ABN: 89 609 406 911

ASX Announcement

28 February 2020

ANNUAL REPORT AND APPENDIX 4E

RESULTS FOR ANNOUNCEMENT TO THE MARKET FOR THE YEAR ENDED 31 DECEMBER 2019

Creso Pharma Limited (ASX:CPH) ("**Creso**" or the "**Company**") is pleased to present its audited Appendix 4E Preliminary Final Report and Annual Report for the year ended 31 December 2019.

Authority and Contact Details
This announcement has been authorised for release by the Board of Creso Pharma Limited.

Investor Enquiries
EverBlu Capital
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P: +61 2 8249 0000

About Creso Pharma
Creso Pharma 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

APPENDIX 4E PRELIMINARY FINAL REPORT

CRESO PHARMA LIMITED
ABN: 89 609 406 911

RESULTS FOR ANNOUNCEMENT TO THE MARKET FOR THE YEAR ENDED 31 DECEMBER 2019
(Previous corresponding period is the year ended 31 December 2018)

KEY INFORMATION	31-Dec-19 $	31-Dec-18 $	% Change
Revenue from sales of products	3,626,427	558,382	549%
Royalty income	33,265	19,840	68%
Total Revenue	**3,659,692**	**578,222**	533%
Other income	82,561	153,358	(46%)
Loss from ordinary activities after tax attributable to members	**(15,339,772)**	**(16,845,686)**	9%
Net loss attributable to members	**(15,054,381)**	**(16,756,036)**	10%

DIVIDEND INFORMATION

No dividend has been proposed or declared.

NET TANGIBLE ASSETS PER SECURITY	31-Dec-19	31-Dec-18
Net tangible assets per security	$0.08	$0.13

EARNINGS PER SHARE	31-Dec-19 Cents	31-Dec-18 Cents
Basic earnings per share (cents)	(10.47)	(14.89)
Diluted earnings per share (cents)	(10.47)	(14.89)

FINANCIAL RESULTS	31-Dec-19 $	31-Dec-18 $
Cash and cash equivalents	2,800,318	6,390,538
Net Assets	16,795,982	16,504,392
Total Revenue	3,659,692	578,222
Other income	82,561	153,358
Net loss after tax	(15,339,772)	(16,845,686)

RESULTS OF BUSINESS SEGMENTS

Year ended 31 Dec 2019	Asia Pacific $	Europe & Middle East $	North America $	South America $	Total $
Revenue from products	-	2,765,824	860,603	-	3,626,427
Royalty income	33,265	-	-	-	33,265
Total segment revenue	33,265	2,765,824	860,603	-	3,659,692
Other income	16,660	14,465	51,436	-	82,561
Loss before income tax expense	(12,834,680)	(1,576,413)	(392,030)	(536,649)	(15,339,772)
Total Segment Assets	850,081	3,952,384	17,855,830	5,314	22,663,609
Total Segment Liabilities	4,936,937	214,609	224,446	13,657	5,389,649

DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED DURING THE YEAR

Company Name	Date of Acquisition	Country of Incorporation	Ownership interest 2019 %	2018 %
Creso Canada Corporate Limited	31 January 2018	Canada	100	100
Creso Canada Limited	31 January 2018	Canada	100	100
Mernova Medicinal Inc.	15 February 2018	Canada	100	100
Creso Grow Limited	9 July 2018	Israel	74	74
3321739 Nova Scotia Limited	1 November 2018	Canada	100	100
Kunna Canada Limited	20 December 2018	Canada	100	100
Kunna S.A.S	20 December 2018	Colombia	100	100

Control was not lost over any entity during the period

ADDITIONAL INFORMATION

Additional information supporting the Appendix 4E disclosure requirements can be found in the Annual Report which contains the Directors' Report and the 31 December 2019 Financial Statements and accompanying notes.

This report is based on the consolidated financial statements for year ended 31 December 2019 which have been audited by BDO.

CRESO PHARMA LIMITED

ACN 609 406 911

Annual Report for the Year Ended 31 December 2019

Annual Report
For the year ended 31 December 2019

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PHARMA

About Creso Pharma

Creso Pharma brings the best of cannabis to better the lives of people and animals.

Creso 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 uses GMP development and manufacturing standards for its products as a reference of quality excellence with initial product registrations in Switzerland.

Creso has worldwide rights for a number of unique and proprietary innovative delivery technologies which enhance the bioavailability and absorption of cannabinoids.

Creso is developing products in four key areas:

CRESO THERAPEUTICS

CRESO NUTRACEUTICALS

CRESO ANIMAL HEALTH

CRESO COSMETICS

Creso has operations in Switzerland, Canada, Colombia, Israel and Australia.

www.CresoPharma.com

Corporate Directory

Board of Directors

Mr Boaz Wachtel	(Executive Chairman)
Dr Miri Halperin Wernli	(Chief Executive Officer and Executive Director)
Mr Adam Blumenthal	(Non-Executive Director)
Dr James Ellingford	(Non-Executive Director)

Secretaries
Ms Erlyn Dale and Mr Winton Willesee, jointly

Registered Office
L24, 300 Barangaroo Avenue,
Barangaroo
NSW 2000
Australia

Telephone: +61 8 9389 3100
Website: www.cresopharma.com

European Office
Alte Steinhauserstrasse 10,
6330 Cham
Switzerland

Telephone: +41- 41 710 4706

Stock Exchange Listings
Listed on the Australian Securities Exchange (ASX Code: CPH)
Listed on the Frankfurt Stock Exchange (FRA Code: 1X8)

Auditors
BDO East Coast Partnership
Level 11, 1 Margaret St
Sydney NSW 2000
Australia

Solicitors
Steinepreis Paganin
Level 4, Next Building
16 Milligan Street
Perth WA 6000
Australia

Bankers
Westpac Banking Corporation
Level 4, Brookfield Place, Tower Two
123 St Georges Terrace
Perth WA 6000
Australia

Share Registry
Automic Share Registry
Level 2, 267 St Georges Terrace
Perth WA 6000
Australia

Telephone: 1300 288 664 (from within Australia) or +61 2 9698 5414 (from outside Australia)

Chairman's Letter

Dear Shareholder,

It is my pleasure to present Creso Pharma's 2019 annual report. It was a turbulent year for the global cannabis industry, but we remain positive on the outlook for our company and this fast-growing sector.

Following legalisation in late 2018, Canada became the largest country with a legal national marijuana marketplace. Off the back of this regulatory change, valuations of Canada's listed cannabis companies surged early in 2019. However, by mid-year, many of Canada's main players in the industry began to see their share prices fall. A primary reason for this was the application of the regulations, which slowed the opening of cannabis retail outlets, resulting in missed sales targets and higher costs. This and other problems in Canada had a ripple effect across the whole industry, with cannabis stocks worldwide feeling the pressure.

However, despite the recent dip in investor confidence, the fundamentals that underpin the continued growth of the cannabis industry remain strong.

A recent report by cannabis research firm Prohibition Partners estimates that the global legal cannabis market will be worth up to $103.9bn by the year 2024, driven mostly by the burgeoning international medicinal cannabis market[1].

Although the US and Canada are now home to nine of the 10 largest cannabis firms by market capitalisation, Prohibition Partners predicts that the European market will grow faster over the next five years – and Creso Pharma is already well established in Europe.

Latin America and Africa have also been identified as regions ripe with opportunity, given that they offer reduced production costs and sizable markets of their own. Creso Pharma is well-placed to capitalise on this trend as we already have operations in these regions.

Finally, in Asia-Pacific, we are seeing a "domino effect", whereby countries influence the regulatory decisions of their neighbours. For example, since Thailand approved medical cannabis use in December 2018, similar reform efforts have spread to the Philippines, South Korea, Japan, Guam and Malaysia, as well as in select provinces in India, and even China.

Closer to home, effective 31 January 2020, the Australian Capital Territory has become the first Australian jurisdiction to legalise the possession, use and cultivation of small amounts of cannabis. Meanwhile, across the Tasman, the New Zealand government has announced that it will hold a referendum in 2020 on the legalisation of recreational cannabis.

Creso Pharma is excellently placed to thrive in an industry that is becoming increasingly globalised and a climate in which the health benefits of cannabis compounds are becoming more accepted.

We have an expanding portfolio of innovative products, which include patented delivery systems, and a leadership team with vast experience in the pharmaceutical industry. In addition, we continue to leverage our partnerships with leading global companies in product development, manufacturing and distribution, enabling the distribution of our innovative products in our existing markets and other target regions.

Creso Pharma's products are now sold across Europe, Latin America and Oceania and will soon be available in South Africa and other African nations.

Our remarkable progress since listing has not gone unnoticed by major players in the global cannabis industry. As you will probably be aware, during 2019 Creso Pharma was targeted as a prospective acquisition by Toronto-listed Colombian company PharmaCielo Limited (TSX-V: PCLO).

Although the takeover by PharmaCielo did not eventuate - as it was ultimately not in the best interests of Creso Pharma shareholders - it was further validation of the inherent strength of our business and operations. We remain open to M&A opportunities, which we assess on a case-by-case basis to ensure that we deliver maximum value to our shareholders.
Following the mutual termination of that proposed acquisition, we continued to pursue commercialisation of our innovative product portfolio, securing key certification, expanding partnerships and driving increases in revenue.

We remain confident in our compelling investment proposition and the ability of our experienced team to lead the company into its next phase of growth.

[1] Key Insights from the Global Cannabis Report. Prohibition Partners. 7 November 2019

Chairman's Letter

We believe the value of our company is continuing to increase, supported by our leading products, global operations, as well as the potential ongoing M&A opportunities. Our Board has demonstrated remarkable resilience in the face of recent headwinds and has the pharmaceutical and business credentials to keep steering Creso Pharma into 2020 and beyond. We are confident that we will follow-through on our ambitious plans.

We are extremely excited about 2020 and optimistic that it will be a year of stabilisation in the sector and significant growth for our company.

I would like to take this opportunity to thank you all for your continued support of Creso Pharma and wish you all the best for the year ahead.

B. Wachtel.

Boaz Wachtel
Executive Chairman

CEO's Report

I am very pleased to report on Creso Pharma's progress for the 2019 fiscal year and its prospects for 2020. Although 2019 was a challenging year for our industry, I believe we have emerged stronger and more focused than ever before.

While many cannabis companies around the world have struggled, we have been able to achieve our strategic objectives, which include continuing our global expansion, increasing revenue and further adding to our innovative product portfolio.

However, despite the recent dip in investor confidence, the fundamentals that underpin continuing growth of the cannabis industry remain strong.

We expect the cannabis industry to grow considerably in 2020 and beyond. Worldwide acceptance of cannabis use – both medicinally and recreationally – is on the rise, and we are seeing regulatory changes catching up with public sentiment.

At the same time, companies such as Creso Pharma are developing increasingly effective and scientifically-backed products which are helping to improve the industry's reputation and legitimise it in the eyes of governments globally. At Creso Pharma, we aim to develop and commercialise cannabis products to improve the lives of people and animals worldwide. We bring pharmaceutical expertise and methodological rigour to the cannabis world and strive to create the highest quality products.

With operations in Europe, North America, Latin America and Australia, we are a truly global company, and as evidenced by our progress in 2019, our global footprint is continuing to grow.

Strong revenue growth
Following a strong Q4, in which consolidated group revenues reached almost AUD 2 million, we were pleased to achieve full-year revenues of AUD 3.626 million in 2019.

The strong growth in Creso Pharma revenues was largely attributable to animal health nutraceutical product sales, which comprised approximately AUD 1.6 million of total group revenues.

Total nutraceutical revenues for the full year 2019 were approximately AUD 2.7 million, an increase of 400% on the AUD 0.558 million for the full year 2018.

	Revenues 2019	Revenues 2018	% Growth
Human Health	AUD 1,154,175	AUD 366,475	215%
Animal Health	AUD 1,611,649	AUD 191,907	740%
Mernova	AUD 860,603	-	-
Total	AUD 3,626,427	AUD 558,382	549%

With regards to other key metrics, in January 2020 we were pleased to announce that our flagship human and animal health products achieved major milestones.

Our human health product line cannaQIX® surpassed the significant milestone of 2.5 million lozenges sold globally which represents over 100,000 packs sold since its launch in April 2018. Meanwhile, in animal health, we exceeded the milestone of 3 million of our hemp oil complementary feed anibidiol® doses sold in Europe estimating to have benefitted over 100,000 dogs. The latter is produced and marketed in collaboration with Virbac S.A., which is the world's seventh-largest animal health company. This is a good example of the depth and breadth of Creso Pharma's global partnerships.

New product pipeline
One of Creso Pharma's key strengths is our team of world-class biomedical scientists, clinical researchers, and medical professionals, who are passionate about using the cannabis plant to deliver maximum health benefits to humans and animals.

Our strategy is underpinned by our strong R&D capabilities which in 2019 saw us further develop our product portfolio.

CEO's Report

At present, our portfolio of cannabis and hemp-derived products focuses on four key areas: therapeutics, nutraceuticals, animal health, and cosmetics.
We currently have a portfolio of 13 products – four of which have been commercialised and are generating sales and nine which are pending commercialisation, as shown below:

Creso Pharma's commercialised products

<table>
<tr>
<td>
</td>
<td>Nutraceuticals: cannaQIX®10 – Food Supplement

cannaQIX®10 is a sugar free Food Supplement in an innovative proprietary buccal formulation containing CBD from full spectrum hemp oil extract, vitamins, and minerals. The product contains no THC.
cannaQIX®10 is commercialised in Switzerland, Liechtenstein, UK, Germany, and the Netherlands
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<tr>
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<td>Therapeutics: cannaQIX®50

cannaQIX® 50 is a CBD based full spectrum hemp extract Medicinal Cannabis product in innovative non-oil based proprietary buccal lozenge formulation with vitamins and minerals aiming to manage chronic pain
Launched in New Zealand, Australia and Brazil in 2019
</td>
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<tr>
<td>
</td>
<td>Therapeutics: Medicinal CBD Oil

Medicinal CBD Oil is a high-grade therapeutic CBD oil. Contains no THC
Launched in New Zealand in Q4 2019
</td>
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</table>

CEO's Report

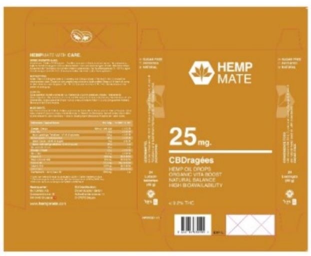
Animal Health: anibidiol® range of products

- The anibidiol® range of products are Complementary Feed for companion animals with CBD from full spectrum hemp oil extract in an innovative granular proprietary buccal formulation for pets. The products contain no THC
- Launched in Switzerland & Liechtenstein in November 2017 with Virbac, leader in global animal health
- Commercialisation expanded to additional 13 countries in Europe starting Q2 2019

Creso Pharma's products pending commercialisation

Nutraceuticals: cannaQIX® NITE- Food Supplement

- cannaQIX® NITE is a sugar free Food Supplement in an innovative proprietary buccal formulation containing CBD from full spectrum hemp oil extract, vitamins, minerals, and lemon balm. The product contains no THC
- Targets sleep improvement, stress reduction and support of cognitive and psychological functions



Nutraceuticals: cannaQIX®25

- cannaQIX® 25 is a sugar free Food Supplment in an innovative buccal formulation containing CBD from broad spectrum hemp oil extract, vitamins and minerals. The product contains no THC.

Nutraceuticals: cannAPEAL® - Food Supplement

- cannAPEAL® is a sugar free Food Supplement in an innovative proprietary buccal formulation containing hemp seed oil and vitamins. The product contains no THC
- Targets healthy aging and supports stress reduction in humans

CEO's Report

	**Nutraceuticals: cannAPEAL® NITE - Food Supplement** • cannAPEAL® NITE is a sugar free Food Supplement in an innovative proprietary buccal formulation containing hemp seed oil, lemon balm and vitamins. The product contains no THC
  	**Cosmetics: cannaDOL® Revitalize** • Creso has partnered with Frike Technologies (largest independent Swiss manufacturing group) to develop the cannaDOL®range of organic CBD-based functional topicals. The products contain no THC The cannaDOL®product range will be launched in Q1 2020
	**Cosmetics: cannaQIX® Oral Care** • cannaQIX® Oral Care is a sugar free Oral Cosmetic in an innovative proprietary buccal formulation containing CBD, mint, and sage. The product contains no THC. • Helps restore oral health - reducing inflammation and supporting the cultivation of healthy oral bacteria
	**Animal Health: anibidiol® 80** • anibidiol® 80 is a CBD hemp oil-based Complementary Feed for large animals in granular form. The product contains no THC.
	**Animal Health: anibidiol® Oil 500** • anibidiol® Oil 500 is a CBD-based Complementary Feed for companion animals with beef aroma. The product contains no THC.
	**Animal Health: anibidiol® EQUI** • anibidiol® EQUI is a hemp grinded plant material for large animals with CBD and apple flavor. The product contains no THC.

CEO's Report

All our products are made with standardised dosing and formulations through the application of pharmaceutical rigour, GMP standards and our proprietary delivery technologies. In addition, they carry the well-known "Swiss Made" label that is synonymous with premium quality products.

Global expansion

Creso Pharma's strategy is to build a global business which sells products in various markets around the world. In 2019, we further accelerated our global expansion, delivering our products into new markets worldwide.

In April 2019, we announced that we had received approval to import our first medicinal cannabis product into Brazil. Sales and marketing efforts in Brazil are being supported by our established partnership with SIN Solution, which is also engaging in the support of patients' access to regulatory authorities and insurers.

In October, we delivered our first orders of our medicinal CBD oil to New Zealand, our second product introduction there that year. We also pressed forward in Australia, with sales of cannaQIX® 50 commencing in partnership with Burleigh Heads Cannabis, a subsidiary of CDA Health.

Through our partnership with leading South African pharmaceutical company Pharma Dynamics, we are pursuing commercialisation of our products in South Africa and other African countries. We granted Pharma Dynamics sole distribution rights for our cannaQIX® range across the entire African continent. At the end of 2019, this agreement began to take shape, with Pharma Dynamics placing two initial orders for cannaQIX® Regular totalling approximately AUD 0.300 million.

We also continue to have a presence in Colombia and Israel via our wholly-owned Kunna S.A.S in Colombia, and our joint venture with Cohen Propagation Nurseries in Israel.

Intellectual Property

Creso's Intellectual Property comprises trademarks, brands, and patents, under registration proceedings, as well as trade secrets and exclusive licence rights, all owned by Creso Pharma Switzerland GmbH. These give access to dedicated technical know-how and manufacturing technologies which are key to Creso's unique products.

Creso Pharma Switzerland GmbH owns 16 Trademarks registered in 2 to 15 countries and in the European Union. Further Creso owns 2 Patent families submitted for registration in 3 to 7 countries and in the European Union.

Progress at Mernova facility

During 2019, we were pleased to begin the operation of our Mernova cannabis facility in Canada. Mernova has been producing high-quality dry cannabis flowers since mid-year and is in the process of building to full capacity.

In September, Mernova was granted a licence to process cannabis by Health Canada. The processing licence expands Creso Pharma's offerings beyond the cultivation and sale of dried flower and enables it to produce and distribute cannabis oils, concentrates and other derived products in Canada and abroad.

Mernova is now in the advanced stages of securing EU GMP certification, which will allow it to export GMP medicinal cannabis products to Europe. Upon receiving this certification, it will be one of few Canadian companies with a licence to export to the EU.

For the full year 2019, Mernova's revenues were AUD 0.860 million. The facility is ramping up to full production capacity, which it expects to achieve in 2020.

CEO's Report

CEO's Report

Looking ahead

At the end of 2019, we bolstered our balance sheet with debt and equity funding so that we can continue to successfully execute our business strategy.

In 2020, we will focus on the following three key areas of our business:

- Bringing our Mernova facility up to full growing capacity and securing its GMP certification
- Launching of additional new pharmaceutical-grade Swiss-Made GMP products
- Signing distribution agreements in new markets to expand our global presence and international product penetration

We have worldwide rights to a number of innovative, proprietary and unique delivery technologies which enhance the bioavailability and absorption of cannabinoids. Securing key certifications within strategically attractive regions will enable us to expand our portfolio and enter new and potentially lucrative markets.

On behalf of the Board and leadership team, I would like to thank all shareholders for their continued belief in and support of Creso Pharma.

We look forward to our continued growth and wish you all a successful 2020.

Dr. Miri Halperin Wernli
Group CEO and Co-Founder

Directors' Report

The Directors of Creso Pharma Limited ("Creso" or "the Company") present their report, together with the financial statements of the consolidated entity, consisting of Creso Pharma Limited and its controlled entities (the "Group") for the financial year ended 31 December 2019.

DIRECTORS
The names and particulars of the Company's directors in office during the financial year and at the date of this report are as follows. Directors held office for this entire period unless otherwise stated.

Mr Boaz Wachtel	Executive Chairman
Dr Miri Halperin Wernli	Managing Director and Chief Executive Officer
Mr Adam Blumenthal	Non-Executive Director
Dr James Ellingford	Non-Executive Director

Boaz Wachtel MA.
Executive Chairman
Member of the Audit and Risk Committee
(Appointed 20 November 2015)

Mr Wachtel was Co-Founder and former Managing Director of MMJ-Phytotech Ltd, Australia's first publicly traded Medical Cannabis Company. Co-founder of IMCPC – International Medical Cannabis Patient Coalition. He is an Israeli medical cannabis pioneer/activist, who formulated and assisted the Ministry of Health with the implementation of the National Medical Cannabis Program – one of only few national programs in the world. He is a frequent lecturer and adviser to governments, national committees, business and NGO's on medical cannabis program formulation, grow operations, international laws and UN drug convention compliance, as well as the founder (1999) and former Chairman of the Green Leaf Party, an Israeli political party for cannabis legalisation/medicalisation, human rights and ecology. Mr Wachtel is a certified clinical research manager and holds an MA in Management and Marketing from the University of Maryland.

During the past three years Mr Wachtel held directorships in the following other ASX listed entity:

Company	Appointed	Resigned
Roots Sustainable Agricultural Technologies Limited (ASX:ROO)	December 2017	Current

Dr. Miri Halperin Wernli BA. MA. MBA. PhD.
Executive Director, Group CEO and Co-Founder
(Appointed 20 November 2015)

Dr. Halperin Wernli is a senior pharmaceutical and biomedical executive with over 25 years strategic and operational leadership in the biopharmaceutical industry and a deep understanding of drug and product development.

Dr. Halperin Wernli is an experienced Pharmaceutical leader with skills and broad expertise in Drug Development, Regulatory Affairs, Project & Portfolio Management, Development Finance & Controlling, and Corporate Strategy and Governance.

Dr. Halperin Wernli has held worldwide senior leadership positions in product development, R&D and Strategic Marketing in Switzerland and in the USA (Merck, Sharp and Dohme, Roche and Actelion pharmaceuticals). Her extensive pharmaceutical industry and biomed research and development experience covers the full spectrum of activities from Preclinical to Clinical Development and Strategy, to Drug Registration and Launch, across several Therapeutic Areas.

Miri's depth of experience in Pharma drug development, as well as her leadership roles in complex highly regulated health environments in Europe and the USA, make her ideally qualified to lead Creso through this critical initial period of multiple product developments and rapid growth.

Dr Halperin Wernli does not hold, and has not held over the last 3 years, a directorship in any other ASX listed entity.

Adam Blumenthal BCom. MIR. MBA.
Non-Executive Director
Member of the Remuneration and Nomination Committee
(Appointed 20 November 2015)

Adam Blumenthal has over 10 years' experience in Investment Banking and Corporate Finance. He has deep exposure to Australian and International markets, having provided capital raising and financing solutions to an extensive number of unlisted and listed companies. Adam has played a lead role in advising and supporting multiple organisations across a broad spectrum of industries, using his experience and extensive network of international contacts to provide corporate advisory and capital markets input. He has successfully brought to market several Medical Marijuana companies spanning Israel, Canada, Switzerland and Australia. He has also been actively involved in the Mining, Cyber Security, Health Care and IT sectors.

Adam is Chairman, and a major indirect shareholder and controller, of EverBlu Capital Pty Ltd, the Lead Manager to the Company's capital raisings.

Outside of his formal business activities, Adam has lectured at a leading Sydney University covering corporate governance, corporate social responsibility and ASX listings - both at an undergraduate and postgraduate level.
Adam holds a Bachelor of Commerce, Master of International Relations (MIR) and Master of Business Administration (MBA) degrees.

Adam is a strong supporter of Israeli innovation and has previously lived in Israel. He is a member of the Israel Business Club Sydney (IBCS).

During the past three years Mr Blumenthal held directorships in the following ASX listed entities:

Company	Appointed	Resigned
Roots Sustainable Agricultural Technologies Limited (ASX:ROO)	November 2017	Current
Pursuit Minerals Limited (ASX:PUR) (formerly Burrabulla Corporation Limited (ASX:BUA))	January 2016	May 2018
Bronson Group Limited (ASX:BGR) (subsequently renamed Mandrake Resources Limited (ASX: MAN))	June 2017	April 2018

Dr James Ellingford MBA. PG (Corp Mgmt). D.Mgt.
Non-Executive Director
Chairman of the Remuneration and Nomination Committee
Chairman of the Audit and Risk Committee
(Appointed 20 November 2015)

Dr Ellingford's professional life culminated in being President of an international publicly listed billion-dollar business with its headquarters in Geneva, Switzerland and New York, USA. He has vast experience in the international arena and has successfully developed close ties with both financial institutions as well as governments throughout the world.

Dr Ellingford holds a Post Graduate degree in Corporate Management, a Masters degree in Business Administration as well as a Doctorate in Management. Dr Ellingford used to lecture MBA students in Corporate Governance at a leading Sydney University and has a keen interest in ethics.

During the past three years Dr Ellingford held directorships in the following ASX listed entities:

Company	Appointed	Resigned
Esense-Lab Limited (ASX:ESE)	January 2020	Current
MinRex Resources Limited (ASX:MRR)	April 2018	Current
Manalto Limited (ASX:MTL)	September 2017	January 2019
Victory Mines Limited (ASX:VIC)	January 2016	January 2019
Burrabulla Corporation Limited (ASX:BUA) (now Pursuit Minerals Limited (ASX:PUR))	May 2016	August 2017

Directors' Report

Elysium Resources Limited (ASX:EYM) (now Hardey Resources Limited (ASX:HDY))	March 2016	March 2017
Zyber Holdings Limited (ASX:ZYB)	January 2014	February 2016

DIRECTORS INTERESTS IN SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

The following table sets out each current Director's relevant interest in shares, options and performance rights of the Company or a related body corporate as at the date of this report.

Director	Ordinary Shares	Listed Share Options	Unlisted Options	Performance Rights
Mr Boaz Wachtel	8,300,000	3,000,000	-	1,600,000
Dr Miri Halperin Wernli	12,800,000(i)	4,147,950(i)	-	-
Mr Adam Blumenthal	8,208,388	2,750,000	2,128,387	-
Dr James Ellingford	1,450,000	550,000	-	-
Total	**30,758,388**	**12,576,337**	**2,128,387**	**1,600,000**

(i) Includes 300,000 shares and 75,000 Options ($0.80, 21/08/20) are held by Jorge Wernli, a related party of Miri Halperin Wernli and a consultant to Creso.

EXECUTIVES

Chris Grundy B.Com. FCA. FCIS. GAICD.
Chief Financial Officer
(Appointed 21 November 2017)

Chris Grundy is a career CFO with more than 25 years' experience in the life sciences sector in Australia, including listed and large multi-national companies, in addition to early-stage, rapidly-growing businesses. His previous experience includes roles as CEO and in marketing, including periods in the U.K. and Southern Africa. He qualified as a Chartered Accountant with Ernst & Young.

John Griese BA (Hons).
Chief Operating Officer, Americas
(Resigned 30 November 2019)

COMPANY SECRETARIES

Winton Willesee BBus. DipEd. PGDipBus. MCom. FFin. CPA. GAICD. FGIA/FCIS.
Joint Company Secretary
(Appointed 19 October 2018)

Mr Willesee is an experienced company secretary. He has considerable experience with ASX listed and other companies over a broad range of industries having been involved with many successful ventures from early stage through to large capital development projects. Mr Willesee holds a Master of Commerce, a Post-Graduate Diploma in Business (Economics and Finance), a Graduate Diploma in Applied Finance and Investment, a Graduate Diploma in Applied Corporate Governance, a Graduate Diploma in Education and a Bachelor of Business. He is a Fellow of the Financial Services Institute of Australasia, a Graduate of the Australian Institute of Company Directors, a Member of CPA Australia and a Fellow of the Governance Institute of Australia and of the Institute of Chartered Secretaries and Administrators.

Erlyn Dale BCom. GradDipAppCorpGov. ACIS/AGIA.
Joint Company Secretary
(Appointed 19 October 2018)

Erlyn Dale is an experienced corporate governance professional, having held office as company secretary for a number of ASX-listed public companies across a range of industries. Ms. Dale has completed a Bachelor of Commerce (Accounting and Finance) and a Graduate Diploma of Applied Corporate Governance and is an Associate Member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia.

DIRECTORS' MEETINGS

The number of Director's meetings held during the financial year and the number of meetings attended by each Director during the time the Director held office are:

Director	Board Meetings		Audit and Risk Committee Meetings		Remuneration and Nomination Committee Meetings	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
Mr Boaz Wachtel	16	16	2	2	-	-
Dr Miri Halperin Wernli	16	16	-	-	-	-
Mr Adam Blumenthal	16	16	-	-	-	-
Dr James Ellingford	16	14	2	2	-	-

During 2019, the duties of the Remuneration and Nomination Committee and of the Audit and Risk Committee were carried out during Board meetings.

In addition to the scheduled Board meetings, Directors regularly communicate with each other and, where necessary, circular resolutions are executed to effect decisions.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was to develop, register and commercialise pharmaceutical-grade cannabis and hemp-based nutraceutical products and treatments.

The completion of the Mernova Medicinal facility in Nova Scotia, Canada enables a second principal activity of the Group, being the cultivation and extraction of cannabis products for sale.

REVIEW AND RESULTS OF OPERATIONS

Overview

Creso is a leader in cannabidiol (CBD) innovation, developing cannabis and hemp-derived therapeutic-grade nutraceuticals and medical cannabis products with a broad range of applications in both human and animal health. Creso's innovative CBD fully plant-based nutraceutical products are non-psychoactive, as they contain only trace amounts of THC. Creso's strategy is to develop, register, and globally commercialise pharmaceutical-grade cannabis and hemp-derived products and treatments, according to the highest GMP quality standards.

In addition, Creso, through its wholly-owned subsidiary Mernova Medicinal Inc (Mernova), cultivates and harvests cannabis plants and supplies dried cannabis plant products to Licenced Producers in Canada.

Throughout 2019, Creso actively implemented its strategy to develop and commercialize cannabis products worldwide. With operations in Europe, North America, Latin America and Oceania, Creso is a truly global company whose global footprint continues to grow.

Operations highlights for 2019, as announced by Creso during the year, include:

Business development

- 21 January 2019: signed a three-year supply agreement with TerrAscend Canada, a wholly-owned subsidiary of TerrAscend Corp., (CSE: TER; OTCQX: TRSSF) ("TerrAscend") to supply cannabis products from the date that Creso is licensed to sell cannabis under Canadian laws. That licence was granted on 15 February 2019 – see below.
- 1 February 2019: created a partnership with National University of Colombia in Bogota and appointed Dr Ricardo Salazar Lopez as Primary Medical Advisor in Colombia.

Directors' Report

- 13 February 2019: signed a strategic collaboration agreement with Hempmate AG Switzerland for the co-development and commercialisation of Creso's products in Europe.
- 15 February 2019: received a licence to cultivate cannabis at Mernova. Creso became only the fifth licenced producer in the region, and the only ASX-listed company with a 100% ownership interest in a licenced Canadian cultivator. Under the terms of the licence granted by Health Canada, Mernova is permitted to grow, sell and distribute dried and fresh cannabis, cannabis plants and cannabis plant seeds to pre-determined companies under the Cannabis Act.
- 15 April 2019: commenced cultivation of premium cannabis clones at Mernova.
- 18 April 2019: obtained, together with marketing partner SIN Solution, a licence enabling Creso's partner MedDepot Brazil to import and distribute cannaQIX50® in Brazil.
- 30 April 2019: signed a distribution agreement with Burleigh Heads Cannabis in Australia to import and distribute cannaQIX50® in Australia.
- 23 May 2019: harvested its first cannabis crop at Mernova.
- 2 July 2019: commenced sales of dried cannabis flower by Mernova.
- 6 August 2019: signed a distribution agreement to further build business in New Zealand in partnership with JC Logistics Limited, trading as MedLeaf Therapeutics. MedLeaf placed second orders for cannaQIX50.
- 20 August 2019: took delivery in Switzerland of PharmaCielo's first ever commercial export of CBD from Colombia to Europe, comprising high quality CBD isolate.
- 22 August 2019: entered an agreement with leading South African pharmaceutical company, Pharma Dynamics, a subsidiary of Lupin Limited, allowing Pharma Dynamics to distribute the CannaQIX® range of products in South Africa.
- 16 September 2019: received a processing licence for Mernova allowing the production and wholesale distribution of cannabis oils, concentrates and other derived products in Canada and abroad.
- 17 October 2019: delivered the first shipment of 10% CBD Oil to MedLeaf Therapeutics in New Zealand.
- 5 December 2019: delivered the first shipment of cannaQIX50 Burleigh Heads Cannabis, leading to the commencement of sales in Australia.
- 9 December 2019: announced that preparations to launch the cannaQIX® range in partnership with leading South African pharmaceutical company, Pharma Dynamics, a subsidiary of Lupin Limited (NSE:LUPIN) in the first quarter 2020 are on schedule. Pharma Dynamics has the sole distribution rights for the cannaQIX® product range across South Africa, Namibia, Botswana, Zimbabwe, Swaziland, Lesotho, Angola, Mozambique and Uganda.

Capital management and Funding

- 30 January 2019: raised $2,725,000 million in a placement to institutional and sophisticated investors, in which the Company issued 6,055,556 Shares at $0.45 per share, together with 2,018,516 options ($0.80, 21 August 2020). No shareholder approval was required. The placement was managed by EverBlu Capital Pty Ltd[2] ("EverBlu"), who received a fee of 6% of the funds raised. No related parties, employees or associates of EverBlu participated in the Placement.
- 30 January 2019: issued 195,556 shares in lieu of payments for digital marketing services.
- 1 February 2019: raised a further $250,000 as part of the 30 January placement through the issuing of 555,555 Shares, together with 185,185 options ($0.80, 21 August 2020)
- 11 April 2019: secured firm commitments from institutional and sophisticated investors to raise $5.35 million in a series of secured loans. The funds were raised to support the sales and marketing of Creso's products and to accelerate its global cannabis cultivation and production operations.
- On 7 June 2019: as a condition of the scheme of arrangement – see Mergers, acquisitions and divestments below - PharmaCielo agreed to provide a secured bridge loan of up to C$3.5 million (approximately A$3.85 million). The loan was repayable either on 31 December 2019 or, if the scheme is not approved by Creso shareholders, on the date which is four months after the date of the shareholders meeting to approve the scheme.
- 3 July 2019: reduced secured loans by $5,150,000 through the issue of 103 convertible notes, which were immediately converted to 10,300,000 Shares and 15,450,000 Listed Options. Repayment of secured debt was a key condition precedent to the proposed acquisition by PharmaCielo.
- 31 July 2019: issued 250,000 shares at $0.30 per share upon the exercise of 250,000 CPHOPT11 Options ($0.30, 27 July 2019).
- 28 November 2019: lodged a prospectus to enter into convertible securities agreements with professional and sophisticated investors to raise up to $8,200,000, comprising an initial convertible security facility Convertible Securities (Notes) ("Tranche 1 Convertible Note Facility") to raise up to $5,500,000 through the issue of up to

[2] EverBlu Capital Pty Ltd (EverBlu) is the Lead Manager to the Creso's capital raisings. Adam Blumenthal, a director of Creso, is Chairman, controller and a major indirect shareholder of EverBlu.

Directors' Report

6,111,111 debt securities, and an additional convertible security facility to raise up to a further $2,700,000 ("Tranche 2 Convertible Note Facility").

- 29 November 2019: subsequent to the prospectus lodged on 28 November 2019, raised $1.585 million in a placement to professional and sophisticated investors ("Placement"). Under the terms of the Placement, the Company issued 8,299,271 fully paid ordinary shares at $0.191 per share. No shareholder approval was required. The Placement was managed by EverBlu Capital Pty Ltd, who received a fee of 6% of the total funds raised and, following shareholder approval on 28 January 202, also the issue of an aggregate of 528,387 Shares and 528,387 Options on the basis of one Share for every $3 raised under the Placement, together with one Option for every Share issued. No related parties, employees or associates of EverBlu participated in the Placement.
- 29 November 2020: issued 7,500,000 shares in settlement to the investors in the raising on 11 April 2019.
- 29 November 2019: issued 1,000,000 shares in lieu of payments for digital marketing services.
- 29 November 2019: repaid the loans advanced by PharmaCielo and accrued interest totalling A$4,362,463 (C$3,907,459).
- 31 December 2019: drew down a further $517,500 under the Tranche 2 Convertible Note Facility and issued Debt Notes with a face value of $575,000 to L1 Capital Global Opportunities Master Fund.

Mergers, acquisitions and divestments

- 12 March 2019: decided, in conjunction with the other partners and the Board of the joint venture, CLV Frontier Brands Pty Limited, to cease funding the operations of the joint venture, due to the significant additional funding required to maintain a sustainable business. CLV ceased operating and is winding down its operations.
- 7 June 2019: entered into a Scheme Implementation Agreement (SIA) with PharmaCielo Limited (TSXV:PCLO) (PharmaCielo), a Canadian company, for Creso to be acquired by PharmaCielo.
- 4 October 2019: Creso registered the Scheme Booklet with the ASIC in relation to the proposed acquisition of Creso by PharmaCielo Limited.
- 11 November 2019: Creso's Board decided that the proposed acquisition by PharmaCielo would not proceed as it was determined that the proposal was ultimately not in the best interests of Creso shareholders. Accordingly, Creso and PharmaCielo executed an agreement of mutual release and settlement in relation to the SIA, in terms of which Creso would repay the loans advanced by PharmaCielo (approximately C$3.9million) on or before 30 November 2019.

Performance payments

- 31 January 2019: issued 2,000,000 ordinary shares from conversion of Performance Rights held by a Contractor to the company upon the achievement of a milestone.
- 14 March 2019: Milestone 1, in accordance with the agreement for the acquisition of Mernova, was confirmed to be achieved subsequent to Mernova being granted a cultivation license from Health Canada under the ACMPR. Accordingly, the Company paid C$800,000 to the vendors of Mernova and issued to them C$4,150,000 of Exchangeable Shares able to be exchanged for 6,587,302 shares in the Company.
- 25 July 2019: issued 2,000,000 ordinary shares on vesting of Performance Rights (issued 27 July 2017) held by a Contractor to the company upon the achievement of a milestone.

Further information on the operations of the Group and its business strategies and prospects is included in the CEO's Report.

Financial Performance

The financial results of the Group for the year ended 31 December 2019 are:

	31-Dec-19 $	31-Dec-18 $
Cash and cash equivalents	**2,800,318**	6,390,538
Net assets	**17,273,960**	16,504,392
Revenue from products	**3,626,427**	558,382
Royalty income	**33,265**	19,840
Total revenue	**3,659,692**	578,222
Other income	**82,561**	153,358
Net loss after tax	**(15,339,772)**	(16,845, 686)

Directors' Report

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The significant changes in state of affairs during and subsequent to the end of the financial year include:

Subsidiary and Joint Venture Investee

CLV Frontier Brands Pty Limited (CLV)

The Company holds a 33⅓% share in the joint venture CLV, a business which developed terpene-infused beers and adult soft-drinks in Estonia. On 12 March 2019, the Company decided, in conjunction with the Board of CLV, to cease funding the operations of the CLV joint Venture, due to the significant additional funding required to maintain a sustainable business. CLV's assets and liabilities were fully impaired at 31 December 2018 and the company's operations ceased at 12 March 2019.

Hemp-Industries sro (HI)

HI was a wholly-owned subsidiary of the Company located in Slovakia. In 2017, the Company decided that the operations of HI were no longer a significant part of the Group's operations and the Company's investment in shares and loans to HI were provided for impairment in full. HI was subsequently classified as an asset available for sale and its sale occurred on 29 March 2019 for consideration totalling A$1,571.

Changes in number of Shares, options, performance rights and performance shares

	Quoted Shares	Listed Options	Unlisted Options	Performance Rights	Performance Shares	Convertible Notes
	No.	No.	No.	No.	No.	No.
As at 31-Dec-18	**124,187,665**	**55,142,710**	**8,176,250**	**14,896,000**	**2,212,120**	**-**
Exercised – conversion of performance rights	-	-	-	(10,850,000)	-	-
Issued - new performance rights				500,000		-
Lapsed performance rights	-	-	-	(1,050,000)	-	-
Cancelled performance shares	-	-	-	-	(1,000,000)	-
Issued – conversion of performance rights	10,850,000	-	-	-	-	-
Issued – services (i)	1,195,556	-	-	-	-	-
Issued – capital raising (ii)	6,611,111	2,203,701	-	-	-	-
Issued – Placement (iii)	8,299,271					
Issued – conversion of convertible notes (iv)	10,300,000	15,450,000	-	-	-	-
Lapsed options	-	-	(340,000)	-	-	-
Expired options	-	-	(2,500,000)	-	-	-
Issued – exercise of options	500,000	-	-	-	-	-
Exercised options	-	-	-500,000	-	-	-
Issued - collateral shares (v)	4,333,333	-	-	-	-	-
Issued - Tranche 1 fee shares (vi)	340,314	-	-	-	-	-
Issued - initial settlement shares (vii)	7,500,000	-	-	-	-	-
As at 31-Dec-19	**174,117,250**	**72,796,411**	**4,836,250**	**3,496,000**	**1,212,120**	**-**
Issued - settlement shares (ix)	1,000,000	-	-	-	-	-
Issued – collateral shares (viii)	9,000,000					
Issued – settlement shares (x)	8,125,000	-	-	-	-	-
Issued - collateral shares (xi)	3,333,334	-	-	-	-	-
Issued - Tranche 1 fee shares (xii)	261,780	-	-	-	-	-
Issued - capital raising (viii)	2,128,387	-	-	-	-	-
Issued - Tranche 2 fee shares (xiii)	139,394	-	-	-	-	-
Issued - new unlisted options (xiv)	-	-	2,128,387	-	-	-
Issued - Tranche 1 & Tranche 2 (xv)	-	-	6,847,725	-	-	-
Issued - Tranche 1 Convertible Notes (xvi)	-	-	-	-	-	3,611,112

Issued - Tranche 2 Convertible Notes (xvii)	-	-	-	-	-	575,000
Issued - corporate services (xviii)	2,183,334	-	-	-	-	-
Exercised - conversion of performance rights	-	-	-	(1,132,000)	-	-
Issued - conversion of performance rights	1,132,000	-	-	-	-	-
Exercised - conversion of convertible notes	-	-	-	-	-	(575,000)
Issued - conversion of convertible notes (xix)	6,388,889	-	-	-	-	-
As at 20-February-20	**207,809,368**	**72,796,411**	**13,812,362**	**2,364,000**	**1,212,120**	**3,611,112**

(i) Issued 195,556 Shares in January 2019 and 1,000,000 Shares in November 2019 in lieu of payments for digital marketing services.
(ii) Issued 6,611,111 ordinary shares at $0.45 per share under the 31 January 2019 Placement.
(iii) Under the terms of the Placement, the Company issued 8,299,271 fully paid ordinary shares at $0.191 per share.
(iv) Issued 103 convertible notes to PharmaCielo, which were immediately converted in 10,300,000 Shares.
(v) 4,333,333 shares issued as collateral shares under Trance 1 and Tranche 2 Convertible Note Facilities.
(vi) 340,314 shares issued as Tranche 1 Fee Shares with nil cash consideration.
(vii) 7,500,000 shares issued to former secured lenders for nil cash consideration (Initial Settlement Shares).
(viii) 9,000,000 Shares issued as Collateral Shares under the New Convertible Securities Agreement between the Company and L1 Capital Global Opportunities Fund
(ix) 1,000,000 Shares issued as Shares under the Deed of Settlement between the Company and Mozaik Asset Management Pty Ltd.
(x) 8,125,000 Shares issued to former secured lenders for nil cash consideration as part of a settlement
(xi) 3,333,334 Shares issue as Collateral Shares and 261, 780 Shares issued as Tranche 1 Fee Shares for nil cash consideration to Suburban Holdings Pty Ltd, a related Tranche 1 investor
(xii) 2,128,387 Shares to EverBlu Capital (or its nominee) in part consideration for its services in respect of the Capital Raising
(xiii) 139,394 Shares issued as Tranche 2 Fee Shares for nil cash consideration to an unrelated Tranche 2 Investor
(xiv) Issued to EverBlu Capital (or its nominee) in part consideration for services in relation to Tranche 1 & Tranche 2 Convertible Note Facilities and the Placement
(xv) Issued to Tranche 1 & Tranche 2 Investors for nil cash consideration, in part consideration for their subscription to the debt notes.
(xvi) 3,611,112 Tranche 1 Convertible Notes issued for nil cash consideration in replacement of 3,611,112 Debt Notes
(xvii) 575,000 Tranche 2 Convertible Notes issued for nil cash consideration in replacement of 575,000 Debt Notes
(xviii) 2,183,334 Shares issued to consultants and advisers of the Company, in lieu of cash for corporate services.
(xix) Issue of 6,388,889 Shares to the Tranche 2 Convertible Notes holder upon conversion of 575,000 Tranche 2 Convertible Notes. Conversion price of $0.09 per share, based on the variable conversion price of the Tranche 2 Convertible Notes.

DIVIDENDS

No dividends have been paid or declared by the Group since the end of the previous financial year (2018: nil).

No dividend is recommended in respect of the current financial year (2018: nil).

FRANKING CREDITS

The Company has no franking credits.

Directors' Report

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The CEO's Report, the Review of Results and Operations and the Significant Changes in State of Affairs sections of the Directors Report contain references to matters subsequent to the end of the financial year.

- On 21 January 2020, Creso announced it had exceeded the milestone of 3 million anibidiol doses sold in Europe since the product was launched in late 2017.
- On 21 January 2020, the company announced it had entered replacement Corporate Advisory and Transactional Mandates with EverBlu Capital Pty Ltd.
- On 28 January 2020, Creso announced it had exceeded the milestone of 2.5 million cannaQIX lozenges sold globally since the product was launched in April 2018.
- On 5 February 2020, the company confirmed that it entered into a new convertible securities agreement with L1 Capital Global Opportunities Master Fund to access up to $17,482,500. Under the new Convertible Securities Agreement, the company requested an initial advance of $1,750,000, which was advanced in two equal tranches. Prior to receiving the first tranche, the company issued L1 Capital 9,000,000 fully paid ordinary shares as collateral shares and paid L1 Capital a fee of 4% of the advance. The Company also agreed, that in certain situations, the Company may be required to issue to L1 Capital up to a further 11,000,000 additional collateral shares, without requiring shareholder approval. The issue of the 9,000,000 shares and the agreement to potentially issue of a further 11,000,000 shares falls within the Company's placement capacity under ASX Listing Rule 7.1. EverBlu Capital Pty Ltd ("EverBlu") acted as lead manager to this debt raising. EverBlu will be paid a cash fee of $200,000 and will also be issued, subject to the receipt of shareholder approval, 4,000,000 shares and 4,000,000 options.
- 5 February 2020: The Company has also agreed to issue 1,000,000 Shares to Mozaik Asset Management Pty Ltd, a Tranche 1 Investor, in consideration for the termination and settlement of the Original Convertible Securities Agreement (and the associated Debt Notes) between the Company and Mozaik. As a result of this termination, 222,222 Tranche 1 Convertible Notes were not issued to Mozaik.
- On 6 February 2020, Creso announced the achievement of a key technological breakthrough that will be used to extend the cannaQIX human health product line.
- On 11 February 2020, Creso announced plans to launch a new hemp plant product targeted at equines and large animals in the second half of 2020.
- On 14 February 2020, Creso confirmed the achievement of the second milestone in respect of the company's acquisition of Mernova Medicinal Inc.
- On February 18 2020, L1 Capital Global Opportunities Master Fund converted 575,000 Tranche 2 Convertible Notes into 6,388,889 shares.

Other than the above, there has been no other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Comments on the results of operations and future prospects of the Group are included in the CEO's Report and in Matters Subsequent to the End of the Financial Year above.
Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this Annual Report because the Directors believe it would result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

The operations of the Group are not subject to any particular and significant environmental regulations under a law of the Commonwealth or state. There have been no known significant breaches of any environmental requirement.

The National Greenhouse and Energy Reporting Act (NGER) legislation was considered and determined not to be applicable to the entity.

AUDITED REMUNERATION REPORT

The Audited Remuneration Report comprises a part of this Directors' Report and is set out in pages 27 to 37.

Directors' Report

SHARES, OPTIONS, PERFORMANCE RIGHTS AND PERFORMANCE SHARES

Shares under option
Unissued ordinary shares of Creso Pharma Limited under unlisted options at the date of this report are as follows:

Unlisted Options		Exercise	Number
Grant date	Expiry date	Price	under option
27-06-2016	27-06-2020	$0.40	400,000
13-10-2016	13-10-2020	$0.20	2,886,250
23-01-2017	23-01-2021	$0.50	300,000
27-07-2017	27-07-2020	$0.60	100,000
18-05-2018	13-07-2021	$0.80	150,000
27-07-2018	27-07-2021	$0.535	200,000
27-07-2018	27-07-2022	$0.80	200,000
21-08-2018	21-08-2021	$0.55	200,000
31-08-2018	15-09-2022	$0.80	400,000
Balance as at 31 December 2019			**4,836,250**
12-02-2020	12-02-2023	$0.35	2,128,387
12-02-2020	12-02-2023	$0.40	6,847,725
Balance as at 28 February 2020			**13,812,362**

Unissued ordinary shares of Creso Pharma Limited under listed options at the date of this report are as follows:

Listed Options		Purchase	Exercise	Number
Grant Date	Expiry date	Price	Price	Under option
21-08-2018	21-08-2020	$0.05	$0.80	24,377,710
11-09-2018	21-08-2020	$0.05	$0.80	26,865,000
17-12-2018	21-08-2020	-	$0.80	2,295,062
17-12-2018	21-08-2020	-	$0.80	1,604,938
30-01-2019	21-08-2020	-	$0.80	2,018,516
01-02-2019	21-08-2020	-	$0.80	185,185
02-07-2019	21-08-2020	-	$0.50	15,450,000
Balance as at 31 December 2019				**72,796,411**
Balance as at 28 February 2020				**72,796,411**

No person entitled to exercise the options had or has any right by virtue of the option to participate in any other share issue of the Company or of any other body corporate.

Shares issued on the exercise of options
The following ordinary shares of Creso Pharma Limited were issued during the year ended 31 December 2019 and up to the date of this report on the exercise of unlisted options granted:

Date Options Granted	Date Options Exercised	Exercise Price	Number of Shares Issued
13-10-2016	10-07-2019	$0.20	250,000
27-07-2017	31-07-2019	$0.30	250,000
Balance as at 31 December 2019			**500,000**
Balance as at 28 February 2020			**500,000**

Directors' Report

Shares under Performance Rights

Unissued ordinary shares of Creso Pharma Limited under performance rights at the date of this report are:

Code	Issue Date	Expiry Date	Exercise Price	Balance at 31 December 2018	Granted	Vested	Cancelled	Balance at 31 December 2019
CPHPERR4	20/10/2016	18/10/2021	Nil	750,000	-	(750,000)	-	-
CPHPERR4	20/10/2016	18/10/2021	Nil	250,000	-	(250,000)	-	-
CPHPERR4	20/10/2016	18/10/2021	Nil	1,750,000	-	(1,750,000)	-	-
CPHPERR4	20/10/2016	18/10/2021	Nil	1,500,000	-	(1,500,000)	-	-
CPHPERR4	20/10/2016	18/10/2021	Nil	750,000	-	(750,000)	-	-
CPHPERR6	27/7/2017	27/7/2022	Nil	800,000	-	-	-	800,000
CPHPERR7	27/7/2017	27/7/2022	Nil	800,000	-	-	-	800,000
CPHPERR8	27/7/2017	27/7/2022	Nil	1,250,000	-	(1,250,000)	-	-
CPHPERR9	27/7/2017	27/7/2022	Nil	1,250,000	-	(1,250,000)	-	-
CPHPERR13	27/7/2017	27/7/2022	Nil	100,000	-	(100,000)	-	-
CPHPERR14	27/7/2017	27/7/2022	Nil	150,000	-	(150,000)	-	-
CPHPERR15	27/7/2017	27/7/2022	Nil	100,000	-	-	-	100,000
CPHPERR16	27/7/2017	27/7/2020	Nil	100,000	-	-	-	100,000
CPHPERR19	27/7/2017	27/1/2021	Nil	2,000,000	-	(2,000,000)	-	-
CPHPERR21	16/7/2018	16/7/2023	Nil	50,000	-	-	(50,000)	-
CPHPERR22	16/7/2018	16/7/2023	Nil	50,000	-	-	-	50,000
CPHPERR22	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR22	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR22	16/7/2018	16/7/2023	Nil	16,000	-	-	-	16,000
CPHPERR23	16/7/2018	16/7/2023	Nil	50,000	-	-	-	50,000
CPHPERR23	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR23	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR23	16/7/2018	16/7/2023	Nil	16,000	-	-	-	16,000
CPHPERR24	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR24	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR24	16/7/2018	16/7/2023	Nil	16,000	-	-	-	16,000
CPHPERR24	16/7/2018	16/7/2023	Nil	50,000	-	-	-	50,000
CPHPERR27	16/7/2018	16/7/2023	Nil	200,000	-	-	-	200,000
CPHPERR28	16/7/2018	16/7/2023	Nil	100,000	-	-	-	100,000
CPHPERR29	11/10/2018	11/10/2023	Nil	300,000	-	-	-	300,000
CPHPERR30	11/10/2018	11/10/2023	Nil	300,000	-	-	-	300,000
CPHPERR31	11/10/2018	11/10/2023	Nil	300,000	-	-	-	300,000
CPHPERR32	11/10/2018	11/10/2023	Nil	100,000	-	-	-	100,000
CPHPERR33	11/10/2018	11/10/2023	Nil	150,000	-	-	(150,000)	-
CPHPERR34	11/10/2018	11/10/2023	Nil	150,000	-	-	(150,000)	-
CPHPERR35	11/10/2018	11/10/2023	Nil	500,000	-	(500,000)	-	-
CPHPERR36	11/10/2018	11/10/2023	Nil	400,000	-	(400,000)	-	-
CPHPERR37	11/10/2018	11/10/2023	Nil	400,000	-	-	(400,000)	-
CPHPERR38	2/7/2019	2/7/2024	Nil	-	100,000	-	(100,000)	-
CPHPERR39	2/7/2019	2/7/2024	Nil	-	100,000	(100,000)	-	-
CPHPERR40	2/7/2019	2/7/2024	Nil	-	100,000	(100,000)	-	-
CPHPERR41	2/7/2019	2/7/2024	Nil	-	100,000	-	(100,000)	-
CPHPERR42	2/7/2019	2/7/2024	Nil	-	100,000	-	(100,000)	-
Balance as at 31 December 2019				**14,896,000**	**500,000**	**(10,850,000)**	**(1,050,000)**	**3,496,000**

Code	Issue Date	Expiry Date	Exercise Price	Balance at 31 December 2019	Granted	Vested	Cancelled	Balance at 28 February 2020
CPHPERR6	27/7/2017	27/7/2022	Nil	800,000	-	-	-	800,000
CPHPERR7	27/7/2017	27/7/2022	Nil	800,000	-	-	-	800,000
CPHPERR15	27/7/2017	27/7/2022	Nil	100,000	-	(100,000)	-	-

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CPHPERR16	27/7/2017	27/7/2020	Nil	100,000	-	-	-	100,000
CPHPERR22	16/7/2018	16/7/2023	Nil	50,000	-	(50,000)	-	-
CPHPERR22	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR22	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR22	16/7/2018	16/7/2023	Nil	16,000	-	(16,000)	-	-
CPHPERR23	16/7/2018	16/7/2023	Nil	50,000	-	(50,000)	-	
CPHPERR23	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR23	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR23	16/7/2018	16/7/2023	Nil	16,000	-	(16,000)	-	
CPHPERR24	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR24	16/7/2018	16/7/2023	Nil	33,000	-	-	-	33,000
CPHPERR24	16/7/2018	16/7/2023	Nil	16,000	-	-	-	16,000
CPHPERR24	16/7/2018	16/7/2023	Nil	50,000	-	-	-	50,000
CPHPERR27	16/7/2018	16/7/2023	Nil	200,000	-	(200,000)	-	-
CPHPERR28	16/7/2018	16/7/2023	Nil	100,000	-	(100,000)	-	-
CPHPERR29	11/10/2018	11/10/2023	Nil	300,000	-	-	-	300,000
CPHPERR30	11/10/2018	11/10/2023	Nil	300,000	-	(300,000)	-	-
CPHPERR31	11/10/2018	11/10/2023	Nil	300,000	-	(300,000)	-	-
CPHPERR32	11/10/2018	11/10/2023	Nil	100,000	-	-	-	100,000
Balance as at 28 February 2020				**3,496,000**	**-**	**(1,132,000)**	**-**	**2,364,000**

No person entitled to exercise the performance rights had or has any right by virtue of the performance rights to participate in any other share issue of the Company or of any other body corporate.

Shares under Performance Shares

Unissued ordinary shares of Creso Pharma Limited under performance shares at the date of this report are:

Code	Issue Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted	Vested	Cancelled	Balance at the end of the year
CPHPERSA	13-10-2016	13-10-2019	Nil	1,000,000	-	-	(1,000,000)	-
CPHPERSB	20-12-2018	20-06-2020	Nil	303,027	-	-	-	303,027
CPHPERSC	20-12-2018	20-06-2020	Nil	303,027	-	-	-	303,027
CPHPERSD	20-12-2018	20-06-2020	Nil	303,027	-	-	-	303,027
CPHPERSE	20-12-2018	20-06-2020	Nil	303,039	-	-	-	303,039
Balance as at 31 December 2019				**2,212,120**	**-**	**-**	**(1,000,000)**	**1,212,120**
Balance as at 28 February 2020				**1,212,120**	**-**	**-**	**-**	**1,212,120**

Shares under Convertible Notes

Unissued ordinary shares of Creso Pharma Limited under Convertible Notes at the date of this report are:

Code	Issue Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted	Exercised	Cancelled	Balance at the end of the year
Balance as at 31 December 2019				**-**	**-**	**-**	**-**	**-**
CPHCON1	12-02-2020		Nil	-	3,611,112	-	-	3,611,112
CPHCON2	12-02-2020		Nil	-	575,000	(575,000)	-	-
Balance as at 28 February 2020				-	4,186,112	(575,000)	**-**	**3,611,112**

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the year ended 31 December 2019, the Company paid premiums in respect of a contract insuring the directors and officers of the Company against liabilities incurred as directors or officers to the extent permitted by the Corporations Act 2001.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising

Directors' Report

from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

AUDITOR

RSM Australia Partners resigned as auditor on 14 May 2019.
BDO East Coast Partnership was appointed auditor on 31 May 2019 and continues in office in accordance with section 327 of the Corporations Act 2001.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF THE AUDITOR

There are no officers of the Company who are former partners of RSM Australia Partners or of BDO East Coast Partnership.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 31 December 2019 has been received and included within the financial statements section of this report.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 27 to the financial statements.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditors, as set out below, did not compromise the auditor independent requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Board of Directors to ensure they do not impact the impartiality and objectivity of the auditor; and

- None of the services undermine the general principles relating to the auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

CORPORATE GOVERNANCE STATEMENT

The Company's Corporate Governance Statement and its Key to Disclosures, Corporate Governance Council Principles and Recommendations (ASX Appendix 4G) are provided separately to the ASX on the date that this Annual Report is provided to the ASX. The Corporate Governance Statement is available on the Company's website: www.cresopharma.com

This report, which includes the Remuneration Report, is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

B. Wachtel

Boaz Wachtel
EXECUTIVE CHAIRMAN
28 February 2020

Remuneration Report (Audited)

This remuneration report for the year ended 31 December 2019 comprises a part of the Directors' Report. It outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 ("the Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

The Remuneration Report details the remuneration arrangements for Key Management Personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Parent company.

All monetary amounts stated in this report are in Australian Dollars unless otherwise indicated.

a) Key Management Personnel Disclosed in this Report

The Directors of the Group during or since the end of the financial year were:

Mr Boaz Wachtel	Executive Chairman
Dr Miri Halperin Wernli	Managing Director and Chief Executive Officer
Mr Adam Blumenthal	Non-Executive Director
Dr James Ellingford	Non-Executive Director

Senior Executives of the Group during or since the end of the financial year were:

Mr Christopher Grundy	Chief Financial Officer
Mr John Griese	Chief Operating Officer, Americas (resigned 26 November 2019)

There have been no other changes after reporting date and up to the date that the financial report was authorised for issue.

The Remuneration Report is set out under the following main headings:

A	Remuneration Governance, Structure and Approvals
B	Remuneration Philosophy
C	Remuneration and Performance
D	Details of Remuneration
E	Service Agreements
F	Share-based Compensation
G	Equity Instruments Issued on Exercise of Remuneration Options
H	Loans with KMP
I	Other Transactions with KMP

A Remuneration Governance, Structure and Approvals

The Remuneration and Nomination Committee ("RNC") is a sub-committee of the Board. It is primarily responsible for making recommendations to the Board on:

- the over-arching executive remuneration framework;
- operation of the incentive plans which apply to executive directors and senior executives, including key performance indicators and performance hurdles;
- remuneration levels of executives; and
- Non-Executive Director fees.

The Committee reviews and determines the Group's remuneration policy and structure annually to ensure it remains aligned to business needs, meets the Group's remuneration principles and is reflective of generally acceptable market practices.

In particular, the RNC and Board aim to ensure that remuneration practices are:

- competitive and reasonable, enabling the Company to attract and retain key talent;
- aligned to the Company's strategic and business objectives and the creation of shareholder value;
- transparent and easily understood; and
- acceptable to shareholders.

Remuneration Report (Audited)

❖ **Non-Executive Directors' Remuneration Structure**

Remuneration of Non-Executive Directors is based on fees approved by the Board of Directors and is set at levels to reflect market conditions and encourage the continued services of the Directors. The nature and amount of remuneration is collectively considered by the Board of Directors with reference to relevant employment conditions and fees commensurate to a company of similar size and level of activity, with the overall objective of ensuring maximum stakeholder benefit from the retention of high performing Directors.

The total aggregate fixed sum per annum to be paid to Non-Executive Directors in accordance with the Company's Constitution shall initially be no more than A$300,000 and may be varied by ordinary resolution of the Shareholders in a General Meeting.

In accordance with the Company's Constitution, the Directors may at any time, subject to the Listing Rules, adopt a scheme or plan which they consider to be in the interests of the Company and which is designed to provide superannuation benefits for both present and future Non-Executive Directors, and they may from time to time vary this scheme or plan.

Remuneration may also include an invitation to participate in share-based incentive programmes in accordance with Company policy.

The remuneration of Non-Executive Directors is detailed in Table 1 and their contractual arrangements are disclosed in "Section E – Service Agreements".

❖ **Executive Remuneration Structure**

The nature and amount of remuneration of executives are assessed on a periodic basis with the overall objective of ensuring maximum stakeholder benefit from the retention of high- performing executives.

The main objectives sought when reviewing executive remuneration is that the Company has:

- Coherent remuneration policies and practices to attract and retain Executives;
- Executives who will create value for shareholders;
- Competitive remuneration offered benchmarked against the external market; and
- Fair and responsible rewards to Executives having regard to the performance of the Group, the performance of the Executives and the general pay environment.

The remuneration of Executives is detailed in Table 1 and their contractual arrangements are disclosed in "Section E – Service Agreements".

❖ **Executive Remuneration Approvals**

The Company aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and aligned with market practice. Executive contracts are reviewed annually by the Remuneration Committee. The process consists of a review of company, business unit and individual performance, relevant comparative remuneration internally and externally and where appropriate, external advice independent of management.

Executive remuneration and incentive policies and practices must be aligned with the Company's vision, values and overall business objectives. Executive remuneration and incentive policies and practices must be designed to motivate management to pursue the Company's long-term growth and success and demonstrate a clear relationship between the Company's overall performance and performance of the executives.

B Remuneration Philosophy

KMP have authority and responsibility for planning, directing and controlling the activities of the Group. KMP of the Group comprise of the Directors and other senior executives.

The Group's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

No remuneration consultants were employed during the financial year.

Remuneration Report (Audited)

C Remuneration and Performance

The following table shows the gross revenue, losses, earnings per share ("EPS") and share price of the Group for the years ended and as at 31 December 2019 and 31 December 2018.

	31-Dec-19	31-Dec-18
Revenue from products	3,626, 427	558,382
Royalty income	33,265	19,840
Total revenue ($)	**3,659,692**	**578,222**
Net loss after tax	(15,339,772)	(16,845,686)
EPS ($)	(0.10)	(0.14)
Share price	0.125	0.49

Relationship between Remuneration and Company Performance
Given the current phase of the Company's development, the Remuneration and Nomination Committee does not consider earnings during the current and previous financial years when determining the nature and amount of remuneration of KMP.

The pay and reward framework for key management personnel may consist of the following areas:
a) Fixed Remuneration – base salary
b) Variable Short-Term Incentives
c) Variable Long-Term Incentives

A combination of these comprises the key management personnel's total remuneration.

a) Fixed Remuneration – Base Salary
The fixed remuneration for each senior executive is influenced by the nature and responsibilities of each role and knowledge, skills and experience required for each position. Fixed remuneration provides a base level of remuneration which is market competitive and comprises a base salary inclusive of statutory superannuation. It is structured as a total employment cost package.

Key management personnel are offered a competitive base salary that comprises the fixed component of pay and rewards. External remuneration consultants may provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. No external advice was taken this year. Base salary for key management personnel is reviewed annually to ensure the executives' pay is competitive with the market. The pay of key management personnel is also reviewed on promotion. There is no guaranteed pay increase included in the contract of any KMP.

b) Variable Remuneration – Short Term Incentives (STI)
Discretionary cash bonuses may be paid to senior executives annually, subject to the requisite Board and shareholder approvals where applicable.

c) Variable Remuneration – Long Term Incentives (LTI)

Incentive Option Scheme
The Company adopted an Incentive Option Scheme during the year ended 31 December 2018. The Scheme allows eligible participants to be granted Options to acquire Shares in the Company. The Board may grant Options to any Director, full or part time employee, or casual employee or contractor who falls within the definition of an Eligible Participant as defined in ASIC Class Order 14/1000. Each Option granted under the Scheme will be granted for nil or nominal consideration. Each Option is exercisable into one Share in the Company and the exercise price and expiry date for Options granted under the Scheme will be determined by the Board prior to the grant of the Options.

Options issued will not be quoted on ASX.

Remuneration Report (Audited)

Performance Rights Plan

The Creso Pharma Limited Performance Rights Plan ("Plan") was adopted by the Company during the year ended 31 December 2016.

The current Plan provides the Board with the discretion to grant Performance Rights to eligible participants which will vest subject to the achievement of performance hurdles as determined by the Board at the time the Performance Rights are granted.

The objective of the Plan is to attract, motivate and retain KMPs and it is considered that the Plan will enable the Group to make grants to Eligible Participants so that long-term incentives form a key component of their total annual remuneration.

The Board believes that grants under the Plan will serve a number of purposes including:

- to act as a key retention tool; and
- to focus attention on the generation of shareholder value.

Each Performance Right represents a right to be issued one share at a future point in time, subject to the satisfaction of any vesting conditions. No exercise price is payable. The quantum of the Performance Rights to be granted will be determined with reference to market practice and will be subject to approval by the Board.

Any grants under the Plan will be subject to the achievement of KPIs. Appropriate KPIs may be formulated for each Eligible Participant to participate in the Plan based on their role and responsibilities in the Group.

Performance will be assessed at the end of the performance period.

Performance Rights will lapse if the participant leaves the Group prior to all the vesting conditions being fulfilled although the Board has the ability, at its sole discretion, to vest some or all of the Rights if "good leaver" exemptions apply to the ceasing of employment. Persons who are terminated for "bad leaver" reasons automatically lose their entitlement.

D Details of Remuneration

Details of the nature and amount of each major element of the remuneration of each KMP of the Group during the financial year are:

Table 1 – Remuneration of KMP of the Group for the year ended 31 December 2019 is set out below:

31 December 2019	Short-term Employee Benefits			Post-Employment	Share Based Payments	Total
	Salary & fees	Non-monetary benefits	Other/ bonus	Superannuation & Insurance	Performance Rights / Options (ii)	
	$	$	$	$	$	$
Directors						
Boaz Wachtel	105,000 (i)	-	-	-	135,282	240,282
Miri Halperin Wernli	641,473	-	-	-	157,829	799,302
Adam Blumenthal	200,000	-	-	19,000	67,641	286,641
James Ellingford	134,000	-	-	12,730	39,172	185,902
Senior Executives						
Christopher Grundy	240,000	-	-	20,767	442,773	703,540
John Griese (iii)	327,155	-	-	4,217	603,342	934,714
Total	1,647,628	-	-	56,714	1,446,039	3,150, 381

(i) An amount of $105,000 has been paid/is payable to International Water and Energy Savers Ltd relating to Boaz Wachtel's Director's Fees.

(ii) Share-based payments are the options and performance rights expensed over the vesting period (refer to Note 24 for further details).

(iii) John Griese resigned on 30 November 2019

Remuneration Report (Audited)

Remuneration of KMP of the Group for the year ended 31 December 2018 is set out below:

31 December 2018	Short-term Employee Benefits			Post-Employment	Share Based Payments	Total
	Salary & fees	Non-monetary benefits	Other/ bonus	Superannuation & Insurance	Performance Rights / Options (iv)	
	$	$	$	$	$	$
Directors						
Boaz Wachtel	120,000 (i)	-	-	-	607,000	727,000
Miri Halperin Wernli	470,677 (ii)	-	203,648 (iii)	-	1,393,750	2,068,075
Adam Blumenthal	121,000	-	-	11,495	738,125	870,620
James Ellingford	119,000	-	-	8,930	74,250	202,180
Senior Executives						
Christopher Grundy	221,250	-	-	19,553	30,587	271,390
John Griese (v)	169,530	-	20,653 (vi)	3,919	37,578	231,680
Total	**1,221,457**	**-**	**224,301**	**43,897**	**2,881,290**	**4,370,945**

(i) An amount of $120,000 has been paid/is payable to International Water and Energy Savers Ltd relating to Boaz Wachtel's Director's Fees.
(ii) Including an amount of $91,228 paid to WHP Management Consulting GmbH relating to Miri Halperin Wernli's remuneration.
(iii) During the year, one-off bonus payment of $203,648 was made to Miri Halperin Wernli.
(iv) Share-based payments are the options and performance rights expensed over the vesting period (refer to Note 24 for further details).
(v) John Griese was appointed on 14 June 2018.
(vi) One-off sign on Bonus was paid to John Griese.

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense in the tables above:

Table 2 – Relative proportion of fixed vs variable remuneration expense

Name	Fixed Remuneration		At Risk – STI (%)		At Risk – LTI (%)	
	2019	2018	2019	2018	2019	2018
Directors						
Boaz Wachtel	**44%**	**17%**	**-**	**-**	**56%**	**83%**
Miri Halperin Wernli	**80%**	**22%**	**-**	**10%**	**20%**	**68%**
Adam Blumenthal	**76%**	**15%**	**-**	**-**	**24%**	**85%**
James Ellingford	**79%**	**63%**	**-**	**-**	**21%**	**37%**
Senior Executives						
Christopher Grundy	**37%**	**89%**	**-**	**-**	**63%**	**11%**
John Griese	**35%**	**75%**	**-**	**9%**	**65%**	**16%**

Table 3 – Shareholdings of KMP (direct and indirect holdings)

31 December 2019	Balance at 01/01/2019	Granted as Remuneration	On Exercise of Options	Net Change – Other	Balance at 31/12/2019
Directors					
Boaz Wachtel	6,800,000	-	-	1,500,000 (i)	8,300,000
Miri Halperin Wernli	8,400,000	-	-	4,400,000 (i)	12,800,000
Adam Blumenthal	5,500,001	-	-	750,000 (i)	6,250,001
James Ellingford	1,100,000	-	-	350,000 (i)	1,450,000
Senior Executives					
Christopher Grundy	14,000	-	-	26,000 (ii)	40,000
John Griese	-	-	-	900,000 (i)	900,000
Total	**21,814,001**	**-**	**-**	**7,926,000**	**29,740,001**

(i) Shares issued to Directors on vesting of Performance Rights.
(ii) Shares purchased on-market.

Remuneration Report (Audited)

Table 4 – Listed Option holdings of KMP (direct and indirect holdings)

31 December 2019	Balance at 01/01/2019	Granted as Remuneration	Net Change – Other	Balance at 31/12/2019	Vested & Exercisable
Directors					
Boaz Wachtel	3,000,000	-	-	3,000,000	3,000,000
Miri Halperin Wernli	4,147,950	-	-	4,147,950	4,147,950
Adam Blumenthal	2,750,000	-	-	2,750,000	2,750,000
James Ellingford	550,000	-	-	550,000	550,000
Senior Executives					
Christopher Grundy	72,000	-	-	72,000	72,000
John Griese	-	-	-	-	-
Total	**10,519,950**	**-**	**-**	**10,519,950**	**10,519,950**

Table 5 – Performance rights holdings of KMP (direct and indirect holdings)

31 December 2019	Balance at 01/01/2019	Granted as Remuneration	Vested and Exercised	Others	Balance not Vested at 31/12/2019	Balance Vested not Exercised at 31/12/2019
Directors						
Boaz Wachtel	3,100,000	-	(1,500,000)	-	1,600,000	-
Miri Halperin Wernli	4,400,000	-	(4,250,000)	(150,000)(i)	-	-
Adam Blumenthal	750,000	-	(750,000)	-	-	-
James Ellingford	350,000	-	(350,000)	-	-	-
Senior Executives						
Christopher Grundy	1,000,000	-	-	-	400,000	600,000
John Griese	1,600,000	-	(900,000)	(700,000)(ii)	-	-
Total	**11,200,000**	**-**	**(7,750,00)**	**(850,000)**	**2,000,000**	**600,000**

(i) 150,000 performance rights issued to Jorge Wernli, a related party of Miri Halperin Wernli and a consultant of Creso. Performance rights CPHPERR14 were converted into shares on 2 July 2019.
(ii) 700,000 performance rights lapsed upon the resignation of John Griese on 30 November 2019.

Remuneration Report (Audited)

E Service Agreements

❖ **Mr Boaz Wachtel – Executive Chairman**

- Contract: Commenced on 18 October 2016.
- Director's Fee: $10,000 per month from January 2019 to October 2019.
- Director's Fee: $2,500 per month from November 2019 onwards.
- Director's Fees are paid to International Water and Energy Savers Limited.
- Term: 3 years or as extended per the Consultant Agreement.
- Notice Period: 12 months.
- Performance Based Bonus: Mr Wachtel is entitled to a discretionary bonus equal to 50% of the Fee on an annual basis, subject to meeting performance criteria agreed by the Board each year.

❖ **Dr Miri Halperin Wernli – Chief Executive Officer and Managing Director**

- Contract: Commenced on 18 October 2016.
- Base salary: USD$250,000 per annum.
- Mernova Medicinal Inc.- Consultancy fee of USD$2,000 per month, increased to USD$8,000 per month from April 2018.
- Kunna Canada Limited and Kunna S.A.S - Director fee of $6,000 per month.
- From 01 April 2018 a monthly motor vehicle allowance of USD$2,500.
- Term: 3 years or as extended per the Consultant Agreement.
- Notice Period: 12 months.
- Performance Based Bonus: Dr Halperin Wernli is entitled to a discretionary bonus equal to 50% of the Fee on an annual basis, subject to meeting performance criteria agreed by the Board each year.

❖ **Mr Adam Blumenthal – Non-Executive Director**

- Contract: Commenced on 20 November 2015.
- Director's Fee: $48,000 per annum (plus statutory superannuation entitlements).
- Mernova Medicinal Inc.- Director's fee of $2,000 per month, increased to $5,000 per month from April 2018.
- Kunna Canada Limited and Kunna S.A.S – Director's fee of $6,000 per month from December 2018.
- Remuneration Committee Fee: $20,000 per annum.
- Term: No fixed term.

❖ **Dr James Ellingford – Non-Executive Director**

- Contract: Commenced on 20 November 2015.
- Director's Fee: $48,000 per annum (plus statutory superannuation entitlements).
- Mernova Medicinal Inc.- Consultancy fee of $5,000 per month from April 2018.
- Audit and Risk Committee Fee: $6,000 per annum.
- Remuneration Committee Fee: $20,000 per annum.
- Term: No fixed term.

❖ **Mr Christopher Grundy – Chief Financial Officer**

- Contract: Commenced on 21 November 2017.
- From 21 November 2017 Part-time Base Salary: $180,000 per annum (plus statutory superannuation entitlements).
- From 01 April 2018 Full-time Base Salary: $225,000 per annum (plus statutory superannuation entitlements).
- From 01 July 2018 Full-time Base Salary: $240,000 per annum (plus statutory superannuation entitlements).
- Term: No fixed term.
- Notice Period: 12 weeks.
- Bonus: Mr Grundy is entitled to a discretionary bonus on an annual basis as determined by the Company.

❖ **Mr John Griese – Chief Operating Officer – Americas**

- Contract: Commenced on 14 June 2018.
- From 25 June 2018 to 25 September 2018 Full-time Base Salary: CAD$300,000 per annum (plus pension and social insurance entitlements
- From 26 September 2018 Full-time Base Salary: CAD$325,000 per annum (plus pension and social insurance entitlements)
- Sign-on Bonus: CAD$20,000
- Resigned 30 November 2019

Remuneration Report (Audited)

F Share-based Compensation

The Company rewards Directors for their performance and aligns their remuneration with the creation of shareholder wealth by issuing share options and/or performance rights. Share-based compensation is at the discretion of the Board and no individual has a contractual right to receive any guaranteed benefits.

Issue of shares

During the current financial year, the Company issued shares to KMP only upon vesting of their performance rights. There are no shares issued to KMP as part of their remuneration.

Options

During the current financial year, the Company did not issue options to KMP.

Performance Rights

The performance rights are expensed over the performance period to which is consistent with the period over which the services have been performed.

The terms and conditions of each grant of performance rights affecting remuneration in the current or future reporting period are as follows:

2016 Financial Year:

Code	Grant Date	Vesting date	Performance period	Expiry date	Value per Performance Right at Grant Date	Vested
CPHPERR1	20 October 2016	20 October 2017	20 October 2016 – 20 October 2017	18 October 2021	$0.163	100%
CPHPERR2	20 October 2016	20 October 2018	20 October 2016 – 20 October 2018	18 October 2021	$0.164	100%
CPHPERR3	20 October 2016	20 October 2019	20 October 2016 – 20 October 2019	18 October 2021	$0.20	100%
CPHPERR4	20 October 2016	20 October 2020	20 October 2016 – 20 October 2020	18 October 2021	$0.20	-

The Performance Rights were issued for $0.0001 each and no consideration will be payable upon the vesting of the Performance Rights.

2017 Financial Year:

Code	Grant Date	Vesting date	Performance period	Expiry date	Value per Performance Right at Grant Date	Vested
CPHPERR6	27 July 2017	27 July 2018	27 July 2017 – 27 July 2018	27 July 2022	$0.570	-
CPHPERR7	27 July 2017	27 July 2018	27 July 2017 – 27 July 2018	27 July 2022	$0.570	-
CPHPERR8	27 July 2017	27 July 2022	27 July 2017 – 27 July 2022	27 July 2022	$0.570	-
CPHPERR9	27 July 2017	27 July 2022	27 July 2017 – 27 July 2022	27 July 2022	$0.570	-
CPHPERR10	27 July 2017	27 July 2022	27 July 2017 – 27 July 2022	27 July 2022	$0.570	-
CPHPERR11	27 July 2017	27 July 2019	27 July 2017 – 27 July 2019	27 July 2022	$0.570	-
CPHPERR12	27 July 2017	27 July 2018	27 July 2017 – 27 July 2018	27 July 2022	$0.570	-
CPHPERR13	27 July 2017	27 July 2019	27 July 2017 – 27 July 2019	27 July 2022	$0.570	-

2018 Financial Year:

Code	Grant Date	Vesting date	Performance period	Expiry date	Value per Performance Right at Grant Date	Vested
CPHPERR29	28 September 2018	21 November 2020	21 November 2017 – 21 November 2020	11 October 2023	$0.555	-
CPHPERR30	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	$0.555	-
CPHPERR31	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	$0.555	-
CPHPERR32	28 September 2018	24 March 2021	28 September 2018 – 24 March 2021	11 October 2023	$0.555	-
CPHPERR33	28 September 2018	25 June 2020	25 June 2018 - 25 June 2020	11 October 2023	$0.555	-

Remuneration Report (Audited)

CPHPERR34	28 September 2018	25 June 2021	25 June 2018 - 25 June 2021	11 October 2023	$0.555	-
CPHPERR35	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	$0.555	-
CPHPERR36	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	$0.555	-
CPHPERR37	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	$0.555	-

2019 Financial Year:

During the current financial year, the Company did not issue Performance Rights to KMP.

Rights granted under the Performance Rights Plan carry no dividend or voting rights.

Details of Performance Rights provided as part of remuneration to key management personnel are shown below. Further information on the performance rights is set out in Note 20 to the financial statements.

Name	Grant Date	Expiry Date	Number of Performance Rights Granted	Value of the Performance Rights at Grant Date	Number of Performance Rights vested	Lapsed	Vested
Boaz Wachtel							
CPHPERR1	20 October 2016	18 October 2021	1,500,000	$244,470	1,500,000	-	100%
CPHPERR2	20 October 2016	18 October 2021	1,500,000	$246,555	1,500,000	-	100%
CPHPERR3	20 October 2016	18 October 2021	1,500,000	$300,000	1,500,000	-	100%
CPHPERR4	20 October 2016	18 October 2021	1,500,000	$300,000	1,500,000	-	100%
CPHPERR6	27 July 2017	27 July 2022	800,000	$456,000	800,000	-	-
CPHPERR7	27 July 2017	27 July 2022	800,000	$456,000	800,000	-	-
Miri Halperin Wernli						-	
CPHPERR1	20 October 2016	18 October 2021	1,750,000	$285,215	1,750,000	-	100%
CPHPERR2	20 October 2016	18 October 2021	1,750,000	$287,648	1,750,000	-	100%
CPHPERR3	20 October 2016	18 October 2021	1,750,000	$350,000	1,750,000	-	100%
CPHPERR4	20 October 2016	18 October 2021	1,750,000	$350,000	$350,000	-	100%
CPHPERR8	27 July 2017	27 July 2022	1,250,000	$712,500	1,250,000	-	100%
CPHPERR9	27 July 2017	27 July 2022	1,250,000	$712,500	1,250,000	-	100%
Adam Blumenthal						-	
CPHPERR1	20 October 2016	18 October 2021	750,000	$122,235	750,000	-	100%
CPHPERR2	20 October 2016	18 October 2021	750,000	$123,278	750,000	-	100%
CPHPERR3	20 October 2016	18 October 2021	750,000	$150,000	750,000	-	100%
CPHPERR4	20 October 2016	18 October 2021	750,000	$150,000	750,000	-	100%
James Ellingford						-	
CPHPERR1	20 October 2016	18 October 2021	250,000	$40,745	250,000	-	100%
CPHPERR2	20 October 2016	18 October 2021	250,000	$41,093	250,000	-	100%
CPHPERR3	20 October 2016	18 October 2021	250,000	$50,000	250,000	-	100%
CPHPERR4	20 October 2016	18 October 2021	250,000	$50,000	250,000	-	100%
CPHPERR13	27 July 2017	18 October 2021	100,000	$57,000	100,000	-	100%
Chris Grundy							
CPHPERR29	28 September 2018	11 October 2023	300,000	$166,500	-	-	-
CPHPERR30	28 September 2018	11 October 2023	300,000	$166,500	300,000 (i)	-	100%
CPHPERR31	28 September 2018	11 October 2023	300,000	$166,500	300,000 (i)	-	100%
CPHPERR32	28 September 2018	11 October 2023	100,000	$55,500	-	-	-
John Griese							
CPHPERR33	28 September 2018	11 October 2023	150,000	$83,250	-	150,000	-
CPHPERR34	28 September 2018	11 October 2023	150,000	$83,250	-	150,000	-
CPHPERR35	28 September 2018	11 October 2023	500,000	$277,500	500,000 (ii)	-	100%
CPHPERR36	28 September 2018	11 October 2023	400,000	$222,000	400,000	-	100%
CPHPERR37	28 September 2018	11 October 2023	400,000	$222,000	-	400,000	-

(i) The board used its discretion to approve the vesting of these securities.
(ii) Whilst the vesting condition was not satisfied, the Board used its discretion to accelerate the vesting of the Performance Rights as a condition of the John Griese's Termination and Release Deed.

The assessed fair value at grant date of Performance Rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above.

G Equity Instruments Issued on Exercise of Remuneration Options

No remuneration options were exercised by KMP during the financial year.

Remuneration Report (Audited)

H Loans with KMP

During the year, the Group:

- Received $31,000 on 20 December 2019 as a short term, unsecured and interest free loan from Anglo Menda Pty Ltd, a company indirectly owned by and controlled by Adam Blumenthal. Repayment is to be in cash upon receipt of the first tranche of new funding in 2020. The amount payable was settled in February 2020.
- Was owed $50,000 by EverBlu Capital Pty Ltd, a company of which Adam Blumenthal is the Chairman. Interest was not charged. The amount receivable from EverBlu Capital Pty Ltd was settled in February 2020 by offset against amounts payable to EverBlu Capital Pty Ltd.
- Issued 1,666,667 convertible notes to Suburban Holdings Pty Ltd, a related party of the Group.

I Other Transactions with KMP

During the year, the Group:

- Made payments to International Water and Energy Savers Ltd relating to Boaz Wachtel's Director's Fees. Total paid was $110,000. The outstanding balance at 31 December 2019 is $5,000.
- Incurred fees payable to EverBlu Capital Pty Ltd. Total paid was $1,131,383. The outstanding balance at 31 December 2019 was $336,323. Issued shares totalling 2,128,387 and options totalling 2,128,387.
- Incurred fees payable to Suburban Holdings Pty Ltd. Total paid during the year was $0. The outstanding balance at 31 Dec 2019 was $60,000. Issued shares totalling 3,595,114 and options totalling 2,727,272.

Further details of these transactions with KMP are provided below:

Cash Transactions with KMP Related Parties				
	Paid in 2019	Outstanding as at 31 Dec 2019	Total in 2019	Total in 2018
International Water and Energy Savers Ltd				
Director Fees for Boaz Wachtel	100,000	5,000	**105,000**	120,000
EverBlu Capital Pty Ltd				
Capital Raising Fees	958,038	30,654	**988,692**	145,200
Legal Fees	40,000	45,000	**85,000**	-
Monthly Retainer	100,000	20,000	**120,000**	120,000
IRESS charges recouped	3,345	669	**4,014**	4,707
Out of Scope Fees	30,000	240,000	**270,000**	-
Subtotal	**1,131,383**	**336,323**	**1,467,706**	269,907
Suburban Holdings Pty Ltd				
Debt Draw Down Fee	-	60,000	**60,000**	-
Total	**1,231,383**	**401,323**	**1,632,706**	**389,907**
	Received by Creso in 2019	**Owing as at 31 Dec 2019**	**Total in 2019**	**Total in 2018**
Tranche 1 Convertible Notes				
Suburban Holdings Pty Ltd				
Amount drawn down by Creso	1,500,000	-	**1,500,000**	-
Face value of amount owing to Suburban Holdings	-	1,666,667	**1,666,667**	-
Total	**1,500,000**	**1,666,667**	**3,166,667**	**-**

Other Share and Option Transactions with KMP Related Parties				
	2019		2018	
	Shares	Options	Shares	Options
EverBlu Capital Pty Ltd				
Debt Note Offer (ii)	1,150,000 (i)	1,150,000 (i)	-	-
Share Placement (ii)	528,387 (i)	528,387 (i)	-	-
Tranche 2 (ii)	450,000 (i)	450,000 (i)	-	-
Subtotal	**2,128,387**	**2,128,387**	**-**	**-**
Suburban Holdings Pty Ltd				
Tranche 1 Fee (iii)	261,780 (i)	2,727,272 (i)	-	-
Collateral Shares (iii)	3,333,334 (i)	-	-	-
Subtotal	**3,595,114**	**2,727,272**	**-**	**-**

Remuneration Report (Audited)

(i) Entitlements were not granted at 31 December 2019 but have subsequently been approved at the EGM on 28th Jan 2020 and will be issued in 2020.

(ii) 2,128,387 Shares to EverBlu Capital (or its nominee) in part consideration for its services in respect of the Capital Raising

(iii) 3,333,334 Shares issue as Collateral Shares and 261,780 Shares issued as Tranche 1 Fee Shares for nil cash consideration to Suburban Holdings Pty Ltd, a related Tranche 1 investor. 2,727,272 unlisted options issued to Suburban Holdings Pty Ltd as a Tranche 1 & Tranche 2 Investor for nil cash consideration, in part consideration for their subscription to the debt notes.

Other than the above, there were no other transactions with KMP during the year ended 31 December 2019.

J Additional Information

The earnings of the consolidated entity for the five years to 31 December 2019 are summarised below:

	2019 $	2018 $	2017 $	2016 $	2015 $
Revenue from products	3,626,427	558,382	91,609	7,484	-
Revenue from services	-	-	152,189	538	-
Royalty income	33,265	19,840	1,112	-	-
Total Revenue	**3,659,692**	**578,222**	**244,910**	**8,022**	**-**
EBITDA	(10,991,546)	(16,730,515)	(15,069,438)	(4,207,963)	(11,572)
Loss after income tax	(15,339,772)	(16,845,686)	(15,076,076)	(4,584,239)	(11,572)
Share Price	0.125	0.49	0.92	0.24	-
Basic EPS ($)	(0.10)	(0.14)	(0.18)	(0.14)	(0.0128)
Diluted EPS ($)	(0.10)	(0.14)	(0.18)	(0.14)	(0.0128)

End of Audited Remuneration Report

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DECLARATION OF INDEPENDENCE BY GILLIAN SHEA TO THE DIRECTORS OF CRESO PHARMA LIMITED

As lead auditor of Creso Pharma Limited for the year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Creso Pharma Limited and the entities it controlled during the period.

Gillian Shea
Partner

BDO East Coast Partnership

Sydney, 28 February 2020

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 31 December 2019

	Note	2019 $	2018 $
Revenue from continuing operations			
Revenue	4	**3,626,427**	558,382
Production costs	12	**(271,508)**	-
Cost of sales		**(1,733,109)**	(353,566)
Gross profit before fair value adjustments		**1,621,810**	204,816
Fair value adjustment on sale of inventory		**(298,827)**	-
Fair value adjustment on growth of biological assets		**802,907**	-
Gross profit		**2,125,890**	204,816
Other income			
Interest income	4	**57,093**	144,037
Royalty income		**33,265**	19,840
Other income		**25,468**	9,321
Expenses			
Administrative expenses	5(a)	**(1,505,407)**	(1,547,470)
Compliance and regulatory expenses		**(222,605)**	(450,073)
Consultancy and legal expenses	5(b)	**(3,769,054)**	(1,978,657)
Depreciation and amortisation expense	5(c)	**(401,667)**	(38,721)
Employee benefit expenses	5(d)	**(2,692,551)**	(3,041,271)
Exclusivity and Facilitation fees	5(e)	**-**	(1,449,929)
Finance costs	5(f)	**(2,090,013)**	(432,216)
Impairment of receivables	10	**-**	(102,147)
Impairment of other assets	15	**-**	(425,830)
Impairment of intangibles	14	**(3,040,934)**	-
Marketing and investor relations expenses		**(698,001)**	(1,231,530)
Occupancy expenses		**(122,373)**	(171,395)
Share-based payment expenses	24	**(2,356,008)**	(6,078,523)
Research and development expenses		**(286,026)**	(286,539)
Other expenses		**(247,106)**	(43,035)
Foreign exchange (gain)/losses		**(149,743)**	53,636
(Loss) from continuing operations before income tax		**(15,339,772)**	(16,845,686)
Income tax expense	6	**-**	-
(Loss) from continuing operations after income tax		**(15,339,772)**	(16,845,686)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**1,306,551**	(206,421)
Other comprehensive income for the year, net of tax		**1,306,551**	(206,421)
Total comprehensive (loss) for the year		**(14,033,221)**	(17,052,107)
(Loss) for the year attributable to:			
Non-controlling interest	32	**(285,391)**	(89,650)
Owners of Creso Pharma Australia Limited		**(15,054,381)**	(16,756,036)
		(15,339,772)	(16,845,686)
Total comprehensive (loss) for the year attributable to:			
Non-controlling interest		**(285,391)**	(89,650)
Owners of Creso Pharma Australia Limited		**(13,747,830)**	(16,962,457)
		(14,033,221)	(17,052,107)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Loss) per share for the year attributable to the members of Creso Pharma Limited:			
Basic loss per share (cents)	7	**(10.47)**	(14.89)
Diluted loss per share (cents)	7	**(10.47)**	(14.89)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 $	2018 $
ASSETS			
Current assets			
Cash and cash equivalents	8	**2,800,318**	6,390,538
Trade and other receivables	10	**1,698,499**	951,132
Inventories	11	**1,992,931**	443,535
Biological assets	12	**423,627**	-
Other assets	15	**-**	495,489
Total current assets		**6,915,375**	8,280,694
Non-current assets			
Property, plant and equipment	13	**11,270,479**	9,900,422
Intangible assets	14	**4,477,755**	4,101,178
Total non-current assets		**15,748,234**	14,001,600
Total assets		**22,663,609**	22,282,294
LIABILITIES			
Current liabilities			
Trade and other payables	16	**2,111,075**	2,970,505
Provisions	17	**51,255**	30,947
Borrowings	18	**3,227,318**	2,776,450
Total current liabilities		**5,389,649**	5,777,902
Total liabilities		**5,389,649**	5,777,902
Net assets		**17,273,960**	16,504,392
EQUITY			
Issued Capital	19	**46,528,519**	38,222,883
Reserves	20	**22,602,786**	14,799,082
Accumulated losses		**(51,857,345)**	(36,427,923)
Equity attributable to the owners of Creso Pharma Limited		**17,649,001**	16,594,042
Non-controlling interest		**(375,041)**	(89,650)
Total equity		**17,273,960**	16,504,392

The Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

For the Financial Year ended 31 December 2019

Group	Issued Capital $	Share-based Payment Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Non-Controlling Interest $	Total $
At 1 January 2019	**38,222,883**	**14,547,170**	**251,912**	**(36,427,923)**	**(89,650)**	**16,504,392**
Loss for the year	**-**	**-**	**-**	**(15,054,381)**	**(285,391)**	**(15,339,772)**
Other comprehensive income	**-**	**-**	**1,306,551**	**-**	**-**	**1,306,551**
Total comprehensive income/(loss) for the year after tax	**-**	**-**	**1,306,551**	**(15,054,381)**	**(285,391)**	**(14,033,221)**
Transactions with owners in their capacity as owners:						
Issue of share capital	**8,664,938**	**-**	**-**	**-**	**-**	**8,664,938**
Embedded derivative – convertible notes options	**-**	**378,741**	**-**	**-**	**-**	**378,741**
Share-based payments	**-**	**3,878,730**	**-**	**-**	**-**	**3,878,730**
Share issuance costs	**(359,302)**	**-**	**-**	**-**	**-**	**(359,302)**
Exchangeable shares issued for the acquisition of the cultivation licence	**-**	**2,239,682**	**-**	**-**	**-**	**2,239,682**
At 31 December 2019	**46,528,519**	**21,044,323**	**1,558,463**	**(51,482,304)**	**(375,041)**	**17,273,960**
At 1 January 2018	35,138,519	5,516,511	45,491	(19,671,887)	-	21,028,634
Loss for the year	-	-	-	(16,756,036)	(89,650)	(16,845,686)
Other comprehensive income	-	-	206,421	-	-	206,421
Total comprehensive income/(loss) for the year after tax	-	-	206,421	(16,756,036)	(89,650)	(16,639,265)
Transactions with owners in their capacity as owners:						
Issue of share capital, net of share issue costs	3,084,364	-	-	-	-	3,084,364
Issue of options	-	2,952,136	-	-	-	2,952,136
Share-based payments	-	6,078,523	-	-	-	6,078,523
At 31 December 2018	38,222,883	14,547,170	251,912	(36,427,923)	(89,650)	16,504,392

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

For the Financial Year ended 31 December 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers		**2,706,242**	570,904
Payments to suppliers and employees		**(12,054,538)**	(8,245,348)
Payments for research expense		**(316,275)**	(621,675)
Interest received		**57,093**	122,806
Interest paid		**(559,478)**	-
Net cash used in operating activities	8(a)	**(10,166,956)**	(8,173,313)
Cash flows from investing activities			
Payments for plant and equipment		**(1,922,600)**	(6,729,569)
Payments for intangibles		**(1,419,631)**	(629,759)
Acquisition of subsidiary - Kunna acquisition		**-**	10,814
Acquisition of subsidiary - Mernova Acquisition		**-**	(120,759)
Payment for investment in associate		**-**	(100)
Loans to associate		**-**	(425,977)
Loans to other entities		**-**	3,756,824
Net cash from investing activities		**(3,342,231)**	(4,138,526)
Cash flows from financing activities			
Proceeds from issue of shares		**9,710,160**	1,356,351
Proceeds from issue of options		**125,000**	2,562,136
Proceeds from borrowings		**13,323,500**	2,430,000
Repayment of borrowings		**(12,025,000)**	-
Borrowing costs		**(798,768)**	(117,486)
Payment of share issue costs		**(291,255)**	-
Net cash from financing activities		**10,043,637**	6,231,001
Net increase in cash and cash equivalents		**(3,465,550)**	(6,080,838)
Cash and cash equivalents at the beginning of the year		**6,390,538**	12,424,913
Effect on exchange rate fluctuations on cash held		**(124,670)**	46,463
Cash and cash equivalents at the end of the year	8	**2,800,318**	6,390,538

The Consolidated Statement of Cash Flows should read in conjunction with the notes to the financial statements.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

Creso Pharma Limited (referred to as "Creso" or the "Company") is a company domiciled in Australia. The address of the Company's registered office and principal place of business is disclosed in the Corporate Directory of the Annual Report. The consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "consolidated entity" or the "Group"). The Group is primarily involved in developing pharmaceutical-grade cannabis and hemp-based nutraceutical products and treatments.

(b) Basis of Preparation

Statement of compliance
The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB"). Creso is a for-profit entity for the purpose of preparing the financial statements.

The consolidated financial statements are presented in Australian Dollars unless otherwise noted.

The annual report was authorised for issue by the Board of Directors on 28 February 2020.

Basis of measurement
The consolidated financial statements have been prepared on a going concern basis in accordance with the historical cost convention, unless otherwise stated.

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 27.

New, revised or amended standards and interpretations adopted by the Group
The consolidated entity has adopted all the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease Commencement date if the interest rate implicit in the lease is not readily determinable. After the

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

There was no impact of the adoption of AASB 16 *Leases* as the practical expedient was applied whereby leases expiring in the first year after transition was excluded from application of the standard..

New standards and interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations is that they are not applicable.

Significant Judgements and Estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Going Concern

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

As disclosed in the financial statements, the consolidated entity incurred a loss of $14,033,221 (2018: $17,052,107) and had net cash outflows from operating of $10,166,956 (2018: $8,173,313) for the year ended 31 December 2019.

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

The ability of the Group to continue as a going concern is dependent on obtaining additional funding facilities scaling back corporate overheads and thereafter revenue growth in the operations in Canada and Switzerland and positive cash flows from operations during the financial year. At 31 December, the Group has access to additional tranches from existing convertible notes already on issue resulting in $4,232,500 further available but not yet drawn down. Subsequent to year end, the Group has also negotiated a new funding package with L1 Capital which gives the Group access to a further $17,482,500 in funding. Each draw down under the package is subject to the Company obtaining the agreement of L1 Capital and shareholder approval for the issue of securities to L1 Capital. The Group has drawn down $1,750,000 in funding between year end and the date of this report.

Management has prepared a cash flow projection for the period to 28 February 2021 that supports the ability of the consolidated entity to continue as a going concern subject to the events described above. However, forecast events frequently do not occur as expected as many external and internal factors impact on future events. This includes the uncertainty relating to the conversion or repayment of convertible notes issued.

The Directors are confident that sufficient funding will be raised in order to support the operations of the Group until such time that the Group incurs positive cash flows from operations.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the event that the Group is unable to achieve the matters detailed above, it may not be able to continue as a going concern and therefore the Group may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial statements.

No adjustments have been made to the recoverability and classification of recorded asset values and the amount and classification of liabilities that might be necessary should the consolidated entity and the Company not continue as going concerns.

(c) Principles of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Creso as at 31 December 2019 and the results of all subsidiaries for the year then ended. Creso and its subsidiaries together are referred to in this financial report as the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition method of accounting is used to account for business combinations by the consolidated entity. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

(d) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. Management has determined that based on the report reviewed by the Board and used to make strategic decisions, that the consolidated entity has three reportable segments.

(e) Foreign Currency Translation

Functional and presentation currency

Items included in the financial statements of each of the consolidated entity's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Australian dollars, which is Creso's functional and presentation currency.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Consolidated entity companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position account presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of profit or loss and other comprehensive income account are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(f) Revenue Recognition

The consolidated entity recognises revenue as follows:

Revenue from contract with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest revenue

Interest revenue is recognised as it accrues, using the effective interest method.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(h) Business Combination

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued, or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(i) Cash and Cash Equivalents

Cash on hand and in bank and short-term deposits are stated at nominal value. For the purpose of the statement of cash flows, cash includes cash on hand and in bank, and bank securities readily convertible to cash, net of outstanding bank overdrafts.

(j) Trade and Other Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

(k) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives to estimate residual value. The following estimated useful lives are used in the calculation of depreciation:

Buildings and Improvements	30 years
Plant and Equipment	3 – 10 years
Machinery Equipment	5 – 10 years
Irrigation and Lighting	5 – 10 years
Security Systems	5 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is consolidated entity policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

The Mernova Facility located in Halifax was completed in February 2019 but was not available for use until May 2019.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Intangible Assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Research and development
Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 to 10 years.

Intellectual Property
Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 to 10 years.

Licences
Significant costs associated with licences are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 to 30 years.

Software
Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Finite-lived intangible assets are recorded at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over the following terms:

Licences (Canadian)	Useful life of facility
Licences (Colombian)	3 – 10 years
Intellectual Property	5 – 10 years
Software	5 years

The estimated useful life and amortisation method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are comprised of certain acquired brand name, product rights, and licences to grow which are carried at cost less accumulated impairment losses. Indefinite life intangible assets are not amortised but are tested for impairment annually and when there is an indication of impairment.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(n) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received whether or not billed to the Group. Trade payables are usually settled within 30 days of recognition.

(o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fees are deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fees are capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Convertible Notes
When a conversion feature of a debt instrument results in the conversion of a fixed amount of stated principal into a fixed number of shares, it satisfies the ‘fixed for fixed’ criterion and, therefore, is classified as an equity instrument.

The value of the liability component and the equity conversion component were determined at the date the instrument was issued.

The fair value of the liability component at inception is calculated using a market interest rate for an equivalent instrument without a conversion option.

(p) Provisions

Provisions are recognised when the consolidated entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(q) Employee Benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(r) Share-based Payments

Equity-settled share-based compensation benefits are provided to Key Management Personnel and employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(t) Earnings Per Share

Basic earnings per share
Basic earnings per share are calculated by dividing:

- The profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share
Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account:

- The after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(u) Goods and Services Tax (“GST”)

Revenue, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables area stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

(v) Current and Non-Current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

(w) Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Investments in Associates

Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(y) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a weighted average basis. Cost comprises direct materials and delivery costs, direct labour and import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories of harvested cannabis and finished goods are valued at the lower of cost and net realisable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell up to the point of harvest, which becomes the initial deemed cost. All subsequent direct and indirect post-harvest costs are capitalised to inventory as incurred, including labour related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. Net realisable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories for resale and supplies and consumables are valued at the lower of costs and net realisable value, with cost determined using the weighted average cost basis. The cost of goods sold is comprised of the cost of inventories expensed in the period and the direct and indirect costs of shipping and fulfillment including labour related costs, materials, shipping costs, customs and duties, royalties, utilities, facilities costs, and shipping and fulfillment related depreciation.

AASB 141 Agriculture (Biological assets)
The Company's biological assets consist of cannabis plants. The Company capitalises all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs, and production related depreciation. The Company measures biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost inventories after harvest. Costs to sell includes post-harvest production, shipping and fulfillment costs. The net unrealised gains or losses arising from changes in fair value less cost to sell during biological transformation are included in profit or loss of the related period. Seeds are measured at fair value. The Company recognises the mother plants used for cloning the cannabis plants through the statement of profit or loss as they have a useful life less than one year.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss
Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income
Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets
The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

(aa) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

(bb) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(cc) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The category includes derivative instruments, including imbedded derivatives, with financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial liability out of fair value through profit or loss category.

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share based payments
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either a hybrid Monte Carlo or the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. The valuation model inputs are disclosed in note 24 and include forward-looking assumptions.

Income taxes
The consolidated entity is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity estimates its tax liabilities based on the consolidated entity's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Notes to the Consolidated Financial Statements

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND ASSUMPTIONS (continued)

Revenue from contracts with customers involving sale of goods
When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

Fair value measurement
A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.
The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- *Level 1*: Quoted prices in active markets for identical items (unadjusted)
- *Level 2*: Observable direct or indirect inputs other than Level 1 inputs
- *Level 3*: Unobservable inputs (i.e. not derived from market data)

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurements of the item. Transfers between items between levels are recognised in the period they occur. The Group measures a number of items at fair value, including the following which are considered level 3 in the fair value hierarchy:

- Biological assets (note 12)
- Embedded derivative portion of the convertible notes (note 18)

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Biological assets and inventory
Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stage of growth of the cannabis, harvesting costs, sales price and expected yields. These are detailed at Note 12.

NOTE 3 SEGMENT INFORMATION

The Group require operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segments and to assess their performance. On this basis, the Group's reportable segments under AASB 8 are as follows:

- Europe & Middle East includes Creso Pharma Switzerland GmbH ("Switzerland") which includes the development and commercialisation of its therapeutic products – located in Switzerland. Creso Grow Limited – Joint venture located in Israel. Hemp-Industries s.r.o. ("Hemp-Industries") (Sold on 29 March 2019) which included hemp growing operations, outsourced CBD extraction and CBD product sales activities – located in Slovakia.
- North America includes the operating company Mernova Medicinal Inc ("Mernova"), together with corporate holding companies Creso Canada Corporate Limited, Creso Canada Limited, 3321739 Nova Scotia Limited and Kunna Canada Limited, all located in Canada.
- South America includes Kunna S.A.S. located in Colombia.
- Asia Pacific includes the parent company Creso Pharma Limited ("Creso") which provides the Group's corporate administration – located in Australia.

Notes to the Consolidated Financial Statements

NOTE 3 SEGMENT INFORMATION (continued)

Such structural organisation is determined by the nature of risks and returns associated with each business segment and defines the management structure as well as the internal reporting system. It represents the basis on which the group reports its primary segment information to the Board.

The operating segment analysis presented in these financial statements reflects operations analysis by business. It best describes the way the group is managed and provides a meaningful insight into the business activities of the group.

The following table presents details of revenue and operating profit by business segment as well as reconciliation between the information disclosed for reportable segments and the aggregated information in the financial statements. The information disclosed in the table below is derived directly from the internal financial reporting system used by the Board of Directors to monitor and evaluate the performance of our operating segments separately.

Year ended 31 December 2019	**Asia Pacific $**	**Europe & Middle East $**	**North America $**	**South America $**	**Total $**
Revenue from products	-	2,765,824	860,603	-	3,626,427
Royalty income	33,265	-	-	-	33,265
Total segment revenue	33,265	2,765,824	860,603	-	3,659,692
Other income	16,660	14,465	51,436	-	82,561
Loss before income tax expense	(12,834,680)	(1,576,413)	(392,030)	(536,649)	(15,339,772)
Total Segment Assets	850,081	3,952,384	17,855,830	5,314	22,663,609
Total Segment Liabilities	4,936,937	214,609	224,446	13,657	5,389,649

Year ended 31 December 2018	**Asia Pacific $**	**Europe & Middle East $**	**North America $**	**South America $**	**Total $**
Revenue from products	2,290	556,092	-	-	558,382
Royalty income	19,840	-	-	-	19,840
Total segment revenue	22,130	556,092	-	-	578,222
Other income	127,172	17,523	8,663	-	153,358
Loss before income tax expense	(10,353,533)	(2,557,918)	(3,934,235)	-	(16,845,686)
Total Segment Assets	2,622,208	1,962,913	14,700,354	2,996,819	22,282,294
Total Segment Liabilities	3,457,840	362,151	1,951,095	6,816	5,777,902

NOTE 4 REVENUE AND OTHER INCOME

	2019 $	2018 $
Revenue from continuing operations		
Revenue from sale of products	**3,626,427**	558,382
Royalty income	**33,265**	19,840
	3,659,692	578,222
Other income		
Interest received	**57,093**	144,037
Lease income	**9,432**	8,663
Other Income	**16,036**	658
	82,561	153,358

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	2019	2018

Notes to the Consolidated Financial Statements

NOTE 4 REVENUE AND OTHER INCOME (continued)

Consolidated	$	$
Major product lines		
Medicinal cannabis packaged products	**2,765,824**	558,382
Dried cannabis plant products	**860,603**	-
Royalty Income	**33,265**	19,840
Total	**3,659,692**	578,222
Geographical regions		
Europe & Middle East	**2,765,824**	558,382
North America	**860,603**	-
Asia Pacific	**33,265**	19,840
Total	**3,659,692**	578,222
Timing of revenue recognition		
Goods transferred at a point in time	**3,626,427**	558,382
Royalty income	**33,265**	19,840
Total	**3,659,692**	578,222

NOTE 5 EXPENSES

(a) Administrative expenses		
Accounting and company secretarial fees	**629,072**	589,475
Travel costs	**406,369**	716,687
General and administration expenses	**469,966**	241,308
	1,505,407	1,547,470
(b) Consultancy and legal expenses		
Consulting fees	**1,348,126**	599,815
Corporate advisory and business development	**783,136**	715,980
Legal fees	**1,637,792**	662,862
	3,769,054	1,978,657
(c) Depreciation and amortisation expense		
Total depreciation per note (13)	**417,423**	17,293
Less: capitalised to inventory	**(279,188)**	-
Amortisation expense	**263,432**	21,428
	401,667	38,721
(d) Employee benefit expenses		
Director fees	**1,221,812**	1,029,884
Director bonuses	**-**	203,648
Wages and salaries	**1,246,574**	1,424,583
Recruitment fees	**22,523**	-
Superannuation	**89,964**	81,717
Other employee expenses	**111,678**	301,439
	2,692,551	3,041,271
(e) Exclusivity and facilitation fees		
Exclusivity fees (i)	**-**	429,929
Facilitation fees (ii)	**-**	1,020,000
	-	1,449,929

(i) Exclusivity fees of US$335,000 were paid to Kunna Canada in accordance with the acquisition Heads of Agreement.

Notes to the Consolidated Financial Statements

NOTE 5 EXPENSES (continued)

(ii) A facilitation fee was paid to a consultant as part of the Mernova Acquisition ("Acquisition"). The fee is equal to 10% of the total deal value in relation to the acquisition. The fee was recognised as a prepayment at 31 December 2017. Once the Acquisition was completed on 15 February 2018, the fee was expensed to the Statement of Profit or Loss and Other Comprehensive Income.

(f) Finance Costs

Loan servicing fees	**440,833**	270,000
Loan drawdown fees	**17,840**	85,766
Loan raising fees settled in options issued	**390,000**	-
Bank charges	**17,156**	-
Capital raising fees [(i)]	**368,268**	-
Interest expense	**855,916**	76,450
	2,090,013	432,216

NOTE 6 INCOME TAX EXPENSES

	2019	2018
The components of tax expense comprise:	**$**	$
Current tax		
Deferred tax	--	-
(a) Income tax expense reported in the of profit or loss and other comprehensive income	- -	-
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Loss before income tax expense	**(15,339,772)**	(16,845,686)
Prima facie tax benefit on loss before income tax at 30% (2018: 27.5%)	**(4,601,932)**	(4,632,564)
(b) Tax effect of:		
Tax effect on different tax rate of overseas subsidiaries	**387,846**	966,062
Share-based payments	**706,802**	1,844,901
Travel expenses	**3,556**	24,776
Legal expenses	**491,260**	143,770
Others non-deductible expenses	**1,252,070**	426,510
Tax losses not recognised	**1,760,398**	1,226,544
Total	**-**	-
(c) Deferred tax assets not brought to account are:		
Carried forward losses	**5,840,258**	**2,773,811**

The benefit for tax losses will only be obtained if:

- The Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; and
- The losses are transferred to an eligible entity in the Group; and
- The Group continues to comply with the conditions for deductibility imposed by tax legislation; and
- No changes in tax legislation adversely affect the consolidated in realising the benefit from the deduction for the losses.

Notes to the Consolidated Financial Statements

NOTE 7 LOSS PER SHARE

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	2019 $	2018 $
Net loss for the year	**(15,339,772)**	(16,845,686)
Non-controlling interest	**285,391**	89,650
Net loss for the year attributable to the owners of Creso Pharma Limited	**(15,054,381)**	(16,756,036)
Weighted average number of ordinary shares for basic and diluted loss per share.	**143,784,112**	112,552,436

Options on issue are not considered dilutive to the earnings per share as the Company is in a loss-making position.

Continuing operations

• Basic and diluted loss per share (cents)	**(10.47)**	(14.89)

NOTE 8 CASH AND CASH EQUIVALENTS

	2019 $	2018 $
Cash at bank and in hand	**2,800,318**	3,067,761
Funds held in trust	**-**	3,322,777
	2,800,318	6,390,538

Cash at bank earns interest at floating rates based on daily deposit rates. Short-term deposits are made in varying periods between one day and three months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. Funds held in trust earn interest at 1.4% per annum.

(a) Reconciliation of net loss after tax to net cash flows from operations

Loss for the financial year	**(15,339,772)**	(16,845,686)
Adjustments for:		
Depreciation and amortisation	**401,667**	38,721
Gain on foreign exchange	**149,743**	49,701
Share based payments	**2,356,008**	6,078,523
Impairment of receivables and other assets	**-**	527,977
Impairment of Colombian licences	**3,040,934**	-
Facilitation fees	**-**	1,020,000
Capitalised costs	**495,489**	-
Absorption of cost on depreciation	**279,188**	-
Other non-cash items	**76,161**	-
Changes in assets and liabilities		
Receivables	**(356,877)**	(9,795)
Inventories	**(1,549,395)**	(442,625)
Trade and other payables	**259,589**	1,382,448
Provisions	**20,309**	27,423
Net cash used in operating activities	**(10,166,956)**	(8,173,313)

Notes to the Consolidated Financial Statements

NOTE 8 CASH AND CASH EQUIVALENTS (continued)

(b) Non-cash investing and financing activities

Share issue on acquisition of subsidiary	**-**	2,956,363
Shares issued on acquisition of cultivation licence	**2,239,682**	-
Impairment on Colombian licence (note 14)	**(3,040,934)**	-

(c) Changes in liabilities arising from financing activities

	31 December 2018 $	Cash Flows $	Non-cash Flows $	31 December 2019 $
Proceeds from borrowings	**2,700,000**	**1,298,500**	**(820,340)**	**3,178,160**
Payment of interest on borrowings	**76,450**	**(76,450)**	**49,158**	**49,158**
	2,776,450	**1,222,050**	**(771,182)**	**3,227,318**

	31 December 2017 $	Cash Flows $	Non-cash Flows $	31 December 2018 $
Proceeds from borrowings	**-**	**2,430,000**	**270,000**	**2,700,000**
Payment of interest on borrowings	**-**	**-**	**76,450**	**76,450**
	-	**2,430,000**	**346,450**	**2,776,450**

NOTE 9 INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

Interests in associate is accounted for using the equity method of accounting. Information relating to associates is set out below:

Name		Principal place of business / Country of incorporation	Ownership interest **2019** %	2018 %
CLV Frontier Brands Pty Ltd	Developing terpene beers and non-alcoholic beverages	Estonia/ Australia	**33⅓%**	**33⅓%**

Reconciliation of the group's carrying amount		
Opening carrying amount	-	100
Share of (loss) after income tax	-	(100)
Closing carrying amount	-	-

On 12 March 2019, the Company decided, in conjunction with the Board of CLV, to cease funding the operations of the CLV joint Venture, due to the significant additional funding required to maintain a sustainable business. CLV's assets and liabilities were fully impaired at 31 December 2018 and the company's operations ceased as at 12 March 2019.

NOTE 10 TRADE AND OTHER RECEIVABLES	**2019** **$**	2018 $
Trade debtors	**1,017,229**	-
Goods and Services Tax ('GST') receivable	**172,763**	591,942
Canadian HST Receivable	**77,014**	231,583
Other deposits and receivables	**431,493**	127,607
CLV JV -Joint Venture	**-**	102,147
Less: Allowance for expected credit losses	**-**	(102,147)
	1,698,499	951,132

Allowance for expected credit losses

There are no expected credit losses and no loss recognised in the income statement for the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

NOTE 11 INVENTORIES	2019 $	2018 $
Finished goods – Medicinal cannabis packaged products	312,863	443,535
Finished goods – Harvested cannabis plant products	1,661,020	-
Finished goods – Consumables inventory	19,048	-
	1,992,931	443,535

During the year ended 31 December 2019, the Group recorded $271,508 (2018 - $nil) of productions costs. During the year ended 31 December 2019, the Group expensed $298,827 (2018 - $nil) of fair value adjustments on the growth of its biological assets included in inventory sold. As at 31 December 2019, the Group holds 684,184 kilograms of harvested cannabis (31 December 2018 – nil).

NOTE 12 BIOLOGICAL ASSETS

The Company's biological assets consist of 4,793 cannabis plants as at 31 December 2019. There were no biological assets as at 31 December 2018 as cultivation had not commenced. The continuity of biological assets is as follows:

	2019 $	2018 $
Carrying amount at 31 December 2018	-	-
Production costs capitalised	**1,852,120**	-
Increase in FVLCS due to biological transformation	**802,907**	-
Less: Transfer to inventory upon harvest	**(2,231,355)**	-
Carrying amount at 31 December 2019	**423,672**	-

The fair value was determined using an expected cash flow model which assumes the biological assets as at 31 December 2019 will grow to maturity, be harvested and converted into finished goods inventory and sold to Canadian licensed producers. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest. The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

The fair value of biological assets is determined using a valuation model to estimate expected harvest yield per plant applied to the estimated price per gram less processing and selling costs. Only when there is a material change from expected fair value used for cannabis does the Group make any adjustments to the fair value used. During the year, there was no material change to these inputs and therefore there has been no change in the determined fair value per plant.

Dried Flower

The dried flower model utilises the following significant assumptions:

	Weighted Average 31 December 2019
Weighted average of expected loss of plants until harvest	15%
Expected yields for cannabis plants (average grams per plant)	42
Expected number of growing weeks	12
Weighted average number of growing weeks completed as a percentage of total growing weeks at period-end	51%
Estimated selling price per gram	C$3.50
After harvest costs to complete and sell per gram	C$0.30
Reasonable margin on after harvest costs to complete and sell per gram	C$2.60

Notes to the Consolidated Financial Statements

Shake
The shake model utilises the following significant assumptions:

	Weighted Average 31 December 2019
Weighted average of expected loss of plants until harvest	15%
Expected yields for cannabis plants (average grams per plant)	33
Expected number of growing weeks	12
Weighted average number for growing weeks completed as a percentage of total growing weeks at period-end	51%
Estimated selling price per gram	C$1.50
After harvest costs to complete and sell per gram	C$0.30
Reasonable margin on after harvest costs to complete and sell per gram	C$1.00

The sales price used in the valuation of biological assets is based on the average expected selling price of cannabis products and can vary based on different strains being grown. Selling costs vary depending on methods of selling ad are considered based on the expected method of selling and the determined additional costs which would be incurred. Expected yields for the cannabis plant is also subject to a variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing. Management reviews all significant inputs based on historical information obtained as well as based on planned production schedules.

Sensitivity analysis
Assuming all other unobservable inputs are held constant, the following table presents the effect of a -10% change on the fair valuation of biological assets as at 31 December 2019.

Management has quantified the sensitivity of the inputs and determined the following:

- Selling price per gram – a decrease in the average selling price per gram by 10% would result in the biological asset value decreasing by $56,414 and inventory decreasing by $187,054.
- Harvest yield per plant – a decrease in the harvest yield per plant of 10% would result in the biological asset value decreasing by $42,362.

These inputs are level 3 on the fair value hierarchy and are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

Other disclosures
All cannabis, as finished good and biological assets, was not pledged as security for the Group's loans or borrowings in 2019 (2018: none).

At 31 December 2019, the Group had no commitments in relation to growing its cannabis (2018: nil).

$178,000 worth of government grants were received in relation to the Group's agricultural activities in 2019 (2018: nil)

NOTE 13 PROPERTY, PLANT AND EQUIPMENT	**2019** **$**	2018 $
Opening net book amount	**9,900,422**	50,996
Additions (Capital Expenditure and Acquired assets)	**1,922,600**	9,845,785
Disposals	**(26,819)**	(15,038)
Depreciation charge	**(417,423)**	(17,293)
Foreign exchange translation	**(108,301)**	35,972
Closing net book amount	**11,270,479**	9,900,422
Cost	**11,712,561**	9,925,081
Accumulated depreciation	**(442,082)**	(24,659)
Net book amount	**11,270,479**	9,900,422

Notes to the Consolidated Financial Statements

NOTE 13 PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Balance at 1 Jan 2019	Additions	Transfers from Capital Works	Disposals	Foreign Currency fluctuation	Depreciation expense	Balance at 31 Dec 2019
Construction work in progress	7,648,398	2,614	(7,648,398)	-	-	-	2,614
Land	366,859	-	-	-	20,151	-	387,010
Buildings & Improvement	-	22,432	9,096,222	-	(128,452)	(202,279)	8,787,923
Plant and equipment	1,885,165	7,704	(1,704,037)	(26,819)	-	(17,729)	144,284
Machine & Equipment	-	217,943	-	-	-	(26,026)	191,917
Irrigation & Lighting	-	1,516,566	-	-	-	(134,806)	1,381,760
Security System	-	411,554	-	-	-	(36,583)	374,971
Total	**9,900,422**	**2,178,813**	**(256,213)**	**(26,819)**	**(108,301)**	**(417,423)**	**11,270,479**

	Balance at 1 Jan 2018	Additions	Capital Works	Disposals	Foreign Currency fluctuation	Depreciation expense	Balance at 31 Dec 2018
Construction work in progress	-	-	7,648,398	-	-	-	7,648,398
Land	-	-	356,105	-	10,754	-	366,859
Buildings & Improvement	-	-	-	-	-	-	-
Plant and equipment	50,996	39,656	1,801,626	(15,038)	25,218	(17,293)	1,885,165
Machine & Equipment	-	-	-	-	-	-	-
Irrigation & Lighting	-	-	-	-	-	-	-
Security System	-	-	-	-	-	-	-
Total	**50,996**	**39,656**	**9,806,129**	**(15,038)**	**35,972**	**(17,293)**	**9,900,422**

NOTE 14 INTANGIBLE ASSETS

	2019 $	2018 $
Current		
Licences (Canadian)	**3,540,692**	507,282
Licences (Colombian)	**-**	2,985,565
Intellectual property	**927,287**	608,331
Computer software	**9,776**	-
	4,477,755	4,101,178

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Licences (Canadian) (a) $	Licences (Colombian) (b) $	Intellectual Property (c) $	Computer Software (d) $	Total $
Balance at 1 January 2019	507,282	2,985,565	608,331	-	**4,101,178**
Additions	3,144,544	55,369	456,225	13,485	**3,669,623**
Impairment(i)	-	(3,040,934)	-	-	**(3,040,934)**
Foreign exchange translation	(3,827)	-	15,147	-	**11,320**
Amortisation expense	(107,307)	-	(152,416)	(3,709)	**(263,432)**
Balance at 31 December 2019	**3,540,693**	**-**	**927,287**	**9,776**	**4,477,755**
Remaining amortisation period (years)	29	-	6	3	

Notes to the Consolidated Financial Statements

NOTE 14 INTANGIBLE ASSETS (continued)

Consolidated	Licences (Canadian) (a) $	Licences (Colombian) (b) $	Intellectual Property (c) $	Computer Software (d) $	Total $
Balance at 1 January 2018	-	-	-	-	**-**
Additions	507,282	2,985,565	629,759	-	**4,122,606**
Amortisation expense	-	-	(21,428)	-	**(21,428)**
Balance at 31 December 2018	**507,282**	**2,985,565**	**608,331**	**-**	**4,101,178**

(a) Licences Canadian
Comprise the cannabis cultivation licence granted by Health Canada to Mernova Medicinal Inc in March 2019. The directors have considered the recoverability of the Canadian licence, particularly in light of the current share price. The Mernova facility commenced cultivation six months ago, and directors are confident in the growth prospects of the business.

(b) Licences Colombia
Comprise licences to conduct R&D, cultivate, extract and export cannabis products, granted in Colombia to Kunna S.A.S., prior to that company's acquisition by Creso.

(c) Intellectual Property
Intellectual Property comprises trademarks, brands, and patents, under registration proceedings, as well as trade secrets and exclusive licence rights, all owned by Creso Pharma Switzerland GmbH.

(d) Computer software
Comprises bespoke software owned by Mernova Medicinal Inc for the management and valuation of biological assets.

(i) The Kunna Licences were acquired in December 2018, as part of the acquisition of Kunna Canada Limited and its wholly-owned subsidiary, Kunna S.A.S., and were carried at cost of acquisition. The Company has deferred its plans to develop cannabis cultivation, extraction and export operations in Colombia. The licences remain current and able to be utilised but, as a prudent measure pending the Group's future investment and activities in Columbia and given no future forecasted cash flows and indicators of impairment, the carrying value of the licences has been reduced to $nil. The resulting impairment cost of $3,040,934 is included in the Statement of Profit and Loss.

NOTE 15 OTHER ASSETS

	2019 $	2018 $
Current		
Shares issued pending cash received	-	-
Capitalised borrowing costs	-	495,489
	-	495,489
Non-Current		
Loan to CLV Frontier Brands Pty Ltd	-	425,830
Less: Impairment of loan – CLV Frontier Brands Pty Ltd[(i)]	-	(425,830)
	-	-

Movements in the provision for impairment of other receivables are as follows:

	2019	2018
Opening balance	**425,830**	578,726
Write-off of Hemp M&S OG provision	-	(578,726)
Write-off of CLV Frontier Brands provision	**(425,830)**	-
Additional provision recognised	-	425,830
Closing balance	-	425,830

Notes to the Consolidated Financial Statements

NOTE 16 TRADE AND OTHER PAYABLES

Trade payables	**1,030,843**	455,875
Payables to related parties (note 23)	**93,736**	11,368
Accrued expenses	**650,063**	2,062,394
Accrued expenses for related parties (note 23)	**250,587**	-
Income in Advance	**34,405**	209,540
Other payables	**51,441**	231,328
	2,111,075	2,970,505

NOTE 17 PROVISIONS

Employee provisions	**51,256**	30,974

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

Employee benefits obligation expected to be settled after 12 months	**-**	-

NOTE 18 Borrowings

Convertible notes	**3,147,160**	2,700,000
Loan from related party	**31,000**	-
Interest payable	**49,158**	76,450
	3,227,318	2,776,450

Convertible notes

Convertible notes on issue at 31 December 2018 were repaid during the year.

At 31 December 2019, the convertible notes comprise convertible note facilities issued in two tranches. Tranche 1 was 3,833,334 notes issued on 28 November 2019 at an issue price of $0.90 per note. Tranche 2 was 575,000 notes issued on 31 December 2019 at an issue price of $0.90 per note. On issue, the notes are convertible at a fixed conversion price of $0.35 subject to certain conditions being met. The conversion price represents a premium of 71% to the share price of the ordinary shares at the date the convertible notes were issued.

The Company must redeem the convertible notes by cash payments to the noteholders on dates which are 180 days and 270 days after the date the notes were issued, with a final payment 12 months after the date the notes were issued, at calculated amounts subject to certain terms and conditions. The noteholder can convert the notes at any time prior to the redemption dates, and the Company can redeem early at any time with penalties attached. Interest accrues daily on the notes at 4% per annum and is paid on fixed dates. The Company expects that the notes will be converted prior to maturity and will have a dilutive effect. The notes are secured by agreement over the Company's assets.

As part of the convertible note facilities, 6,272,725 of free options were issued at an exercise price of $0.40 with an expiration date of 36 months after issue and exercisable at any time.

Also as part of the convertible note facilities, 7,666,667 collateral shares have been available for issue to noteholders at any time. The collateral shares can be purchased at a price of $0.35 and the purchase consideration can be used to reduce the amount of the convertible note outstanding subject to various conditions. As at 31 December 2019, 4,333,333 collateral shares have been issued.

The net proceeds received from the issue of the convertible notes was $3,967,500 (being $3,450,000 for Tranche 1 and $517,500 for Tranche 2). These proceeds have been split between a financial liability element and an equity component. The financial liability component comprises the fair value of the convertible note together with the

Notes to the Consolidated Financial Statements

NOTE 18 Borrowings (continued)

embedded derivative financial liability relating to the collateral shares. The equity component represents the embedded derivative relating to the free options and has been credited to the options reserve.

The net proceeds on issue have been classified as follows:	
Equity component – free options	**378,741**
Liability component – convertible notes	**2,681,331**
Liability component – embedded derivative – collateral shares	**907,428**
Net proceeds on inception	**3,967,500**
Liability component – convertible notes	**2,681,331**
Transaction costs capitalised	**(481,744)**
Net borrowings recorded on inception	**2,199,587**

At 31 December 2019, the fair value of the liability components recorded was $3,147,160.

The convertible notes have been valued using the net present value discounted at an effective interest rate of 22% (inclusive of risk-free rate, market risk rate and operational risk rate and credit risk).

NOTE 19 ISSUED CAPITAL

(a) Issued and fully paid	**2019**		2018	
	No.	**$**	No.	$
Ordinary shares	**174,117,250**	**46,528,519**	124,187,665	38,222,883

Ordinary shares entitle the holder to participate in dividends and the proposed winding up of the company in proportion to the number and amount paid on the shares held.

(b) Movement in issued shares – 2019

	Number	**$**
At 1 January 2019	**124,187,665**	**38,222,883**
Issuance of shares	**39,129,585**	**4,912,660**
Exercise of options	**500,000**	**125,000**
Conversion of convertible notes	**10,300,000**	**5,150,000**
Less: Equity raising costs	**-**	**(359,302)**
Less: Listed options	**-**	**(1,522,722)**
At 31 December 2019	**174,117,250**	**46,528,519**

Movement in issued shares - 2018

	Number	**$**
At 1 January 2018	**109,505,544**	**35,138,519**
Vesting of performance rights	**6,150,000**	**-**
Exercise of options	**320,000**	**128,000**
Issue of consideration shares- Kunna acquisition	**8,212,121**	**2,956,364**
At 31 December 2018	**124,187,665**	**38,222,883**

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Notes to the Consolidated Financial Statements

NOTE 20 RESERVES	2019 $	2018 $
Share-based payments	**21,044,323**	14,547,170
Foreign currency translation reserve	**1,558,463**	251,912
	22,602,786	14,799,082

Movement reconciliation		
Share-based payments reserve		
Balance at the beginning of the year	**14,547,170**	5,516,511
Equity settled share-based payment transactions (Note 24)	**2,356,008**	6,078,523
Embedded derivative – convertible notes options	**378,741**	-
Listed options issued	**1,522,722**	2,952,136
Exchangeable shares issued for acquisition of the cultivation licence (i)	**2,239,682**	-
Balance at the end of the year	**21,044,323**	14,547,170
Foreign currency translation reserve		
Balance at the beginning of the year	**251,912**	45,491
Effect of translation of foreign currency operations to group presentation	**1,306,551**	206,421
Balance at the end of the year	**1,558,463**	251,912

Share-based payment reserve

(i) The share-based payment reserve is used to record the value of share-based payments provided to outside parties, and share-based remuneration provided to employees and directors. The issue of the exchangeable shares are considered a share-based payment and are valued using the Black-Scholes model. The $2,239,682 exchangeable shares issued for the acquisition of the cultivation licence were capitalised against the Mernova cultivation licence intangible. These shares were exercisable at 14 March 2019 and remained exercisable at 31 December 2019.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

NOTE 21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('Finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Notes to the Consolidated Financial Statements

NOTE 21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)
Market risk (continued)

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

		2019		
	EUR	**CHF**	**CAD**	**USD**
	€	**Fr.**	**$**	**$**
Cash and cash equivalents	**-**	**1,398,589**	**201,520**	**1,430**
Trade and other receivables	**-**	**432,299**	**571,632**	**461**
Trade and other payables	**-**	**144,080**	**190,416**	**9,567**

		2018		
	EUR	CHF	CAD	USD
	€	Fr.	$	$
Cash and cash equivalents	214	572,925	3,489,702	7,633
Trade and other receivables	777	28,981	573,767	311
Trade and other payables	84,917	6,286	1,756,901	7,132

The consolidated entity had net assets denominated in foreign currencies of $2,645,969 as at 31 December 2019 (2018: $3,118,755). Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% (2018: weakened by 5%/strengthened by 5%) against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been $132,000 lower/$132,000 higher (2018: $156,000 lower/$156,000 higher) and equity would have been $132,000 lower/$132,000 higher (2018: $156,000 lower/$156,000 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management’s assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange gain for the year ended 31 December 2019 was $1,311,734 (2018: loss of $206,421).

Price risk
The consolidated entity is not exposed to any significant price risk.

Interest rate risk
The consolidated entity's main interest rate risk arises from Short-term borrowings. Borrowings obtained at fixed rates expose the consolidated entity to fair value risk (no borrowings with a variable rate).

The consolidated entity's bank loans outstanding, totalling $3,227,318 (2018: $2,776,450), are principal and interest payment loans. Monthly cash outlays of approximately $15,000 (2018: $26,000) per month are required to service the interest payments. Convertible notes on issue at year end with a face value of $4,408,333 Interest accrue interest daily at 4% per annum and is paid on fixed dates. An official increase/decrease in interest rates of 100 (2018: 100) basis points will have an adverse/ favourable effect on profit before tax of $31,000 per annum. All principal and interest payments are due during the year ending 31 December 2020.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade and other receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Notes to the Consolidated Financial Statements

NOTE 21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Generally, trade receivables and other receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor or partner to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity Risk

Liquidity risk arises from the possibility that Creso might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity seeks to manage its liquidity risk through the following mechanisms:

- Maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets
- Matching the maturity profiles of financial assets and liabilities
- Maintaining the support of lenders
- Negotiating with stakeholders to defer payments and/or settle payments in equity
- Maintaining a reputable credit profile
- Managing credit risk related to financial assets

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2019	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Remaining contractual maturities $
Non-derivatives					
Non-interest bearing					
Trade and other payables	-	2,111,075	-	-	2,111,075
Interest-bearing - fixed rate					
Convertible notes	4%	4,408,333	-	-	4,408,333
Short-term loan		31,000	-	-	31,000
Interest expense		49,158	-	-	49,158
Total interest bearing		6,599,566	-	-	6,599,566
Maturity Analysis					
1 – 3 months		2,181,233	-	-	2,181,233
4 – 6 months		2,085,000	-	-	2,085,000
7 – 9 months		1,500,000	-	-	1,500,000
10 – 12 months		833,333	-	-	833,333
Total non-derivatives		6,599,566	-	-	6,599,566

Notes to the Consolidated Financial Statements

NOTE 21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Consolidated - 2018	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Remaining contractual maturities $
Non-derivatives					
Non-interest bearing					
Trade and other payables	-	2,970,505	-	-	2,970,505
Interest-bearing - fixed rate					
Short term loans	10%	2,776,450	-	-	2,776,450
Total non-derivatives		5,746,955			5,746,955

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

In the event that convertible notes (refer Note 18) are not converted to issued shares, the amount repayable is the face value of the note in each case.

	Amounts drawn down at subscription price $	Amounts repayable at face value $
November 2019 Tranche 1 Convertible Note Facility	3,450,000	3,833,333
November 2019 Tranche 2 Convertible Note Facility	517,500	575,000
Borrowings - Amounts Repayable under Convertible Securities as at 31 December 2019	3,967,500	4,408,333

As at 31 December 2019 the facilities available under the November Convertible Securities are:

	Initial Facility at subscription price $	Amounts drawn down at subscription price $	Facility available as at 31 December 2019 $
Tranche 1 Convertible Note Facility	5,500,000	3,450,000	2,050,000
Tranche 2 Convertible Note Facility	2,700,000	517,500	2,182,500
Total	**8,200,000**	**3,967,500**	**4,232,500**

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

NOTE 22 CAPITAL RISK MANAGEMENT

For the purpose of the Company’s capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company’s capital management is to maximise the shareholder value. The Company’s objective when managing capital is to safeguard the ability to continue as a going concern so that it can provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure.

Management effectively manages the company’s capital by regularly assessing the company’s financial risks and its capital structure in response to changes in these risks and the market.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There were no externally imposed capital requirements during the year.

Notes to the Consolidated Financial Statements

NOTE 23 RELATED PARTY DISCLOSURE

(a) Key Management Personnel Compensation

Details relating to key management personnel, including remuneration paid, are below.

	2019 **$**	2018 $
Short-term benefits	**1,647,628**	1,445,758
Post-employment benefits	**56,714**	43,897
Share-based payments	**1,446,039**	2,881,290
	3,150,381	4,370,945

Information regarding individual Directors and Key Management Personnel compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

(b) Transactions with related parties

During the year, the Group had transactions with related parties as follows:

	2019 **$**	2018 $
Everblu Capital Pty Ltd - a company of which Adam Blumenthal is the Chairman		
Capital raising fees payable in cash (i)	988,692	145,200
Legal fees	85,000	-
Monthly retainer	120,000	120,000
IRESS service fees	4,014	4,707
Out of scope fees	270,000	-
Amount payable to Creso (ii)	(50,000)	-
	1,417,706	269,907
Balance owing to EverBlu Capital Pty Ltd at 31 December	**336,323**	10,335
Balance owing to Creso at 31 December	**50,000**	-
Suburban Holdings Pty Ltd – related party		
Draw down fees	60,000	-
Balance owing at 31 December	**60,000**	**-**
Tranche 1 Convertible Notes		
Amount drawn down by Creso	(1,500,000)	**-**
Face value of amount owing to Suburban Holdings	1,666,667	**-**
Anglo Menda Pty Ltd – related party		
Short term loan to Creso	31,000	-
Balance owing at 31 December	**31,000**	**-**
International Water and Energy Savers Ltd - a company controlled by Boaz Wachtel		
Director's Fees for Boaz Wachtel	105,000	120,000
Balance owing to International Water and Energy Savers Ltd at 31 December	**5,000**	**10,000**

(i) Capital Raising Fees payable in cash comprise 6% of funding amounts raised. Additional fees may be payable in certain instances in Creso securities as agreed with Creso and announced to the ASX at the time.

(ii) Cash receivable by Creso of $50,000 was owed by EverBlu Capital Pty Ltd. Interest has not been charged. The amount receivable was settled in February 2020 by offset against existing EverBlu invoices payable by Creso.

Notes to the Consolidated Financial Statements

NOTE 23 RELATED PARTY DISCLOSURE (continued)

Other Share and Option Transactions with KMP Related Parties				
	2019		2018	
	Shares	Options	Shares	Options
EverBlu Capital Pty Ltd				
Debt Note Offer (ii)	1,150,000 (i)	1,150,000 (i)	-	-
Placement (ii)	528,387 (i)	528,387 (i)	-	-
Tranche 2 (ii)	450,000 (i)	450,000 (i)	-	-
Subtotal	**2,128,387**	**2,128,387**	**-**	**-**
Suburban Holdings Pty Ltd				
Tranche 1 Fee (iii)	261,780 (i)	2,727,272 (i)	-	-
Collateral Shares (iii)	3,333,334 (i)	-	-	-
Subtotal	**3,595,114**	**2,727,272**	**-**	**-**

(i) Entitlements were not granted at 31 December 2019 but have subsequently been approved at the EGM on 28 January 2020 and were issued in 2020.

(ii) 2,128,387 Shares to EverBlu Capital (or its nominee) in part consideration for its services in respect of the Capital Raising.

(iii) 3,333,334 Shares issue as Collateral Shares and 261, 780 Shares issued as Tranche 1 Fee Shares for nil cash consideration to Suburban Holdings Pty Ltd, a related Tranche 1 investor. 2,727,272 unlisted options issued to Suburban Holdings Pty Ltd as a Tranche 1 & Tranche 2 Investor for nil cash consideration, in part consideration for their subscription to the debt notes.

Terms and conditions

All transactions with related parties were reviewed by the Board and were made on normal commercial terms and conditions and at market rates.

NOTE 24 SHARE-BASED PAYMENTS

	2019	2018
	$	$
(a) Recognised share-based payment transactions		
Unlisted options issued	**226,070**	390,000
Listed options issued	**1,522,722**	-
Adviser options issued	**132,275**	-
Performance rights issued	**4,237,345**	6,078,523
Shares issued for acquisition of subsidiary	**-**	2,956,364
	6,118,412	9,424,887
Reconciliation:		
Recognised as share-based payment expenses in statement of profit and loss and other comprehensive income	**2,356,008**	6,078,523
Borrowings costs recognised as prepayment	**-**	390,000
Conversion of options	**1,522,722**	-
Payment for intangible acquired (refer Note 14)	**2,239,682**	2,956,364
	6,118,412	9,424,887

Share based payments are valued on the bases set out in Note 1 (r) of Significant Accounting Policies (page 52)

Notes to the Consolidated Financial Statements

NOTE 24 SHARE-BASED PAYMENTS (CONTINUED)

For share-based payments issued during a financial year the parameters used in the valuations are set out in the share-based payments note to the financial statements in that year.

(b) Movements in unlisted options during the year

Grant Date	Issue Date	Date of Expiry	Exercise Price	Balance at the start of the year	Issued during the year	Exercised during the year	Expired/ Cancelled during the year	Balance at the end of the year
				8,176,250				
13-10-2016	13-10-2016	13-10-2019	$0.20	-	-	(250,000)	(2,250,000)	-
06-12-2016	06-12-2016	27-06-2020	$0.40	-	-	-	(200,000)	-
25-01-2017	25-01-2017	27-07-2019	$0.30	-	-	-	(250,000)	-
01-02-2017	01-02-2017	27-07-2021	$0.40	-	-	-	(140,000)	-
10-10-2017	10-10-2017	13-04-2019	$0.80	-	-	(250,000)	(250,000)	-
				8,176,250	**-**	**(500,000)**	**(2,840,000)**	**4,836,250**
Weighted average exercise price				$0.36	-	$0.20	$0.27	$0.36

(c) Summary of listed options issued during the year

Options	Issue Date	Date of Expiry	Issue Price	Exercise Price	Balance at start of the year	Issued during the year	Exercised during the year	Expired/ Cancelled during the year	Balance at end of the year
					55,142,710				
Shareholders (i)	30-01-2019	21-08-2020	-	$0.80	-	2,018,516	-	-	2,018,516
Shareholders (i)	01-02-2019	21-08-2020	-	$0.80	-	185,185	-	-	185,185
Lender (ii)	02-07-2019	21-08-2020	$0.50	$0.80	-	15,450,000	-	-	15,450,000
					55,142,710	**17,653,701**	**-**	**-**	**72,796,411**

(i) These options were issued to the shareholders as part of the Placement of Shares on 30 January 2019 and 1 February 2019 respectively.

(ii) These options were issued to the lenders as part of the conversion of Convertible Notes on 2 July 2019.

(d) Summary of performance rights granted and vested during the year

Balance at the start of the year	Granted during the year	Vested during the year	Cancelled during the year	Balance at the end of the year
14,986,000	**500,000**	**(10,850,000)**	**(1,050,000)**	**3,496,000**

Performance rights issued in the prior year are straight-forward, non-market-based performance rights, with no consideration upon achievement

31 December 2019 – Performance Rights

	02-07-2019
Share Price at Grant Date	$0.51
Exercise Price	N/A
Volatility (up to date of issue)	N/A
Issue Date	02-07-2019
Grant Date	02-07-2019
Vesting Date	02-07-2024
Risk-free Rate	N/A
Number of Rights Granted	500,000
Value per Right	$0.51

In relation to the performance rights issued in the current year these rights are straight-forward, non-market-based performance rights, with no consideration upon achievement.

Notes to the Consolidated Financial Statements

NOTE 24 SHARE-BASED PAYMENTS (CONTINUED)

(e) Summary of performance shares granted during the year

Balance at the start of the year	Granted during the year	Vested during the year	Cancelled during the year	Balance at the end of the year
2,212,120	-	-	(1,000,000)	1,212,120*

* Each Performance Share will be exchanged for one ordinary share in Creso Pharma Limited in the event Kunna S.A.S. successfully cultivates and sells 10kg of cannabis extract (with a minimum of 6% CBD or 6% THC in flower), which must occur on commercial arm's length terms, from its operations within 18 months of Settlement.

In relation to the performance shares issued, these shares are straight-forward, non-market-based performance shares, with no consideration upon achievement. No value has been recorded in relation to the performance shares as the probability attributed to the performance measure being achieved is nil and therefore the fair value is considered to be nil.

	CPHPERSB	CPHPERSC	CPHPERSD	CPHPERSE
Share Price at Grant Date	$0.36	$0.36	$0.36	$0.36
Exercise Price	N/A	N/A	N/A	N/A
Volatility (up to date of issue)	N/A	N/A	N/A	N/A
Grant Date	20-12-2018	20-12-2018	20-12-2018	20-12-2018
Expiry Date	20-06-2020	20-06-2020	20-06-2020	20-06-2020
Risk-free Rate	N/A	N/A	N/A	N/A
Number of shares Granted	303,027	303,027	303,027	303,039
Value per shares	$0.36	$0.36	$0.36	$0.36
Face value of Rights	$109,090	$109,090	$109,090	$109,094
Probability at acquisition and reporting date	0%	0%	0%	0%

NOTE 25 COMMITMENTS

	2019	2018
	$	$
Capital Commitments		
Capital expenditure budgeted for at the reporting date but not recognised as liabilities) is as follows:		
Construction of the medicinal growing facility in Canada	-	1,221,338
	-	1,221,338
Operating Lease Commitments		
Within one year	**29,240**	69,840
One to five years	-	2,441
More than five years	-	-
	29,240	72,281
Milestone 2 Commitments		
Cash payable in equal monthly instalments over 9 months commencing February 2020.	**877,097**	-
	877,097	-

NOTE 26 CONTINGENCIES

As part of the acquisition of Mernova Medicinal Inc., the Company issued 8,300,000 fully paid Exchangeable Preferred Shares (Exchangeable Shares) in a Canadian subsidiary of the Group (Creso Canada Corporate Limited). Each Exchangeable Share becomes exchangeable, at the election of the Mernova vendors, for fully paid ordinary shares in the Company (Shares). In accordance with the terms of the shareholder approval and ASX Listing Rule 7.1 waiver, obtained in December 2017, the Mernova vendors can elect to exchange the Exchangeable Shares for a maximum of 13,174,604 Shares at any time until 11 December 2022. There were two milestones attached to the acquisition. Milestone 1 was achieved during the year.

Notes to the Consolidated Financial Statements

NOTE 26 CONTINGENCIES (continued)

As at 31 December 2019, Milestone 2 had not been achieved. As such, Milestone 2 Exchangeable Shares had not vested and the Milestone 2 cash payment of C$800,00 was not payable. Subsequent to the year end, upon Creso Pharma Limited's announcement in February 2020, Milestone 2 was achieved and 4,150,000 Milestone 2 Exchangeable Shares became exchangeable into Shares and C$800,000 became payable to the Mernova vendors and The Company and the Mernova vendors have reached an agreement to settle this payment in equal monthly instalments over 9 months commencing February 2020.

Other than the above, there have been no material changes to contingent liabilities since 31 December 2019.

NOTE 27 AUDITOR'S REMUNERATION

During the financial year the following fees were paid or payable for services provided by BDO East Coast Partnership, the auditor of the company, its network firms and unrelated firms:

	2019	2018
	$	$
Audit Services- BDO East Coast Partnership (RSM Australia Partners for 2018)		
Audit and review of annual and half-year	290,000	142,500
Other services – BDO		
– Independent limited assurance report	61,000	-
– Independent Expert Report	50,000	-
Other services – RSM Australia Partners		
– Income tax return	15,807	9,075
Component Auditor Fees		
Audit and reviews of the financial statements	97,726	49,758
	514,533	201,333

NOTE 28 INVESTMENT IN CONTROLLED ENTITIES

Company Name	**Principal Activities**	**Country of Incorporation**	**Ownership interest 2019 %**	**Ownership interest** 2018 %
Creso Pharma Switzerland GmbH	Development of therapeutic products	Switzerland	**100**	100
Hemp-Industries s.r.o.	Hemp cultivation and outsourced CBD extraction Entity sold on 29 March 2019	Slovakia	**-**	100
Creso Canada Limited	Corporate entity	Canada	**100**	100
Creso Canada Corporate Limited	Corporate entity	Canada	**100**	100
Mernova Medicinal Inc.	Cultivation of cannabis plants and sale of cannabis products	Canada	**100**	100
3321739 Nova Scotia Limited	Corporate Entity	Canada	**100**	100
Kunna Canada Limited	Corporate entity	Canada	**100**	100
Kunna S.A.S	Construction of medicinal cannabis growing facility	Colombia	**100**	100
Creso Grow Limited*	Construction of medicinal cannabis growing facility	Israel	**74**	74

* Summarised financial information is not disclosed for the subsidiary with non-controlling interests as it is not material to the consolidated entity.

Notes to the Consolidated Financial Statements

NOTE 29 PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income

	2019 $	2018 $
Total current assets	**950,816**	2,622,209
Loans receivable and investments in controlled entities	**29,469,593**	27,719,890
Provision against Loans to and investments in controlled entities	**(8,209,512)**	(10,379,856)
Total non-current assets	**21,260,081**	17,340,034
Total assets	**22,210,897**	19,962,243
Total current liabilities	**4,936,937**	3,457,851
Total liabilities	**4,936,937**	3,457,851
Equity		
Contributed equity	**46,528,519**	38,222,882
Reserves	**21,044,323**	14,547,169
Accumulated losses	**(50,298,882)**	(36,265,659)
Total equity	**17,273,960**	16,504,392
Total comprehensive loss	**(14,033,222)**	(20,648,726)

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2019 and 31 December 2018.

<u>Capital commitments – Property, plant and equipment</u>

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2019 and 31 December 2018.

<u>Significant accounting policies</u>

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Notes to the Consolidated Financial Statements

NOTE 30 INTEREST IN ASSOCIATE

Interests in associates are accounted for using the equity method of accounting. Information relating to associates is set out below:

		Ownership interest	
	Principal place of business /	**2019**	**2018**
Name	**Country of incorporation**	**%**	**%**
CLV Frontier Brands Pty Ltd	Estonia/Australia	33⅓%	33⅓%

Summarised financial information	**CLV Frontier Brands Pty Ltd**	
	2019	**2018**
	$	**$**
Summarised statement of financial position		
Current assets	-	45,457
Non-current assets	-	11,330
Total assets	-	56,787
Current liabilities	-	222,590
Non-current liabilities	-	-
Total liabilities	-	222,590
Net Liability	-	(165,803)
Summarised statement of profit or loss and other comprehensive income		
Revenue	-	10,607
Cost of sales	-	(8,884)
Other income	-	3,517
Impairment of intangible assets	-	(986,626)
Expenses	-	(451,444)
(loss) before income tax	-	(1,432,830)
Income tax expense	-	-
(Loss) after income tax	-	(1,432,830)
Other comprehensive income	-	-
Total comprehensive (loss)	-	(1,432,830)

NOTE 31 EQUITY- NON-CONTROLLING INTEREST

	2019	2018
	$	$
Accumulated losses	**375,041**	89,650
	375,041	89,650

The non-controlling interest comprises a 26% (2018: 26%) equity holding in Creso Grow Limited.

Notes to the Consolidated Financial Statements

NOTE 32 EVENTS AFTER THE REPORTING DATE

Capital management and Funding

- 21 January 2020: Creso signed replacement Corporate Advisory and Transactional Mandates with EverBlu Capital Pty Ltd.
- 5 February 2020: Creso entered into a new Convertible Securities Agreement with L1 Capital Global Opportunities Master Fund (L1 Capital) to access up to $17,482,500. Under the agreement, the Company may request an initial advance of $1,750,000, to be advanced in two equal tranches. Prior to receiving the first tranche, the company must issue L1 Capital 9,000,000 fully paid ordinary shares as collateral shares and pay L1 Capital a fee of 4% of the advance. The Company also agreed, that in certain situations, the Company may be required to issue to L1 Capital up to a further 11,000,000 additional collateral shares, without requiring shareholder approval. The issue of the 9,000,000 shares and the agreement to potentially issue a further 11,000,000 shares falls within the Company's placement capacity under ASX Listing Rule 7.1. EverBlu Capital Pty Ltd acted as lead manager to this debt raising. EverBlu was paid a cash fee of $200,000 and was also issued, with shareholder approval granted on 28 January 2020, 4,000,000 shares and 4,000,000 options.
- 5 February 2020: The Company has also agreed to issue 1,000,000 Shares to Mozaik Asset Management Pty Ltd, a Tranche 1 Investor, in consideration for the termination and settlement of the Original Convertible Securities Agreement (and the associated Debt Notes) between the Company and Mozaik. As a result of this termination, 222,222 Tranche 1 Convertible Notes will no longer be issued to Mozaik.
- 6 February 2020: Drew down $840,000 net of 4% fees as the first part of the initial advance explained above – new Convertible Securities Agreement 5 February 2020.
- 11 February 2020: Drew down $840,000 net of 4% fees as the second and final part of the initial advance explained above – new Convertible Securities Agreement 5 February 2020.
- 11 February 2020: Issued 15,909,449 shares, comprising:
    - 8,125,000 shares to former secured lenders for nil cash consideration as part of a settlement.
    - 3,333,334 shares as Collateral Shares and 261,780 Shares issued as Tranche 1 Fee Shares for nil cash consideration to Suburban Holdings Pty Ltd, a related Tranche 1 Investor.
    - 2,128,387 shares to EverBlu Capital (or its nominees) in part consideration for its services in respect of the Capital Raising.
    - 139,394 shares as Tranche 2 Fee Shares for nil cash consideration to an unrelated Tranche 2 Investor (or its nominee).
    - 2,183,334 shares to consultants and advisers of the Company, in lieu of cash payments for corporate services.
- 18 February 2020: L1 Capital converted 575,000 Tranche 2 Convertible Notes into 6,388,889 Creso shares.

Performance payments

- 11 February 2020: issued 1,132,000 shares following the exercising of 1,132,000 vested performance rights.
- 14 February 2020, Creso confirmed the achievement of Milestone 2 in respect of the Company's acquisition of Mernova Medicinal Inc., as a result of which:
    a) 4,150,000 Milestone 2 Exchangeable Shares vested and became exchangeable for Creso shares. The Mernova vendors can elect to exchange the Milestone 2 Exchangeable Shares into a maximum of 6,587,302 Creso shares at any time until 11 December 2022; and
    b) a Milestone 2 cash payment of C$800,000 became payable to the Mernova vendors. In terms of an agreement between the Company and the Mernova vendors this payment will be settled in equal monthly instalments over 9 months commencing February 2020.

Other than the above, there has been no other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group.

The changes in number of Shares, Options, Performance Rights, Performance Shares and Convertible notes, as disclosed above, are also included in the table on page 20-21.

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial year ended on that date;

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

B. Wachtel.

BOAZ WACHTEL
Executive Chairman
28 February 2020

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INDEPENDENT AUDITOR'S REPORT

To the members of Creso Pharma Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Creso Pharma Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

Material uncertainty related to going concern

We draw attention to Note 1(b) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Related party transactions

Key audit matter	***How the matter was addressed in our audit***
The Group has disclosed related party transactions as required by AASB 124 *Related Party Transactions* in note 23 of the financial report. The Group has undertaken numerous related party transactions during the year. Related party disclosures are significant to our audit as they are material, and of interest to shareholders due to their nature and value.	Our audit procedures included, amongst others: • Reviewing documentation for a sample of related party transactions, including all individually material transactions, to understand the underlying transactions and assessed whether they had been recorded correctly; • Obtaining confirmations from all key management personnel and related parties and comparing to disclosures; • Considering whether transactions with related parties were at arm's length. There was a particular focus on capital raising fees, which were assessed through comparisons to fees charged for similar transactions with arm's length parties by similar entities raising capital in order to benchmark the transactions; and • Considering the appropriateness of disclosures in the financial statements and ensuring the disclosures are in accordance with AASB 124 *Related Party Disclosures*.

Convertible notes

Key audit matter	*How the matter was addressed in our audit*
As disclosed in note 18 of the financial report, the Group has issued convertible notes during the year. The accounting for convertible notes was considered a key audit matter due to the complexity involved in assessing whether to account for the notes as equity, a liability or a combination of both, as well as the subsequent measurement of the individual components, based on the terms and conditions of the agreement. The assessment includes significant judgement and there is a high degree of estimation in determining the fair value of the separate components of the liability.	Our audit procedures included, amongst others: • Obtaining an understanding of and assessed the terms and conditions of the convertible note agreement to determine if the convertible notes were to be accounted for as equity, a liability or a combination of both; • Assessing the classification of each component as debt or equity under AASB 132 *Financial Instruments: Presentation*; • Considering the appropriateness of the valuation methodology against the requirements of the relevant Australian Accounting Standards; • Assessing the reasonableness of the inputs to the valuation; • Assessing the measurement and accounting for convertible notes subsequent to initial recognition; and • Reviewing the disclosures made within the financial report to ensure there were in line with the requirements of AASB 7 *Financial Instruments - Disclosures*.

Valuation of biological assets and inventory

Key audit matter	*How the matter was addressed in our audit*
The Group held biological assets of $390,979 (note 12) and inventory of $2,020,119 (note 11) at 31 December 2019. AASB 141 *Agriculture* require biological assets to be measured at fair value less costs to sell or, in the absence of a fair value, at cost less impairment. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell up to the point of harvest, which becomes the initial deemed cost.	Our audit procedures included, amongst others: • Reviewing AASB 141 and other applicable pronouncements to ensure the Group's accounting policy is in accordance with Australian Accounting Standards; • Obtaining management's valuation model and considering whether the inputs are reasonable and the model is mechanically accurate. This included obtaining an understanding of the inputs and outputs of the software used to track cannabis growth, and benchmarking these inputs and outputs against

We considered the valuation of biological assets to be a key audit matter due to the complexity of the valuation model and the significant estimates required as inputs to the valuation model.	available industry information and information obtained during the site visit; • Testing the underlying expenses which form the cost base of the valuation model, and reviewing the classification between different cost categories; • Assessing the stage of the lifecycle of the assets on hand at year end and whether they have been correctly reflected in the valuation model. This was done by conducting test counts and observation during a site visit at the cannabis cultivation facility; • Considering the classification of biological assets versus inventory; and • Considering the appropriateness of disclosures in the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 37 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Creso Pharma Limited, for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO East Coast Partnership

BDO

Gillian Shea
Partner

Sydney, 28 February 2020

Shareholder Information

The shareholder information set out below was applicable as at 12 February 2020.

1. QUOTATION

Listed securities in Creso Pharma Limited are quoted on the Australian Securities Exchange under ASX code CPH (Fully Paid Ordinary Shares) and CPHO (Listed Options).

2. VOTING RIGHTS

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

(a) at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and

(b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

There are no voting rights attached to any Options, Performance Shares, Performance Rights or Convertible Notes on issue.

3. ON MARKET BUY-BACK

There is no on-market buy back in place.

4. GROUP CASH AND ASSETS

In accordance with Listing Rule 4.10.19, the Company confirms that it has been using the cash and assets for the year ended 31 December 2019 in a way that is consistent with its business objectives and strategy.

5. RESTRICTED SECURITIES

There are no restricted securities listed on the Company's register as at 12 February 2020.

6. DISTRIBUTION OF SECURITY HOLDERS

6.1 Fully Paid Ordinary Shares

Shares Range	Holders	Units	%
1 – 1,000	2,167	1,519,665	0.75
1,001 – 5,000	4,185	11,039,055	5.48
5,001 – 10,000	1,393	10,979,958	5.45
10,001 – 100,000	1,639	47,915,712	23.79
100,001 and above	155	129,966,089	64.52
Total	**9,539**	**201,420,479**	**100.00%**

On 12 February 2020, there were 5,372 holders of unmarketable parcels of less than 8,116,762 ordinary shares (based on the closing share price of $0.135).

Shareholder Information

6.2 Listed CPHO Options exercisable at $0.80 on or before 21 August 2020

Shares Range	Holders	Units	%
1 – 1,000	959	544,551	0.75
1,001 – 5,000	897	2,355,646	3.24
5,001 – 10,000	182	1,372,140	1.88
10,001 – 100,000	168	4,130,846	5.67
100,001 and above	25	64,393,228	88.46
Total	**2,331**	**72,796,411**	**100.00%**

6.3 Unlisted Options

Class	Quantity on Issue	Distribution of Holders
CPHOPT2 Options ($0.40, 27/06/2020)	400,000	There are 2 holders, all holding more than 100,001 of securities in this class. The following holders hold more than 20% of the securities in this class: - Mr Isaac Kobrin holds 200,000 securities (50%) - Prof Felix Gutzwiller holds 200,000 securities (50%)
CPHOPT3 Options ($0.20, 13/10/2020)	2,886,250	All the securities in this class are held by: - Biolingus IP GmbH
CPHOPT5 Options ($0.50, 23/01/2021)	300,000	All the securities in this class are held by: - GBTPharma Ltd
CPHOPT12 Options ($0.60, 27/07/2020)	100,000	All the securities in this class are held by: - A & J Tannous Nominees Pty Ltd <Assad Tannous A/C>
CPHOPT14 Options ($0.80, 13/07/2021)	150,000	All the securities in this class are held by: - Mr Eugen Hans Merz
CPHOPT16 Options ($0.535, 27/07/2021)	200,000	All the securities in this class are held by: - Hession Group Pty Ltd <Palmaria A/C>
CPHOPT17 Options ($0.80, 27/07/2022)	200,000	All the securities in this class are held by: - Mr Walter Von Wartberg
CPHOPT18 Options ($0.55, 21/08/2021)	200,000	All the securities in this class are held by: - Hession Group Pty Ltd <Palmaria A/C>
CPHOPT19 Options ($0.80, 15/09/2022)	400,000	All the securities in this class are held by: - Carole Abel
CPHOPT20 Options ($0.35, 12/02/2023)	2,128,387	All the securities in this class are held by: - Atlantic Capital Holdings Pty Ltd <Atlantic Capital A/C>

Shareholder Information

CPHOPT21 Options ($0.40, 12/02/2023)	6,847,725	There are 4 security holders, each holding more than 100,001 of securities in this class. The following holders hold more than 20% of securities in this class: - CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C> holds 3,302,272 securities (48.22%) - Suburban Holdings Pty Ltd <The Suburban Super Fund A/C> holds 2,727,272 securities (39.83%)

6.4 Performance Rights

Class	Quantity on Issue	Distribution of Holders
CPHPERR6 Performance Rights	800,000	All the securities in this class are held by: - International Water Energy Savers Ltd
CPHPERR7 Performance Rights	800,000	All the securities in this class are held by: - International Water Energy Savers Ltd
CPHPERR16 Performance Rights	100,000	All the securities in this class are held by: - Stephane Redey
CPHPERR22 Performance Rights	66,000	There are 2 holders, all holding between 10,001 and 100,000 of securities in this class. The following holders hold more than 20% of the securities in this class: - Sean MacDougall holds 33,000 securities (50%) - Ian Kaye holds 33,000 securities (50%)
CPHPERR23 Performance Rights	66,000	There are 2 holders, all holding between 10,001 and 100,000 of securities in this class. The following holders hold more than 20% of the securities in this class: - Sean MacDougall holds 33,000 securities (50%) - Ian Kaye holds 33,000 securities (50%)
CPHPERR24 Performance Rights	132,000	There are 4 holders, all holding between 10,001 and 100,000 of securities in this class. The following holders hold more than 20% of the securities in this class: - Charles Williams holds 50,000 securities (37.88%) - Sean MacDougall holds 33,000 securities (25%) - Ian Kaye holds 33,000 securities (25%)
CPHPERR29 Performance Rights	300,000	All the securities in this class are held by: - Mr Christopher Grundy
CPHPERR32 Performance Rights	100,000	All the securities in this class are held by: - Mr Christopher Grundy

Shareholder Information

6.5 Performance Shares

Class	Quantity on Issue	Distribution of Holders
CPHPERSB Performance Shares	303,027	There are 17 holders, distributed as follows: - 1,001 – 5000 securities: 4 holders; - 5,001 – 10,000 securities: 6 holders; - 10,001 – 100,000 securities: 7 holders; None of the holders hold more than 20% of the securities in this class.
CPHPERSC Performance Shares	303,027	There are 17 holders, distributed as follows: - 1,001 – 5000 securities: 4 holders; - 5,001 – 10,000 securities: 6 holders; - 10,001 – 100,000 securities: 7 holders; None of the holders hold more than 20% of the securities in this class.
CPHPERSD Performance Shares	303,027	There are 17 holders, distributed as follows: - 1,001 – 5000 securities: 4 holders; - 5,001 – 10,000 securities: 6 holders; - 10,001 – 100,000 securities: 7 holders; None of the holders hold more than 20% of the securities in this class.
CPHPERSE Performance Shares	303,039	There are 17 holders, distributed as follows: - 1,001 – 5000 securities: 4 holders; - 5,001 – 10,000 securities: 6 holders; - 10,001 – 100,000 securities: 7 holders; None of the holders hold more than 20% of the securities in this class.

6.6 Convertible Notes

Class	Quantity on Issue	Distribution of Holders
CPHCON1 Convertible Notes	3,611,112	There are 3 security holders, each holding more than 100,001 of securities in this class. The following holders hold more than 20% of the securities in this class: - CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C> holds 1,666,667 securities (46.15%) - Suburban Holdings Pty Ltd <The Suburban Super Fund A/C> holds 1,666,667 securities (46.15%)
CPHCON2 Convertible Notes	575,000	All the securities in this class are held by: - CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>

Shareholder Information

7. SUBSTANTIAL SHAREHOLDERS

The names of the substantial shareholders in the Company and the number of equity securities to which each substantial holder and the substantial holder's associates have a relevant interest, as disclosed in substantial holding notices given to the Company as at 12 February 2020, are as follows:

Name: WHP Management Consulting GmbH
Holder of: 8,250,000 fully paid ordinary shares, representing 10.17% as at 31 March 2017
Notice Received: 3 April 2017

Name: Mohd Razali Abdul Rahman
Holder of: 7,000,000 fully paid ordinary shares, representing 8.06% as at 12 April 2017
Notice Received: 13 April 2017

Name: International Water Energy Savers Ltd
Holder of: 8,300,000 fully paid ordinary shares, representing 5.50% as at 2 July 2019
Notice Received: 2 July 2019

Name: Miriam Halperin Wernli
Holder of: 12,800,000 fully paid ordinary shares, representing 8.48% as at 2 July 2019
Notice Received: 15 July 2019

Name: Jamber Investments Pty Ltd <The Amber Schwarz Fam A/C>
Holder of: 15,825,250 fully paid ordinary shares, representing 9.09% as at 23 January 2020
Notice Received: 23 January 2020

Shareholder Information

8. TWENTY LARGEST SHAREHOLDERS AS AT 12 FEBRUARY 2020

	Name	Shares Held	%
1	JAMBER INVESTMENTS PTY LTD<THE AMBER SCHWARZ FAM A/C>	22,140,303	10.99%
2	MIRIAM HALPERIN WERNLI	12,500,000	6.21%
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,146,887	4.54%
4	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	8,847,971	4.39%
5	INTERNATIONAL WATER ENERGY SAVERS LTD	8,300,000	4.12%
6	ANGLO AUSTRALASIA HOLDINGS PTY LTD <ANGLO AUSTRALASIA A/C>	6,250,000	3.10%
7	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	4,275,787	2.12%
8	SUBURBAN HOLDINGS PTY LIMITED <SUBURBAN SUPER FUND A/C>	3,786,095	1.88%
9	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	3,450,914	1.71%
10	CITICORP NOMINEES PTY LIMITED	2,941,119	1.46%
11	ATLANTIC CAPITAL HOLDINGS PTY <ATLANTIC CAPITAL A/C>	1,958,387	0.97%
12	PHEAKES PTY LTD <SENATE A/C>	1,577,875	0.78%
13	DORSON COMMERCIAL CORP	1,549,618	0.77%
14	MR JAMES ANTHONY ELLINGFORD	1,450,000	0.72%
15	BLUEKNIGHT CORPORATION PTY LTD	1,333,334	0.66%
16	MR PEPPI SCHIANO DICOLA	1,300,000	0.65%
17	EIGHTEEN SPEED OVERDRIVE PTY LTD <THE GALAXY SUPERNOVA SF A/C>	1,157,501	0.57%
18	BB ENTERPRISES BVI	1,056,752	0.52%
19	S3 CONSORTIUM PTY LTD	1,000,000	0.50%
20	PEDRO TOSIN	925,063	0.46%
	Total	**94,947,606**	**47.14%**

Shareholder Information

9. TWENTY LARGEST LISTED CPHO OPTION HOLDERS AS AT 12 FEBRUARY 2020

	Name	Shares Held	%
1	CITICORP NOMINEES PTY LIMITED	42,236,869	58.02%
2	MIRIAM HALPERIN WERNLI	4,072,950	5.60%
3	PHEAKES PTY LTD <SENATE A/C>	3,250,000	4.46%
4	INTERNATIONAL WATER ENERGY SAVERS LTD	3,000,000	4.12%
5	ANGLO AUSTRALASIA HOLDINGS PTY LTD <ANGLO AUSTRALASIA A/C>	2,750,000	3.78%
6	JAMBER INVESTMENTS PTY LTD <THE AMBER SCHWARZ FAM A/C>	2,617,407	3.60%
7	MR GEORGE CHIEN HSUN LU & MRS JENNY CHIN PAO LU	1,308,850	1.80%
8	MR NAYAN DARJI	705,000	0.97%
9	SUBURBAN HOLDINGS PTY LIMITED <SUBURBAN SUPER FUND A/C>	592,442	0.81%
10	MR JAMES ANTHONY ELLINGFORD	550,000	0.76%
11	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	492,898	0.68%
12	MR POH SENG TAN	350,000	0.48%
13	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	348,846	0.48%
14	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	276,231	0.38%
15	MR ROGER WILLIAMS PATEK & MRS MAREE HELEN PATEK <THE R W P SUPER FUND A/C>	250,000	0.34%
16	LYNWAR PTY LTD <THE WILLJUNE A/C>	200,000	0.27%
16	MR BEN CHEE SIAH	200,000	0.27%
16	WALROO PTY LTD <RLW SUPERANNUATION FUND A/C>	200,000	0.27%
17	MR DARRYL THOMAS AYRIS <BAJJAT FAMILY A/C>	157,500	0.22%
18	MR DARRYL AYRIS & MRS AMANDA JANE AYRIS <DARAMA SUPER FUND A/C>	152,500	0.21%
19	MR JUERG THEODOR WEHRLI & MRS CLAUDIA WEHRLI <WEHRLI SUPERFUND A/C>	150,000	0.21%
19	HESSION GROUP PTY LTD <PALMARIA A/C>	150,000	0.21%
19	BLUE FEATHER (QLD) INVESTMENTS PTY LTD <BLUE FEATHER A/C>	150,000	0.21%
20	MRS NICOLETTE VICTORIA NEWELL & MR ANDREW MICHAEL NEWELL	125,000	0.17%
	Total	**64,286,493**	**88.31%**

Glossary of Terms and Abbreviations

AASB	Australian Accounting Standards Board. The AASB is responsible for developing, issuing and maintaining Australian accounting standards.
ACMPR	*Access to Cannabis for Medical Purposes* Regulations (Canada)
anibidiol®	Creso's complementary feed for companion animals with CBD from full spectrum hemp oil extract.
ASIC	Australian Securities and Investments Commission. ASIC is an independent Australian government body that acts as Australia's corporate regulator.
ASX	The Australian Securities Exchange is Australia's primary securities exchange. It is owned by the Australian Securities Exchange Ltd, or ASX Limited, an Australian public company.
cannaDOL®	Creso's range of organic CBD-based functional topicals designed to address the analgesic need in sports related muscle injuries, arthritis and osteoarthritis.
cannAPEAL®	Creso's sugar free Food Supplement in innovative buccal formulation containing hemp seed oil and vitamins used OTC (without prescription) targeting healthy aging and support of stress reduction in humans. cannAPEAL® is formulated in a proprietary delivery system maximizing absorption
cannaQIX® 10	Creso's sugar free non-euphoric Food Supplement in innovative buccal formulation containing CBD from full spectrum hemp oil extract, vitamins, minerals and capsicum used OTC (without prescription). Targets stress reduction and support of mental and nervous functions in humans
cannaQIX® 50	Creso's proprietary buccally formulated cannabidiol ("CBD") lozenge which is designed to support the management of chronic pain. Each lozenge contains 50mg of CBD from full spectrum hemp plant extracts along with niacin, vitamins B6, B12, C, and zinc in a standardised pharma-grade formulation produced in Switzerland
cannaQIX® NITE	Creso's sugar free non-euphoric Food Supplement in innovative buccal formulation containing CBD from full spectrum hemp oil extract, vitamins, minerals and capsicum used OTC (without prescription) targeting sleep improvement and stress reduction and support of mental and nervous functions in humans.
CBD	CBD is one of the two main substances in the cannabis plant, the most well- known phytocannabinoids – the other is THC. CBD promotes resilience to the adverse psychological effects of stress and reduces anxiety. CBD exerts positive pharmacological effects on conditions such as anxiety and psychosis, epilepsy, inflammation and pain, as well as diabetes, cancer and neurogenerative disorders. As opposed to THC, CBD does not produce euphoria, intoxication, tolerance, or any alterations in thinking and perception, nor any other psychoactive effects, neither in animals nor in humans.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Company	Creso or Creso Pharma Limited ACN 609 406 911
Corporations Act 2001	The Corporations Act 2001 (Cth) (the Corporations Act, or CA 2001) is an Act of the Commonwealth of Australia which sets out the laws dealing with business entities in Australia at federal and interstate level.
EBITDA	Earnings before interest, taxes, depreciation, and amortisation
EGM	Extraordinary General Meeting
EPS	Earnings per share
FVLCS	Fair value less costs to sell. The amount obtainable from the sale of the asset in an arm's length transaction, less the costs of disposal.
GMP	Good manufacturing practices are the practices required to conform to the guidelines recommended by agencies that control the authorisation and licensing of the manufacture and sale of food and beverages, cosmetics, pharmaceutical products, dietary supplements, and medical devices.
Group	Creso or Creso Pharma Limited ACN 609 406 911
GST	Goods and Services Tax (Australia)
HST	Harmonized Sales Tax (Canada)
IFRS	International Financial Reporting Standards

Glossary of Terms and Abbreviations

JV	Joint Venture. Creso has two joint ventures: • 74% share of Creso Grow Ltd in Israel. 26% is held by Cohen Propagation Nurseries. 33⅓% share of CLV Frontier Brands Pty Ltd. 33⅓% equal shares are held by each of LGC Capital Ltd and Baltic Beer Company Ltd.
KMP	Key Management Person/Personnel (excludes non-executive directors)
KPI	Key Performance Indicator - a measurable value that demonstrates how effectively a business objective is achieved.
LTI	Long Term Incentive
M&A	Mergers and Acquisitions
R&D	Research and Development (of products and processes).
RNC	Creso's Remuneration and Nominations Committee – a sub-committee of the Board
Shake	Shake consists of small pieces of cannabis flower that break off of larger buds, generally as the result of regular handling.
STI	Short Term Incentive
Terpene	Terpenes are a large and diverse class of organic compounds, produced by a variety of plants, particularly conifers, and by some insects. They often have a strong odour and may protect the plants that produce them by deterring herbivores and by attracting predators and parasites of herbivores. There are about 30,000 terpenes documented in literature with at least 100 found in the cannabis plant.
THC	THC is one of the two main substances in the cannabis plant, the most well- known phytocannabinoids – the other is CBD. THC is a phytocannabinoid responsible for the psychoactive effect of cannabis. It creates euphoria by stimulating the release of dopamine in the brain.
TSX-V	The TSX Venture Exchange is a stock exchange in Canada.