CRESO PHARMA LIMITED

ACN 609 406 911

Annual Report for the Year Ended 31 December 2022

Annual Report
For the year ended 31 December 2022

Contents

About Creso Pharma

Creso Pharma is a global producer and marketer of plant-based products in high growth market segments. Creso benefits from geographic diversification in its operations. In Canada, Creso's subsidiary, Mernova Medicinal Inc., produces and markets high quality recreational cannabis products to consumers across Canada under the Ritual Green Brand. This brand is known for its craft focus and high THC products. In the United States, Creso's subsidiary, Sierra Sage Herbs, LLC, markets a variety of plant-based products under the Green Goo, Southern Butter and Good Goo brands on a direct to consumer and bricks and mortar basis. Sierra Sage Herbs' products can be found in large US retailers such as CVS, Walgreens, and Publix, among many others. Creso's subsidiary, impACTIVE offers a sports recovery-focused, topical CBD product on a direct to consumer basis in the United States. Creso Pharma Switzerland researches and markets innovative CBD products from its base in Switzerland. Finally, Creso also has an applied sciences division in Canada, focused on a Phase II clinical trial to assess the safety and efficacy of psilocybin as a treatment for treatment resistant post-traumatic stress disorder. Creso has a world-class management team and board, including Mr Bruce Linton as a non-executive director. Mr Linton co-founded Canopy Growth Corporation, and as Chairman and CEO grew it to a market capitalisation of over C$20 billion.

www.CresoPharma.com

Corporate Directory

Board of Directors

Mr Boaz Wachtel	Non-Executive Chairman
Mr William Lay	CEO and Managing Director
Mrs Micheline MacKay	Executive Director
Ms Jodi Scott	Executive Director
Mr Bruce Linton	Non-Executive Director
Mr Ben Quirin	Non-Executive Director
Mr Peter Hatfull	Non-Executive Director

Secretaries

Ms Erlyn Dawson and Mr Winton Willesee, jointly

Registered Office

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

Telephone: +61 8 9389 3180
Website: www.cresopharma.com

European Office

Allmendstrasse 11,
6312 Steinhausen
Switzerland

Telephone: +41 41 710 4706

Stock Exchange Listings

Listed on the Australian Securities Exchange (ASX Code: CPH)
Listed on the Australian Securities Exchange (ASX Code: CPHO)
Listed on the Australian Securities Exchange (ASX Code: CPHOD)
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
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 5, 191 St Georges Terrace
Perth WA 6000
Australia

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Chairman's Address

Dear Shareholders,

I am pleased to present Creso Pharma Limited's Annual Report and financial statements for 2022. Throughout the year, the company has accomplished several significant milestones, demonstrating its unwavering commitment to its defined strategy and resulting in record revenue growth. These achievements include leveraging scale through ongoing mergers and acquisitions, advancing cross-selling opportunities across multiple operating divisions, maximizing retail sales saturation, and attracting top-tier industry experts.

Strategic M&A Growth

During the past year, Creso Pharma placed significant emphasis on strategic mergers and acquisitions (M&A), with the aim of expanding the company's international reach, revenue profile and overall product offerings. One notable example of this focus was the acquisition of Sierra Sage Herbs LLC ("SSH"), a Colorado-based company that specializes in the sale of plant-based and CBD products across the United States.

The acquisition of SSH was a crucial milestone for Creso Pharma, marking the company's entry into the US market, and unlocking a wider range of plant-based and CBD products. This acquisition also brought access to major retailers across the US and another growing revenue channel, which is expected to contribute to the Company's long term growth prospects.

In addition, Creso Pharma has signed a definitive agreement to acquire Health House International Limited (ASX: HHI), an international distributor of medicinal cannabis. This acquisition is expected to increase Creso Pharma's revenue profile and expand the international distribution opportunities for the Company and its subsidiaries. Health House's multiple licenses to store, distribute, import, export, and sell controlled drugs, as well as its established relationships with domestic and international customers, are expected to benefit Creso Pharma in the long term.

Overall, Creso Pharma's M&A activities, combined with its existing operating divisions, have enabled the company to build a strategic portfolio of businesses and brands with complementary strengths in manufacturing, processing, formulations, sales, and distribution. This has created synergistic benefits, allowing the company to continue to invest in revenue growth and cost optimization.

Organisational Structure & Efficiency

The Board and management have been focusing on stringent cost management initiatives across the company's divisions. This has involved implementing shared financial and administrative services and creating a global sales and distribution platform to benefit all divisions. Additionally, the company continues to explore supply chain and manufacturing optimization to ensure ongoing innovation and increased gross margins.

As the implementation of these shared services continues and additional cost optimization is pursued, the Board is confident that each business division will progress closer to cash flow breakeven. By driving efficiency, Creso Pharma will be well positioned for future value-accretive M&A.

Board Renewal & Development

As Creso Pharma continues to make strides towards becoming an internationally focused global health company, the Board recognizes the importance of having a strong team in place to guide the company's growth. To that end, the Board made several key appointments, strengthening the company's leadership and expertise. Notably, this resulted in an increase in board independence from 0% at the end of FY21 to 42% at the end of FY22.

One of the most notable appointments was that of William Lay, who joined the company as Managing Director and CEO. With extensive experience in the cannabis and global healthcare sectors, including as Associate Director, M&A, at

Chairman's Address

Canopy Growth Limited, Will's skillset and expertise have been instrumental in guiding the company's recent growth. The Board also welcomed Bruce Linton as a Non-Executive Director. A renowned cannabis entrepreneur with a wealth of experience in international growth and M&A, Bruce's guidance has been invaluable as the company continues to expand its global footprint.

In addition to these appointments, the Board also brought on Mrs Micheline MacKay as Executive Director. With over 22 years of experience in regulatory environments, including pharmaceuticals, medical devices, and government regulated industries, Micheline's expertise has been crucial to the company's ongoing compliance efforts. Jodi Scott, the co-founder and CEO of Sierra Sage Herbs, also joined the Board as an Executive Director following the company's acquisition of SSH. With her in-country expertise and relationships with suppliers and retail groups, Jodi has already been instrumental in driving the company's growth in the US market.

Mr Ben Quirin was also appointed as a Non-Executive Director, bringing a wealth of experience as the former Regional Managing Director of Canopy Growth.

These appointments reflect the company's strategy of attracting leading industry personnel to support its diversified operations and expanding international footprint.

Melodiol Global Health Limited

As Creso Pharma continues to expand its operations and solidify its position as a high growth global health company, the company recognizes the importance of a name that reflects our evolving vision. To this end, the company will seek shareholder approval to change its name to Melodiol Global Health Limited. This new name will represent the company's dedication to natural, safe, and effective plant-derived remedies and modern scientific expertise, as well as its commitment to promoting the well-being of individuals around the world.

In conclusion, the Board expresses its gratitude to all of the dedicated employees, fellow directors, and shareholders for their ongoing support throughout 2022. The company's strong leadership team, diverse operations, and expanding international presence positions it well for continued growth and success in the years to come.

Yours faithfully,

B. Wachtel.

Mr Boaz Wachel

Non-Executive Chairman

CEO's REPORT

CEO's Report:

I would like to thank all shareholders for their ongoing support of the company, and invite you to read the full Annual Report.

I am very pleased to report on Creso's progress for the 2022 fiscal year, which was a transformative year for the company.

Due to the hard work of our talented global teams and acquisition made, Creso was able to report a record year for revenue of $8,689,000, an increase of 40% on prior revenue from the 2021 fiscal year. Additionally, Adjusted EBITDA loss improved to $17.6 million in 2022 vs. $29.2 million in 2021 (39.7% loss reduction). The Company is committed to continuously reducing operating expenses and increasing revenues to contribute to further improvements in Adjusted EBITDA in 2023.

Creso Pharma Limited is pleased to provide the following report detailing the considerable progress achieved during 2022 ("FY2022") through all operating divisions, as well as across continued value accretive M&A. These milestones have allowed the Company to continue its transition to an international global health and wellness company with the future achievement of business unit profitability being a core focus. Over the course of the year, not only did the Company materially increase revenue, but it also materially reduced costs across the entire business, and this effort remains ongoing.

Financial summary:

Summary of revenue by operating division

Operating Division	2022 $000's	Change	2021 $000's	Change	2020 $000's
Mernova Medicinal Inc.	4,390	21%	3,638	199%	1,215
Sierra Sage Herbs[i]	2,453	n/a	-	n/a	-
Creso Pharma Switzerland	1,846	-28%	2,580	109%	1,233
Total sales of products	**8,689**	**40%**	**6,218**	**154%**	**2,448**

(i) Revenue for Sierra Sage Herbs reflects the four months since acquisition on 26 August 2022.

The Company's ongoing growth was fuelled by strong performance in a majority of operating divisions. Notably Adjusted EBITDA loss improved to $17.6 million in 2022 vs. $29.2 million in 2021 (39.7% loss reduction). The Company is committed to continuously reducing operating expenses and increasing revenues to contribute to further improvements in Adjusted EBITDA in 2023.

Mernova Medicinal Inc. ("Mernova"):

Mernova continued to underpin the Company's overall revenue profile, posting A$4,390,000 in sales during FY2022. This is a 21% increase on the previous corresponding period (FY2021: A$3,638,000) and was another record sales year for the group.

Revenue stemmed from a consistent stream of purchase orders from province partners throughout FY2022, reiterating the group's commitment to deliver high-quality artisanal cannabis products to the Canadian market.

***Ritual Gold* brand expansion**

To diversify its revenue streams and product offerings, Mernova commenced steps towards the launch of a new handheld vaporiser product, sold under the *Ritual Gold* brand. The products utilise Mernova's top-quality, indoor grown, high-THC cannabis flower which is manufactured into one gram vape cartridges. The group secured its maiden order for *Ritual Gold* products from Saskatchewan's Weed Pool Cannabis Cooperative in June highlighting the launch of the products, as well as other orders during H2 FY2022 from other provinces.

Top 3 'Cannabis NB Cup' placement

The operating division gained industry recognition during FY2022, securing a top three placing at the Cannabis NB Cup. The Cannabis NB Cup is a national competition, where cannabis producers are requested to submit their top products to the province of New Brunswick. The products are then distributed via 600 judging kits which include 3.5g of product from eight different producers, alongside a judging book. Mernova submitted its Black Mamba strain in the indica category, which achieved a third-place finish. The results of the competition provide further credibility to the quality that the Ritual Green brand is built on, as well as providing marketing collateral and brand awareness.

Listing on OCS General Catalogue and Flow Through Model

Streamlining province supply, Mernova commenced participation in the Ontario Cannabis Store's ("OCS") cannabis flow through process, which unlocked an increased presence in Ontario. The program allows Ontario retail stores to submit demand allocations for two Mernova products to the province, which then amalgamates these allocations and submits a purchase order on behalf of all retailers. Following the approval of the framework, Mernova has successfully submitted five of the strains to the OCS, which are now listed in the OCS general catalogue, resulting in larger non-flow through orders from OCS than previously achieved.

Medicinal cannabis market expansion

Mernova also entered the Canadian medicinal cannabis market. This included securing a distribution agreement with JFM Growers Inc. ("JFM"), a Quebec-based company focused on the production, distribution and online sale of medicinal cannabis products to patients across Canada.

As part of the agreement, Mernova now supplies JMF with a range of Ritual Green strains, including Black Mamba, Lemon Haze, Mac 1 and Monkey Berries in 3.5g dried flower formats, which are sold on consignment through JFM's online channels. The group has also expressed interest in stocking Mernova's Lemon Haze vaporiser and pre-rolled joint products.

Health Canada expanded licence

Mernova also secured a licence amendment from Health Canada for a modified licence permitting the sale of cannabis extracts, electric vaporisers, edibles and topical products. The amendment builds on the Company's original sales licence from Health Canada secured in June FY2020 and provides the opportunity to directly sell its expanded portfolio of craft cannabis 2.0 products through its all approved provincial partners and medicinal avenues. The Company is leveraging its cannabis 2.0 license to enter into new provincial markets, which could not be accessed previously due to contract manufacturing relationships.

Acquisition of Sierra Sages Herbs, LLC ("SSH") and division progress:

During FY2022, Creso Pharma executed a Membership Interest Purchase Agreement to acquire Colorado based consumer packaged goods company, Sierra Sage Herbs, LLC. The Company subsequently completed the acquisition in August 2022.

The acquisition provides Creso Pharma with a maiden entry point into the US, an established product suite of plant-based and CBD products, additional strong revenue streams, as well as a large number of points of sale with major retailers and significant direct to consumer relationships in one of the world's largest and fastest growing markets. The terms of the acquisition are set out in the Company's ASX announcement dated 3 February 2022.

The transaction unlocked a number of synergistic benefits, as well as another revenue generating operating division. Post acquisition HY FY2022, SSH generated revenue of A$2,453,000, for the group.

International market expansion to Australia, Taiwan and Singapore

Creso Pharma entered into a non-exclusive Heads of Agreement on 20 May 2022 with one of Australia's leading tattoo post care company Dr Pickles Pty Ltd. ("Dr Pickles"), providing Creso Pharma with a potential pathway into the Australian body care market. Under the agreement, the Company and Dr Pickles is exploring opportunities to commercialise select Sierra Sage Herbs LLC products in the Australian market.

Creso Pharma entered into an agreement on 30 June 2022 with leading pharma and healthcare products company, China Chemical & Pharmaceutical Co., Ltd. ("CCPC") for the introduction of Sierra Sage Herbs LLC products to the Taiwanese animal healthcare market. Subsequently, Creso Pharma has successfully started to sell SSH's animal first aid product through veterinary clinics in the Taiwanese market.

Creso Pharma entered into a similar agreement on 6 July 2022 with Gotro Global Pte. Ltd. for the introduction of Sierra Sage Herbs LLC products to the Singapore pet care market. The full range of SSH animal care products is now available online and at select retail outlets in Singapore

SSH North America market expansion

SSH continued its growth in the US with a non-exclusive private label manufacturing agreement with FSA Store Inc., a part of leading consumer health and wellness online retailer Health-E Commerce to produce the group's inaugural plant-based first-aid collection. It is intended that SSH will produce the group's first ever plant-based first-aid collection. SSH will oversee and manage product development, supply chain logistics and production, while FSA Store Inc. will ensure the collection is made available to the millions of consumers that are enrolled in tax-advantage health accounts.

To broaden its exposure across the US, SSH signed a Product Supply and Services agreement with omni-commerce sales, marketing and media company accelerate360 to increase brand awareness and unlock potential new sales channels to drive revenue.

accelerate360 is a major US-based omni-commerce solutions company providing sales, distribution and logistics, marketing and media to unlock growth for retailers and brands. The group multiple major US media brands, delivered to more than 35,000 retail locations on a weekly basis.

Under the Product Supply and Services agreement, SSH can leverage accelerate360's media group to engage media brands in its portfolio for content-related marketing opportunities. Initially, SSH products will be featured as part of a shopping experience through accelerate360's Us Weekly magazine brand. The Company's Green Goo range will be featured to promote consumer knowledge of plant-based natural skin care. accelerate360 may also purchase products from SSH, which can be made available for resale to consumers.

Underpinning international expansion, SSH entered the Canadian market through the launch of Green Goo products via a Canadian specific ecommerce channel. SSH also commenced work to launch the range across Amazon Canada, which is expected to underpin additional sales growth.

SSH has also commenced an application with Health Canada to register its Southern Butter and Good Goo ranges for sale in the country.

Creso Pharma Switzerland ("CPS"):

The Company's Swiss operating division achieved revenues of A$1,846,000 during FY2022, marking a 28% decrease on the previous corresponding period (FY2021: A$2,580,000).

During the course of FY2022, CPS was restructured in order to allow it to achieve profitability at its level of scale. This change had an adverse effect on revenues, however set the business up to deliver sustainable results from 2023 onwards.

South Korea product registrations

CPS also secured a non-binding LOI on 2 July 2022 with Providence Animal Health Korea Ltd ("Providence Animal Health Korea") to work towards the registration, importation and commercialisation of the anibidiol® product suite for the South Korean market. Pleasingly, CPS achieved product registration during FY2022 and is continuing to work with the counter party of importation and sales.

Providence Animal Health Korea is a leading supplier of pet food products in the South Korean market. The group has an established customer base across B2B and B2C verticals. Through its B2B channels it covers a number of veterinarian clinics, veterinarians and animal health shops in South Korea, with a focus on high-end prescription diets and pet foods. The group also has a strong consumer following through its established e-commerce channels. CPS and Providence Animal Health Korea are also progressing towards registration and commercialisation of select products from the SSH animal care product range.

CEO's REPORT

Creso Pharma Impactive Inc. ("Impactive"):

ImpACTIVE was focused on the launch of its maiden product, as well as appointing several leading brand ambassadors to drive awareness and strengthen its profile.

While concentrating on launching its inaugural product, ImpACTIVE also prioritised the appointment of several prominent brand ambassadors to assist with driving awareness and strengthening the company's profile.

The group initially secured brand ambassador and partnership agreements with prominent female golfer, Ms Kelly Whaley, US professional golfer, Mr Will Wilcox and world leading performance coach, Dr Troy Van Biezen. These appointments were complemented by highly decorated multi-sport performance coach Kolby Tullier also agreeing to sign on as a brand partner.

Mr Tullier is an owner, partner and director of sports performance at Joey D Golf Sports Training, a leading coaching facility located in Jupiter, Florida. He has been instrumental in the careers of PGA Tour superstars Justin Thomas, Max Homa, and Harold Varner, the NFL's Cody Parkey and Demaryius Thomas, the MLB's Paul Goldschmidt and Will Harris, and LPGA star's Lexi Thompson, Michelle Wie, and the Korda sisters. He also played a key role in assisting Tiger Woods in his recent rehabilitation.

In a major milestone, Impactive successfully launched the Impactive Pro Releaf Stick through online channels. The product is Good Manufacturing Practice (GMP) and ISO22716 certified and designed to provide soothing relief to muscle aches and act as an alternative to pharmacological solutions which have been shown to have addictive traits and negative side effects.

Halucenex Life Sciences Inc. ("Halucenex"):

Throughout FY2022, Halucenex made considerable progress towards the commencement of its phase II clinical trial, which will test the efficacy of psilocybin on treatment resistant Post Traumatic Stress Disorder (PTSD).

In January 2022, the group was recognised by Health Canada following an invitation to become a registered supplier to the regulators Special Access Program ("SAP") following a number of key regulatory changes that reversed a 2013 decision that prohibited a range of restricted drugs, including psilocybin, to be used as treatments for mental health and other conditions.

The group was subsequently successful in its application and has been included on a list of companies that can provide psychedelic compounds to researchers and patients under the SAP. The SAP is a federal program that allows healthcare professionals to apply for access to non-marketed medications that have not yet been approved for sale when such medications show clinical evidence of safety and efficacy and are intended to treat patients with severe or life-threatening illness.

Halucenex continued work toward finalising and lodging its Clinical Trial Authorisation ("CTA") with Health Canada. This was an important milestone in allowing Halucenex to commence its planned clinical trial, which is designed to be a single-arm, open-lab trial that will ultimately determine the feasibility of future trials of psilocybin on PTSD.

CTA was awarded to Halucenex in February 2022, highlighting a major milestone which would allow the group to progress patient recruitment ahead of clinical trial commencement.

Strengthening the Company's regulatory position, Halucenex was awarded a permit from Health Canada to import one kilogram of psilocybe cubensis for ongoing R&D initiatives. The Company imported the psilocybe cubensis from Grogenex, a specialist consulting partner for licenced producers in the cannabis and psychedelics sector.

The group also entered into a binding, exclusive supply of goods agreement with leading psychedelics cultivator Optimi Health Corp. to progress product development initiatives. Optimi is a Canadian company focused on producing and supplying natural, EU-GMP grade psilocybin and functional mushrooms for health and wellness markets. It has a vertically integrated approach, intending to cultivate, extract, process and distribute high quality functional and psychedelic mushroom products at its two facilities comprising of 20,000 sq. ft., located in Princeton, British Columbia.

Under the agreement, Optimi provides Halucenex with psilocybin-containing mushrooms, in the form of whole dried mushrooms fruiting bodies. Initially, Halucenex will utilise the products to validate the quality and physical characteristics of the products and for validation of its testing and operating procedures. This allowed the Company to advance the development of a psychedelic-assist psychotherapeutic model for conditions including anxiety and PTSD.

Following a large volume of enquiries, Halucenex made the strategic decision to broaden the scope of its phase II clinical trial and apply for a further amendment to its CTA. The amendment would allow the Company to include cohorts that are utilising Selective Serotonin Reuptake Inhibitors (SSRIs) and not require potential patients to stop using prescribed medications for a week prior to the potential Phase II trials' commencement.

The decision followed extensive engagement with potential patients, veterans affairs groups and the general public and will provide Halucenex with additional data on how psilocybin interacts when used in combination with other medication commonly used by PTSD sufferers. The Company was successful in this application in August 2022.

During September, Halucenex received Research Ethics Board ("REB") approval for all documentation and procedures associated with its phase II clinical trial. This was a major milestone and marked the completion of all required approvals to commence the trial.

Shortly after securing REB approval, Halucenex finalised the patient recruitment process. Clinical trial participants include a number of veterans, Royal Canadian Mounted Police, fire fighters, Emergency Medical Responders, psychologists, security officers and attorneys, amongst other occupations. While each participant has symptoms associated with PTSD, each also suffers from other mental illnesses including anxiety, suicidal thoughts, ADHD, OCD, depression, anger and anxiety amongst others.

During December, Halucenex successfully administered first doses of its Lucenex branded 10mg and 25mg synthetic psilocybin formulation to a patient participating in the Company's phase II clinical trial (in separate sessions), marking the commencement of the initiative.

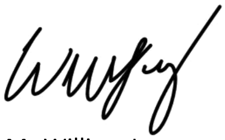
Proposed acquisition of Health House International Limited (ASX: HHI) ("HHI" or "Health House"):

In July 2022, as part of the Company's ongoing strategy to drive growth through M&A, Creso Pharma signed a non-binding term sheet with Health House International Ltd under which it is proposed that Creso Pharma will acquire 100% of the shares in Health House by way of a scheme of arrangement to be undertaken by Health House ("Scheme"). The Scheme will be subject to shareholder and Court approval in accordance with the requirements of Part 5.1 of the Corporations Act 2001 (Cth).

In November 2022, Creso Pharma entered into a Scheme Implementation Deed (the "Scheme") to acquire 100% of the issued capital of Health House International Limited (ASX: HHI) ("Health House" or "HHI") through the issue of Creso shares and a 1:4 options (per Appendix 3B dated 8 August 2022), based on a price of A$0.043 per share and a total value of up to approximately $4.6m. Further details on the transaction can be found in the Creso Pharma's ASX announcement dated 21 November 2022. Subsequent to the end of the financial year, the Company has obtained an extension of the End Date from 31 March 2023 to 5 May 2023 under the Scheme Implementation Deed attached to the ASX release dated 21 November 2022.

Health House is an international distributor of medicinal cannabis and holds several strategic licenses to store, distribute, import, export and sale of controlled drugs. Health House is well positioned with early mover advantage in the UK and European medicinal cannabis markets.

The HHI group generated revenue cash receipts of $5.4m for the quarter ended 31 Dec 2022, a 17% increase on the prior quarter and buoyed by a 22% increase in sales from its Australian medical cannabis distribution business. Creso Pharma is confident that it will benefit from the group's existing operations and revenue streams, should the transaction complete.



Mr William Lay
Managing Director and Group CEO

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 2022.

DIRECTORS
The names and particulars of the Company's directors in office at any time during or since the end of the reporting period are:

Mr Boaz Wachtel	Non-Executive Chairman (appointed Chairman on 17 November 2022)
Mr William Lay	CEO and Managing Director (appointed on 17 January 2022)
Mrs Micheline MacKay	Executive Director (appointed on 17 January 2022)
Mr Bruce Linton	Non-Executive Director (appointed on 17 January 2022)
Ms Jodi Scott	Executive Director (appointed on 10 October 2022)
Mr Ben Quirin	Non-Executive Director (appointed on 10 October 2022)
Mr Peter Hatfull	Non-Executive Director (appointed on 30 November 2022)
Dr James Ellingford	Former Executive Chairman (resigned as Chairman on 17 November 2022 and as a Director on 30 November 2022)
Mr Adam Blumenthal	Non-Executive Director (resigned on 10 October 2022)

The Directors held office during the entire reporting period unless otherwise stated.

Boaz Wachtel, MA.
Non-Executive Chairman
Member of Audit and Risk Committee
(Appointed Chairman on 17 November 2022)

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)	April 2009	Current

William Lay, B.Com (Hons.)
Managing Director and Chief Executive Officer
(Appointed 17 January 2022)

Mr William Lay is an experienced cannabis executive and previously served as Executive Vice President – Strategy, Origination & Operations at Creso. Mr Lay began his career with leading Canadian full service financial investment bank, BMO Capital Markets through roles across Canada and London. During his time with BMO Capital Markets, Mr Lay participated in M&A, equity financing and debt financing transactions totaling >C$3 bn in cumulative value.

Shortly after his time with BMO Capital Markets, Mr Lay joined Canopy Growth Corporation (TSE: WEED, NASDAQ: CGC) as an M&A Associate, before being promoted to Associate Director, M&A, in 2019. In this role, he assessed and effected multiple transactions locally and internationally, while concurrently progressing corporate strategy initiatives across the group. During his time at Canopy Growth, Mr Lay built a strong working relationship with Mr Linton, working on many high-profile initiatives together. Over the last four years, Mr Lay has managed and supported over C$5 billion in cannabis M&A transactions, including leading the largest acquisition in the history of the cannabis sector.

Mr Lay has not been a director of any other listed Company within the last three years.

Directors' Report

Micheline MacKay, M.Sc., B.Sc. (Hons.), PMP
Executive Director
(Appointed on 17 January 2022)

Mrs MacKay has 22 years of experience in regulatory environments, including pharmaceuticals, medical devices, and government regulated industries. She has held leadership positions for many years in different areas with a strong focus on business improvements and product development from laboratory scale to commercial operations.

Mrs MacKay is currently the Managing Director of Creso's wholly owned Canadian subsidiary, Mernova Medicinal Inc. ("Mernova"). She has been in the position for nearly one year and oversees and manages all functions of this business unit. Prior to this apppintment, Mrs MacKay was the Corporate Manager for Mernova for nearly three years. Mrs MacKay is also the Health Canada designated Responsible Person in Charge at Mernova. Leveraging past experience, she has played a significant role in successfully growing Mernova and has implemented best industry standards. She has practical experience in managing a business through specified key performance indicators, managing budgets, conducting regular audits and performance management.

Mrs MacKay has not been a director of any other listed Company within the last three years.

Bruce Linton, BPA
Non-Executive Director
(Appointed on 17 January 2022)
Member of Remuneration and Nomination Committee (appointed on 17 January 2023)

Bruce Linton is the founder, former CEO, and Chairman of Canopy Growth Corporation.
Bruce is currently Co-Chairman and former CEO of Martello Technologies Group Inc., and Chairman of the Advisory Board for Red Light Holland Corp. Holds positions of Advisor with Celadon Pharmaceuticals and Above Foods. Board member of the Canadian Olympic Foundation and is an active member of The Ottawa Hospital Foundation, Campaign Executive Committee.

Formerly, Bruce was the founding Executive Chairman of Gage Growth Corp., prior to being acquired by TerrAscend. Founding and former Board of Director member and Chairman of the Governance and Compensation Committee at Mind Medicine Inc and was also Chairman and Chief Executive Officer of Collective Growth Corporation (SPAC) IPO in May 2020 completing its business combination transaction with Innoviz Technologies Ltd. in April 2021.

During the past three years, Mr Linton held a directorship in the following other ASX listed entity:

Company	Appointed	Resigned
Martello Technologies Group Inc. (TSXV: MTLO)	August 2018	Current
Mind Medicine Inc. (NEO: MMED)	September 2019	September 2021

Jodi Scott, M.Sc.TSU
Executive Director
(Appointed 10 October 2022)

Ms Scott has been employed in the position of President US operations by Sierra Sage Herbs LLC ("SSH") and is respoonsible for all executive and management matters affecting SSH.

Ms Jodi Scott is co-founder and CEO of Sierra Sage Herbs LLC, based in Colorado USA. Ms Scott has been imperative in establishing SSH and growing sales to date. Her in-country presence is expected to unlock several additional value accretive opportunities for Creso Pharma in the USA.

Ms Scott has not been a director of any other listed Company within the last three years.

Directors' Report

Ben Quirin
Non-Executive Director
(Appointed 10 October 2022)
Member of Remuneration and Nomination Committee (appointed on 17 January 2023)
Member of Audit & Risk Committee (appointed on 17 January 2023)

Mr Quirin is Australia-based and has over 20 years' experience of global leadership in the telecommunications, technology and pharmaceutical sectors. He has launched multiple new products and led business development in new and emerging markets including Europe, the Middle East, Africa and the Asia Pacific. Mr Quirin was previously Regional Managing Director for Canopy Growth Corporation in APAC, one of the world's largest cannabis companies.

Mr Quirin has not been a director of any other listed Company within the last three years.

Peter Hatfull, MAICD
Non-Executive Director
(Appointed 30 November 2022)
Chairman of the Remuneration and Nomination Committee (appointed on 17 January 2023)
Chairman of the Audit and Risk Committee (appointed on 17 January 2023)

Mr Hatfull has over 30 years' experience in a range of senior executive positions with Australian and International companies. He has an extensive skill-set in the areas of business optimisation, capital raising and company restructuring.

Mr Hatfull has held senior financial and Board positions in Australia, Africa and the UK. He has particular experience in revitalising business plans, attracting investor funding, and implementing profitable strategies.

Mr Hatfull graduated as a Chartered Accountant in the United Kingdom, where he worked for Coopers and Lybrand (now PriceWaterhouseCoopers), and subsequently moved to Africa, where he spent 8 years in Malawi. Mr Hatfull moved to Perth in 1988.

During the past three years, Mr Hatfull held a directorship in the following other ASX listed entity:

Company	Appointed	Resigned
Roots Sustainable Agricultural Technologies Limited (ASX:ROO)	July 2020	August 2022
Esense-Lab Limited (ASX:ESE) (delisted August 2021)	July 2020	Current
Pivotal Metals Limited (ASX:PVT)	May 2018	Current
Roto-Gro International Limited (ASX:RGI)	April 2022	Current

Dr James Ellingford, MBA. PG (Corp Mgmt). D.Mgt.
(Resigned as a Director on 30 November 2022)
Executive Chairman (*Resigned 17 November 2022*)
Chairman of the Remuneration and Nomination Committee (*Resigned 17 November 2022*)
Chairman of the Audit and Risk Committee (*Resigned 17 November 2022*)

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 Master's 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) (delisted August 2021)	January 2020	January 2021
MinRex Resources Limited (ASX:MRR)	April 2018	June 2020
Roots Sustainable Agricultural Technologies Limited (ASX:ROO)	February 2020	December 2022

Directors' Report

Adam Blumenthal BCom. MIR. MBA.
Non-Executive Director
Member of the Remuneration and Nomination Committee (Resigned on 10 October 2022)
(Resigned on 10 October 2022)

Adam Blumenthal has over 11 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 a director of EverBlu Capital Pty Ltd, the Company's appointed corporate advisor and lead manager to the various capital raisings undertaken by the Company in CY2022.

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

Directors' Report

DIRECTORS INTERESTS IN EQUITY SECURITIES OF THE COMPANY AND RELATED BODIES CORPORATE

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

	Ordinary Shares	Listed Options	Unlisted Options	Performance Rights
Current Directors				
Mr Boaz Wachtel(i)	10,800,000	2,933,334	-	-
Mr William Lay(ii)	10,000,000	1,666,667	20,000,000	10,000,000
Mr Bruce Linton(iii)	5,411,884	-	40,000,000	-
Mrs Micheline MacKay	-	-	-	-
Ms Jodi Scott(iv)	209,364,678	-	-	-
Mr Ben Quirin(v)	-	-	-	-
Mr Peter Hatfull(vi)	-	-	-	-
Former Directors				
Mr Adam Blumenthal(vii)	113,665,433	37,888,479	26,128,387	-
Dr James Ellingford(viii)	1,152,500	384,167	-	-
Total	**350,394,495**	**42,872,647**	**86,128,387**	**10,000,000**

(i) All holdings are held by International Water and Energy Savers Ltd, a related party of Boaz Wachtel. Ordinary shares includes 2,000,000 shares which have been approved but not issued at 31 December 2022. These approved shares were issued subsequent to the end of the financial year.

(ii) Includes 10,000,000 ordinary shares, 1,666,667 listed options, 20,000,000 unlisted options and 10,000,000 performance rights held by Noble House Consulting Ltd a related party of William Lay.

(iii) Shares issued as a vendor of Sierra Sage Herbs LLC. 10,000,000 options approved by shareholders but not issues as at 31 December 2022. These approved options were issued subsequent to the end of the financial year.

(iv) Shares issued as a vendor of Sierra Sage Herbs LLC. Includes 78,511,755 shares escrowed until 26 February 2023 and 78,511,754 shares escrowed until 26 August 2023.

(v) To be issued 2,000,000 unlisted options subject to shareholder approval upon appointment as a director.

(vi) Mr Hatfull held no interest in Creso Pharma on appointment and has not been issued any interest in the Company.

(vii) Includes 113,665,432 shares, 37,888,478 listed options, and 2,128,387 unlisted options held by Atlantic Capital Holdings Pty Ltd, a related party of Adam Blumenthal at the date of his resignation.

(viii) Holding as at the date of resignation.

Directors' Report

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	6	6	2	2	-	-
Mr William Lay	5	5	-	-	-	-
Mr Bruce Linton	5	5	-	-	-	-
Mrs Micheline MacKay	5	5	-	-	-	-
Ms Jodi Scott	-	-	-	-	-	-
Mr Ben Quirin	-	-	-	-	-	-
Mr Peter Hatfull	-	-	-	-	-	-
Mr Adam Blumenthal	5	5	-	-	2	2
Dr James Ellingford	6	5	2	2	2	2

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

EXECUTIVES

Chris Grundy B.Com. FCA. FGIA/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.

COMPANY SECRETARIES

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

Mr Willesee is an experienced company director and secretary with over 20 years' experience in various roles within the Australian capital markets. Mr Willesee 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. He has a core expertise in strategy, company development, corporate governance, company public listings, merger and acquisition transactions and corporate finance. Mr Willesee holds formal qualifications in Commerce, Economics and Finance, Accounting, Applied Finance and Investment, Applied Corporate Governance and Education. He is a Fellow of the Financial Services Institute of Australasia, the Governance Institute of Australia and the Institute of Chartered Secretaries and Administrators, Graduate of the Australian Institute of Company Directors and a Member of CPA Australia.

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

Erlyn Dawson 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. Dawson 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' Report

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;

(c) to develop and sell beauty and personal care products using proprietary plant-based processes including under the brands Green Goo, Southern Butter and Goodgoo; and

(d) clinical trial and development of synthetic psilocybin micro and macro dose formulations to treat treatment-resistant depression and anxiety.

Business Risk

The Company's risk management approach involves the ongoing assessment, monitoring and reporting of risks that could impede the Company's progress in delivering the Company's strategic priorities.

Business risks are identified through best practice methodology using industry and professional expertise. All material business risks have an appropriate mitigation strategy to reduce the risk to an acceptable level for the Company and its investors. At every board meeting, the Company's Board of Directors reviews strategy, performance, and business risk.

Such risks include:

- Going concern – see Note 1 to the Consolidated Financial Statements on Page 48 for further explanation.
- Competition – the industries in which the Company operates, specifically cannabis and nutraceuticals, are highly competitive and subject to rapid change. The Company's strategies require it to compete successfully.
- Intellectual property rights and proprietary technology – the Company may need to defend its rights and to protect its trade secrets and proprietary technology, possibly in foreign jurisdictions, against infringement and unauthorised use.
- Potential acquisition risk – the Company's strategies include growth by acquisition, which involves risks and costs commonly encountered in making acquisitions of businesses and assets, eg. integrating cultures and business systems, retaining key personnel and customer and supplier relationships.
- Strategic alliances – the Company's operations include strategic alliances with third parties which are subject to periodic negotiation and renewal.
- Legal and Regulatory changes – many of the Company's operations and products require compliance with governmental regulations. The applicable regimes are undergoing significant changes which may affect or restrict the Company's operations.
- Cultivation risks – part of the Company's business is the cultivation of cannabis, a perishable agricultural product, which has attendant risks associated with the health of live plants and the quality and quantity of end-products.
- Access to active ingredients – some of the Company's products contain full plant extracts. The Company needs access to these materials which depends upon securing supplies and supplier relationships.
- Product liability – the Company's businesses expose it to risks inherent in the R&D, manufacturing, marketing and use of its products. The Company endeavours to work to rigorous standards and maintains insurance cover, but these may not be sufficient to protect it from large claims, public controversy or reputational damage.

Directors' Report

OPERATING AND FINANCIAL REVIEW

Operating Results

The operating results of the Group for the year ended 31 December 2022 were as follows:

	31-Dec-2022 $000's	31-Dec-2021 $000's
Cash and cash equivalents	**1,388**	7,184
Net assets	**22,294**	27,759
Divisional revenue from sale of products		
- Mernova	4,390	3,638
- Sierra Sage Herbs[i]	2,453	-
- Switzerland	1,846	2,580
Total revenue	**8,689**	6,219
Other income	**339**	35
Adjusted EBITDA[2]	**(17,618)**	(29,200)
Net loss after tax from continuing operations	**(32,782)**	(30,031)

1 Revenue for Sierra Sage Herbs is for four months since acquisition.
2 Adjusted EBITDA comprises Net Earnings before interest, taxes, depreciation, amortisation and impairment charges.

The Company's ongoing growth was achieved through strong performances in most operating divisions. Notably Total Revenue increased 39.7% year on year to $8.7 million and Adjusted EBITDA (loss) improved to $17.6 million from $29.2 million in 2021 (39.7% loss reduction). The Company is committed to further reductions in operating expenses and increasing revenues to contribute to further improvements in Adjusted EBITDA in 2023.

Business strategies

The Company's objective is to become a global developer and supplier of innovative health and wellness products. The Company's growth strategy comprises a combination of acquisition and organic growth, with strategic actions designed to increase its current expertise, product range and customer base through the development or acquisition of assets which complement and expand its operations.

Having established a presence on three continents, in Canada, Switzerland and Australia, the Company aims to continue its growth in North America, primarily in the USA, and in Europe. Growth opportunities are also evident in Australia.

In pursuing its acquisition strategy during the past year, the Company acquired Sierra Sage Herbs LLC ("SSH") in an all-scrip transaction. SSH is a Colorado-based company that specialises in the sale of plant-based and CBD products across the United States. SSH offers a complementary fit with the Company's existing nutraceuticals R&D and marketing business in Switzerland.

The Company is also close to acquiring Health House International Limited (ASX: HHI), an international distributor of medicinal cannabis, with operations in the UK and Australia.

Organic growth has been evident in the successful development and marketing of new cannabis products by its Canadian subsidiary, Mernova Medicinal Inc. In addition, the company continues to explore new markets for its Swiss nutraceuticals products and SSH's plant-based health and beauty products, with new supply orders being obtained in Taiwan, South Korea, Singapore and Australia during the past year.

Overall, The Company's M&A activities, combined with expansion of its existing operating divisions, have enabled the company to build a strategic portfolio of businesses and brands with complementary strengths in manufacturing, processing, formulations, sales, and distribution. This has created synergistic benefits, allowing the company to continue to invest in revenue growth and cost optimization.

Directors' Report

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Results of Operations

The Company achieved considerable progress during 2022 in most operating divisions, as the Company continues its transition to an international global health and wellness company. Over the course of the year, the Company not only materially increased revenue, but it also materially reduced costs across the entire business, and this effort remains ongoing**.**

Mernova Medicinal
Mernova posted $4.4m in revenues in 2022, a 21% increase over 2021. The division continues to expand its product range and customer base. It became a catalogued supplier in Ontario, the largest provincial cannabis market in Canada. New strains and a new brand were added to its product portfolio, which added to revenue in 2022. Mernova also entered the lucrative Canadian medicinal cannabis market through a partnership agreement for the production, distribution and online sale of medicinal cannabis products to patients across Canada.

Sierra Sage Herbs
In August 2022, the Company acquired plant-based consumer packaged goods company, Sierra Sage Herbs LLC (SSH). The acquisition opened new markets for the Company in the USA, providing a new, established product range and additional revenue streams from major retailer and online distribution channels in one of the world's largest and fastest growing consumer markets. The Company also used its existing relationships in AsiaPac to introduce SSH products to new markets in Australia, Taiwan and Singapore.

Creso Pharma Switzerland
Revenues from Swiss operations in 2022 declined by 21% from 2021 to $2,038m due mainly to changes in European regulations. The business was restructured, enabling it to deliver sustainable results from 2023 onwards. The business is establishing supply channels for its nutraceutical products in South Korea. In addition, the business launched its own new products together with an SSH product in the Swiss and other European markets.

Creso ImpACTIVE Inc.
In 2022, ImpACTIVE launched its maiden product, the ImpACTIVE Pro Releaf Stick through online channels. The product is GMP and ISO certified and is designed to provide relief to muscle aches, particularly in professional sport, and acts as an alternative to pharmacological solutions which have been shown to have addictive traits and other negative side effects. ImpACTIVE also appointed several leading brand ambassadors to promote product and brand awareness.

Halucenex Life Sciences Inc.
Throughout 2022, Halucenex made considerable progress towards phase II clinical trials, which will test the efficacy of psilocybin on treatment resistant Post Traumatic Stress Disorder (PTSD). Milestones achieved during the year included Clinical Trial Authorisation (CTA) in February 2022, a key natural ingredients supply agreement, recruitment of clinical trial participants and approvals to commence trials. In December 2022, Halucenex successfully administered first doses of its Lucenex branded 10mg and 25mg synthetic psilocybin formulation.

Proposed acquisition of Health House International Ltd (ASX: HHI)
In August 2022, as part of its ongoing strategy to drive growth through M&A, the Company signed a definitive agreement with Health House International Ltd (HHI) under which it is proposed that Creso Pharma will acquire HHI through a scheme of arrangement which will be subject to HHI shareholder and Court approval.
HHI is an international, licenced distributor to the UK, European and Australian medicinal cannabis markets. Upon completion of the transaction, the Company will benefit from HHI's complementary operations and revenue streams.

A detailed review of the operations of the Group and its financial results is set out in the CEO's Report on page 7.

Dividends

No dividends have been paid or declared by the Group during the year (2021: Nil).
No dividend is recommended in respect of the current financial year (2021: Nil).

Directors' Report

IMPAIRMENT TESTING

The Board recognises that dependent on market conditions and specific circumstances businesses face may result in the carrying amounts of the Group's business units exceeding their carrying amount, therefore, the Company implemented impairment assessments of its operating assets according to its accounting policies, which are detailed in the notes to the financial statements.

Specifically, the Company determined that the separable cash generating units of the Group were:

- Mernova Cannabis Facility;
- Switzerland nutraceutical R&D and marketing business;
- Switzerland Intellectual Property business;
- Halucenex Psilocybin business; and
- Sierra Sage Herbs consumer packaged goods business.

Each of these cash generating units was subject to impairment assessment. Management concluded that there were indicators of impairment for the Switzerland IP business and Sierra Sage Herbs. Management's 5-year cashflow forecasts for Mernova, Switzerland IP and Sierra Sage Herbs have been carefully reviewed for known and anticipated risks and opportunities. Similarly, the discount rates applied to the forecasts, which were based upon operational and market risk assessments and assumptions, were determined to be reasonable and appropriate.

As a result of the impairment testing, the Company determined that an impairment to the carrying value of intangible assets of $12,521,000 was required for the financial year ending 31 December 2022. Details of this impairment are disclosed in the notes to the financial statements.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in state of affairs during and subsequent to the end of the financial year other than disclosed in the Directors' Report.

Equity Transactions

On 17 January 2022, the Company announced, subject to shareholder approval, the agreement to issue of the following:

- 10,000,000 Options to Bruce Linton with a strike price of $0.09 per share and expiration date of 17 January 2024 as an incentive component of his remuneration package; and
- 10,000,000 Options to Will Lay with a strike price of $0.20 per share and expiration date of 17 January 2024 as an incentive component of his remuneration package; and
- 7,500,000 performance rights with an expiration date of 17 January 2024 as an incentive component of his remuneration package.

On 28 January 2022, the Company announced the issue of 1,870,588 shares as detailed below:

- 400,000 Options had been exercised into shares for a consideration of $20,000; and
- 1,470,588 shares were issued in consideration for services received to the value of $125,000.

On 2 March 2022, the Company issued 67,851,467 in consideration for $4,681,751 under the placement announced on 25 February 2022.

On 5 April 2022, the Company announced the issue of the following:

- 200,000 shares for no consideration as an employee equity incentive; and
- 800,000 performance rights under the Company's employee share incentive scheme.

On 15 June 2022, the Company announced the following:

- conversion of 100,000 performance rights to ordinary shares upon employee meeting milestone conditions; and
- 451 Options exercised into shares for consideration of $113.

On 14 July 2022, the Company announced the issue of 100,000 in consideration for services.

On 8 August 2022, the Company announced the issue of 101,325,000 shares in consideration for $4,053,000 under placement being the first tranche of a $7 million proposed placement announced on 4 August 2022.

Directors' Report

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS (CONTINUED)

On 15 August 2022, the Company announced the issue of 30,175,000 shares in consideration for $1,207,000 under placement being the second tranche of a $7 million proposed placement announced on 4 August 2022.

On 29 August 2022, the Company announced the following:

- issue of 357,614,203 for the acquisition of 100% of the share capital in Sierra Sage Herbs LLC at a deemed issue price of $0.083 per security; and
- 100,000 shares were issued in consideration for services; and
- 6,000,000 performance shares were issued to the vendors of the assets of Impactive Holdings Ltd.

On 19 October 2022, the Company announced the issue of 5,250,000 shares upon the vesting and conversion of performance rights by employees of the Company.

On 3 November 2022, the Company announced the issue of 45,000,000 shares as part of a convertible securities agreement with Obsidian Global GP, LLC.

On 2 December 2022, the Company announced the following:

- 4,979 Options exercised into shares for consideration of $249; and
- Issue of 22,000,000 CPHO options under a convertible securities agreement with Obsidian Global GP, LLC.
- Issue of 1,128,175 convertible notes under a convertible securities agreement with Obsidian Global GP, LLC.

On 12 December 2022, the Company announced the issue of 53,358,712 options ($0.14, 12/06/2024) as free attaching options to participants in the placement announced on 25 February 2022.

Mergers, acquisitions and divestments

On 26 August 2022, the Company completed the acquisition of Sierra Sage Herbs LLC ("SSH") as part of a growth strategy with a focus on the worldwide THC market. SSH represented an opportunity for the Group to bolt on an existing operation with a range of products complementing its existing offering and providing the Group with an established consumer supply chain which can be leveraged upon as the Group continues to expand.

The consideration for the acquisition was as follows:

- 357,614,203 Creso shares, issued on 29 August 2022
- Subject to SSH meeting certain earn out conditions an additional US$38.5 million may be payable in additional consideration. The conditions for this consideration to be payable have been assessed as unlikely, and, the associated financial liability valued at nil.

The acquisition has been determined to be a business combination with an acquisition date of 26 August 2022 at an exchange rate of US$0.6955 per A$, an estimate of the acquisition's financial effect on the Company is noted below:

	US$000's	**A$0000's**
Consideration of shares issued	8,954	12,874
Contingent consideration	-	-
Total consideration	8,954	12,874
Tangible assets acquired	2,667	3,835
Intangible assets acquired	12,841	18,464
Liabilities acquired	(8,201)	(11,794)
Goodwill on acquisition	1,647	2,369

Please refer to note 14 for the impairment identified in respect of the acquisition at the year end.

Directors' Report

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

- On 9 January 2023, the Company announced it had secured A$500k in funding from Obsidian Global GP, LLC ("Obsidian") via the issuance of 340,850 convertible notes under the Second Purchase of the convertible note facility announced on 1 November 2022. The terms of the convertible notes are the same as those previously announced to the market. The reduction in the size of the Second Purchase is based on mutual agreement between the Company and Obsidian. Under the draw down, Creso issued 12,857,143 Collateral Shares and 22,000,000 listed options trading on the ASX under the code "CPHO". These options have an A$0.25 strike price.

- On 10 January 2023, Zelira Therapeutics Ltd ("Zelira") announced it had released Health House International Limited (ASX:HHI) of any obligation under the Zelira working capital facility loan agreement following receipt of 40,000,000 Creso Pharma Limited (ASX:CPH) (Creso) Shares from Creso at an issue price of $0.02, being equal to $800,000. This is an important step required to facilitate the acquisition of HHI by the Company.

- On 27 January 2023, the Company announced it had entered into a non-binding letter of intent ("LOI") to acquire the assets of Abby and Finn LLC ('Abby and Finn' or 'A&F'), a leading US based natural baby products company with annualized sales of US$2.5 million based on its September 2022 quarter sales performance. A&F would add a further suite of unique, plant-based products to Creso's US division, Sierra Sage Herbs ("SSH"). Creso intends to utilise SSH's retail relationships, which include CVS, Rite-Aid, Whole Foods, and Albertsons, among others, to introduce A&F to retail following their e-commerce success.

- On 27 January 2023, the Company announced it had entered into a Converting Loan Deed and Loan Modification Document with La Plata Capital LLC, an existing lender of SSH. Under the terms of this transaction, US$1,282,500 of La Plata's existing US$2m debt with SSH will be swapped for US$1,282,500 of Creso Secured Notes (similar, but ranking behind the existing secured convertible notes announced to the market on 1 Nov 2022). The result of the transaction is an extension of the maturity date, and a simpler balance sheet, with the majority of all debt contained within a similar structure at the Creso Pharma level. The remaining US$717,500 of the debt will be settled in a cash payment to La Plata by 31 January 2023. The debt restructuring involves the Issue of 19 convertible notes with the following key terms:

  - Maturity date six months from date of issue
  - Interest rate of 15% for the period (30% annualised)
  - Secured over Creso's Mernova Cannabis Cultivation Facility which is located in Nova Scotia, Canada. The Convertible Notes will rank second to an existing security.
  - Investors will receive 1m options per US$67,500 invested, regardless of whether they convert to equity, or get repaid back in cash. The options will have a $0.08 exercise price and the same expiry date to the placement options to be issued in the capital raising announced by the company on 4 August 2022. The issue of these options is subject to shareholder approval. The options are intended to be listed subject to meeting all the relevant ASX requirements.
  - Conversion is solely at the lender's election and otherwise repayment is due six months from the investment date.
  - The conversion price is $0.05 together with attaching 1 for 4 options ($0.08 exercise price and an expiry date approximately 4 years from their date of issue) on the same terms as the Investor Options.

- On 7 February 2023, the Company announced that wholly-owned psychedelics subsidiary, Halucenex Life Sciences Inc. ("Halucenex") is exploring opportunities to register its synthetic psilocybin formulation for the Australian market following recent regulatory changes. The Australian medical regulator, the Therapeutic Goods Administration's (TGA) recently announced that the medical use of MDMA and psilocybin respectively will be rescheduled from Schedule 9 (prohibited substances) to Schedule 8 (controlled medicines) which will allow for both substances to be prescribed by specifically authorised psychiatrists for the treatment of certain health conditions, including treatment resistant Post Traumatic Stress Disorder (PTSD) from 1 July 2023. At this stage there is significant uncertainty surrounding whether Halucenex will be successful, and the financial effects of such an approval cannot be determined at this time.

Directors' Report

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR (CONTINUED)

- On 17 February 2023, the Company announced it had secured firm commitments from new and existing institutional, professional and sophisticated investors to raise $2m (before costs) through the issue of approximately 132,859,356 fully paid ordinary shares ('Shares') at an issue price of $0.01506 per Share (the 'Placement'). The total amount raised includes a $100,000 commitment from Group CEO and Managing Director Mr William Lay (or his nominee), which will be subject to Shareholder approval at a future General Meeting.

- On 24 February 2023, the Company commenced the orderly closure of the Swiss office of Creso Pharma Switzerland GmbH, to take effect over a period ending in May 2023. Strategic customer and supplier relationships will not be affected. The European operations of the Company will continue to be managed by qualified personnel who are already experienced with the Company's products and strategic relationships in Europe. The Company will continue its R&D and European marketing activities with personnel and resources provided by other Group entities. The decision is expected to reduce the Group's operating costs by at least CHF500,000 (A$750,000) annually, thereby producing positive and increasing EBITDA results from its European operations.

- On 6 March 2023, the Company announced it had secured commitments to raise $2.5m through the issuance of secured convertible notes ('Secured Notes') to SBC Global Investment Fund ('SBC') comprising of one tranche with an aggregate purchase price of $1,700,000 pursuant to a convertible securities agreement ('First Convertible Securities Agreement') and a second tranche with an aggregate purchase price of $800,000 pursuant to a second convertible securities agreement, each on the terms set out in that announcement. The second tranche requires approval at a general meeting of the Company's shareholders, which is expected to take place in May 2023. Security for the Secured Notes includes a first ranking security over all present and after acquired property of the Company on and subject to the terms detailed in the announcement released on ASX on 6 March 2023. The funds will be deployed to support marketing and sales of the Company's existing products in Canada, Europe, and the US, further advancement of Halucenex's Phase II clinical trial, completion of pending M&A activities, repayment of debt to Obsidian Global GP, LLC and general working capital. Subject to shareholder approval, the Company has agreed to issue to SBC 50,000,000 CPHOD quoted Options ($0.08, expiry 31/01/27) and 20,000,000 unquoted Options ($0.03, expiry 31/01/27). Everblu acted as Lead Manager to the capital raising, and was entitled to a cash fee of 6%, and, subject to shareholder approval, broker Options, as set out in the announcement dated 6 March 2023.

- On 6 March 2023, the Company announced that La Plata Capital, LLC ("La Plata") had agreed to roll over the remaining balance of its existing loan (US$467,500) to the Company's Subsidiary, Sierra Sage Herbs, LLC into secured convertible notes (and Investor Options), as detailed in the announcement dated 6 March 2023. The issue is subject to shareholder approval, which is intended to be sought in May 2023.

- On 6 March 2023, the Company announced that it had agreed to acquire La Plata's existing loan to Abby and Finn LLC (face value of US$500,000) in consideration for US$500,000 of secured convertible notes in the Company (and Investor Options), as detailed in that announcement. The issue is subject to shareholder approval, which is intended to be sought in May 2023.

- On 7 March 2023, the Company issued 13,440,924 Shares on conversion of 627,175 outstanding Tranche 1 Notes held by Obsidian Global GP, LLC ("Obsidian").

- On 13 March 2023, the ASX formally censured the Company in relation to a breach of ASX Listing Rule 10.11 in March 2022. The Company advised on 13 March 2023 that the matter is now resolved, and that there are no ongoing consequences as a result of the breach. On 14 March 2023, the Company received $1,587,095 in respect of the First Convertible Securities Agreement with SBC Global Investment Fund – see above. This amount comprised proceeds from the first tranche of convertible notes of $1,700,000, less commitment and legal fees amounting to a total of $112,905.

- On 24 March 2023, the Company paid US$250,000 to Obsidian in partial settlement of the Convertible Securities Agreement dated 11 November 2022. This resulted in 80,000 convertible notes being retired and a balance of 260,850 convertible notes held by Obsidian outstanding. The Company has agreed that the 260,850 convertible notes will be settled on or before 21 April 2023 by a cash payment of US$300,000. Upon mutual agreement, some or all of the remaining convertible notes may be settled in shares.

Directors' Report

- On 24 March 2023, further to the proposal for the Company to acquire all the shares in Health House International Ltd (ASX:HHI) via a scheme of arrangement (ASX Announcement 29 July 2022), HHI announced confirmation that the Australian Securities and Investments Commission had registered the scheme booklet, A general meeting of shareholders of HHI is scheduled to take place on 2 May 2023, at which the shareholders of HHI will vote on the scheme. Additional information on the proposal is set out in the CEO's Report – see page 11 of this Report.

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 Chairman's Address, the CEO's Report and in Matters Subsequent to the End of the Financial Year – all 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 28 to 41.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the year ended 31 December 2022, 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 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.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF THE AUDITOR

There are no officers of the Company who are former partners of BDO Audit Pty Ltd.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 31 December 2022 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.

Directors' Report

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.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave to the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a part for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

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: http://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

William Lay
MANAGING DIRECTOR
31 March 2023

Remuneration Report (Audited)

This remuneration report for the year ended 31 December 2022 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	(Non-Executive Chairman) – Appointed Chairman on 17 November 2022
Mr William Lay	(Managing Director and CEO) – Appointed on 17 January 2022
Mrs Micheline MacKay	(Executive Director) – Appointed on 17 January 2022
Mr Bruce Linton	(Non-Executive Director) – Appointed on 17 January 2022
Ms Jodi Scott	(Executive Director) – Appointed on 10 October 2022
Mr Ben Quirin	(Non-Executive Director) – Appointed on 10 October 2022
Mr Peter Hatfull	(Non-Executive Director) – Appointed on 30 November 2022
Dr James Ellingford	(Executive Chairman) – Resigned on 30 November 2022
Mr Adam Blumenthal	(Non-Executive Director) Resigned on 10 October 2022

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

Mr Chris Grundy	Chief Financial Officer

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.

Remuneration Report (Audited)

A Remuneration Governance, Structure and Approvals (continued)

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.

❖ **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 $500,000 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 in "Section D – Details of Remuneration" 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 in "Section D – Details of Remuneration" 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 and Nomination 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.

Remuneration Report (Audited)

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.

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 31 December 2022 and 31 December 2021.

	31-Dec-2022	31-Dec-2021
Revenue from products ($000's)	**8,689**	6,219
Net loss after tax ($000's)	**(32,782)**	(30,031)
EPS (cents)	**(2.24)**	(2.71)
Share price ($)	**0.020**	0.082

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)

Employee Incentive Plan
The Creso Pharma Limited Employee Incentive Plan ("Plan") was adopted by the Company during the year ended 31 December 2021.

Remuneration Report (Audited)

C Remuneration and Performance (continued)

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

The objective of the Plan is to attract, motivate and retain employees 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.

Any grants under the Plan will be subject to the achievement of vesting conditions. Appropriate vesting conditions 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. Refer to Schedule 6 of the Notice of Annual General Meeting dated 19 May 2021 for further information on the Plan.

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 2022 is set out below:

31 December 2022	Short-term Employee Benefits				Post-Employment	Share Based Payments	Total
	Salary & fees	Non-monetary benefits	Other/ bonus	Termination payments	Superannuation & Insurance	Performance Rights/Options(vi)	
	$	$	$	$	$	$	$
Directors							
William Lay (iii)	389,043	-	-	-	-	-	389,043
Micheline MacKay (iii)	157,434	-	27,701	-	-	-	185,135
Jodi Scott (iv)	87,732	-	456	-	-	-	88,188
James Ellingford (i)	133,833	-	-	144,000	13,688	80,000	371,521
Adam Blumenthal (ii)	112,888	-	-	-	11,461	-	124,349
Boaz Wachtel	80,000	-	-	-	-	40,000	120,000
Bruce Linton (iii)	76,825	-	-	-	-	16,679	93,504
Ben Quirin (iv)	18,413	-	-	-	-	-	18,413
Peter Hatfull (v)	6,307	-	-	-	662	-	6,969
Senior Executives							
Chris Grundy	290,000	-	-	-	24,430	-	314,430
Total	1,352,475	-	28,157	144,000	50,241	136,679	1,711,552

(i) Mr Ellingford stepped down as an executive on 26 April 2022 and resigned as a director on 30 November 2022.
(ii) Mr Blumenthal's Kunna SAS, Kunna Canada fee ceased effective from 14 March 2022, and he resigned as a director on 10 October 2022.
(iii) Mr Lay, Ms Mackay and Mr Linton were appointed directors on 17 January 2022.
(iv) Ms Scott and Mr Quirin were appointed directors on 10 October 2022.
(v) Mr Hatfull was appointed as a director on 30 November 2022.
(vi) Authorisation of shares issued to Mr Ellingford, Mr Boaz and Mr Linton was obtained on 29 December 2022. The shares were issued after 31 December 2022.

Remuneration Report (Audited)

D Details of Remuneration (continued)

Table 2 – Remuneration of KMP of the Group for the year ended 31 December 2021 is set out below:

31 December 2021	Short-term Employee Benefits			Post-Employment	Share Based Payments	Total
	Salary & fees	Non-monetary benefits	Other/ bonus	Superannuation & Insurance	Performance Rights/Options(ii)	
	$	$	$	$	$	$
Directors						
Adam Blumenthal	200,000	-	95,000	19,500	-	314,500
James Ellingford	146,000	-	350,004	14,235	70,000	580,239
Miri Halperin Wernli (iii)	82,802	23,370	264,792	-	-	370,964
Boaz Wachtel (i)	72,143	-	25,000	-	70,000	167,143
Senior Executives						
Chris Grundy	278,322	-	200,698	22,631	-	501,651
Total	779,267	23,370	935,494	56,366	140,000	1,934,497

(i) Boaz Wachtel's Director's Fees are paid to International Water and Energy Savers Ltd.

(ii) 500,000 shares were issued to each party, granted on 14 July 2021 as a bonus payment for out-of-scope services over the past two years.

(iii) Resigned 17 March 2021.

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 3 – Relative proportion of fixed vs variable remuneration expense

Name	Fixed Remuneration		At Risk – STI (%)		At Risk – LTI (%)	
	2022	2021	2022	2021	2022	2021
Directors						
William Lay	100%	-	-	-	-	-
Micheline MacKay	85%	-	15%	-	-	-
Jodi Scott	99%	-	1%	-	-	-
James Ellingford	78%	28%	-	60%	22%	12%
Adam Blumenthal	100%	70%	-	30%	-	-
Boaz Wachtel	67%	43%	-	15%	33%	42%
Bruce Linton	82%	-	-	-	18%	-
Ben Quirin	100%	-	-	-	-	-
Peter Hatfull	100%	-	-	-	-	-
Senior Executives						
Chris Grundy	100%	64%	-	36%	-	-

Remuneration Report (Audited)

D Details of Remuneration (continued)

Table 4 – Shareholdings of KMP (direct and indirect holdings)

31 December 2022	Balance at 01/01/2022	Granted as Remuneration	Exercised	Net Change – Other	Sold	Balance at 31/12/2022
Directors						
William Lay	-	-	5,000,000	5,000,000[i]	-	10,000,000
Micheline MacKay	-					
Jodi Scott	-	-	-	209,364,678[ii]	-	209,364,678
James Ellingford	1,152,500	-	-	(1,152,500)[iii]	-	-
Adam Blumenthal	113,665,433	2,000,000[iv]	-	(115,665,433)[iii]	-	-
Boaz Wachtel	8,800,000	2,000,000[iv]	-	-	-	10,800,000
Bruce Linton	-	-	-	5,411,884[i]		5,411,884
Ben Quirin	-	-	-	-	-	-
Peter Hatfull	-	-	-	-	-	-
Senior Executives						
Chris Grundy	940,000	-	-	-	-	940,000
Total	**124,557,933**	**4,000,000**	**5,000,000**	**102,958,629**		**236,516,562**

(i) Shares held at the date of the appointment (17 January 2022).
(ii) Shares issued as a vendor of Sierra Sage Herbs LLC.
(iii) Resigned during the year.
(iv) Shares were approved but not issued as at 31 December 2022.

Table 5 – Unlisted Option holdings of KMP (direct and indirect holdings)

31 December 2022	Balance at 01/01/2022	Granted as Remuneration	Exercised	Net Change – Other	Sold	Balance at 31/12/2022	Vested & Exercisable
Directors							
William Lay	-	-	-	20,000,000[i]	-	20,000,000	10,000,000
Micheline MacKay	-	-	-	-	-	-	-
Jodi Scott	-	-	-	-	-	-	-
James Ellingford	-	-	-	-	-	-	-
Adam Blumenthal	26,128,387	232,971,032 [iv]	-	(259,099,419)[ii]	-	-	-
Boaz Wachtel	-						
Bruce Linton	-	10,000,000[iii]	-	30,000,000[i]	-	40,000,000	30,000,000
Ben Quirin	-	-	-	-	-	-	-
Peter Hatfull	-	-	-	-	-	-	-
Senior Executives							
Chris Grundy	-	-	-	-	-	-	-
Total	**26,128,387**	**10,000,000**	**-**	**23,871,613**	**-**	**60,000,000**	**40,000,000**

(i) Unlisted options held at the date of appointment (17 January 2022).
(ii) Resigned during the year.
(iii) Options were approved by shareholders but not issued at 31 December 2022.
(iv) Indirect holding through Everblu Capital and Everblu Capital Corporate. Options were approved by shareholders but not issued at 31 December 2022. They are related to services Everblu provided whilst Adam was still a Director.

Remuneration Report (Audited)

D Details of Remuneration (continued)

Table 6 – Listed Option holdings of KMP (direct and indirect holdings)

31 December 2022	Balance at 01/01/2022	Granted as Remuneration	Exercised	Net Change – Other	Sold (i)	Balance at 31/12/2022	Vested & Exercisable
Directors							
William Lay	-	-	-	1,666,667[i]	-	1,666,667	-
Micheline MacKay	-	-	-	-	-	-	-
Jodi Scott	-	-	-	-	-	-	-
James Ellingford	384,167	-	-	(384,167)[ii]	-	-	-
Adam Blumenthal	37,888,479	-	-	(37,888,479)[ii]	-	-	-
Boaz Wachtel	2,933,334	-	-	-	-	2,933,334	2,933,334
Bruce Linton	-	-	-	-	-	-	-
Ben Quirin	-	-	-	-	-	-	-
Peter Hatfull	-	-	-	-	-	-	-
Senior Executives							
Chris Grundy	313,334	-	-	-	-	313,334	313,334
Total	**41,519,314**	**-**	**-**	**(36,605,979)**	**-**	**4,913,335**	**3,246,668**

(i) Listed options held at the date of appointment (17 January 2022).
(ii) Resigned during the year.

Table 7 – Performance rights holdings of KMP (direct and indirect holdings)

31 December 2022	Balance at 01/01/2022	Granted as Remuneration	Vested and Exercised	Others	Balance not Vested at 31/12/2022	Balance Vested not Exercised at 31/12/2022
Directors						
William Lay	-	-	(5,000,000)	15,000,000[i]	10,000,000	-
Micheline MacKay	-	-	-	-	-	-
Jodi Scott	-	-	-	-	-	-
James Ellingford	-	-	-	-	-	-
Adam Blumenthal	-	-	-	-	-	-
Boaz Wachtel	1,600,000	-	-	(1,600,000)[ii]	-	-
Bruce Linton	-	-	-	-	-	-
Ben Quirin	-	-	-	-	-	-
Peter Hatfull	-	-	-	-	-	-
Senior Executives						
Chris Grundy	-	-	-	-	-	-
Total	**1,600,000**	**-**	**(5,000,000)**	**13,400,000**	**10,000,000**	**-**

(i) Performance rights held at date of appointment (17 January 2022).
(ii) Performance rights lapsed on 27 July 2022

Remuneration Report (Audited)

E Service Agreements

Current Key Management Personnel

The following individuals were considered key management personnel as at 31 December 2022:

❖ **Mr Boaz Wachtel – Non-Executive Chairman**
- Contract: Commenced on 18 October 2016.
- Appointed Chairman on 17 November 2022.
- Director's Fee: $60,000 per annum from June 2020 to 21 May 2021.
- Director's Fee: $80,000 per annum from 22 May 2021 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.

❖ **Mr William Lay – Managing Director and Chief Executive Officer**
- Contract: Commenced on 17 January 2022.
- Base Salary: Initially CAD$350,000 per annum increased to CAD$386,000 from 1 August 2022
- Performance bonus: None.
- Long term incentives: Subject to shareholder approval Mr Lay is entitled to 7,500,000 performance rights conditional upon Group revenue meeting or exceeding $30 million Australian dollars within 24 months of his appointment. Subject to shareholder approval Mr Lay is entitled to 10,000,000 unlisted options with an exercise price of $0.20 per share and an expiry date of 17 January 2024. The options vest on condition that Mr Lay has maintained continuous employment with the Group for 12 months from the date of his appointment.
- Term: 4 years.
- Notice Period: 2 months.

❖ **Mrs Micheline MacKay – Executive Director**
- Contract: Commenced on 17 January 2022.
- Base Salary: Initially CAD$122,400 per annum increased to CAD$150,000 from 1 March 2022.
- Performance bonus: Determined at the sole discretion of the Creso Board.
- Long term incentives: None
- Term: Ongoing.
- Notice Period: 4 weeks.

❖ **Ms Jodi Scott– Executive Director**
- Contract: Commenced on 10 October 2022.
- Base Salary: $250,000 per annum
- Performance bonus: Determined at the sole discretion of the Board.
- Long term incentives: None
- Term: The initial term is 3 years from the appointment of Ms Scott within the role of President, US Operations of Sierra Sage Herbs LLC ("Initial Term") and will be automatically extended by two years ("First Renewal Term") and a further two years following the First Renewal Term("Second Renewal Term"), unless SSH provides notice of its intention not to renew within at least 90 days before the end of the Initial Term, First Renewal Term or Second Renewal Term.
- Notice Period: 3 months.

❖ **Mr Bruce Linton– Non-Executive Director**
- Contract: Commenced on 17 January 2022.
- Base Salary: $80,000 per annum
- Performance bonus: Nil
- Long term incentives: Mr Linton was issued 10,000,000 unlisted options with an exercise price of $0.09 per share and an expiry date of 17 January 2024. The options were to vest and become exercisable on the date that is six months after Mr Linton's appointment date
- Term: Ongoing, subject to shareholder approval.
- Notice Period: None.

E Service Agreements (continued)

❖ **Mr Ben Quirin– Non-Executive Director**

- Contract: Commenced on 10 October 2022.
- Base Salary: $80,000 per annum
- Performance bonus: None.
- Long term incentives: Subject to shareholder approval, Mr Quirin is entitled to 2,000,000 unlisted options with an exercise price of $0.04 per share and an expiry date of 10 October 2024. The Options vest and become exercisable as follows:
    - 1/3 of the options will vest on the date that is six months after the appointment date;
    - 1/3 of the options will vest on the date that is twelve months after the appointment date; and
    - 1/3 of options will vest on the date that is eighteen months after the appointment date.
- Term: Ongoing, subject to shareholder approval.
- Notice Period: None.

❖ **Mr Peter Hatfull– Non-Executive Director**

- Contract: Commenced on 30 November 2022.
- Base Salary: $80,000 per annum
- Performance bonus: None.
- Long term incentives: None.
- Term: Ongoing, subject to shareholder approval.
- Notice Period: None.

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

- Contract: Commenced on 21 November 2017.
- Base Salary: $240,000 per annum (plus statutory superannuation entitlements) to 25 March 2021.
- Base Salary: $290,000 per annum (plus statutory superannuation entitlements) from 26 March 2021.
- 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.

Former Key Management Personnel

The following individuals are no longer key management personnel (KMP) but were considered to have been KMP during the financial year ending 31 December 2022:

❖ **Dr James Ellingford – Executive Chairman (resigned)**

- Contract: Commenced on 20 November 2015.
- Contract: Terminated on 30 November 2022
- Director’s Fee: $48,000 per annum (plus statutory superannuation entitlements) to 31 May 2020.
- Director’s Fee: $60,000 per annum (plus statutory superannuation entitlements) from 1 June 2020.
- Mernova Medicinal Inc.- Consultancy fee of $5,000 per month.
- Audit and Risk Committee Fee: $6,000 per annum.
- Remuneration and Nomination Committee Fee: $20,000 per annum.
- Term: No fixed term.

❖ **Mr Adam Blumenthal – Non-Executive Director (resigned)**

- Contract: Commenced on 20 November 2015.
- Contract: Terminated 19 October 2022
- Director’s Fee: $48,000 per annum (plus statutory superannuation entitlements).
- Mernova Medicinal Inc.- Consultancy fee of $5,000 per month.
- Kunna Canada Limited and Kunna S.A.S – Director’s fee of $6,000 per month.
- Remuneration and Nomination Committee Fee: $20,000 per annum.
- Term: No fixed term.

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 shares, 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, shareholders the Company approved the issue of 4,000,000 shares to KMP as part of their remuneration. These shares were not issued as at 31 December 2022 but are disclosed, refer to Table 4.

Options

During the current financial year, the Company approved the issue of 10,000,000 unlisted options to KMP as part of their remuneration. These options were not issued as at 31 December 2022 but are disclosed, refer to Table 5.

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 fair value of the rights is determined based on the market price of the company's shares at the grant date, with an adjustment made to take into account the vesting period and expected dividends during that period that will not be received by the employees

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

Code	Grant Date	Vesting date	Performance period	Expiry date	Value per Performance Right at Grant Date[i]
CPHPERR6	27 July 2017	27 July 2022	27 July 2017 – 27 July 2018	27 July 2022	$0.570
CPHPERR7	27 July 2017	27 July 2022	27 July 2017 – 27 July 2018	27 July 2022	$0.570
CPHPERR43	6 September 2021	17 September 2022	17 September 2021– 17 September 2022	17 September 2023	$0.125
CPHPERR43	6 September 2021	17 September 2023	17 September 2021– 17 September 2023	17 September 2023	$0.125
CPHPERR43	6 September 2021	17 September 2023	17 September 2021– 17 September 2023	17 September 2023	$0.125

(i) 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.

The performance rights that were granted, vested and forfeited during the year are as follows:

		Balance at start of year	Granted during year	Rights to performance rights Vested		Forfeited		Balance at end of year (unvested)	Maximum value yet to vest[ii]
Name/code	Year granted	Number	Number	Number	%	Number	%	Number	$
Boaz Wachtel									
CPHPERR6	2017	800,000	-	-	-	(800,000)	100	-	-
CPHPERR7	2017	800,000	-	-	-	(800,000)	100	-	-
William Lay									
CPHPERR43	2021	5,000,000	-	5,000,000	100	-	-	-	-
CPHPERR43	2021	5,000,000	-	-	-	-	-	5,000,000	402,462
CPHPERR43	2021	5,000,000	-	-	-	-	-	5,000,000	402,462

Remuneration Report (Audited)

(ii) The maximum value of the performance rights yet to vest has been determined as the amount of the grant date fair value of the rights that is yet to be expensed. For the 2021 grant, the maximum value yet to vest for this grant was estimated based on the share price of the company at the grant date. The minimum value of performance rights yet to vest is nil, as the shares will be forfeited if the vesting conditions are not met.

Further information on the performance rights is set out in note 24 to the financial statements.

G Equity Instruments Issued on Exercise of Remuneration Options

No remuneration options were exercised by KMP during the financial year (2021: Nil).

H Transactions with KMP and Related Parties

(a) Key Management Personnel Compensation

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

	2022	2021
	$	$
Short-term benefits	**1,380,632**	1,738,131
Termination payments	**144,000**	-
Post-employment benefits	**50,241**	79,736
Share-based payments	**136,679**	140,000
	1,711,553	1,957,867

(b) Transactions with related parties

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

	2022	2021
	$	$
EverBlu Capital Pty Ltd[(i)] **–** a company of which Adam Blumenthal is the Chairman		
Capital raising fees payable in cash	**308,996**	-
Capital raising fees payable in shares	**829,258**	756,000
Legal fees	**-**	36,364
Corporate advisory payable in shares	**70,000**	-
Monthly retainer	**495,000**	330,000
IRESS service fees	**3,399**	4,415
Out of scope fees	**-**	417,381
Cash component of share issues	**-**	-
	1,706,653	1,544,160
Balance owing to EverBlu Capital Pty Ltd at 31 December	**899,258**	-
Balance owing to Creso at 31 December	**-**	-
Everblu Capital Corporate Pty Ltd[(i)] **–** a company of which Adam Blumenthal is the Chairman		
Capital raising fees	**149,838**	1,573,406
Capital raising fees payable in shares	**3,774,815**	-
Monthly retainer	**13,095**	-
Debt restructuring fees	**-**	605,000
Business development and investor relations	**-**	440,000
Facilitation fees	**-**	275,000
Out of scope fees, including restructuring and corporate advice	**-**	968,000
	3,937,748	3,861,406
Balance owing to EverBlu Capital Corporate Pty Ltd at 31 December	**3,774,815**	197,322
Balance owing to Creso at 31 December	**-**	-

The above fees are inclusive of GST.

Remuneration Report (Audited)

H Transactions with KMP and Related Parties (continued)

	2022 $	2021 $
Suburban Holdings Pty Ltd – related party		
Amount drawn down by Creso	**1,000,001**	-
Amount repaid	**-**	250,000
Balance owing at 31 December	**-**	-
Anglo Menda Pty Ltd – a company controlled by Adam Blumenthal		
Short term loan to Creso	**-**	-
Share placement	**-**	-
Balance owing at 31 December	**-**	-
Atlantic Capital Pty Ltd – a company controlled by Adam Blumenthal		
Share placement	**-**	-
Adam Blumenthal(i)		
Balance owing from Creso at 31 December	**-**	-
Balance owing to Creso at 31 December(ii)	**-**	85,000
James Ellingford(iii)		
Balance owing from Creso at 31 December	**-**	-
International Water and Energy Savers Ltd - a company controlled by Boaz Wachtel		
Director's Fees for Boaz Wachtel	**80,000**	127,143
Bonus for Boaz Wachtel payable in shares	**40,000**	-
Balance owing from Creso at 31 December	**40,000**	-
HBAM Holdings Inc - a company controlled by Bruce Linton		
Director's Fees for Bruce Linton	**93,504**	-
Balance owing from Creso at 31 December	**23,346**	-
BQ Advisory - a company controlled by Ben Quirin		
Director's Fees for Ben Quirin	**18,413**	-
Balance owing from Creso at 31 December	**-**	-
Jodi Scott		
Loan repayments	**136,861**	-
Interest on loan	**7,136**	-
Lease payments	**17,306**	-
Balance owing from Creso at 31 December	**386,680**	-
Kelly Hoyt – a person related to Jodi Scott		
Salary	**40,941**	-
Bonus	**456**	-
Balance owing from Creso at 31 December	**5,849**	-
Kathleen Scott – a person related to Jodi Scott		
Salary	**51,177**	-
Bonus	**456**	-
Balance owing from Creso at 31 December	**7,311**	-

Remuneration Report (Audited)

H Transactions with KMP and Related Parties (continued)

William Lay		
Loan to SSH	**18,327**	-
Loan to Mernova	**81,673**	-
Balance owing from Creso at 31 December	**100,000**	-

(i) Mr Blumenthal resigned as a director on 10 October 2022. Any transactions past this date, including through companies that he controls, have not been disclosed above as they ceased being a related party.
(ii) Cash receivable of $85,000 was owed by Adam Blumenthal due to an administration error. Interest has not been charged. The amount receivable was settled in February 2022.
(iii) Mr Ellingford resigned as director on 30 November 2022.

Other Share and Option Transactions with Related Parties				
	2022		2021	
	Shares	**Options**	Shares	Options
EverBlu Capital Pty Ltd				
Broker fees	-	-	3,600,000	-
Issue of Shares - Corporate Advisory Mandate[ii]	**2,000,000**	-	-	-
Share issue cost in February-22 Placement	-	**57,971,032[i]**	-	-
Subtotal	**2,000,000**	**57,971,032**	3,600,000	-
EverBlu Capital Corporate Pty Ltd				
Share issue cost in August-22 Placement	-	**175,000,000[i]**	-	-
Subtotal	-	**175,000,000**	-	6,914,411
Suburban Holdings Pty Ltd				
Issue of bonus listed options	-	-	-	6,914,411
Subtotal	-	-	-	6,914,411
Atlantic Capital Holdings Pty Ltd				
Issue of shares and listed options – October placement	-	-	-	87,811,977
Issue of bonus listed options	-	-	-	37,888,478
Issue of unlisted options for EverBlu out of scope fees	-	-	-	12,000,000
Subtotal	-	-	-	137,700,455
Anglo Menda Pty Ltd				
Issue of shares	-	-	-	-
Subtotal	-	-	-	-
International Water and Energy Savings				
Director bonus – Boaz Watchel[ii]	**2,000,000**	-	-	-
Subtotal	**2,000,000**	-	-	-
James Ellingford				
Director bonus – James Ellingford[ii]	**4,000,000**	-	-	-
Subtotal	**4,000,000**	-	-	-
HBAM Holding Inc				
Equity incentive to Director's remuneration – Bruce Linton[iii]	-	**10,000,000**	-	-
Subtotal	-	**10,000,000**	-	-

(i) Options disclosed in relation to Everblu Capital Pty Ltd and Everblu Capital Corporate Pty Ltd had not been issued as at 31 December 2022.
(ii) Shares disclosed in relation to International Water and Energy Savings, James Ellingford and EverBlu Capital were approved but had not been issued as at 31 December 2022.
(iii) Options disclosed in relation to HBAM Holdings Inc had not been issued as at 31 December 2022.

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.

Other than the above, there were no other transactions with KMP or related parties during the year ended 31 December 2022.

Remuneration Report (Audited)

I Additional Information

The earnings of the consolidated entity for the five years to 31 December 2022 are summarised below:

	2022	2021	2020	2019	2018
Revenue from products $000's	8,689	6,219	2,448	3,627	558
Revenue from services $000's	-	-	-	-	-
Royalty income $000's	-	-	17	33	20
Total Revenue $000's	**8,689**	**6,219**	**2,465**	**3,660**	**578**
EBITDA $000's	(17,618)	(29,241)	(25,487)	(10,992)	(16,731)
Loss after income tax $000's	(32782)	(30,031)	(30,780)	(15,340)	(16,846)
Share Price ($)	0.020	0.082	0.180	0.125	0.49
Basic EPS ($)	(0.02)	(0.03)	(0.08)	(0.10)	(0.14)
Diluted EPS ($)	(0.02)	(0.03)	(0.08)	(0.10)	(0.14)

Voting and comments made at the Company's 2022 Annual General Meeting ("AGM"):

At the 2022 AGM, 84.9% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2021. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

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 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 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
Director

BDO Audit Pty Ltd
Sydney
31 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 31 December 2022

	Note	**2022 $000's**	2021 $000's
Revenue from continuing operations			
Revenue	4	**8,689**	6,219
Other income	4	**339**	35
Expenses			
Raw materials and consumables used		**(8,402)**	(5,000)
Loss on fair value adjustments	12	**(407)**	(1,619)
Administrative expenses	5(a)	**(11,423)**	(23,173)
Depreciation and amortisation expenses	5(b)	**(1,949)**	(266)
Employee benefit expenses	5(c)	**(5,243)**	(3,810)
Impairment of intangibles	14	**(12,521)**	-
Other expenses		**(864)**	(704)
Loss on disposal of assets		**(307)**	-
Finance costs	5(d)	**(692)**	(1,713)
(Loss) from continuing operations before income tax		**(32,780)**	(30,031)
Income tax expense		**(2)**	-
(Loss) from continuing operations after income tax		**(32,782)**	(30,031)
Other comprehensive income			
Exchange differences on translation of foreign operations		**1,525**	1,082
Other comprehensive income for the year, net of tax		**1,525**	1,082
Total comprehensive (loss) for the year		**(31,257)**	(28,949)
(Loss) for the year attributable to:			
Non-controlling interest		**-**	-
Owners of Creso Pharma Australia Limited		**(32,782)**	(30,031)
		(32,782)	(30,031)
Total comprehensive (loss) for the year attributable to:			
Non-controlling interest		**-**	-
Owners of Creso Pharma Australia Limited		**(31,257)**	(28,949)
		(31,257)	(28,949)
(Loss) per share for the year attributable to the members of Creso Pharma Limited:			
Basic and Diluted loss per share (cents)		**(2.24)**	(2.71)

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 2022

	Note	2022 $000's	2021 $000's
ASSETS			
Current assets			
Cash and cash equivalents	8	**1,388**	7,184
Trade and other receivables	10	**2,563**	1,102
Inventories	11	**5,508**	1,398
Biological assets	12	**265**	457
Other assets	15	**2,146**	-
Total current assets		**11,870**	10,141
Non-current assets			
Property, plant and equipment	13	**9,978**	10,436
Intangible assets	14	**15,848**	8,314
Other assets	15	**286**	423
Total non-current assets		**26,112**	19,173
Total assets		**37,982**	29,314
LIABILITIES			
Current liabilities			
Trade and other payables	16	**8,642**	1,471
Provisions	17	**375**	84
Borrowings	18	**6,671**	-
Total current liabilities		**15,688**	1,555
Total liabilities		**15,688**	1,555
Net assets		**22,294**	27,759
EQUITY			
Issued Capital	19	**128,382**	109,951
Reserves	20	**20,510**	12,631
Accumulated losses		**(126,598)**	(94,823)
Total equity		**22,294**	27,759

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 2022

Group	Issued Capital $000's	Share-based Payment Reserve $000's	Foreign Currency Translation Reserve $000's	Accumulated Losses $000's	Non-Controlling Interest $000's	Total $000's
At 1 January 2022	**109,951**	**11,248**	**1,383**	**(94,823)**	**-**	**27,759**
Loss for the year	**-**	**-**	**-**	**(32,782)**	**-**	**(32,782)**
Other comprehensive income	**-**	**-**	**1,525**	**-**	**-**	**1,525**
Total comprehensive income/(loss) for the year after tax	**-**	**-**	**1,525**	**(32,782)**	**-**	**(31,257)**
Transactions with owners in their capacity as owners:						
Issue of share capital	9,942	-	-	-	-	9,942
Issue of shares for the acquisition (see note 29)	12,874	-	-	-	-	12,874
Issue of equity for services	504	2,561	-	-	-	3,065
Share-based payments	-	130	-	-	-	130
Shares issued to Directors	120	17	-	-	-	137
Exercise of options	20	-	-	-	-	20
Embedded derivative - Convertible Notes Options	-	49	-	-	-	49
Share issuance costs	(5,029)	4,604	-	-	-	(425)
Expired options	-	(1,007)	-	1,007	-	-
At 31 December 2022	**128,382**	**17,602**	**2,908**	**(126,598)**	**-**	**22,294**
At 1 January 2021	71,794	23,557	301	(82,000)	-	13,652
Loss for the year	-	-	-	(30,031)	-	(30,031)
Other comprehensive income	-	-	1,082	-	-	1,082
Total comprehensive income/(loss) for the year after tax	-	-	1,082	(30,031)	-	(28,949)
Transactions with owners in their capacity as owners:						
Issue of share capital	18,000	-	-	-	-	18,000
Issue of shares for the acquisition of Halucenex and Impactive	6,301	-	-	-	-	6,301
Issue of equity for services	3,481	4,616	-	-	-	8,097
Issue of equity to settle loan	3,280	-	-	-	-	3,280
Issue of equity to extinguish liability	863	160	-	-	-	1,023
Share-based payments	-	123	-	-	-	123
Shares issued to Directors	140	-	-	-	-	140
Exercise of options	8,528	-	-	-	-	8,528
Share issuance costs	(2,436)	-	-	-	-	(2,436)
Expired options	-	(17,208)	-	17,208	-	-
At 31 December 2021	**109,951**	**11,248**	**1,383**	**(94,823)**	**-**	**27,759**

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 2022

	Note	2022 $000's	2021 $000's
Cash flows from operating activities			
Receipts from customers		**8,851**	5,910
Payments to suppliers and employees		**(25,630)**	(27,939)
Payments for research		**(425)**	-
Interest received		**1**	-
Interest paid		**(103)**	(349)
Net cash used in operating activities	8(a)	**(17,306)**	(22,378)
Cash flows from investing activities			
Payments for plant and equipment	13	**(343)**	(451)
Payments for intangibles	14	**(5)**	(3)
Payment for Halucenex acquisition		**-**	(494)
Cash acquired on acquisition of Sierra Sage Herbs LLC	29	**164**	-
Loan to Sierra Sage Herbs LLC	15	**-**	(423)
Loan to HHI	15	**(2,100)**	-
Net cash used in investing activities		**(2,284)**	(1,371)
Cash flows from financing activities			
Proceeds from issue of shares	19	**9,942**	18,000
Proceeds from exercise of options	19	**20**	8,528
Proceeds from borrowings		**4,854**	-
Repayment of borrowings		**(266)**	(201)
Borrowing costs		**(117)**	-
Payment of share issue costs		**(622)**	(1,434)
Net cash from financing activities		**13,811**	24,893
Net increase/(decrease) in cash and cash equivalents		**(5,779)**	1,144
Cash and cash equivalents at the beginning of the year		**7,184**	6,047
Effect on exchange rate fluctuations on cash held		**(17)**	(7)
Cash and cash equivalents at the end of the year	8	**1,388**	7,184

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) Corporate Information

Creso Pharma Limited (referred to as "Creso" or the "Company") is a company domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The consolidated financial statements of the Company as at and for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the "consolidated entity" or the "Group").

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;
(c) to develop and sell beauty and personal care products using proprietary plant-based processes including under the brands Green Goo, Southern Butter and Goodgoo; and
clinical trial and development of synthetic psilocybin micro and macro dose formulations to treat treatment-resistant depression and anxiety.

The Registered Office is disclosed in the Corporate Directory of the Annual Report.

(b) Basis of Preparation

Statement of compliance
The consolidated financial statements 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 annual report was authorised for issue by the Board of Directors on 31 March 2023

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 30.

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. The new and revised Standards and Interpretations did not have any significant impact.

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 2022. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations is that they are not applicable.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Conceptual Framework for Financial Reporting (Conceptual Framework)
The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2021 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

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 Group incurred a loss of $32,782,000 (2021: $30,031,000) and had net cash outflows from operating activities of $17,306,000 (2021: $22,378,000) for the year ended 31 December 2022. The Group had a deficiency between current assets and current liabilities of $5,964,000 (2021: $8,586,000 surplus) as at 31 December 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 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 raises in both the current and recent years. When taking these into account, there is a reasonable expectation that alternative sources of funding can be sourced, as and when required. Further, the Company understands it will require further funding to continue to execute on its growth strategy as planned and is in negotiations with various parties to secure these funds and it is the Directors view that one or more of these funding arrangements will be successful;
- The ongoing ability of the group to manage working capital through re-negotiation and extension of payment terms with key suppliers;
- Increased revenue from opportunities with existing and new customers and sales arrangements as they are realised into sales revenue in the Group's North American and European operations, or should this fail the closure of underperforming business units; and
- Effective monitoring and reduction of the Group's overhead expenditures, including the continued realisation of head office cost reductions.

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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Principles of Consolidation

Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Creso as at 31 December 2022 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 entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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.

Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(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 four 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.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Foreign Currency Translation (continued)

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 contracts with customers

The Group generates revenue through the sale of a range of products across its operations:

- Mernova Medicinal Inc ("MMI") generates revenue from the production and distribution of pharmaceutical-grade and recreational cannabis to large retailers and wholesalers throughout North America.
- Sierra Sage Herbs LLC (SSH") generates revenue from the production and distribution of personal beauty and health products through a number of distribution channels, including through traditional wholesaling and retailing channels, as well as via online distribution channels such as Amazon.
- Creso Pharma Switzerland ("CPS") generates revenue from the production and distribution of medicinal products for both the human and animal markets through wholesale and retail distribution chains.

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. Revenue is recorded net of sales discounts and rebates, duties and taxes.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer, slotting fees, free fills (gifts with purchase), advertising co-op fees and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved.

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. Where delivery cannot be determined on an individual order basis, a provision is recognised for deferred sales as disclosed in

Notes to the Consolidated Financial Statements

note **2** to properly recognise revenue in the period in which it has been earned.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goods sold via online systems, such as Amazon, pose a risk goods being returned or failing to be successfully delivered. The consolidated entity recognises a provision to reflect these risks as disclosed in note 2.

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

(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) 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.

(i) 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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.

(k) Intangible Assets

The Group has acquired significant intangible assets as a result of business acquisitions. 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 de-recognition 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.

Intellectual property is considered to provide a benefit to the Group over a finite useful life and is amortised using the straight-line method over the following periods:

	Useful life
Patents and trademarks	5 – 10 years
Licenses (Canadian)	5 – 30 years
Client relationships	5 years
Developed technology	5 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.

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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intellectual Property

The Group has acquired and developed a range of intellectual property. The group's intellectual property includes the following:

- Patents and trademarks which involve significant costs which are deferred and amortised on a straight-line basis over the period of expected benefit.
- Brand names and associated trademarks which were acquired as part of a business combination see note 29 for further details. The trademarks acquired have been recognised as an intangible asset and amortised on a straight-line basis over the period of expected benefit. Brand names are an indefinite life asset and are tested annually for impairment
- Client relationships which were acquired as part of a business combination see note 29 for further details. The cost of client relationships acquired have been recognised as an intangible asset and amortised on a straight-line basis over the period of expected benefit.
- Developed technology which were acquired as part of a business combination see note 29 for further details. The cost of client relationships acquired have been recognised as an intangible asset and amortised on a straight-line basis over the period of expected benefit.

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.

(l) 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.

(m) 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.

(n) 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.

Notes to the Consolidated Financial Statements

NOTE 1SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(o) 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.

(p) 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.

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.

(q) Share-based Payments

Equity-settled share-based compensation benefits are provided to Key Management Personnel, employees and outside parties for services provided.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees and outside parties 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

(s) 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) 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.

(u) 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.

(v) Dividends

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

(w) Investments in Associates

Associates are entities over which the consolidated entity has significant influence but does 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) 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 fulfilment including labour related costs, materials, shipping costs, customs and duties, royalties, utilities, facilities costs, and shipping and fulfilment related depreciation.

The Group distributes a range of consumer products in the health and wellbeing category via its subsidiary Sierra Sage Herbs LLC. The inventory is valued at the lower of cost and net realisable value. Net realisable value takes into account the expected sales profile, prevailing sales prices, product deterioration rates seasonality and expected losses associated with slow-moving inventory items.

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 fulfilment 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.

(y) 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(z) 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.

(aa) 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 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(bb) 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.

Notes to the Consolidated Financial Statements

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.

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.

Contract liabilities
Sierra Sage Herbs LLC. ("SSH"), a subsidiary of the Group distributes goods via online distribution channels such as Amazon. SSH has experienced specific delivery times in days to various parts of the continental USA, Hawaii, and Puerto Rico. Considering the transit time averages from point of origin to point of destination are between 3-7 days, management are required to make estimates regarding orders which have been dispatched but have not yet delivered to customers. To properly recognise sales in the period to which they have been earned, the consolidated entity recognises a provision for deferred revenue to reflect the average transit time of dispatched orders.

Claims for Merchandising costs
Contracts with certain customers of SSH include rights to claim various product merchandising charges, eg. vendor marketing, free-fill and slotting fees. SSH estimates accruals for such merchandising charges on an on-going basis, with reference to historical claim rates as a percentage of revenue per sales channel. Subsequent merchandising claims are expensed against the accrual.

Goods return
Sale by SSH of consumer goods via different sales channels may result in product returns and sometimes non-delivery. This can lead to reversal of sales in a future period and, depending on the cause, either a return to inventory or write-off of the product. Management review historical rates of returns and non-deliveries on an ongoing basis and use the information to estimate the liability for future returns or non-deliveries, resulting in an accrual against which subsequent reversals of sales are applied.

Notes to the Consolidated Financial Statements

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

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
- Embedded derivative portion of the convertible notes

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

Research and development

Research and development includes expenses related to Halucenex. Research and development costs are recognised in the period in which they are incurred. The Group's research and development costs include employee compensation, licence fees, milestones under licence agreements, third-party contractors performing research, conducting clinical trials and developing drug materials, together with associated overhead expenses and facilities costs. The Group charges direct and indirect internal and external program costs to the development program.

Research and development costs are expensed or capitalised in accordance with the Group's research and development accounting policy as set out in note 1(k).

Clinical trials

Halucenex, a subsidiary of the Group is conducting clinical trials. The Group records expenses in connection with clinical trials under contracts with a contracted research organization (CRO) that supports conducting and managing the clinical trials.

Expenses related to clinical trials are accrued based on estimates and/or representations from service providers regarding work performed, including actual level of patient enrolment, completion of patient studies and progress of the clinical trials. Other incidental costs related to patient enrolment or treatment are accrued when reasonably certain. If the amounts the Group is obligated to pay under our clinical trial agreements are modified (for instance, as a result of changes in the clinical trial protocol or scope of work to be performed), the Group adjusts its accruals accordingly on a prospective basis. Revisions to the Group's contractual payment obligations are charged to expense in the period in which the facts that give rise to the revision become reasonably certain.

The Group currently has one Phase 2 clinical trial in process, with ongoing non-clinical support trials. As such, clinical trial expenses will vary depending on the all the factors set forth above and may fluctuate significantly from quarter to quarter.

Clinical trial costs are expensed or capitalised in accordance with the Group's research and development accounting policy as set out in note 1(k).

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 (refer to note 14).

Notes to the Consolidated Financial Statements

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

Biological assets and inventory

Biological assets

A subsidiary of the Group, Mernova Medicinal Inc. ("MMI") grows and manufactures a range of biological assets and harvested cannabis inventories. Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory including a number of assumptions, such as estimating the stage of growth of the cannabis, harvesting costs, sales price and expected yields. Refer to note 12 for further detail.

Obsolescence

The Group distributes a range of consumer products in the health and wellbeing category via its subsidiary Sierra Sage Herbs LLC. ("SSH") and grows and manufactures a range of biological products through its subsidiary MMI. These products are subject to potential obsolescence. Management is required to make assumptions in relation to obsolescence of products and product categories. An inventory provision is recognised where the realisable value from sale of inventory is estimated to be lower than the inventory's carrying value. Inventory provisions for different products and product categories are estimated based on various factors, including expected sales profile, prevailing sales prices, product deterioration rates, seasonality and expected losses associated with slow-moving inventory items as well as on specific identification.

Goods returns

SSH operates within the online sales segment which creates a risk of customer returns. As disclosed above in "*Revenue from contracts with customers involving sale of goods",* this can lead to reversal of sales in a future period. Management review the rate of returns on an ongoing basis and utilise such evidence to make assumptions regarding return rates and inventory recoverability. Provisions for sales returns are made to reflect such assumptions regarding return along with appropriate adjustments to inventory.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates and forward-looking information that is available. The allowance for expected credit losses, as disclosed in note 10 , is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Notes to the Consolidated Financial Statements

NOTE 3 SEGMENT INFORMATION

The Group requires 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 nutraceutical products – located in Switzerland.
- Canada includes the operating companies; Mernova Medicinal Inc ("Mernova"), Halucenex Life Sciences Inc. and ("Halucenex"), Creso Impactive Ltd ("Impactive"), together with corporate holding companies Creso Canada Corporate Limited, Creso Canada Limited, 3321739 Nova Scotia Limited, 4340965 Nova Scotia Limited and Kunna Canada Limited, all located in Canada.
- United States of America (USA) includes the operating company Sierra Sage Herbs LLC which develops and sells personal beauty and health products, together with corporate holding company Creso Pharma US, Inc., all located in USA.
- Asia Pacific includes the parent company 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.

Year ended 31 December 2022	**Asia Pacific $000's**	**Europe $000's**	**Canada $000's**	**USA $000's**	**All other segments[i] $000's**	**Total $000's**
Revenue from products	-	1,846	4,390	2,453	-	8,689
Royalty income	-	192	-	-	(192)	-
Total segment revenue	-	2,038	4,390	2,453	(192)	8,689
Other income	84	-	221	34	-	339
Loss before in tax expense[ii]	(5,832)	(7,931)	(7,592)	(10,584)	-	(31,939)
Total Segment Assets	3,113	6,490	21,671	6,708	-	37,982
Total Segment Liabilities	6,067	183	1,114	8,324		15,688

(i) Included in other segments is elimination of inter segment revenues. South America is on longer considered a reportable segment as there is no operation in FY2022.

(ii) Included in profit and loss are impairments to operating segments of the Group as follows:

Year ended 31 December 2022	**Asia Pacific $000's**	**Europe $000's**	**Canada $000's**	**USA $000's**	**All other segments $000's**	**Total $000's**
Impairment of intangible assets	-	5,891	-	6,630	-	12,521

Notes to the Consolidated Financial Statements

NOTE 3 SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2021	Asia Pacific	Europe	Canada	USA	South America [i]	Total
	$000's	$000's	$000's	$000's	$000's	$000's
Revenue from products	-	2,580	3,639	-	-	6,219
Total segment revenue	-	2,580	3,639	-	-	6,219
Other income	10	-	25	-	-	35
Loss before in tax expense[i]	(16,743)	(3,516)	(9,654)	-	(118)	(30,031)
Total Segment Assets	4,676	3,154	21,484	-	-	29,314
Total Segment Liabilities	850	148	557	-	-	1,555

NOTE 4 REVENUE AND OTHER INCOME

	2022	2021
	$000's	$000's
Revenue from continuing operations		
Revenue from sale of products	**8,689**	6,219
	8,689	6,219
Other income		
Interest received	**84**	-
Lease income	**26**	25
Other Income	**229**	10
	339	35

Disaggregation of revenue

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

Consolidated		
Major product lines		
Nutraceutical products	**1,846**	2,580
Cannabis products	**4,390**	3,639
Personal health and beauty products	**2,453**	-
Total	**8,689**	6,219
Geographical regions		
Europe	**1,846**	2,580
Canada	**4,390**	3,639
United States of America	**2,453**	-
Total	**8,689**	6,219
Timing of revenue recognition		
Goods transferred at a point in time	**8,689**	6,219
Total	**8,689**	6,219

Notes to the Consolidated Financial Statements

NOTE 5 EXPENSES

		2022 $000's	2021 $000's
(a)	**Administrative expenses**		
	Accounting and company secretarial fees	**2,256**	1,006
	Travel costs	**311**	80
	General and administration expenses	**971**	540
	Compliance and regulatory expenses	**481**	647
	Consulting fees	**3,540**	8,025
	Corporate advisory and business development	**674**	4,038
	Legal fees	**1,021**	1,612
	Investor and Media Relations	**486**	1,386
	Marketing	**1,631**	3,080
	US based Marketing & Media Relations	**52**	2,759
		11,423	23,173
(b)	**Depreciation and amortisation expense**		
	Total depreciation per note 13	**663**	633
	Less: capitalised to inventory	**(629)**	(582)
	Amortisation expense per note 14	**1,915**	215
		1,949	266
(c)	**Employee benefit expenses**		
	Director fees	**1,388**	1,376
	Wages and salaries	**3,425**	1,788
	Recruitment fees	**4**	38
	Superannuation	**131**	89
	Other employee expenses	**165**	396
	Share-based payment expense	**130**	123
		5,243	3,810
(d)	**Finance costs**		
	Interest Expense	**208**	524
	Bank Charges	**73**	12
	Capital Raising Fees (EverBlu)	**176**	(6)
	Capital Raising Fees Other	**-**	153
	Realised Foreign Exchange Gain/Loss	**17**	7
	Gain on embedded derivative	**(17)**	-
	Loss on extinguish of liability	**235**	1,023
		692	1,713

Notes to the Consolidated Financial Statements

NOTE 6 INCOME TAX EXPENSE	2022 $000's	2021 $000's
The components of tax expense comprise:		
Current tax		
Adjustments for current tax of prior periods	**2**	-
(a) Income tax expense reported in the of profit or loss and other comprehensive income	**2**	-
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	**(32,780)**	(30,031)
Prima facie tax benefit on loss before income tax at 25% (2021: 27.5%)	**(8,195)**	(8,259)
(b) Tax effect of:		
Tax effect on different tax rate of overseas subsidiaries	**2,518**	1,772
Share-based payments	**33**	34
Travel expenses	**57**	5
Legal expenses	**251**	442
Capital raising costs	**(441)**	(228)
Others non-deductible expenses	**-**	54
Temporary differences	**(1,162)**	-
Tax losses not recognised	**6,941**	6,180
Total	**2**	-
(c) Deferred tax assets not brought to account are:		
Carried forward losses	**35,266**	16,019
Total	**35,266**	16,019

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.

	2022 $000's	2021 $000's
Net loss for the year	**(32,782)**	(30,031)
Non-controlling interest	**-**	-
Net loss for the year attributable to the owners of Creso Pharma Limited	**(32,782)**	(30,031)
Weighted average number of ordinary shares for basic and diluted loss per share.	**1,466,246,213**	1,107,288,813

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)	**(2.24)**	(2.71)

NOTE 8 CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**1,388**	7,184
	1,388	7,184

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%).

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

Loss for the financial year	**(32,782)**	(30,031)
Adjustments for:		
Depreciation and amortisation	**2,578**	848
(Gain)/loss on foreign exchange	**(17)**	7
Share based payments	**130**	123
NRV adjustments to inventory and fair value adjustments to biological assets	**(3,448)**	(2,526)
Loss on disposal of tangible assets	**307**	-
Impairment of intangible assets	**12,521**	-
Interest settled by issue of equity	**-**	280
Issue of equity for services	**3,202**	8,257
Issue of equity to extinguish liability	**-**	863
Absorption of depreciation costs in biological assets and inventory (see note 5)	**(629)**	(582)
Other non-cash items	**147**	(28)
Changes in assets and liabilities		
Receivables	**(196)**	465
Inventories	**(1,724)**	289
Biological assets	**192**	314
Trade and other payables	**2,270**	(692)
Provisions	**143**	35
Net cash used in operating activities	**(17,306)**	(22,378)

Notes to the Consolidated Financial Statements

NOTE 8 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Non-cash investing and financing activities

	2022 $000's	2021 $000's
Equity issued for the conversion of convertible notes	**(49)**	-
Equity issued as share issue costs	**(4,604)**	(1,002)
Issue of shares for the acquisitions of Halucenex and Impactive	**-**	6,301
Issue of shares for the acquisitions of Sierra Sage Herbs LLC (see note 29)	**12,874**	-
Issue of share to settle the loan	**-**	3,000

(c) Changes in liabilities arising from financing activities

	31 December 2021 $000's	**Cash Flows $000's**	**Non-cash Flows $000's**	**31 December 2022 $000's**
Movement in debt instruments	**-**	**4,471**	**(1,178)**	**3,293**
Sierra Sage Herbs LLC acquisition	**-**	**-**	**3,378**	**3,378**
	-	**4,471**	**2,200**	**6,671**

	31 December 2020 $000's	Cash Flows $000's	Non-cash Flows $000's	31 December 2021 $000's
Movement in convertible notes	3,150	(150)	(3,000)	-
Payment of interest on convertible notes	106	(106)	-	-
	3,256	(256)	(3,000)	-

NOTE 9 INVESTMENT USING EQUITY METHOD

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

Name	**Activity**	**Principal place of business/ Country of incorporation**	**Ownership interest 2022 %**	Ownership interest 2021 %
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	-	-
Share of (loss) after income tax	-	-
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.

As at 31 December 2022, the total assets and net assets of CLV Frontier Brands Pty Ltd were $NIL (2021: $NIL). Additionally the company recognised revenues and net profits of $NIL (2021: $NIL) during the period. The carrying amount of CLV Frontier Brands Pty Ltd has been reduced to $NIL (2021: $NIL) and the company is not material to the financial performance or financial position of the Group.

Notes to the Consolidated Financial Statements

NOTE 10 TRADE AND OTHER RECEIVABLES

	2022 $000's	2021 $000's
Trade debtors	**1,939**	408
Less: provision for doubtful debts	**(47)**	-
Value added taxes receivable (i)	**24**	379
Receivable from related party (ii)	**-**	85
Other deposits and receivables	**647**	230
	2,563	1,102

Allowance for expected credit losses

A provision for credit loss of $47,000 was recognised in the income statement for the year ended 31 December 2022 (2021: Nil).

(i) Value added taxes receivable includes Australian Goods and Services Tax ('GST') receivable, Canadian Harmonised Sales Tax ('HST') receivable and Swiss Value Added Tax ('VAT') receivable.

(ii) $85,000 was due from Adam Blumenthal at the for the year ended 31 December 2021, this was caused by an administration error and was rectified in February 2022 with the amount being repaid.

NOTE 11 INVENTORIES

	2022 $000's	2021 $000's
Finished goods	**1,842**	159
Work in progress	**3,416**	1,153
Consumables	**250**	86
	5,508	1,398

During the year ended 31 December 2022, the Group gained $590,000 (2021: gained $771,000) of fair value adjustments on the growth of its biological assets included in inventory sold. As at 31 December 2022, the Group holds 791 kilograms of harvested cannabis (2021: 1,277 kilograms). Finished goods and consumables recognised as at balance sheet date in MMI were $371,000 and $250,000 respectively.

Inventories recognised as an expense during the year ended 31 December 2022 amounted to $6,695,000 (2021: $5,202,000). During the year a charge of $1,703,000 (2021: $1,153,000) was recognised in relation to product obsolescence.

NOTE 12 BIOLOGICAL ASSETS

The Company's biological assets consist of 4,313 cannabis plants as at 31 December 2022 (2021: 8,559 cannabis plants). The continuity of biological assets is as follows:

	2022 $000's	2021 $000's
Carrying amount at 1 January	**457**	143
Production costs capitalised	**5,025**	4,403
Increase/(decrease) in FVLCS due to biological transformation	**(407)**	(1,619)
Foreign exchange translation	**8**	14
Less: Transfer to inventory upon harvest	**(4,818)**	(2,484)
Carrying amount at 31 December	**265**	457

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 31 December 2022 will grow to maturity, be harvested and converted into finished goods inventory and sold to Canadian and overseas customers.

Notes to the Consolidated Financial Statements

NOTE 12 BIOLOGICAL ASSETS (CONTINUED)

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.

Dried Flower
The dried flower model utilises the following significant assumptions:

	Weighted Average 31 December 2022	**Weighted Average 31 December 2021**
Weighted average of expected loss of plants until harvest	**5%**	9%
Expected yields for cannabis plants (average grams per plant)	**37**	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	**57%**	51%
Estimated selling price per gram	**C$4.00**	C$4.00
After harvest costs to complete and sell per gram	**C$1.22**	C$0.85
Reasonable margin on after harvest costs to complete and sell per gram	**C$2.78**	C$3.15

Shake
The shake model utilises the following significant assumptions:

	Weighted Average 31 December 2022	**Weighted Average 31 December 2021**
Expected yields for cannabis plants (average grams per plant)	**11**	13
Expected number of growing weeks	**12**	12
Estimated selling price per gram	**C$0.00**	C$0.50
After harvest costs to complete and sell per gram	**C$0.00**	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 C$35,000 and inventory decreasing by C$97,000.
- Harvest yield per plant – a decrease in the harvest yield per plant of 10% would result in the biological asset value decreasing by C$25,000.

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
All cannabis, as finished good and biological assets, was not pledged as security for the Group's loans or borrowings in 2022 (2021: none).

At 31 December 2022, the Group had no commitments in relation to growing its cannabis (2021: nil).

Notes to the Consolidated Financial Statements

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

	2022 $000's	2021 $000's
Opening net book amount	**10,436**	9,908
Additions (Capital Expenditure and Acquired assets)	**364**	545
Disposals	**(307)**	-
Depreciation charge	**(663)**	(633)
Foreign exchange translation	**148**	616
Closing net book amount	**9,978**	10,436
Cost	**12,340**	12,135
Accumulated depreciation	**(2,362)**	(1,699)
Net book amount	**9,978**	10,436

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 2022 $000's	Additions $000's	Acquired on acquisition $000's	Disposals $000's	Foreign currency fluctuation $000's	Depreciation expense $000's	Balance at 31 Dec 2022 $000's
Land	382	-	-	-	5	-	387
Buildings & Improvement	8,210	100	-	-	113	(341)	8,082
Plant and equipment	191	59	21	-	4	(72)	203
Machine & Equipment	185	1	-	-	4	(41)	149
Irrigation & Lighting	1,199	178	-	(307)[i]	18	(152)	936
Security System	269	5	-	-	4	(57)	221
Total	**10,436**	**343**	**21**	**(307)**	**148**	**(663)**	**9,978**

	Balance at 1 Jan 2021 $000's	Additions $000's	Acquired on acquisition $000's	Disposals $000's	Foreign currency fluctuation $000's	Depreciation expense $000's	Balance at 31 Dec 2021 $000's
Land	360	-	-	-	22	-	382
Buildings & Improvement	7,886	47	85	-	485	(293)	8,210
Plant and equipment	100	115	8	-	12	(44)	191
Machine & Equipment	163	53	-	-	10	(41)	185
Irrigation & Lighting	1,102	229	-	-	69	(201)	1,199
Security System	297	7	-	-	18	(53)	269
Total	**9,908**	**451**	**93**	**-**	**616**	**(632)**	**10,436**

(i) During the period, the Group reviewed the plant and equipment in use and determined that irrigation and lighting equipment with a carrying value of $307,000 (2021: nil) was obsolete or otherwise no longer providing ongoing economic value to the Group. As a result, the Group recognised a loss on disposal of the equipment equal to its carrying value during the period.

Notes to the Consolidated Financial Statements

NOTE 14 INTANGIBLE ASSETS

	2022 $000's	2021 $000's
Licences (Canadian) [(i)]	**280**	**1,156**
Intellectual property acquired on acquisition [(ii)]	**15,560**	**7,155**
Intellectual property purchased [(iii)]	**8**	**3**
Goodwill on acquisition [(iv)]	**-**	**-**
	15,848	**8,314**

(i) 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. 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.

(ii) Intellectual Property and goodwill acquired on acquisition
Comprises the results of clinical trials for the formulation of a synthetic psilocybin that were acquired with Halucenex, along with intellectual property acquired with Sierra Sage Herbs LLC, including client relationships, developed technologies, brand names and trademarks (see note 29 for detail of Sierra Sage Herbs LLC acquisition).

(iii) Intellectual Property
Comprises patents pending and trademarks acquired from Impactive.

(iv) Goodwill
Represents goodwill on acquisition of Sierra Sage Herbs LLC.

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) $000's	Intellectual Property $000's	Computer Software $000's	Goodwill $000's	Total $000's
Balance at 1 January 2022	**1,156**	**7,158**	**-**	**-**	**8,314**
Additions	-	5	-	-	5
Acquired on acquisition (see note 29)	-	18,403	-	2,429	20,832
Impairment[i]	-	(10,089)	-	(2,432)	(12,521)
Foreign exchange translation	(28)	1,158	-	3	1,133
Amortisation expense	(848)	(1,067)	-	-	(1,915)
Balance at 31 December 2022	**280**	**15,568**	**-**	**-**	**15,848**
Remaining amortisation period (years)	25	5	-	-	

Consolidated	Licences (Canadian) $000's	Intellectual Property[(ii)] $000's	Computer Software $000's	Goodwill $000's	Total $000's
Balance at 1 January 2021	**1,275**	**-**	**2**	**-**	**1,277**
Additions	-	3	-	-	3
Acquired on acquisition	-	7,085	-	-	7,085
Impairment	-	-	-	-	-
Foreign exchange translation	94	70	-	-	164
Amortisation expense	(213)	-	(2)	-	(215)
Balance at 31 December 2021	**1,156**	**7,158**	**-**	**-**	**8,314**

(i) The Group conducted impairment testing as detailed below. As a result an impairment charge against intangible assets of $12,521,000 (2021: $NIL) was recognised during the period. Note 3 discloses the breakdown of impairment by segment.

Notes to the Consolidated Financial Statements

NOTE 14 INTANGIBLE ASSETS (CONTINUED)

(ii) The intellectual property recognised in respect of Halucenex is related to an in-process research and development (IPR&D) project and is considered to be indefinite-lived until the completion or abandonment of the associated research and development work. During the period the assets are considered indefinite-lived, they will not be amortized but will be tested for impairment. If and when development is complete, which generally occurs when regulatory approval to market a product is obtained, the associated assets are deemed finite-lived and are amortized over a period that best reflects the economic benefits provided by these assets.

Impairment indicators

As noted in note 1(k), 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 following factors were identified in the consideration of impairment indicators:

- The Swiss CGU of the Company's business has been affected by changes in the regulations of its products in its principal markets in Europe, leading to the need to re-formulate the products and rediscuss them with its distribution partners for those markets.
- The Swiss IP CGU of the Company's business holds intellectual property rights acquired from Sierra Sage Herbs.
- The Mernova CGU of the Company's business is in its early phase and needs to continue its development to grow its revenues and become cash flow positive.
- The Halucenex CGU of the Company's business currently conducting a clinical trial and receiving a Dealer's Licence amendment that now includes production and packaging, opening new revenue lines in the future. For these reasons and other general progress, there are no indicators of impairment in the carrying value.
- The Sierra Sage Herbs CGU of the Company's business was acquired on 26 August 2022 in an arm's length transaction through a business combination. The business manufactures and sells consumer packaged goods focused on plant-based and CBD products under the Green Goo, Southern Butter, and GoodGoo brands offering products in the CBD, first aid, beauty, sexual wellness, women's health and pet categories.

Impairment Testing – Value-in-use

Mernova Cannabis Operations CGU
The Group's Mernova Cannabis operations CGU represents its operations dedicated to the cultivation, processing and sale of cannabis to both wholesale and retail customers. This CGU is attributed to the Group's Canadian operating segment.

The impairment testing performed at 31 December 2022 supported the recoverable amount of the CGU and did not result in any impairment charge during the period (2021: $Nil).

Switzerland Research & Development CGU
The Group's Switzerland Research & Development CGU represents its operations dedicated to the research and development of hemp and cannabis biotechnology, including the development of novel formulations and delivery forms, and the sale and distribution of hemp derived products. This CGU is attributed to the Company's European operating segment.

The impairment testing performed at 31 December 2022 supported the recoverable amount of the CGU and did not result in any impairment charge during the period (2021: $Nil).

Switzerland Intellectual Property CGU
The Group's Switzerland Intellectual Property CGU, acquired during the period, represents its operations, being the exploitation of intellectual property rights. This CGU is attributed to the Company's European operating segment.

The impairment testing performed at 31 December 2022 indicated the recoverable amount of the CGU on a relief from royalty method to the carrying value of the associated intangibles, being brand names. The relief from royalty method is a calculation of the amount of the hypothetical royalty that would be paid if the brands were licensed from an independent third party. When the recoverable amount of the brand is less than the carrying amount, an impairment loss is recognised. This resulted in the Group recognising an impairment charge of $5,891,000 against the CGU during the period.

Notes to the Consolidated Financial Statements

NOTE 14 INTANGIBLE ASSETS (CONTINUED)

Sierra Sage Herbs CGU

The Group's Sierra Sage Herbs CGU, acquired during the period, represents its operations which manufacture and sell first aid and body care products. It offers products for pain relief, tattoo care, first aid, foot care, and skin care. Its products include gel and solid deodorants, castile and foaming soaps, bath salts, face wash, shampoos and conditioners, body scrubs, toothpaste, body butters, massage oils and balms. It offers products online and through various retail channels. This CGU is attributed to the Company's US operating segment.

The impairment testing performed at 31 December 2022 an impairment charge of $6,630,000 against the CGU during the period.

Significant Judgements and Estimates

The following key assumptions were used in the impairment testing model for each of the CGU's:

	Mernova	Switzerland Operations	Switzerland IP	Sierra Sage Herbs
Forecast period and short-term revenue growth rate (a)	5 years	5 years	5 years	5 years
Terminal / long term revenue growth rate (b)	3% terminal rate	3% terminal rate	3% terminal rate	3% terminal rate
Post tax discount rate (c)	16%	40%	15%	15%
Royalty rate (d)	n/a	n/a	5%	n/a

Assumption	Approach used to determine values
(a) Forecast period and short-term revenue growth rate	The forecast is based on a Board approved budget for FY23 and growth estimates for four periods beyond the budget period. Specific factors considered in the forecasts used in the impairment model: • The Mernova CGU is becoming established, with revenues continuously increasing as a result of production efficiencies, improvements in quality and yields, an expanded product range including premium products, penetration of new provinces and increased market share through a growing customer base. The CGU has an average forecast growth of 19% across the forecast period and the revenue growth in both % and dollar terms is expected to increase more significantly in earlier years due to the lower revenue base, as the business is moving from start up to growth phase. This growth trend is also supported by revenues increasing by 21% in FY2022 (2021: 199%), highlighting the growth phase that the Company is experiencing. • The Swiss CGU has an average forecast growth of 8% across the forecast period. • The Swiss IP CGU has an average forecast growth in the first year of 184% which decreases to an average growth rate over the following four years of 11%. This is consistent with the growth forecast within the Sierra Sage Herbs CGU. • The Sierra Sage Herbs CGU has forecast growth in the first year of 78% which decreases to an average growth rate over the following four years of 22%. This reflects the Group's strategy to significantly grow sales over the next 12 months within the business.
(b) Terminal / long term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the forecast period. The long-term growth rate has been set at 3% to reflect the uncertainty in the forecast future cash flows.

Notes to the Consolidated Financial Statements

NOTE 14 INTANGIBLE ASSETS (CONTINUED)

(c) Post tax discount rate

The post-tax discount rate used in each CGU reflects management's estimate of the time value of money and the risks specific to the asset or CGU. The post-tax discount rate for Mernova has reduced from 22% to 16% when compared to 31 December 2021 based on the progress and de-risking of the business that has occurred in FY22. As noted above, this is supported by the significant increase in FY22 revenue and the plans in place to deliver continued growth. The directors and management note that the discount rate as at 31 December 2022 still includes a company specific risk premium based on an assessment of risks specific to the CGU, the early-stage business and execution risk of the forecasts.

A post-tax discount rate used for Sierra Sage Herbs was 15% reflecting the specific risks associated with the business and its predominant operating environment.

(d) Royalty rate

The royalty rate used in the valuation was based on rates observed in the market.

For the Swiss Operations CGU, the directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause a significant impact to the impairment model.

For the Sierra Sage Herbs, Swiss IP and Mernova CGU, if any adverse changes were made to the above key assumptions, the carrying amount would exceed the recoverable amount.

This sensitivity assumes the specific assumption moves in isolation, whilst all other assumptions are held constant. In reality, a change in this assumption may accompany a change in another assumption.

NOTE 15 OTHER ASSETS

	2022 $000's	2021 $000's
Current Assets		
Loan to Health House International Limited[i]	**2,146**	-
Non-current Assets		
Loan to Sierra Sage Herbs LLC	**-**	423
Other assets	**286**	-
	286	423

[i] The Company entered into a facility agreement with Health House International Limited ("HHI") during the period. Under the terms of the agreement and a subsequent amendment entered into in November 2022, the key terms are:

- Interest of 12% is payable in arrears on the principal outstanding;
- The facility limit is $3,400,000; and
- Restricts the right of HHI to dispose of its assets or allow an encumbrance over any such assets without the authorisation of Creso Pharma.

The Company expects to continue its financial support of HHI under the loan agreement during the pre-acquisition process which is currently underway as announced.

NOTE 16 TRADE AND OTHER PAYABLES

	2022 $000's	2021 $000's
Trade payables	**4,036**	282
Payables to related parties (note 23)	**113**	-
Accrued expenses	**2,971**	875
Accrued expenses for related parties (note 23)	**-**	197
Income in Advance	**26**	40
Other payables	**1,496**	77
	8,642	1,471

Notes to the Consolidated Financial Statements

NOTE 17 PROVISIONS

	2022 $000's	2021 $000's
Employee provisions	**375**	84

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

	2022 $000's	2021 $000's
Secured borrowings		
Deed of trust loans[a]	**2,393**	-
Other loans[b]	**2,952**	-
Total secured borrowings	**5,345**	-
Unsecured borrowings		
Convertible notes[c]	**851**	-
Related party loans[d]	**475**	-
Total unsecured borrowings	**1,326**	-
Total borrowings	**6,671**	-

(a) Secured deed of trust loans

The company entered into a loan facility via a Loan Trust Deed between Creso Pharma Limited and Briant Nominees Pty Ltd, denominated in Australian dollars. The facility operates with the following key terms :

- Maximum drawdown of $5,000,000 Australian dollars;
- Annualised interest rate of 30%;
- Repayment date of 21 May 2023;
- Capacity based on mutual agreement to rollover loans into convertible notes if required conditions are met by 31 January 2023, which was subsequently extended to 24 March 2023;
- Secured by a fixed charge against Mernova Medicinal Inc's ('MMI') Cannabis Cultivation Facility located in Nova Scotia, Canada.

During the period $2,320,000 was drawn down against the facility and $72,000 of accumulated interest has been recognised.

The conditions of the loans enable the loan to be rolled over by subscription into convertible notes with each note having a face value of A$100,000. The conditions precedent for rollover of loans into convertible notes are:

- the Company has made an offer to the lender, inviting them to subscribe for Convertible Notes; and
- the Company has obtained shareholder approval for the issue of the Convertible Notes to lenders or their nominees; and
- the lender has subscribed for convertible notes in accordance with the conditions as set out in the loan deed.

Attached to each Convertible Note (face value of A$100,000) are 1,000,000 options with an exercise price of $0.08 and an expiry date 4 years from date of issue. The notes are convertible into ordinary shares of the Company at a conversion price of $0.05 per share. In addition, on conversion, the note holder is entitled to one option for every 4 ordinary shares acquired on conversion. The exercise price of the options is $0.08 with options being able to be exercised on or before the elapse of four years after the first issue within the class of options. At 31 December 2022 no loans have been converted or redeemed.

Notes to the Consolidated Financial Statements

NOTE 18 BORROWINGS (CONTINUED)

The security charge is over MMI's facilities which is a purpose built facility to Health Canada GPP standard, scalable to 200,000 sq. ft. It contains 10 grow rooms with potential to produce 4,000kg. annually.

(b) Secured other loans

Sierra Sage Herbs LLC ('SSH') entered into a loan facility on 29 June 2021 with La Plata Capital LLC. ('La Plata loan'), denominated in United States dollars. During the period, the Company acquired 100% of the equity in SSH on the date of acquisition of SSH (26 August 2022). The facility remained operational and was continued post acquisition on the same terms and conditions as originally entered into. The facility operates with the following key terms :
- Maximum drawdown of $2,000,000 United States Dollars;
- Annualised interest rate of 13%;
- Repayable on demand as at 31 December 2022;
- Secured by a floating charge against the assets of Sierra Sage Herbs LLC.

As at the balance sheet date the loan was fully drawn and payable on demand.

Subsequent to the balance sheet date, on 27 January 2023, the group restructured the La Plata loan resulting in the extension of maturity to US$1,282,500. The remaining US$717,500 will be repaid by 31 January 2023. See note 32 for further details.

(c) Unsecured convertible notes

The company entered into a convertible note loan facility with Obsidian Global GP LLC ("Obsidian") on 27 October 2022, denominated in Unites States dollars. The maximum drawdown under the facility was A$5,000,000 in three tranches as follows:
- Tranche 1 A$1,750,000 5 business days after execution of the agreement;
- Tranche 2 A$1,750,000 5 business days after shareholder approval; and
- Tranche 3 A$1,500,000 on a date to be agreed between the Company and investor.

At 31 December 2022, the convertible notes comprise convertible note facilities issued in Tranche 1 of 1,310,339 notes issued on 2 November 2022 at an issue price of US$1.00 per note. On issue, the notes are convertible at the lower of the conversion price and the average of the lowest 5 daily VWAP during the 15 days prior to the redemption date. Notwithstanding the price above notes are subject to a minimum conversion price of A$0.015 per share. Redemption is subject to certain conditions being met. The conversion price represents a maximum premium of 30% to the Volume weighted average share price of the ordinary shares during the five days immediately prior to the date the convertible notes were issued. The issuer is entitled to convert the lesser of 12th of the total notes issues to them or the amount outstanding beginning on 20 January 2023 and then every 30th day thereafter.

Beginning on 20 January 2023, and every month thereafter, the company must redeem 1/12 of the outstanding balance of the convertible securities by paying 105% of the face value of the relevant convertible securities to Obsidian or issuing shares to Obsidian at the Redemption Price. The Company may also redeem some or all of the convertible notes by paying Obsidian 110% of the amount outstanding in respect of the relevant convertible securities. The Company expects that the notes will be converted prior to maturity and will have a dilutive effect.

As part of the convertible note facilities, a maximum of 44,000,000 of free listed (CPHO) options will be issued at an exercise price of $0.25 with an expiration date of 2 November 2024 and exercisable at any time. As at 31 December 2022, 22,000,000 options have been issued.

Also, as part of the convertible note facilities, a maximum of 90,000,000 collateral shares have been available for issue to noteholders at any time. If at maturity, there are any collateral shares left, the holder either:
- sell the shares and pay 95% of the proceeds to the Group
- transfer them back to the Group's nominees for $1
- purchase them for the lower of the fixed conversion price and the redemption price.

In the case that at maturity the holder has collateral shares left, but there is a trading halt for a period longer than 60 days, the holder will have no further obligation and the collateral shareholding will reduce to zero.

Notes to the Consolidated Financial Statements

NOTE 18 BORROWINGS (CONTINUED)

The holder has sale restrictions in respect of the notes on a given day, limiting sales to the greater of 20% of volume or $50,000.

The net proceeds received from the issue of the convertible notes was $1,750,000. 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 embedded derivative financial liability relating to the conversion feature and the collateral shares given.
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:	**$'000s**
Equity component – free options	**49,000**
Liability component – convertible notes	**1,632,000**
Liability component – embedded derivative	**69,000**
Net proceeds on inception	**1,750,000**
Liability component – convertible notes	**1,632,000**
Transaction costs capitalised	**(1,038,000)**
Net borrowings recorded on inception	**594,000**

At 31 December 2022, the fair value of the liability components recorded was $851,000.

The convertible notes have been valued using the net present value discounted at an effective interest rate of 15% (inclusive of risk-free rate, market risk rate and operational risk rate and credit risk).

As at the balance sheet date tranches 2 and 3 had not been activated and remained undrawn. Subsequent to balance sheet date, $500,000 was drawn in relation to Tranche 2. Tranche 2 was reduced from $1,750,000 to $500,000 on mutual agreement between the Company and Obsidian.

(d) Unsecured related party loans

On 22 December 2022, William Lay advanced $75,000 Canadian dollars and $12,391 United States dollars to the Company. As at the balance sheet date, the Company recognised a liability of $100,000 which is reflected in note 23.

On June 2021, Sierra Sage Herbs LLC. ('SSH') and the then controlling shareholder Jodi Scott entered into a revolving line of credit denominated in Unites States dollars. The facility operates with the following key terms :

- Maximum drawdown of $500,000 United States dollars;
- The facility operates with a fixed interest rate of 6.75% per annum;
- The facility matures on 15 June 2023.

Between 15 June 2022 and 30 September 2022 a total of $361,000 United States dollars were drawn down against the facility. Subsequent to which a total of $120,000 Unites States dollars have been repaid in four equal instalments. At balance sheet date outstanding liability recognised was $254,000 United States dollars.

(e) Fair value

The borrowings of the Group are of a short-term nature for which there is not a material difference between their fair value and carrying amount.

(f) Risk

Detail of the group's exposure to risk arising from borrowings are set out in note 21.

Notes to the Consolidated Financial Statements

NOTE 19 ISSUED CAPITAL

(a) Issued and fully paid

	2022		2021	
	No.	**$000's**	No.	$000's
Ordinary shares	**1,835,962,135**	**128,382**	**1,226,370,447**	**109,951**

(b) Movement in issued shares – 2022

	Number	**$000's**
At 1 January 2022	**1,226,370,447**	**109,951**
Issuance of shares pursuant to a Placement	**199,351,467**	**9,942**
Issue of Shares as consideration for acquisitions	**357,614,203**	**12,874**
Exercise of options	**405,430**	**20**
Conversion of Employee Performance Rights	**5,550,000**	**-**
Issue of shares for services	**1,670,588**	**504**
Shares issued to Directors	**-**	**120**
Issue of shares as collateral shares to Obsidian	**45,000,000**	
Less: Equity raising costs	**-**	**(5,029)**
At 31 December 2022	**1,835,962,135**	**128,382**

Movement in issued shares – 2021

	Number	**$000's**
At 1 January 2021	902,295,934	71,794
Issuance of shares pursuant to a Placement	94,736,843	18,000
Issue of Shares as part consideration for acquisitions	48,768,327	6,301
Issue of shares to Employees & Consultants	15,000,000	2,025
Exercise of options	140,101,837	8,528
Conversion of Employee Performance Rights	300,000	-
Issue of shares to settle loan	13,666,666	3,280
Issue of shares for services	6,904,348	1,456
Shares issued to Directors	1,000,000	140
Issue of share capital for extinguish of liability	3,596,492	863
Less: Equity raising costs	-	(2,436)
At 31 December 2021	**1,226,370,447**	**109,951**

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

	2022 $000's	2021 $000's
Share-based payments	**17,602**	11,248
Foreign currency translation reserve	**2,908**	1,383
	20,510	12,631
<u>**Movement reconciliation**</u>		
Share-based payments reserve		
Balance at the beginning of the year	**11,248**	23,557
Equity settled share-based payment transactions (Note 23)	**130**	123
Embedded derivative – convertible notes options	**49**	-
Issue of options for services	**7,182**	4,616
Issue of options to extinguish liability	**-**	160
Expired options	**(1,007)**	(17,208)
Balance at the end of the year	**17,602**	11,248
Foreign currency translation reserve		
Balance at the beginning of the year	**1,383**	301
Effect of translation of foreign currency operations to group presentation	**1,525**	1,082
Balance at the end of the year	**2,908**	1,383

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 Statements

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.

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

		2022	
	CHF	**CAD**	**USD**
	Fr.000's	**\$000's**	**\$000's**
Cash and cash equivalents	**203**	**79**	**238**
Trade and other receivables	**154**	**729**	**973**
Trade and other payables	**114**	**871**	**3,392**

		2021	
	CHF	CAD	USD
	Fr.000's	\$000's	\$000's
Cash and cash equivalents	1,892	477	1
Trade and other receivables	88	510	-
Trade and other payables	98	510	10

The Group's profit and loss has limited exposure to movements in foreign currencies as the Company and its subsidiaries substantially operated in their respective functional currencies. The foreign exchange loss recognised in financing costs in the profit and loss for the year ended 31 December 2022 was $17,000 (2021: loss of $6,000).

The predominant risk from fluctuations in foreign currencies is changes to net assets and other comprehensive income resulting from translation of subsidiary operations whose functional currency is different from the functional currency of the Company. The consolidated entity had net assets denominated in foreign currencies of $25,247,000 as at 31 December 2022 (2021: $23,933,000). Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% (2021: weakened by 5%/strengthened by 5%) against these foreign currencies with all other variables held constant, the consolidated entity's other comprehensive income for the year would have been $1,262,000 lower/$1,262,000 higher (2021: $1,196,000 lower/$1,196,000 higher) and equity would have been $1,262,000 lower/$1,262,000 higher (2021: $1,196,000 lower/$1,196,000 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.

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

Notes to the Consolidated Financial Statements

NOTE 21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 group's risk to movements in interest rates is set out in the following table:

	2022 $000's	2021 $000's
Non-interest bearing borrowings	**100**	-
Fixed interest borrowings	**6,571**	-
Total borrowings	**6,671**	-

The group is not subject to interest rate risk on current borrowings. Had the group required refinancing of its existing debt facilities, an increase in the weighted average interest rate applicable to borrowings of 1% per annum would have resulted in an additional $66,000 financing costs during the period.

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.

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

Notes to the Consolidated Financial Statements

NOTE 21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 - 2022	Weighted average interest rate %	1 year or less $000's	Between 1 and 2 years $000's	Between 2 and 5 years $000's	Remaining contractual maturities $000's
Non-derivatives					
Non-interest bearing					
Trade and other payables	**-**	**8,642**	**-**	**-**	**8,642**
Borrowings	**-**	**100**	**-**	**-**	**100**
		8,742	**-**	**-**	**8,742**
Interest-bearing - fixed rate					
Borrowings	**18.70**	**5,720**	**851**	**-**	**6,571**
Maturity Analysis					
1 – 3 months		**11,694**	**-**	**-**	**11,694**
4 – 6 months		**2,768**	**-**	**-**	**2,768**
1 -2 years		**-**	**851**	**-**	**851**
Total non-derivatives		**14,462**	**851**	**-**	**15,313**

Consolidated - 2021	Weighted average interest rate %	1 year or less $000's	Between 1 and 2 years $000's	Between 2 and 5 years $000's	Remaining contractual maturities $000's
Non-derivatives					
Non-interest bearing					
Trade and other payables	-	1,471	-	-	1,471
Interest-bearing - fixed rate					
Short-term loan	-	-	-	-	-
Maturity Analysis					
1 – 3 months		1,471	-	-	1,471
4 – 6 months		-	-	-	-
Total non-derivatives		1,471	-	-	1,471

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

Fair value of financial instruments

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

Notes to the Consolidated Financial Statements

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 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.

NOTE 23 RELATED PARTY DISCLOSURE

(a) Key Management Personnel Compensation

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

	2022 $	2021 $
EverBlu Capital Pty Ltd[(i)] – a company of which Adam Blumenthal is the Chairman		
Capital raising fees payable in cash	**308,996**	-
Capital raising fees payable in shares	**829,258**	756,000
Legal fees	**-**	36,364
Corporate advisory payable in shares	**70,000**	-
Monthly retainer	**495,000**	330,000
IRESS service fees	**3,399**	4,415
Out of scope fees		417,381
	1,706,653	1,544,160
Balance owing to EverBlu Capital Pty Ltd at 31 December	**899,258**	-
Balance owing to Creso at 31 December	**-**	-
Everblu Capital Corporate Pty Ltd[(i)] – a company of which Adam Blumenthal is the Chairman		
Capital raising fees	**149,838**	1,573,406
Capital raising fees payable in shares	**3,774,815**	-
Monthly retainer	**13,095**	
Debt restructuring fees	**-**	605,000
Business development and investor relations	**-**	440,000
Facilitation fees	**-**	275,000
Out of scope fees, including restructuring and corporate advice	**-**	968,000
	3,937,748	3,861,406
Balance owing to EverBlu Capital Corporate Pty Ltd at 31 December	**3,774,815**	197,322
Balance owing to Creso at 31 December	**-**	-

The above fees are inclusive of GST.

Notes to the Consolidated Financial Statements

NOTE 23 RELATED PARTY DISCLOSURE (CONTINUED)

	2022 $	2021 $
Suburban Holdings Pty Ltd – related party		
Amount drawn down by Creso	**1,000,001**	-
Amount repaid	**-**	250,000
Balance owing at 31 December	**-**	-
Anglo Menda Pty Ltd – a company controlled by Adam Blumenthal		
Short term loan to Creso	**-**	-
Share placement	**-**	-
Balance owing at 31 December	**-**	-
Atlantic Capital Pty Ltd – a company controlled by Adam Blumenthal		
Share placement	**-**	-
Adam Blumenthal(i)		
Balance owing from Creso at 31 December	**-**	-
Balance owing to Creso at 31 December(ii)	**-**	85,000
James Ellingford(iii)		
Balance owing from Creso at 31 December	**-**	-
International Water and Energy Savers Ltd - a company controlled by Boaz Wachtel		
Director's Fees for Boaz Wachtel	**80,000**	127,143
Bonus for Boaz Wachtel payable in shares	**40,000**	-
Balance owing from Creso at 31 December	**40,000**	-
HBAM Holdings Inc - a company controlled by Bruce Linton		
Director's Fees for Bruce Linton	**93,504**	-
Balance owing from Creso at 31 December	**23,346**	-
BQ Advisory - a company controlled by Ben Quirin		
Director's Fees for Ben Quirin	**18,413**	-
Balance owing from Creso at 31 December	**-**	-
Jodi Scott		
Loan repayments	**136,861**	-
Interest on loan	**7,136**	-
Lease payments	**17,306**	-
Balance owing from Creso at 31 December	**386,680**	-
Kelly Hoyt – a person related to Jodi Scott		
Salary	**40,941**	-
Bonus	**456**	-
Balance owing from Creso at 31 December	**5,849**	-
Kathleen Scott – a person related to Jodi Scott		
Salary	**51,177**	-
Bonus	**456**	-
Balance owing from Creso at 31 December	**7,311**	-

Notes to the Consolidated Financial Statements

NOTE 23 RELATED PARTY DISCLOSURE (CONTINUED)

William Lay		
Loan to SSH	**18,327**	-
Loan to Mernova	**81,673**	-
Balance owing from Creso at 31 December	**100,000**	-

(i) Mr Blumenthal resigned as a director on 10 October 2022. Any transactions past this date, including through companies that he controls, have not been disclosed above as they ceased being a related party.
(ii) Cash receivable of $85,000 was owed by Adam Blumenthal due to an administration error. Interest has not been charged. The amount receivable was settled in February 2022.
(iii) Mr Ellingford resigned as director on 30 November 2022.

(b) Transactions with related parties – non-cash

Other Share and Option Transactions with Related Parties				
	2022		2021	
	Shares	**Options**	Shares	Options
EverBlu Capital Pty Ltd				
Broker fees	-	-	3,600,000	-
Issue of Shares - Corporate Advisory Mandate[ii]	**2,000,000**	-	-	-
Share issue cost in February-22 Placement	-	**57,971,032[i]**	-	-
Subtotal	**2,000,000**	**57,971,032**	3,600,000	-
EverBlu Capital Corporate Pty Ltd				
Share issue cost in August-22 Placement	-	**175,000,000[i]**	-	-
Subtotal	-	**175,000,000**	-	-
Suburban Holdings Pty Ltd				
Issue of bonus listed options	-	-	-	6,914,411
Subtotal	-	-	-	6,914,411
Atlantic Capital Holdings Pty Ltd				
Issue of shares and listed options – October placement	-	-	-	87,811,977
Issue of bonus listed options	-	-	-	37,888,478
Issue of unlisted options for EverBlu out of scope fees	-	-	-	12,000,000
Subtotal	-	-	-	137,700,455
Anglo Menda Pty Ltd				
Issue of shares	-	-	-	-
Subtotal	-	-	-	-
International Water and Energy Savings				
Director bonus – Boaz Watchel[ii]	**2,000,000**	-	-	-
Subtotal	**2,000,000**	-	-	-
James Ellingford				
Director bonus – James Ellingford[ii]	**4,000,000**	-	-	-
Subtotal	**4,000,000**	-	-	-
HBAM Holding Inc				
Director's fee – Bruce Linton[iii]	-	**10,000,000**	-	-
Subtotal	-	**10,000,000**	-	-

(i) Options disclosed in relation to Everblu Capital Pty Ltd and Everblu Capital Corporate Pty Ltd had not been issued as at 31 December 2022.
(ii) Shares disclosed in relation to International Water and Energy Savings, James Ellingford and EverBlu Capital were approved but had not been issued as at 31 December 2022.
(iii) Options disclosed in relation to HBAM Holdings Inc had not been issued as at 31 December 2022.

Notes to the Consolidated Financial Statements

NOTE 23 RELATED PARTY DISCLOSURE (CONTINUED)

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.

Other than the above, there were no other transactions with KMP during the year ended 31 December 2022.

Notes to the Consolidated Financial Statements

NOTE 24 SHARE BASED PAYMENTS

	2022 $	2021 $
(a) Recognised share-based payment transactions		
Unlisted options issued to employees and consultants	**48,298**	32,057
Performance rights issued to employees and consultants	**81,815**	90,622
Performance rights issued to key management personnel	**-**	-
	130,113	122,679

Share based payments are valued on the basis set out in note 1 (q) of Significant Accounting Policies.

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[i]	Exercised during the year	Expired/ Cancelled during the year	Balance at the end of the year
27-07-2018	27-07-2018	27-07-2022	$0.80	200,000	-	-	(200,000)	-
31-08-2018	31-08-2018	15-09-2022	$0.80	300,000	-	-	(300,000)	-
12-02-2020	12-02-2020	12-02-2023	$0.35	2,128,387	-	-	-	2,128,387
12-02-2020	12-02-2020	12-02-2023	$0.40	6,847,725	-	-	-	6,847,725
07-04-2020	07-04-2020	01-03-2024	$0.25	250,000	-	-	(250,000)	-
07-04-2020	07-04-2020	10-03-2024	$0.08	1,000,000	-	-	(1,000,000)	-
07-04-2020	07-04-2020	10-03-2024	$0.16	1,000,000	-	-	(1,000,000)	-
07-04-2020	07-04-2020	10-03-2024	$0.20	500,000	-	-	(500,000)	-
25-06-2020	25-06-2020	25-06-2023	$0.1389	5,752,688	-	-	-	5,752,688
02-06-2020	02-06-2020	02-06-2023	$0.17	27,764,706	-	-	-	27,764,706
02-06-2020	02-06-2020	02-06-2023	$0.25	4,000,000	-	-	-	4,000,000
02-06-2020	02-06-2020	02-06-2023	$0.20	8,000,000	-	-	-	8,000,000
23-12-2020	23-12-2020	23-12-2023	$0.20	833,333	-	-	-	833,333
23-12-2020	23-12-2020	23-12-2025	$0.039	30,000,000	-	-	-	30,000,000
11-01-2021	11-01-2021	11-01-2023	$0.24	8,000,000	-	-	-	8,000,000
11-01-2021	11-01-2021	11-01-2023	$0.27	8,000,000	-	-	-	8,000,000
11-01-2021	11-01-2021	11-01-2023	$0.30	8,000,000	-	-	-	8,000,000
11-01-2021	11-01-2021	11-01-2023	$0.40	2,500,000	-	-	-	2,500,000
11-01-2021	11-01-2021	11-01-2023	$0.40	300,000	-	-	-	300,000
14-07-2021	14-07-2021	14-07-2024	$0.38	12,000,000	-	-	-	12,000,000
31-08-2021	31-08-2021	01-08-2024	$0.15	12,000,000	-	-	-	12,000,000
31-08-2021	31-08-2021	01-08-2024	$0.18	12,000,000	-	-	-	12,000,000
06-09-2021	06-09-2021	06-09-2024	$0.18	10,000,000	-	-	-	10,000,000
06-09-2021	06-09-2021	06-09-2024	$0.25	10,000,000	-	-	-	10,000,000
25-10-2021	25-10-2021	25-10-2024	$0.1375	1,000,000	-	-	-	1,000,000
12-12-2022	12-12-2022	12-06-2024	$0.14	-	53,358,712	-	-	53,358,712
				172,376,839	**53,358,712**	-	**(3,250,000)**	**222,485,551**
Weighted average exercise price				$0.20	$0.14	-	$0.25	$0.18

(i) Issued unlisted options excludes 57,971,032 options due to Everblu Capital Pty Ltd and 175,000,000 options due to Everblu Capital Corporate Pty Ltd as disclosed in note 23 (b) which remained unissued at 31 December 2022.

Notes to the Consolidated Financial Statements

NOTE 24 SHARE-BASED PAYMENTS (CONTINUED)

(c) Movements of listed options 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
CPHO	02-11-2021	02-11-2024	$0.00	$0.25	400,942,239	22,000,000	(451)	-	422,941,788
CPHOA	22-01-2021	22-01-2023	$0.00	$0.05	64,358,997	-	(404,979)	-	63,954,018
					465,301,236	**22,000,000**	**(405,430)**	**-**	**486,895,806**

(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
16,798,000	**800,000**	**(5,350,000)**	**(1,699,000)**	**10,549,000**

NOTE 25 COMMITMENTS

	2022	2021
	$000's	$000's
Operating Lease Commitments		
Within one year	**-**	35
One to five years	**-**	-
More than five years	**-**	-
	-	35

The Group does not have any arrangements for the 31 December 2022 (2021: nil) that meet the requirements of recognising a Right of Use asset/ Lease liability in accordance with AASB 16.

NOTE 26 COMMITMENTS AND CONTINGENCIES

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

Notes to the Consolidated Financial Statements

NOTE 27 AUDITOR'S REMUNERATION

During the financial year the following fees were paid or payable for services provided by BDO Audit Pty Ltd, the auditor of the company and unrelated firms:

	2022 **$**	2021 $
Auditors of the Group – BDO		
Audit Services		
Audit and review of annual and half-year of the Group and controlled entities	**520,220**	315,466
Other services		
– Independent Expert Report	**-**	29,538
– Income tax return and GST audit	**-**	39,600
Total services provided by BDO	**520,220**	384,604
Other network firms		
Audit and reviews of the financial statements – MNP	**118,500**	33,000
Audit and reviews of the financial statements – PwC	**102,770**	80,060
Other services		
– Independent Expert Report	**517,700**	17,600
– Income tax return and GST audit	**40,459**	15,000
Total services provided by other network firms	**779,429**	145,660
	1,299,649	530,264

NOTE 28 INVESTMENT IN CONTROLLED ENTITIES

Company Name	**Principal Activities**	**Country of Incorporation**	**Ownership interest 2022 %**	**Ownership interest** 2021 %
Creso Pharma Switzerland GmbH	Development of nutraceutical products	Switzerland	**100**	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	Holder of cannabis licenses in Colombia	Colombia	**100**	100
Halucenex Life Sciences Inc.	Clinical stage psychedelic drug development company	Canada	**100**	100
Creso Impactive Limited	CBD based life sciences company	Canada	**100**	100
Sierra Sage Herb LLC	Manufacture and sale of packaged consumer products	United States of America	**100**	-
Creso Pharma US Inc.	Corporate entity	United States of America	**100**	-
4340965 Nova Scotia Limited	Corporate entity	Canada	**100**	100

Notes to the Consolidated Financial Statements

NOTE 29 BUSINESS COMBINATIONS

The Group is currently implementing a growth strategy with a focus on the global CBD market for consumer and medicinal products. As part of this strategy, management identified Sierra Sage Herbs LLC ('SSH') as an organisation capable of furthering the Group's objectives particularly in the US market. SSH represented an opportunity for the Group to acquire on an existing operation with a range of products complementing the Group's existing offering and providing the Group with an established consumer supply chain which can be leveraged as the Group continues to expand. On 26 August 2022 Creso Pharma US, Inc. (a wholly owned subsidiary of Creso Pharma Ltd) acquired 100% of the issued share capital of Sierra Sage Herbs LLC, a business manufacturing and selling packaged consumer goods in the natural products space. The collection of brands, which are plant-based, portable first aid and body care products, are crafted using a proprietary lipid-infusion process, rather than with pre-made extracts.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$000's
Ordinary shares issued	12,874
Contingent consideration	-
Total purchase consideration	12,874

The fair value of the 357,614,203 shares issued as part of the consideration paid for Sierra Sage Herbs LLC. ($12.874m) was based on the published share price on 26 August 2022 of $0.036 per share.

The Company engaged a third party expert (MNP LLP) on March 15, 2022 to conduct a valuation of the SSH acquisition. Based on the results of a Monte Carlo simulation, the fair value of the contingent consideration was estimated to be nil at acquisition.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $000's
Cash	164
Inventory	2,385
Other current assets	1,467
Property plant and equipment	21
Intangible assets: developed technology	1,867
Intangible assets: client relationship	4,929
Intangible assets: brands and trademarks	11,607
Current liabilities	(5,247)
Borrowings	(6,748)
Net identifiable assets acquired	10,445
Add: goodwill	2,429
Net assets acquired	12,874

The fair value of assets of Sierra Sage Herbs LLC. were translated using the prevailing exchange rate on 26 August 2022, being US$0.6957 per Australian Dollar.

The recognised goodwill represents other intangible assets that do not qualify for separate recognition. Goodwill will not be deductible for tax purposes.

The acquired business contributed revenues of $2,453,000 and net loss of $10,584,000 to the group for the period from 26 August to 31 December 2022.

Notes to the Consolidated Financial Statements

NOTE 29 BUSINESS COMBINATIONS (CONTINUED)

If the acquisition had occurred on 1 January 2022, consolidated pro-forma revenue and loss for the year ended 31 December 2022 would have been $12,351,000 and $39,167,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the group and the subsidiary; and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2022, together with the consequential tax effects.

Acquisition related costs of $802,000 (2021: $59,000) that were not directly attributable to the issue of shares are included in administrative expenses in the statement of profit or loss and in operating cash flows in the statement of cash flows.

NOTE 30 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

	2022 $000's	2021 $000's
Total current assets	**3,113**	4,231
Loans receivable and investments in controlled entities	**25,248**	24,378
Total assets	**28,361**	28,609
Total current liabilities	**6,066**	850
Total liabilities	**6,066**	850
Equity		
Contributed equity	**128,382**	109,951
Reserves	**17,602**	11,248
Accumulated losses	**(123,690)**	(93,440)
Total equity	**22,294**	27,759
Total comprehensive profit/(loss)	**(31,257)**	(29,048)

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2022 and 31 December 2021.

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

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2022 and 31 December 2021.

<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 31 ASSETS PLEDGED AS SECURITY

The carrying amount of assets pledged as security for borrowings are:

	2022 $000's	2021 **$000's**
Current		
Floating charge		
Cash and cash equivalents	**352**	-
Trade and other receivables	**1,436**	-
Inventories	**2,548**	-
Total current assets pledged as security	**4,336**	-
Non-current assets		
First mortgage		
Land and buildings	**8,288**	-
Floating charge		
Plant and equipment	**16**	-
Intangible assets	**2,353**	-
	2,369	-
Total non-current assets pledged as security	**10,657**	
Total assets pledged as security	**14,993**	-

The Group has loans which are subject to security pledges. The pledged assets include a fixed charge over the production facility owned by Mernova Medicinal Inc. and a floating charge over the assets of Sierra Sage Herbs LLC. Further information regarding the borrowings is presented at note 18.

Notes to the Consolidated Financial Statements

NOTE 32 EVENTS AFTER THE REPORTING DATE

- On 9 January 2023, the Company announced it had secured A$500k in funding from Obsidian Global GP, LLC ("Obsidian") via the issuance of 340,850 convertible notes under the Second Purchase of the convertible note facility announced on 1 November 2022. The terms of the convertible notes are the same as those previously announced to the market. The reduction in the size of the Second Purchase is based on mutual agreement between the Company and Obsidian. Under the draw down, Creso issued 12,857,143 Collateral Shares and 22,000,000 listed options trading on the ASX under the code "CPHO". These options have an A$0.25 strike price.

- On 10 January 2023, Zelira Therapeutics Ltd ("Zelira") announced it had released Health House International Limited (ASX:HHI) of any obligation under the Zelira working capital facility loan agreement1 following receipt of 40,000,000 Creso Pharma Limited (ASX:CPH) (Creso) Shares from Creso at an issue price of $0.02, being equal to $800,000. This is an important step required to facilitate the acquisition of HHI by the Company.

- On 27 January 2023, the Company announced it had entered into a non binding letter of intent ("LOI") to acquire the assets of Abby and Finn LLC ('Abby and Finn' or 'A&F'), a leading US based natural baby products company with annualized sales of US$2.5 million based on its September 2022 quarter sales performance. A&F would add a further suite of unique, plant-based products to Creso's US division, Sierra Sage Herbs ("SSH"). Creso intends to utilise SSH's retail relationships, which include CVS, Rite-Aid, Whole Foods, and Albertsons, among others, to introduce A&F to retail following their e-commerce success.

- On 27 January 2023, the Company announced it had entered into a Converting Loan Deed and Loan Modification Document with La Plata Capital LLC, an existing lender of SSH. Under the terms of this transaction, US$1,282,500 of La Plata's existing US$2m debt with SSH will be swapped for US$1,282,500 of Creso Secured Notes (similar, but ranking behind the existing secured convertible notes announced to the market on 1 Nov 2022). The result of the transaction is an extension of the maturity date, and a simpler balance sheet, with the majority of all debt contained within a similar structure at the Creso Pharma level. The remaining US$717,500 of the debt will be settled in a cash payment to La Plata by 31 January 2023. The debt restructuring involves the issue of 19 convertible notes with the following key terms:

    - Maturity date six months from date of issue

    - Interest rate of 15% for the period (30% annualised)

    - Secured over Creso's Mernova Cannabis Cultivation Facility which is located in Nova Scotia, Canada. The Convertible Notes will rank second to an existing security.

    - Investors will receive 1m options per US$67,500 invested, regardless of whether they convert to equity, or get repaid back in cash. The options will have a $0.08 exercise price and the same expiry date to the placement options to be issued in the capital raising announced by the company on 4 August 2022. The issue of these options is subject to shareholder approval The options are intended to be listed subject to meeting all the relevant ASX requirements.

    - Conversion is solely at the lender's election and otherwise repayment is due six months from the investment date.

    - The conversion price is $0.05 together with attaching 1 for 4 options ($0.08 exercise price and an expiry date approximately 4 years from their date of issue) on the same terms as the Investor Options.

Notes to the Consolidated Financial Statements

NOTE 32 EVENTS AFTER THE REPORTING DATE (CONTINUED)

- On 7 February 2023, the Company announced that wholly-owned psychedelics subsidiary, Halucenex Life Sciences Inc. ("Halucenex") is exploring opportunities to register its synthetic psilocybin formulation for the Australian market following recent regulatory changes. The Australian medical regulator, the Therapeutic Goods Administration's (TGA) recently announced that the medical use of MDMA and psilocybin respectively will be rescheduled from Schedule 9 (prohibited substances) to Schedule 8 (controlled medicines) which will allow for both substances to be prescribed by specifically authorised psychiatrists for the treatment of certain health conditions, including treatment resistant Post Traumatic Stress Disorder (PTSD) from 1 July 2023. At this stage there is significant uncertainty surrounding whether Halucenex will be successful, and the financial effects of such an approval cannot be determined at this time.

- On 17 February 2023, the Company announced it had secured firm commitments from new and existing institutional, professional and sophisticated investors to raise $2m (before costs) through the issue of approximately 132,859,356 fully paid ordinary shares ('Shares') at an issue price of $0.01506 per Share (the 'Placement'). The total amount raised includes a $100,000 commitment from group CEO and Managing Director Mr William Lay (or his nominee), which will be subject to Shareholder approval at a future General Meeting.

- On 24 February 2023, the Company commenced the orderly closure of the Swiss office of Creso Pharma Switzerland GmbH, to take effect over a period ending in May 2023. Strategic customer and supplier relationships will not be affected. The European operations of the Company will continue to be managed by qualified personnel who are already experienced with the Company's products and strategic relationships in Europe. The Company will continue its R&D and European marketing activities with personnel and resources provided by other Group entities. The decision is expected to reduce the Group's operating costs by at least CHF500,000 (A$750,000) annually, thereby producing positive and increasing EBITDA results from its European operations.

- On 6 March 2023, the Company announced it had secured commitments to raise $2.5m through the issuance of secured convertible notes ('Secured Notes') to SBC Global Investment Fund ('SBC') comprising of one tranche with an aggregate purchase price of $1,700,000 pursuant to a convertible securities agreement ('First Convertible Securities Agreement') and a second tranche with an aggregate purchase price of $800,000 pursuant to a second convertible securities agreement, each on the terms set out in that announcement. The second tranche requires approval at a general meeting of the Company's shareholders, which is expected to take place in May 2023. Security for the Secured Notes includes a first ranking security over all present and after acquired property of the Company on and subject to the terms detailed in the announcement released on ASX on 6 March 2023. The funds will be deployed to support marketing and sales of the Company's existing products in Canada, Europe, and the US, further advancement of Halucenex's Phase II clinical trial, completion of pending M&A activities, repayment of debt to Obsidian Global GP, LLC and general working capital. Subject to shareholder approval, the Company has agreed to issue to SBC 50,000,000 CPHOD quoted Options ($0.08, expiry 31/01/27) and 20,000,000 unquoted Options ($0.03, expiry 31/01/27). Everblu acted as Lead Manager to the capital raising, and was entitled to a cash fee of 6%, and, subject to shareholder approval, broker Options, as set out in the announcement dated 6 March 2023.

- On 6 March 2023, the Company announced that La Plata Capital, LLC ("La Plata") had agreed to roll over the remaining balance of its existing loan (US$467,500) to the Company's Subsidiary, Sierra Sage Herbs, LLC into secured convertible notes (and Investor Options), as detailed in the announcement dated 6 March 2023. The issue is subject to shareholder approval, which is intended to be sought in May 2023.

- On 6 March 2023, the Company announced that it had agreed to acquire La Plata's existing loan to Abby and Finn LLC (face value of US$500,000) in consideration for US$500,000 of secured convertible notes in the Company (and Investor Options), as detailed in that announcement. The issue is subject to shareholder approval, which is intended to be sought in May 2023.

- On 7 March 2023, the Company issued 13,440,924 Shares on conversion of 627,175 outstanding Tranche 1 Notes held by Obsidian Global GP, LLC ("Obsidian").

Notes to the Consolidated Financial Statements

- On 13 March 2023, the ASX formally censured the Company in relation to a breach of ASX Listing Rule 10.11 in March 2022. The Company advised on 13 March 2023 that the matter is now resolved, and that there are no ongoing consequences as a result of the breach. On 14 March 2023, the Company received $1,587,095 in respect of the First Convertible Securities Agreement with SBC Global Investment Fund – see above. This amount comprised proceeds from the first tranche of convertible notes of $1,700,000, less commitment and legal fees amounting to a total of $112,905.

- On 24 March 2023, the Company paid US$250,000 to Obsidian in partial settlement of the Convertible Securities Agreement dated 11 November 2022. This resulted in 80,000 convertible notes being retired and a balance of 260,850 convertible notes held by Obsidian outstanding. The Company has agreed that the 260,850 convertible notes will be settled on or before 21 April 2023 by a cash payment of US$300,000. Upon mutual agreement, some or all of the remaining convertible notes may be settled in shares.

  On 24 March 2023, further to the proposal for the Company to acquire all the shares in Health House International Ltd (ASX:HHI) via a scheme of arrangement (ASX Announcement 29 July 2022), HHI announced confirmation that the Australian Securities and Investments Commission had registered the scheme booklet, A general meeting of shareholders of HHI is scheduled to take place on 2 May 2023, at which the shareholders of HHI will vote on the scheme. Additional information on the proposal is set out in the CEO's Report – see page 11 of this Report.

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.

Directors' Declaration

In the directors' opinion:

- the financial statements and notes set out on pages 43 to 96 are in accordance with the Corporations Act 2001, including:

  - complying with the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

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

  - giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the financial year ended on that date; and

- 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

William Lay
MANAGING DIRECTOR
31 March 2023

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Sydney NSW 2000
Australia

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 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 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 2022, 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 (including Independence Standards)* (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.

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.

Acquisition of Sierra Sage Herbs

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 29 of the financial report, the Group acquired 100% of Sierra Sage Herbs LLC (SSH) on 26 August 2022. Accounting for this transaction is complex, requiring the Group to exercise judgement in how the structure and substance of the transaction is treated under Australian Accounting Standards, and identifying and determining the fair value of the assets and liabilities acquired. The audit of the accounting treatment of this acquisition is a key audit matter due to the magnitude of the transaction and the significant judgement and complexity involved in accounting for the transaction.	Our audit procedures included, amongst others: • Reviewing the business sale agreement to understand the terms and conditions of the acquisition and evaluating management's accounting thereof and application of the relevant accounting standards; • Comparing the assets and liabilities recognised on acquisition against the executed agreements and the historical financial information of the acquired entity; • Evaluating and challenging the assumptions made and methodology used in management's determination of the fair value of assets and liabilities acquired, and the consideration paid and payable; and • Considering the adequacy of the business combination disclosures in light of the requirement of Australian Accounting Standards.

Impairment of intangibles

Key audit matter	*How the matter was addressed in our audit*
At 31 December 2022, the carrying value of intangible assets was $15,848,000 as disclosed in Note 14. An annual impairment test for Intangible Assets is required for indefinite life assets or where there are indicators of impairment under Australian Accounting Standard (AASB) 136 *Impairment of Assets*. Impairment testing requires management to make significant judgements and estimates as part of the assumptions used in both the discounted cash flow models used to assess value in use, and the fair value less cost of disposal calculations using the relief-from-royalty valuation methodology. These assumptions include forecast cash flows, discount rates, terminal growth rates and royalty rates. Detailed disclosures are contained in Note 14 to the financial report, which include the related accounting policies and the critical accounting judgements and estimates used to determine whether the carrying value of assets are recoverable The Group has engaged an expert to assist with the impairment testing. This was considered to be a key audit matter due to the significance of the intangible assets, the material amount of the impairment charge recorded and the judgements and estimates exercised in the impairment testing.	Our audit procedures included, amongst others: • Obtaining management's assessment of impairment indicators under AASB 136 for each non-current asset and considering the conclusions; • Assessing whether the cash generating units were appropriate and consistent with our knowledge of the Group's operations and internal reporting; • Assessing whether the impairment testing methodology used by the Group met the requirements of Australian Accounting Standards; • Evaluating the Group's assumptions and estimates used in their cash flow forecasting, and with our internal valuation experts, assessing the growth rates (including terminal growth rate), discount rates and royalty rates used; • Checking the mathematical accuracy of the valuation models; and • Evaluating the adequacy of the impairment disclosures in the financial report, particularly those relating to intangible assets and to judgements and estimates.

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, 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 with assistance from our internal valuation experts; • 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*.

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 which this year included issues of shares and options to related parties. Related party disclosures are significant to our audit as they are material, and of interest to users of the financial report due to their nature and value.	Our audit procedures included, amongst others: • Reviewing documentation for related party transactions, to understand the underlying transactions and assess whether they had been recorded correctly; • Obtaining confirmations of related party transactions from all key management personnel and comparing to disclosures; • For transactions with related parties, we assess management's and those charged with governance's evaluations that transactions were at arm's length, and where possible, compare to equivalent transactions with third parties; and • Considering the completeness of disclosures in the financial statements and ensuring the disclosures are in accordance with AASB 124 *Related Party Disclosures*.

Valuation of biological assets

Key audit matter	*How the matter was addressed in our audit*
The Group held biological assets of $265,000 (Note 12) and harvested cannabis inventories of $2,696,000 (included within Note 11) as at 31 December 2022. AASB 141 *Agriculture* requires 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 costs to sell up to the point of harvest, which becomes the initial deemed cost. We considered the valuation of biological assets to be a key audit matter due to the changing market conditions and the complexity of the valuation model and the significant estimates required as inputs to the valuation model.	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 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 2022, 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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 25 to 39 of the directors' report for the year ended 31 December 2022,.

In our opinion, the Remuneration Report of Creso Pharma Limited, for the year ended 31 December 2022, 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 Audit Pty Ltd

BDO

Gillian Shea
Director

Sydney, 31 March 2023

Shareholder Information

The shareholder information set out below was applicable as at 29 March 2023.

1. QUOTATION

Listed securities in Creso Pharma Limited are quoted on the Australian Securities Exchange under ASX codes CPH (Fully Paid Ordinary Shares), CPHO (Listed Options) and CPHOD (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 Rights, Performance Shares or Convertible Notes on issue.

3. ON MARKET BUY-BACK

There is no on-market buy back in place.

4. RESTRICTED SECURITIES

The following restricted securities are listed on the Company's register as at 29 March 2023:

Escrowed to 26 August 2023

134,105,315 Fully Paid Ordinary Shares

Escrowed to 10 January 2024

15,000,000 Fully Paid Ordinary Shares

5. DISTRIBUTION OF SECURITY HOLDERS

5.1 Fully Paid Ordinary Shares

Shares Range	Holders	Units	%
1 – 1,000	1,769	1,119,080	0.05%
1,001 – 5,000	8,102	25,391,615	1.19%
5,001 – 10,000	4,255	34,164,265	1.60%
10,001 – 100,000	9,197	329,252,413	15.41%
100,001 and above	2,390	1,746,580,322	81.75%
Total	**25,713**	**2,136,507,695**	**100.00%**

On 29 March 2023, there were 20,981 holders of unmarketable parcels of less than 50,000 ordinary shares (based on the closing share price of $0.01).

Shareholder Information

5.2 Listed CPHO Options exercisable at $0.25 on or before 2 November 2024

Shares Range	Holders	Units	%
1 – 1,000	6,713	3,970,415	0.89%
1,001 – 5,000	10,216	24,941,313	5.61%
5,001 – 10,000	3,130	23,075,251	5.19%
10,001 – 100,000	3,918	111,200,377	24.99%
100,001 and above	464	281,754,432	63.32%
Total	**24,441**	**444,941,788**	**100.00%**

5.3 Listed CPHOD Options exercisable at $0.08 on or before 31 January 2027

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	5	281,000	0.08%
100,001 and above	115	349,719,000	99.92%
Total	**120**	**350,000,000**	**100.00%**

5.4 Unlisted Options

Class	Quantity on Issue	Distribution of Holders
CPHOPT26 Options ($0.1386, 23/06/2023)	5,752,688	All the securities in this class are held by: - Lind Global Macro Fund LP
CPHOPT28 Options ($0.17, 02/06/2023)	27,764,706	All the securities in this class are held by: - CST Capital Pty Ltd <CST Investments Fund A/C>
CPHOPT29 Options ($0.25, 02/06/2023)	4,000,000	All the securities in this class are held by: - Atlantic Capital Holdings Pty Ltd <Atlantic Capital A/C>
CPHOPT31 Options ($0.20, 02/06/2023)	8,000,000	All the securities in this class are held by: - Atlantic Capital Holdings Pty Ltd <Atlantic Capital A/C>
CPHOPT32 Options ($0.20, 23/12/2023)	833,333	All the securities in this class are held by: - Rimoyne Pty Ltd
CPHOPT33 Options ($0.039, 23/12/2025)	30,000,000	All the securities in this class are held by: - Bruce Linton <The Linton Family 2040 A/C>
CPHOPT38 Options ($0.38, 14/07/2024)	12,000,000	All the securities in this class are held by: - Atlantic Capital Holdings Pty Ltd <Atlantic Capital A/C>

Shareholder Information

Class	Quantity on Issue	Distribution of Holders
CPHOPT39 Options ($0.15, 1/08/2024)	12,000,000	There are 3 security holders, each holding more than 100,001 of securities in this class. The following holder holds more than 20% of securities in this class: - Mr Edward Sugar holds 9,000,000 securities (75%)
CPHOPT40 Options ($0.18, 1/08/2024)	12,000,000	There are 3 security holders, each holding more than 100,001 of securities in this class. The following holder holds more than 20% of securities in this class: - Mr Edward Sugar holds 9,000,000 securities (75%)
CPHOPT41 Options ($0.18, 6/09/2024)	10,000,000	All the securities in this class are held by: - Noble House Consulting Ltd
CPHOPT42 Options ($0.25, 6/09/2024)	10,000,000	All the securities in this class are held by: - Noble House Consulting Ltd
CPHOPT43 Options ($0.1375, 25/10/2024)	1,000,000	There are 2 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: - Mr Kevin Tansey holds 500,000 securities (50%) - Mr Brett Ayers holds 500,000 securities (50%)
CPHOPT45 Options ($0.14, 12/06/2024)	106,717,424	There are 33 security holders holding between 10,000 and 100,000 securities in this class and there are 34 security holders holding more than 100,001 of securities in this class. The following holder holds more than 20% of securities in this class: - Everblu Capital Corporate P/L (50%)
CPHOPT46 Options ($0.09, 17/01/2024)	10,000,000	All the securities in this class are held by: - Canaccord Genuity Corp <Bruce Linton A/C>

Shareholder Information

5.5 Performance Rights

Class	Quantity on Issue	Distribution of Holders
CPHPERR24 Performance Rights	49,000	These securities were issued under an Employee Share Scheme, therefore disclosure of holders with more than 20% of securities is not required under ASX Listing Rules 4.10.16.
CPHPERR43 Performance Rights	10,000,000	These securities were issued under an Employee Share Scheme, therefore disclosure of holders with more than 20% of securities is not required under ASX Listing Rules 4.10.16.
CPHPERR44 Performance Rights	500,000	These securities were issued under an Employee Share Scheme, therefore disclosure of holders with more than 20% of securities is not required under ASX Listing Rules 4.10.16.
CPHPERR45 Performance Rights	500,000	All the securities in this class are held by: - Kolby Wayne Tullier & Tracy Theriot Tullier
CPHPERR46 Performance Rights	500,000	All the securities in this class are held by: - Kolby Wayne Tullier & Tracy Theriot Tullier
CPHPERR47 Performance Rights	1,000,000	All the securities in this class are held by: - Kolby Wayne Tullier & Tracy Theriot Tullier
CPHPERR48 Performance Rights	500,000	All the securities in this class are held by: - Troy Van Biezen
CPHPERR49 Performance Rights	500,000	All the securities in this class are held by: - Troy Van Biezen
CPHPERR50 Performance Rights	1,000,000	All the securities in this class are held by: - Troy Van Biezen

Shareholder Information

5.6 Performance Shares

Class	Quantity on Issue	Distribution of Holders
CPHPERS2 Performance Shares	3,000,000	There are 2 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: - Mr Kevin Tansey holds 1,500,000 securities (50%) - Mr Brett Ayers holds 1,500,000 securities (50%)
CPHPERS3 Performance Shares	3,000,000	There are 2 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: - Mr Kevin Tansey holds 1,500,000 securities (50%) - Mr Brett Ayers holds 1,500,000 securities (50%)

5.7 Convertible Notes

Class	Quantity on Issue	Distribution of Holders
CPHCON5 Convertible Notes	260,850	All the securities in this class are held by: - Obsidian Global GP LLC
CPHCON7 Convertible Notes	1,700,000	All the securities in this class are held by: - SBC Global Investment Fund

6. SUBSTANTIAL SHAREHOLDERS

The following shareholders have provided substantial shareholder notices to the Company as at 29 March 2023:

Name: Jodi Scott

Holder of: 209,364,678 fully paid ordinary shares, representing 11.72% as at 29 August 2022

Notice Received: 5 September 2022

Shareholder Information

7. TWENTY LARGEST SHAREHOLDERS AS AT 29 MARCH2023

	Name	Shares Held	%
1	JODI SCOTT	209,364,678	9.80%
2	JAMBER INVESTMENTS PTY LTD<THE AMBER SCHWARZ FAM A/C>	61,524,265	2.88%
3	MR RICHARD GUY DARLING	42,000,000	1.97%
4	SOIRHU PTY LTD<THE BRAGG MCDONALD A/C>	34,000,000	1.59%
5	BNP PARIBAS NOMS PTY LTD<DRP>	33,589,120	1.57%
6	JENNIFER SCOTT	29,031,756	1.36%
7	KATHY SCOTT	27,116,859	1.27%
8	CITICORP NOMINEES PTY LIMITED	23,620,351	1.11%
9	MR SIMON JOHN BRAGG &MRS DOONE MCDONALD<BRAGG MCDONALD SUPER A/C>	16,000,000	0.75%
10	MIRIAM HALPERIN WERNLI	15,000,000	0.70%
11	CHIFLEY PORTFOLIOS PTY LTD	14,017,545	0.66%
12	SUPERHERO SECURITIES LIMITED<CLIENT A/C>	13,256,615	0.62%
13	MR POH SENG TAN	13,000,000	0.61%
14	TAI HOLDING COMPANY LP	11,504,004	0.54%
15	MR GAUTAM DAHYABHAI PATEL	11,433,333	0.54%
16	BNP PARIBAS NOMINEES PTY LTD<IB AU NOMS RETAILCLIENT DRP>	10,738,660	0.50%
17	NOBLE HOUSE CONSULTING LTD	10,000,000	0.47%
18	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED<NO 1 ACCOUNT>	9,958,061	0.47%
19	ACCESS REALTY GROUP 2 INC	9,075,679	0.42%
20	INTERNATIONAL WATER &ENERGY SAVERS LTD	8,800,000	0.41%
	Total	**603,030,926**	**28.23%**

Shareholder Information

8. TWENTY LARGEST LISTED CPHO OPTION HOLDERS AS AT 29 MARCH 2023

	Name	Shares Held	%
1	OBSIDIAN GLOBAL GP LLC	23,020,317	5.17%
2	JAMBER INVESTMENTS PTY LTD<THE AMBER SCHWARZ FAM A/C>	16,797,356	3.78%
3	BNP PARIBAS NOMS PTY LTD<DRP>	10,094,002	2.27%
4	MR BRANDON MARK LEE	8,000,000	1.80%
5	SUBURBAN HOLDINGS PTY LTD<THE SUBURBAN SUPER FUND A/C>	6,914,411	1.55%
6	MR BILL FLEMING<FLEMING FAMILY 2011 A/C>	6,368,399	1.43%
7	CITICORP NOMINEES PTY LIMITED	5,514,089	1.24%
8	MISS STEFFI MARWAH	5,102,008	1.15%
9	MR HOCK CHEE LOO &MRS YOONG FAH LEE	4,962,795	1.12%
10	MR CHUN SHENG GAO	4,472,360	1.01%
11	MS EVERIL JOAN RADCLIFFE	3,947,562	0.89%
12	SUPERHERO SECURITIES LIMITED<CLIENT A/C>	3,911,440	0.88%
13	RPK COMPUTER SERVICES PTY LTD<KOHLMAN S/FUND A/C>	3,500,000	0.79%
14	MRS WANXIAN QIU	3,105,722	0.70%
15	INTERNATIONAL WATER &ENERGY SAVERS LTD	2,933,334	0.66%
16	MR HIN HONG LAI	2,892,796	0.65%
17	G & J ARNOLD PTY LTD<G & J ARNOLD SUPER FUND A/C>	2,550,000	0.57%
18	MR MICHAEL ESPIE	2,516,905	0.57%
19	MRS MAOJU LIN	2,509,797	0.56%
20	MR POH SENG TAN	2,500,000	0.56%
	Total	**121,613,293**	**27.33%**

Shareholder Information

9. TWENTY LARGEST LISTED CPHOD OPTION HOLDERS AS AT 29 MARCH 2023

	Name	Shares Held	%
1	EVERBLU CAPITAL PTY LTD	175,000,000	50.00%
2	ATLANTIC CAPITAL HOLDINGS PTY LTD<ATLANTIC CAPITAL A/C>	36,000,000	10.29%
3	GOFFACAN PTY LTD	12,458,333	3.56%
4	JAMBER INVESTMENTS PTY LTD<THE AMBER SCHWARZ FAM A/C>	10,000,000	2.86%
5	CELTIC CAPITAL PTY LTD<THE CELTIC CAPITAL A/C>	7,267,750	2.08%
6	EVELYN FAMILY BENEFICIARY PTY LTD<KAB A/C>	6,250,000	1.79%
7	MR MD AKRAM UDDIN	6,000,007	1.71%
8	CANACCORD GENUITY CORP<BRUCE LINTON A/C>	5,000,000	1.43%
9	MATTHEW BURFORD SUPER FUND PTY LTD<BURFORD SUPERFUND A/C>	4,867,257	1.39%
10	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD<CUSTODIAN A/C>	4,734,513	1.35%
11	BLJ TECHNOLOGIES PTY LTD	3,250,000	0.93%
12	NOBLE HOUSE CONSULTING LTD	2,500,000	0.71%
12	SABA NOMINEES PTY LTD<SABA A/C>	2,500,000	0.71%
12	JOREST PTY LTD<JOREST INVESTMENT A/C>	2,500,000	0.71%
13	RIYA INVESTMENTS PTY LTD	2,421,417	0.69%
14	BRIANT NOMINEES PTY LTD<BRIANT SUPER FUND A/C>	2,250,000	0.64%
15	MR JOHN MURPHY	2,175,000	0.62%
16	ALDAOUD PTY LTD<ALDAOUD FAMILY A/C>	2,000,000	0.57%
16	EUTHENIA TYCHE PTY LTD	2,000,000	0.57%
17	MS MAXINE MCCAUGHEY	1,631,250	0.47%
17	MR JACOB MURPHY	1,631,250	0.47%
17	MR JOSHUA MURPHY	1,631,250	0.47%
18	BEASTIES PTY LTD	1,425,000	0.41%
19	BELGOVE PTY LTD	1,250,000	0.36%
19	A C N 112 940 057 PTY LTD	1,250,000	0.36%
19	HARDMAIL PTY LTD	1,250,000	0.36%
19	MR MATTHEW LINDSAY ROBERTS	1,250,000	0.36%
19	CLARIDEN CAPITAL PTY LTD	1,250,000	0.36%
20	MX NOMINEES PTY LTD	1,125,000	0.32%
	Total	**302,868,027**	**86.53%**