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**CRESO PHARMA LIMITED**

**ABN 89 609 406 911**

**NOTICE OF GENERAL MEETING**

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**TIME:** 10:00am (WST)

**DATE:** Monday, 11 December 2017

**PLACE:** 1/1 Altona Street  
West Perth WA 6005

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

*Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 8 6559 1792.*

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## IMPORTANT INFORMATION

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### Time and place of Meeting

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Notice is given that the Meeting will be held at 10:00am (WST) on Monday, 11 December 2017 at:

1/1 Altona Street  
West Perth WA 6005

### Your vote is important

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

### Voting eligibility

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The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 10:00am (WST) on 09 December 2017.

### Voting in person

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To vote in person, attend the Meeting at the time, date and place set out above.

### Voting by proxy

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

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

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

Shareholders and their proxies should be aware that changes to the Corporations Act made in 2011 mean that:

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

Further details on these changes are set out below.

### ***Proxy vote if appointment specifies way to vote***

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on, the proxy must vote on a poll, and must vote that way (ie as directed); and
- if the proxy is not the chair, the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (ie as directed).

### ***Transfer of non-chair proxy to chair in certain circumstances***

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
  - the proxy is not recorded as attending the meeting; or
  - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

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## BUSINESS OF THE MEETING

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### AGENDA

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#### 1. RESOLUTION 1 – ISSUE OF SHARES ON EXCHANGE OF EXCHANGEABLE SHARES

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

*“That, for the purposes ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 16,600,000 Shares on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as to vote as the proxy decides.

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#### 2. RESOLUTION 2 – RATIFICATION OF PRIOR ISSUE – OPTIONS TO CONSULTANTS – 27 JULY 2017

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 1,010,000 Options on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 3. RESOLUTION 3 – RATIFICATION OF PRIOR ISSUE – FACILITATION FEE SHARES

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 2,094,154 Shares on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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4. **RESOLUTION 4 – RATIFICATION OF PRIOR ISSUE – OPTIONS TO CONSULTANTS – 13 OCTOBER 2017**

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 250,000 Options on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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5. **RESOLUTION 5 – RATIFICATION OF PRIOR ISSUE – CONSULTANCY SHARES**

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 1,000,000 Shares on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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Dated: 07 November 2017

By order of the Board



Sarah Jayne Smith  
Company Secretary

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## EXPLANATORY STATEMENT

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

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### 1. RESOLUTION 1 – ISSUE OF EXCHANGEABLE PREFERRED SHARES

#### 1.1 Background

As announced on 27 July 2017, Creso Pharma Limited (**Creso** or **the Company**) entered into a binding heads of agreement (**HOA**) with Mernova Medicinal Inc (**MMI** or **Mernova**) and the shareholders of MMI (**MMI Shareholders**). MMI is a company based in Canada that owns a property in Hans County Nova Scotia (the **Property**) and has made an application to Health Canada for a licence to cultivate (and subsequently sell) medicinal cannabis under the *Access to Cannabis for Medical Purposes Regulation* (**ACMPR**) (**Cultivation License**).

The HOA sets out the terms upon which Creso, through a wholly owned subsidiary which Creso intends to incorporate in Nova Scotia, Canada (**Creso Sub**), has agreed to acquire 100% of the issued capital in Mernova (**Mernova Shares**) (**Acquisition**).

The material terms of the HOA are as follows:

- (a) **Consideration:** Due to the unavailability of capital gains tax rollover relief in Canada, the Company has agreed to arrange for the issue of fully paid non-voting, convertible, redeemable, preferred shares in the capital of Creso Sub (**Exchangeable Shares**). Each Exchangeable Share will be exchangeable for Shares. Subject to satisfaction of the Condition (set out below), in consideration for Creso acquiring 100% of the Mernova Shares, Creso (or Creso Sub, as the case may be) has agreed:
- (i) at settlement of the Acquisition (**Settlement**), the Company will pay the MMI Shareholders a total of C\$200,000;
  - (ii) at Settlement, the Company will issue the MMI Shareholders C\$8,300,000 of Exchangeable Shares at a deemed issue price equal to AUD\$1.00 each, based on a fixed exchange rate of 1CAD:1AUD at Settlement (the **Consideration Shares**). The Consideration Shares consist of 2 tranches, being; C\$4,150,000 worth of the Exchangeable Shares (**Milestone 1 Consideration Shares**); and C\$4,150,000 worth of the Exchangeable Shares (**Milestone 2 Consideration Shares**);
  - (iii) on Creso's announcement to the market of Mernova securing the Cultivation License in relation to the Property (**Milestone 1**) within 18 months of Settlement, subject to any one or more force majeure events (as defined in the Agreement) (**Milestone 1 Expiry Date**), to pay to the MMI Shareholders a cash payment of C\$800,000 (**Milestone 1 Cash**) and for the Milestone 1 Consideration Shares to become exchangeable; and

- (iv) on Creso's announcement to the market of the grant of a sales licence to Mernova under the ACMPR (**Milestone 2**) within 12 months of the date of satisfaction of Milestone 1, subject to any one or more force majeure events (as defined in the Agreement) (**Milestone 2 Expiry Date**), to pay to the MMI Shareholders a cash payment of C\$800,000 (**Milestone 2 Cash**) and for the Milestone 2 Consideration Shares to become exchangeable.
- (v) Each of the MMI Shareholders have further agreed that:
  - (A) the Milestone 1 Consideration Shares may be exchanged 4 months after the date Milestone 1 is achieved; and
  - (B) the Milestone 2 Consideration Shares may be exchanged 4 months after the date Milestone 2 is achieved.
- (b) **Condition Precedent:** Settlement is conditional upon the parties receiving all necessary consents and approvals (including all necessary regulatory approvals) as required in connection with the Acquisition.
- (b) **Budget:** From Settlement up until the date that Milestone 2 is achieved (**Budget Period**), MMI will comply with a pre-agreed budget between the Company and MMI to achieve the Milestones (**Agreed Budget**). Creso will solely fund the activities of Mernova throughout the Budget Period in accordance with the Agreed Budget up to a maximum set out in the Agreed Budget (or other such amount that Creso may agree) (**Creso Budget Cap**). During the Budget Period, if Creso is required to fund Mernova in excess of the Creso Budget Cap (**Additional Creso Funds**), the parties agree that any Milestone 1 Cash consideration and Milestone 2 Cash consideration that is not yet due and payable at the time the Additional Creso Funds are expensed will be reduced on a pro rata basis in the amount of the Additional Creso Funds.

In the event that either Milestone 1 or Milestone 2 has not been satisfied by the Milestone 1 Expiry Date or the Milestone 2 Expiry Date (as applicable), the MMI Shareholders' entitlement to the relevant cash payment automatically lapses, and the MMI Shareholders will, in proportion to their relevant consideration proportions, sell the applicable Consideration Shares to Creso Sub for the consideration of C\$0.000001 per Exchangeable Share.

## 1.2 Terms of Exchangeable Shares

The Exchangeable Shares will be governed by the terms and conditions set out in the Articles and the support and exchange agreement to be entered into by the Company, Creso Sub and each of the holders of Exchangeable Shares (**SEA**).

A brief summary of the key exchange terms and conditions of the Exchangeable Shares under these documents is set out in Schedule 1. In the event that any Consideration Shares have not been exchanged for Shares within 60 months of the date of execution of the SEA (**SEA Effective Date**), the right to exchange the Consideration Shares will lapse.

The Consideration Shares will be exchangeable into that number of Creso Shares based on the formula set out below:

$$\text{No. of Shares} = \text{No. of Exchangeable Shares} \times \frac{1}{\text{Exchangeable Price}}$$

Where the **Exchangeable Price** is equal to the VWAP of Shares trading on ASX over the 10 trading days immediately prior to the date of exchange of the Exchangeable Shares, provided that the VWAP will not be less than \$0.50 or greater than \$0.75.

The application of this formula will result in a maximum number of 16,600,000 Shares being issued and a minimum number of 11,066,666 Shares being issued, depending on the Exchangeable Price.

As such, Resolution 1 seeks Shareholder approval for the issue of up to 16,600,000 Shares upon conversion of the Exchangeable Shares issued as consideration.

### 1.3 ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12-month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12-month period.

ASX Listing Rule 7.3.2 provides that if shareholder approval is obtained to an issue of shares pursuant to ASX Listing Rule 7.1, a company will have a period of 3 months after its general meeting where Shareholder approval is obtained (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity under ASX Listing Rule 7.1 to issue the shares.

ASX has granted a waiver of ASX Listing Rule 7.1 to the Company to issue the Shares to the MMI Shareholders no later than 60 months from the date of the Meeting (including Shares issued upon exchange of the Exchangeable Shares). Accordingly, the effect of Resolution 1 will be to allow the Directors to issue the Shares to the MMI Shareholders no later than 60 months from the date of the Meeting, without using the Company's 15% annual placement capacity.

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

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

- (a) the maximum number of Shares to be issued is 16,600,000;
- (b) the Shares issued upon conversion of the Exchangeable Shares will be issued no later than 60 months after the Sea Effective Date in accordance with the date set out in the waiver granted by the ASX to the Company, and it is intended that issue of the Shares will occur progressively. Up to 16,600,000 Shares will be issued on exchange of the Exchangeable Shares.
- (c) the issue price will be nil as the Exchangeable Shares, and issue of Shares upon conversion of the Exchangeable Shares, will be issued to the Shareholders of Mernova Medicinal Inc as consideration for the Acquisition as outlined above;



- (d) the Exchangeable Shares, and the issue of Shares upon conversion of the Exchangeable Shares, will be issued to the MMI Shareholders as consideration for the Acquisition of MMI as outlined above. These persons are not related parties of the Company;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) no funds are being raised from the issue of the Exchangeable Shares, and the issue of Shares upon conversion of the Exchangeable Shares, as the Exchangeable Shares will be issued to the MMI Shareholders as consideration for the Acquisition of MMI as outlined above.

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## **2. RESOLUTION 2 – RATIFICATION OF PRIOR ISSUE – OPTIONS TO CONSULTANTS – 27 JULY 2017**

### **2.1 General**

On 27 July 2017, the Company issued 1,010,000 Options on various terms and conditions in consideration for services provided by unrelated consultants to the Company.

Resolution 2 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Options (**July Option Ratification**).

A summary of ASX Listing Rule 7.1 is set out in section 1.3 above.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rule 7.1.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

### **2.2 Technical information required by ASX Listing Rule 7.4**

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the July Option Ratification:

- (a) a total of 1,010,000 Options were issued on the following terms and conditions:
  - (i) 250,000 unlisted Options exercisable at \$0.30 on or before 27 July 2021 and subject to vesting conditions;
  - (ii) 100,000 unlisted Options exercisable at \$1.20 on or before 27 July 2019 and subject to vesting conditions;
  - (iii) 100,000 unlisted Options exercisable at \$1.60 on or before 27 July 2020 and subject to vesting conditions;
  - (iv) 100,000 unlisted Options exercisable at \$2.00 on or before 27 July 2021 and subject to vesting conditions;

- (v) 210,000 unlisted Options exercisable at \$0.40 on or before 27 July 2021 and subject to vesting conditions; and
  - (vi) 250,000 unlisted Options exercisable at \$0.30 on or before 27 July 2019 and subject to vesting conditions.
- (b) the Options were issued for nil cash consideration in satisfaction of services provided by consultants to the Company;
  - (c) the Options were issued on the terms and conditions set out in Schedule 2;
  - (d) the Options were issued to consultants of the Company. None of the recipients of Options were related parties of the Company; and
  - (e) no funds were raised from this issue as the Options were issued in consideration for services provided by unrelated consultants.

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### **3. RESOLUTION 3 – RATIFICATION OF PRIOR ISSUE – FACILITATION FEE SHARES**

#### **3.1 General**

On 27 July 2017, the Company issued 2,094,154 Shares in consideration for facilitation services provided to the Company in relation to the Acquisition.

Resolution 3 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Shares (**Facilitation Fee Ratification**).

A summary of ASX Listing Rules 7.1 and 7.4 are set out in sections 1.3 and 2.1 respectively.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

#### **3.2 Technical information required by ASX Listing Rule 7.4**

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Facilitation Fee Ratification:

- (a) 2,094,154 Shares were issued;
- (b) the Shares were issued for nil cash consideration in satisfaction of facilitation services provided by Golden Dawn Limited;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were issued to Golden Dawn Limited, who is not a related party of the Company; and
- (e) no funds were raised from this issue as the Shares were issued in consideration for facilitation services provided to the Company in relation to the Acquisition.

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#### 4. RESOLUTION 4 – RATIFICATION OF PRIOR ISSUE – OPTIONS TO CONSULTANTS – 13 OCTOBER 2017

##### 4.1 General

On 13 October 2017, the Company issued 250,000 Options on various terms and conditions in consideration for services provided by unrelated consultants to the Company.

Resolution 2 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Options (**October Option Ratification**).

A summary of ASX Listing Rules 7.1 and 7.4 are set out in sections 1.3 and 2.1 respectively.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

##### 4.2 Technical information required by ASX Listing Rule 7.4

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the October Option Ratification:

- (a) 250,000 unlisted Options were issued, exercisable at \$0.80 on or before 27 July 2021 and subject to vesting conditions.
- (b) the Options were issued for nil cash consideration in satisfaction of services provided by consultants to the Company;
- (c) the Options were issued on the terms and conditions set out in Schedule 3;
- (d) the Options were issued to consultants of the Company. None of the recipients of Options were related parties of the Company; and
- (e) no funds were raised from this issue as the Options were issued in consideration for services provided by unrelated consultants.

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#### 5. RESOLUTION 5 – RATIFICATION OF PRIOR ISSUE – CONSULTANCY SHARES

##### 5.1 General

On 13 October 2017, the Company issued 1,000,000 Shares in consideration for consultancy services provided to the Company.

Resolution 5 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Shares (**Consultancy Share Ratification**).

A summary of ASX Listing Rules 7.1 and 7.4 are set out in sections 1.3 and 2.1 respectively.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

## 5.2 Technical information required by ASX Listing Rule 7.4

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Consultancy Share Ratification:

- (a) 1,000,000 Shares were issued;
- (b) the Shares were issued for nil cash consideration in satisfaction of consultancy services provided to the Company;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were issued to A & J Tannous Nominees Pty Ltd, who is not a related party of the Company; and
- (e) no funds were raised from this issue as the Shares were issued in consideration for consultancy services provided to the Company.

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## GLOSSARY

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**\$** means Australian dollars.

**Acquisition** means the acquisition by the Company of the shares in Mernova Medicinal Inc as described in Section 1.1 of the Explanatory Statement.

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

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

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

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

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

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

**Company** or **Creso Pharma** means Creso Pharma Limited (ABN 89 609 406 911).

**Consideration Securities** means the Exchangeable Shares specified in section 1.1(a)(ii) of the Explanatory Statement.

**Constitution** means the Company's constitution at the date of this Notice.

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

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

**Exchangeable Shares** means an exchangeable share in the Company to be issued to the shareholders of MMI in accordance with the terms and conditions summarised in Section 1 and Schedule 1.

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

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

**MMI** means Mernova Medicinal Inc.

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

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

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

**Securities** mean a Share or Option.

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

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

**VWAP** means the volume weight average market price.

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

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## SCHEDULE 1 – TERMS AND CONDITIONS OF EXCHANGEABLE SHARES

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The terms and conditions of the Exchangeable Shares are as follows:

- (a) **(Exchange of Exchangeable Shares).** Each Exchangeable Share is a preferred share in the capital of Creso Sub, the subsidiary of Creso incorporated in Nova Scotia, which may be exchanged by the Holder (defined below) for a fully paid Share.
- (b) **(Exchange Events):** Subject to the terms of the Articles and the SEA, each Exchangeable Share is exchangeable into the aggregate of the Creso Share Exchange Amount plus the amount of all outstanding declared and unpaid dividends on the Exchangeable Share (**Outstanding Dividend Amount**) (**Exchange Consideration**) in accordance with the procedures set out in the paragraphs below and on occurrence of the following events:
- (i) upon the liquidation, dissolution or winding up of Creso Sub or any other distribution of the assets of Creso Sub among its shareholders for the purpose of winding up its affairs (**Liquidation Event**);
  - (ii) at the election of the holder of Exchangeable Shares (**Holder**) at any time (subject to terms set out in the SEA or the Agreement) by providing notice in writing to Creso Sub (**Exchange Election Notice**); or
  - (iii) on the date established by the board of directors of Creso Sub for the redemption by Creso Sub of the Exchangeable Shares, with such date being:
    - (A) no later than five years from the SEA Effective Date; and
    - (B) no earlier than the effective date of a transaction which effects a change of control in the Company by the acquisition by any person, either alone or together with an associate, of either a relevant interest in more than 50% of the issued Creso Shares or all or substantially all of the assets of the Company and its subsidiaries (**Change of Control**), unless otherwise determined by the Company in accordance with the Articles,

**(Redemption Date).**
- (c) **(Liquidation):**
- (i) Upon the occurrence of a Liquidation Event, the Company will be deemed to have exercised an option to acquire all of the Exchangeable Shares on issue for the Exchange Consideration (**Call Option**), unless the Company provides notification of its intention not to purchase the Exchangeable Shares (**Call Rejection Notice**) to the Holders at least five business days before the date of effect of the Liquidation Event.
  - (ii) Each Holder will be entitled to receive the Exchange Consideration prior to the distribution of any part of the assets of Creso Sub among Creso Sub shareholders (such shareholder being the Company).

- (d) **(Exchange by election of the holder):**
- (i) The Holder may at any time elect to require Creso Sub to redeem all or some of the Exchangeable Shares it holds for the Exchange Consideration by providing the Exchange Election Notice.
  - (ii) Upon receipt of the Exchange Election Notice, the Company will be deemed to have exercised the Call Option (with the number of Exchangeable Shares to be acquired being all or some of the Exchangeable Shares, as specified by the Holder in the Exchange Election Notice), unless the Company provides a Call Rejection Notice to Creso Sub within five business days of receipt of the Exchange Election Notice.
  - (iii) If the Company provides a Call Rejection Notice to Creso Sub, Creso Sub will redeem the Exchangeable Shares the subject of the Exchange Election Notice. However, Creso Sub is not obligated to redeem these shares to the extent that such redemption would be contrary to solvency requirements or would breach any provisions of any law (**Solvency Condition**).
  - (iv) If Creso Sub is restricted from redeeming any of the Exchangeable Shares the subject of an Exchange Election Notice, the Company will be required to purchase these Exchangeable Shares from the Holder as soon as practicable.
- (e) **(Redemption Date):**
- (i) On the Redemption Date, the Company will be deemed to have exercised the Call Option, unless it provides a Call Rejection Notice to the Holders at least twenty business days before the Redemption Date.
  - (ii) If the Company provides a Call Rejection Notice, Creso Sub will redeem all of the Exchangeable Shares (other than those held by the Company) for the Exchange Consideration on the Redemption Date.
- (f) **(Exchange on Default):** In the event that either Creso Sub or the Company defaults in its obligations to either redeem or purchase the Exchangeable Shares (as the case may be, and including a failure to redeem by Creso Sub as a result of the Solvency Condition), the Holder has the right to require the Company to purchase all or any part of the Exchangeable Shares for the Exchange Consideration.
- (g) **(Holder Covenant):** The Holders have agreed not to exercise any of the exchange rights set out above if such exchange is restricted under the Agreement.
- (h) **(General meetings).** The Exchangeable Shares will confer on the Holder the right to receive notices of general meetings, financial reports and accounts of Creso, and any other related meeting materials that are circulated to holders of Shares (**Creso Shareholders**). Holders have the right to attend general meetings of the Creso Shareholders.
- (i) **(No voting rights).** The Exchangeable Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of the Creso Shareholders. The Exchangeable Shares do not entitle the Holder to receive notice of, attend or vote at any general meeting of Creso Sub.

- (j) **(No dividend rights)**. The Exchangeable Shares do not entitle the Holder to any dividends in Creso Sub or Creso.
- (k) **(Rights on winding up)**. The Exchangeable Shares will have no right to participate in the surplus profits or assets of Creso or Creso Sub upon the dissolution or winding up of either Creso or Creso Sub, respectively.
- (l) **(Transferable)**. The Exchangeable Shares are not transferable.
- (m) **(Reorganization of capital)**. If at any time the issued capital of Creso is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of the reorganization.
- (n) **(No participation in entitlements and bonus issues)**. Holders of Exchangeable Shares will not be entitled to participate in new issues of capital offered to holders of the Creso Shares, such as bonus issues and entitlement issues.
- (o) **(No other rights)**. The Exchangeable Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.



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## SCHEDULE 2 – TERMS AND CONDITIONS OF OPTIONS

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A summary of the terms and conditions of the Options is set out below:

**(a) Vesting Conditions**

Subject to (b), the Options shall vest as follows:

- (i) 125,000 Options on the 30 December 2017;
- (ii) 125,000 Options 1 April 2019;
- (iii) 100,000 Options upon the corporate strategy developed by the Consultant becoming ready to be presented to Board at the sole discretion of the Chief Executive Officer;
- (iv) 100,000 Options upon the Company making Ani-BiDiol available for sale in the Australian market, with the regulatory path cleared and market access implemented;
- (v) 100,000 Options upon the Company making CannaQix available for sale in the Australian market, with the regulatory path cleared and market access implemented;
- (vi) 70,000 Options vest on the date that is 12 months from the Effective Date (1 February 2017);
- (vii) 70,000 Options on the date that is 24 months from the Effective Date (1 February 2017);
- (viii) 70,000 Options on the date that is 36 months from the Effective Date (1 February 2017); and
- (ix) 250,000 Options vest immediately.

**(Vesting Date).**

**(b) Lapsing**

In the event that the Engagement is terminated prior to the Vesting Date, any unvested Options will immediately lapse and have no further force or effect and accordingly, will not be exercisable.

**(c) Vesting**

Upon the relevant Vesting Condition set out in (a) being satisfied, the Company shall notify the holder in writing that the relevant Options have vested (**Vested Options**).

**(d) Entitlement**

Once vested in accordance with (a), each Option entitles the holder to subscribe for one Share upon exercise of the Option.

**(e) Exercise Price**

The amount payable upon exercise of each Option will be as follows:

- (i) 250,000 Options: \$0.30;
- (ii) 100,000 Options: \$1.20;
- (iii) 100,000 Options: \$1.60;
- (iv) 100,000 Options: \$2.00,
- (v) 210,000 Options: \$0.40; and
- (vi) 250,000 Options: \$0.30.

(**Exercise Price**).

**(f) Expiry Date**

Each Option will expire at 5:00 pm (WST) on the dates as follows:

- (i) **250,000 Options:** on 27 July 2021;
- (ii) **100,000 Options:** on 27 July 2019;
- (iii) **100,000 Options:** on 27 July 2020;
- (iv) **100,000 Options:** on 27 July 2021;
- (v) **210,000 Options:** on 27 July 2021; and
- (vi) **250,000 Options:** on 27 July 2019

(**Expiry Date**). An Option not exercised before the Expiry Date (including unvested Options) will automatically lapse on the Expiry Date.

**(g) Exercise Period**

Once vested in accordance with (a), the Options are exercisable at any time during the period commencing on and from the relevant Vesting Date and ending on the Expiry Date (**Exercise Period**).

**(h) Notice of Exercise**

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

**(i) Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

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

Within 15 Business Days after the Exercise Date, the Company will:

- (i) allot and issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of

Exercise and for which cleared funds have been received by the Company;

- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under paragraph (j)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

**(k) Shares issued on exercise**

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

**(l) Quotation of Shares issued on exercise**

application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options.

**(m) Reconstruction of capital**

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

**(n) Participation in new issues**

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

**(o) Change in exercise price**

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

**(p) Unquoted**

The Company will not apply for quotation of the Options on ASX.

**(q) Transferability**

The Options are transferable only with the prior consent of the Company.

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## SCHEDULE 3 – TERMS AND CONDITIONS OF OPTIONS

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A summary of the terms and conditions of the Consultant Options is set out below:

(r) **Entitlement**

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

(s) **Exercise Price**

Subject to paragraph (q), the amount payable upon exercise of each Vested Option will be \$0.80 (**Exercise Price**).

(t) **Expiry Date**

Each Option will expire at 5:00 pm (WST) on 13 April 2019 (**Expiry Date**). A Vested Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(u) **Exercise Period**

Once vested in accordance with (a), Options are exercisable at any time until the Expiry Date (**Exercise Period**).

(v) **Notice of Exercise**

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

(w) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

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

Within 15 Business Days after the Exercise Date, the Company will:

- (i) issue the number of Shares (i) required under these terms and conditions in respect of the number of Vested Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) apply for official quotation on ASX of Shares issued pursuant to the exercise of the Vested Options.

If a notice delivered under paragraph (j)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(y) **Shares issued on exercise**

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

(z) **Quotation of Shares issued on exercise**

application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options.

(aa) **Share ranking**

All Shares issued upon the exercise of Options will upon issue rank pari passu in all respects with other Shares.

(bb) **Transfer of Options**

An Option is only transferable:

- (i) with the consent of the board; or
- (ii) by force of law upon death to the holder's legal personal representative or upon bankruptcy to the holder's trustee in bankruptcy.

(cc) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options.

(dd) **Dividend and Voting Rights**

An Option does not confer upon the holder an entitlement to vote or receive dividends.

(ee) **Reconstruction of capital**

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

(ff) **Change in exercise price**

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

(gg) **Unquoted**

The Company will not apply for quotation of the Options on ASX.