



ASX APPENDIX 4D

CRESO PHARMA LIMITED

ABN: 89 609 406 911

RESULTS FOR ANNOUNCEMENT TO THE MARKET FOR THE HALF-YEAR ENDED 30 JUNE 2022

(Previous corresponding period is the half-year ended 30 June 2021)

KEY INFORMATION	30-Jun-22	30-Jun-21	% Change
	\$	\$	
Revenue from ordinary activities	4,317,041	3,031,753	42%
Loss from ordinary activities after tax attributable to members	(7,089,976)	(18,966,748)	63%
Net loss attributable to members	(7,089,976)	(18,966,748)	63%

DIVIDEND INFORMATION

No dividend has been proposed or declared.

NET TANGIBLE ASSETS PER SECURITY

	30-Jun-22	30-Jun-21
Net tangible assets per security	0.012	0.024

LOSS PER SHARE

	30-Jun-22	30-Jun-21
	Cents	Cents
Basic earnings per share	(0.56)	(1.85)
Diluted earnings per share	(0.56)	(1.85)

CONTROL GAINED OR LOST OVER ENTITIES IN THE PERIOD

There have been no gains or losses of control over entities in the period ended 30 June 2022.



AUDIT QUALIFICATION OR REVIEW

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

OPERATIONAL AND FINANCIAL RESULTS

Refer to the Directors Report for an explanation of the operational and financial results of the Company. This report is based on, and should be read in conjunction with, the attached financial report for the half-year ended 30 June 2022 for Creso Pharma Limited, which has been reviewed by BDO Audit Pty Ltd.



31 August 2022

Half year report: Creso Pharma continues strong growth while reducing operating expenditure

Highlights

- **Group revenues for the half-year amounted to A\$4,317,041, a new record high and up 42% on the prior corresponding period (H1 2021: A\$3.031m)**
- **Major reduction of 63% in loss from ordinary activities (an A\$11.9m improvement on the PCP) following Board and management’s strategy to optimise cost base**
- **Delivery of record revenue with lower expenditure aligned with key objective of board and management to accelerate pathway to cash flow positive position**
- **Revenue does not include Sierra Sage Herbs LLC, which was acquired following the end of the half year and has continued to witness strong sales growth during H1 FY2022**
- **Post period-end, Creso Pharma strengthened its balance sheet with firm commitments for a \$7m equity raise, via a placement**
- **Post period-end, the Company made a non-binding indicative proposal to acquire Health House International, a specialist pharmaceutical distributor, which generated A\$15.2 m in cash receipts for the 12 months ended 30 June 2022**
- **If completed (pending due diligence), the combined group will leverage strengths of both businesses to create a diversified company with global capabilities in manufacturing and distribution**
- **Creso continues to execute on a leading product development and sales strategy while also implementing effective measures to reduce cash burn**

Creso Pharma Limited (ASX: CPH, FRA: 1X8) (‘Creso Pharma’ or ‘the Company’) is pleased to provide an update on activities and a summary of its financial results for the six-month period ended 30 June 2022 (“H1 FY2022”).

The Company continued to expand its footprint through ongoing M&A opportunities, considerably increase its revenue profile and has laid a strong foundation for H2 FY2022 and beyond.

Financial overview:

Group revenue from operating activities surged 42% on the prior corresponding period (PCP) to \$4,317,041 (H1 FY2021: \$3,031,753). This highlights a record for the Company and was underpinned by growth through Creso Pharma’s wholly-owned recreational cannabis division, Mernova Medicinal Inc. (“Mernova”) and Creso Pharma Switzerland.

The Company also reduced its loss from ordinary activities to \$7,089,976. This marked a 63% decrease on the PCP (H1 FY2021: \$18,966,748) despite increased M&A activity, product development and ongoing R&D through wholly-owned psychedelics division, Halucenex Life Sciences Inc. (“Halucenex”).



The reduction in operating expenditure follows the implementation of the Board and management's strategy to reduce corporate expenditure and continue to optimise Creso Pharma's cost base. The Board continues to focus on reducing operating expenditure across the group and is focused on reaching a cash flow positive position.

Commentary:

CEO and Managing Director Mr William Lay said: *"H1 2022 marked another exciting period of growth for Creso Pharma, with record revenues and the achievement of more key operational milestones in the pursuit of its strategic objectives.*

"Across its revenue-generating divisions, the Company continued to generate strong momentum in cannabis cultivation and sales, as well as building an expanded global footprint in the distribution of CBD products and making a number of exciting advances in preparation for planned Phase II clinical trials in its life sciences division.

"It is also important to note that the reported revenue does not include Sierra Sage Herbs LLC, which was acquired by the Company post period end and which has continued to achieve strong sales in recent months.

"The Board and management team were also pleased to update investors on more positive developments post period-end, including a non-binding proposal for the acquisition of international pharmaceutical distributor Health House International, and a recent \$7 million capital raising, which includes director commitments for participation into the recent placement for \$1.74 million (subject to shareholder approval).

"The capital injection comes at an important juncture for Creso Pharma, providing it with the requisite balance sheet strength to convert its H1 revenue momentum and push further towards positive net cash flow from operations.

"We look forward to providing more updates in H2 FY2022 as Creso Pharma continues to reduce operating expenditure and further establishes its position as a global, plant based, consumer products company, providing a diverse suite of high quality products to a global customer base."

-End-

Authority and Contact Details

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

For further information, please contact:

Investor Enquiries

Creso Pharma Limited
E: info@cresopharma.com
P: +61 (0) 497 571 532

About Creso Pharma

Creso Pharma Limited (ASX:CPH) brings the best of cannabis to better the lives of people and animals. It brings pharmaceutical expertise and methodological rigor to the cannabis world and strives for the



highest quality in its products. It develops cannabis and hemp derived therapeutic, nutraceutical, and life style products with wide patient and consumer reach for human and animal health.

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

Creso Pharma offices:

Australia

Suite 5 CPC, 145 Stirling Hwy, Nedlands, WA, 6009

Switzerland

Allmendstrasse 11, 6312 Steinhausen, Schweiz

Canada

59 Payzant Drive, Windsor, Nova Scotia, B0N 2T0 and 50 Ivey Ln, Windsor, Nova Scotia, B0N 2T0

Forward Looking statements

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

The cautionary statements qualify all forward-looking statements attributable to Creso and persons acting on its behalf. Unless otherwise stated, all forward-looking statements speak only as of the date of this announcement and Creso has no obligation to up-date such statements, except to the extent required by applicable laws.



CRESO
PHARMA

CRESO PHARMA LIMITED
ACN 609 406 911

HALF-YEAR FINANCIAL REPORT FOR
30 JUNE 2022

Financial Report

For the Half-year ended 30 June 2022

Contents

Corporate Directory	3
Directors' Report	4
Auditor's Independence Declaration	9
Consolidated Statement of Profit or Loss and Other Comprehensive Income	10
Consolidated Statement of Financial Position	11
Consolidated Statement of Changes in Equity	12
Consolidated Statement of Cash Flows	13
Notes to the Consolidated Financial Statements	14
Directors' Declaration	29
Independent Auditor's Review Report to the Members of Creso pharma limited	30

These interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual financial statements for the year ended 31 December 2021 and any public announcements made by Creso Pharma Limited during the interim reporting period in accordance with the continuous disclosure requirements of ASX Listing Rules and the *Corporations Act 2001*.

Corporate Directory

Board of Directors

Dr James Ellingford	(Non-Executive Chairman)
Mr William Lay	(CEO and Managing Director)
Mrs Micheline MacKay	(Executive Director)
Mr Adam Blumenthal	(Non-Executive Director)
Mr Boaz Wachtel	(Non-Executive Director)
Mr Bruce Linton	(Non-Executive Director)

Secretary

Ms Eryln Dawson and Mr Winton Willesee, jointly

Registered Office

Suite 5 CPC, 145 Stirling Highway
Nedlands, WA 6009
Australia

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

European Office

Allmendstrasse 11,
6312 Steinhausen
Switzerland

Telephone: +41 41 710 4706

Stock Exchange Listing

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

Auditors

BDO Audit Pty Ltd
Level 11, 1 Margaret St
Sydney, NSW 2000
Australia

Solicitors

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

Bankers

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

Share Registry

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

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

Directors' Report

The Directors of Creso Pharma Limited ("Creso" or "the Company") present their report, together with the financial statements on the consolidated entity consisting of Creso Pharma Limited and its controlled entities (the "Group") for the half-year ended 30 June 2022.

DIRECTORS

The names of the Company's Directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Dr James Ellingford	Non-Executive Chairman
Mr William Lay	CEO and Managing Director (appointed 17 January 2022)
Mrs Micheline MacKay	Executive Director (appointed 17 January 2022)
Mr Adam Blumenthal	Non-Executive Director
Mr Boaz Wachtel	Non-Executive Director
Mr Bruce Linton	Non-Executive Director (appointed 17 January 2022)

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were:

- a) to develop, register and commercialise pharmaceutical-grade cannabis and hemp-based nutraceutical products and treatments;
- b) to cultivate, process and sell cannabis products; and
- c) clinical trial and development of synthetic psilocybin micro and macro dose formulations to treat treatment-resistant depression and anxiety.

REVIEW AND RESULTS OF OPERATIONS

Overview

Creso is a leader in cannabidiol ("CBD") innovation, developing cannabis and hemp-derived nutraceuticals, cosmetics and therapeutic cannabis products with a broad range of applications in both human and animal health.

Creso's innovative CBD full plant-based nutraceutical products are non-psychoactive, as they only contain trace amounts of THC. The Company's defined strategy is to develop and globally commercialise pharmaceutical-grade cannabis and hemp-derived products, according to the highest GMP quality standards.

In addition, the Company cultivates and harvests cannabis plants through its wholly owned subsidiary Mernova Medicinal Inc. ("Mernova") and supplies cannabis retail products throughout Canada.

Over the course of 2022 to date, Mernova has achieved several significant milestones and has successfully advanced its business plan. This includes the installation of an improved management team, with Micheline MacKay taking on the role of Managing Director. Mernova has met its targets to continue growing revenues, primarily driven by:

- 1) continued excellence in product quality;
- 2) entrance into new markets;
- 3) introduction of new strains;
- 4) implementation of a vape program; and
- 5) the appointment of Great North Distributors to represent the company's products to individual retail locations and provincial boards.

Mernova has also taken material steps to optimize its cost structure, having identified and executed on opportunities to improve operating margins; a process that is ongoing and will continue to provide incremental benefits in future reporting periods.

Through its wholly owned, Canadian based psychedelics subsidiary, Halucenex Life Sciences Inc. ("Halucenex"), acquired in July 2021, the Company is also focused on the development of synthetic and botanical psilocybin treatments for Treatment Resistant Post Traumatic Stress Disorder, and other mental health conditions. Since the acquisition, Halucenex has made strong progress ahead of its planned clinical trial and received a Dealer's Licence amendment that now includes production and packaging, opening new revenue lines in the future.

Throughout the first half of CY2022, Creso made rapid progress and continued its evolution in becoming a broader based consumer products company. The Company made important advancements, which were underpinned by several product launches, letters of intent and new market entries in line with its strategic objective to become a global leader in consumer products exploiting the properties of cannabis, hemp and psilocybin.

Directors' Report

Capital management and Funding

On 28 January 2022, the Company announced that 400,000 options had been exercised into shares for a consideration of \$20,000 and 1,470,588 shares were issued for a deemed issue price of \$0.085 for investor relations and marketing services.

On 25 February 2022, the Company announced that it had received firm commitments to raise \$5m via an equity placement of approximately 72.4m shares at an issue price of \$0.069, which included 4,612,320 shares to Director, Adam Blumenthal (which will be issued subject to shareholder approval).

On 2 March 2022, the Company announced it had issued 67,851,467 shares at an issue price of \$0.069 per share.

On 4 April 2022, the Company announced it had issued 200,000 shares as an equity incentive component to the Group accountant's remuneration and 800,000 performance rights to an employee of the Group under the Company's Employee Incentive Plan adopted by shareholders of Creso Pharma Limited on 24 June 2021.

On 15 June 2022, the Company announced it had issued 100,000 shares upon vesting and conversion of 100,000 CPHAM Performance Rights.

On 15 June 2022, the Company announced that 451 CPHO options (\$0.25, 2 Nov 2024) had been exercised into shares for a consideration of \$113.

Other

On 17 January 2022, the Company announced the appointment of three new directors, being Mr William Lay as Group CEO and Managing Director, Mr Bruce Linton as a Non-Executive Director and Mrs Micheline MacKay as Executive Director (who is also the Health Canada designated Responsible Person in Charge at Mernova).

Directors' Report

Financial Performance

The financial results of the Group for the half-year ended 30 June 2022 are:

	30-Jun-22	30-Jun-21
	\$	\$
Cash and cash equivalents	3,140,635	13,654,203
Net Assets	27,590,729	26,781,178
Revenue	4,317,041	3,031,753
Expenses	(11,467,259)	(22,033,721)
Net loss after tax	(7,089,976)	(18,966,748)

The financial result for the half-year ended 30 June 2022 is a net loss after tax of \$7,089,976 (30 June 2021: \$18,966,748). As at 30 June 2022, the Group had a net cash balance of \$3,140,635 (31 December 2021: \$7,184,405) and net assets of \$27,590,729 (31 December 2021: \$27,758,612).

COVID-19

The directors have considered, and as previously reported, the actual effects of the COVID-19 pandemic upon the Group's operations have been manageable, the timing and amounts of sales were not materially impacted during the half-year. The Board remains confident that the Company's strategies to develop its businesses in Canada and Switzerland will continue to adapt where necessary and progress toward their objectives. However, whilst ever the pandemic continues as at present, the Board is keenly aware of the potentially disruptive effects of it upon the Group's operations, as potential future effects upon customer demand for the Company's products and upon supply chains remain uncertain.

DIVIDENDS

No dividends have been paid or declared by the Group since the end of the previous financial year.

No dividend is recommended in respect of the current financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

Mergers and acquisitions

On 3 February 2022, the Company announced it was to enter the US CBD market through the strategic acquisition of established US-based business, Sierra Sage Herbs LLC and leading Green Goo brand ("SSH"). The material terms within the agreement are as follows; Creso, via its wholly owned subsidiary, Creso Pharma US, Inc, will purchase a 100% interest in SSH for a total upfront consideration of US\$21m, payable by the issue of fully paid ordinary shares in Creso, based on a Creso share price of \$0.083 per share. In addition to the upfront consideration, SSH vendors may also be entitled to certain earn-out milestone payments that can be paid either in shares or cash, the milestone payments could range between zero and US\$38.5m. Creso have also agreed to provide up to US\$1.7m of growth capital in the form of a loan, at the period end, US\$1.7m had been drawn.

Directors' Report

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

Mergers and acquisitions

Sierra Sage Herbs LLC

On 9 August 2022, the Company held a General Meeting, at which, the agreement to purchase all the share capital in Sierra Sage Herbs LLC was approved by shareholders of the Company, further details of the acquisition can be found on page 6.

On 29 August 2022, the Company announced that the acquisition had been completed. The deal enables the Company to establish a US presence in the consumer goods market.

Health House International Ltd

On 29 July 2022, the Company announced that it had signed a non-binding term sheet to acquire Health House International Ltd (ASX: HHI) ("HHI" or "Health House") under which it is proposed that Creso Pharma will acquire 100% of the shares in HHI by the way of a scheme of arrangement to be undertaken by HHI ("Scheme").

The non-binding term sheet is conditional upon completion of satisfactory due diligence on Health House and the parties entering into a formal Scheme Implementation Deed.

HHI is an international pharmaceutical distributor, specializing in (but not limited to) the distribution of medicinal cannabis products across Australasia, the UK and Europe.

Under the proposed Scheme, should it proceed, Creso will issue approximately one (1) Creso share for every two (2) Health House shares held by Health House shareholders based on a maximum equity value for Health House of \$4,630,388 subject to adjustments for anticipated Health House debt at completion of the Scheme (to be agreed). Should the Scheme proceed, this would give Health House shareholders approximately 7.3% interest in the expanded capital of Creso, with existing Creso shareholders retaining 92.7% ownership interest. In addition, for every four shares issued to the Health House shareholders by Creso, Health House shareholders will also receive one free option (exercise price \$0.08; expiring 4 years from issue).

Directors' Report

Capital management and funding

On 14 July 2022, the Company announced the issue of 100,000 shares as part consideration under a Brand Ambassador and Strategic Adviser Agreement with subsidiary, Creso Impactive Ltd.

On 4 August 2022, the Company announced it had received firm commitments to raise \$7m equity at an issue price of \$0.04 per share. Subject to shareholder approval, these commitments included a total of \$1.74m of the placement to be cornerstoned by Creso Directors Bruce Linton, Adam Blumenthal and William Lay.

On 8 August 2022, the Company announced the issue of 101,325,000 shares at \$0.04, raising \$4.1m of the total \$7m placement.

On 15 August 2022, the Company announced the issue of 30,175,000 shares at \$0.04, raising an additional \$1.2m bringing the total to \$5.3m of the total \$7m placement.

On 29 August 2022, the Company announced the issue of 100,000 shares as part consideration under a Brand Ambassador and Strategic Adviser Agreement with subsidiary, Creso Impactive Ltd.

There have been no other matters or circumstances that have arisen since 30 June 2022 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.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporation Act 2001 is set out immediately after this Directors' Report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors,



JAMES ELLINGFORD
NON-EXECUTIVE CHAIRMAN
31 August 2022

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

As lead auditor for the review of Creso Pharma Limited for the half-year ended 30 June 2022, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Gillian Shea
Director

BDO Audit Pty Ltd

Sydney, 31 August 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half-Year Ended 30 June 2022

	Note	2022 \$	2021 \$
Revenue from continuing operations			
Revenue	4	4,317,041	3,031,974
Other income	4	60,242	34,999
Expenses			
Raw materials and consumables used		(3,139,902)	(2,714,529)
Loss on fair value adjustments	10	(340,947)	(1,283,357)
Employee benefit expenses	5	(1,738,887)	(1,818,164)
Depreciation and amortisation expenses	5	(150,576)	(127,327)
Loss on disposal of assets	11	(195,326)	-
Administrative expenses	5	(5,507,370)	(13,930,484)
Other expenses		(385,544)	(463,064)
Finance costs	5	(8,707)	(1,696,796)
Loss from continuing operations before income tax		(7,089,976)	(18,966,748)
Income tax expense		-	-
Loss from continuing operations after income tax		(7,089,976)	(18,966,748)
Other comprehensive income			
Exchange differences on translation of foreign operations		1,072,358	697,417
Other comprehensive income for the period, net of tax		1,072,358	697,417
Total comprehensive loss for the year attributable to the members of Creso Pharma Limited		(6,017,618)	(18,269,331)
Loss per share for the year attributable to the members of Creso Pharma Limited:			
Basic and Diluted loss per share (cents)		(0.56)	(1.85)

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

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	30-June-22 \$	31-Dec-21 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	3,140,635	7,184,405
Trade and other receivables	8	2,068,197	1,101,790
Inventories	9	2,673,122	1,398,064
Biological assets	10	571,492	457,027
Total current assets		8,453,446	10,141,286
Non-current assets			
Property, plant and equipment	11	10,508,409	10,435,308
Intangible assets	12	8,713,543	8,314,320
Other assets	13	3,071,424	423,192
Total non-current assets		22,293,376	19,172,820
Total assets		30,746,822	29,314,106
LIABILITIES			
Current liabilities			
Trade and other payables	14	3,016,496	1,471,148
Provisions		139,597	84,346
Total current liabilities		3,156,093	1,555,494
Total liabilities		3,156,093	1,555,494
Net assets		27,590,729	27,758,612
EQUITY			
Issued capital	15	114,681,452	109,950,694
Reserves	16	14,637,291	12,631,327
Accumulated losses		(101,728,014)	(94,823,409)
Total equity		27,590,729	27,758,612

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 Half-Year Ended 30 June 2022

Group	Issued Capital	Share-Based Payment Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
At 1 January 2022	109,950,694	11,248,487	1,382,840	(94,823,409)	27,758,612
Loss for the year	-	-	-	(7,089,976)	(7,089,976)
Other comprehensive income	-	-	1,072,358	-	1,072,358
Total comprehensive income/(loss) for the year after tax	-	-	1,072,358	(7,089,976)	(6,017,618)
Transactions with owners in their capacity as owners:					
Issue of share capital	4,681,751	-	-	-	4,681,751
Issue of equity for services	125,000	1,033,798	-	-	1,158,798
Exercise of options	20,113	-	-	-	20,113
Share-based payments	-	85,179	-	-	85,179
Expired/exercised options transfer	-	(185,371)	-	185,371	-
Share issue costs	(96,106)	-	-	-	(96,106)
At 30 June 2022	114,681,452	12,182,093	2,455,198	(101,728,014)	27,590,729
At 1 January 2021	71,794,123	23,557,350	301,178	(82,000,480)	13,652,171
Loss for the year	-	-	-	(18,966,748)	(18,966,748)
Other comprehensive income	-	-	697,417	-	697,417
Total comprehensive income/(loss) for the year after tax	-	-	697,417	(18,966,748)	(18,269,331)
Transactions with owners in their capacity as owners:					
Issue of share capital	18,140,000	-	-	-	18,140,000
Issue of equity for services	2,856,000	2,602,066	-	-	5,458,066
Exercise of options	5,733,778	-	-	-	5,733,778
Issue of equity to extinguish liabilities	4,143,158	159,721	-	-	4,302,879
Share-based payments	-	32,238	-	-	32,238
Expired/exercised options transfer	-	(17,208,037)	-	17,208,037	-
Share issue costs	(2,268,624)	-	-	-	(2,268,624)
At 30 June 2021	100,398,435	9,143,338	998,595	(83,759,191)	26,781,177

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 Half-Year Ended 30 June 2022

	Note	30-Jun-22 \$	30-Jun-21 \$
Cash flows from operating activities			
Receipts from customers		3,890,878	2,180,450
Payments to suppliers and employees		(9,885,403)	(15,900,281)
Interest received		251	-
Interest paid		(6,702)	(249,486)
Net cash used in operating activities		(6,000,976)	(13,969,317)
Cash flows from investing activities			
Payments for property, plant and equipment		(201,914)	(99,653)
Payments for intangibles		(4,505)	-
Loan to Sierra Sage Herbs LLC		(2,444,668)	-
Loan to Halucenex		-	(369,328)
Net cash used in investing activities		(2,651,087)	(468,981)
Cash flows from financing activities			
Proceeds from issue of shares		4,681,751	18,000,000
Proceeds from exercise of options		20,113	5,733,778
Share issue costs		(96,106)	(1,434,191)
Repayment of borrowings		-	(250,000)
Net cash from financing activities		4,605,758	22,049,587
Net increase in cash and cash equivalents		(4,046,305)	7,611,289
Cash and cash equivalents at the beginning of the period		7,184,405	6,047,091
Effect of exchange rate fluctuations on cash held		2,535	(4,177)
Cash and cash equivalents at the end of the period	7	3,140,635	13,654,203

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

Notes to the Consolidated Financial Statements

NOTE 1 CORPORATE INFORMATION

Creso Pharma Limited (referred to as “Creso” or the “Company”) is an ASX-listed public 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 half-yearly report.

The interim consolidated financial statements of the Company as at and for the period ended 30 June 2022 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.

These interim financial statements were authorised for issue by the Board of Directors on the date of signing the accompanying Directors’ Declaration.

NOTE 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of Preparation & Significant Events and Transactions

The half-year financial report is a general-purpose financial report prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group. Accordingly, the half-year financial report should be read in conjunction with the annual financial report of Creso Pharma Limited for the financial year ended 31 December 2021 and any public announcements made by the Group during the period 1 January 2022 to the date of this report in accordance with the continuous disclosure obligations of ASX Listing Rule 3.1 and the *Corporations Act 2001*.

Unless otherwise stated, all amounts are presented in Australian Dollars (“A\$” or “AUD”), which is the reporting currency of the Group.

(a) *Going Concern*

The half year 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 half year financial statements, the consolidated entity incurred a loss of \$7,089,976 (2021: \$18,966,748) and had net cash outflows from operating activities of \$6,000,976 (2021: \$13,969,317) for the half-year ended 30 June 2022.

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 continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon the Group being successful with the following factors:

- The ability of the Group to raise additional funds from shareholders, new investors and debt markets. The Group has successfully conducted a number of capital raisings in recent years and since the half-year end has raised \$5.2m from an equity issue, with a further \$1.8m to be received from Directors of the Company subject to shareholder approval. There is a reasonable expectation that additional sources of funding can be achieved;
- Increased revenue from opportunities with existing and new customers and sales arrangements as they are realised into sales revenue in the Group’s Canadian and Switzerland operations; and
- Effective monitoring and reduction of the Group’s overhead expenditures, including the continued realisation of head office cost reductions.

Notes to the Consolidated Financial Statements

(a) *Going Concern (continued)*

The Group believes it has sufficient liquidity and options available to prepare the financial statements on a going concern basis at this time.

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.

(b) *Impairment of Property, Plant & Equipment and Intangible Assets*

Policy

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that do not have independent cash flows are grouped together to form a cash-generating unit. 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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Indicators of impairment

At the end of each reporting period, the Group assesses whether there were events or changes in circumstances that would indicate that a Cash Generating Unit ("CGU") was impaired. The Company considers external and internal factors, including overall financial performance and relevant entity-specific factors, as part of this assessment.

Impairment Testing – Value-in-use

Value-in-use is based on the estimated future cash flows using the most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year. Cash flow forecasts are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or CGU grouping.

Impairment losses recognised on assets such as property, plant and equipment (PPE) and identifiable intangible assets are permitted to be reversed in subsequent reporting periods. The Directors closely monitor the Company's operating circumstances and are prepared to make further impairment adjustments or to reverse some or all impairment adjustments to date as and when future impairment assessments indicate the need for them.

(c) *Comparatives*

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022 as noted in 2.3 and new accounting policies as noted in 2.4.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the Consolidated Financial Statements

2.3 Summary of new and amended accounting standards

Several amendments and interpretations apply for the first time in 2022, the Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. These amendments do not have a material impact on the interim consolidated financial statements of the Group.

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

2.4 Summary of new and amended accounting policies

The accounting policies and methods of computation adopted in the preparation of the financial report are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022 listed above.

2.5 Summary of estimates and judgements

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.

There have been no material revisions to the nature and amount of estimates or amounts reported in the annual report for the financial year ended 31 December 2021. However, as discussed in Note 2.1, several significant events and transactions required significant judgments and estimates to be made, including:

- Assessing the Going Concern assumption used in the preparation of this interim financial report;
- Valuation of biological assets;

Notes to the Consolidated Financial Statements

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 includes Creso Pharma Switzerland GmbH (“Switzerland”) which includes the development and commercialisation of its therapeutic products – located in Switzerland.
- North America includes Creso Canada Corporate Limited, Creso Canada Limited, 3321739 Nova Scotia Limited, Mernova Medicinal Inc (“Mernova”), Kunna Canada Limited, Creso Impactive Ltd, Halucenex Life Sciences Inc, 4340965 Nova Scotia Limited, located in Canada and Creso Pharma US, Inc, located in the U.S.
- South America includes Kunna S.A.S. located in Colombia.
- Asia Pacific includes Creso Pharma Limited (“Creso”) which provides the Group’s corporate administration – located in Australia.

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.

	Asia Pacific	Europe	North America	South America	Total
Period ended 30 June 2022					
Revenue from sale of products	-	1,727,516	2,589,525	-	4,317,041
Other revenue	35,030	-	25,212	-	60,242
Total segment revenue	35,030	1,727,516	2,614,737	-	4,377,283
Loss before income tax expense	(3,875,493)	(554,889)	(2,659,594)	-	(7,089,976)
Total segment assets	4,331,145	3,006,745	23,408,932	-	30,746,822
Total segment liabilities	(1,970,879)	(42,404)	(1,142,810)	-	(3,156,093)

	Asia Pacific	Europe	North America	South America	Total
Period ended 30 June 2021					
Revenue from sale of products	221	1,333,510	1,698,243	-	3,031,974
Other revenue	10,240	711	24,048	-	34,999
Total segment revenue	10,461	1,334,221	1,722,291	-	3,066,973
Loss before income tax expense	(9,727,334)	(3,500,668)	(5,685,311)	(53,435)	(18,966,748)
Total segment assets	12,716,636	2,559,885	12,805,483	-	28,082,004
Total segment liabilities	(677,403)	(104,611)	(518,813)	-	(1,300,827)

Notes to the Consolidated Financial Statements

NOTE 4 REVENUE AND OTHER INCOME

	30-Jun-22	30-Jun-21
	\$	\$
Revenue from continuing operations		
Revenue from sale of products	4,317,041	3,031,753
Royalty income	-	221
	4,317,041	3,031,974
<i>Other income</i>		
Interest income	35,281	-
Lease income	5,620	24,048
Other income	19,341	10,951
	60,242	34,999

NOTE 5 EXPENSES

	30-Jun-22	30-Jun-21
	\$	\$
Employee benefit expenses		
Director fees	384,124	721,625
Wages and salaries	1,140,052	523,496
Recruitment fees	3,050	24,128
Superannuation	82,290	40,898
Other employee expenses	44,192	475,780
Share-based payment expense	85,179	32,237
	1,738,887	1,818,164
Depreciation and amortisation expense		
Total depreciation per note (13)	346,054	307,548
Less: capitalised to inventory	(298,888)	(279,604)
Amortisation expense per note (14)	103,410	99,383
	150,576	127,327
Administrative expenses		
Accounting and company secretarial fees	1,137,429	417,284
Travel costs	153,235	20,555
Consulting fees	1,952,192	4,250,741
Corporate advisory and business development	387,007	3,336,888
Legal fees	441,174	342,410
Compliance and regulatory expenses	194,008	333,658
Investor and media relations	617,093	1,059,797
Marketing	167,497	1,471,434
US based marketing and media relations	52,424	2,571,491
General and administration expenses	405,311	126,226
	5,507,370	13,930,484
Finance costs		
Capital raising fees	500	148,750
Interest expense	6,654	523,732
Loss on extinguishment of liability	-	1,022,879
Gain on foreign exchange	(2,536)	-
Bank charges	4,089	1,435
	8,707	1,696,796

Notes to the Consolidated Financial Statements

NOTE 6 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.

	30-Jun-22	30-Jun-21
	\$	\$
Net loss for the year	(7,089,976)	(18,966,748)
Non-controlling interest	-	-
Net loss for the year attributable to the owners of Creso Pharma Limited	(7,089,976)	(18,966,748)
Weighted average number of ordinary shares for basic and diluted loss per share.	1,272,987,860	1,026,080,200

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) (0.56) (1.85)

NOTE 7 CASH AND CASH EQUIVALENTS

	30-Jun-22	31-Dec-21
	\$	\$
Cash at bank and in hand	3,140,635	7,184,405
	3,140,635	7,184,405

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 rate, currently 0.01% (2021: 0.01%).

NOTE 8 TRADE AND OTHER RECEIVABLES

	30-Jun-22	31-Dec-21
	\$	\$
Trade debtors	1,183,501	408,270
Goods and Services Tax ('GST') receivable	113,261	319,660
Canadian HST Receivable	-	59,388
Receivable from related party	-	85,000
Other deposits and receivables	771,435	229,472
	2,068,197	1,101,790

Allowance for expected credit losses

There are no expected credit losses and no loss recognised in the income statement for the half-year ended 30 June 2022 (2021: Nil).

Notes to the Consolidated Financial Statements

NOTE 9 INVENTORIES

	30-Jun-22	31-Dec-21
	\$	\$
Finished goods – Medicinal cannabis packaged products	372,287	158,948
Finished goods – Harvested cannabis plant products	2,135,966	1,152,675
Finished goods – Consumables inventory	164,869	86,441
	2,673,122	1,398,064

NOTE 10 BIOLOGICAL ASSETS

The Company's biological assets consist of 8,783 cannabis plants as at 30 June 2022 (8,559 cannabis plants as at 31 December 2021). The continuity of biological assets is as follows:

	30-Jun-22	31-Dec-21
	\$	\$
Carrying amount at 1 January	457,027	143,192
Production costs capitalised	2,707,973	4,402,561
Movement in FVLCS due to biological transformation	(340,947)	(1,619,173)
Foreign exchange translation	21,267	14,474
Less: Transfer to inventory upon harvest	(2,273,828)	(2,484,027)
Carrying amount at 30 June 2022/31 December 2021	571,492	457,027

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. The expected cash flow model assumes the biological assets as at 30 June 2022 will grow to maturity, be harvested and converted into finished goods inventory and sold to Canadian and overseas customers.

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 and 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.

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.

Management reviews all significant inputs based on historical information obtained as well as based on planned production schedules. 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.

Notes to the Consolidated Financial Statements

NOTE 10 BIOLOGICAL ASSETS (CONTINUED)

Dried Flower

The dried flower model utilises the following significant assumptions:

	Weighted Average 30 June 2022	Weighted Average 31 December 2021
Weighted average of expected loss of plants until harvest	3%	9%
Expected yields for cannabis plants (average grams per plant)	34	28
Expected number of growing weeks	12	12
Weighted average number of growing weeks completed as a percentage of total growing weeks at period-end	54%	51%
Estimated selling price per gram	C\$4.00	C\$4.00
After harvest costs to complete and sell per gram	C\$0.90	C\$0.85
Reasonable margin on after harvest costs to complete and sell per gram	C\$3.10	C\$3.15

Shake

The shake model utilises the following significant assumptions:

	Weighted Average 30 June 2022	Weighted Average 31 December 2021
Weighted average of expected loss of plants until harvest	3%	9%
Expected yields for cannabis plants (average grams per plant)	10	13
Expected number of growing weeks	12	12
Weighted average number for growing weeks completed as a percentage of total growing weeks at period-end	54%	51%
Estimated selling price per gram	C\$0.65	C\$0.50
After harvest costs to complete and sell per gram	C\$0.65	C\$0.50
Reasonable margin on after harvest costs to complete and sell per gram	C\$0.00	C\$0.00

Sensitivity analysis

Assuming all other unobservable inputs are held constant, 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 \$65,500 and inventory decreasing by \$143,250.
- Harvest yield per plant – a decrease in the harvest yield per plant of 10% would result in the biological asset value decreasing by \$50,800.

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

Other disclosures

No cannabis, as finished good and biological assets, was pledged as security for the Group's loans or borrowings in 2022 (2021: none).

At 30 June 2022, the Group had no commitments in relation to growing its cannabis (2021: nil).

Notes to the Consolidated Financial Statements

NOTE 11 PROPERTY, PLANT AND EQUIPMENT

	30-Jun-22	31-Dec-21
	\$	\$
Opening net book amount	10,435,308	9,907,853
Additions	201,914	544,452
Disposals	(195,326)	-
Depreciation charge	(346,054)	(633,126)
Foreign exchange translation	412,567	616,129
Closing net book amount	10,508,409	10,435,308
Cost	12,553,619	12,134,464
Accumulated depreciation	(2,045,210)	(1,699,156)
Net book amount	10,508,409	10,435,308

NOTE 12 INTANGIBLE ASSETS

	30-Jun-22	31-Dec-21
	\$	\$
Current		
Licences (Canadian) (a)	1,258,527	1,156,443
Licences (Colombian) (b)	-	-
Intellectual property (c)	-	-
Computer software (d)	-	-
Intellectual property acquired on acquisition (e)	7,334,298	7,154,484
Intellectual property purchased (f)	120,718	3,393
	8,713,543	8,314,320
Opening net book amount	8,314,320	1,276,789
Additions	4,505	3,393
Acquired on acquisition	-	7,084,939
Amortisation charge	(103,410)	(214,794)
Foreign exchange translation	498,128	163,993
Closing net book amount	8,713,543	8,314,320

(a) Licences Canadian

Comprise the cannabis cultivation licences granted by Health Canada to Mernova Medicinal Inc in March 2019. The directors have considered the recoverability of the Canadian licence. The Mernova facility commenced cultivation in 2019, its operations have grown continuously since then and the directors are confident of the growth prospects of the business.

(b) Licences Colombian

Comprise licences to conduct R&D, cultivate, extract and export cannabis products, granted in Colombia to Kunna S.A.S., prior to the company's acquisition by Creso. The licences remain current and able to be utilised but, as a prudent measure pending the Group's future investment and activities in Colombia and given no future forecasted cash flows and indicators of impairment, the carrying value of the licences was reduced to nil.

(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.

(e) Intellectual Property

Comprises the results of clinical trials for the formulation of a synthetic psilocybin that were acquired from Halucenex.

(f) Intellectual Property

Comprises patents pending and trademarks acquired from Impactive.

Notes to the Consolidated Financial Statements

NOTE 12 INTANGIBLE ASSETS (CONTINUED)

Impairment indicators

As noted in Note 1(b), at the end of each reporting period, the Group assesses whether there were events or changes in circumstances that would indicate that a Cash Generating Unit (“CGU”) was impaired. The Group has reviewed both external and internal sources of information in their consideration of impairment indicators, including the following:

- The expected market value of assets, and returns expected on assets;
- The technological, market, economic and legal environments for the CGUs, particularly the regulatory environment, in Europe;
- The Group’s market capitalisation;
- The condition of assets and plans for use, including assessing achievements against strategic plans; and
- The economic performance of assets.

NOTE 13 OTHER ASSETS

	30-Jun-22	31-Dec-21
	\$	\$
Other assets	203,565	-
Loan to Sierra Sage Herbs LLC	2,867,859	423,191
	3,071,424	423,191

On 29 August 2022, the Company announced that the acquisition of Sierra Sage Herbs LLC was completed and the loan was capitalised into the investment.

NOTE 14 TRADE AND OTHER PAYABLES

	30-Jun-22	31-Dec-21
	\$	\$
Trade payables	1,225,817	281,587
Payables to related parties	175,535	-
Accrued expenses	1,196,302	874,977
Accrued expenses for related parties	-	197,322
Income in advance	-	39,807
Other payables	418,842	77,455
	3,016,496	1,471,148

Notes to the Consolidated Financial Statements

NOTE 15 ISSUED CAPITAL

(a) Issued and fully paid

	30-Jun-22		31-Dec-21	
	No.	\$	No.	\$
Ordinary shares	1,296,392,953	114,681,452	1,226,370,447	109,950,694

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

	Number	\$
At 1 January 2022	1,226,370,447	109,950,694
Issue of shares under Placement	67,851,467	4,681,751
Issue of shares for services	1,470,588	125,000
Conversion of Employee Performance Rights	200,000	-
Exercise of options and performance rights	500,451	20,113
Less: share issue costs	-	(96,106)
At 30 June 2022	1,296,392,953	114,681,452
	Number	\$
At 1 January 2021	902,295,934	71,794,123
Issuance of shares pursuant to a Placement	94,736,843	18,000,000
Issue of Shares as part consideration for acquisitions	48,768,327	6,300,573
Issue of shares to Employees & Consultants	15,000,000	2,025,000
Exercise of options	140,101,837	8,528,092
Conversion of Employee Performance Rights	300,000	-
Issue of shares to settle loan	13,666,666	3,280,000
Issue of shares for services	6,904,348	1,456,000
Shares issued to Directors	1,000,000	140,000
Issue of share capital for extinguish of liability	3,596,492	863,158
Less: Equity raising costs	-	(2,436,252)
At 31 December 2021	1,226,370,447	109,950,694

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 16 RESERVES

	30-Jun-22	31-Dec-21
	\$	\$
Share-based payments	12,182,093	11,248,487
Foreign currency translation reserve	2,455,198	1,382,840
	14,637,291	12,631,327
<u>Movement reconciliations</u>		
Share-based payments reserve		
Balance at the beginning of the year	11,248,487	23,557,350
Equity settled share-based payment transactions	85,179	122,679
Issue of options for services	1,033,798	4,616,775
Issue of options to extinguish liability	-	159,721
Expired options	(185,371)	(17,208,038)
Balance at the end of the year	12,182,093	11,248,487
Foreign currency translation reserve		
Balance at the beginning of the year	1,382,840	301,178
Effect of translation of foreign currency operations to group presentation	1,072,358	1,081,662
Balance at the end of the year	2,455,198	1,382,840

Share-based payment reserve

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.

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.

Notes to the Consolidated Financial Statement

NOTE 17 CONTINGENCIES

There are no contractual commitments or contingent liabilities at 30 June 2022 (31 December 2021: Nil).

NOTE 18 RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the half-year period ended 30 June 2022, the Group had transactions with related parties as follows:

	30-Jun-22	30-Jun-21
	\$	\$
EverBlu Capital Pty Ltd - a company of which Adam Blumenthal is the Chairman		
Capital raising fees	308,995	1,533,766
Monthly retainer - corporate advisory	264,000	66,000
Monthly retainer - transactions	66,000	66,000
IRESS service fees	2,208	2,208
Out-of-scope fees	93,500	660,000
Facilitation fee	-	275,000
Business development and investor relations	-	440,000
Debt restructuring	-	605,000
	734,703	3,647,974
Balance owing to EverBlu Capital Pty Ltd at 30 June	148,868	-
Balance owing to Creso at 30 June	-	-
Suburban Holdings Pty Ltd – related party		
Draw down fees	-	-
Payment to extinguish short-term loan	-	250,000
Balance owing at 30 June	-	-
International Water and Energy Savers Ltd - a company controlled by Boaz Wachtel		
Director's Fees for Boaz Wachtel	40,000	52,143
Balance owing to International Water and Energy Savers Ltd at 30 June	13,333	-
WHP Management Consulting - a company controlled by Miri and Jorge Wernli ⁽ⁱ⁾		
Monthly fee	-	235,253
Bonus	-	100,000
Balance owing to WHP Management Consulting at 30 June	-	-
HBAM Holding Inc. - a company controlled by Bruce Linton		
Director's Fees for Bruce Linton	36,825	-
Balance owing to HBAM Holding Inc. at 30 June	13,333	-

(i) WHP Management Consulting is no longer considered a related party as of 17 March 2021.

Notes to the Consolidated Financial Statement

NOTE 18 RELATED PARTY TRANSACTIONS (CONTINUED)

There were no issue of shares or options to KMP related parties during the half-year.

Other Share and Option Transactions with KMP Related Parties

	Date	Half-year to 30 June 2021	
		Shares	Options
EverBlu Capital Pty Ltd			
Issue of shares for \$18,000,000 capital raising ⁽ⁱ⁾	24-Jun-21	3,600,000	-
Issue of options for out-of-scope fees ⁽ⁱ⁾	24-Jun-21	-	12,000,000
Total		3,600,000	12,000,000
International Water and Energy Ltd			
Issue of shares to Boaz Wachtel ⁽ⁱ⁾	24-Jun-21	500,000	-
Total		500,000	-
Jorge Wernli			
Issue of shares ⁽ⁱ⁾	24-Jun-21	10,000,000	-
Total		10,000,000	-
James Ellingford			
Issue of shares ⁽ⁱ⁾	24-Jun-21	500,000	-
Total		500,000	-

(i) Shares and options were valued in the year per AASB 2 but were not issued until after the year end.

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 19 DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the half-year ended 30 June 2022.

NOTE 20 EVENTS AFTER THE REPORTING DATE

Mergers and acquisitions

Sierra Sage Herbs

On 9 August 2022, the Company held a General Meeting, at which, the agreement to purchase all the share capital in SSH was approved by shareholders of the Company.

On 29 August 2022, the Company announced that the acquisition had been completed. The deal enables the Company to establish a US presence in the consumer goods market.

Creso, via its wholly owned subsidiary, Creso Pharma US, Inc, has purchased a 100% voting equity interest in SSH for a total upfront consideration of US\$21m, payable by the issue of fully paid ordinary shares in Creso Pharma Limited. In addition to the upfront consideration, SSH vendors may also be entitled to certain earn-out milestone payments that can be paid either in shares or cash, the milestone payments could range between zero and US\$38.5m (subject to certain vesting milestones).

The acquisition-date fair value of the consideration transferred the fair value of the assets and liabilities acquired, and any resulting goodwill/bargain purchase, are not disclosed as initial accounting for the business combination is incomplete given the proximity of the acquisition date to the financial report release date.

Notes to the Consolidated Financial Statement

NOTE 20 EVENTS AFTER THE REPORTING DATE (CONTINUED)

Mergers and acquisitions (continued)

Health House International Limited

On 29 July 2022, the Company announced that it had signed a non-binding term sheet to acquire Health House International Ltd (ASX: HHI) (“HHI” or “Health House”) under which it is proposed that Creso Pharma will acquire 100% of the shares in HHI by the way of a scheme of arrangement to be undertaken by HHI (“Scheme”).

The non-binding term sheet is conditional upon completion of satisfactory due diligence on Health House and the parties entering into a formal Scheme Implementation Deed.

HHI is an international pharmaceutical distributor, specializing in (but not limited to) the distribution of medicinal cannabis products across Australasia, the UK and Europe.

Under the proposed Scheme, should it proceed, Creso will issue approximately one (1) Creso share for every two (2) Health House shares held by Health House shareholders based on a maximum equity value for Health House of \$4,630,388 subject to adjustments for anticipated Health House debt at completion of the Scheme (to be agreed). Should the Scheme proceed, this would give Health House shareholders approximately 7.3% interest in the expanded capital of Creso, with existing Creso shareholders retaining 92.7% ownership interest. In addition, for every four shares issued to the Health House shareholders by Creso, Health House shareholders will also receive one free option (exercise price \$0.08; expiring 4 years from issue).

Capital management and funding

On 14 July 2022, the Company announced the issue of 100,000 shares as part consideration under a Brand Ambassador and Strategic Adviser Agreement with subsidiary, Creso Impactive Ltd.

On 4 August 2022, the Company announced it had received firm commitments to raise \$7m equity at an issue price of \$0.04 per share. Subject to shareholder approval, these commitments included a total of \$1.74m of the placement to be cornerstoned by Creso Directors Bruce Linton, Adam Blumenthal and William Lay.

On 8 August 2022, the Company announced the issue of 101,325,000 shares at \$0.04, raising \$4.1m of the total \$7m placement.

On 15 August 2022, the Company announced the issue of 30,175,000 shares at \$0.04, raising an additional \$1.2m bringing the total to \$5.3m of the total \$7m placement.

On 29 August 2022, the Company announced the issue of 100,000 shares as part consideration under a Brand Ambassador and Strategic Adviser Agreement with subsidiary, Creso Impactive Ltd.

There have been no other matters or circumstances that have arisen since 30 June 2022 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.

Directors' Declaration

In the directors' opinion:

1. The financial statements and notes thereto of the Group, as set out within this financial report, are in accordance with the *Corporations Act 2001* including:
 - a. Complying with Australian Accounting Standard AASB 134: Interim Financial Reporting, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the half-year then ended.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The declaration is made in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



JAMES ELLINGFORD
NON-EXECUTIVE CHAIRMAN

31 August 2022

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Creso Pharma Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Creso Pharma Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, 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 half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 (including Independence Standards)* (the Code) that are relevant to the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

We draw attention to Note 2.1(a) 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 conclusion is not modified in respect of this matter.

Responsibility of the directors for the financial report

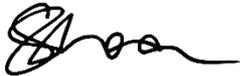
The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation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

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit Pty Ltd



Gillian Shea
Director

Sydney, 31 August 2022