



15 May 2023

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By email: [Sean.Maloney@asx.com.au](mailto:Sean.Maloney@asx.com.au)

Dear Sir

**Creso Pharma Limited (ASX: CPH) – Financial condition query**

We refer to your letter dated 9 May 2023. Creso Pharma Limited (the “Company” or “CPH”) provides the following responses to your questions.

**1. Does CPH consider that the financial condition of CPH is sufficient to warrant continued quotation of its securities and its continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.**

*CPH notes that Listing Rule 12.2 does not set out specific metrics that must be met to form the ASX’s view on a Company’s financial condition. Nevertheless, CPH sets out below relevant factors that unequivocally demonstrate that CPH’s financial condition is sufficient to warrant continued quotation of its securities and its continued listing on ASX under Listing Rule 12.2.*

*Relative Size of Liabilities to Assets and Composition of Balance Sheet*

- *As of 31 March 2023, CPH had total assets of ~\$38.8 million, compared to total liabilities of ~\$17.1 million, a material surplus in favour of assets*
- *When considering only “hard” assets, CPH had cash, inventory, receivables and PP&E of ~\$18.8 million, in excess of the total liability figure mentioned above*
- *CPH’s current ratio is ~0.74, however this is skewed by several items being classified as short term debt that the Company intends to resolve imminently:*
  - *Remaining Obsidian repayment of ~\$500,000, expected to be paid in shares*
  - *Secured noteholders of \$2.8 million, expected to be paid minimum of 75% in shares*
  - *Interest free short term loan from related party of \$818,500 for participation in prior placement, to be settled in shares upon shareholder approval*
  - *~\$300,000 Loan from Director, Jodi Scott, inherited as part of the SSH transaction, that Jodi Scott has indicated she intends to convert to equity, subject to shareholder approval*
  - *Adjusting for these items, CPH’s current ratio would be 0.94 prior to raising any further capital*
  - *If CPH used only half of its placement capacity as of 15 May 2023 to raise capital, this would result in a current ratio of 1.30, considered to be very healthy.*



#### *Access to Funds*

- *In response to Section 3, CPH has set out its track record of raising capital and demonstrated the basis for which it believes it has a continuous ability to raise capital*
- *When the historical context is considered, alongside the major milestones achieved by CPH in the last 18 months that leave it in the best operational condition since listing, it is impossible to form any other view than that CPH has significant access to ongoing funding from debt and equity markets.*
- *CPH also notes that it has made several significant acquisitions in the last 12 months that have materially improved its revenue profile and progression towards becoming cashflow positive. While these acquisitions have necessitated additional funding, they have also strengthened CPH's balance sheet, revenue profile and, consequently, capacity to raise debt and equity.*
- *In addition to the L1 funding facility that has been previously announced to ASX, Creso, as a measure of good governance and good business practise, is always negotiating alternative funding providers to ensure it has contingency funding plans in place. As a result of these measures, Creso has, as a contingency, a \$5m draw down facility (that can be executed at CPH's election), as well as an offer of \$2.5m via a convertible note. These offers provide comfort to the CPH board that additional funding is available as and when required.*
- *The CPH board, and lead broker are firmly of the view, that when needed, a placement (equity raise) will also result in a positive outcome.*

#### *Other Considerations - Improving Operating Performance:*

- *During FY22, CPH management improved adjusted EBITDA loss from \$29.2 million to \$17.6 million, a significant achievement, while also improving revenue by circa 40%.*
- *Management expects to be able to further improve this figure during FY23.*
- *Management demonstrated its capabilities further with the first ever cash flow positive business unit at CPH, with Mernova in Q1 of 2023.*
- *The acquisition of Health House International will bring significant additional scale to the group, alongside cost synergies, which will further enhance management's ability to push towards profitability.*
- *There were several one time or extraordinary expenses during Q1 of 2023, which resulted in operating cash outflows being larger than what is considered a true "run-rate" by CPH, as such, the calculation of remaining quarters of cash is skewed downwards by these expenses.*
- *The Company is also currently investigating a rights issue, with a view to raising between \$1m-\$5m from this initiative.*

- 2. If the answer to question 1 is "No", please explain what steps CPH has taken, or proposes to take, to warrant continued quotation of its securities and its continued listing on ASX under the requirements of Listing Rules 12.2.**

*Not applicable given the response to question 1.*



3. Please explain the basis for the statement in the Appendix 4C that “the Company believes it has a continuous ability to raise capital, if and when required”, specifically addressing what methods of capital raising could be used by CPH, noting the following disclosures in the Con Note Announcement:
- 3.1. In relation to a potential placement: “a significant discount to the current market price of Creso’s shares would likely have been required that may have rendered such financing potentially more dilutive than the SBC agreement”; and
- 3.2. In relation to a potential rights issue: “The Company formed the view that, given it has limited experience in conducting successful rights issues, this method could have been significantly challenging and have a low probability of success.”

*CPH respectfully feels that the ASX has misconstrued the statements set out in Section 3 vs. Sections 3.1 and 3.2.*

*CPH’s statement in Section 3 represents the Company’s view on its ability to raise capital, generally speaking, whereas its statements in Section 3.1 and 3.2 represent the Company’s view on why one source of capital was chosen over another source of capital at a specific point in time, and was provided in response to a specific request from the ASX to set out the basis for that decision.*

*With respect to the statement referenced in Section 3, the following bullet points set out CPH’s history of successful capital raising:*

- FY23: \$4.2 million raised to date
- FY22: \$16.3 million raised
- FY21: \$18.0 million raised
- FY20: \$11.1 million raised
- FY19: \$12.3 million raised
- Substantial other capital raised since CPH’s listing in 2016

*In the entire history of the Company since listing, CPH has never failed in a capital raising, and has consistently demonstrated an ability to raise capital, when required. This track record unequivocally forms the basis for the statement referenced in Section 3.*

*With respect to the statements referenced in Sections 3.1 and 3.2, the Company reiterates that those statements were made at a specific point in time, when considering one form of available capital over others. The Company’s rationale seems to have been strongly vindicated; the fixed conversion price for the convertible notes offering was a substantial premium to the Company’s share price at the time of entering into that agreement, however is now in line with the current share price. If SBC chose to convert its notes into equity, the effect would be that the Company was able to avoid material dilution by choosing one source of capital over another at a specific point in time. Additionally, the Company feels that the market is beginning to recognize the accomplishments of CPH over the last 18 months, and is therefore revaluing its stock towards levels that are appropriate for the state of the business. These achievements include, but are not limited to:*

- The appointment of a new CEO and Managing Director to drive the business forward
- The appointment of 3 independent directors and the resignation of 2 non-independent directors
- The achievement of record group revenue in FY22, representing an increase of 40% on the prior year



- The reduction of adjusted EBITDA loss by 40% from FY21 to FY22
- The completion of several strategic acquisitions, including the acquisition of Health House International, which is a materially accretive transaction for Creso shareholders
- The achievement of the first ever cash flow positive quarter of a Creso subsidiary in Q1 of 2023

*In summary, the Company believes that these achievements demonstrate the fact that the Company is in the best operational condition that it has ever been in, and this, coupled with the Company's track record of raising capital, unequivocally underpins the basis for the statements set out in Section 3.*

*Additionally, the Company wishes to confirm to the ASX that, following the receipt of shareholder approval for all resolutions at its 15 May 2023 General Meeting of Shareholders, the Company has combined placement capacity of approximately 533m shares, representing ~\$9.1 million based on the current share price of \$0.017.*

*The Company is confident that it will be successful during its next capital raising initiative, given the feedback it has received to date.*

*The Company is further confident it will be able to raise other debt or instruments when required given the contingency discussions it is having.*

*Given certain parts of the Creso business is now cash flow break even at a minimum, this heavily assists in any capital raising initiative.*

**4. Please confirm that CPH is complying with the Listing Rules and, in particular, Listing Rule 3.1.**

*The Company confirms it is compliant with the Listing Rules, in particular Listing Rule 3.1.*

**5. Please confirm that CPH's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of CPH with delegated authority from the board to respond to ASX on disclosure matters.**

*The Company confirms its responses to the above questions have been authorised and approved by an officer with delegated authority by the Board to respond to ASX on disclosure matters.*

Should you require any further information in relation to this matter, please do not hesitate to contact me.

Yours faithfully,

Erlyn Dawson  
Joint Company Secretary



11 May 2023

Reference: 73950

Ms Eryn Dale  
Company Secretary  
Creso Pharma Limited

By email:

Dear Ms Dale

**Creso Pharma Limited ('CPH'): Financial condition query**

ASX refers to the following:

- A. CPH's annual report for the year ended 31 December 2022 lodged with the ASX Market Announcements Platform ('MAP') and released on 31 March 2023 ('Annual Report').
- B. ASX notes that the Independent Auditor's Report attached to the Annual Report draws attention to Note 1(b) in the Annual Report which disclosed the following in relation to CPH's ability to continue as a going concern:

*"The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.*

*As disclosed in the financial statements, the Group incurred a loss of \$32,782,000 (2021: \$30,031,000) and had net cash outflows from operating activities of \$17,306,000 (2021: \$22,378,000) for the year ended 31 December 2022. The Group had a deficiency between current assets and current liabilities of \$5,964,000 (2021: \$8,586,000 surplus) as at 31 December 2022.*

*As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report."*

- C. CPH's announcement entitled "\$2.5M Con Note Issue, Rollover & Extinguishment of Debt" released on MAP on 6 March 2023 ('Con Note Announcement'), which disclosed in relation to a convertible note being used to raise capital instead of an equity placement or rights issue:

*"The Company formed the view, on the basis of advice from its corporate advisor, that in order to attract a level of demand equivalent to the SBC financing, a significant discount to the current market price of Creso's shares would likely have been required that may have rendered such financing potentially more dilutive than the SBC agreement.*

*The Company formed the view that, given it has limited experience in conducting successful rights issues, this method could have been significantly challenging and have a low probability of success. The Company also notes that it is relatively widely held and that, as such, there could be no certainty that an acceptable level of funds would be forthcoming."*

- D. CPH's announcement entitled "Quarterly Activities/Appendix 4C Cash Flow Report" released on MAP on 28 April 2023 ('Appendix 4C'), which disclosed the following, among other things:
  - (i) As at 31 March 2023, CPH had an estimated 0.45 quarters of funding available.

- (ii) In response to question 8.6.1 relating to forecasted operating cashflows:

*“No. Overall revenues are expected to increase in the coming months which, coupled with on-going reductions in operating costs, is expected to result in improved net operating cashflow. This is evidenced by Mernova becoming the first ever Creso subsidiary to reach a cashflow positive state during Q1 of 2023.”*

- (iii) In response to question 8.6.2 relating to further capital raising:

*“Yes. The Company has a demonstrated long term track record of being able to raise capital since listing in 2016. The Company currently has ~4.4m available Listing Rule 7.1 Placement Capacity and ~99.2m available Listing Rule 7.1A Placement Capacity, representing ~\$1.1m based on the current share price of \$0.011. Subject to receipt of shareholder approval for all resolutions at the upcoming General Meeting of Shareholders on 15 May 2023, the Company expects to have combined available placement capacity of approximately 530m representing ~\$5.8m based on the current share price of \$0.011, at which time capital raising opportunities may be considered by the Company. In short, the Company believes it has a continuous ability to raise capital, if and when required.”*

- (iv) In response to question 8.6.3 relating to meeting business objectives:

*“Yes, through a combination of actions 1 and 2 noted above.”*

- E. Listing Rule 12.2, which states:

*“An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.”*

### **Request for information**

Having regard to the above, ASX asks CPH to respond separately to each of the following questions and requests for information:

1. Does CPH consider that the financial condition of CPH is sufficient to warrant continued quotation of its securities and its continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
2. If the answer to question 1 is “No”, please explain what steps CPH has taken, or proposes to take, to warrant continued quotation of its securities and its continued listing on ASX under the requirements of Listing Rules 12.2.
3. Please explain the basis for the statement in the Appendix 4C that “the Company believes it has a continuous ability to raise capital, if and when required”, specifically addressing what methods of capital raising could be used by CPH, noting the following disclosures in the Con Note Announcement:
  - 3.1 In relation to a potential placement: “a significant discount to the current market price of Creso’s shares would likely have been required that may have rendered such financing potentially more dilutive than the SBC agreement”; and
  - 3.2 In relation to a potential rights issue: “The Company formed the view that, given it has limited experience in conducting successful rights issues, this method could have been significantly challenging and have a low probability of success.”
4. Please confirm that CPH is complying with the Listing Rules and, in particular, Listing Rule 3.1.
5. Please confirm that CPH’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of CPH with delegated authority from the board to respond to ASX on disclosure matters.

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### **When and where to send your response**

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **2:00 PM AWST Tuesday, 16 May 2023**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, CPH's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require CPH to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsCompliancePerth@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

### **Trading halt**

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in CPH's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

### **Suspension**

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in CPH's securities under Listing Rule 17.3.

### **Listing Rules 3.1 and 3.1A**

In responding to this letter, you should have regard to CPH's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that CPH's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

### **Release of correspondence between ASX and entity**

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under listing rule 18.7A.

### **Questions**

If you have any questions in relation to the above, please do not hesitate to contact me.

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Yours sincerely

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**Sean Maloney**  
Senior Adviser, Listings Compliance