



2 June 2023

Cleansing Notice – Issue of Convertible Notes

This cleansing notice (**Cleansing Notice**) is given by Creso Pharma Limited (ACN 609 406 911) (**Company**) under section 708A(12C)(e) of the *Corporations Act 2001 (Cth)* (**Corporations Act**) as amended by *ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82*.

The Company hereby confirms that:

- (a) the convertible notes described below will be issued without disclosure to an investor under Part 6D.2 of the Corporations Act; and
- (b) this Cleansing Notice has been given in accordance with section 708A(12C)(e) of the Corporations Act.

The issue of this Cleansing Notice enables the fully paid ordinary shares in the capital of the Company (**Shares**) issued on the conversion of the convertible notes issued by the Company on the terms described below, to be on-sold to retail investors without further disclosure.

This Cleansing Notice is important and should be read in its entirety.

1. BACKGROUND

1.1 Convertible Securities Agreement

As announced on 6 March 2023, the Company has secured commitments to raise \$2,500,000 through the issuance of secured convertible notes to SBC Global Investment (**SBC**) comprising of one tranche with an aggregate purchase price of \$1,700,000 pursuant to the first convertible securities agreement (**First Convertible Securities Agreement**) and second tranche with an aggregate purchase price of \$800,000 pursuant to the second convertible securities agreement (**Second Convertible Securities Agreement**).

The First Convertible Securities Agreement and Second Convertible Securities Agreement, together referred to as the Convertible Securities Agreements.

On 15 March 2023, the Company issued 1,700,000 convertible notes (each with a face value of \$1.1111) (**Tranche 1 Notes**) and in return received the first tranche of \$1,700,000 pursuant to the First Convertible Securities Agreement.

On 15 May 2023, the Company received shareholder approval to issue SBC with 800,000 convertible notes (each with a face of value \$1.1111) in exchange for the second tranche of \$800,000 (**Tranche 2 Notes**), 50,000,000 CPHOD quoted options

(exercisable at \$0.08 on or before 31 January 2027) and 20,000,000 unquoted options (exercisable at \$0.03 on or before 31 January 2027) (**Commitment Options**).

As announced on 24 May 2023, the second tranche of \$800,000 will be offset against balances owing by the Company in relation to not issuing SBC the Commitment Options in accordance with the Convertible Securities Agreement (\$194,580.20) and fees payable for the Company not receiving shareholder approvals for the purchases by the date specified in the Convertible Securities Agreements (\$205,419.80). The remaining \$400,000 will be provided shortly to the Company upon satisfaction of the conditions precedent of the Second Convertible Securities Agreement, in exchange for the issue of the Tranche 2 Notes.

As a result of the above, the Company and SBC have agreed not to proceed with the proposed issuance of the Commitment Options.

For further information in relation to each convertible securities agreement, please refer to the Company announcement dated 6 March 2023 and 24 May 2023, and notice of general meeting date 14 April 2023.

A broad summary of the rights, privileges and restrictions attaching to the Tranche 2 Notes is set out in Schedule 1 of this Cleansing Notice. The summary is not exhaustive and does not constitute a definite statement of the rights and liabilities of the Tranche 2 Note holder (**Noteholder**).

2. CONTENTS OF THIS CLEANSING NOTICE

This Cleansing Notice sets out the following:

- (a) in relation to the Tranche 2 Notes:
 - (i) the effect of the issue on the Company;
 - (ii) a summary of the rights and liabilities attaching to the Tranche 2 Notes; and
 - (iii) a summary of the rights and liabilities attaching to the Shares that will be issued on the conversion of the Tranche 2 Notes; and
- (b) any information that:
 - (i) has been excluded from continuous disclosure notices in accordance with the ASX Listing Rules; and
 - (ii) is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
 - (A) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
 - (B) the rights and liabilities attaching to the Shares; and
 - (iii) other information relating to the Company's status as a disclosing entity.

3. THE EFFECT OF THE ISSUE ON THE COMPANY

3.1 Effect of the issue on the Company

The principal effect of the issue of the Tranche 2 Notes on the Company will be:

- (a) increase the Company's cash reserves by \$400,000 (before costs associated with the Tranche 2 Notes);
- (b) an increase of the number of unquoted convertible notes on issue from 1,024,993 to 1,824,993;
- (c) the Company having a liability for the aggregate face value of the Tranche 2 Notes (being \$888,880); and
- (d) if the Tranche 2 Notes are converted the aggregate maximum number of Shares that the Company may or is required to issue on one or more conversion or redemption (to the extent these result in an issue of Shares) of the Tranche 2 Notes issued pursuant to the Second Convertible Securities Agreement is calculated by the following formula:
 - (i) the face value (being, \$888,880) of the Tranche 2 Notes divided by the conversion price, being the lower of \$0.04 or 150% of the average of the 5 daily VWAPs of Shares during the 5 trading days on which the Shares traded in the ordinary course of business on the ASX ending on the Purchase Date, rounded down to the nearest \$0.001 (**Conversion Price**). Based on a Purchase Date of 2 June 2023, the Conversion Price would be \$0.013 and the maximum number of Shares issued on conversion of all Tranche 2 Notes at that Conversion Price would be 68,375,385; or
 - (ii) up to \$125,000 of the outstanding balance of the Tranche 2 Notes may be redeemed through the issue of Shares each monthly anniversary commencing 60 days after the Purchase Date (subject to acceleration of up to 3 monthly amortisation amounts – e.g. \$375,000). The deemed issue price of the Shares will be the lower of the Conversion Price or 93% of the lowest 1-day VWAP during the 10 trading days preceding the redemption, rounded down to the nearest \$0.001, subject to a minimum price of \$0.008 (below this the monthly amortisation amount is payable in cash only). In addition, the value of the Shares issued each month will be capped at 34% of the average value of share traded per trading day over the preceding 12 trading days, excluding the two most liquid and two least liquid days. Based on the lowest amortisation price at which Shares may be issued (\$0.008), a maximum of 111,110,000 Shares would be issued if the entire face value of the Tranche 2 Notes was redeemed by this method.

The maximum increase in the number of Shares on issue as a result of the conversion (or the amortization through the issue of Shares) of all Tranche 2 Notes is 111,110,000 resulting in a change from 2,567,349,099 Shares to 2,678,459,099 Shares (assuming no other Shares are issued, including by the conversion or exercise of other convertible securities). The actual number of Shares issued will depend on the method of conversion or redemption at the relevant conversion price or amortisation price at that time.

3.2 Pro-forma Consolidated Statement of Financial Position as at 31 March 2023 taking into account the issue of the Tranche 2 Notes

To illustrate the effect of the issue of the Tranche 2 Notes on the Company, a pro-forma Consolidated Statement of Financial Position (**Pro-forma Accounts**) which is set out below has been prepared based on the financial position of the Company as at 31 March 2023 according to unaudited consolidated management accounts which are themselves based upon audited consolidated accounts as at 31 December 2022.

The Pro-forma Accounts shows the effect of the issue of the Tranche 2 Notes as if they had been issued on 31 March 2023.

The accounting policies adopted in the preparation of the Pro-forma Accounts are the same as those used in the preparation of the 31 December 2022 audited accounts. The historical and Pro-forma Accounts are presented in an abbreviated form, insofar as they don't include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements. The Pro-forma Accounts have not been subject to independent audit or review.

The Pro-forma Accounts have been prepared to provide investors with information on the assets and liabilities of the Company and pro-forma assets and liabilities on the basis that the issue of the Tranche 2 Notes were issued on 31 March 2023. The Company advises that the Pro-forma Accounts is not the current financial position of the Company as at the date of this Notice, and that the information is provided for illustrative purposes only.

The Pro-forma Accounts show the impact that the issue of the Tranche 2 Notes and associated securities would have had on the Company's financial position as at 31 March 2023, if these securities were issued on that date, taking into account the following transactions:

- (a) The Obsidian Convertible Notes were settled in full – for details refer ASX announcement dated 19 May 2023. The carrying value as at 31 March 2023 is based upon management's calculations and has not been subject to formal valuation.
- (b) 66,557,377 shares (valued at \$812,000 equivalent to 35% of debt) were issued to holders of the Secured Notes (as announced on 1 November 2022) as a loan extension payment. For further details refer to the ASX announcement dated 19 May 2023.
- (c) Certain debt with unrelated parties converted to equity. For further details refer to the ASX announcement dated 19 May 2023.
- (d) 675,007 Tranche 1 SBC Convertible Notes were redeemed, following the issue of shares valued at \$810,000. With respect to Tranche 2 SBC Convertible Notes, the face value of the notes (\$888,880) is included as a liability in the Pro-forma Accounts. As announced on 24 May 2023, the second tranche purchase of \$800,000 will be offset against balances owing by the Company in relation to not issuing SBC the Commitment Options in accordance with the Convertible Securities Agreement (\$194,580.20) and fees payable for the Company not receiving shareholder approvals for the purchases by the date specified in the Convertible Securities Agreements (\$205,419.80). As such, \$400,000 of cash is included as an asset in the Pro-Forma Accounts.

- (e) Placement funds, net of fees, amounting to \$1,161,000 received under the May 2023 placement. For further details refer to ASX announcement dated 19 May 2023. The Company expects to imminently receive an additional \$350,000 from an investor via manual settlement. Separately, \$900,000 of proceeds will be received from former director, Adam Blumenthal, subject to shareholder approval. The remaining funds to be received are not included in the Pro-Forma Accounts.
- (f) The acquisition of Health House International Limited (**HHI**), which concluded on 16 May 2023, has not been included. Settlement shares were issued but acquisition accounts are not yet available. Loans to HHI as at 31 March 2023 have been included as loans to third parties.

CRESO PHARMA LIMITED (\$000s)					
Consolidated Statement of Financial Position as at:	Unaudited 31-Mar-23	Total Post Balance Date Adj 31-Mar-23	Adjusted Unaudited Figures 31-Mar-23	Effect of Issue of Convertible Notes	Unaudited Pro-forma 31-Mar-23
Assets					
Current Assets					
Cash and Cash Equivalents	1,089	1,261	2,350	400	2,750
Trade and Other Receivables	2,492	0	2,492	0	2,492
Inventory	5,277	0	5,277	0	5,277
Biological Assets	156	0	156	0	156
Other Assets	3,499	0	3,499	0	3,499
Total Current Assets	12,513	1,261	13,774	400	14,174
Non Current Assets					
Property, plant and equipment	9,986	0	9,986	0	9,986
Intangible assets	16,020	0	16,020	0	16,020
Other assets	279	0	279	0	279
Intangible asset created on acquisition	0	0	0	0	0
Total Non Current Assets	26,285	0	26,285	0	26,285
Total Assets	38,798	1,261	40,059	400	40,459
Liabilities					
Current Liabilities					
Trade and Other Payables	8,054	(165)	7,889	0	7,889
Provisions	408	0	408	0	408

CRESO PHARMA LIMITED (\$000s)					
Consolidated Statement of Financial Position as at:	Unaudited 31-Mar-23	Total Post Balance Date Adj 31-Mar-23	Adjusted Unaudited Figures 31-Mar-23	Effect of Issue of Convertible Notes	Unaudited Pro-forma 31-Mar-23
Borrowings	8,528	(1,834)	6,694	880	7,494
Total Current Liabilities	16,990	(1,999)	14,991	880	15,791
Non-Current Liabilities					
Borrowings	157	0	157	0	157
Total Non-Current Liabilities	157	0	157	0	157
Total Liabilities	17,147	(1,999)	15,148	880	15,948
Net Assets	21,652	3,260	24,912	(480)	24,512
Equity					
Issued Capital	132,574	5,199	137,773	0	137,773
Reserves	20,851	0	20,851	0	20,851
Accumulated Losses	(131,774)	(1,939)	(133,713)	(480)	(134,113)
Total Equity	21,652	3,260	24,911	(480)	24,512

3.3 Potential effect on capital structure

- (a) As at the date of this Cleansing Notice, the total number of issued Shares is 2,567,349,099.
- (b) The capital structure of the Company will be affected by the conversion of Tranche 2 Notes by the Noteholder.
- (c) Subject to limits on the conversion under the Second Convertible Securities Agreement, the Tranche 2 Notes can be:
 - (i) converted into Shares (at the applicable conversion price) at any time after their issue and prior to 9 months from the date of issue of the Tranche 2 Notes (**Maturity Date**); or
 - (ii) on the Maturity Date, to the extent not already redeemed, the Company must pay in full to SBC the aggregate total of the face value of the outstanding Tranche 2 Notes (and any accrued but unpaid interest) in cash.

- (d) The effect on the capital structure of the Company upon the issue and conversion of the Tranche 2 Notes is as follows:

Upon issue:

Convertible Notes	Number
Convertible notes on issue at the date of this Cleansing Notice	1,024,993
Tranche 2 Notes will be issued under the Second Convertible Securities Agreement	800,000
Total convertible notes on issue following issue of the Tranche 2 Notes under the Second Convertible Securities Agreement	1,824,993

Upon conversion:

Shares	Number
Shares issued on the date of this Cleansing Notice	2,567,349,099
Shares issued upon conversion of the Tranche 2 Notes ¹	111,110,000
Total Shares on issue following conversion of all Tranche 2 Notes	2,678,459,099

Note:

1. This represents the maximum number of Shares that can be issued on conversion of the Tranche 2 Notes. Refer to Section 3.1(d) for an explanation and worked examples. The actual number of Shares issued will depend on the method of conversion or redemption at the relevant conversion price or amortisation price at that time.

Other securities currently on issue:

The Company currently has the following other securities on issue:

- (i) 1,068,903,000 options;
- (ii) 14,016,000 performance rights; and
- (iii) 6,000,000 performance shares.

2. RIGHTS AND LIABILITIES ATTACHING TO SHARES ISSUED ON CONVERSION OF THE TRANCHE 2 NOTES

The Shares issued to the Noteholder on the conversion of the Tranche 2 Notes under the Second Convertible Securities Agreement will rank equally in all respects with all of the Company's existing Shares.

Under the Second Convertible Securities Agreement, the Company is required to apply to ASX for quotation of the Shares issued on conversion of any Tranche 2 Notes.

Full details of the rights and liabilities attaching to Shares are set out in the Company's constitution, a copy of which can be inspected free of charge, at the Company's registered office during normal business hours.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

(a) **General meetings**

Each shareholder of the Company (**Shareholder**) 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 (**Constitution**).

(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 of the Company (**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 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.

3. COMPLIANCE WITH DISCLOSURE OBLIGATIONS

The Company is a “**disclosing entity**” under the Corporations Act and, as such, is subject to regular reporting and disclosure obligations under both the Corporations Act and the ASX Listing Rules.

These obligations require the Company to notify ASX of information about specific events and matters as they arise. In particular, the Company is obliged to continuously disclose to the market immediately any information which a reasonable person would expect to have a material effect on the price or the value of the Shares.

The Company is also required to prepare and lodge with ASIC yearly and half-yearly financial statements accompanied by a directors' statement and report, and an audit report or review. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office.

The Company will provide a copy of each of the following documents, free of charge, to any person on request:

- (a) the annual financial report most recently lodged by the Company with ASIC, being the financial report of the Company for the year ended 31 December 2022;
- (b) any half-year financial report lodged by the Company with ASIC after the lodgement of the annual financial report referred to in paragraph (a) and before the lodgement of this Cleansing Notice with ASX; and
- (c) any continuous disclosure notices given by the Company to ASX after the lodgement of the annual financial report referred to in paragraph (a) and before the lodgement of this Cleansing Notice with ASX.

A list of the continuous disclosure notices given by the Company to ASX after lodgement of the annual financial report referred to in paragraph (a) above and before the lodgement of this Cleansing Notice with ASX is set out in the table below.

Date	Description of Announcement
24 May 2023	SBC Facility – Second Purchase & Amortisation Payments
24 May 2023	Application for quotation of securities – CPH
24 May 2023	Proposed issue of securities – CPH
24 May 2023	Application for quotation of securities – CPH

Date	Description of Announcement
24 May 2023	Cleansing Notice
24 May 2023	Application for quotation of securities – CPH
24 May 2023	Notification of cessation of securities – CPH
24 May 2023	Application for quotation of securities – CPH
24 May 2023	Application for quotation of securities – CPH
22 May 2023	Mernova Q2 Sales Update
19 May 2023	Proposed issue of securities – CPH
19 May 2023	Proposed issue of securities – CPH
19 May 2023	Proposed issue of securities – CPH
19 May 2023	Capital Raising & Debt Repayment
17 May 2023	Trading Halt
16 May 2023	Completion of Health House International Acquisition
16 May 2023	Notification regarding unquoted securities – CPH
16 May 2023	Response to Financial Condition Query
16 May 2023	Application for quotation for securities – CPH
15 May 2023	Results of Meeting
15 May 2023	Creso Pharma Expands Asia Market Footprint
10 May 2023	Response to ASX Price Query
10 May 2023	Sierra Sage Herbs LLC Update
8 May 2023	Health House International Transaction & Operational Update
5 May 2023	Court approves Scheme and Scheme becomes effective
5 May 2023	Halucenex Phase II Clinical Trial Update
4 May 2023	Second Court hearing Update
2 May 2023	Application for quotation of securities – CPH
2 May 2023	Results of Scheme Meeting
2 May 2023	HHI: Scheme consideration update
1 May 2023	Notice of Annual General Meeting / Proxy Form
1 May 2023	Mernova – Eighth Province Entry & \$553k in New Pos
28 April 2023	Quarterly Activities / Appendix 4C Cash Flow Report
28 April 2023	Scheme consideration update
21 April 2023	Meeting address and Scheme consideration update
19 April 2023	Mernova – Q1 Cashflow Positive with Record Revenues

Date	Description of Announcement
14 April 2023	ASX Listing Rule 3.13.1 Notice Regrading AGM
14 April 2023	Notice of General Meeting / Proxy Form
14 April 2023	Scheme consideration update
6 April 2023	February Placement Update & Additional Information
6 April 2023	Correction to ASX Announcement – Scheme consideration update
6 April 2023	Scheme consideration update
31 March 2023	Appendix 4G and Corporate Governance Statement
31 March 2023	Annual Report to Shareholders

4. INFORMATION EXCLUDED FROM CONTINUOUS DISCLOSURE NOTICES

As at the date of this Cleansing Notice, the Company advises that it has fully complied with its disclosure obligations under the ASX Listing Rules and the Corporations Act, and, in particular, there is no information which the Company has excluded from any of its continuous disclosure notices given in accordance with the ASX Listing Rules and the Corporations Act as at the date of this Cleansing Notice which it would be reasonable for investors and their professional advisors to require for the purpose of making an informed assessment of:

- (a) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
- (b) the rights and liabilities attaching to the Tranche 2 Notes and the Shares.

Authority and Contact Details

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

SCHEDULE 1 – TERMS AND CONDITIONS OF CONVERTIBLE NOTES

Terms and conditions of Tranche 2 Notes	
Number of Tranche 2 Notes	800,000.
Purchase Price	\$1.00 per Tranche 2 Note for an aggregate purchase price amount of \$800,000 (subject to set-off as disclosed in this announcement).
Face Value	Each Tranche 2 Note will have a face value of \$1.1111 for an aggregate face value of \$888,880.
Maturity Date	9 months after the purchase date of the Tranche 2 Notes.
Interest	<p>Interest is payable by the Company to SBC in cash on the Tranche 2 Notes at 8% of the aggregate face value with payment due at the same time as the relevant conversion or redemption (which includes conversion or redemption of an Amortisation Amount).</p> <p>For the avoidance of doubt interest is calculated and payable on a full year basis regardless of when the conversion or redemption (which includes conversion or redemption of an Amortisation Amount) occurs during the term of the Tranche 2 Notes.</p>
Conversion of Tranche 2 Notes	<p>SBC may (at its absolute discretion) convert the Tranche 2 Notes at any time prior to the Maturity date, by giving the Company a conversion notice. The conversion will occur within 2 business days of receipt of the notice.</p> <p>The number of Shares to which the Noteholder is entitled upon conversion of the relevant Tranche 2 Notes is determined by the following formula:</p> $\text{Number of Shares} = \text{FV} / \text{CP}$ <p>Where:</p> <ul style="list-style-type: none"> FV means the aggregate face value of the Tranche 2 Notes being converted. CP means the applicable conversion price per Tranche 2 Note. The applicable conversion price is set out below. <p>Upon conversion of the Tranche 2 Notes the relevant number of Tranche 2 Notes will be redeemed and the Face Value will reduce.</p>
Conversion by the Company	The Company has no right to require the Noteholder to convert any Tranche 2 Notes at any time.
Conversion Price	<p>In respect of the Tranche 2 Notes, the conversion price will be the lower of:</p> <ol style="list-style-type: none"> \$0.04; or 150% of the average of the 5 daily volume weighted average prices (VWAP) of the Shares during the 5 trading days on which the Shares traded in the ordinary course of business on the ASX ending on the Purchase Date, rounded down to the nearest \$0.001.

Terms and conditions of Tranche 2 Notes

Compulsory Redemption at Maturity	<p>On the Maturity Date (to the extent not redeemed), the Company must redeem the outstanding Tranche 2 Notes by paying the outstanding amount to SBC in cash.</p>
Compulsory Redemption following raising or asset sale	<p>Within 5 business days of the Company group completing a raising or series of raisings, whether by debt, equity or equity-linked securities (including options), or an asset sale or series of assets sales (Redemption Event), the Company must use 35% of the aggregate gross proceeds from such events where the gross proceeds are \$1,250,000 or less or otherwise 50% of the aggregate gross proceeds from such events (Redemption Amount) to redeem Tranche 2 Notes as follows:</p> <ul style="list-style-type: none">(i) the Company must give written notice to SBC of a Redemption Event at completion of the Redemption Event; and(ii) subject to SBC giving written notice to the Company within 5 business days of receipt of notice from the Company of the Redemption Event requiring the Company to use the Redemption Amount to redeem Tranche 2 Notes, the Company must pay the Redemption Amount to the SBC to redeem the relevant quantity of Tranche 2 Notes (Redemption Notes). <p>Upon the Company doing so, the Redemption Notes will be redeemed and the aggregate total of the face value of the outstanding Tranche 2 Notes and all other amounts payable by the Company to SBC in relation to the outstanding Tranche 2 Notes, including accrued interest (Amount Outstanding) will be reduced by the aggregate face value of the Redemption Notes. For the avoidance of doubt, if SBC does not give written notice under this clause then the Company is not required to use the Redemption Amount to redeem the Redemption Notes.</p>
Amortisation Payments	<p>Beginning 60 days after the purchase date until the Maturity Date, and every monthly anniversary thereafter (Amortisation Payment Date), the Company must redeem \$125,000 of the outstanding balance of the Tranche 2 Notes (Amortisation Amount) by either:</p> <ul style="list-style-type: none">(i) paying the Amortisation Amount in cash; or(ii) issuing Shares, with the value of Shares to be capped at 34% of the average value of Shares traded per trading day over the preceding 12 trading days on which the Shares traded in the ordinary course of business on the ASX, excluding the two most liquid and two least liquid days; or(iii) a combination of cash and Shares. <p>If Shares are issued, the deemed price for the Shares (Amortisation Price) will be the lower of:</p> <ul style="list-style-type: none">(iv) the Conversion Price and(v) 93% of the lowest 1-day VWAP during the 10 actual trading days preceding the redemption, rounded down to the nearest \$0.001. <p>If the amortisation is less than the \$0.008 (Minimum Amortisation Price), then the amortisation amount is only payable in cash. While there is an Amortisation Amount outstanding, SBC may in its sole</p>

Terms and conditions of Tranche 2 Notes

	discretion give the Company a conversion notice with the Amortisation Price applying instead of the Conversion Price, in relation to some or all of the Tranche 2 Notes with an aggregate Face Value up to the Amortisation Amount outstanding.
Accelerated Amortisation	The Company and SBC may mutually agree in writing at any time prior to an Amortisation Payment Date to accelerate the payment of up to an aggregate of three Amortisation Amounts during the term of the Tranche 2 Notes. Where the Parties do so, the adjusted Amortisation Amount is due at the earlier of the date agreed by the parties or the next Amortisation Payment Date.
Adjustments	<p>Each time when a security structure event (i.e. any consolidation (including Share consolidation), subdivision or pro-rata cancellation of the Company's issued capital or distribution of Shares to holders of its outstanding ordinary shares; which for the avoidance of doubt, does not include a rights offering or a bonus issue) occurs, the Conversion Price, the Minimum Amortisation Price will be reduced or, as the case may be, increased, in the same proportion as the issued capital of the Company is, as the case may be, consolidated, subdivided or cancelled.</p> <p>The Conversion Price and Minimum Amortisation Price is also adjusted following issues of equity securities by the Company at an issue price or conversion price below the Conversion Price or Minimum Amortisation Price, to that lower price.</p>
Ranking on Conversion	Shares issued on conversion of the Tranche 2 Notes will rank equally with existing Shares on issue.
Security Documents	<p>Repayment of the face value of the Tranche 2 Notes is secured by:</p> <ul style="list-style-type: none"> (i) a first ranking security over all present and after acquired property of the Company, (ii) a security agreement between Creso Pharma US, Inc. (a wholly owned subsidiary of the Company) and SBC in relation to, amongst other things, a first priority lien on and a security interest in and to all of Creso Pharma US, Inc.'s right, title and interest in all of its properties and assets whether now owned or hereafter acquired and whether now existing or hereafter coming into existence (US Security Agreement), (iii) a pledge agreement between the Company and SBC in relation to the Company pledging all of the issued and outstanding equity interests of Creso Pharma US, Inc to SBC, (iv) a pledge agreement between Creso Pharma US, Inc. and SBC in relation to Creso Pharma US, Inc. pledging all of the issued and outstanding equity interests of pledging Sierra Sage Herbs, LLC (a wholly owned subsidiary of the Company) to SBC; and (v) a guarantee between Creso Pharma US, Inc., Sierra Sage Herbs, LLC and SBC in relation to guaranteeing the obligations under the US Security Agreement. <p>For clarity, the security interest granted to SBC will, to the extent they relate to Mernova Medicinal Inc., be subordinate to existing</p>

Terms and conditions of Tranche 2 Notes

	securities registered against Mernova Medicinal Inc., and as agreed to between the Company and SBC.
Event of Default	<p>If any event of default occurs, the Face Value and Amortisation Amount automatically increases by 10% and by an additional 5% on the occurrence of any further events of default, with such increase, for the avoidance of doubt, continuing to apply despite any later remedy of the event of default or events of default.</p> <p>Unremedied or irremediable events of default shall give SBC the right to call for payment of monies owing (subject to the face value uplift) and or terminate the agreement. The agreement is subject to events of default considered customary for a commercial agreement of this type.</p> <p>In addition, the Company must pay interest at a rate of 1% per month on the amount of the face value of all Tranche 2 Notes issued which have not been converted or repurchased, accrue daily and compounded monthly until the Company discharges the Amount Outstanding in full or remedies the event of default to the satisfaction of SBC.</p>

For further information, please contact:

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About Creso Pharma

Creso Pharma Limited (ASX:CPH) brings the best of cannabis to better the lives of people and animals. It brings pharmaceutical expertise and methodological rigor to the cannabis world and strives for the highest quality in its products. It develops cannabis and hemp derived therapeutic, nutraceutical, and life style products with wide patient and consumer reach for human and animal health.

Creso Pharma uses GMP (Good Manufacturing Practice) development and manufacturing standards for its products as a reference of quality excellence with initial product registrations in Switzerland. It has worldwide rights for a number of unique and proprietary innovative delivery technologies which enhance the bioavailability and absorption of cannabinoids. To learn more please visit: www.cresopharma.com

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