



3 February 2022

Creso Pharma to enter US CBD market through strategic acquisition of established US-based business, Sierra Sage Herbs LLC and leading Green Goo brand

Highlights:

- **Membership Purchase Interest Agreement executed to acquire US-based Sierra Sage Herbs LLC (“SSH”) a female founded and family operated Certified B CORP – provides Creso Pharma with established, revenue generating operations in the USA**
- **SSH is a leading consumer packaged goods company focused on plant-based and CBD products under the Green Goo, Southern Butter and goodgoo brands offering products in the CBD, first aid, beauty, sexual wellness, women’s health and pet categories**
- **Green Goo and Southern Butter product ranges are currently sold across 90,000 distribution points in the US with an additional 20,000 sales points expected to be added during Q1 CY2022**
- **Green Goo and Southern Butter products stocked in key retailers such as AAFES (Army & Air Force Exchange Service), CVS, Walgreens, Rite Aid, Alberstons Companies, The Kroger Family of Companies, Whole Foods, Walmart, AmazonUS and Target.com, amongst others**
- **Established ecommerce operations in place – the group has a growing customer base of over 150,000 consumers across the country**
- **Revenue generating acquisition – SSH has grown sales from US\$4.7m in CY2018 to over US\$8m in CY2020**
- **US\$5.7m in revenue generated in CY2021 with sales expected to grow significantly in the near term**
- **CY2021 revenue decreased due to capital constraints, affecting marketing and product procurement – Creso Pharma has a favourable outlook on CY2022 sales**
- **Up-front Consideration of US\$21 million; additional future Milestone Payments based on SSH achieving up to US\$10m of sales in CY2022 and up to US\$20m of sales in CY2023**
- **All scrip transaction materially accretive on a revenue per share basis with all future payments based upon the 10-day VWAP of Creso’s Pharma as of one day prior to calculating the relevant Milestone Payment**
- **SSH co-founder and CEO, Ms Jodi Scott to join Creso Pharma Board as Executive Director and President of US Operations – appointment strengthens North American management**
- **Acquisition is the Company’s maiden entry into the US and will provide opportunities in the US CBD market, which is expected to grow in value to US\$12Bn by 2026ⁱ**
- **Creso Pharma to utilise its own in-house IP and leverage SSH’s supply chain, distribution, marketing and branding expertise to drive goodgoo CBD product range revenue in US**



- Creso Pharma to immediately scale up sales of SSH's non-CBD product range, Green Goo and Southern Butter in the US and through other international partner channels
- The Company will also launch its existing CBD products through SSH's established channels to commence US sales – Creso Pharma set to benefit from local manufacturing relationships, existing brand recognition and US market knowledge
- New product development initiatives underway including entry into the functional mushroom sector
- Functional mushrooms are gaining global traction with the market anticipated to be worth US\$19.3Bn by 2030ⁱⁱ
- Planned product launches include Green Goo Immunity Deodorant, Hydrating Serum and Repair Serum that can be found in the Sleep Set launching early February 2022
- Acquisition is the first of several opportunities Creso Pharma is advancing to continue to grow its US footprint and international presence
- Creso expects to hold a shareholders' meeting to approve the transaction in or around late March 2022, with closing to occur soon thereafter

Creso Pharma Limited (ASX:CPH, OTC:COPHF, FRA:1X8) ('Creso Pharma' or 'the Company') is pleased to advise that it has entered the US CBD market, following the execution of a Membership Interest Purchase Agreement (the "Agreement") to acquire Colorado based consumer packaged goods company, Sierra Sage Herbs, LLC ("SSH") (www.sierrasageherbs.com). The acquisition provides Creso Pharma with its maiden entry into the US, an established product suite of plant-based and CBD products generating strong revenues, as well as an existing 90,000 points of sale with major retailers and over 150,000 direct to consumer relationships in one of the world's largest and fastest growing markets. SSH anticipates that it will add an additional 20,000 points of sale with key retailers over the coming months, providing Creso Pharma with a significant opportunity to further scale sales growth.

Group CEO and Managing Director, Mr William Lay said: *"The acquisition of Sierra Sage Herbs and the company's product range is a major milestone for Creso Pharma. It marks entry into the US CBD market and provides a strong foundation to rapidly scale up operations, product development and sales, as well as further M&A transactions."*

"The Green Goo product range is well established in the US, evidenced by relationships with key retailers and over 90,000 points of sale, as well as the large direct to consumer base that Sierra Sage Herbs has established in recent years."

"We intend to aggressively leverage these relationships and the group's existing customer base by introducing them to Creso Pharma's existing product suite for human health, animal health and sports and recovery."

"Creso Pharma is expected to benefit from SSH's existing revenue streams. We expect SSH's products sales to continue growing significantly in coming years, and the transaction implies material accretion on several metrics for Creso Pharma. Coupled with our existing sales channels, we have the potential to significantly grow our earnings profile in the near term."

"I would like to take this opportunity to welcome Sierra Sage Herbs to the Creso Pharma Group."



Sierra Sage Herbs CEO and co-founder, Ms Jodi Scott added: *“We started this company because we knew that plant-based alternatives could do more. We combined our passions for science, wellness, herbology, and wound care into a line of safe, effective all natural products and so began our journey to change first aid as we knew it.*

“That seed has become one of the most disruptive CPG brands in personal care - and this is just the beginning. Our team has developed strong operations while building a robust product development capacity and expanding retail relationships exponentially. This partnership with Creso will set the stage for accelerated growth across multiple categories. Together, we will be able to expand portfolios and make synergistic acquisitions in even more meaningful ways.

We are thrilled for this next phase in our journey as part of the Creso family and look forward to continuing our tradition of developing high-quality, non-toxic, incredibly effective products that our customers love, while continuing to preserve our mission of spreading goodness globally.”

About Sierra Sage Herbs LLC and product range overview:

Sierra Sage Herbs LLC is based in Denver, Colorado and was founded in 2008 by Jodi, Kathleen and Jennifer Scott. It has grown from a home-based, women-run start-up to a leader in the natural products space. The collection of brands which are plant-based portable first aid and body care products are crafted using a proprietary lipid-infusion process, rather than with pre-made extracts.

Following overwhelmingly positive feedback, the family launched the Green Goo (www.greengoo.com) product range on a commercial scale. The Green Goo range currently includes over 100 stock keeping units (SKUs) using plant-based ingredients, which assist with portable first aid and body care.

In 2020, SSH introduced a new range of CBD-based products under the ‘goodgoo’ (www.goodgoo.com) brand. The goodgoo suite includes seven SKUs, which have added full-spectrum hemp oil and CBD for additional health benefits.

In 2021, SSH segmented ‘Southern Butter’ as a stand-alone brand in the sexual wellness category. With nine SKUs and a major focus on innovation within the sector.



Image one: SSH’s Green Goo, Southern Butter, and goodgoo product photos

Established distribution footprint with major retailers and growing sales profile:

Over the last decade, SSH has built a strong distribution and sales footprint in the US. The group’s Green Goo products are currently sold in over 90,000 points of distribution across the US, including major retailers such as AAFES (Army & Air Force Exchange Service), CVS, Walgreens, Rite Aid,



Albertsons Companies, The Kroger Family of Companies, Whole Foods, Walmart, AmazonUS and Target.com amongst others. SSH expects to add a further 20,000 points of sale in the coming months.

SSH also has an extensive online presence through its ecommerce channels. To date, the company has over 150,000 direct to consumer relationships in America and other international markets.

These relationships have allowed the company to report strong sales. In CY2018, SSH generated US\$4.7m in revenue, which increased to US\$6.7m in CY2019 and US\$8.0m in unaudited gross revenue in CY2020. The Company witnessed a slight decrease during CY2021, recording US\$5.7m in unaudited gross revenue. The decrease was partially attributable to the group postponing a capital raise to progress a corporate transaction with Creso Pharma, which was subsequently delayed and impacted SSH's digital marketing and product procurement abilities. The SSH vendors have demonstrated clear confidence in the revenue growth profile of SSH, agreeing to structure the purchase price for the transaction with significant earn out milestones. The **up-front purchase price for SSH is US\$21 million; with additional future payments based on SSH achieving up to US\$10m of revenue in CY2022 and up to US\$20m of revenue in CY2023** (as detailed under the "Agreement Terms" section below).

Creso Pharma intends to leverage SSH's established footprint, relationships with large retail groups and consumers as a platform to introduce its CBD product suite to US consumers.

Appointment of co-founder and CEO Jodi Scott as Executive Director and President of US Operations:

As part of the transaction, Creso Pharma will appoint SSH co-founder and CEO, Ms Jodi Scott as an Executive Director and President of US Operations. Ms Scott has been imperative in establishing SSH, its leading brands and growing the group's sales.

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

As Executive Director and President of US Operations, Ms Scott will continue to oversee SSH's operations and work with Creso Pharma executives to progress product development and other growth initiatives. Her appointment will strengthen the Company's in-country management and will provide additional independence and expertise to the Board.

For her role of President of US Operations, Ms Scott will be paid a base salary of US\$250,000 per annum, plus a discretionary annual bonus. The term of the engagement is for a period of 3 years ("Initial Term") and will be automatically extended for a period of two years, unless notice not to renew is provided within at least 90 days prior to the expiration of the Initial Term. Ms Scott's role may be terminated by either party for cause up to 60 days after notice is given, subject to the relevant grounds for termination. If Ms Scott is terminated without cause, or if she resigns upon certain circumstances, she will be entitled to a severance payment equal to 3 months' salary. She will also be bound by a non-compete and non-solicitation provision, that prevents her from competing with the Company for a period after the term of her employment, the term depending on circumstances under which she leaves her employment.

Ms Scott will not receive any additional remuneration for her role as a Director of the Company.



Synergistic benefits:

The acquisition of SSH and its intellectual property provides Creso Pharma with several immediate opportunities to scale its product suite, sales and operations while establishing a footprint in the USA.

Entry into the US CBD market:

Creso Pharma will utilise the acquisition as a basis to enter the American CBD market. The US provides a large, addressable opportunity and is expected to grow to US\$12Bn in value by 2026ⁱ.

Over the last several years, Creso Pharma has developed a suite of CBD products underpinned by best-in-class intellectual property. These products are successfully marketed and sold across Europe and the acquisition of SSH will allow the Company to develop new products, under the goodgoo brand, combining the Company's Swiss IP and SSH's local manufacturing expertise.

Creso Pharma will also aggressively accelerate the broader launch of goodgoo products in the US, leveraging the group's existing in-house marketing expertise, brand recognition, US market knowledge and sales capability. The Company will utilise SSH's relationships with established retail partners, alongside its existing direct to consumer customer base to scale operations.

Sale of non-CBD products outside of the US:

Creso Pharma has built a large base of international partners, spanning Europe, Africa, Latin America and Asia Pacific. Many of these groups have previously been unable to sell the Company's products due to regulation around CBD. With the acquisition of Green Goo, a proven non-CBD product range, Creso Pharma will be able to leverage and take advantage of its relationships to drive sales growth.

The Company is currently working with SSH management to determine marketing and sales strategies to immediately capitalise and commence international sales of Green Goo.

A platform to accelerate ImpACTIVE's operations:

Creso Pharma is confident that the acquisition will provide a strong foundation to expedite the growth of its sport CBD brand, ImpACTIVE. Creso Pharma has established a marketing and sales plan following the acquisition of ImpACTIVE (refer ASX announcement: 25 October 2021), which includes leveraging prominent brand ambassadors to drive sales and awareness. The Company anticipates that the successful marketing of ImpACTIVE's products through SSH's existing channels will result in strong uptake and relationships with large retail groups.

Further, SSH has a manufacturing partner with a dedicated product line for the group. Creso Pharma intends to utilise this facility for ImpACTIVE products, which will lead to lower lead time on orders and more favourable minimum order quantities compared to the Company's existing relationships. SSH's key partner is also able to warehouse and fulfil shipments to retail outlets and direct to consumer marketplaces, streamlining Creso Pharma's supply chain for US sales.

Ongoing product development:

Both Creso Pharma and SSH management have excellent track records in new product development and both parties will collaborate to bring new ranges and delivery methods to market. An immediate area of interest has been determined in the functional mushroom sector, establishing product development initiatives with mushroom varieties that boast a health benefit beyond providing



nutrition. The sector has begun to gain international traction and is expected to reach a value of US\$19.3Bn by 2030ⁱⁱ.

Creso Pharma plans to leverage SSH's existing personnel and their extensive expertise in consumer products, as well as its in-house capabilities to bring a range of new offerings to market during 2022.

Additional benefits:

Upon completion, the acquisition will provide Creso Pharma with an established operating subsidiary in the US allowing the Company to swiftly capitalise on any potential legislative changes regarding the use of recreational cannabis on a federal level. Following any regulatory shifts, Creso Pharma would leverage SSH's operations to supply Mernova Medicinal Inc.'s leading THC products into to US market following all regulatory guidelines.

Agreement terms:

Under the Agreement and subject to shareholder approval, Creso Pharma, via its wholly owned subsidiary, Creso Pharma US, Inc, will purchase a 100% interest in SSH for a total upfront consideration of US\$21m, payable by the issue of fully paid ordinary shares ("**Upfront Consideration**"), based on the 10-day volume weighted average price ("**VWAP**") as at the date of execution of the Agreement, being \$0.083, and the AUD/USD exchange rate as at the date of closing. For the purposes of the Appendix 3B, the Company has assumed an AUD/USD exchange rate of 0.7066.

The Upfront Consideration will be issued as follows:

- (i) 25% of Upfront Consideration issued to all SSH vendors shall be freely tradable upon issue;
- (ii) In the case of Jodi, Kathy, and Jennifer Scott, the remaining portion of Upfront Consideration payable to them will be subject to voluntary escrow restrictions as follows:
 - 37.5% to be escrowed for a period of 6 months; and
 - The remaining 37.5% to be escrowed for a period of 12 months;
 from the date of closing of the transaction;
- (iii) In the case of all other vendors of SSH, the remaining portion of Upfront Consideration payable will be subject to voluntary escrow restrictions as follows:
 - 25% to be escrowed for a period of 4 months;
 - 25% to be escrowed for a period of 8 months; and
 - 25% to be escrowed for a period of 12 months;
 from the date of closing of the transaction.

("Voluntary Escrow Restrictions")

In addition to the Upfront Consideration, SSH vendors may also entitled to the following additional earn out payments ("**Milestone Payments**"), subject to the satisfaction of performance milestones related to revenue over the coming years:



(i) **Milestone Payment 1: CY2022 Earn Out**

- US\$15m payable where CY2022 revenues generated by SSH are at least US\$10.0m, and an adjusted EBITDA margin of > -10% is achieved; or
- US\$11.25m payable where CY2022 revenues generated by SSH are at least US\$8.5m, and an adjusted EBITDA margin of > -7% is achieved, (being 75% of the maximum milestone payment available); or
- US\$7.5m payable where CY2022 revenues generated by SSH are at least US\$7.5m, and an adjusted EBITDA margin of > -5.5% is achieved, (being 50% of the maximum milestone payment available).

(ii) **Milestone Payment 2: CY2023 Earn Out**

- US\$23.5m payable where CY2023 revenues generated by SSH are at least US\$20.0m, and a positive adjusted EBITDA margin is achieved; or
- US\$17.625m payable where CY2023 revenues generated by SSH are at least US\$17.5m, and a positive adjusted EBITDA margin is achieved, (being 75% of the maximum milestone payment available); or
- US\$11.75m payable where CY2023 revenues generated by SSH are at least US\$15m, and a positive adjusted EBITDA margin is achieved (being 50% of the maximum milestone payment available).

Creso may elect, in its sole discretion, to settle each of the Milestone Payments by either:

- (i) the issue of Creso shares, calculated based upon the higher of the 10-day VWAP of the Creso's shares as of one (1) day prior to calculating the relevant Milestone Payment, or, A\$0.02, and the AUD/USD exchange rate as at two (2) days prior to the date of calculating the relevant Milestone Payment; or
- (ii) payment in cash.

The shares issued in relation to the Milestone Payments will be subject to the same Voluntary Escrow Restrictions from their date of issue as the Upfront Consideration.

To support SSH in its growth objectives, Creso has agreed to provide UD\$1.7 million of growth capital in the form of a loan upon execution of the Agreement, with a further US\$1 million loan to be provided on closing of the transaction.

The Agreement may be terminated upon mutual consent by the parties, in the event of a material breach or material adverse event, or if the transaction is not completed by 1 July 2022.

The Agreement otherwise remains subject to a number of conditions precedent, including, without limitation, Creso shareholder approval and no material adverse events occurring to either Creso or SSH prior to closing of the transaction. Creso expects to hold a shareholders' meeting to approve the transaction in or around late March 2022, with closing to occur soon thereafter. It is anticipated that an independent expert's report commenting on the fairness and reasonableness of the transaction will be prepared and sent to Creso shareholders in accordance with the requirements of Item 7 of Section 611 of the Corporations Act.

The Company further notes that Creso Pharma director Bruce Linton, who recently joined the Board on 17 January 2022, is a minority shareholder of SSH, with a 1.55% interest in SSH.

The Company's corporate advisor, Everblu Capital Pty Ltd, has waived its entitlement to transaction fees that would ordinarily be payable in connection with the Acquisition under the terms of the Transaction Mandate dated 21 January 2020 as varied on 24 March 2021.

Additional information:

Further details regarding SSH, and the transaction generally, are set out in the Investor Presentation lodged with ASX on 3 February 2022.

The unaudited balance sheet of SSH as at 31 December 2021 is attached at **Annexure A**.

Additional details regarding SSH's unaudited revenue and earnings can be found below.

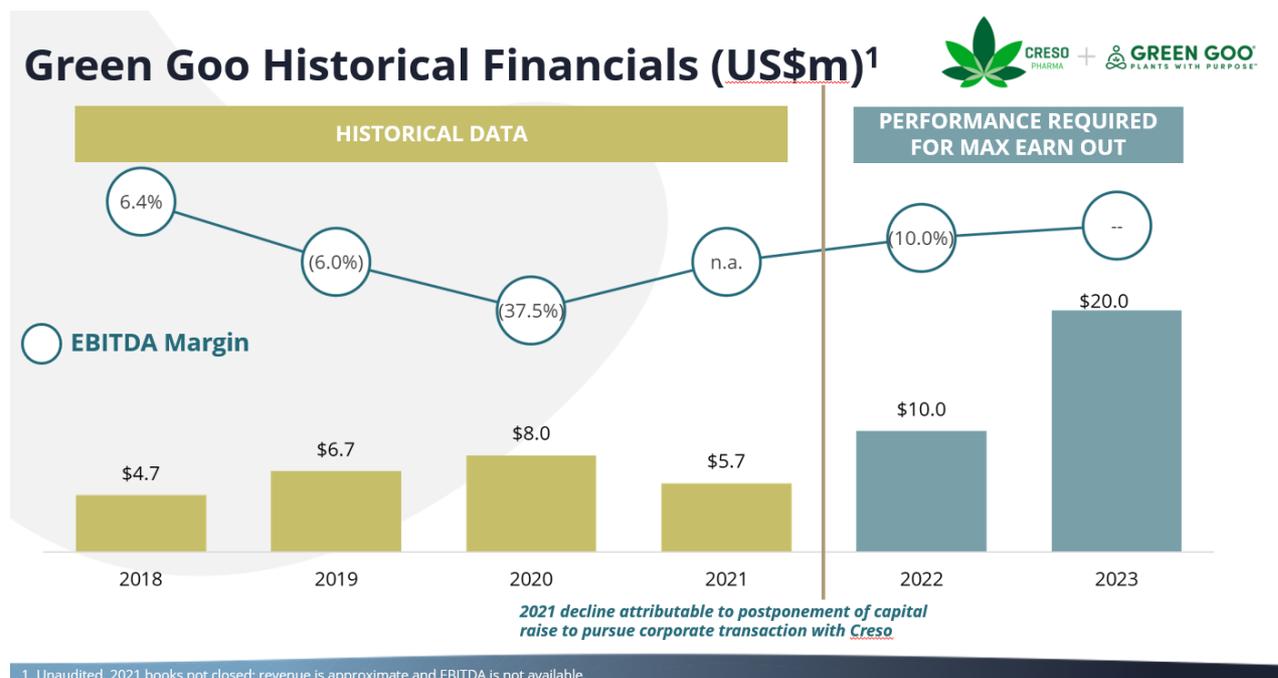


Image two: Green Goo historical financials and performance required for maximum Milestone Paymentⁱⁱⁱ

-Ends-

Authority and Contact Details

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



For further information, please contact:

Investor Enquiries

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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 lifestyle 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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Forward Looking statements

This announcement contains forward-looking statements with respect to Creso and its respective operations, strategy, investments, financial performance and condition. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "intends", "believe" or "continue" or the negative thereof or similar variations. The actual results and performance of Creso could differ materially from those expressed or implied by such statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Some important factors that could cause actual results to differ materially from expectations include, among other things, general economic and market factors, competition and government regulation.

The cautionary statements qualify all forward-looking statements attributable to Creso and persons acting on its behalf. Unless otherwise stated, all forward-looking statements speak only as of the date



of this announcement and Creso has no obligation to up-date such statements, except to the extent required by applicable laws.

ⁱ <https://content.brightfieldgroup.com/2021-us-cbd-market-report>

ⁱⁱ <https://www.globenewswire.com/news-release/2021/11/15/2334409/0/en/Global-functional-mushroom-market-to-reach-19-33-billion-by-2030-Allied-Market-Research.html>

ⁱⁱⁱ Notes: Unaudited, 2021 books are not closed, revenue is approximate and EBITDA is not available



ANNEXURE A

Sierra Sage Herbs LLC
Unaudited Preliminary Balance Sheet
As of December 31, 2021

Unaudited
December 31, 2021

USD

ASSETS**Current assets**

Cash	\$	269,370
Accounts Receivable		447,507
Inventory		1,497,654
Other Current Assets		54,920
Total current assets		2,269,451

Non-current assets

Fixed Assets		22,931
Intangible Assets		80,028
Other Assets		4,800
Total non-current assets		107,759

Total assets	\$	2,377,210
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LIABILITIES and EQUITY**Current liabilities**

Accounts Payable	\$	788,898
Credit Card		358,229
Accrued Liabilities		542,758
Payroll Liabilities		133,419
Other current liability		2,030,382
Total current liabilities		3,853,685

Long term liabilities

Note payable		37,340
Total long term liabilities		37,340

Shareholders' equity		(1,513,815)
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Total liabilities & shareholders' equity	\$	2,377,210
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