2021	Halucenex Receives Positive USP 61 and USP 62 Results	0.150	▲	11.1%	0.145	▼	3.3%
01/11/2021	Creso Pharma to Enter Swiss Medicinal Cannabis Market	0.130	▲	8.3%	0.135	▲	3.8%
29/10/2021	Quarterly Activities/Appendix 4C Cash Flow Report	0.120	▲	9.1%	0.145	▲	20.8%
05/10/2021	Mernova Secures over A\$800,000 in New Purchase Orders	0.100	▼	4.8%	0.115	▲	15.0%
31/08/2021	NASDAQ Listing & RLH Merger Update and Half Yearly Report and Accounts	0.130	▲	8.3%	0.125	▼	3.8%
16/08/2021	Halucenex Awarded Dealer's License from Health Canada	0.135	▲	3.8%	0.125	▼	7.4%
11/08/2021	Mernova secures medicinal cannabis sales licence & new POs	0.130	▲	4.0%	0.135	▲	3.8%
04/08/2021	Halucenex Continues to Make Progress ahead of Clinical Trial	0.115	▲	4.5%	0.125	▲	8.7%
23/07/2021	Halucenex enters into a MOU with Landing Strong	0.130	►	0.0%	0.110	▼	15.4%
17/06/2021	Creso Pharma & Red Light Holland to Merge	0.150	▼	16.7%	0.140	▼	6.7%
11/06/2021	Creso Pharma completes US OTC dual listing	0.185	▲	15.6%	0.150	▼	18.9%
03/06/2021	Creso & Halucenex welcome Californian Senate Bill	0.180	▲	28.6%	0.155	▼	13.9%
26/05/2021	Halucenex prepares North American market entry	0.135	▼	3.6%	0.145	▲	7.4%
18/05/2021	Creso Launches New Product	0.170	▲	13.3%	0.160	▼	5.9%
17/05/2021	Mernova Awarded Craft Designation with OCS	0.150	▼	14.3%	0.160	▲	6.7%
14/04/2021	Commercial Agreement with Cannabis Queen, South Africa	0.190	▼	2.6%	0.205	▲	7.9%
08/04/2021	Mernova secures new purchase orders & launches new products	0.205	▲	5.1%	0.195	▼	4.9%
26/03/2021	Creso Receives Firm Commitments to Raise \$18M	0.240	▲	4.3%	0.200	▼	16.7%
23/03/2021	Creso to dual list on US OTC & Halucenex Update	0.230	▲	9.5%	0.240	▲	4.3%
15/03/2021	Creso to Acquire Psychedelics Company, Halucenex	0.200	▼	4.8%	0.230	▲	15.0%
01/03/2021	Creso Signs With US Partner and releases Preliminary Final Report	0.210	►	0.0%	0.190	▼	9.5%
08/02/2021	Creso brings CannaQIX sales inhouse to improve margins	0.205	▼	2.4%	0.230	▲	12.2%

Source: Bloomberg and BDO analysis

On 2 December 2021, Creso Pharma announced that Halucenex had been awarded a Dealer's License amendment from Health Canada, allowing for the production, packaging and assembling of psychedelic substances. On the date of the announcement, the share price increased 4.2% to close at \$0.100, before decreasing 10.0% over the subsequent three day trading period to close at \$0.090.

On 15 November 2021, Creso Pharma announced the completion of the integration of ImpACTIVE's assets into its product portfolio. On the date of the announcement, the share price decreased 3.6% to close at \$0.135, before declining a further 25.9% over the subsequent three day trading period to close at \$0.100.

On 8 November 2021, the Company announced that its subsidiary, Halucenex had completed USP 61 and USP 62 testing requirements for the efficacy of psilocybin on treatment resistant PTSD. On the date of the announcement, the share price increased 11.1% to close at \$0.150, before decreasing 3.3% over the subsequent three day trading period to close at \$0.145.

On 29 October 2021, Creso Pharma released its quarterly activities and cash flow reports for the period ended 30 September 2021, highlighting a strong increase in revenue over the period. On the date of the announcement, the share price increased 9.1% to close at \$0.120, before increasing a further 20.8% over the subsequent three day trading period to close at \$0.145.

On 5 October 2021, the Company announced that its subsidiary, Mernova had recorded over \$800,000 in new purchase orders for their cannabis products. On the date of the announcement, the share price decreased 4.8% to close at \$0.100, before increasing 15.0% over the subsequent three day trading period to close at \$0.115.

On 23 July 2021, the Company released an announcement stating that Halucenex had entered into a memorandum of understanding with support service provider, Landing Strong. As part of the agreement, Landing Strong would provide post clinical trial support and workplace integration as part of Halucenex's psilocybin trials. On the date of the announcement, the share price closed unchanged at \$0.130, before decreasing 15.4% over the subsequent three day trading period to close at \$0.110.

On 17 June 2021, Creso Pharma announced that it had entered into a definitive scheme implementation agreement to merge with RLH. On the date of the announcement, the share price decreased 16.7% to close at \$0.150, before declining a further 6.7% over the subsequent three day trading period to close at \$0.140.

On 11 June 2021, the Company released an announcement stating that it had successfully completed a dual listing on the over-the-counter market in the US, and would commence trading under the code COPHF. On the date of the announcement, the share price increased 15.6% to close at \$0.185, before decreasing 18.9% over the subsequent three day trading period to close at \$0.150.

On 3 June 2021, the Company announced that Halucenex was actively exploring a number of market strategies following favourable regulatory shifts in the US. On the date of the announcement, the share price increased 28.6% to close at \$0.180, before declining 13.9% over the subsequent three day trading period to close at \$0.155.

On 18 May 2021, Creso Pharma announced the finalisation of the development of Anibidiol® Swine, a product designed to support stress reduction and wellbeing of pigs reared indoors and outdoors. On the date of the announcement, the share price increased 13.3% to close at \$0.170, before declining 5.9% over the subsequent three day trading period to close at \$0.160.

On 17 May 2021, the Company announced that Mernova was awarded craft designation by the Ontario Cannabis Store, qualifying it to be available for Ontario consumers. On the date of the announcement, the share price declined 14.3% to close at \$0.150, before increasing 6.7% over the subsequent three day trading period to close at \$0.160.

On 26 March 2021, Creso Pharma announced a placement to raise \$18.0 million through the issue of approximately 94.7 million new fully paid ordinary shares at \$0.190 per share, attached with one option

for every four shares subscribed for under the placement. On the date of the announcement, the share price increased 4.3% to close at \$0.240, before declining 16.7% over the subsequent three day trading period to close at \$0.200.

On 23 March 2021, Creso Pharma announced its intention to dual list on the over-the-counter market in the US. On the date of the announcement, the share price increased 9.5% to close at \$0.230, before increasing a further 4.3% over the subsequent three day trading period to close at \$0.240.

On 15 March 2021, the Company announced that it had signed an agreement to acquire Halucenex. On the date of the announcement, the share price decreased 4.8% to close at \$0.200, before increasing 15.0% over the subsequent three day trading period to close at \$0.230.

On 8 February 2021, Creso Pharma released an announcement stating that it had brought CannaQIX® marketing and sales back in-house to improve its margins, following a number of direct inbound sales enquiries. On the date of the announcement, the share price decreased 2.4% to close at \$0.205, before increasing 12.2% over the subsequent three day trading period to close at \$0.230.

To provide further analysis of the market prices for a Creso Pharma share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 2 February 2022.

Share Price per unit	2-Feb-22	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.085				
Volume weighted average price (VWAP)		\$0.083	\$0.084	\$0.108	\$0.112

Source: Bloomberg, BDO analysis

The above weighted average prices are prior to the date of the announcement of the Proposed Transaction, to avoid the influence of any increase in price of Creso Pharma shares that may have occurred since the Proposed Transaction was announced.

An analysis of the volume of trading in Creso Pharma shares for the 180 days to 2 February 2022 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.084	\$0.086	2,314,494	0.18%
10 Days	\$0.076	\$0.093	31,225,485	2.41%
30 Days	\$0.076	\$0.095	98,617,384	7.61%
60 Days	\$0.076	\$0.160	413,263,455	31.88%
90 Days	\$0.076	\$0.160	728,090,521	56.17%
180 Days	\$0.076	\$0.205	2,558,382,478	197.36%

Source: Bloomberg, BDO analysis

This table indicates that Creso Pharma's shares display a high level of liquidity, with 197.36% of the Company's current issued capital being traded in a 180-day period. RG 111.86 states that for the quoted market price methodology to be an appropriate methodology there needs to be a 'liquid and active' market in the shares and allowing for the fact that the quoted price may not reflect their value should 100% of the securities not be available for sale. We consider the following characteristics to be representative of a liquid and active market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;



- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'liquid and active', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of Creso Pharma, we consider the shares to display a high level of liquidity, on the basis that more than 1% of the Company's securities on issue have been traded weekly on average, with 31.88% of the Company's issued capital being traded over a 60-day period, and 56.17% being traded in the last 90 trading days prior to the announcement of the Proposed Transaction.

During the week which included the highest single trading day over the assessed period (15 June 2021 to 18 June 2021), 16.78% of the Company's current issued capital was traded. Additionally, we note that on 16 November 2021, Creso Pharma released a response to an ASX price and volume query, stating that it expected the substantial decline in price and increase in trading volume to be the result of two articles published by an external news source regarding the police execution of a search warrant at the offices of EverBlu Capital, an entity controlled by Adam Blumenthal.

Our assessment is that a range of values for Creso Pharma shares based on market pricing, after disregarding post announcement pricing, is between \$0.085 and \$0.110.

#### Quoted Market Price including control premium

The quoted market price per share reflects the value to minority interest shareholders. In order to value a Creso Pharma share on a control basis, we have added a control premium that is based on our analysis set out in Appendix 3.

Applying a control premium to Creso Pharma's quoted market share price results in the following quoted market price value including a premium for control:

QMP including control premium	Ref	Low	High
Value per share (minority basis)	10.1	\$0.085	\$0.110
Control premium	Appendix 3	25%	35%
<b>Value per share (controlling interest)</b>		<b>\$0.106</b>	<b>\$0.149</b>

Source: BDO analysis

Therefore, our valuation of a Creso Pharma share based on the quoted market price method and including a premium for control is between \$0.106 and \$0.149, with a midpoint value of \$0.128.

## 10.2 Multiples Based Assessment of Creso Pharma

The multiples approach provides an indication of value by comparing a company with identical or comparable (that is similar) companies for which price information is available.

Multiples to arrive at a company's valuation can be derived from public trading companies ('**Trading Multiples**') or from precedent transactions ('**Transaction Multiples**').



The following multiples are typically considered:

- Price / Earnings ('PE') ratios i.e. Enterprise Value ('EV') / Profit after Tax;
- EBITDA multiple i.e. EV / EBITDA;
- EBIT multiple i.e. EV / EBIT; and
- Price to Revenue multiple i.e. EV / Revenue.

Earnings multiples determine the value of a company by multiplying an annual level of earnings by a multiple appropriate to that level of earnings. The underlying economic principle is that there is a strong relationship between the value of an entity and its earnings. This relationship is expected to be relatively consistent within any particular market sector. Earnings multiples are best suited for sectors that have relatively stable earnings and in which there are a number of comparable listed companies. The selection of an appropriate multiple within the range requires judgement, considering qualitative and quantitative factors. For companies with negative earnings and a low level of net assets, multiples derived from revenue are viewed as more appropriate.

Due to the key features of Creso Pharma, we have used revenue multiples derived from comparable publicly traded companies and transactions involving the sale of equity of similar businesses in both Australia and North America, being two key operating regions of Creso Pharma. We have used the revenue reported in the audited financial statement of Creso Pharma for the year ended 31 December 2021.

### Trading Multiples

We selected a group of publicly listed companies considered to be comparable, due to activity or exposure to a similar end user market and risks to Creso Pharma, to determine an appropriate revenue multiple. A brief description of each of the comparable companies is detailed in Appendix 4. In determining an appropriate revenue multiple to apply to Creso Pharma, the following factors were considered:

- Close similarity of operations to Creso Pharma;
- Size of companies, mainly in terms of revenue and net assets;
- Multiples reported by businesses having low or negative earnings;
- Removed outliers and results that are not meaningful; and
- Companies in Australia and North America.

The relevant market based multiple we have selected is the EV / Revenue multiple, wherein EV has been calculated as market capitalisation plus net debt. Market capitalisation is calculated using the company's share price, which itself is reflective of a minority interest in a company. Therefore, we must apply a premium for control in accordance with RG 111 to the EV / Revenue multiples that we assess.

As detailed in Appendix 3, we consider an appropriate control premium for Creso Pharma to be in the range of 25% and 35%. We have therefore applied the control premium range to the market capitalisations of the companies in our group of comparable companies when deriving their EVs.

The table below sets out the Trading Multiples of the comparable listed companies:

Company Name	Net assets (\$m)	Market Cap (\$m)	Net Income (\$m)	Revenue* (\$m)	Low**		High***	
					Enterprise Value (\$m)	Historical Revenue Multiple	Enterprise Value (\$m)	Historical Revenue Multiple
<b>Creso Pharma Ltd</b>	<b>27.8</b>	<b>100.6</b>	<b>(30.0)</b>	<b>6.2</b>	<b>125.7</b>	<b>19.1x</b>	<b>135.8</b>	<b>20.7x</b>
Althea Group Holdings Ltd	46.8	70.3	(13.8)	15.8	82.6	5.2x	89.6	5.7x
Bod Australia Ltd	6.6	25.4	(5.1)	7.6	26.9	3.6x	29.4	3.9x
Cann Group Ltd	102.5	101.2	(24.0)	6.4	151.5	23.7x	161.6	25.3x
Cronos Australia Ltd	21.7	109.7	(0.9)	21.7	125.4	5.8x	136.4	6.3x
Ecofibre Ltd	113.1	187.4	(8.1)	29.6	239.1	8.1x	257.9	8.7x
ECS Botanics Holdings Ltd	20.5	34.3	(4.0)	3.2	35.7	11.1x	39.1	12.2x
Elixinol Wellness Ltd	19.1	22.7	(17.0)	9.3	18.5	2.0x	20.8	2.2x
Epsilon Healthcare Ltd	20.5	15.8	(8.9)	5.5	21.8	4.0x	23.3	4.2x
Hempfusion Wellness Inc.	30.6	36.0	(43.8)	8.6	38.5	4.5x	42.1	4.9x
Little Green Pharma Ltd	88.1	140.5	15.5	10.6	162.8	15.4x	176.9	16.8x
Mean						8.3x		9.0x
Median						5.5x		6.0x

Source: S&P Capital IQ

\*Based on publicly available financial information at 31 December 2021 (covering the most recent twelve month period).

\*\* Enterprise value of comparable companies reflects a premium for control of 25%

\*\*\* Enterprise value of comparable companies reflects a premium for control of 35%

Based on our assessment of the Trading Multiples above, we consider a revenue multiple of between 6.0x and 9.0x for Creso Pharma to be reasonable.

### Transaction multiples as a broad cross-check

An alternative method of arriving at the appropriate multiple is to consider the multiples implied by publicly available information on actual market (merger and acquisition) transactions. Appropriate transactions were selected based on:

- recent arm's length transactions (from the year 2018 and later);
- similar business activities, exposure to similar end user market; and
- those facing similar risks to their ongoing business operations.

We identified eight comparable transactions with publicly available information that allows us to derive a revenue multiple. Note that for comparable transactions where an acquirer obtained control (20% and above) of the business acquired, the implied EV / Revenue multiple reflects a valuation on a control basis and therefore no further control premium adjustment is necessary. The target company descriptions for the list of comparable transactions set out below are contained in Appendix 4.

The table below sets out the Transaction Multiples implied from comparable precedent transactions:

Announced date	Target	Percent sought	Deal value (\$m)	Implied EV (\$m)	Implied equity value (\$m)	Total revenue (\$m)	Net income (\$m)	Total common equity (\$m)	Implied price to revenue multiple
20-Dec-21	Next Green Wave Holdings Inc.	100.0%	91.0	83.8	90.9	24.0	4.4	30.3	3.5x
31-Aug-21	Citizen Stash Cannabis Corp.	100.0%	58.2	57.0	55.7	12.1	(7.2)	9.2	4.7x
10-May-21	Harvest Health & Recreation Inc.	100.0%	3,091.8	2,955.9	2,659.4	362.7	(87.3)	486.4	8.1x
08-Apr-21	The Supreme Cannabis Company, Inc.	100.0%	437.6	369.4	356.5	55.7	(16.1)	242.8	6.6x
16-Feb-21	Zenabis Global Inc.	100.0%	314.5	308.6	148.7	60.3	(55.1)	80.9	5.1x
16-Nov-20	CannPal Animal Therapeutics Ltd	100.0%	17.3	15.9	17.0	0.8	(1.6)	1.4	21.1x
23-Mar-20	Abacus Health Products, Inc.	100.0%	105.5	66.7	104.8	22.1	(23.7)	46.3	3.0x
19-Dec-18	Emblem Corp.	100.0%	188.9	129.8	163.4	6.1	(24.9)	87.5	21.3x
Mean									9.2x
Median									5.9x

Source: S&P Capital IQ

As shown above, the mean revenue multiple based on our identified comparable market transactions is 9.2 times, with a median of 5.9 times. We note we have only used comparable market transactions as a broad cross check to ensure that our revenue multiples adopted are in the appropriate range. On this basis, the revenue multiples from the above transactions are consistent with our assessed multiple range.

### Multiples based assessment of Creso Pharma

As outlined above, our assessment is that an appropriate EV / Revenue multiple to apply to Creso Pharma based on the Trading Multiples and Transaction Multiples, on a control basis, is between 6.0x and 9.0x.

The table below shows the valuation range of Creso Pharma having utilised the multiples based assessment, including a premium for control:

Multiples based assessment of Creso Pharma	Low \$	High \$
Creso Pharma revenue (year ended 31-Dec-21)	6,218,558	6,218,558
Assessed revenue multiple	6.0x	9.0x
<b>Enterprise value of Creso Pharma</b>	<b>37,311,348</b>	<b>55,967,022</b>
Less: Net debt*	7,184,405	7,184,405
<b>Equity value of Creso Pharma</b>	<b>44,495,753</b>	<b>63,151,427</b>
Number of shares on issue	1,296,392,953	1,296,392,953
<b>Value per share (controlling interest)</b>	<b>0.034</b>	<b>0.049</b>

Source: BDO analysis

\*Creso Pharma had negative net debt of \$7.18 million as at 31 December 2021, calculated by subtracting the Company's cash and cash equivalents balance (\$7,184,405) from the Company's short-term and long-term debt (\$nil).

Therefore, our valuation of a Creso Pharma share utilising a multiples based assessment (incorporating a premium for control) is between \$0.034 and \$0.049, with a midpoint value of \$0.042.

### 10.3 Assessment of Creso Pharma Value

The results of the valuations performed are summarised in the table below:

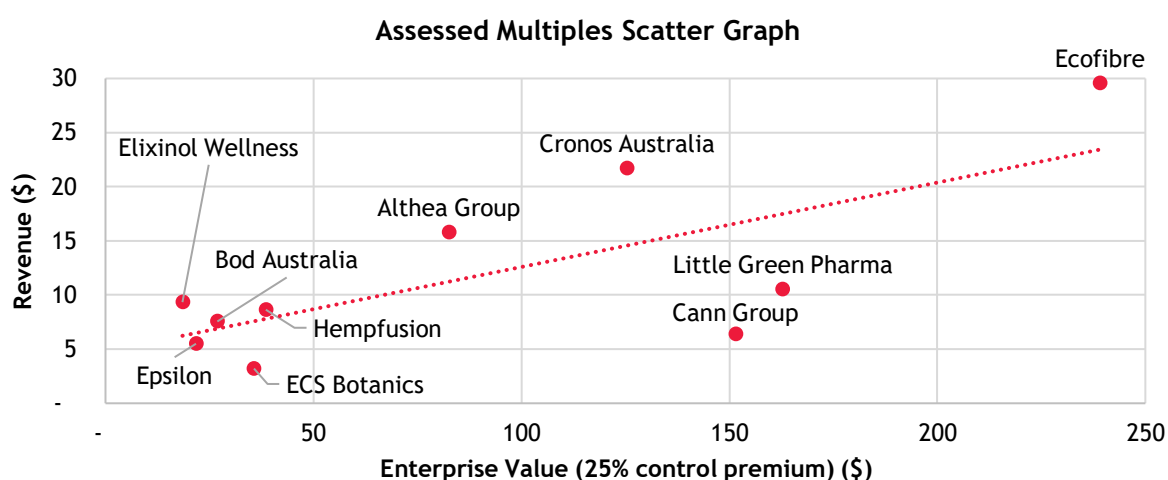
	Low \$	Midpoint \$	High \$
Quoted market price (Section 10.1)	0.106	0.128	0.149
Multiples based assessment (Section 10.2)	0.034	0.042	0.049

Source: BDO analysis

We note that the range of values derived under the QMP approach are higher than the multiples based assessment of Creso Pharma.

Based on the results above we consider the value of a Creso Pharma share to be between \$0.106 and \$0.149, with a midpoint of \$0.128. We consider the QMP approach to be the most appropriate methodology to value a share in Creso Pharma, as this represents the value that a Shareholder would receive if the shares were sold on market. We also consider there to be a regulated, observable and sufficiently deep market for Creso Pharma shares required for the QMP methodology to be appropriate, as detailed in Section 10.1.

As outlined in Section 10.2 of our Report, the multiples derived from the comparable companies and transactions are below the historical and forecast trading multiples for Creso Pharma. We have further analysed the comparable company data by depicting a scatter graph below, utilising a 25% control premium.



As shown above, the data derived from the comparable listed companies is relatively spread out, implying a reasonable variance from the trend line. Further, whilst our assessed multiples range provides a representation of companies in the market that Creso Pharma operates in, it does not consider company specific factors of Creso Pharma, which may be currently priced into Creso Pharma's share price. These factors might include the Dealer's License held by Halucenex, the development of new products by Mernova, or the recent acquisition of ImpACTIVE. As a result, due to the liquidity and the responsiveness of the share price to disclosure, we consider the QMP methodology to be a stronger indicator of the Company's value, and as such, we have relied upon our QMP assessment in determining the value of a share in Creso Pharma prior to the Proposed Transaction.

## 11. Valuation of Creso Pharma following the Proposed Transaction

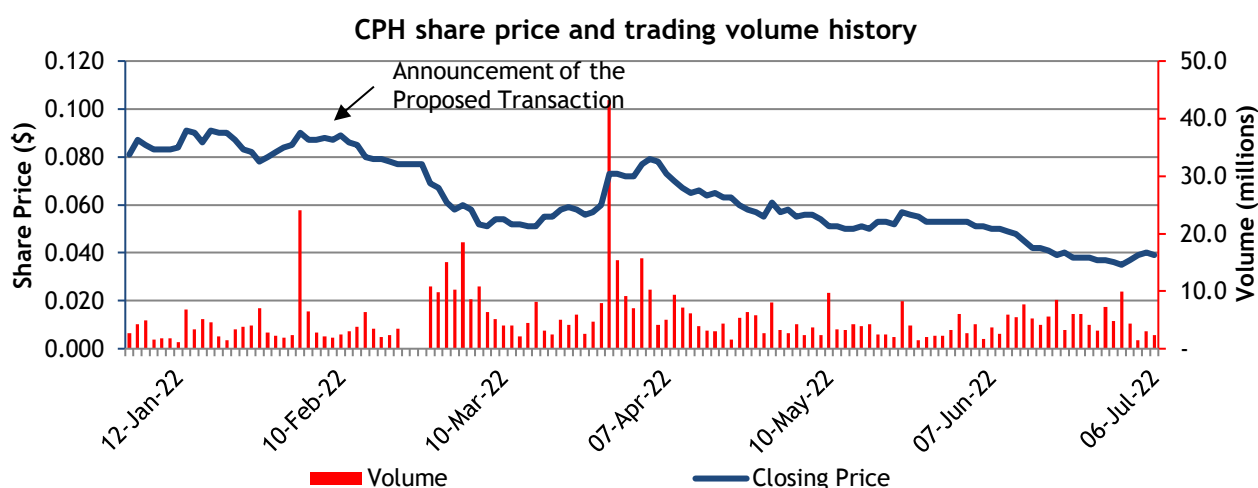
We have employed a market based valuation methodology in estimating the fair market value of a Creso Pharma share following the Proposed Transaction. The application of the market approach that we have employed is to consider the QMP of Creso Pharma shares trading on the ASX following the announcement of the Proposed Transaction, revenue multiples of comparable companies, and precedent transactions involving the Company and its shares.

Key consideration factors for the use of precedent transactions are whether the acquirer of the shares is an unrelated third party and whether the level of interest subscribed for in the Company's equity is substantial enough to indicate the company's value. These factors need to fulfil the definition of an arm's length transaction between a willing buyer and willing seller for the shares in that company.

We have set out our market based approach below.

### 11.1 Quoted Market Prices for Creso Pharma Securities

We have analysed movements in Creso Pharma's share price since the Proposed Transaction was announced. A graph of Creso Pharma's share price and trading volume leading up to, and following the announcement of the Proposed Transaction (covering the period from 4 January 2022 to 6 July 2022) is set out below.



Source: Bloomberg

Over the post-announcement trading period, the share price has varied from a low of \$0.035 on 30 June 2022 and 1 July 2022, to a high of \$0.100 on 3 February 2022. The highest single day of trading was on 29 March 2022, which was the day following an announcement by the Company of the completion of a number of milestones allowing Halucenex to progress its first psilocybin mushroom harvest, where 43,177,743 shares were traded, representing approximately 3.33% of the Company's issued capital.

The table below details the VWAP of Creso Pharma shares for the 30-day period prior to, and the 10, 30, 60 and 90-day periods subsequent to the announcement of the Proposed Transaction on 3 February 2022.

Share Price	3-Feb-22	30 Days Pre	10 Days Post	30 Days Post	60 Days Post	90 Days Post
Closing price	\$0.090					
Volume weighted average price (VWAP)		\$0.084	\$0.089	\$0.069	\$0.067	\$0.064

Source: Bloomberg

Following the announcement of the Proposed Transaction, Creso Pharma's share price increased from a VWAP of \$0.084 over the 30 days prior to the announcement of the Proposed Transaction, to close at \$0.090 on 3 February 2022. The Company's VWAP over the 10 trading days following the announcement of the Proposed Transaction was \$0.089, before falling to \$0.069, \$0.067 and \$0.064 over the 30, 60 and 90 trading days following the announcement, respectively. In the week following the announcement of the Proposed Transaction (3 February 2022 to 9 February 2022), 37,451,428 shares were traded, representing approximately 2.89% of the Company's current issued capital. We note that on the date the Placement was announced, being 25 February 2022, 10,787,157 shares were traded, with the Company's share price regressing from \$0.077 on the previous trading day to close at the Placement price of \$0.069.

An analysis of the volume of trading in Creso Pharma shares over the post-announcement trading period is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day post announcement	\$0.084	\$0.100	24,054,679	1.86%
5 Days post announcement	\$0.084	\$0.100	37,451,428	2.89%
10 Days post announcement	\$0.079	\$0.100	56,654,994	4.37%
30 Days post announcement	\$0.050	\$0.100	182,525,906	14.08%
60 Days post announcement	\$0.050	\$0.100	401,478,591	30.97%
90 Days post announcement	\$0.045	\$0.100	513,411,447	39.61%

Source: Bloomberg, BDO analysis

This table indicates that Creso Pharma's shares have displayed a high level of liquidity following the announcement of the Proposed Transaction, with 39.61% of the Company's current issued capital being traded in a 90 day period following the announcement of the Proposed Transaction.

As outlined above, Creso Pharma's VWAP over the 30 trading days following the announcement of the Proposed Transaction was \$0.069, with the minimum traded price falling to \$0.050. Over the 90 trading days following the announcement, the minimum traded price fell to \$0.045, before falling further to \$0.035 over subsequent days. Over the post-announcement trading period, Creso Pharma announced a number of new product launches, secured clinical trial authorisation with Health Canada, released its annual report for the year ended 31 December 2021, and announced the Placement. Whilst it is possible that a negative market reaction to a number of these events has resulted in the decline of Creso Pharma's share price and VWAP, it is likely that the market reaction to the conflict between Russia and Ukraine, and the recent high inflationary and interest rate environment in Australia has also played a part in this decline. We have considered this likelihood in our assessment of the value of a Creso Pharma share based on QMP, following the Proposed Transaction.

Our assessment is that a range of values for Creso Pharma shares based on QMP is between \$0.065 and \$0.080.

## 11.2 Sum of Parts Valuation

We have valued Creso Pharma following the Proposed Transaction using a Sum-of-Parts approach, with our valuation including:

- The value of Creso Pharma prior to the Proposed Transaction;
- A market valuation of Sierra Sage;
- A minority interest discount; and
- The adjusted number of shares on issue following the completion of the Proposed Transaction.

The summary of our Sum-of-Parts valuation is set out in the table below:

Valuation of Creso Pharma following the Proposed Transaction	Ref	Low \$	Midpoint \$	High \$
Value of Creso Pharma prior to the Proposed Transaction	11.2.1	137,417,653	165,938,298	193,162,550
Market valuation of Sierra Sage	11.2.2	16,534,882	27,885,057	39,235,232
<b>Total value of Creso Pharma following the Proposed Transaction (control)</b>		<b>153,952,535</b>	<b>193,823,355</b>	<b>232,397,782</b>
Number of shares outstanding	11.2.3	1,654,462,650	1,654,462,650	1,654,462,650
<b>Value per share (\$) (control)</b>		<b>0.093</b>	<b>0.117</b>	<b>0.140</b>
Minority interest discount	Appendix 3	26%	23%	20%
<b>Value per share (\$) (minority interest)</b>		<b>0.069</b>	<b>0.090</b>	<b>0.112</b>

Source: BDO analysis

We have assessed the value of a share in Creso Pharma following the Proposed Transaction, on a minority interest basis, based on a Sum-of-Parts valuation methodology to be in the range of \$0.069 to \$0.112 with a midpoint value of \$0.090. We note that this assessment only considers the Upfront Consideration, and not the Milestone Payments, as we do not have reasonable grounds to value Sierra Sage on the basis of the Milestone Payments. We have considered the impact of the Milestone Payments in Section 13.4.

### 11.2.1. Valuation of Creso Pharma prior to the Proposed Transaction

As outlined in Section 10.3, we consider the value of a Creso Pharma share prior to the Proposed Transaction to range from \$0.106 and \$0.149, with a midpoint value of \$0.128. We have outlined below the range of values this equates to:

Valuation of Creso Pharma prior to the Proposed Transaction	Low \$	Midpoint \$	High \$
Value of a Creso Pharma share	0.106	0.128	0.149
Number of shares on issue prior to the Proposed Transaction	1,296,392,953	1,296,392,953	1,296,392,953
<b>Value of Creso Pharma prior to the Proposed Transaction</b>	<b>137,417,653</b>	<b>165,938,298</b>	<b>193,162,550</b>

Source: BDO analysis

### 11.2.2. Market valuation of Sierra Sage

Similar to our analysis in Section 10.2, we have also assessed the value of Sierra Sage by comparing it with similar companies for which price information is available. Due to the key features of Sierra Sage, we have used revenue multiples derived from comparable publicly traded companies, and transactions involving the sale of equity of similar businesses in both Australia and North America, in determining a market value

for Sierra Sage. We have restricted our search to companies primarily operating in the non-CBD health and wellness markets, whilst also considering the multiples derived in Section 10.2 of our Report, providing representation for both CBD and non-CBD based products.

In our valuation, we have used the revenue reported in the reviewed financial statements of Sierra Sage for the years ended 31 December 2019 and 31 December 2020, and the revenue reported in the management accounts for the year ended 31 December 2021. Specifically, revenue of US\$4.97 million for the year ended 31 December 2021, and the average revenue of US\$6.30 million over the three-year period were used as inputs into our valuation.

### Trading Multiples

We selected a group of publicly listed companies considered to be comparable, due to activity or exposure to a similar end user market and risks to Sierra Sage, to determine an appropriate revenue multiple. A brief description of each of the comparable companies is detailed in Appendix 4. In determining an appropriate revenue multiple to apply to Sierra Sage, the following factors were considered:

- Similarity of operations to Sierra Sage;
- Multiples reported by businesses having low or negative earnings;
- Removed outliers and results that are not meaningful; and
- Companies in Australia and North America.

The relevant market based multiple we have selected is the EV / Revenue multiple, wherein EV has been calculated as market capitalisation plus net debt. Market capitalisation is calculated using the company's share price, which itself is reflective of a minority interest in a company. In our Sum-of-Parts valuation, as our valuation of Creso Pharma prior to the Proposed Transaction is on a controlling basis, we also need to perform our market valuation of Sierra Sage on a controlling basis, before applying a minority interest discount to the collective value per share.

As detailed in Appendix 3, we consider an appropriate control premium to be in the range of 25% and 35%. We have therefore applied the control premium range to the market capitalisations of the companies in our group of comparable companies when deriving their EVs.

The table below sets out the Trading Multiples of the comparable listed companies:

Company Name	Net assets (\$m)	Market Cap (\$m)	Net Income (\$m)	Revenue* (\$m)	Low**		High***	
					Enterprise Value (\$m)	Historical Revenue Multiple	Enterprise Value (\$m)	Historical Revenue Multiple
Anagenics Limited	10.7	13.2	(2.8)	7.2	13.5	1.9x	14.9	2.1x
Biome Australia Limited	8.6	24.0	(4.5)	3.2	22.7	7.1x	25.1	7.8x
BWX Limited	388.3	699.9	11.7	212.9	911.6	4.3x	981.6	4.6x
e.l.f. Beauty, Inc.	420.1	2,376.5	27.8	522.2	3,089.2	5.9x	3,326.9	6.4x
Eve Health Group Limited	7.1	15.4	(5.5)	2.3	19.3	8.4x	20.8	9.1x
LifeVantage Corporation	47.8	115.1	13.8	291.2	140.0	0.5x	151.5	0.5x
Mannatech, Incorporated	33.6	101.3	13.5	219.7	101.8	0.5x	111.9	0.5x
McPherson's Limited	111.7	104.8	(8.2)	207.6	155.1	0.7x	165.6	0.8x
The Honest Company, Inc.	246.3	1,012.8	(53.2)	438.2	1,189.5	2.7x	1,290.7	2.9x
<b>Mean</b>						<b>3.6x</b>		<b>3.9x</b>
<b>Median</b>						<b>2.7x</b>		<b>2.9x</b>

Source: S&P Capital IQ



\*Based on publicly available financial information at 31 December 2021 (covering the most recent twelve month period).

\*\* Enterprise value of comparable companies reflects a premium for control of 25%.

\*\*\* Enterprise value of comparable companies reflects a premium for control of 35%.

Based on our assessment of the Trading Multiples above, we consider a revenue multiple of between 3.0x and 4.0x for Sierra Sage to be reasonable.

### Transaction multiples as a broad cross-check

Similar to Section 10.2, we have also used transaction multiples in determining an appropriate revenue multiple range to apply to Sierra Sage. Appropriate transactions were selected based on:

- recent arm's length transactions (from the year 2012 and later);
- similar business activities, exposure to similar end user market; and
- those facing similar risks to their ongoing business operations.

We identified seven comparable transactions with publicly available information that allows us to derive a revenue multiple. Note that for comparable transactions where an acquirer obtained control (20% and above) of the business acquired, the implied EV / Revenue multiple reflects a valuation on a control basis and therefore no further control premium adjustment is necessary. The target company descriptions for the list of comparable transactions set out below are contained in Appendix 4.

The table below sets out the Transaction Multiples implied from comparable precedent transactions:

Announced date	Target	Percent sought	Deal value (\$m)	Implied EV (\$m)	Implied equity value (\$m)	Total revenue (\$m)	Net income (\$m)	Total common equity (\$m)	Implied price to revenue multiple
28-Sep-21	DERMAdoctor, Inc.	100%	23.4	23.2	14.9	8.1	0.2	(0.6)	2.8x
23-Feb-21	DECIEM Inc.	47%	1,380.1	2,936.3	2,936.3	581.4	n/a*	n/a*	5.1x
15-Dec-20	Way of Will Inc.	100%	6.2	6.2	6.2	2.1	(0.6)	n/a*	3.0x
08-Oct-19	Drunk Elephant Holdings, LLC	100%	1,256.0	1,256.0	1,256.0	111.5	n/a*	n/a*	11.3x
24-Jan-18	Rimports Inc.	100%	210.5	210.5	179.6	192.0	n/a*	n/a*	1.1x
22-Jul-16	IT Cosmetics, LLC	100%	1,611.1	1,611.1	1,611.1	244.3	n/a*	n/a*	6.6x
08-Jun-12	Agera Laboratories Inc.	57%	0.9	1.2	0.7	0.8	n/a*	n/a*	1.4x
Mean									4.5x
Median									3.0x

Source: S&P Capital IQ

\*n/a denotes information not available via the S&P Capital IQ platform.

As shown above, the mean revenue multiple based on our identified comparable market transactions is 4.5 times, with a median of 3.0 times. We note we have only used comparable market transactions as a broad cross check to ensure that our revenue multiples adopted are in the appropriate range. On this basis, the revenue multiples from the above transactions are consistent with our assessed multiple range.

### Assessment of a revenue multiple

As outlined above, we restricted our search to companies primarily operating in the non-CBD health and wellness markets. However, as Sierra Sage's Good Goo brand produces CBD-based products, we also consider the multiple range derived in Section 10.2 to be relevant. As such, considering both assessed ranges, our assessment is that an appropriate EV / Revenue multiple to apply to Sierra Sage, on a control

basis, is between 4.0x and 6.0x, as outlined below. We have selected this range based on the high multiple assessed under the non-CBD based comparable companies above, and the low multiple assessed in Section 10.2.

Assessed multiple range	Low	High
Trading Multiples	3.0x	4.0x
Assessed range involving CBD-based companies	6.0x	9.0x
<b>Assessed multiple range</b>	<b>4.0x</b>	<b>6.0x</b>

Source: BDO analysis

The main factors which we consider must be applied to adjust the multiple derived from the comparable listed multiple to determine a multiple for Sierra Sage, are set out in the paragraphs below.

### Lack of Marketability

We note that Sierra Sage is a privately held company and private companies are valued at a discount to comparable listed companies. The discount takes into account that a holder of shares in a private company has less liquidity to enable value to be realised, as the sale of the shares to a private buyer will typically involve a significant period of marketing and transaction costs.

There is no definite and single formula to assess such discounts. The degrees of discounts to be applied in any particular valuation are largely dependent on the circumstances in each case. In determining the appropriate discounts for lack of marketability, one has to take into consideration various situation specific factors which include:

- The existence of any form of market in which the shareholdings could be traded;
- Level of historical and prospective cash dividends;
- The size of the shareholding;
- Whether there are any prospects for the shares to become readily marketable/more marketable, or any restrictions on trading to be lifted;
- The impact of any provisions (such as restrictions on transfer) and articles of association of the company, and (depending on the purpose of the valuation) the terms of any Shareholders' Agreements; and
- The way in which the value to which the discount is being applied has been derived.

The actual discount, or range of discounts, to be applied in any valuation will depend on specific situational factors. The first, and obvious consideration, is the general liquidity of the shares, either within the existing shareholder group or in a wider market. Other considerations would be the nature of the business, for example, shares in property holding companies and investment trusts generally trade at a lower discount, even in unquoted companies, than the more traditional industrial or service companies.

Implicitly, the discount applied usually incorporates a discount for unlisted status. Whilst theoretically, the discount for the unlisted status of the company should be considered independently of the lack of marketability of the shares, it has not been possible for this differentiation to be made in practical terms.

## Small Size

A significant difference exists between Sierra Sage and a number of the most comparable publicly listed companies in terms of size and scale, as outlined above. Accordingly, it is appropriate to discount the base multiple for the size and scale of Sierra Sage.

## Multiple adopted

In consideration of the above factors, we consider that a discount of 20% to 25% should be applied to the comparable listed company multiple range to derive an appropriate revenue multiple to apply to Sierra Sage. This results in a multiple in the range from 3.0 times to 4.8 times as set out in the table below.

	Low	High
Comparable company revenue multiples	4.0x	6.0x
Discount for above factors	25%	20%
<b>Adjusted revenue multiple</b>	<b>3.0x</b>	<b>4.8x</b>

Source: BDO analysis

Accordingly, we have outlined below the valuation range of Sierra Sage having utilised the multiples based assessment:

Multiples based assessment of Sierra Sage	Low	High
Sierra Sage revenue (US\$)	4,972,711	6,300,131
USD:AUD average exchange rate over revenue period	1.3323**	1.4079**
<b>Sierra Sage revenue (\$)</b>	<b>6,625,143</b>	<b>8,869,954</b>
Assessed revenue multiple	3.0x	4.8x
<b>Enterprise value of Sierra Sage (\$)</b>	<b>19,875,429</b>	<b>42,575,779</b>
Less: Net debt* (\$)	(3,340,547)	(3,340,547)
<b>Equity value of Sierra Sage (\$)</b>	<b>16,534,882</b>	<b>39,235,232</b>

Source: BDO analysis

\*Sierra Sage had net debt of \$3.34 million as at 31 December 2021, calculated by subtracting the Company's cash and cash equivalents balance (US\$269,433) from the Company's short-term and long-term debt (US\$2,695,569), and converted to AUD using the exchange rate of 1.3769 as at 31 December 2021, as sourced from Bloomberg.

\*\*The average USD:AUD exchange rate over the year ended 31 December 2021 was 1.3323, whilst the average USD:AUD exchange rate over the three-year period ended 31 December 2021 was 1.4079, as sourced from Bloomberg.

Therefore, our valuation of Sierra Sage utilising a multiples based assessment (incorporating a premium for control) is between \$16.53 million and \$39.24 million, with a mid-point of \$27.89 million.

### 11.2.3. Number of shares outstanding following the Proposed Transaction

Following the Proposed Transaction, Creso Pharma will have approximately 1.65 billion shares on issue (on an undiluted basis), as set out in the table below:

Shares on issue	Number
Fully paid ordinary shares on issue prior to the Proposed Transaction	1,296,392,953
Shares to be issued initially under the Proposed Transaction (Upfront Consideration)	358,069,697
<b>Shares on issue immediately following the Proposed Transaction</b>	<b>1,654,462,650</b>

Source: BDO analysis

## 11.3 Precedent Transactions

On 25 February 2022, following the announcement of the Proposed Transaction, Creso Pharma announced the Placement, to raise approximately \$5.0 million through the issue of 72.4 million new fully paid ordinary shares in Creso Pharma to sophisticated, institutional and professional investors, at an issue price of \$0.069. The issue price represented a 10.4% discount to the closing price of Creso Pharma shares on the last trading day prior to the announcement of the Placement of \$0.077.

The Placement represents a completed transaction between a number of willing buyers and a willing seller at arm's length. In addition, the total interest acquired by unrelated institutional investors, being 67.85 million shares in Creso Pharma, represents approximately 5.23% of the Company's current issued capital, being substantial enough to represent the minority interest value of Creso Pharma shares. The Placement shares that did not require Shareholder approval to be issued were quoted on the ASX on 2 March 2022.

Therefore, our assessment of the value of a Creso Pharma share following the Proposed Transaction, based on precedent transactions, is the issue price of \$0.069. As the Proposed Transaction had already been announced to the market prior to the announcement of the Placement, we consider it likely that the institutional investors had priced in the likelihood of the Proposed Transaction being approved, and thus, the issue price is representative of the value of the Company following the Proposed Transaction. We note that the precedent transactions approach reflects the value to minority interest shareholders, and as such, we have not applied a minority interest discount to this value.

## 11.4 Value of Creso Pharma following the Proposed Transaction

We have considered the quoted market price of Creso Pharma shares, a Sum-of-Parts valuation and precedent transactions involving Creso Pharma shares following the announcement of the Proposed Transaction, in estimating the fair market value of a Creso Pharma share following the Proposed Transaction.

The results of the valuations performed are summarised in the table below:

	Low \$	Midpoint \$	High \$
Quoted market prices (Section 11.1)	0.065	0.073	0.080
Sum-of-Parts (Section 11.2)	0.069	0.090	0.112
Precedent transaction (Section 11.3)	0.069	0.069	0.069

Source: BDO analysis

Based on the results above we consider the value of a Creso Pharma share following the Proposed Transaction to be between \$0.069 and \$0.112, with a midpoint of \$0.090. We have concluded on a wide range of values based on our Sum-of-Parts valuation methodology, which is broadly supported by our assessed range of values based on QMP and precedent transactions.

We consider the Sum-of-Parts approach to be an appropriate methodology to value a share in Creso Pharma, as it represents the added value as a result of the completion of the Proposed Transaction. Our Sum-of-Parts valuation considers the value of Creso Pharma prior to the Proposed Transaction, and adds a market valuation of Sierra Sage based on revenue multiples assessed in the market. The total value is then divided by the adjusted number of shares on issue following the issue of the Upfront Consideration, to depict the value of a share in the notionally combined entity.

We also consider the QMP approach to be a relevant methodology, as this represents the value that a Shareholder would receive if the shares were sold on the market. Our analysis in Section 11.1 indicates that Creso Pharma shares have a high level of liquidity following the announcement of the Proposed Transaction, with 39.61% of the Company's current issued capital being traded in the 90 days following the announcement. Additionally, we note that the recent capital raising price of \$0.069 per share is contained within our valuation range, providing further support for this range of values, as this price per share was subscribed for by institutional investors for approximately 5.23% of Creso Pharma's current issued capital.

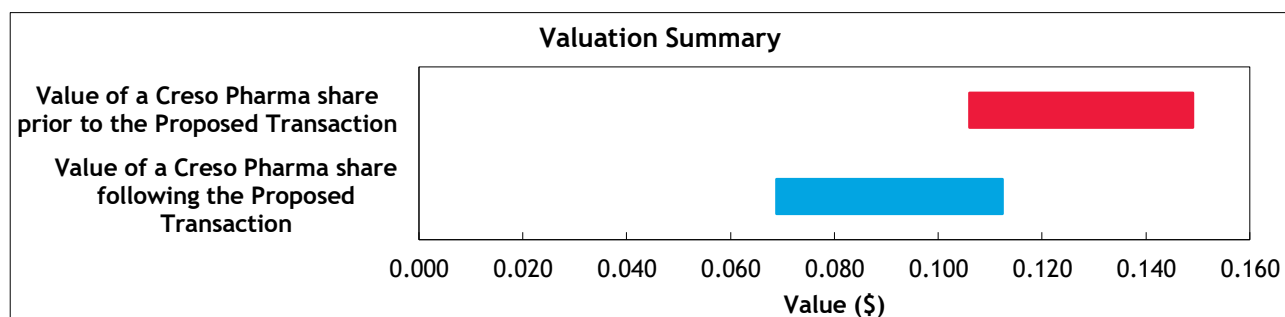
## 12. Is the Proposed Transaction fair?

A comparison of the value of a Creso Pharma share prior to the Proposed Transaction, on a control basis, and the value of a Creso Pharma share following the Proposed Transaction, on a minority interest basis, is set out below:

	Low \$	Midpoint \$	High \$
Value of a Creso Pharma share prior to the Proposed Transaction (controlling basis)	0.106	0.128	0.149
Value of a Creso Pharma share following the Proposed Transaction (minority interest basis)	0.069	0.090	0.112

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

The above pricing indicates that, in the absence of any other relevant information, and an alternative offer, the Proposed Transaction is not fair for Shareholders.

We note that RG 111 states that an offer is fair if the value of the offer price or consideration is equal to or greater than the value of the securities which are the subject of the offer. Despite this, our assessment is that the Proposed Transaction is not fair as our valuation of Creso Pharma following the Proposed Transaction is less than our valuation of Creso Pharma prior to the Proposed Transaction at each of the low, mid, and high points of our valuation ranges.

Further, we note that whilst the low valuation point prior to the Proposed Transaction and the high valuation point following the Proposed Transaction overlap, it would be inappropriate to compare these two points, as our valuation of Creso Pharma following the Proposed Transaction is inclusive of our pre-transaction value. As a result, comparing these points would imply two different values for the same assets. Therefore, the above valuations must be compared on a like for like basis at individual points, rather than across the range.

Accordingly, we consider the Proposed Transaction to be not fair for Shareholders.

## 13. Is the Proposed Transaction reasonable?

### 13.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Creso Pharma a premium over the value resulting from the Proposed Transaction.

### 13.2 Practical Level of Control

If the Proposed Transaction is approved then Sierra Sage Vendors will hold an interest of approximately 21.64% in Creso Pharma. In addition to this, Jodi Scott will join the Creso Pharma Board as an Executive Director.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution requires 75% of shares on issue to be voted in favour to approve a matter. If the Proposed Transaction is approved, following the issue of the Upfront Consideration, Sierra Sage Vendors will not be able to block special resolutions. However, if Sierra Sage achieves the minimum earn-out hurdle in either 2022 and 2023, then it is likely that the Vendors will be able to block special resolutions.

Creso Pharma's Board currently comprises six directors. Following approval of the Proposed Transaction, Jodi Scott, CEO and co-founder of Sierra Sage, will join the Creso Pharma Board as an Executive Director. This means that Sierra Sage nominated directors will make up approximately 14% of the Board.

Therefore, Sierra Sage's control of Creso Pharma following the Proposed Transaction will be significant when compared to all other Shareholders.

### 13.3 Consequences of not Approving the Proposed Transaction

#### Consequences

If the Proposed Transaction is not approved, Creso Pharma will not acquire 100% of the share capital in Sierra Sage. As outlined in the Company's announcement of the Proposed Transaction dated 3 February 2022, the primary rationale for the Proposed Transaction is the entrance into the US CBD market, amongst other perceived benefits. If the Proposed Transaction is not approved, and should Creso Pharma still seek to enter the US market, it may need to enter into future transactions in order to do so, which may or may not be on more favourable terms than the Proposed Transaction.

#### Potential decline in share price

We have outlined in Section 11.1 the price and trading volume movements over the post-announcement trading period. Based on the steady decline in price of Creso Pharma securities we have observed in our analysis, we consider that if the Proposed Transaction is not approved then Creso Pharma's share price is unlikely to decline further.

### 13.4 Deferred Consideration

As outlined in Section 9.2 of our Report, we have not considered the Milestone Payments as part of our fairness assessment, as we do not consider there to be reasonable grounds to assess the probability of Sierra Sage meeting the earn-out hurdles. However, as part of our reasonableness assessment of the Proposed Transaction, we have assessed the potential value accretion of the earn-out, should Sierra Sage meet the hurdles in 2022 and 2023, respectively.

In assessing the impact of the Milestone Payments on Creso Pharma and its Shareholders, we have compared the total consideration with the value created by Sierra Sage based on the revenue multiples in Section 11.2. Set out below is the consideration payable under each scenario.

Consideration for the Proposed Transaction	Minimum Hurdles US\$	Middle Hurdles US\$	Maximum Hurdles US\$
Upfront Consideration	21,000,000	21,000,000	21,000,000
Milestone Payment 1	7,500,000	11,250,000	15,000,000
Milestone Payment 2	11,750,000	17,625,000	23,500,000

Source: BDO analysis

#### Milestone Payment 1

Milestone Payment 1 is payable upon Sierra Sage generating revenue of US\$7.5 million under the minimum hurdle, US\$8.5 million under the middle hurdle, and US\$10 million under the maximum hurdle, with the associated adjusted EBITDA margins (refer Section 4). On balance we consider that these milestone payments would be value accretive to Creso Pharma, however this is based on current market multiples and market conditions.

#### Milestone Payment 2

Due to the various scenarios possible regarding Milestone 2, based on our assessment, we have considered that more scenarios are likely to provide an uplift in value to Shareholders than not.

We note that there are a number of caveats to the above analysis. Firstly, as stated above, we do not consider there to be reasonable grounds to assess the probability of Sierra Sage achieving the above earn-out hurdles. Secondly, we have utilised the net debt position of Sierra Sage as at 31 December 2021, which is unlikely to be the same position as at both 31 December 2022 and 31 December 2023. Finally, our assessed revenue multiples were primarily based on comparable listed companies for the year ended 31 December 2021. As such, these multiples are highly subject to change over the future periods.

#### Dilutionary Impact

The Milestone Payments are payable by either cash, or the issue of Creso Pharma shares based on the higher of the 10-day VWAP of Creso Pharma shares as of one day prior to calculating the relevant Milestone Payment, or \$0.02, and the exchange rate as at two days prior to the date of calculating the relevant Milestone Payment. The calculation in Section 4 of our Report is based on the floor price of \$0.02, and our adopted exchange rate, which equates to a total interest of 70.39%. We note that the current share price of Creso Pharma is substantially above the floor price, and as such, the 70.39% interest is effectively the maximum dilution possible from the issue of shares the subject of the Milestone Payments.

Should the 10-day VWAP of \$0.083 as at the announcement date be adopted in the calculation of the shares to be issued, Sierra Sage's maximum interest upon achievement of the top earn-out hurdles would



be approximately 44%, which we consider to be a better estimate of the shareholding of Sierra Sage upon completion of the earn-out.

### **13.5 Advantages of Approving the Proposed Transaction**

We have considered the following advantages when assessing whether the Proposed Transaction is reasonable.

#### **13.5.1. Entry into the US market**

Through the acquisition of Sierra Sage, Creso Pharma will acquire an established US company with existing relationships in the US market. This will provide Creso Pharma with a platform to enter the US market, as Sierra Sage currently has over 110,000 points of sale, with its products being sold across large retailers such as Whole Foods, Amazon, Target and Kroger. Further, as outlined in Section 8.1.2 of our Report, the US cannabis market currently has an inconsistent regulatory environment, where legislation is commonly dissimilar across national and state governments. Having a US operating subsidiary will allow Creso Pharma to better act on any future regulatory changes in the US, specifically regarding the legalisation of THC products, should they arise.

The US CBD market has undergone significant growth over recent periods, and is expected to grow further over the medium term. Statista expects the size of the US CBD market to be US\$1.8 billion, growing to approximately US\$16 billion in 2025. By acquiring Sierra Sage, Shareholders will gain access to a large and established CBD market, which may come with the benefit of greater product recognition, more analyst coverage, a deeper market understanding and stronger investor interest.

#### **13.5.2. Access to Sierra Sage's existing network and supply chain**

Approval of the Proposed Transaction will gain Creso Pharma access to Sierra Sage's existing networks, relationships and supply chain. Sierra Sage currently sources raw materials only from approved vendors, has access to an FDA approved facility operating under US goods manufacturing practices, and distributes its products through large retailers and its e-commerce website. Following the Proposed Transaction, Sierra Sage will market and distribute Creso Pharma's flagship CannaQIX®50 lozenge product under its Good Goo brand, providing Creso Pharma with an opportunity to immediately generate revenue through Sierra Sage's existing network.

Management of Sierra Sage has advised that its proprietary lipid-infusion process allows for greater production efficiencies, as it is being undertaken at all times. As a result of this, Sierra Sage experiences lower minimum order quantities and reduced lead times in production. Access to this will provide Creso Pharma with a production location for swift integration into the US market, and potentially allow for the development of additional Creso Pharma products using Sierra Sage's proprietary processes.

Further, the Company is hoping to grow its ImpACTIVE product offering through the marketing of its products through Sierra Sage's existing channels of distributors. If successfully implemented, Creso Pharma will be able to manufacture ImpACTIVE products at Sierra Sage's existing facility in the US, to then sell the products through its distribution channels, streamlining the sales process and potentially leading to savings as the products would not need to be manufactured outside the US.

#### **13.5.3. Diversification of product offering**

Creso Pharma specialises in the development and commercialisation of hemp and cannabis products. More specifically, Creso Pharma produces CBD-based therapeutic and nutraceutical products to the global

market. Additionally, through its wholly owned subsidiary, Halucenex, Creso Pharma is involved in the psychedelic drug market, currently testing the efficacy of psilocybin for use in treatment resistant PTSD.

Following the acquisition of Sierra Sage, Creso Pharma will acquire a cash generating unit that is not principally dependent on the production and sale of drug based products. Sierra Sage's Green Goo and Southern Butter brands produce non-CBD wellness products, such as sanitizers, hand soap, natural skin care, deodorant, body butters, massage oils and pet products, which currently account for approximately 83% of the revenue generated by Sierra Sage. This allows for a diversification in product offering for Creso Pharma, and will also allow for the sale of Sierra Sage's non-CBD products to existing partners that were previously unable to sell the Company's products due to CBD regulations.

Exposure to a suite of non-CBD based wellness products may diversify away part of the industry specific risk associated with holding shares in a company that only sells cannabis or psychedelic drug based products.

#### **13.5.4. Increased experience and broader expertise of the board of directors and management team of Creso Pharma**

As detailed in Section 4 of our Report, if the Proposed Transaction is approved by Shareholders, Jodi Scott (CEO and Co-Founder of Sierra Sage) will join the current Creso Pharma board as a director of the Company. The board of Creso Pharma following the approval of the Proposed Transaction is set out below:

- Dr. James Ellingford - Non-Executive Chairman;
- Mr. William Lay - Chief Executive Officer and Managing Director;
- Mrs. Micheline MacKay - Executive Director;
- Mrs. Jodi Scott - Executive Director and President of US Operations;
- Mr. Adam Blumenthal - Non-Executive Director;
- Mr. Boaz Wachtel - Non-Executive Director; and
- Mr. Bruce Linton - Non-Executive Director.

The addition of Jodi Scott to the board provides Creso Pharma with an individual with extensive experience in the US market, having been primarily responsible for the strategic direction of Sierra Sage since 2008, overseeing Sierra Sage's sales of approximately US\$30 million over the period.

Jodi Scott completed a Master of Science degree, specialising in health psychology at Texas State University. Additionally, Jodi Scott has a background working with disadvantaged, chronically ill and impoverished patients seeking medical and therapeutic care, at a previous private practice of her own. This experience may be beneficial to the operations of Creso Pharma through the production and sale of its medicinal CBD products, and also potentially through Halucenex's clinical trials, testing the efficacy of use of psilocybin for treatment of PTSD patients.

The management team of Sierra Sage has progressed it to its current position, however in the event that the Proposed Transaction is approved, Sierra Sage will have the benefit of having access to a broader management team with a more diversified set of credentials and experience.

### **13.5.5. Acquiring Sierra Sage through the issue of equity rather than cash will not have a negative impact on Creso Pharma's working capital**

Approval of the Proposed Transaction means that the Company will issue an estimated 358,069,697 shares as part of the Upfront Consideration. An alternative strategy may be to enter into an acquisition agreement where the Company would pay cash to acquire another entity, which would impact the Company's working capital position.

Should Sierra Sage not satisfy the performance hurdles to qualify for the Milestone Payments, Creso Pharma will not be required to pay any additional consideration to the Vendors as part of the Proposed Transaction. However, if Sierra Sage does satisfy the performance hurdles to qualify for the Milestone Payments, Creso Pharma may elect, at its sole discretion to settle the payments in either cash or Creso Pharma scrip. As such, should Creso Pharma elect to issue shares to settle the Milestone Payments, its working capital position will not be negatively impacted.

Alternatively, we also note that in its management accounts as at 31 December 2021, Sierra Sage had borrowings of US\$2,841,333 relating to a line of credit and related party loans. Should these borrowings be repayable in the near term, this may put a strain on Creso Pharma's cash and working capital positions, however, Creso Pharma has advised that it expects Sierra Sage's US\$2.0 loan with LaPlata Capital to be refinanced.

## **13.6 Disadvantages of Approving the Proposed Transaction**

If the Proposed Transaction is approved, in our opinion, the potential disadvantages to Shareholders include those listed below:

### **13.6.1. Dilution of Shareholders' interests**

The issue of new Creso Pharma shares as part of the Proposed Transaction is dilutive to current Shareholders.

### **13.6.2. Restrictions of special resolutions**

Following the Proposed Transaction, should Sierra Sage satisfy any of the earn-out hurdles across 2022 or 2023, the Vendors of Sierra Sage will likely hold more than a 25% shareholding in the Company. As such, the Vendors will be able to exercise a significant level of control, including the ability to block special resolutions.

### **13.6.3. Reduction in earnings as a result of the Milestone Payments**

As outlined in Section 4 of our Report, the Vendors may be entitled to the Milestone Payments, subject to the satisfaction of performance milestones over the coming years. Milestone Payment 1 is up to US\$15 million, payable where 2022 revenue generated by Sierra Sage is at least US\$10 million, with an adjusted EBITDA margin of -10%. Milestone Payment 2 is up to US\$23.5 million, where 2023 revenue generated by Sierra Sage is at least US\$20 million, with a positive adjusted EBITDA margin.

For Milestone Payment 1, up to US\$15 million could be payable to the Vendors if Sierra Sage generates revenue of US\$10 million, with an adjusted EBITDA margin of -10%. As revenue increases, Sierra Sage is then entitled to generate a proportionally larger negative adjusted EBITDA. This scenario could lead to a further operating loss for Creso Pharma, which made a total comprehensive loss of \$28.95 million for the year ended 31 December 2021.

Milestone Payment 2 only requires a positive adjusted EBITDA margin, meaning that over the two year earn-out period, Sierra Sage could be entitled to payments of up to US\$38.5 million for generating a total negative EBITDA.

In Section 13.4 of our Report, we considered the potential value uplift of the achievement of the earn-out hurdles from a revenue standpoint, which appears to be favourable for the Company and its Shareholders. In the case of earnings, the Milestone Payments appear to be less favourable, with the potential to lead to greater operating losses over the two year period. Further, having the criteria of a negative EBITDA margin as a performance hurdle can also encourage behaviour that is not in the best interest of Shareholders, in that Sierra Sage management may attempt to maximise revenue without worrying about cost minimisation or efficient operation in order to meet the earn-out hurdles and receive the Milestone Payments. Overall, the Milestone Payments may lead to sustained operating losses for Creso Pharma in the near-term. However, we do note that a number of the comparable companies are loss making, with EV's primarily derived by revenue and the opportunity of creating future earnings in the long term.

## 14. Conclusion

We have considered the terms of the Proposed Transaction as outlined in the body of this report and have concluded that the Proposed Transaction is not fair but reasonable to the Shareholders of Creso Pharma.

## 15. Sources of information

This report has been based on the following information:

- Draft Notice of Meeting on or about the date of this report;
- Audited financial statements of Creso Pharma for the years ended 31 December 2019, 2020, and 2021;
- Reviewed financial statements of Sierra Sage for the years ended 31 December 2019 and 2020;
- Unaudited management accounts of Sierra Sage for the year ended 31 December 2021;
- Membership Interest Purchase Agreement between Creso Pharma, Sierra Sage and the Vendors, dated 2 February 2022;
- Share registry information of Creso Pharma;
- RBA Monetary Policy Decisions dated 1 March 2022 and prior periods;
- Bank of Canada Monetary Policy Report dated January 2022 and prior periods;
- Board of Governors of the Federal Reserve System Monetary Policy Report dated February 2022 and prior periods;
- International Monetary Fund World Economic Outlook dated January 2022;
- Economics Intelligence Unit Global Economic Implications of the Russia-Ukraine War, dated 3 March 2022;
- Office of Drug Control;
- Therapeutic Goods Administration;
- Government of Canada Licenced Cultivators under the Cannabis Act;
- IBISWorld Organic Cosmetics and Toiletries Distributors in Australia dated June 2021;
- Announcements made by Creso Pharma available through the ASX;
- Bloomberg;
- S&P Capital IQ;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of Creso Pharma.

## 16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$60,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Creso Pharma in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Creso Pharma, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Creso Pharma and Sierra Sage and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Creso Pharma and Sierra Sage and their respective associates.

The provision of our services is not considered a threat to our independence as auditors under Professional Statement APES 110 - Professional Independence. The services provided have no material impact on the financial report of Creso Pharma.

A draft of this report was provided to Creso Pharma and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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## 17. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investments Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants Australia & New Zealand. He has over 30 years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 400 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Corporate Finance Practice Group Leader of BDO in Western Australia, the Global Head of Natural Resources for BDO and a former Chairman of BDO in Western Australia.

Adam Myers is a member of Chartered Accountants Australia & New Zealand and the Joint Ore Reserves Committee. Adam's career spans over 20 years in the Audit and Assurance and Corporate Finance areas. Adam is a CA BV Specialist and has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

## 18. Disclaimers and consents

This report has been prepared at the request of Creso Pharma for inclusion in the Notice of Meeting which will be sent to all Creso Pharma Shareholders. Creso Pharma engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider whether the Proposed Transaction is fair and reasonable to Shareholders.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Notice of Meeting. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Notice of Meeting other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Creso Pharma. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Proposed Transaction, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Creso Pharma, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.

Yours faithfully

**BDO CORPORATE FINANCE (WA) PTY LTD**



**Sherif Andrawes**  
Director



**Adam Myers**  
Director

# Appendix 1 - Glossary of Terms

Reference	Definition
A\$, \$, AUD	Australian dollar
The Act	The Corporations Act 2001 Cth
The Agreement	Membership Interest Purchase Agreement between Creso Pharma, Sierra Sage and the Vendors
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
C3	C3 Capital Partners III, L.P.
CBD	Cannabidiol
Closing Date	The closing date of the Proposed Transaction
The Company	Creso Pharma Limited
Corporations Act	The Corporations Act 2001 Cth
CPI	Consumer Price Index
Creso Pharma	Creso Pharma Limited
DCF	Discounted Future Cash Flows
Dealer's License	Controlled Drugs and Substances Dealer's License issued by Health Canada
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise Value
FDA	Food and Drug Administration
FME	Future Maintainable Earnings



Reference	Definition
FOMC	Federal Open Market Committee
Garcoa	Garcoa, Inc.
GDP	Gross Domestic Product
Halucenex	Halucenex Life Sciences Inc.
ImpACTIVE	ImpACTIVE Holdings Limited
Mernova	Mernova Medicinal Inc.
Milestone Payments	Earn-out payments of up to US\$38.5 million, subject to the satisfaction of performance milestones over the coming years
NAV	Net Asset Value
ODC	Office of Drug Control
Placement	Creso Pharma raising \$5 million through the issue of approximately 72.4 million new fully paid ordinary shares at an issue price of \$0.069, together with one free-attaching option for every share subscribed for under the Placement, exercisable at \$0.14 on or before 18 months from the date of issue.
The Proposed Transaction	The proposal for Creso Pharma to acquire 100% of the share capital in Sierra Sage, for the consideration of 358,069,697 shares in Creso Pharma, increasing the voting interest of the vendors of Sierra Sage to 21.64%.
PTSD	Post-Traumatic Stress Disorder
QMP	Quoted market price
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
Our Report	This Independent Expert's Report prepared by BDO
RG 74	Acquisitions approved by Members (December 2011)
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
RLH	Red Light Holland
Section 611	Section 611 of the Corporations Act

Reference	Definition
Shareholders	Shareholders of Creso Pharma not associated with Sierra Sage
Sierra Sage	Sierra Sage Herbs, LLC
Sum-of-Parts	A combination of different methodologies used together to determine an overall value where separate assets and liabilities are valued using different methodologies
TGA	Therapeutic Goods Administration
THC	Tetrahydrocannabinol
Trading Multiples	Revenue multiples generated from publicly listed companies as a ratio of EV to Revenue
Transaction Multiples	Revenue multiples generated from publicly available merger and acquisition transactions, as a ratio of EV to Revenue
Upfront Consideration	US\$21 million paid by way of fully paid ordinary shares in Creso Pharma
USD, US\$	United States dollar
US	United States of America
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.
Vendors	The Vendors of Sierra Sage
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital

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Australia

## Appendix 2 - Valuation Methodologies

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Methodologies commonly used for valuing assets and businesses are as follows:

### **1 Net asset value ('NAV')**

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

### **2 Quoted Market Price Basis ('QMP')**

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a liquid and active market in that security.

### **3 Capitalisation of future maintainable earnings ('FME')**

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

#### **4 Discounted future cash flows ('DCF')**

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start-up phase, or experience irregular cash flows.

#### **5 Market Based Assessment**

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

## Appendix 3 - Control Premium

### Control premium

The concept of a premium for control reflects the additional value that is attached to a controlling interest. We have reviewed the control premiums on completed transactions, paid by acquirers of pharmaceutical companies, general non-cyclical consumer goods and services companies and all ASX-listed companies. In assessing the appropriate sample of transactions from which to determine an appropriate control premium, we have excluded transactions where an acquirer obtained a controlling interest (20% and above) at a discount (i.e less than a 0% premium) and at a premium in excess of 100%. We have summarised our findings below:

#### Pharmaceutical companies

Year	Number of Transactions	Average Deal Value (\$m)	Average Control Premium (%)
2022	0	0.00	0.00
2021	1	14.85	55.89
2020	1	283.40	54.17
2019	1	936.74	21.36
2018	2	947.47	59.20
2017	0	0.00	0.00
2016	0	0.00	0.00
2015	0	0.00	0.00
2014	0	0.00	0.00
2013	0	0.00	0.00
2012	0	0.00	0.00

Source: Bloomberg, BDO analysis

#### Non-cyclical consumer goods and services companies

Year	Number of Transactions	Average Deal Value (\$m)	Average Control Premium (%)
2022	1	36,120.24	15.90
2021	7	1,438.69	44.40
2020	5	574.14	45.02
2019	6	1,765.22	54.32
2018	8	452.38	58.97
2017	5	577.77	43.61
2016	3	2,024.18	18.83
2015	7	480.48	35.37
2014	1	538.04	60.63
2013	1	19.79	46.12
2012	4	391.57	43.07

Source: Bloomberg, BDO analysis

### All ASX-listed companies

Year	Number of Transactions	Average Deal Value (\$m)	Average Control Premium (%)
2022	8	8,769.92	10.96
2021	39	1,374.64	46.41
2020	27	419.16	48.36
2019	46	2,961.67	36.74
2018	47	1,054.74	40.74
2017	30	940.18	42.05
2016	42	718.51	49.58
2015	34	828.14	34.10
2014	46	507.34	39.97
2013	41	128.21	50.99
2012	51	481.33	52.19

Source: Bloomberg, BDO analysis

The mean and median of the entire data sets comprising control transactions from 2012 onwards for pharmaceutical companies, general non-cyclical consumer goods and services companies and all ASX-listed companies are set out below:

Entire Data Set Metrics	Pharmaceuticals		Non-Cyclical Consumer G+S		All ASX-Listed Companies	
	Deal Value (\$m)	Control Premium (%)	Deal Value (\$m)	Control Premium (%)	Deal Value (\$m)	Control Premium (%)
Mean	625.99	49.96	1,619.19	44.80	1,123.66	43.56
Median	283.40	54.17	337.77	36.32	115.57	33.59

Source: Bloomberg, BDO analysis

In arriving at an appropriate control premium to apply, we note that observed control premiums can vary due to the:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;
- Ability to integrate the acquiree into the acquirer's business;
- Level of pre-announcement speculation of the transaction; and
- Level of liquidity in the trade of the acquiree's securities.

When performing our control premium analysis, we considered completed transactions where the acquirer held a controlling interest, defined at 20% or above, pre-transaction or proceeded to hold a controlling interest post-transaction in the target company.

The table above indicates that the long-term average control premium paid by acquirers of pharmaceutical companies, general non-cyclical consumer goods and services companies and ASX-listed companies is approximately 49.96%, 44.80% and 43.56% respectively. However, in assessing control premium transactions, we noted transactions that appear to be extreme outliers.

These outliers included one pharmaceutical company transaction, three general non-cyclical consumer goods and services company transactions and 29 ASX-listed company transactions, for which the

announced premium was in excess of 100%. We have removed these transactions because we consider it likely that the acquirer in these transactions would be paying for special value and/or synergies in excess of the standard premium for control. Whereas, the purpose of this analysis is to assess the premium that is likely to be paid for control, not specific strategic value to the acquirer.

In a population where there are extreme outliers, the median often represents a superior measure of central tendency compared to the mean. We note that the median announced control premium over the assessed period was approximately 54.17% for pharmaceutical companies, 36.32% for general non-cyclical consumer goods and services companies and 33.59% for all ASX-listed companies.

We consider an appropriate control premium to be on the lower end of historical averages as a result of the degree of business risk faced by companies operating in the medicinal drug sector. Further, the audit reports of Creso Pharma for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 include an emphasis of matter relating to the material uncertainty around the ability of the Company to continue as a going concern.

Based on the above, we consider an appropriate premium for control to be between 25% and 35%.

The minority discount is calculated from the control premium identified, using the formula  $[1 - (1/(1+\text{Control Premium}))]$ . Therefore, the minority discount (rounded to the nearest percentile) is in the range from 20% to 26%.



## Appendix 4 - Profile of Comparable Companies and Transactions

### Profile of comparable companies for Creso Pharma Trading Multiples

Company Name	Business Description
Althea Group Holdings Limited (ASX:AGH)	Althea Group Holdings Limited manufactures, sells, and distributes pharmaceutical grade medicinal cannabis in Australia, the United Kingdom, Africa, and Canada. It also offers a range of education, access, and management services to support eligible patients and healthcare professionals in navigating medicinal cannabis treatment pathways through Concierge, an online service, as well as Medic, an online education. In addition, the company provides formulation and manufacturing of recreational cannabis products, such as beverages, edibles, and topicals. Althea Group Holdings Limited was founded in 2016 and is based in Melbourne, Australia.
Bod Australia Limited (ASX:BOD)	Bod Australia Limited operates as a CBD and medical cannabis healthcare company in Australia, the UK, the European Union, and the US. The company operates through three segments: Medical, Over The Counter (OTC) CBD/Hemp, and OTC Herbals. It engages in the development and manufacture of CBD and hemp products for consumers; and development, manufacture, and distribution of therapeutics medicinal cannabis products for medical markets. The company has a collaboration agreement with Drug Science UK to assess the efficacy of its medicinal cannabis, MediCabilis in managing symptoms associated with the long-term impact of SARS-CoV-2. Bod Australia Limited was incorporated in 2014 and is based in Double Bay, Australia.
Cann Group Limited (ASX:CAN)	Cann Group Limited focuses on breeding, cultivating, manufacturing, and supplying medicinal cannabis for sale and use within Australia and for overseas export markets. It licenses to undertake research and to cultivate cannabis for human medicinal and research purposes. The company was founded in 2014 and is based in Bundoora, Australia.
Cronos Australia Limited (ASX:CAU)	Cronos Australia Limited operates as a medicinal cannabis company in Australia and Asia. It operates through three segments: Medical, Clinics, and Consumer. The company distributes PEACE NATURALS brand medicinal cannabis products; develops and sells medicinal cannabis products under the Adaya brand; and operates medicinal cannabis clinics. It also offers hemp seed oil personal care consumer products under the Bathing Shed brand; premium personal care products under the Saiph brand; and consumer CBD performance products under the FCTR brand. The company was incorporated in 2018 and is based in South Yarra, Australia.
Ecofibre Limited (ASX:EOF)	Ecofibre Limited, together with its subsidiaries, engages in the breeding, growing, manufacturing, marketing, and selling hemp products in the United States and Australia. The company operates through Ananda Health, Ananda Food, and Hemp Black segments. It offers nutraceutical products for human and pet consumption, as well as topical creams and salves; CBD products; grows and produces hemp food products, including protein powders, de-hulled hemp seed, and hemp oil; and develops and produces hemp-based textile products. Ecofibre Limited was incorporated in 2009 and is based in Sydney, Australia.
ECS Botanics Holdings Ltd (ASX:ECS)	ECS Botanics Holdings Ltd engages in the cultivation, manufacture, and sale of medicinal cannabis products. It also retails hemp wellness and food products; and engages in the agriculture business. The company is based in Launceston, Australia.

Company Name	Business Description
Elixinol Wellness Limited (ASX:EXL)	Elixinol Wellness Limited, through its subsidiaries, manufactures and distributes industrial hemp-based nutraceutical, dietary supplements, and skincare products in the Americas, Europe, and Australia. It distributes hemp-derived cannabidiol products under the Elixinol brand. The company was formerly known as Elixinol Global Limited and changed its name to Elixinol Wellness Limited in May 2021. The company was incorporated in 2017 and is headquartered in Sydney, Australia.
Epsilon Healthcare Limited (ASX:EPN)	Epsilon Healthcare Limited operates as a healthcare and pharmaceuticals company primarily in Australia and Canada. It engages in the manufacture and distribution of hydroponics equipment, materials, and nutrients; and development and delivery of medicinal cannabis, as well as provides turnkey cultivation solutions. Epsilon Healthcare Limited was incorporated in 2016 and is based in Sydney, Australia.
Hempfusion Wellness Inc. (TSX:CBD.U)	Hempfusion Wellness Inc., a health and wellness supplement company, formulates, markets, and distributes hemp-based natural supplements and probiotic products in the United States. It offers tinctures, capsules, and topical creams and gel products under the HempFusion brand; digestive enzymes and probiotics, and skin care products under the Probulin brand; and HF Labs and Biome Research branded products. The company sells its products through its e-commerce websites and doctor practitioners, as well as through various food, drug, mass, and convenience market retailers. Hempfusion Wellness Inc. is based in Vancouver, Canada.
Little Green Pharma Ltd (ASX:LGP)	Little Green Pharma Ltd engages in the cultivation, production, and distribution of medicinal cannabis products in Australia and internationally. It offers cannabis flower products. The company was incorporated in 2016 and is headquartered in West Perth, Australia.

Source: S&P Capital IQ

## Profile of comparable companies for Sierra Sage Trading Multiples

Company Name	Business Description
Anagenics Limited	Anagenics Limited, a consumer health company, develops, manufactures, and markets anti-aging products for hair, skin, and wellbeing in Australia, the United States, China, and Japan. Anagenics Limited was incorporated in 2004 and is based in Sydney, Australia.
Biome Australia Limited	Biome Australia Limited develops, commercializes, and markets various live bio-therapeutics and complimentary medicines in Australia and internationally. It provides live bio-therapeutic products under the Activated Probiotics brand; vegan food-based nutraceuticals under the Activated Nutrients brand; and complementary medicines for elite athletes under the Activated X Performance brand. Biome Australia Limited was incorporated in 2018 and is based in Cremorne, Australia.
BWX Limited	BWX Limited, together with its subsidiaries, develops, manufactures, markets, distributes, and sells natural body, hair, and skin care products in Australia, the United States, and internationally. BWX Limited was incorporated in 2013 and is headquartered in Clayton, Australia.
e.l.f. Beauty, Inc.	e.l.f. Beauty, Inc., together with its subsidiaries, provides cosmetic and skin care products under the e.l.f., W3LL PEOPLE, and Keys Soulcare brand names worldwide. The company offers eye, lip, face, and skin care products. e.l.f. Beauty, Inc. was founded in 2004 and is headquartered in Oakland, California.

Company Name	Business Description
Eve Health Group Limited	Eve Health Group Limited, together with its subsidiaries, engages in the production and marketing of nutrition, health, and wellness products in Australia, North America, China, and Asia. It provides organic tea tree oils and essential oils; and distributes botanical oils. The company also offers organic raw honey and raw honey probiotic concentrates; and contract manufacturing services. Eve Health Group Limited was incorporated in 2003 and is based in Subiaco, Australia.
LifeVantage Corporation	LifeVantage Corporation engages in the sale of anti-aging skin care products, including facial cleansers, perfecting lotions, eye serums, anti-aging creams, hand creams, beauty serum, as well as hair care products, such as invigorating shampoos, nourishing conditioners, and scalp serums under the LifeVantage TrueScience brand name. In addition, the company offers bath and body, and targeted relief products, such as body lotion, body wash, body butter, deodorant, soothing balm, and body rub under the TrueScience brand name. LifeVantage Corporation is headquartered in Lehi, Utah.
Mannatech, Incorporated	Mannatech, Incorporated operates as a health and wellness company worldwide. It develops, markets, and sells nutritional supplements; topical and skin care, and anti-aging products; and weight-management products. Mannatech, Incorporated was founded in 1993 and is headquartered in Flower Mound, Texas.
McPherson's Limited	McPherson's Limited provides health, wellness, and beauty products in Australia, New Zealand, Asia, and internationally. The company offers beauty care, hair care, skin care, and personal care items, including facial wipes, cotton pads, and foot comfort products; and vitamins and supplements. The company was founded in 1860 and is based in Kingsgrove, Australia.
The Honest Company, Inc.	The Honest Company, Inc. manufactures and sells diapers and wipes, skin and personal care, and household and wellness products. It sells its products through digital and retail sales channels, such as its website and third-party ecommerce sites, as well as brick and mortar retailers. The company was incorporated in 2012 and is headquartered in Los Angeles, California.

Source: S&P Capital IQ

## Profile of comparable transactions for Creso Pharma Transaction Multiples

Announced date	Target Company	Target Company Description
20-Dec-21	Next Green Wave Holdings Inc.	Next Green Wave Holdings Inc. cultivates and distributes medicinal and recreational cannabis in California. It is also involved in the processing, production, and packaging of dry flower, cannabis oils, and concentrates. Next Green Wave Holdings Inc. was incorporated in 2011 and is based in Vancouver, Canada.
31-Aug-21	Citizen Stash Cannabis Corp.	Citizen Stash Cannabis Corp., through its subsidiaries, engages in the production, distribution, and sale of cannabis products in Canada. Its products are used for adult-use, wellness and therapeutic, and medical applications. Experion Holdings Ltd. offers its products under the Citizen Stash and Kanabe brand names. Citizen Stash Cannabis Corp. is headquartered in Mission, Canada.
10-May-21	Harvest Health & Recreation Inc.	Harvest Health & Recreation Inc. cultivates, processes, sells, and retails inhalable, ingestible, and topical cannabis products in the United States. The company offers cannabis oil products; inhalables, tinctures, and cannabis product edibles. The company was incorporated in 2007 and is based in Tempe, Arizona.
08-Apr-21	The Supreme Cannabis Company, Inc.	The Supreme Cannabis Company, Inc. engages in the production of medical cannabis products in Canada. The company was formerly known as Supreme Pharmaceuticals Inc. and changed its name to The Supreme Cannabis Company, Inc. in December 2017. The Supreme Cannabis Company, Inc. was incorporated in 1979 and is headquartered in Toronto, Canada.
16-Feb-21	Zenabis Global Inc.	Zenabis Global Inc. engages in the cultivation and sale of medical and adult-use recreational cannabis in Canada and internationally. The company produces and markets strains of dried cannabis under the Zenabis, Namaste, and Re-üp brands; and various oil-based cannabis products. It has 111,200 kg of licensed cannabis cultivation space in three licensed facilities in Canada. The company is headquartered in Vancouver, Canada.
16-Nov-20	CannPal Animal Therapeutics Limited	CannPal Animal Therapeutics Limited, an animal health company, engages in the research and development of plant-based therapeutic products for pets in Australia. It develops CPAT-01, a cannabis-derived pharmaceutical product to provide veterinarians and pet owners to treat pain and inflammation in dogs.
23-Mar-20	Abacus Health Products, Inc.	Abacus Health Products, Inc. manufactures and sells over-the-counter topical formulations infused with CBD extracted from hems. The company offers CBD CLINIC line of products for relief from acute musculoskeletal and joint pain, which includes analgesic ointments, creams, and pain sticks. The company is headquartered in Toronto, Canada. Abacus Health Products, Inc. operates as a subsidiary of Charlotte's Web Holdings, Inc.
19-Dec-18	Emblem Corp.	Emblem Corp. cultivates, processes, and sells cannabis and cannabis derivatives in Canada. The company also operates medical cannabis education centres to provide education and other services to medical patients, as well as owns land title in Paris, Ontario. Emblem Corp. has a strategic partnership with GreenSpace Brands to develop and commercialize CBD infused health and beauty products. The company is headquartered in Toronto, Canada. Emblem Corp. is a subsidiary of Aleafia Health Inc.

Source: S&P Capital IQ

## Profile of comparable transactions for Creso Pharma Transaction Multiples

Announced date	Target Company	Target Company Description
28-Sep-21	DERMAdoctor, Inc.	DERMAdoctor, LLC manufactures and sells skin care products. The company offers antiperspirants, body treatments, BB creams, cleansers, exfoliators, eye treatment products, hand sanitizers, kits, masks, moisturizers, peels, serums, sun protection solutions, and toners for various skin concerns, such as acne, anti-aging, dark spots/uneven, dry skin, eczema, fine lines/wrinkles, pores, hyperhidrosis, keratosis pilaris, oily skin, rosacea, and sensitive skin.
23-Feb-21	DECIEM Inc.	DECIEM Inc. manufactures and sells beauty products. It offers skincare, makeup, body, and hair products. The company offers cleaners, mists, serums, eyes, hydrators, oils, radiance, neck, lips, masques, antioxidants, finishers, suncare, powders, washes, hands hydrator, unwanted hair, and shampoo products. DECIEM Inc. was incorporated in 2012 and is based in Toronto, Canada.
15-Dec-20	Way of Will Inc.	Way of Will Inc. produces essential oil-based body care products, including face wash, body wash, deodorants, hand wash, face masks, massage oil, inhalers, bath salts, and clay masks. The company was incorporated in 2016 and is based in Toronto, Canada with an additional warehouse facility in Chino, California.
08-Oct-19	Drunk Elephant Holdings, LLC	Drunk Elephant Holdings, LLC manufactures and distributes skincare products. The company was incorporated in 2017 and is based in Newport Beach, California.
24-Jan-18	Rimports Inc.	Rimports Inc. manufactures and distributes scented wax, wax warmers, and essential oils. The company's products include home fragrances, room sprays, body creams, and hand soaps. It sells its products through retailers. The company was founded in 2005 and is based in Provo, Utah.
22-Jul-16	IT Cosmetics, LLC	IT Cosmetics, LLC produces and sells makeup and skincare products for women in the United States. It offers facial products that include foundations, concealers, bronzers, blush products, primers, luminizers, contouring products, and powders; lip liners, lipsticks, and lip stain products; eyeshadow, mascara, and eyeliner products; eyebrow products; and brushes and tools. The company was founded in 2008 and is based in Jersey City, New Jersey.
08-Jun-12	Agera Laboratories Inc.	Agera Laboratories Inc. manufactures and distributes wholesale clinical skincare products and accessories to skincare professionals. The company offers cleansers and toners, exfoliants, eye treatments, masks, moisturizers, preps and peels, specialty treatments, sun protection solutions, and vitamin treatments. The company was incorporated in 2004 and is based in Dallas, Texas.

Source: S&P Capital IQ



Creso Pharma Limited | ACN 609 406 911

# Proxy Voting Form

If you are attending the virtual Meeting please retain this Proxy Voting Form for online Securityholder registration.

Holder Number:

Your proxy voting instruction must be received by **10.00am (AEST) on Sunday, 7 August 2022**, being **not later than 48 hours** before the commencement of the Meeting. Any Proxy Voting instructions received after that time will not be valid for the scheduled Meeting.

## SUBMIT YOUR PROXY

Complete the form overleaf in accordance with the instructions set out below.

### YOUR NAME AND ADDRESS

The name and address shown above is as it appears on the Company's share register. If this information is incorrect, and you have an Issuer Sponsored holding, you can update your address through the investor portal: <https://investor.automic.com.au/#/home> Shareholders sponsored by a broker should advise their broker of any changes.

### STEP 1 – APPOINT A PROXY

If you wish to appoint someone other than the Chair of the Meeting as your proxy, please write the name of that Individual or body corporate. A proxy need not be a Shareholder of the Company. Otherwise, if you leave this box blank, the Chair of the Meeting will be appointed as your proxy by default.

### DEFAULT TO THE CHAIR OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chair of the Meeting, who is required to vote these proxies as directed. Any undirected proxies that default to the Chair of the Meeting will be voted according to the instructions set out in this Proxy Voting Form, including where the Resolutions are connected directly or indirectly with the remuneration of KMP.

### STEP 2 - VOTES ON ITEMS OF BUSINESS

You may direct your proxy how to vote by marking one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### APPOINTMENT OF SECOND PROXY

You may appoint up to two proxies. If you appoint two proxies, you should complete two separate Proxy Voting Forms and specify the percentage or number each proxy may exercise. If you do not specify a percentage or number, each proxy may exercise half the votes. You must return both Proxy Voting Forms together. If you require an additional Proxy Voting Form, contact Automic Registry Services.

### SIGNING INSTRUCTIONS

**Individual:** Where the holding is in one name, the Shareholder must sign.

**Joint holding:** Where the holding is in more than one name, all Shareholders should sign.

**Power of attorney:** If you have not already lodged the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Voting Form when you return it.

**Companies:** To be signed in accordance with your Constitution. Please sign in the appropriate box which indicates the office held by you.

**Email Address:** Please provide your email address in the space provided.

By providing your email address, you elect to receive all communications despatched by the Company electronically (where legally permissible) such as a Notice of Meeting, Proxy Voting Form and Annual Report via email.

### CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate 'Appointment of Corporate Representative' should be produced prior to admission. A form may be obtained from the Company's share registry online at <https://automic.com.au>.

### Lodging your Proxy Voting Form:

#### Online:

Use your computer or smartphone to appoint a proxy at

<https://investor.automic.com.au/#/login>

or scan the QR code below using your smartphone

Login & Click on 'Meetings'. Use the Holder Number as shown at the top of this Proxy Voting Form.



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