

CRESO PHARMA LIMITED
ACN 609 406 911

PROSPECTUS

For the offer of:

- (a) up to 6,111,111 debt notes each with a face value of \$1.00 at a subscription price of \$0.90 per debt note (**Debt Note Offer**); and
- (b) up to 10,000 Shares at an issue price of \$0.20 per Share to raise up to \$2,000 (**Cleansing Offer**),

(together, the **Offers**).

IMPORTANT NOTICE

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the Securities being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser.

The Securities offered by this Prospectus should be considered as speculative.

TABLE OF CONTENTS

1.	CORPORATE DIRECTORY	1
2.	TIMETABLE.....	2
3.	IMPORTANT NOTES	3
4.	BACKGROUND TO THE OFFERS	5
5.	DETAILS OF THE OFFERS	15
6.	PURPOSE AND EFFECT OF THE OFFERS AND THE PLACEMENT	23
7.	RIGHTS AND LIABILITIES ATTACHING TO SECURITIES	33
8.	RISK FACTORS	36
9.	MATERIAL CONTRACTS	46
10.	ADDITIONAL INFORMATION	55
11.	DIRECTORS' CONSENT.....	64
12.	DEFINITIONS	65

1. CORPORATE DIRECTORY

Directors

Boaz Wachtel
Executive Chairman

Miriam Halperin Wernli
Chief Executive Officer & Executive Director

Adam Blumenthal
Non-Executive Director

James Ellingford
Non-Executive Director

Joint Company Secretaries

Erlyn Dale and Winton Willesee

Share Registry*

Automic Registry Services
Level 2
267 St Georges Terrace
PERTH WA 6000

Telephone:
1300 288 664 (within Australia)
+61 02 9698 5414 (International)

*This entity is included for information purposes only. It has not been involved in the preparation of this Prospectus and has not consented to being named in this Prospectus.

Registered Office in Australia

Level 24
300 Barangaroo Avenue
BARANGAROO NSW 2000

Telephone: +61 8 9389 3180

Email: info@cresopharma.com.au
Website: www.cresopharma.com

Lead Manager

EverBlu Capital Pty Ltd
Level 39, Aurora Place
88 Phillip Street
Sydney NSW 2000

Auditor*

BDO East Coast Partnership
Level 1
1 Margaret St
SYDNEY NSW 2000

Solicitors

Steinepreis Paganin
Lawyers and Consultants
The Read Buildings
Level 4, 16 Milligan Street
PERTH WA 6000

2. INDICATIVE TIMETABLE

Lodgement of Prospectus with the ASIC and ASX	27 November 2019
Opening Date of the Offers	27 November 2019
Issue of Placement Shares, Collateral Shares, Tranche 1 Fee Shares, Initial Settlement Shares and Consultancy Shares	on or about 27 November 2019
Closing Date of the Debt Note Offer*	28 November 2019
Issue of Debt Notes under the Debt Note Offer*	on or about 29 November 2019
Closing Date of the Cleansing Offer*	2 December 2019

* The Directors reserve the right to extend or reduce the Closing Date or extend the issue date of any of the Offers at any time after the Opening Date without notice.

3. IMPORTANT NOTES

This Prospectus is dated 27 November 2019 and was lodged with the ASIC on that date. The ASIC, ASX and their respective officers take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

The expiry date of the Prospectus is 13 months after the date the Prospectus was lodged with the ASIC. No Securities will be issued on the basis of this Prospectus after the expiry date.

The Offers are only available to those who are personally invited to accept the Offers. Applications for Securities offered pursuant to this Prospectus can only be submitted on the original Application Form which accompanies this Prospectus.

Although the Company's Securities are currently suspended from ASX, the Company continues to be subject to the continuous disclosure regime provided for under the Corporations Act. This Prospectus is a transaction specific prospectus for an offer of continuously quoted securities (as defined in the Corporations Act) and has been prepared in accordance with section 713 of the Corporations Act. It does not contain the same level of disclosure as an initial public offering prospectus. In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

3.1 Risk Factors

Potential investors should be aware that subscribing for Securities in the Company involves a number of risks. The key risk factors of which investors should be aware are set out in Section 8. These risks together with other general risks applicable to all investments in listed securities not specifically referred to, may affect the value of the Securities in the future. Accordingly, an investment in the Company should be considered highly speculative. Investors should consider consulting their professional advisers before deciding whether to apply for Securities pursuant to this Prospectus.

3.2 Disclaimer

No person is authorised to give any information or to make any representation in connection with the Offers described in this Prospectus which is not contained in this Prospectus. Any information or representations not so contained may not be relied upon as having been authorised by the Company or any other person in connection with the Offers. You should rely only on information in this Prospectus.

3.3 Forward-looking statements

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important

factors, many of which are beyond the control of the Company, the Directors and management.

The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

These forward-looking statements are subject to various risk factors that could cause our actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 8 of this Prospectus.

3.4 Web Site – Electronic Prospectus

A copy of this Prospectus can be downloaded from the website of the Company at www.cresopharma.com. If you are accessing the electronic version of this Prospectus for the purpose of making an investment in the Company, you must be an Australian resident and must only access this Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Debt Note Application Form or the Cleansing Offer Application Form (as applicable). If you have not, please phone the Company on +61 8 9389 3180 and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus, or both. Alternatively, you may obtain a copy of this Prospectus from the Company's website at www.cresopharma.com.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

4. BACKGROUND TO THE OFFERS

4.1 Background

On 6 June 2019, Creso Pharma and PharmaCielo Ltd (**PharmaCielo**) entered into a scheme implementation agreement for a recommended acquisition of Creso Pharma by PharmaCielo (**SIA**). As announced on 12 November 2019, Creso Pharma and PharmaCielo have mutually agreed to terminate the SIA.

In connection with the termination of the SIA, on 11 November 2019, Creso Pharma and PharmaCielo executed an agreement of mutual release and settlement in relation to the SIA (**Mutual Release**), whereby each of Creso Pharma and PharmaCielo agreed to release each other from all claims arising under or in connection with the SIA or the related transaction documents.

In accordance with the terms of the Mutual Release, Creso Pharma is required to repay the outstanding amounts of the loans advanced by PharmaCielo (approximately CDN\$3.9million) (**PharmaCielo Loan**) on or before 30 November 2019.

In order to repay the PharmaCielo Loan, the Company has and will continue to enter into convertible securities agreements with professional and sophisticated investors to enable the Company to raise up to \$8,200,000 (**Convertible Securities Agreements**), comprising of:

- (a) an initial convertible security facility to enable the Company to raise up to \$5,500,000 through the issue of up to 6,111,111 debt securities, which, subject to Shareholder approval being obtained, will convert into convertible equity securities (**Tranche 1 Convertible Note Facility**); and
- (b) an additional convertible security facility to enable the Company to raise up to a further \$2,700,000 (**Tranche 2 Convertible Note Facility**).

In addition, the Company has raised approximately \$1,585,161 through the subscription of approximately 8,299,271 Shares by sophisticated and professional investors at an issue price of \$0.191 per Share (**Placement**).

Further details in respect of the Tranche 1 Convertible Note Facility, the Tranche 2 Convertible Note Facility and the Placement are set out in Sections 4.2, 4.3 and 4.6 respectively.

The Company intends to apply the funds raised under the Debt Note Offer, together with funds raised under the Placement to repay the PharmaCielo Loan, expenses of the Offers and the Placement and for working capital purposes. Further details of the intended use of funds are set out in Section 6.1.

The Shares of the Company have been in voluntary suspension since 5 November 2019 and remain suspended as at the date of this Prospectus. On completion of the Placement and the Offers, the Company expects its listed Securities will be reinstated to trading on ASX.

4.2 Tranche 1 Convertible Note Facility

As set out in Section 4.1, the Company has and will continue to enter into Convertible Securities Agreements in order to obtain access to the Tranche 1 Convertible Note Facility.

The Company has agreed to issue the following Securities under the Tranche 1 Convertible Note Facility:

- (a) up to 6,111,111 debt notes each with a face value of \$1.00 and a subscription price of \$0.90 (**Debt Notes**), which will be issued as debt securities until such time as Shareholder approval is obtained for the Debt Notes to convert to convertible equity securities (being 6,111,111 convertible notes (**Tranche 1 Convertible Notes**));
- (b) up to 959,860 Shares for nil cash consideration to be issued as part of the drawdown fee (**Tranche 1 Fee Shares**);
- (c) up to 12,222,222 Shares for nil cash consideration to be issued as collateral shares (**Collateral Shares**); and
- (d) subject to obtaining Shareholder approval, up to 10,000,000 Options exercisable at \$0.40 each on or before the date that is three years from the date of issue (**Tranche 1 Options**).

The Debt Notes are being offered pursuant to this Prospectus. As set out in Section 9.1(d), the Debt Notes will be secured by the Security Documents. Further details in respect of the Debt Note Offer are set out in Section 5.1.

It is anticipated that the Tranche 1 Fee Shares and the Collateral Shares will be issued to the Tranche 1 Investors (other than Suburban Holdings for reasons detailed below) prior to the Closing Date of the Cleansing Offer. The Tranche 1 Fee Shares and the Collateral Shares will be issued under the Company's placement capacity under ASX Listing Rule 7.1.

L1 Capital Global Opportunities Master Fund (**L1 Capital**) has agreed to act as a cornerstone investor and subscribe for 1,666,667 Debt Notes under the Tranche 1 Convertible Note Facility, together with 261,780 Tranche 1 Fee Shares, 3,333,334 Collateral Shares and 2,727,272 Tranche 1 Options.

Suburban Holdings Pty Limited (ACN 106 824 471) (**Suburban Holdings**) has also agreed to participate in the Tranche 1 Convertible Note Facility by subscribing for 1,666,667 Debt Notes, together with 261,780 Tranche 1 Fee Shares, 3,333,334 Collateral Shares and 2,727,272 Tranche 1 Options. Suburban Holdings is a related party of the Company by virtue of being controlled by Alvin Blumenthal, the father of Director Adam Blumenthal.

As at the date of this Prospectus, unrelated sophisticated and professional investors, Chifley Portfolios Pty Limited (ACN 001 303 939) (**Chifley**) and Mozaik Asset Management Pty Ltd (ACN 136 347 101) (**Mozaik**) have also agreed to participate in the Tranche 1 Convertible Note Facility. Chifley has agreed to subscribe for 277,778 Debt Notes, together with 43,630 Tranche 1 Fee Shares, 555,555 Collateral Shares and 454,545 Tranche 1 Options. Mozaik has agreed to subscribe for 222,222 Debt Notes, together with 34,904 Tranche 1 Fee Shares, 444,444 Collateral Shares and 363,636 Tranche 1 Options.

Accordingly, as at the date of this Prospectus, the Company has agreements to raise a minimum of \$3.45 million under the Debt Note Offer. The Company may also seek to raise a further \$2.05 million under the Debt Note Offer (which would result in the Company issuing up to an aggregate of 2,277,777 Debt Notes, 4,555,556 Collateral Shares, 357,766 Tranche 1 Fee Shares and 3,727,274 Tranche 1 Options).

The Company intends to seek Shareholder approval in relation to the participation by Suburban Holdings in the Tranche 1 Convertible Note Facility. The Company will not issue any Equity Securities, being the Tranche 1 Fee Shares, Collateral Shares or the Tranche 1 Options to Suburban Holdings until Shareholder approval is obtained. As the Debt Notes are not initially convertible, they will be issued to Suburban Holdings (together with the other Tranche 1 Investors) under the Debt Note Offer pursuant to this Prospectus. Further details in respect of the Debt Note Offer are set out in Section 5.1.

As the Debt Notes are secured, the Company confirms it has obtained a waiver of ASX Listing Rule 10.1 to permit the Company to grant security to Suburban Holdings in relation to its participation in the Tranche 1 Convertible Note Facility.

4.3 Tranche 2 Convertible Note Facility

In addition, L1 Capital has agreed to provide the Tranche 2 Convertible Note Facility, pursuant to which the Company may be entitled to raise up to an aggregate of \$2,700,000 through the issue of up to 3,000,000 convertible notes with a face value of \$1.00 and a subscription price of \$0.90 each to L1 Capital (**Tranche 2 Convertible Notes**). The Company may issue a maximum of six tranches of convertible notes under the Tranche 2 Convertible Note Facility, with each tranche comprising of the issue of up to 500,000 convertible notes to raise up to \$450,000 each.

Subject to the satisfaction of the conditions set out in Section 9.1 (a), the Company may elect to draw down funding of up to \$900,000 under the Tranche 2 Convertible Note Facility prior to the date of the Shareholder Meeting, by issuing up to 1,000,000 debt notes (**Additional Debt Notes**). The Additional Debt Notes will be issued as debt securities until such time as Shareholder approval is obtained for the debt notes to convert or be replaced by Tranche 2 Convertible Notes. If the Company elects to issue the Additional Debt Notes, the Company must seek Shareholder approval for the conversion or replacement of the Additional Debt Notes with Tranche 2 Convertible Notes within 60 days of the date of issue of the Debt Notes (**Meeting Deadline**).

The drawdown of any other Tranche 2 Convertible Notes is subject to Shareholder approval and the Company obtaining the consent of L1 Capital.

Further, the Company has agreed, subject to obtaining Shareholder approval, to issue L1 Capital:

- (a) the number of Shares calculated in accordance with the formula set out in Section 9.1 (b) for nil cash consideration as the drawdown fee (**Tranche 2 Fee Shares**); and
- (b) the number of Options calculated in accordance with the formula set out in Section 9.1 (c), exercisable at \$0.40 each on or before the date that is three years from the date of issue (**Tranche 2 Options**),

(together, with the Tranche 2 Convertible Notes, the **Tranche 2 Securities**).

Further details in respect of the Tranche 2 Convertible Note Facility and the Tranche 2 Securities are set out in Section 9.1.

4.4 Convertible Securities Agreement Fees Summary

For completeness a summary of the fees payable and issuable to the Tranche 1 Investors (including L1 Capital) in respect of the Tranche 1 Convertible Note

Facility and L1 Capital in respect of the Tranche 2 Convertible Note Facility under the Convertible Securities Agreements is set out below:

	Minimum Subscription ¹		Maximum Subscription ²	
	Tranche 1 Convertible Note Facility	Tranche 2 Convertible Note Facility*	Tranche 1 Convertible Note Facility	Tranche 2 Convertible Note Facility*
Cash	\$153,333	-	\$244,444	-
Collateral Shares	7,666,667	-	12,222,222	-
Fee Shares	602,094	628,272 *	959,860	628,272 *
Options	6,272,725	3,000,000*	10,000,000	3,000,000 *

Notes:

1. Assumes the Minimum Subscription, being \$3.45 million raised under the Debt Note Offer.
2. Assumes the Maximum Subscription, being \$5.5 million under Debt Note Offer.
3. Both scenarios above assume that the Tranche 2 Convertible Note Facility is fully subscribed. The Company notes that fees for Tranche 2 Convertible Note Facility are only payable if the Company draws down on the Tranche 2 Convertible Notes and are payable pro rata to the amount drawn down.
4. Note the Tranche 1 Options and issues of 261,780 Tranche 1 Fee Shares and 3,333,334 Collateral Shares to Suburban Holdings are subject to Shareholder approval.

4.5 Shareholder Approval for the Conversion Resolution and the Issue of Tranche 1 Options

In accordance with the terms of the Convertible Securities Agreements, the Company has agreed to obtain Shareholder approval for the conversion of the Debt Notes into Tranche 1 Convertible Notes (including approval for the purpose of ASX Listing Rule 10.11 in respect of the Debt Notes which will be held by Suburban Holdings) on or before 25 January 2019 (**Conversion Resolution**).

As set out in Section 9.1, if Shareholder approval for the Conversion Resolution is not obtained on or before 25 January 2019 an event of default will occur under the Convertible Securities Agreements. The consequences of an event of default occurring are summarised in further detail in Section 9.1(g).

In addition, the Company intends to seek Shareholder approval for the issue of the Tranche 1 Options (including approval for the purpose of ASX Listing Rule 10.11 to issue Tranche 1 Options to Suburban Holdings). If Shareholder approval for the issue of the Tranche 1 Options is not obtained, the Company must instead pay the Tranche 1 Investors the amount calculated in accordance with formula set out in Section 5.1.

The Company intends to convene a Shareholder meeting on or before 25 January 2019 to comply with the terms and conditions of the Convertible Securities Agreements (**Shareholder Meeting**).

Further details in respect of the Convertible Securities Agreements are set out in Section 9.1.

Further details of additional Shareholder approvals that are intended to be sought at the Shareholder Meeting are set out in Sections 4.6, 4.7 and 4.8.

4.6 Placement

In conjunction with the entry into the Convertible Securities Agreements, the Company has finalised the Placement to raise approximately \$1,585,161 through

the issue of approximately 8,299,271 Shares (**Placement Shares**) at an issue price of \$0.191 per Share.

It is anticipated that the Placement Shares will be issued prior to the Closing Date of the Cleansing Offer.

The Placement Shares will be issued pursuant to the Company placement capacity under ASX Listing Rule 7.1A. The Company intends to seek Shareholder approval to ratify the issue of the Placement Shares at the Shareholder Meeting.

4.7 Lead Manager Fees

EverBlu Capital Pty Ltd (ACN 612 793 683) (AFSL 499601) (**EverBlu Capital**) has been appointed as lead manager to the Placement, the Debt Note Offer and the Tranche 2 Convertible Note Facility.

Director, Adam Blumenthal, is the Chairman of EverBlu and a major shareholder and controller of EverBlu. Mr Blumenthal is excluded from any resolutions considered by the Company relating to EverBlu Capital.

The Company confirms that, as at the date of this Prospectus, EverBlu Capital does not hold any Securities in the Company. However, Adam Blumenthal, an associate of EverBlu Capital holds 6,250,001 Shares and 2,750,000 Options.

The following fees will be paid to EverBlu Capital in respect of the Offers:

- (a) a capital raising fee of 4% of the gross proceeds raised under the Debt Note Offer (being a fee of up to \$220,000);
- (b) a management fee of 2% of the gross proceeds raised under the Debt Note Offer (being a fee of up to \$110,000); and
- (c) the issue of up to an aggregate of 1,833,333 Shares and 1,833,333 Options, on the basis of one Share for every \$3 raised under the Debt Note Offer, together with one Option for every Share issued.

In addition, the Company has agreed to pay EverBlu Capital:

- (a) the following fees in respect of the Placement:
 - (i) a capital raising fee of 4% of the gross proceeds raised under the Placement (being a fee of \$63,406);
 - (ii) a management fee of 2% of the gross proceeds raised under the Placement (being a fee of \$31,703); and
 - (iii) the issue of an aggregate of 528,387 Shares and 528,387 Options, on the basis of one Share for every \$3 raised under the Placement, together with one Option for every Share issued; and
- (b) the following fees in respect of the Tranche 2 Convertible Note Facility:
 - (i) a capital raising fee of 3% of:
 - (A) in the event that the Debt Note Offer is fully subscribed, the gross proceeds committed under the Tranche 2 Convertible Note Facility (being a fee of \$81,000); or

- (B) in the event that the Debt Note Offer is not fully subscribed, the gross proceeds drawn down under the Tranche 2 Convertible Note Facility payable on a pro rata basis; and
- (ii) the issue of an aggregate of 450,000 Shares and 450,000 Options, on the basis of one Share for every \$6 committed under the Tranche 2 Convertible Note Facility, together with one Option for every Share issued.

A summary of the fees payable and issuable to EverBlu Capital are set out below:

	Minimum Subscription ¹				Maximum Subscription ²			
	Debt Note Offer	Placement	Tranche 2 Convertible Note Facility	Total	Debt Note Offer	Placement	Tranche 2 Convertible Note Facility	Total
Capital Raise Fee and Management Fee	\$207,000	\$95,110	—*	\$302,110	\$330,000	\$95,110	\$81,000	\$506,110
Shares	1,150,000	528,387	450,000	2,128,387	1,833,333	528,387	450,000	2,811,720
Options	1,150,000	528,387	450,000	2,128,387	1,833,333	528,387	450,000	2,811,720

Notes:

1. Assumes the Minimum Subscription, being \$3.45 million raised under the Debt Note Offer and \$1,585,161 million raised under the Placement.
2. Assumes the Maximum Subscription, being \$5.5 million under Debt Note Offer and \$1,585,161 million raised under the Placement.
3. As set out in Section 4.7 an up-front capital raising fee of \$81,000 is payable to EverBlu Capital if the Debt Note Offer is fully subscribed. In the event that the Debt Note Offer is not fully subscribed, a fee of 3% of the gross proceeds drawn down under the Tranche 2 Convertible Note Facility is payable on a pro rata basis.

All issues of Shares and Options to EverBlu Capital will be subject to Shareholder approval being obtained at the Shareholder Meeting.

The Company confirms that the agreement between the Company and EverBlu Capital was entered into on arm's length terms. In accordance with section 195 of the Corporations Act, Director, Adam Blumenthal abstained consideration of entry into the agreement.

4.8 Additional Proposed Security Issues

In addition to the issues summarised above, the Company has agreed to issue further Securities as set out below.

Settlement Shares

Following Shareholder approval obtained in May 2019, the Company issued secured convertible notes to a number of sophisticated and professional investors, including PharmaCielo (**Secured Investors**) under the terms of a loan trust deed. The securities which secured the funds advanced were issued in the name of a trustee for the Secured Investors, Jamber Investment Pty Ltd (**Jamber**). As a condition of the SIA, the Secured Investors, other than PharmaCielo, were required to convert their secured convertible notes for Shares and Options in the Company. The Secured Investors, other than PharmaCielo made this conversion in July 2019. Jamber remained the trustee for the remainder of the funds that had been

advanced, being the PharmaCielo Loan. Following termination of the SIA, the Jamber alleged that the Company is liable for breach of contract in relation to representations made in connection with the conversion of the convertible notes. Whilst the Company denies the allegation, in order to procure Jamber to discharge the old securities in a timely fashion and settle the dispute, the Company has agreed to issue the following Securities to the Secured Investors:

- (a) 7,500,000 Shares (**Initial Settlement Shares**); and
- (b) subject to Shareholder approval, up to a further 8,125,000 Shares (**Subsequent Settlement Shares**).

Under the agreed terms of the settlement, the Company may elect to make a cash payment of \$0.20 per Subsequent Settlement Shares to the Secured Investors in lieu of issuing any of the Subsequent Settlement Shares.

The Company intends to issue the Initial Settlement Share prior to the Closing Date of the Cleansing Offer. The Initial Settlement Shares will be issued under the Company's placement capacity under ASX Listing Rule 7.1.

The Company intends to seek Shareholder approval for the issue of the Subsequent Settlement Shares at the Shareholder Meeting. The Company also intends to seek Shareholder approval to ratify the issue of the Initial Settlement Shares at the Shareholder Meeting.

Consultancy Shares

The Company has also recently engaged Stocks Digital for digital marketing consultancy services to be provided over a 6 month period. Stocks Digital has agreed to receive its fee of \$200,000 in Shares at a deemed issue price of \$0.20. Accordingly, prior to the Closing Date of the Cleansing Offer, the Company intends to issue Stocks Digital 1,000,000 Shares (**Consultancy Shares**).

The Company intends to seek Shareholder approval to ratify the issue of the Consultancy Shares at the Shareholder Meeting. The Consultancy Shares will be issued under the Company's placement capacity under ASX Listing Rule 7.1.

4.9 Funds available to the Company

Following the completion of the Debt Note Offer (assuming only the Minimum Subscription is raised) and the Placement, raising an aggregate of \$5 million, the Board believes the Company will have sufficient working capital to adequately meet the Company's short-term commitments and working capital requirements as a result of the funds raised and funds generated through the Company's revenue streams. The Company further notes that it has the ability to:

- (a) raise up to a further \$2.05 million through the placement of additional Debt Notes to reach the Maximum Subscription; and
- (b) subject to the satisfaction of certain conditions set out in Section 9.1(a), draw down the first two tranches under the Tranche 2 Convertible Note Facility (being up to \$900,000) at any time prior to the Shareholder Meeting at its discretion.

After the Shareholder Meeting, subject to the receipt of Shareholder approval and agreement with L1 Capital, the Company will have the ability to draw down the remaining balance of the Tranche 2 Convertible Note Facility. The Company

intends that any further funds drawn down will be used for operational and working capital purposes.

The Company is presently considering other fundraising initiatives to meet the medium-term working capital requirements of the Company and repayment of the Tranche 1 Convertible Notes and, if issued the Tranche 2 Convertible Notes, in the future, if they are not converted into Shares. The Company is confident that it will be able to generate further funding as and when available. Additionally, the Company continuously explores merger and acquisition opportunities with a view to strengthening its existing businesses and/or divesting operations.

4.10 Dilution

As set out in this Prospectus, the Company is intending to issue the Debt Notes, the Collateral Shares and the Tranche 1 Fee Shares in accordance with the terms of the Convertible Securities Agreements. In addition, the Company is intending to issue the Placement Shares, the Initial Settlement Shares and the Consultancy Shares.

The dilutionary impact in percentage terms on current Shareholders on completion of these issues (assuming that that maximum number of Securities are issued under each of the issues noted above and no convertible securities are exercised or converted) is set out below.

Percentage of Shares held by different categories of Shareholders		
	Shares	Percentage
Current Shareholders	151,544,332	85.17%
Placement participants	8,299,271	4.66%
Tranche 1 Investors (other than L1 Capital)	5,991,854	3.37%
L1 Capital	3,595,114	2.02%
Other proposed issues	8,500,000	4.78%
Total	177,930,571	100.00%

Notes:

1. Excludes the 3,333,334 Collateral Shares and 261,780 Tranche 1 Fee Shares which will be issued to Suburban Holdings, subject to the Company obtaining Shareholder approval at the Shareholder Meeting.
2. The above table does not consider current Shareholdings of parties who will be issued further Shares under the transactions contemplated under this Prospectus.

At the Shareholder Meeting, the Company is intending to seek Shareholder approval for the:

- (a) conversion of the Debt Notes into the Tranche 1 Convertible Notes (including approval for the purpose of ASX Listing Rule 10.11 to convert the Debt Notes held by Suburban Holdings) and the conversion any Additional Debt Notes into Tranche 2 Convertible Notes;
- (b) the issue of the Tranche 1 Options (including approval for the purpose of ASX Listing Rule 10.11 to issue Tranche 1 Options to Suburban Holdings);
- (c) issue of the Tranche 1 Fee Shares and the Collateral Shares to Suburban Holdings;

- (d) issue of the Tranche 2 Securities;
- (e) issue of up to 8,125,000 Subsequent Settlement Shares; and
- (f) issue of up to 2,811,720 Shares and 2,811,720 Options to EverBlu Capital in part consideration for its services in respect of the Debt Note Offer, the Placement and the Tranche 2 Convertible Note Facility.

The Company also intends to ratify the previous issues of Securities that have or will be issued in accordance with the Company's placement capacity under the ASX Listing Rules.

If subsequently each of these resolutions is approved and the maximum number of Securities are issued under each of these resolutions, the percentage Shareholding of current Shareholders will reduce to 78.48% (assuming that the maximum number of Tranche 2 Convertible Notes and/or the Additional Debt Notes are issued).

Percentage of Shares held by different categories of Shareholders		
	Shares	Percentage
Current Shareholders	151,544,332	78.48%
Placement participants	8,299,271	4.30%
EverBlu Capital	2,811,720	1.46%
Tranche 1 Investors (other than L1 Capital)	9,586,968	4.97%
L1 Capital	4,223,386	2.19%
Other proposed issues	16,625,000	8.61%
Total	193,090,678	100.00%

Notes:

- Assumes that the Tranche 2 Fee Shares are issued at a deemed issue price of \$0.191 per Share.
- The above table does not consider current Shareholdings of parties who will be issued further Shares under the transactions contemplated under this Prospectus.

If subsequently the Tranche 1 Convertible Notes and the Tranche 2 Convertible Notes are converted at the Fixed Conversion Price, the Tranche 1 Options and the Tranche 2 Options and the 2,811,720 Options issued to EverBlu Capital are exercised, and no other convertible securities are exercised or converted, the percentage Shareholding of current Shareholders will reduce to 64.51%

Percentage of Shares held by different categories of Shareholders		
	Shares	Percentage
Current Shareholders	151,544,332	64.51%
Placement participants	8,299,271	3.53%
EverBlu Capital	5,623,440	2.39%
Tranche 1 Investors (other than L1 Capital)	29,558,108	12.58%
L1 Capital	23,283,993	9.91%
Other proposed issues	16,625,000	7.08%
Total	234,934,144	100.00%

Notes:

1. The above table does not consider current Shareholdings of parties who will be issued further Shares under the transactions contemplated under this Prospectus.

It is not possible to predict what the value of the Company or a Share will be following the completion of the Offers being implemented and the Directors do not make any representation as to such matters.

5. DETAILS OF THE OFFERS

5.1 The Debt Note Offer

The Debt Note Offer is an offer of up to 6,111,111 Debt Notes each with a face value of \$1.00 and a subscription price of \$0.90 each to raise up to \$5,500,000.

The Securities issued under the Debt Note Offer, will be issued as debt securities until such time as Shareholder approval for the Debt Notes to convert to convertible equity securities (being the Tranche 1 Convertible Notes) is obtained.

The Debt Note Offer will only be extended to specific parties identified by the Directors and EverBlu Capital (the **Tranche 1 Investors**). Debt Note Application Forms will only be provided by the Company to these parties.

As set out in Section 4.2, L1 Capital has agreed subscribe for 1,666,667 Debt Notes, Suburban Holdings has agreed to subscribe for 1,666,667 Debt Notes, Chifley has agreed to subscribe for 277,778 Debt Notes and Mozaik has agreed to subscribe for 222,222 Debt Notes under the Tranche 1 Convertible Note Facility.

The key terms and conditions of the Debt Notes offered pursuant to the Debt Note Offer, together with the terms of the Tranche 1 Convertible Notes, are set out below. This information should be read in conjunction with other information contained in this Prospectus including the summary of the Convertible Securities Agreements set out in Section 9.1 and the risk factors set out in Section 8.

Face Value	\$1.00 per Debt Note
Subscription Price	\$0.90 per Debt Note
Maturity Date	12 months from the date of issue of the Debt Notes.
Purchase Date	On or around 27 November 2019
Interest Rate	4% per annum, with the first interest payment payable on the date which is 180 days after the Purchase Date and every 90 days thereafter.
Conversion of Debt Notes	The Company must seek Shareholder approval for the conversion of the Debt Notes into Tranche 1 Convertible Notes and the issue of the Tranche 1 Options by the Meeting Deadline. If Shareholder approval is not obtained, an event of default will have occurred.
Conversion Rights	Subject to the Company obtaining Shareholder approval for the conversion of the Debt Notes into the Tranche 1 Convertible Notes, the Tranche 1 Investors may elect to convert one or more of the Tranche 1 Convertible Notes into Shares at the at the Fixed Conversion Price (defined below) at any time prior to the Maturity Date.
Conversion Price	The Tranche 1 Convertible Notes will be convertible at \$0.35 each (Fixed Conversion Price). However, if the Company undertakes one or more capital raisings and raises at least \$2,500,000 in aggregate (excluding any funds raised under the Placement) at a price per Share lower than the Fixed Conversion Price, the Company must seek Shareholder approval to vary the Fixed Conversion Price to the issue price under the relevant capital raising. If Shareholder approval is not obtained within 60 days from the date of completion of the capital raising, an event of default will have occurred.

Periodic Redemptions	<p>The Company must redeem the Tranche 1 Convertible Notes by making a cash payment to the Tranche 1 Investors on the dates which are 180 days after the Purchase Date and 270 days after the Purchase Date. These payments must be equal to 102% of the lesser of:</p> <ul style="list-style-type: none"> the balance of the aggregate total of the Face Value of the outstanding Tranche 1 Convertible Notes, accrued interest and all other amounts payable by the Company in relation to the Tranche 1 Convertible Notes (Amount Outstanding); and the sum of 25% of the aggregate Face Value of the Tranche 1 Convertible Notes and all interest then accrued.
Redemption on Capital Raising	<p>If the Company conducts a capital raising, the Tranche 1 Investors will have the right to request up to 20% of the proceeds of the capital raising in partial redemption of the Tranche 1 Convertible Notes.</p>
Early Redemption by the Company	<p>At its sole discretion, the Company will have the right to redeem all of the outstanding Tranche 1 Convertible Notes by giving notice to the Tranche 1 Investors specifying that it intends to do so (an Early Redemption Notice).</p> <p>After the Company gives an Early Redemption Notice but before the Tranche 1 Convertible Notes the subject of the Early Redemption Notice are redeemed, a Tranche 1 Investor may give the Company a conversion notice for up to 50% of the Tranche 1 Convertible Notes the subject of the Early Redemption Notice.</p> <p>On or before the day which is 5 Business Days after the date on which the Company gives the Early Redemption Notice, the Company must pay to the Tranche 1 Investor 105% of the Amount Outstanding.</p>
Mandatory Redemption	<p>If the Tranche 1 Convertible Notes have not been converted prior to the Maturity Date, the Company must repay 102% of the Amount Outstanding on the Maturity Date.</p>
Ranking on Conversion	<p>Shares issued on conversion of the Tranche 1 Convertible Notes will rank equally with existing Shares on issue.</p>
Security Documents	<p>The Notes will be secured by:</p> <ul style="list-style-type: none"> a general security agreement by the Company in favour of the Collateral Agent, on terms acceptable to L1 Capital; a general security, collateral security and a general assignment of rents and leases in favour of the Collateral Agent granted by Mernova Medicinal Inc. on terms acceptable to L1 Capital; a collateral agency agreement between the Investor, each Co-Investor, the Collateral Agent, the Company, Mernova Medicinal Inc, 3321739 Nova Scotia Limited, Creso Canada Limited and Creso Pharma Switzerland GmbH on terms acceptable to L1 Capital; a guarantee and indemnity in favour of the Collateral Agent granted by Mernova Medicinal Inc. on terms acceptable to L1 Capital; a guarantee and indemnity in favour of the Collateral Agent granted by Creso Pharma Switzerland GmbH on terms acceptable to L1 Capital; and from each of Creso Canada Limited and 3321739 Nova Scotia Limited: <ul style="list-style-type: none"> a guarantee and indemnity in favour of the Collateral Agent granted by the relevant entity. on terms acceptable to L1 Capital; and a general security agreement by the relevant entity in favour of the Collateral Agent (or such document is equivalent in the place of jurisdiction of the relevant entity, on terms acceptable to L1 Capital). <p>(together, the Security Documents).</p> <p>The security granted under the Security Documents will be held by the Collateral Agent on its own behalf and on behalf of the other Tranche 1 Investors.</p>

<p>Tranche 1 Options</p>	<p>Subject to obtaining Shareholder approval, the Company will issue the Tranche 1 Options to the Tranche 1 Investors.</p> <p>Where, for any reason, the Company does not or is not able to issue the Tranche 1 Options to the Tranche 1 Investors, then in lieu of the issue of the Tranche 1 Options, on the relevant date the Company must instead pay the Tranche 1 Investors the amount calculated in accordance with the following formula:</p> $PA = O \times V$ <p>Where:</p> <p>PA = the required payment amount;</p> <p>O = the number of Tranche 1 Options required to be issued on the relevant date</p> <p>V = the value of the Tranche 1 Options, determined using the Black & Scholes being \$0.0553.</p>
<p>Collateral Shares</p>	<p>Contemporaneously with the issue of the Tranche 1 Convertible Notes, the Company will issue the Collateral Shares to the Tranche 1 Investors, which will be subject to restrictions on disposal.</p> <p>If at any time the market value of the Collateral Shares is less than 20% of the Amount Outstanding, the Tranche 1 Investors may give the Company written notice requesting that the Company issue additional Shares to the Tranche 1 Investors as Collateral Shares, so that following the issue, the market value of the Collateral Shares will be at least 20% of the Amount Outstanding (Top-Up Notice). The issue of any Shares upon receipt of a Top-Up Notice will be subject to the Company obtaining Shareholder approval.</p> <p>Where at any time the Company is required to issue Shares to the Tranche 1 Investors under the Convertible Securities Agreement, then the Tranche 1 Investors may, by written notice to the Company, elect to partially or wholly satisfy the Company's obligation to issue the relevant Shares to the Tranche 1 Investors from the Collateral Shares. If the Tranche 1 Investors do so, then:</p> <ul style="list-style-type: none"> the number of Collateral Shares specified in the Tranche 1 Investors' notice will cease to be Collateral Shares (and may be freely dealt with by the Tranche 1 Investors); the Company's obligation to issue Shares to the Tranche 1 Investors will be satisfied to the same extent. <p>If an event of default occurs, the Tranche 1 Investors may at any time afterward by written notice to the Company elect to purchase a number of Collateral Shares.</p> <p>If:</p> <ul style="list-style-type: none"> the Convertible Securities Agreement terminates or expires; there is no Amount Outstanding; and there are any Collateral Shares, <p>then the Tranche 1 Investors must, in the time period stipulated by the Company and on the Company's strict instructions, sell the Collateral Shares on-market and pay 95% of the net sale proceeds to the Company.</p>
<p>Tranche 1 Drawdown Fee</p>	<p>The Company has agreed to pay a drawdown fee of 7% of the aggregate Face Value of the Tranche 1 Convertible Notes to the Tranche 1 Investors (Tranche 1 Drawdown Fee).</p> <p>The Tranche 1 Drawdown Fee will be payable:</p> <ul style="list-style-type: none"> 4/7 in cash on the Purchase Date; and 3/7 in Shares on the Purchase Date, with the number of Shares to be issued determined by dividing the relevant amount of the Tranche 1 Drawdown Fee by the issue price of Shares under the Placement, being \$0.191 per Share (Concurrent Placement Price).
<p>Reconstruction of capital</p>	<p>If at any time the Company undertakes a consolidation, subdivision or pro-rata cancellation of its issued capital, pays a dividend in Shares or undertakes a distribution of Shares, the Fixed Conversion Price will be</p>

	reduced or increased in the same proportion as the issued capital of the Company is consolidated, subdivided or cancelled.
Related Party Participation	All issues of securities to Suburban Holdings will be deferred and only issued when and if Shareholder approval for their issue is obtained in accordance with Listing Rule 10.11.

The Debt Notes will be issued to the Tranche 1 Investors as soon as practicable after the Closing Date of the Debt Note Offer.

5.2 The Cleansing Offer

Pursuant to this Prospectus, the Company invites specific parties identified by the Directors to apply for up to 10,000 Shares at an issue price of \$0.20 per Share, to raise up to \$2,000 (before expenses).

The Offer will only be extended to specific parties on invitation from the Directors. Cleansing Offer Application Forms will only be provided by the Company to these parties.

The Shares offered under this Prospectus will rank equally with the existing Shares on issue. A summary of the material rights and liabilities attaching to the Shares is set out in Section 7.1.

5.3 Purpose of the Cleansing Offer

The primary purpose of the Cleansing Offer is to remove any trading restrictions that may have attached to Shares issued by the Company without disclosure under Chapter 6D of the Corporations Act prior to the Closing Date of the Cleansing Offer (including prior to the date of this Prospectus). In particular, the Cleansing Offer is intended to remove any on-sale restrictions that may affect the Placement Shares, the Collateral Shares, the Tranche 1 Fee Shares, the Initial Settlement Shares and the Consultancy Shares, which are intended to be issued prior to the Closing Date of the Cleansing Offer. Accordingly, the Company is seeking to raise only a nominal amount of \$2,000 under the Cleansing Offer as the purpose of the Cleansing Offer is not to raise capital.

Relevantly, section 708A(11) of the Corporations Act provides that a sale offer does not need disclosure to investors if:

- (a) the relevant securities are in a class of securities that are quoted securities of the body; and
- (b) either:
 - (i) a prospectus is lodged with the ASIC on or after the day on which the relevant securities were issued but before the day on which the sale offer is made; or
 - (ii) a prospectus is lodged with ASIC before the day on which the relevant securities are issued and offers of securities that have been made under the prospectus are still open for acceptance on the day on which the relevant securities were issued; and
- (c) the prospectus is for an offer of securities issued by the body that are in the same class of securities as the relevant securities.

5.4 Opening and Closing Date of the Offers

The Opening Date of the Offers will be 27 November 2019 and the Closing Dates for the Debt Note Offer and Cleansing Offer will be 4:00 pm WST on 28 November 2019 and 29 November 2019 respectively.

The Directors reserve the right to close either of the Offers early or extend the Closing Dates (as the case may be), should it be considered by them necessary to do so.

5.5 Minimum Subscription

The minimum subscription for the Debt Note Offer is \$3,450,000 being 3,833,333 Debt Notes (**Minimum Subscription**). In the event the minimum subscription is not achieved within four (4) months of the date of lodgement of the Prospectus with the ASIC, no Debt Notes will be issued to any of the applicants, all application monies will be returned (without interest) and all applications under the Debt Note Offer will otherwise be dealt with in accordance with the Corporations Act.

There is no minimum subscription for the Cleansing Offer.

The Company reserves the right to withdraw either of the Offers at any time, in which case the Company will refund application monies in accordance with the Corporations Act and will do so without interest.

5.6 Not underwritten

The Offers are not underwritten.

5.7 Lead Manager

EverBlu Capital has been appointed as lead manager to the Placement, the Debt Note Offer and the Tranche 2 Convertible Note Facility. The terms of the appointment of EverBlu Capital are summarised in Section 4.7.

5.8 Applications for Debt Notes

Applications for Debt Notes must be made by the Tranche 1 Investors (who have been selected at the direction of the Company) and must be made using the relevant Debt Note Application Form accompanying this Prospectus. By completing the Debt Note Application Form, you will be taken to have declared that all details and statements made by you are complete and accurate and that you have received personally the Debt Note Application Form together with a complete and unaltered copy of the Prospectus.

Payment for the Debt Notes subscribed for under the Debt Note Offer must be made in full at the subscription price of \$0.90 per Debt Note.

Completed Debt Note Application Forms and accompanying cheques (if required) must be mailed or delivered to the Company as follows:

Delivery by hand	Delivery by post
Suite 5 CPC 145 Stirling Highway Nedlands WA 6009	PO Box 3144 Nedlands WA 6009

5.9 Applications for Shares

Applications for Shares must be made by investors at the direction of the Company and must be made using the Cleansing Offer Application Form accompanying this Prospectus. By completing the Cleansing Offer Application Form, you will be taken to have declared that all details and statements made by you are complete and accurate and that you have received personally the Cleansing Offer Application Form together with a complete and unaltered copy of the Prospectus.

Payment for the Shares subscribed for under the Cleansing Offer must be made in full at the issue price of \$0.20 per Share.

Completed Cleansing Offer Application Forms and accompanying cheques (if required) must be mailed or delivered to the Company as follows:

Delivery by hand	Delivery by post
Suite 5 CPC 145 Stirling Highway Nedlands WA 6009	PO Box 3144 Nedlands WA 6009

5.10 ASX Listing

The Company will apply for Official Quotation of the Shares offered under this Prospectus within 7 days after the date of this Prospectus. If ASX does not grant Official Quotation of the Shares offered under this Prospectus pursuant to this Prospectus before the expiration of 3 months after the date of issue of the Prospectus, (or such period as varied by the ASIC), the Company will not issue any such Shares under this Prospectus and will repay all application monies for the Shares offered under this Prospectus within the time prescribed under the Corporations Act, without interest. The fact that ASX may grant Official Quotation to the Shares is not to be taken in any way as an indication of the merits of the Company or the Securities now offered for subscription.

The Company will not apply for Official Quotation of the Debt Notes offered under this Prospectus as the Debt Notes will not be quoted.

5.11 Issue of Debt Notes under the Debt Note Offer

The issue of the Debt Notes offered under the Debt Note Offer will take place as soon as practicable after the Closing Date of the Debt Note Offer.

Pending the issue of the Debt Notes or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. Any interest earned on the application monies will be for the benefit of the Company and will be retained by the Company irrespective of whether any Debt Notes are issued, and each applicant waives the right to claim any interest.

The Directors will determine the recipients of all the Debt Notes. The Directors reserve the right to reject any application or to allocate any applicant fewer Debt Notes than the number applied for. Where the number of Debt Notes issued is less than the number applied for, or where no issue is made, surplus application monies will be refunded (without interest) to the applicant as soon as practicable after the Closing Date of the Debt Note Offer.

The Company's decision on the number of Debt Notes to be allocated to an applicant will be final.

Holding statements for Debt Notes issued under this Prospectus will be mailed to the Tranche 1 Investors.

5.12 Issue of Shares under the Cleansing Offer

As noted in Section 5.3, the primary purpose of the Cleansing Offer is to remove any trading restrictions that may have attached to Shares issued by the Company without disclosure under Chapter 6D of the Corporations Act prior to the Closing Date of the Cleansing Offer (including prior to the date of this Prospectus).

If the Directors decide to issue Shares under the Cleansing Offer, the issue of Shares will take place as soon as practicable after the Closing Date. Pending the issue of the Shares or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the applicants in a separate bank account as required by the Corporations Act. Any interest earned on the application monies will be for the benefit of the Company and will be retained by the Company irrespective of whether any Shares are issued, and each applicant waives the right to claim any interest.

The Directors will determine the recipients of the Shares. The Directors reserve the right to reject any application or to allocate any applicant fewer Shares than the number applied for. Where the number of Shares issued is less than the number applied for, or where no issue is made, surplus application monies will be refunded (without interest) to the applicant as soon as practicable after the Closing Date of the Cleansing Offer.

The Company's decision on the number of Shares to be allocated to an applicant will be final.

Holding statements for Shares issued under this Prospectus will be mailed to the investors under the Cleansing Offer.

5.13 Applicants outside Australia

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No action has been taken to register or qualify the Securities or otherwise permit an offering of the Securities the subject of this Prospectus in any jurisdiction outside Australia. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed. If you are outside Australia it is your responsibility to obtain all necessary approvals for the issue of the Securities pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by you that all relevant approvals have been obtained.

5.14 Shortfall Offer

The Company has the right to close the Debt Note Offer as soon as the Minimum Subscription is reached. Any Debt Notes offered under this Prospectus that are not subscribed for under the Debt Note Offer prior to the Closing Date of the Debt Note Offer will form the Shortfall.

The offer of Debt Notes under Shortfall (**Shortfall Offer**) is a separate offer under the Prospectus and will remain open after the Debt Note Offer and Cleansing Offer have closed for a period determined by the Company and EverBlu Capital.

The Directors reserve the right to place the Shortfall Offer in their absolute discretion. Accordingly, do not complete a Shortfall Application Form unless instructed to do so by the Directors.

The issue price of any Debt Notes the subject of the Shortfall Offer shall be \$0.90 per Debt Note, being the subscription price at which the Debt Note Offer is being offered pursuant to this Prospectus.

If you are directed to participate in the Shortfall Offer, you will be required to complete a Shortfall Application Form by such date as directed by the Company or EverBlu Capital (as the case may be).

Payment for the Debt Notes subscribed for under the Shortfall Offer must be made in full at the subscription price of \$0.90 per Debt Note.

Completed Shortfall Application Forms and accompanying cheques (if required) must be mailed or delivered to the Company as follows:

Delivery by hand	Delivery by post
Suite 5 CPC 145 Stirling Highway Nedlands WA 6009	PO Box 3144 Nedlands WA 6009

Debt Notes issued pursuant to the Shortfall Offer will be issued on a progressive basis. Where the number of Debt Notes issued is less than the number applied for, or where no issue is made, surplus application monies will be refunded without any interest to the applicant as soon as practicable after the closing date of the Shortfall Offer.

Holding statements for the Debt Notes issued under the Shortfall Offer will be mailed as soon as practicable after their issue.

5.15 Enquiries

Any questions concerning the Offers should be directed to Eryn Dale, Joint Company Secretary on +61 8 9389 3180.

6. PURPOSE AND EFFECT OF THE OFFERS AND THE PLACEMENT

6.1 Effect of the Offers and the Placement

The purpose of the Offers is to raise up to \$7,085,161 through the Debt Note Offer and the facilitation of the Placement.

The funds raised from the Offers (together with the funds raised under the Placement) are planned to be used in accordance with the table set out below:

	Minimum Subscription \$ 5,035,161		Maximum Subscription \$ 7,085,161	
Proceeds of the Offers and the Placement	Funds allocation (\$)	%	Funds allocation (\$)	%
Repayment of the PharmaCielo Loan	\$4,341,621	86.23%	\$4,341,621	61.28%
Operating and working capital ^{1 **}	\$187,969	3.73%	\$1,942,858	27.42%
Expenses of the Offers ^{2,3,4}	\$410,461	8.15%	\$624,572	8.82%
Further EverBlu Capital Fees – Tranche 2 Convertible Note Facility and Placement ⁵	\$95,110.00	1.89%	\$176,110	2.49%
Total	\$5,035,161	100	\$7,085,161	100.00%

**** This table does not provide for the funds of up to \$2.7 million that may be drawn down under the Tranche 2 Convertible Note Facility or the funds generated by the Company's revenue streams. The Company confirms that L1 Capital has agreed that the first two tranches under the Tranche 2 Convertible Note Facility (being \$450,000 per tranche) may be drawn down by the Company in its sole discretion prior to the Shareholder Meeting (subject to satisfying certain conditions of draw down as set out in Section 9.1(a)).**

Notes:

1. Operating and working capital relates to the operational, general and administrative expenditure required by the Company. This includes research and development activities, product manufacturing and operating costs, advertising and marketing expenses and management costs.
2. Refer to Section 10.7 for further details relating to the estimated expenses of the Offers.
3. The Company has agreed to pay EverBlu Capital cash fee of 6% of the gross proceeds raised under the Debt Note Offer (being a fee of between \$207,000 and \$330,000) and subject to Shareholder approval being obtained, issue EverBlu Capital between 1,166,667 Shares and 1,833,333 Shares and between 1,166,667 Options and 1,833,333 Options in consideration for their role as lead manager to the Debt Note Offer. For further details, refer to Section 4.7.
4. The expenses of the Offers include the draw down cash fee of 4% of the aggregate face value of the Debt Notes (being a fee of between \$153,333 and \$244,444) to the Tranche 1 Investors. For further details, refer to Sections 4.4 and 5.1.
5. In addition, the Company has agreed to pay EverBlu Capital a cash fee of 6% of the gross proceeds raised under the Placement (being \$95,110), a capital raising fee of up to \$81,000 in respect of the Tranche 2 Convertible Note Facility, and issue EverBlu Capital 528,387 Shares and 528,387 Options in consideration for their role as lead manager to the Placement and 450,000 Shares and 450,000 Options in consideration for their role as lead manager to the Tranche 2 Convertible Note Facility. For further details, refer to Section 4.7.
6. Assumes exchange rate of AUD1:CAD 0.9
7. Being share registry and ASX fees.

In the event that the Company raises more than the Minimum Subscription of \$3,450,000 under the Debt Note Offer, the additional funds raised will (after payment of the relevant fees) be applied to increase the funds available for the operating and working capital of the Company.

On completion of the Offers and the Placement, the Board believes the Company will have sufficient working capital to achieve these objectives. The Company further notes that it has the ability subject to satisfying certain conditions of draw down as set out in Section 9.1(a) to draw down the first two tranches under the Tranche 2 Convertible Note Facility (being \$450,000 per tranche) at any time prior to the Shareholder Meeting. After the Shareholder Meeting, subject to the receipt of Shareholder approval and agreement with L1 Capital, the Company will have the ability to draw down the remaining balance of the Tranche 2 Convertible Note Facility. The Company intends that any further funds drawn down will be used for operational and working capital purposes. In addition, the Company anticipates that it will continue to generate further working capital through its revenue streams.

The above table is a statement of current intentions as of the date of this Prospectus. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

6.2 Effect of the Offers and the Placement

The principal effect of the Offers and the Placement (assuming the Debt Note Offer and Placement are fully subscribed, and no other Securities are issued or exercised or converted) will be to:

- (a) increase the cash reserves by \$6,450,428 (after deducting the estimated expenses of the Offers and the Placement) immediately after completion of the Offers and the Placement, prior to the repayment of the PharmaCielo Loan and payment of the further EverBlu Capital cash fees set out in the table at Section 6.1 above;
- (b) increase the number of Shares on issue from 151,544,332 as at the date of this Prospectus to 177,930,571 Shares following completion of the Offers and the Placement (note this also assumes the maximum of the Shares under the Proposed Security Issues are also issued prior to the completion of the Offers); and
- (c) increase the number of Debt Notes on issue from zero as at the date of this Prospectus to 6,111,111 Debt Notes following completion of the Offers.

Further details of the dilution that will result from the Offers, the Placement and the Proposed Security Issues is set out in Section 4.10.

6.3 Pro-forma balance sheet

The auditor reviewed balance sheet as at 30 June 2019, management accounting adjustments for the period between 1 July 2019 and 25 November 2019 and the pro-forma balance sheet as at 25 November 2019 for both the Maximum Subscription and the Minimum Subscriptions as shown below have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position.

PRO FORMA MAXIMUM SUBSCRIPTION

	Auditor Reviewed 30/06/2019	Management Accounting Adjustments 1/7/19 to 25/11/19	Maximum Subscription New Funds	Repay Pharma- Cielo Loan	Pro-forma 25/11/2019
Assets					
Current Assets					
Cash and Cash Equivalents	3,578	(2,193)	6,284	(4,342)	3,328
Trade and Other Receivables	809	303	-	-	1,112
Inventory	1,236	1,142	-	-	2,378
Total Current Assets	5,623	(749)	6,284	(4,342)	6,818
Non Current Assets					
Property, plant and equipment	11,870	(465)	-	-	11,405
Intangible assets	810	69	-	-	879
Intangible asset created on acquisition	6,583	(25)	-	-	6,558
Total Non Current Assets	19,263	(421)	-	-	18,841
Total Assets	24,886	(1,170)	6,284	(4,342)	25,659
Liabilities					
Current Liabilities					
Trade and Other Payables	2,227	(1,035)	-	-	1,192
Provisions	31	(10)	-	-	21
Borrowings	5,350	(1,239)	-	(4,111)	(0)
Convertible notes	-	-	5,500	-	5,500
Total Current Liabilities	7,608	(2,284)	5,500	(4,111)	6,713
Non-Current Liabilities					
Borrowings	-	-	-	-	-
Total Non-Current Liabilities	-	-	-	-	-
Total Liabilities	7,608	(2,284)	5,500	(4,111)	6,713
Net Assets	17,278	1,114	784	(231)	18,946
Equity					
Contributed Equity	41,138	5,375	1,585	-	48,098

	Auditor Reviewed 30/06/2019	Management Accounting Adjustments 1/7/19 to 25/11/19	Maximum Subscription New Funds	Repay Pharma- Cielo Loan	Pro-forma 25/11/2019
Reserves	18,935	1,092	-	-	20,027
Accumulated Losses	(42,794)	(5,353)	(801)	(231)	(49,178)
Total Equity	17,278	1,114	784	(231)	18,946

Notes:

The above has been prepared on the assumptions below:

1. The Debt Note Offer is fully subscribed and \$5,500,000 is raised.
2. \$1,585,161 is raised under the Placement.
3. Expenses of the Offers being, \$624,572 are paid. Additional EverBlu Capital cash fees of \$176,110 relating to services provided by EverBlu Capital for the Tranche 2 Convertible Note Facility and the Placement are paid.
4. An exchange rate of AUD1:CAD0.9 for the repayment of the PharmaCielo Loan.

PRO FORMA MINIMUM SUBSCRIPTION

	Auditor Reviewed 30/06/2019	Management Accounting Adjustments 1/7/19 to 25/11/19	Minimum Subscription New Funds	Repay PharmaCielo Loan	Pro-forma 25/11/2019
Assets					
Current Assets					
Cash and Cash Equivalents	3,578	(2,193)	4,530	(4,342)	1,573
Trade and Other Receivables	809	303	-	-	1,112
Inventory	1,236	1,142	-	-	2,378
Total Current Assets	5,623	(749)	4,530	(4,342)	5,063
Non Current Assets					
Property, plant and equipment	11,870	(465)	-	-	11,405
Intangible assets	810	69	-	-	879
Intangible asset created on acquisition	6,583	(25)	-	-	6,558
Total Non Current Assets	19,263	(421)	-	-	18,841
Total Assets	24,886	(1,170)	4,530	(4,342)	23,904
Liabilities					
Current Liabilities					
Trade and Other Payables	2,227	(1,035)	-	-	1,192
Provisions	31	(10)	-	-	21

	Auditor Reviewed 30/06/2019	Management Accounting Adjustments 1/7/19 to 25/11/19	Minimum Subscription New Funds	Repay PharmaCielo Loan	Pro-forma 25/11/2019
Borrowings	5,350	(1,239)	-	(4,111)	(0)
Convertible notes	-	-	3,450	-	3,450
Total Current Liabilities	7,608	(2,284)	3,450	(4,111)	4,663
Non-Current Liabilities					
Borrowings	-	-	-	-	-
Total Non-Current Liabilities	-	-	-	-	-
Total Liabilities	7,608	(2,284)	3,450	(4,111)	4,663
Net Assets	17,278	1,114	1,080	(231)	19,241
Equity					
Contributed Equity	41,138	5,375	1,585	-	48,098
Reserves	18,935	1,092	-	-	20,027
Accumulated Losses	(42,794)	(5,353)	(506)	(231)	(48,883)
Total Equity	17,278	1,114	1,080	(231)	19,241

Notes:

The above has been prepared on the assumptions below:

1. \$3,450,000 is raised under the Debt Note Offer.
2. \$1,585,161 is raised under the Placement.
3. Expenses of the Offers being, \$410,461 are paid. Additional EverBlu Capital cash fees of \$95,110 relating services provided by EverBlu Capital for the Placement are paid.
4. An exchange rate of AUD1:CAD0.9 for the repayment of the PharmaCielo Loan.

The pro-forma balance sheets have been prepared assuming no convertible securities are exercised or converted prior to the Closing Dates and including the respective expenses of the Offers and further EverBlu Capital cash fees set out in the table at Section 6.1 above.

The pro-forma balance sheets have been prepared to provide investors with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted above. The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all the disclosures required by Australian Accounting Standards applicable to annual financial statements.

6.4 Effect on the capital structure

The effect of the Offers, the Placement and the other Proposed Security Issues on the capital structure of the Company is set out below.

Shares

	Number
Shares currently on issue ¹	151,544,332
Shares issued pursuant to the Placement	8,299,271
Shares offered pursuant to the Offers ⁷	-
Shares to be issued for the Proposed Security Issues ² Being: <ul style="list-style-type: none">• up to 8,888,888 Collateral Shares• up to 698,080 Tranche 1 Fee Shares• 7,500,000 Initial Settlement Shares and• 1,000,000 Consultancy Shares	18,086,968
Total Shares on issue after completion of the Offers ^{1,3,4,5,6,7}	177,930,571

Notes

1. This includes 2,053,043 Shares escrowed to 20 December 2019.
2. As set out in Sections 4.2 and 4.8, these are intended to be issued prior to the Closing Date of the Cleansing Offer. This assumes that the Debt Note Offer is fully subscribed. If the Debt Note Offer is not fully subscribed, the number of Collateral Shares and Tranche 1 Fee Shares to be issued to the Tranche 1 Investors will reduce.
3. As set out in Sections 4.2, 4.3, and 4.8, subject to Shareholder approval, the Company will issue 261,780 Tranche 1 Fee Shares and 3,333,334 Collateral Shares to Suburban Holdings, the Subsequent Settlement Shares and up to an aggregate of 2,811,720 Shares to EverBlu Capital. If funds are drawn down under the Tranche 2 Convertible Note Facility, the Company will also issue, subject to Shareholder approval the Tranche 2 Fee Shares calculated in accordance with the formula set out in Section 9.1(b).
4. As set out in Section 5.1, subject to the Company obtaining Shareholder approval for the conversion of the Debt Notes into the Tranche 1 Convertible Notes, the Tranche 1 Investors may elect to convert the Tranche 1 Convertible Notes into Shares at the at the Fixed Conversion Price (being \$0.35) at any time prior to the Maturity Date. If the Company undertakes one or more capital raisings and raises at least \$2,500,000 in aggregate (excluding any funds raised under the Placement) at a price per Share lower than the Fixed Conversion Price, the Company must seek Shareholder approval to vary the Fixed Conversion Price to the issue price under the relevant capital raising.
5. As set out in Section 5.1, if at any time the market value of the Collateral Shares is less than 20% of the Amount Outstanding, the Tranche 1 Investors may give provide the Company with a Top-Up Notice requesting that the Company issues additional Shares to the Tranche 1 Investors as Collateral Shares, so that following the issue, the market value of the Collateral Shares will be at least 20% of the Amount Outstanding. The issue of any Shares upon receipt of a Top-Up Notice will be subject to the Company obtaining Shareholder approval.
6. If any notes are issued under the Tranche 2 Convertible Note Facility and subject to the Company obtaining Shareholder approval the Tranche 2 Investors may elect to convert the Tranche 2 Convertible Notes issued into Shares. Further details are set out below under "Debt Notes" and in Sections 4.3 and 9.1.
7. Assumes no Shares are issued under the Cleansing Offer.

Options

	Number
Options currently on issue	
Listed Options (ASX: CPHO) (exercisable at \$0.80 on or before 21 August 2020)	72,796,411
CPHOPT2 (exercisable at \$0.40 on or before 27 June 2020)	400,000
CPHOPT3 (exercisable at \$0.20 on or before 13 October 2020) ¹	2,886,250
CPHOPT5 (exercisable at \$0.50 on or before 23 January 2021) ²	300,000
CPHOPT12 (exercisable at \$0.60 on or before 27 July 2020)	100,000
CPHOPT14 (exercisable at \$0.80 on or before 13 July 2021) ³	150,000
CPHOPT16 (exercisable at \$0.535 on or before 27 July 2021)	200,000
CPHOPT17 (exercisable at \$0.80 on or before 27 July 2022)	200,000
CPHOPT18 (exercisable at \$0.55 on or before 21 August 2021)	200,000
CPHOPT19 (exercisable at \$0.80 on or before 15 September 2022) ⁴	400,000
Options offered pursuant to the Placement	-
Options offered pursuant to the Offers	-
Options offered for other purposes	-
Total Options on issue after completion of the Offers	77,632,661^{5,6}

Notes:

1. The vesting conditions in relation to the CPHOPT3 Options relate to part of the business of the Company that has been abandoned and therefore the vesting conditions can never be satisfied.
2. 200,000 CPHOPT5 Options have vested. Vesting and exercise of the remaining 100,000 CPHOPT5 Options are subject to the holder's continuous service as a consultant of the Company until 1 January 2020.
3. 75,000 CPHOPT14 Options have vested. Vesting and exercise of the remaining 75,000 CPHOPT14 Options is subject to the holder's continuous service as a consultant of the Company until 1 April 2020.
4. 200,000 CPHOPT19 Options have vested. Vesting and exercise of the remaining CPHOPT19 Options is subject to the holder's continuous service, on the following dates:
 - (a) 31 August 2020: 100,000 CPHOPT19 Options; and
 - (b) 31 August 2021: 100,000 CPHOPT19 Options.
5. As set out in Sections 4.5, 4.7 and 4.10, the Company intends to seek Shareholder approval at the Shareholder Meeting for the issue of Tranche 1 Options, and the issue of up to an aggregate 2,811,720 Options to EverBlu Capital in part consideration for their services as the lead manager to the Offers, the Placement and the Tranche 2 Convertible Note Facility. If funds are drawn down under the Tranche 2 Convertible Note Facility the Company will also issue, subject to Shareholder approval, the Tranche 2 Options calculated in accordance with the formula set out in Section 9.1(c).

Debt Notes

	Number
Debt Notes on issue at date of Prospectus	-
Debt Notes offered pursuant to the Placement	-
Debt Notes offered pursuant to the Offers	6,111,111
Debt Notes offered for other purposes	-
Total Debt Notes on issue after completion of the Offers	6,111,111

Notes:

- As set out in Sections 4.5 and 5.1, the Company intends to seek Shareholder approval at the Shareholder Meeting for the conversion of the Debt Notes into the Tranche 1 Convertible Notes. Subject to the Company obtaining such approval, the Tranche 1 Investors may elect to convert the Tranche 1 Convertible Notes into Shares at the at the Fixed Conversion Price (being \$0.35) at any time prior to the Maturity Date. If the Company undertakes one or more capital raisings and raises at least \$2,500,000 in aggregate (excluding any funds raised under the Placement) at a price per Share lower than the Fixed Conversion Price, the Company must seek Shareholder approval to vary the Fixed Conversion Price to the issue price under the relevant capital raising.
- As set out in Sections 4.3 and 9.1, L1 Capital has agreed to provide the Tranche 2 Convertible Note Facility, pursuant to which the Company may be entitled to raise up to an aggregate of \$2,700,000 through the issue of up to 3,000,000 Tranche 2 Convertible Notes which may include up to 1,000,000 Additional Debt Notes which, without Shareholder approval, cannot be converted into Shares. Following Shareholder approval, the Tranche 2 Convertible Notes may be converted at the lesser of \$0.35 (**Fixed Conversion Price**) and 90% of the daily VWAP on the Trading Day immediately prior to the date of issue of a conversion notice, rounded down to the nearest A\$0.01. If the Company undertakes one or more capital raisings and raises at least \$2,500,000 in aggregate (excluding any funds raised under the Placement) at a price per Share lower than the Fixed Conversion Price, the Company must seek Shareholder approval to vary the Fixed Conversion Price to the issue price under the relevant capital raising. Further information in respect of the Tranche 2 Convertible Notes is set out in Sections 4.3 and 9.1.

Performance Rights

Performance Rights	Number
Performance Rights currently on issue	5,296,000 ¹
Performance Rights offered pursuant to the Placement	-
Performance Rights offered pursuant to the Offers	-
Performance Rights offered for other purposes	-
Total Performance Rights on issue after completion of the Offers	5,296,000

Notes:

- Comprising 1,864,000 Performance Rights which have vested and 3,432,000 Performance Rights, which will vest upon satisfaction of the following vesting conditions:
 - 800,000 CPHPERR6 Performance Rights: Vest upon the holder successfully identifying and concluding a collaboration or joint venture acquisition and remaining as a Director for 12 months from date of issue of the Performance Rights (being 27 July 2017);
 - 800,000 CPHPERR7 Performance Rights: Vest upon the holder successfully identifying and concluding a collaboration or joint venture acquisition in Israel and remaining as a Director for 12 months from date of issue of the Performance Rights (being 27 July 2017);
 - 100,000 CPHPERR16 Performance Rights: Vest upon the creation of local collaborations to the material benefit of the Company as determined by the CEO, and completion of 36

months of continued engagement with the Company from date of issue (being 27 July 2017);

- (d) 132,000 CPHPERR24 Performance Rights: Vest upon Memnova achieving gross sales revenue of C\$1,500,000;
- (e) 300,000 CPHPERR29 Performance Rights: Vest upon the completion of three years of continuous service with the Company, commencing from 21 November 2017;
- (f) 100,000 CPHPERR32 Performance Rights: Vest upon the completion of the Annual Report & Appendix 4E for the financial year ended 2020, five days or more before the ASX reporting deadline;
- (g) 150,000 CPHPERR33 Performance Rights: Vest upon the completion of two years of continuous service with the Company, commencing from 18 June 2018;
- (h) 150,000 CPHPERR34 Performance Rights: Vest upon the completion of three years of continuous service with the Company, commencing from 18 June 2018;
- (i) 500,000 CPHPERR35 Performance Rights: Vest on 30 November 2019; and
- (j) 400,000 CPHPERR37 Performance Rights: Vest upon the achievement of gross sales revenue from one or more of the Group's products exceeding C\$1,000,000.

Performance Shares

Performance Shares	Number
Performance Shares currently on issue	1,212,120 ^{1,2}
Performance Shares offered pursuant to the Placement	-
Performance Shares offered pursuant to the Offers	-
Performance Shares offered for other purposes	-
Total Performance Shares on issue after completion of the Offers	1,212,120

Notes:

- Each Performance Share will automatically convert into one Share in the event Kunna S.A.S. (an entity incorporated in Colombia) is successful at the cultivation, extract and sale of 10 kgs of cannabis extract (with a minimum of 6% CBD or 6% THC in flower), which must occur on commercial arm's length terms, from its operations within 18 months of settlement of the acquisition (being 20 December 2018).
- Comprising 909,081 Performance Shares which are not subject to escrow restrictions and 303,039 Performance Shares which are subject to voluntary escrow until 20 December 2019.

Exchangeable Shares

Exchangeable Shares	Number
Exchangeable Shares currently on issue	8,300,000 ¹
Exchangeable Shares offered pursuant to the Placement	-
Exchangeable Shares offered pursuant to the Offers	-
Exchangeable Shares offered for other purposes	-
Total Exchangeable Shares on issue after completion of the Offers	8,300,000

Notes:

- Comprising of 4,150,000 Milestone 1 Exchangeable Shares and 4,150,000 Milestone 2 Exchangeable Shares, which are exchangeable into Shares in accordance with the agreed ratio.

6.5 Substantial Shareholders

Based on publicly available information and information known to the Company as at the date of this Prospectus, those persons which (together with their

associates) have a relevant interest in 5% or more of the Shares on issue are set out below:

Shareholder	Shares	%
HSBC Custody Nominees (Australia) Limited ¹	20,096,161	13.26%
Miriam Halperin Wernli ²	12,800,000	8.45%
International Water Energy Savers Ltd	8,300,000	5.48%
Jamber Investments Pty Ltd <The Amber Schwarz Fam A/C>	8,000,000	5.28%

Notes:

1. No substantial holder notice has been lodged by HSBC Custody Nominees (Australia) Limited. Accordingly, the Company considers that these Shares are held on behalf of several nominees.
2. Includes 300,000 Shares held by Jorge Wernli, who is the spouse of Miriam Halperin Wernli.
3. As set out in Section 4.8, the Company has agreed to issue Jamber Investments Pty Ltd <The Amber Schwarz Fam A/C> up to 12,135,938 Shares in settlement of a dispute, with 5,825,250 Initial Settlement Shares to be issued prior to the Closing Date of the Offers and up to 6,310,688 Subsequent Settlement Shares to be issued subject to Shareholder approval.

7. RIGHTS AND LIABILITIES ATTACHING TO SECURITIES

7.1 Shares

The following is a summary of the more significant rights and liabilities attaching to Shares to be issued pursuant to this Prospectus. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights and liabilities attaching to Shares are set out in the Company's Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

(a) General meetings and notices

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with section 249D of the Corporations Act and the Constitution of the Company.

(b) Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

- (i) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (iii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for each Share held, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such Shares registered in the Shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

(c) Dividend rights

Subject to the rights of any preference Shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividend, the Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend which shall be payable on all Shares according to the proportion that the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) in respect of such Shares.

The Directors may from time to time pay to the Shareholders any interim dividends as they may determine. No dividend shall carry interest as against the Company. The Directors may set aside out of the profits of the

Company any amounts that they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

Subject to the ASX Listing Rules and the Corporations Act, the Company may, by resolution of the Directors, implement a dividend reinvestment plan on such terms and conditions as the Directors think fit and which provides for any dividend which the Directors may declare from time to time payable on Shares which are participating Shares in the dividend reinvestment plan, less any amount which the Company shall either pursuant to the Constitution or any law be entitled or obliged to retain, be applied by the Company to the payment of the subscription price of Shares.

(d) **Winding-up**

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

The liquidator may, with the authority of a special resolution, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any shares or other securities in respect of which there is any liability.

(e) **Shareholder liability**

As the Shares issued will be fully paid shares, they will not be subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(f) **Transfer of shares**

Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act and the ASX Listing Rules.

(g) **Future increase in capital**

The allotment and issue of any new Shares is under the control of the Directors of the Company. Subject to restrictions on the issue or grant of Securities contained in the ASX Listing Rules, the Constitution and the Corporations Act (and without affecting any special right previously conferred on the holder of an existing share or class of shares), the Directors may issue Shares as they shall, in their absolute discretion, determine.

(h) **Variation of rights**

Under section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

(i) **Alteration of constitution**

In accordance with the Corporations Act, the Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. In addition, at least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

7.2 Terms and Conditions of Debt Notes

A summary of the terms and conditions of the Debt Notes is set out in Section 5.1.

8. RISK FACTORS

8.1 General

The Securities offered under this Prospectus are considered highly speculative. An investment in the Company is not risk free and the Directors strongly recommend potential investors to consider the risk factors described below, together with information contained elsewhere in this Prospectus and to consult their professional advisers before deciding whether to apply for Securities pursuant to this Prospectus.

There are specific risks which relate directly to the Company's business. In addition, there are other general risks, many of which are largely beyond the control of the Company and the Directors. The risks identified in this Section, or other risk factors, may have a material impact on the financial performance of the Company and the market price of the Securities.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

8.2 Risks associated with the Offers

(a) Default risk – Convertible Security Agreements

As summarised in Section 9.1, the Company has and will continue to enter into the Convertible Securities Agreements, under which it will have obligations to make periodic interest payments to the Tranche 1 Investors or L1 Capital (as applicable) on the relevant due dates and either repay amounts advanced to Company on the relevant due dates, or subject to Shareholder approval being obtained for the Convertible Securities Resolutions, issue Shares upon receipt of a conversion notice.

The Company expects to be able to redeem the Convertible Notes or make interest payments in respect of the amounts advanced under the Convertible Notes using the proceeds from future debt or equity raisings, cash flows from operations or proceeds from the sale of assets. However, as set out in Section 8.3(a), there is a risk that the Company may be unable to procure or raise sufficient cash resources from its operations, future debt or equity raisings.

Should the Company default on its obligations under any of the Convertible Securities Agreements (including the obligation to make interest payments and the obligation to obtain Shareholder approval for the Convertible Securities Resolutions) an event of default will occur.

In these circumstances, if the Company is unable to raise sufficient funds or otherwise cure the default, the Tranche 1 Investors and/or the L1 Capital (as applicable) will be able to seek immediate repayment of the debts or enforce the security granted under the Security Documents and sell some or all of the Company's assets.

(b) Dilution risk

The Company currently has 151,544,332 Shares on issue. As set out in this Prospectus, the Company is intending to issue the Debt Notes, the Collateral Shares and the Tranche 1 Fee Shares in accordance with the terms of the Convertible Securities Agreements. In addition, the Company

is intending to issue the Placement Shares, the Initial Settlement Shares and the Consultancy Shares.

Further, the Company is intending to seek Shareholder approval at the at the Shareholder Meeting for the:

- (i) conversion of the Debt Notes into Convertible Notes;
- (ii) the issue of the Tranche 1 Options (including approval for the purpose of ASX Listing Rule 10.11 to issue Tranche 1 Options to Suburban Holdings);
- (iii) issue of the Tranche 1 Fee Shares and the Collateral Shares to Suburban Holdings;
- (iv) issue of the Tranche 2 Securities;
- (v) issue of the Subsequent Settlement Shares; and
- (vi) issue of up to 2,811,720 Shares and 2,811,720 Options to EverBlu Capital in part consideration for its services in respect of the Debt Note Offer, the Placement and the Tranche 2 Convertible Note Facility.

The interests of the various recipients of the above Securities and the current Shareholders of the Company following the issue of these Securities are set out in Section 4.10 of this Prospectus.

There is also a risk that the interests of Shareholders will be further diluted as a result of future capital raisings required in order to fund the ongoing operations of the Company.

(c) **Suspension and Illiquidity of Shares**

As set out in Section 4.1, the Company's Securities are currently suspended from trading on ASX. As such, there is no market for Shares and the Shares offered pursuant to this Prospectus are highly illiquid.

(d) **Reinstatement to Trading on ASX**

The Company's Securities have been in voluntary suspension since 5 November 2019 and remain suspended as at the date of this Prospectus.

The Company expects that subject to the completion of the Placement and the Debt Note Offer, the Company will be reinstated to trading on ASX. In the event that reinstatement does not occur, the Shares will remain suspended from trading on ASX and there will be no liquid market for the Shares.

(e) **Going Concern**

As announced on 26 August 2019, the Company's auditor reviewed financial report for the half year ended 30 June 2019 included a statement that there was material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern.

The half year financial statements were still prepared on an on going basis which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

At the time of the preparation of the financial reports, the Directors believed that even in the event that the PharmaCielo Scheme was not implemented the consolidated entity would be able to continue as a going concern and therefore it was appropriate to adopt the going concern basis in the preparation of the financial report. The Directors formed this view following the consideration of the following factors:

- (i) in the past the Company has mainly relied on the issue of shares and other securities to raise funds. With the completion of the Mernova facility and the recent generation of revenues from it, the Company also has the option to borrow against the facility and the Company is planning to do so;
- (ii) the Company continuously explores merger and acquisition opportunities with a view to strengthening its existing businesses or divesting operations which are no longer of strategic importance to it;
- (iii) revenues from Switzerland and Mernova are growing and are expected to grow strongly with increases in products, markets and production. Mernova is expected to be both profitable and cash flow positive in the foreseeable future;
- (iv) the Company plans to issue additional shares in the next 12 months. This has previously proven to be successful; and
- (v) the Company plans to re-organise its operations during the next 12 months, including scaling back corporate overheads and other aspects of its cost base, in order to curtail expenditure, in the event that financial projections indicate that available cash will be insufficient to meet projected expenditure.

The Directors continue to believe that the consolidated entity will be able to continue as a going concern on the basis that the above factors still remain true. Specifically, the Directors believe that the Company will have sufficient funds to adequately meet the Company's short-term commitments and working capital requirements as a result of the funds raised under the Offers, the Placement, funds generated through the Company's revenue streams and if required and subject to Shareholder approval the Tranche 2 Convertible Note Facility.

However, it is highly likely that further funding will be required to meet the medium term working operating costs of the Company and in the event that the Company is unable to achieve the matters detailed above, it may not be able to continue as a going concern and therefore the group may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial statements.

Further information in respect of additional requirements for capital are set out in the risk in Section 8.3(a).

8.3 Risks relating to the Company

(a) Additional requirements for capital

The Company's ability to effectively implement its business and operations plans in the future, to take advantage of opportunities for acquisitions, joint ventures or other business opportunities and to meet any unanticipated liabilities or expenses which the Company may incur may depend in part on its ability to raise additional funds.

The funds raised by the Offers and the Placement will be used to carry out the Company's objectives as detailed in this Prospectus and the Company's announcements to ASX, including the repayment of the PharmaCielo Loan.

Depending on the Company's ability to generate income and revenue from its operations, the Company may require further financing in addition to amounts raised under the Offers and the Placement. Specifically, the Company will require funding for the payment of the milestone payment of C\$800,000 payable to the Mernova Vendors on the satisfaction on Mernova Milestone 2 (if it occurs). Additionally, under the terms of the Convertible Securities Agreements, the Company is also required to redeem up to 25% of the outstanding amount under Debt Notes on the day that is 180 days after the Purchase Date and again on the day that is 270 days after the Purchase Date.

The Company further notes its ability to:

- (a) raise up to a further \$2.05 million through the placement of additional Debt Notes to reach the Maximum Subscription; and
- (b) subject to the satisfaction of certain conditions set out in Section 9.1(a), draw down the first two tranches under the Tranche 2 Convertible Note Facility (being up to \$900,000) at any time prior to the Shareholder Meeting at its discretion.

Additionally, after the Shareholder Meeting, subject to the receipt of Shareholder approval and agreement with L1 Capital, the Company can draw down the remaining balance under the Tranche 2 Convertible Note Facility. Any further funds drawn down under the Tranche 1 Convertible Note Facility or Tranche 2 Convertible Note Facility will be used towards operational and working capital expenses of the Company.

Any additional equity financing (including subject to Shareholder approval, the conversion of the Tranche 1 Convertible Notes and/or Tranche 2 Convertible Notes) will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its development and research programmes as the case may be. There is however no guarantee that the Company will be able to secure any additional funding or be able to secure funding on terms favourable to the Company.

Further, the Company, in the ordinary course of its operations and developments, is required to issue financial assurances, particularly insurances and bond/bank guarantee instruments to secure statutory and environmental performance undertakings and commercial

arrangements. The Company's ability to provide such assurances is subject to external financial and credit market assessments, and its own financial position.

(c) **Risks relating to the Israeli JV**

On 6 September 2018, Creso Pharma Switzerland GmbH (**Creso Switzerland**) a wholly-owned subsidiary of the Company, Asaf Cohen (**Cohen**) and Creso Grow Ltd., an Israeli corporation jointly owned by Creso Switzerland and Cohen (the **Israeli JV Entity**), entered into a Joint Venture and Shareholders Agreement (the **JV Agreement**), which was superseded by an Amended and Restated Joint Venture and Shareholders Agreement (the **Amended JV Agreement**) entered into by the parties on 31 October 2018 (effective 6 September 2018) to pursue a cannabis business related joint venture in Israel. The Amended JV Agreement was later supplemented by a Memorandum of Understanding entered into by the parties and Cohen Propagation Nurseries Ltd. (**Cohen Nurseries**) and together with Cohen, collectively referred to as the **Cohen Group**) on 28 April 2019 (the **MOU** and together with the **JV Agreement** and **Amended JV Agreement**, the **Israeli JV Agreements**), pursuant to which, the Cohen Group through the Israeli JV Entity, would pursue obtaining all the necessary regulatory approvals to begin cultivating cannabis in Israel (the **Israeli JV**). The parties are currently in negotiations with respect to clarifying the scope of the Cohen Group's responsibilities and entitlements under the Israeli JV Agreements. While the Israeli JV is still in its nascent stages and substantive business operations have not yet taken place, if the parties cannot reach a resolution with respect to such matters, the business of the Israeli JV may not proceed or either party may pursue litigating the matter in Israeli courts. The occurrence of such events could materially adversely affect Creso Switzerland's business operations in Israel and its financial condition.

(d) **Recent uncertainty in cannabis stocks**

In July 2019, one of Canada's largest cannabis producers, CannTrust Holdings Inc. (**CannTrust**) was found to be illegally growing marijuana in unlicensed areas in Canada. As a result, actions taken by Health Canada towards CannTrust, such as the revoking of CannTrust's cannabis sales licence, have dominated the Canadian news cycle and the cannabis industry over the last few months. This negative publicity which originated from CannTrust's actions has recently has detrimentally affected the cannabis industry as a whole and had a depreciating effect on the stock prices of cannabis companies. This general adverse market perception has created volatility in the cannabis market in general which may affect the market and demand for the Shares.

(e) **Intellectual property rights**

The Company may be forced to litigate to enforce or defend its intellectual property rights against infringement and unauthorised use by competitors, and to protect our trade secrets. In so doing, the Company's intellectual property may be put at risk of being invalidated, unenforceable, or limited or narrowed in scope. Further, an adverse result in any litigation or defence proceedings may place pending applications at risk of non-issuance. In addition, if any licensor fails to enforce or defend their intellectual property rights, this may adversely affect the Company's ability to develop and commercialise the Company's current and future

products (**Products**) and prevent competitors from making, using, and selling competing products. Any such litigation could be very costly and could distract management from focusing on operating the Company's business. Further, because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions, we may face additional difficulties in defending our intellectual property rights.

(f) **Protection of proprietary technology**

Part of the Company's success will depend, in part, on the Company's ability to obtain patents, protect trade secrets and operate without infringing on the proprietary rights of others. If the Company fails to adequately protect its intellectual property, it may face competition from companies who attempt to create a generic product to compete with the Products. The Company may also face competition from companies who develop a substantially similar product to one of the Products that is not covered by any protection.

Many companies have encountered significant problems in protecting and enforcing intellectual property rights in foreign jurisdictions. Proceedings to enforce the Company's patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of its business.

(g) **Competition**

The pharmaceutical and nutraceutical industries are highly competitive and subject to rapid change. The industries continue to expand and evolve as an increasing number of competitors and potential competitors enter the market. Many of these competitors and potential competitors have substantially greater financial, technological, managerial and research and development resources and experience than the Company. Some of these competitors and potential competitors have similar or more experience than the Company in the development of pharmaceutical products, including validation procedures and regulatory matters. In addition, the Products compete with, product offerings from large and well-established companies that have greater marketing and sales experience and capabilities than we or our future collaboration partners may have. If the Company is unable to compete successfully, it may be unable to generate, grow and sustain its revenue.

(h) **Joint venture, partnerships or other strategic alliances**

The Company may enter into strategic partnerships or alliances with third parties in order to enhance its business. Additionally, the Company continuously explores merger and acquisition opportunities with a view to strengthening its existing business and/or divesting non-core business operations. Any entry into, or commitment to, such relationship or opportunity will bring additional risks specifically contractual risks. The Company would also be likely to incur transactional costs in evaluating and negotiating such relationships which will need to be incurred regardless of whether the proposed transactions complete or bring benefit to the Company. At the date of this Prospectus, the Company is not aware of the occurrence or likely occurrence of any such risks which would have a material adverse effect on the Company or its subsidiaries.

8.4 Risks relating to Products

(a) Risk of generating public controversy

Some of the Products contain controlled substances and their regulatory approval may generate public controversy. Political and social pressures and adverse publicity could lead to delays in approval of, and increased expenses for the Products. These pressures could also limit or restrict the introduction and marketing of the Products. Adverse publicity from cannabis misuse or adverse side effects from cannabis or other cannabinoid products may adversely affect the commercial success or market penetration achievable by the Products and the operations of the Company. The nature of the Company's business attracts a high level of public and media interest, and in the event of any resultant adverse publicity, our reputation may be harmed.

(b) Legal and regulatory changes

Achievement of the Company's business objectives is also contingent, in part, upon compliance with other regulatory requirements enacted by governmental authorities and obtaining required regulatory approvals all over the world. The regulatory regimes applicable to the cannabis business in Canada, Australia, Colombia, Brazil, and the European Union are currently undergoing significant changes and the Company cannot predict the impact of the changes on its operations once the regulatory regimes are finalized.

Any delays in obtaining, or failing to obtain, required regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's operations.

In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

(c) Controlled substance legislation may restrict or limit ability to develop and commercialise the Products

Most countries are parties to the Single Convention on Narcotic Drugs 1961, which governs international trade and domestic control of narcotic substances, including cannabis extracts. Countries may interpret and implement their treaty obligations in a way that creates a legal obstacle to our obtaining marketing approval for the Products in those countries. These countries may not be willing or able to amend or otherwise modify their laws and regulations to permit the Products to be marketed or achieving such amendments to the laws and regulations may take a prolonged period of time.

(d) **Product liability and uninsured risks**

Through its intended business, the Company is exposed to potential product liability risks which are inherent in the research and development, manufacturing, marketing and use of its products or products developed with future co-development alliance partners. The Company may not be able to maintain insurance for product or service liability on reasonable terms in the future and, in addition, the Company's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on claims.

Although the Company endeavors to work to rigorous standards there is still the potential for the products to contain defects which may result in system failures. These defects or problems could result in the loss of or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, and damage to the Company's reputation or increased insurance costs.

If the Company fails to meet its clients' expectations, the Company's reputation could suffer and it could be liable for damages.

Further, the Company is exposed to the risk of catastrophic loss to necessary laboratory equipment, computer equipment or other facilities which would have a serious impact on the Company's operations. The Company gives no assurance that all such risks will be adequately managed through its insurance policies to ensure that catastrophic loss does not have an adverse effect on its performance.

(e) **Access to active ingredients**

Some of the Products will/do contain active cannabis or hemp derived ingredients from full plant extracts. The Company needs access to these materials. An inability to access these raw materials with the required specifications or quality could mean that some of the Products are compromised or delayed.

The Company may, from time to time, enter into agreements with other suppliers of active cannabis or hemp derived ingredients. There is a risk that the Company may have protracted negotiations on commercial terms and this may result in delays in the development of the Company's products and/or increase in the Company's costs of development and production.

(f) **Cultivation Risks**

Part of the Company's business involves the cultivation and growing of medical cannabis and/or hemp, which are agricultural products. As such the business may be subject to the risks inherent in the agricultural industry, such as insects, plant diseases, invasive plant species, storm, fire, frost, flood, drought, water availability, water salinity, pests, bird damage and force majeure events. In addition, significant interruptions or negative changes in the availability of economics of the supply chain for the raw material and supplies related to growing operations as well as electricity, water and other local utilities inputs could materially impact the business, financial condition and operating results of the Company.

The Company's cultivation operations are subject to the licenses required and other applicable legislation and regulations enforced in those

countries. Accordingly, the amount of medical cannabis and hemp the Company is able to produce may be capped and ultimately this will restrict the amount that the Company can sell, at least whilst no further legislation is in operation.

8.5 General risks

(a) Economic

General economic conditions, introduction of tax reform, new legislation, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's research and development programmes, as well as on its ability to fund those programmes.

(b) Market conditions

Share market conditions may affect the value of the Company's Securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) introduction of tax reform or other new legislation;
- (iii) interest rates and inflation rates;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and cannabis stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(c) Reliance on key personnel

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.

(d) Unforeseen expenditure risk

Expenditure may need to be incurred that has not been taken into account in the preparation of this Prospectus. Although the Company is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of the Company.

(e) **Dependence on outside parties**

The Company may pursue a strategy that forms strategic business relationships with the other organisations for the manufacture and distribution of products and services. The manufacture and global distribution of products and services is important to the overall success of the Company. There can be no assurance that the Company will be able to attract such prospective organisations and to negotiate appropriate terms and conditions with these organisations.

(f) **Contractual risk**

The Company's ability to efficiently conduct its operations in a number of respects depends upon a number of contracts. As in any contractual relationship, the ability for the Company to ultimately receive the benefit of the contract is dependent upon the relevant third party complying with its contractual obligations. To the extent that such third parties default in their obligations, it may be necessary for the Company to enforce its rights under any of the contracts and pursue legal action. Such legal action may be costly and no guarantee can be given by the Company that a legal remedy will ultimately be granted on appropriate terms.

8.6 Investment speculative

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Securities offered under this Prospectus.

Therefore, the Securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Securities.

Potential investors should consider that the investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Securities pursuant to this Prospectus.

9. MATERIAL CONTRACTS

9.1 Convertible Securities Agreement

As set out in Section 4.1, the Company has and will continue to enter into the Convertible Securities Agreements in order to access the Tranche 1 Convertible Note Facility and the Tranche 2 Convertible Note Facility. A summary of the material terms of the Tranche 1 Convertible Note Facility is set out in Section 5.1. A summary of the additional terms of the Convertible Securities Agreements including a summary of the terms of the Tranche 2 Convertible Note Facility is set out below.

(a) Tranche 2 Convertible Notes

The Tranche 2 Convertible Notes may be issued in up to six tranches with an aggregate Face Value of up to \$500,000 per tranche.

Subject to terms noted in the table below, the Company may elect to draw down funding of up to \$900,000 under the Tranche 2 Convertible Note Facility prior to the date of the Shareholder Meeting, by issuing up to 1,000,000 Additional Debt Notes. The Additional Debt Notes will be issued as debt securities until such time as Shareholder approval is obtained for the debt notes to convert or be replaced by Tranche 2 Convertible Notes. If the Company elects to issue the Additional Debt Notes, the Company must seek Shareholder approval for the conversion or replacement of the Additional Debt Notes with Tranche 2 Convertible Notes before the Meeting Deadline.

The issue of all Tranche 2 Convertible Notes is subject to Shareholder approval.

A summary of the material terms of Tranche 2 Convertible Notes is set below.

Face Value	\$1.00 per Tranche 2 Convertible Note
Subscription Price	\$0.90 per Tranche 2 Convertible Note
Maturity Date	12 months from date of issue of the relevant Tranche 2 Convertible Notes.
Additional Debt Notes	<p>The Company may not give notice to L1 Capital, indicating that it intends to issue the Tranche 2 Debt Notes to L1 Capital (Purchase Request):</p> <ul style="list-style-type: none">• if an event of default has occurred;• if after the date of execution of the Convertible Securities Agreement, the VWAP calculated over a five Trading Day period is less than \$0.16 (unless waived by L1 Capital); and <p>unless the average volume of Shares traded on ASX (as reported by Bloomberg LP) over the 5 Trading Day period immediately prior to the date of the Purchase Request is at least \$50,000.</p>
Purchase Date	<p>If the Company elects to issue the Additional Debt Notes, the Purchase Date must occur by the Meeting Deadline.</p> <p>The issue of the Tranche 2 Convertible Notes (other than those that replace any Additional Debt Notes) must be at least 120 days after the issue of the Debt Notes and at least 45 days after issue of the previous tranche of Tranche 2 Convertible Notes (unless otherwise agreed).</p>

Interest Rate	4% per annum, with the first interest payment payable on the date which is 180 days after the Purchase Date of the Tranche 1 Convertible Notes and every 90 days thereafter.
Conversion Rights	Subject to obtaining Shareholder approval, L1 Capital may elect to convert one or more of the Tranche 2 Convertible Notes into Shares at the at the Tranche 2 Conversion Price (defined below) at any time prior to the respective Maturity Date.
Tranche 2 Conversion Price	<p>The Tranche 2 Convertible Notes may be converted at the lesser of:</p> <ul style="list-style-type: none"> • 90% of the daily VWAP on the Trading Day immediately prior to the date of issue of a conversion notice, rounded down to the nearest A\$0.01; and • the Fixed Conversion Price. <p>However, if the Company undertakes one or more capital raisings and raises of at least \$2,500,000 in aggregate (excluding any funds raised under the Placement) at a price per Share lower than the Fixed Conversion Price, the Company must seek Shareholder approval to vary the Fixed Conversion Price to the issue price under the relevant capital raising. If Shareholder approval is not obtained within 60 days from the date of completion of the capital raising, an event of default will have occurred.</p>
Mandatory Redemption	If the Tranche 2 Convertible Notes have not been converted prior to the Maturity Date, the Company must repay 102% of the Amount Outstanding on the Maturity Date.
Ranking on Conversion	Shares issued on conversion of the Tranche 2 Convertible Notes will rank equally with existing Shares on issue.
Reconstruction of capital	If at any time the Company undertakes a consolidation, subdivision or pro-rata cancellation of its issued capital, pays a dividend in Shares or undertakes a distribution of Shares, the Fixed Conversion Price will be reduced or increased in the same proportion as the issued capital of the Company is consolidated, subdivided or cancelled.

(b) **Tranche 2 Draw Down Fee**

The Company has agreed to pay a drawdown fee of 4% of the aggregate Face Value of the Tranche 2 Convertible Notes issued under the Tranche 2 Convertible Note Facility (**Tranche 2 Drawdown Fee**). For the avoidance of doubt the Tranche 2 Drawdown Fee will only be payable in respect of actual funds drawn down and corresponding Tranche 2 Convertible Notes issued.

Subject to Shareholder approval, the applicable Tranche 2 Drawdown Fee will be payable, in Shares, with the number of Shares to be issued determined by dividing the relevant amount of the Tranche 2 Drawdown Fee by the 10 day VWAP for the 10 Trading Days immediately prior to the issue of the Shares, rounded upward to the nearest whole number (**Tranche 2 Fee Shares**).

The Company must issue the applicable Tranche 2 Fee Shares:

- (i) if the Company elects to issue the Additional Debt Notes, on the later to occur of:
 - (A) the date that the Company obtains Shareholder approval for the issue of the Tranche 2 Fee Shares; and

- (B) the date on which L1 Capital advances the Company the subscription price for the Additional Debt Notes; and
- (ii) in respect of the Tranche 2 Convertible Notes (other than the Additional Debt Notes), on the date of issue of the relevant tranche of Tranche 2 Convertible Notes.

(c) **Tranche 2 Options**

If the Company draws down on the Tranche 2 Convertible Note Facility, the Company has agreed to issue L1 Capital that number of Tranche 2 Options which is equal to the Face Value of the Tranche 2 Convertible Notes (or the Additional Debt Notes) issued at the relevant time. The issue of the Tranche 2 Options will be subject to the Company obtaining Shareholder approval.

The Company must issue the applicable Tranche 2 Options:

- (i) in respect of any Additional Debt Notes that are issued, after obtaining Shareholder approval for the issue of the Tranche 2 Options which must be sought by the Meeting Deadline;
- (ii) in respect of the Tranche 2 Convertible Notes (other than the Additional Debt Notes), on or before the date of issue of the relevant tranche of Tranche 2 Convertible Notes.

Where, for any reason, the Company does not or is not able to issue the Tranche 2 Options to L1 Capital, then in lieu of the issue of the Tranche 2 Options, on the relevant date the Company must instead pay L1 Capital the amount calculated in accordance with the following formula:

$$PA = O \times V$$

Where:

PA = the required payment amount;

O = the number of Tranche 2 Options required to be issued on the relevant date

V = the value of the Tranche 2 Options, determined using the Black & Scholes being \$0.0553.

(d) **Security**

The Convertible Notes will be secured by:

- (i) a general security agreement by the Company in favour of the Collateral Agent, on terms acceptable to L1 Capital;
- (ii) a general security, collateral security and a general assignment of rents and leases in favour of the Collateral Agent granted by Mernova Medicinal Inc. on terms acceptable to L1 Capital;
- (e) a collateral agency agreement between the Investor, each Co-Investor, the Collateral Agent, the Company, Mernova Medicinal Inc, 3321739 Nova Scotia Limited, Creso Canada Limited and Creso Switzerland on terms acceptable to L1 Capital;

- (i) a guarantee and indemnity in favour of the Collateral Agent granted by Mernova Medicinal Inc. on terms acceptable to L1 Capital;
- (f) a guarantee and indemnity in favour of the Collateral Agent granted by Creso Pharma Switzerland GmbH on terms acceptable to L1 Capital; and
- (i) from each of Creso Canada Limited and 3321739 Nova Scotia Limited:
 - (A) a guarantee and indemnity in favour of the Collateral Agent granted by the relevant entity. on terms acceptable to L1 Capital; and
 - (B) a general security agreement by the relevant entity in favour of the Collateral Agent (or such document is equivalent in the place of jurisdiction of the relevant entity, on terms acceptable to L1 Capital).

The security granted under the Security Documents will be held by L1 Capital as the Collateral Agent, on its own behalf and on behalf of the other Tranche 1 Investors.

(g) **Events of Default**

Each of the following constitutes an event of default under the Convertible Securities Agreements:

- (i) the Company fails to repay the Amount Outstanding in respect of the Tranche 1 Convertible Notes or Tranche 2 Convertible Notes (each, a **Convertible Note**) on the Maturity Date;
- (ii) the Company provide an Early Redemption Notice and fails to repay 105% of the Amount Outstanding on or before the day which is 5 Business Days after the date of provision of the Early Redemption Notice;
- (iii) the Company breaches or otherwise fails to comply in full with any of its material obligations under the Convertible Securities Agreements, the Security Documents or a cleansing notice (**Transaction Document**) (and does not cure that breach or failure within 10 Business Days of receiving notice of the breach or any event of default (however described) occurs under any Transaction Document;
- (iv) any of the Materials is inaccurate, false or misleading in any material respect (including by omission), as of the date on which it is made or delivered;
- (v) a Group Company is, admits that it is, is declared by a court of competent jurisdiction to be, or is deemed under any applicable law to be, insolvent or unable to pay its debts as and when they become due;
- (vi) a Group Company is served with a statutory demand (in accordance with Division 2 of Part 5.4 of the Corporations Act)

or a foreign equivalent that is not set aside within 10 Business Days;

- (vii) a controller within the meaning of section 9 of the Corporations Act, administrator or similar officer is appointed over all or any of the assets or undertaking of any Group Company or any formal step preliminary to such appointment is taken;
- (viii) an application or order is made, a proceeding is commenced, a resolution is passed or proposed in a notice of meeting, or an application to a court or other steps are taken, for the winding up or dissolution of any Group Company, or for any Group Company to enter an arrangement, compromise or composition with, or assignment for the benefit of, any of its creditors;
- (ix) a Group Company ceases, suspends, or indicates that it may cease or suspend, the conduct of all or a substantial part of its business; or disposes, or indicates that it may dispose, of a substantial part of its assets;
- (x) a Group Company takes action to reduce its capital or pass a resolution referred to in section 254N(1) of the Corporations Act;
- (xi) any Convertible Notes or Shares are not issued to the to the Tranche 1 Investors or L1 Capital (each, a **Convertible Note Investor**) within 2 Business Days of the required date;
- (xii) any Shares issued under the Convertible Securities Agreement are not quoted on ASX by the third Business Day immediately following the date of their issue;
- (xiii) the Company fails to comply with the Listing Rules in any material respect;
- (xiv) a stop order, suspension of trading, cessation of quotation, or removal of the Company or the Shares from the ASX Official List is requested by the Company or requested or imposed by any Governmental authority; except for a suspension of trading not exceeding ten Trading Days in a rolling twelve month period or as agreed to by the Investor commencing on the date of execution of the Convertible Securities Agreements;
- (xv) a Transaction Document or a Contemplated Transaction has become or is claimed (other than in a vexatious or frivolous proceeding) by any person other than the Convertible Note Investors or any of their affiliates to be, wholly or partly void, voidable or unenforceable;
- (xvi) any third person commences any action, investigation or proceeding against any person or otherwise asserts any claim which seeks to restrain, challenge, limit, modify or delay the right of the Convertible Note Investors or the Company to enter into any Transaction Documents or to undertake any of the Contemplated Transactions (other than in a vexatious or frivolous proceeding);
- (xvii) a security interest over an asset of a Group Company is enforced;

- (xviii) any present or future liabilities, including contingent liabilities, of any Group Company for an amount or amounts totalling more than A\$250,000 are not satisfied on time, or become prematurely payable;
- (xix) a Group Company is in default under a document or agreement (including a Governmental authorisation) binding on it or its assets which relates to financial indebtedness or is otherwise material;
- (xx) a Material Adverse Effect occurs;
- (xxi) the Company does not obtain a shareholder approval to the extent required for the purposes of Listing Rule 7.4 so that a Contemplated Transaction may proceed without breaching Listing Rule 7.1;
- (xxii) any Group Company grants any security interest over any of its assets, or a security interest comes into existence over any assets of any Group Company, without the prior written consent of the Convertible Note Investors;
- (xxiii) any event of default (however described) occurs under the Security Documents;
- (xxiv) a Change of Control occurs without the prior written consent of the Investor;
- (xxv) the Company issues debt securities or convertible securities to any third party without the prior written consent of L1 Capital;
- (xxvi) the Company does not pay the Tranche 1 Drawdown Fee or Tranche 2 Drawdown Fee (as applicable) when due;
- (xxvii) the Company does not or is not able to issue the Tranche 1 Options or the Tranche 2 Options on or before the relevant date and the Company does not pay the amount calculated in accordance with the formula set out in Sections 5.1 and 9.1(c) when due;
- (xxviii) the Company issues or requests the issue of the Additional Debt Notes and does not obtain Shareholder approval for the issue of the corresponding Tranche 2 Options by the Meeting Deadline;
- (xxix) if the Company undertakes one or more capital raisings and raises at least \$2,500,000 in aggregate (excluding any funds raised under the Placement) at a price per Share lower than the Fixed Conversion Price, and the Company fails to obtain Shareholder approval to vary the Fixed Conversion Price to be the Lesser Price, within 60 days of completion of the capital raising;
- (xxx) the Company does not comply with its obligations to lodge and keep open a cleansing prospectus whilst there are any Tranche 2 Convertible Notes, Initial Options or Additional Options outstanding which, on conversion, require that a cleansing prospectus must be utilised in order to enable the Shares issued on conversion to be tradeable;

- (xxxi) the Company does not obtain the Shareholder Approval for the conversion of the original Debt Notes into the Tranche 1 Convertible Notes and, if any Additional Debt Notes have been issued, the conversion of the Additional Debt Notes into the Tranche 2 Convertible Notes by the Meeting Deadline;
- (xxxii) the Company does not, within 60 days of receipt of a Top-up Notice, issue additional Shares to the Tranche 1 Investors as Collateral Shares, so that following the issue, the market value of the Collateral Shares is at least 20% of the Amount Outstanding;
- (xxxiii) the Company issues the Additional Debt Notes does not obtain the Shareholder Approval for the issue of the Drawdown Fee Shares in respect of the issued Additional Debt Notes by the Meeting Deadline;
- (xxxiv) the Placement does not occur within 2 Business Days of the issue of the original Debt Notes at a price of at least \$0.19 per Share.

If any event of default occurs, which:

- (i) either:
 - (A) is not capable of being remedied; or
 - (B) is capable of being remedied but has not been remedied to the satisfaction of the Tranche 1 Investors within ten Business Days of the Tranche 1 Investors notifying the Company of its occurrence; or
 - (C) there have been two or more previous events of default; and
- (ii) the event of default has not been expressly waived by the Tranche 1 Investors in writing;

(an **Unremedied Default**), then the Tranche 1 Investors may:

- (iii) declare, by notice to the Company, 120% of the then Amount Outstanding and all other amounts payable by the Company under any Transaction Document to be, whereupon they shall become, immediately due and payable by the Company to the Tranche 1 Investors; and/or
- (iv) terminate the Convertible Securities Agreements, by notice to the Company, effective as of the date set out in the Tranche 1 Investor's notice; and/or
- (v) (if the Tranche 1 Investors elects to do so) exercise their right to purchase Collateral Shares; and/or
- (vi) exercise any other right, power or remedy granted to them by any Transaction Documents (including the right to enforce the Security Documents).

If an event of default occurs, interest shall be payable on the Amount Outstanding at a rate of 15% per annum, which interest shall accrue daily

and shall be compounded monthly, from the date of the event of default until the Company discharges the Amount Outstanding in full.

(h) **Conduct of Business**

The Company has agreed that, while there is any Amount Outstanding, it will conduct its business in a proper and efficient manner in accordance with good commercial practice, and ensure that the voting and other rights attached to the Shares are not altered in a manner which is materially prejudicial to the Tranche 1 Investors.

In addition, the Company has agreed that, while there is any Amount Outstanding, the Company must not, without the prior written approval of the Tranche 1 Investors (not to be unreasonably withheld or delayed) undertake a number of actions, including:

- (i) disposing, in a single transaction or in a series of transactions, of all or any part of its assets unless;
 - (A) such disposal is in the ordinary course of business and for fair market value; and
 - (B) the disposal is for a cash sale price; and
 - (C) where the value of the asset(s) the subject of the disposal is greater than AU\$2,000,000, at least 50% of the net cash proceeds of the disposal are, if required by the Convertible Note Investors, applied in or towards repayment of the Amount Outstanding;
- (ii) raising any capital (by any means), borrow any funds or issue or agree to issue any debt, equity or equity-linked Securities unless:
 - (A) the issue is of any Securities pursuant to the Placement;
 - (B) the issue is of any Securities to employees, consultants or directors of the Company under any share, option or rights plans;
 - (C) the issue is of Securities on conversion of any convertible securities in the Company that are on issue at the date of this Agreement or issued under the Placement;
 - (D) the net proceeds of the raising or borrowing are, if required by the Tranche 1 Investors, applied to redeem up to 20% of the outstanding Tranche 1 Convertible Notes or Tranche 2 Convertible Notes;
- (iii) reduce its issued share capital or any uncalled liability in respect of its issued capital;
- (iv) issue or agree to issue any debt, equity or equity-linked Securities (including Options) that have a variable interest rate or are convertible into, exchangeable or exercisable for, or include the right to receive Shares or other Securities;

- (A) at a conversion, repayment, exercise or exchange rate or other price that is based on, and/or varies with, the trading prices of, or quotations for, the Shares; or
 - (B) at a conversion, repayment, exercise or exchange rate or other price that is subject to being reset at some future date after the initial issuance of such debt, equity or equity-linked security or upon the occurrence of specified or contingent events;
 - (v) undertake any consolidation of its share capital;
 - (vi) change the nature of its business;
 - (vii) make an application under section 411 of the Corporations Act;
 - (viii) grant any security interest over any of its assets or allow a security interest to come into existence over any assets of any Group Company (other than the Security Documents);
 - (ix) transfer the jurisdiction of its incorporation; or
 - (x) enter into any agreement with respect to any of the matters referred to in Section 9.1(h)(i) to 9.1(h)(ix) above.
- (i) **Takeover Threshold**

Where an issue of Shares under the Convertible Securities Agreement would result in the voting power (as defined in Chapter 6 of the Corporations Act) in the Company of a Convertible Note Investor or any other person exceeding 19.99%, the Company must not issue the relevant Shares to the Convertible Note Investor but must instead repay to the Convertible Note Investor the relevant Amount Outstanding.

10. ADDITIONAL INFORMATION

10.1 Litigation

Other than as set out in this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company as at the date of this Prospectus.

10.2 Continuous Disclosure Obligations

The Company is a “disclosing entity” (as defined in section 111AC of the Corporations Act) for the purposes of section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities.

This Prospectus is a “transaction specific prospectus”. In general terms a “transaction specific prospectus” is only required to contain information in relation to the effect of the issue of securities on a company and the rights attaching to the securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquires as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 3 months before the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act, states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the Closing Date:
 - (i) the annual financial report most recently lodged by the Company with the ASIC;

- (ii) any half-year financial report lodged by the Company with the ASIC after the lodgement of the annual financial report referred to in (i) and before the lodgement of this Prospectus with the ASIC; and
- (iii) any continuous disclosure documents given by the Company to ASX in accordance with the ASX Listing Rules as referred to in section 674(1) of the Corporations Act after the lodgement of the annual financial report referred to in (i) and before the lodgement of this Prospectus with the ASIC.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

Details of documents lodged by the Company with ASX since the date of lodgement of the Company's latest annual financial report and before the lodgement of this Prospectus with the ASIC are set out in the table below.

Date	Description of Announcement
12/11/19	Termination of Scheme Implementation Agreement
11/11/2019	Adjournment of Scheme Meetings
08/11/2019	Update on Voluntary Suspension
05/11/2019	Suspension from Official Quotation
01/11/2019	Pause in Trade
01/11/2019	Trading Halt
17/10/2019	First Shipment of 10% Medicinal CBD Oil in New Zealand
14/10/2019	Quarterly Update & Appendix 4C
04/10/2019	Reinstatement to Official Quotation
04/10/2019	Scheme Booklet
04/10/2019	Scheme Booklet (Replacement)
03/10/2019	Update on Proposed Acquisition by PharmaCielo
27/09/2019	Update on Proposed Acquisition by PharmaCielo
18/09/2019	Voluntary Suspension
16/09/2019	Creso Granted Processing Licence for its Mernova Facility
16/09/2019	Pause in Trading
16/09/2019	Trading Halt
04/09/2019	Release of Securities From Voluntary Escrow
26/08/2019	Half Yearly Report and Accounts
22/08/2019	Creso Signs with Pharma Dynamics for cQIX in South Africa
20/08/2019	Creso Receives PCLO's First Commercial CBD Export into EU
08/08/2019	Additional Information on Medleaf Distribution Agreement
06/08/2019	Distribution Agreement with Medleaf NZ for CBD Products
02/08/2019	Change of Director's Interest Notice
01/08/2019	First Order of cannaQIX50 from Burleigh Heads Cannabis

Date	Description of Announcement
31/07/2019	Cleansing Statement and Appendix 3B
24/07/2019	Quarterly Update & Appendix 4C
15/07/2019	Change in substantial holding
15/07/2019	Change in substantial holding
12/07/2019	Cleansing Statement and Appendix 3B
10/07/2019	Becoming a substantial holder
08/07/2019	Appendix 3Y x 4
03/07/2019	Creso Repays Debt in Preparation for Acquisition & App 3B
02/07/2019	Creso Begins Revenue Generation from Canadian Cannabis Sales
07/06/2019	Creso Pharma To Be Acquired
04/06/2019	Release of Securities From Voluntary Escrow
31/05/2019	Results of Meeting
23/05/2019	Creso Harvests First Cannabis Crop in Canada
30/04/2019	BHC Distribution Agreement & Australian Import Permit
29/04/2019	Notice of Annual General Meeting/Proxy Form
29/04/2019	Quarterly Update & Appendix 4C
23/04/2019	Brazil Import Licence - Additional Information
18/04/2019	Brazil Import Licence Granted For cannaQIX
15/04/2019	Creso Pharma Canadian Cultivation Update
11/04/2019	Creso to Raise AUD5.35m via Secured Loans
11/04/2019	Additional Information on Secured Loans
09/04/2019	Trading Halt
05/04/2019	Response to ASX Aware Query
02/04/2019	Commercial Progress Across Premium Product Categories
27/03/2019	Appendix 4G & Corporate Governance Statement
25/03/2019	Annual Report to Shareholders

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours.

The announcements are also available through the Company's website at www.cresopharma.com.

10.3 Market price of Shares

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are enhanced disclosure securities quoted on ASX.

The Company Shares were suspended from trading on 5 November 2019. Due to the suspension the highest and lowest market sale prices of the Shares on ASX

during the three months immediately preceding the date of lodgement of this Prospectus is not available.

The highest, lowest and last market sale prices of the Shares on ASX during the three months immediately preceding 1 November 2019 (being the date on which the Company requested a trading halt) and the most recent dates of those sales were:

	Price	Date
Highest	\$0.45	13 August 2019
Lowest	\$0.20	1 November 2019
Last	\$0.205	1 November 2019

10.4 Directors' and proposed Directors' interests

Other than as set out in this Prospectus, no Director or proposed director holds or has held within 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with
 - (i) its formation or promotion or
 - (ii) the Offers; or
- (c) the Offers,

and no amounts have been paid or agreed to be and no benefits have been given or agreed to be given to a Director or proposed director:

- (d) as an inducement to become, or to qualify him as, a Director; or
- (e) for services provided in connection with:
 - (i) the formation or promotion of the Company; or
 - (ii) the Offers.

Security holdings

The relevant interest of each of the Directors in the securities of the Company as at the date of this Prospectus is set out in the table below.

Director	Shares	Quoted Options	Performance Rights
Boaz Wachtel ¹	8,300,000	3,000,000	1,600,000
Dr. Miriam Halperin Wernli ²	12,800,000	4,147,950	-
Adam Blumenthal ^{3,4}	6,250,001	2,750,000	-
Dr James Ellingford	1,450,000	550,000	-

Notes

1. Comprising 800,000 CPHPERR6 Performance Rights and 800,000 CPHPERR7 Performance Rights. These Performance Rights vest upon satisfaction of the following vesting conditions:
 - (a) CPHPERR6 Performance Rights: Successfully identifying and concluding a collaboration or joint venture acquisition and remaining as a Director for 12 months from date of issue of the Performance Rights (being 27 July 2017); and
 - (b) CPHPERR7 Performance Rights: Successfully identifying and concluding a collaboration or joint venture acquisition in Israel and remaining as a Director for 12 months from date of issue of the Performance Rights (being 27 July 2017).
2. Includes 300,000 Shares and 75,000 Quoted Options held by Jorge Wernli, who is the spouse of Dr. Miriam Halperin Wernli.
3. Director Adam Blumenthal is a director and shareholder of EverBlu Capital, the lead manager to the Offers. As set out in Section 4.7, the Company has agreed to pay EverBlu Capital a cash fee of up to \$506,110 and issue EverBlu Capital up to 2,811,720 Shares and 2,811,720 Options in consideration for its services in respect of the Debt Note Offer, the Placement and the Tranche 2 Convertible Note Facility. Further information in respect of the fees payable to EverBlu Capital is set out in Section 4.7.
4. The Company notes that, as set out in Section 4.2, Suburban Holdings (an entity controlled by Alvin Blumenthal, the father of Director Adam Blumenthal) will participate in the Tranche 1 Convertible Note Facility by subscribing for up to 1,666,667 Debt Notes. The Company intends to seek Shareholder approval in relation to the participation by Suburban Holdings in the Tranche 1 Convertible Note Facility, including the conversion in Tranche 1 Convertible Notes, issue of 3,333,334 Collateral Shares, 261,780 Tranche 1 Fee Shares and 2,727,272 Tranche 1 Options to Suburban Holdings. As at the date of this Prospectus Suburban Holdings holds 732,572 Shares and 592,442 Options.

Remuneration

The remuneration of an executive Director is decided by the Board, without the affected executive Director participating in that decision-making process. The total maximum remuneration of non-executive Directors is initially set by the Constitution and subsequent variation is by ordinary resolution of Shareholders in general meeting in accordance with the Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive Director. The current amount has been set at an amount not to exceed \$300,000 per annum.

A Director may be paid fees or other amounts (i.e. non-cash performance incentives such as Options, subject to any necessary Shareholder approval) as the other Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. In addition, Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The following table shows the total (and proposed) annual remuneration paid to both executive and non-executive directors.

Director	Proposed remuneration for financial year ending 31 December 2019	Remuneration for financial year ended 31 December 2018	Remuneration for financial year ended 31 December 2017
Mr Boaz Wachtel	\$255,282 ¹	\$727,000 ⁵	\$883,376 ⁹
Dr Miriam Halperin Wernli	\$782,770 ²	\$2,068,075 ⁶	\$1,034,501 ¹⁰
Mr Adam Blumenthal	\$245,761 ³	\$870,620 ⁷	\$424,534 ¹¹
Dr James Ellingford	\$161,447 ⁴	\$202,180 ⁸	\$170,354 ¹²

Notes:

1. Comprising a cash payment of \$120,000 in executive remuneration and a share-based payment of \$135,282.
2. Comprising cash payments of \$411,765 in executive remuneration, \$213,176 in director's remuneration and a share-based payment of \$157,829.
3. Comprising a cash payment of \$162,667 a superannuation payment of \$15,453 and a share-based payment of \$67,641. In addition, the amount of \$54,750, comprising \$50,000 in remuneration and associated superannuation of \$4,750, will be accrued in respect of the financial year ending 31 December 2019 and paid in respect of the financial year ending 31 December 2020.
4. Comprising a cash payment of \$111,667, a superannuation payment of \$10,608 and a share-based payment of \$39,172. In addition, the amount of \$27,375, comprising \$25,000 remuneration and associated superannuation payment of \$2,375, will be accrued in respect of the financial year ending 31 December 2019 and paid in respect of the financial year ending 31 December 2020.
5. Comprising a cash payment of \$120,000 and a share-based payment of \$607,000.
6. Comprising a cash payment of \$470,677, a bonus of \$203,648 and a share-based payment of \$1,393,750.
7. Comprising a cash payment of \$121,000, a superannuation payment of \$11,495 and a share-based payment of \$738,125.
8. Comprising a cash payment of \$119,000, a superannuation payment of \$8,930 and a share-based payment of \$74,250.
9. Comprising a cash payment of \$120,000, a bonus payment of \$28,000 and a share-based payment of \$735,376.
10. Comprising a cash payment of \$331,227, a bonus payment of \$169,918 and a share-based payment of \$533,356.
11. Comprising a cash payment of \$60,333, a bonus payment of \$24,000, a superannuation payment of \$8,138 and a share-based payment of \$332,063.
12. Comprising a cash payment of \$58,833, a bonus payment of \$10,000, a superannuation payment of \$6,666 and a share-based payment of \$94,855.

10.5 Interests of experts and advisers

Other than as set out below or elsewhere in this Prospectus, no:

- (a) person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (b) promoter of the Company; or
- (c) underwriter to the issue or a financial services licensee named in this Prospectus as a financial services licensee involved in the issue,

holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (d) the formation or promotion of the Company;
- (e) any property acquired or proposed to be acquired by the Company in connection with:
 - (i) its formation or promotion; or
 - (ii) the Offers; or
- (f) the Offers,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of these persons for services provided in connection with:

- (g) the formation or promotion of the Company; or
- (h) the Offers.

EverBlu Capital has acted as the lead manager to the Company in relation to the Offers. EverBlu Capital will be paid a fee of up to \$330,000 in respect of the Offers and will be issued up to 1,833,333 Shares and up to 1,833,333 Options for services provided in relation to the Offers. EverBlu Capital will also be entitled to receive a fee of up to \$176,110 and be issued up to 978,387 Shares and up to 978,387 Options for services provided in relation to the Placement and the Tranche 2 Convertible Note Facility. Further details of the fees payable to EverBlu Capital are set out in Section 4.7.

Steinepreis Paganin has acted as the solicitors to the Company in relation to the Offers and associated due diligence process. The Company estimates it will pay Steinepreis Paganin \$40,000 (excluding GST and disbursements) for these services.

10.6 Consents

Chapter 6D of the Corporations Act imposes a liability regime on the Company (as the offeror of the Securities), the Directors, the persons named in the Prospectus with their consent as proposed directors, any underwriters, persons named in the Prospectus with their consent having made a statement in the Prospectus and persons involved in a contravention in relation to the Prospectus, with regard to misleading and deceptive statements made in the Prospectus. Although the Company bears primary responsibility for the Prospectus, the other parties involved in the preparation of the Prospectus can also be responsible for certain statements made in it.

Each of the parties referred to in this Section:

- (a) have not authorised or caused the issue of the Prospectus and does not make, or purport to make, any statement in this Prospectus other than those referred to in this Section;
- (b) in light of the above, only to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this Section.

EverBlu Capital has given its written consent to being named as Lead Manager to the Company in this Prospectus. EverBlu Capital has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Steinepreis Paganin has given its written consent to being named as the solicitors to the Company in this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

10.7 Expenses of Offers

The expenses of the Offers are estimated to be up to approximately \$624,572 (excluding GST) if the Maximum Subscription is raised and are expected to be applied towards the items set out in the table below:

	Minimum Subscription (\$)	Maximum Subscription (\$)
ASIC fees	3,206	3,206
ASX fees	1,922	1,922
Lead Manager Fees ^{1,2}	207,000	330,000
Drawdown Fee ³	153,333	244,444
Legal fees	40,000	40,000
Printing, distribution and miscellaneous items	5,000	5,000
Total	\$410,461	\$624,572

Notes:

1. Comprising of a cash fee of 6% of the gross proceeds raised under the Debt Note Offer. The Company notes that subject to Shareholder approval being obtained, it has agreed to issue EverBlu Capital between 1,150,000 and 1,833,333 Shares and 1,150,000 and 1,833,333 Options. For further details, refer to Section 4.7.
2. Additionally, the Company has agreed to pay EverBlu Capital a cash fee of \$95,110 and, subject to Shareholder approval being obtained, issue EverBlu Capital 528,387 Shares and 528,387 Options for the services provided in respect of the Placement. The Company has also agreed to pay EverBlu Capital a capital raising fee of up to \$81,000 and, subject to Shareholder approval being obtained, issue EverBlu Capital 450,000 Shares and 450,000 Options in part consideration for the services provided in respect of Tranche 2 Convertible Note Facility. These funds are not included within the above table. For further details, refer to Section 4.7.
3. In accordance with the terms of the Convertible Securities Agreements, the Company must pay a draw down fee of 4% of the aggregate face value of the Debt Notes (being between \$153,333 and \$244,444) to the Tranche 1 Investors. For further details, refer to Sections 4.2 and 4.4.

10.8 Electronic Prospectus

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Convertible Note Application Form or the Placement Application Form (as applicable). If you have not, please phone the Company on +61 8 9389 3180 and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus, or both. Alternatively, you may obtain a copy of this Prospectus from the Company's website at www.cresopharma.com.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic

Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

10.9 Clearing House Electronic Sub-Register System ("CHESS") and Issuer Sponsorship

The Company will not be issuing share certificates. The Company is a participant in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of Shares issued to them under this Prospectus. The notice will also advise holders of their Holder Identification Number or Security Holder Reference Number and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

10.10 Financial forecasts

The Directors have considered the matters set out in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Company are inherently uncertain. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

10.11 Privacy Act

If you complete an application for Securities, you will be providing personal information to the Company (directly or by the Company's share registry). The Company collects, holds and will use that information to assess your application, service your needs as a holder of equity securities in the Company, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company's share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its share registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (Cth) (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the application for Securities, the Company may not be able to accept or process your application.

11. DIRECTORS' CONSENT

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director has consented in writing to the lodgement of this Prospectus with the ASIC.



Boaz Wachtel
Executive Chairman
For and on behalf of
CRESO PHARMA LIMITED

12. DEFINITIONS

Application Form means a Debt Note Application Form, a Cleansing Offer Application Form or a Shortfall Application Form (as applicable).

ASIC means the Australian Securities and Investments Commission.

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

ASX Listing Rules means the Listing Rules of the ASX.

ASX Settlement Operating Rules means the settlement rules of the securities clearing house which operates CHESS.

Board means the board of Directors unless the context indicates otherwise.

Change of Control means, in respect of the Company, a change, from the position applying on the date of execution of the Convertible Securities Agreements, in:

- (a) control, directly or indirectly, of the appointment of directors of the Company having 50% or more of the votes at board meetings;
- (b) more than 50% of the Company's directors;
- (c) control, directly or indirectly, of more than 50% of the voting power in the Company; or
- (d) control, directly or indirectly, of the determination of the conduct of the Company's business affairs or decisions regarding its Shares.

Cleansing Offer Application Form means an application form in respect of the Cleansing Offer either attached to or accompanying this Prospectus.

Closing Date means closing date for receipt of an Application Form as set out in Section 2 (unless extended or closed early).

Collateral Agent means L1 Capital, acting on its own behalf and on behalf of the other Tranche 1 Investors.

Collateral Shares has the meaning given to that term in Section 4.2.

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

Constitution means the constitution of the Company as at the date of this Prospectus.

Consultancy Shares means 1,000,000 Shares which are proposed to be issued to Stocks Digital in consideration for digital marketing consultancy services provided to the Company.

Contemplated Transactions means the transactions contemplated in the Convertible Securities Agreements, including each issue of Securities and each conversion of Securities.

Corporations Act means the Corporations Act 2001 (Cth).

Debt Note Application Form means an application form in respect of the Debt Note Offer either attached to or accompanying this Prospectus.

Debt Note Offer means the offer of up to 6,111,111 debt notes each with a face value of \$1.00.

Directors means directors of the Company at the date of this Prospectus.

Dollar or **\$** means Australian dollars.

Equity Security has the meaning includes a Share, a right to a Share or Option, an Option, a convertible security and any security that ASX decides to classify as an Equity Security.

EverBlu, EverBlu Capital or **Lead Manager** means EverBlu Capital Pty Ltd (ACN 612 793 683) (AFSL 499601).

Group Company means each of the Company and its subsidiaries and **Group** means all of them, excluding Hemp Industries S.R.O.

Initial Settlement Shares means 7,500,000 Shares which the Company has agreed to issue to former secured lenders in settlement of disputes.

L1 Capital means L1 Capital Global Opportunities Master Fund.

Material Adverse Effect means a material adverse effect on:

- (a) the assets, liabilities, results of operations, condition (financial or otherwise), business, or prospects of the Company;
- (b) the ability of the Company to perform its obligations under the Convertible Securities Agreements;
- (c) the validity or enforceability against the Company of any material provision of any Transaction Document; or
- (d) the likely price or value of any Shares held by the Convertible Note Investors.

Materials means any materials delivered, or written statements made, by the Company or any of its agents, officers, directors, employees or representatives in connection with any Transaction Document at any time (including, for clarity, the representations and warranties set out in the Convertible Securities Agreements), and any announcements made by the Company to the ASX at any time.

Maximum Subscription means \$5,500,000 in respect of the Debt Note Offer.

Mernova Vendors means William Fleming, Marybeth Fleming and William Fleming, as trustee of the Fleming Family Trust (2011).

Milestone 2 means the Company's announcement to the market of the grant of a sales license to Mernova Medicinal Inc. under the Access to Cannabis for Medicinal Purposes Regulations (which have now been superseded), unless otherwise agreed between Creso Pharma and the Mernova Vendors. Milestone 2 must be achieved within 12 months of Milestone 1 being satisfied (being on or before 18 February 2020).

Minimum Subscription has the meaning given in Section 5.5.

Note means a Debt Note or a Tranche 1 Convertible Note (as applicable).

Offers means the Debt Note Offer and/or the Cleansing Offer (as applicable).

Official Quotation means official quotation on ASX.

Opening Date means the opening date for receipt of an Application Form under this Prospectus as set out in Section 2.

Option means an option to acquire a Share.

Placement has the meaning given to that term in Section 4.1.

Proposed Security Issues means the issue of the Collateral Shares, the Tranche 1 Fee Shares, the Initial Settlement Shares and the Consultancy Shares to be issued without Shareholder approval and accordingly, does not include the 261,780 Tranche 1 Fee Shares or the 3,333,334 Collateral Shares to be issued to Suburban Holdings.

Prospectus means this prospectus.

Section means a section of this Prospectus.

Securities means Shares, Options, Convertible Notes, Performance Rights, Performance Shares, Exchangeable Shares and/or Debt Notes.

Security Documents has the meaning given to that term in Section 9.1(d).

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

Share Registry means Automic Share Registry.

Shareholder means the holder of a Share.

Shareholder Meeting has the meaning given to that term in Section 5.1.

Shortfall has the meaning given to that term in Section 5.14 and means the number of Debt Notes comprising the difference between the maximum Debt Notes the subject of the Debt Note offer and the number of Debt Notes for which valid Debt Note Application Forms have been received and accepted by the Company on or before the Closing Date for the Debt Note Offer.

Shortfall Application Form means a shortfall application form for the Shortfall as provided by the Company in conjunction with EverBlu Capital.

Shortfall Offer means the offers of Debt Notes comprising the Shortfall.

Subsequent Settlement Shares means up to 8,125,000 Shares which the Company has agreed, subject to obtaining Shareholder approval to issue to former secured lenders in settlement of disputes. The Company may elect to make a cash payment to the former secured lenders in lieu of issuing the Subsequent Settlement Shares.

Suburban Holdings has the meaning given to that term in Section 4.2.

Tranche 1 Convertible Note Facility has the meaning given to that term in Section 4.1.

Tranche 1 Convertible Notes has the meaning given to that term in Section 4.2.

Tranche 1 Fee Shares has the meaning given to that term in Section 4.2.

Tranche 1 Investor means an investor who, following an invitation from the Directors, applies for Debt Notes under the Debt Note Offer using a Debt Note Application Form pursuant to this Prospectus.

Tranche 1 Options has the meaning given to that term in Section 4.2.

Tranche 2 Convertible Note Facility has the meaning given to that term in Section 4.1.

Tranche 2 Convertible Notes has the meaning given to that term in Section 4.3.

Tranche 2 Options has the meaning given to that term in Section 4.3.

Tranche 2 Securities has the meaning given to that term in Section 4.3.

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

VWAP means volume weighted average price.