CRESO PHARMA

CRESO PHARMA LIMITED

ACN 609 406 911

Annual Report for the Year Ended 31 December 2020

Annual Report
For the year ended 31 December 2020

Contents

CRESO
PHARMA

About Creso Pharma

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

Creso brings pharmaceutical expertise and methodological rigor to the cannabis world and strives for the highest quality in its products. It develops cannabis and hemp-derived therapeutic, nutraceutical, and lifestyle products with wide patient and consumer reach for human and animal health.

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

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

Creso is developing products in four key areas:

CRESO THERAPEUTICS | CRESO NUTRACEUTICALS | CRESO ANIMAL HEALTH | CRESO COSMETICS

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

www.CresoPharma.com

Corporate Directory

Board of Directors

Mr Adam Blumenthal	(Non-Executive Chairman)
Dr Miri Halperin Wernli	(Executive Director and Head of Technology, Innovation and Distribution)
Dr James Ellingford	(Executive Director)
Mr Boaz Wachtel	(Non-Executive Director)

Secretaries

Ms Erlyn Dale and Mr Winton Willesee, jointly

Registered Office

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

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

European Office

Allmendstrasse 11,
6312 Steinhausen
Switzerland

Telephone: +41 41 710 4706

Stock Exchange Listings

Listed on the Australian Securities Exchange (ASX Code: CPH)
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 2, 267 St Georges Terrace
Perth WA 6000
Australia

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

Chairman's Address

Dear fellow shareholders,

It is my pleasure to present Creso Pharma's 2020 Annual Report and financial statements for the year ended 31 December 2020 (CY2020). Notwithstanding the unique challenges imposed on the business by the global pandemic, CY2020 was a seminal period for the company, as well as the global cannabis industry as a whole, which saw considerable progress in a number of key markets. Throughout the year, Creso sought to capitalise on these developments and build a strong foundation for future growth.

The company's Board and management have worked diligently to progress a number of opportunities, including new market entries, scale up of existing operations and product development initiatives to ensure that Creso Pharma remains well-placed to create value for our shareholders.

Pleasingly, the global cannabis sector continued to perform strongly towards the later half of CY2020, largely driven by global regulatory reform in several key jurisdictions and a general progressive shift in sentiment, opening up a number of key opportunities for the company.

This positive shift in sentiment was most evident in the United States of America, after the passing of the Marijuana Opportunity and Expungement ("MORE") Act in the US House of Representatives. The MORE Act aims to remove cannabis from the US Controlled Substances Act, erase certain federal convictions and essentially decriminalise cannabis on a national level. It is also expected to drive private investment and encourage larger corporate entities to become more active in the sector.

Globally, the United Nations Commissions on Narcotic Drugs voted to remove cannabis from Schedule IV of the 1961 drug convention treaty. Under the UN's system, Schedule IV substances are considered the most dangerous and addictive drugs. Following the successful vote, cannabis will be moved to a Schedule I classification, which is the least restrictive.

Creso's co-founder and director Mr Boaz Wachtel was part of the European Coalition for Just and Effective Drug Policies, which was directly involved in the reclassification. Mr Wachtel attended a number of UN Drug Convention meetings in Vienna and assisted in writing and coordinating research papers that were submitted ahead of the vote. He also liaised with over 250 non-government organisations that signed a petition to move cannabis to Schedule I. The Board and management of Creso Pharma would like to take this opportunity to congratulate and acknowledge his hard work in assisting with a major regulatory outcome.

In Europe, the Court of Justice for the European Union ruled that member states must not prohibit the marketing of lawfully produced cannabidiol (CBD), that CBD is not a narcotic, and that it can be sold in the European Union. This provides a number of exciting near-term opportunities for Creso.

In Australia, the Therapeutic Goods Administration made a ruling to down-schedule low-dose CBD products from Schedule 4 (Prescription Medicine) to Schedule 3 (Pharmacist Only Medicine). The decision will allow low-dose CBD products to be sold over-the-counter, without the need for a prescription.

This regulatory shift has provided Creso with another avenue to drive growth, and management is expediting existing agreements, as well as other potential opportunities, in order to increase its footprint in the Australian market.

While all these regulatory changes have made the operating landscape more favourable for Creso, there has been a considerable amount of hard work and strategy that has led to the company's growth and material value accretion.

This hard work and implementation of strategy has been instrumental in the development of the company's wholly-owned Canadian subsidiary, Mernova Medicinal Inc. Mernova has grown considerably during the period and delivered a number of milestones that have created a strong and sustainable recurring revenue model for Creso Pharma. We are very confident that this growth will continue well into the future and provide the Company with an established footprint in North America.

Chairman's Address

I would also like to take this opportunity to welcome Mr Bruce Linton to the company. Bruce has extensive sector experience as a founder, CEO, Board member and adviser to a number of global cannabis companies. His experience is best exemplified by his role as founder, Chairman and ex-CEO of Canopy Growth Corporation, which he grew to the world's largest listed cannabis company, and a peak valuation of US$15 billion. Bruce was attracted to the company because of its unique IP, established footprint and outcome-focused approach. His appointment as a strategic advisor is a major coup for Creso Pharma and we look forward to his guidance as our growth trajectory continues.

A number of corporate developments were also achieved during the year. The company completed heavily supported capital raisings and extinguished all of its convertible notes, both of which have improved the strength of the Company's balance sheet, and provided a strong foundation for the Company to grow its revenues in CY2021, as well as explore opportunities for complementary acquisitions to bolster the company's current portfolio.

The Board and management team continue to work diligently to challenge strategies, identify new markets and value enhancing opportunities, and recruit talent that will build on the strong foundation forged in CY2020.

I would like to take this opportunity to thank Creso Pharma's Board of Directors and employees for their hard work and contributions.

The Board and management team have a number of exciting growth opportunities pending, which we expect to materialise in the coming months, and we look forward to these delivering further value for shareholders.

Adam Blumenthal

Non-Executive Chairman

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 2020.

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 Adam Blumenthal	Non-Executive Chairman
Dr Miri Halperin Wernli	Executive Director and Head of Technology, Innovation and Distribution
Dr James Ellingford	Executive Director
Mr Boaz Wachtel	Non-Executive Director

Prior to 15 August 2020 the Directors' responsibilities were as follows:

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

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

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

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

Adam is 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 CY2020.

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

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

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

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

Directors' Report

Dr. Miri Halperin Wernli BA. MA. MBA. PhD.
Executive Director, Head of Technology, Innovation and Distribution and Co-Founder
(Appointed 20 November 2015)

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

Dr. Halperin Wernli is an experienced Pharmaceutical leader with skills and broad expertise in Drug Development, Regulatory Affairs, Project & Portfolio Management, Development Finance & Controlling, and Corporate Strategy and Governance. She has a depth of experience in Pharma drug development, particularly in complex highly regulated health environments in Europe and the USA.

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

Miri was appointed as Executive President of Mind Medicine (MindMed) Inc. (NEO: MMED OTCQB: MMEDF) on 13 August 2020. MindMed is a psychedelic medicine biotech company that discovers, develops and deploys psychedelic inspired medicines and therapies to address addiction and mental illness.

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

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

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

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

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

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

Directors' Report

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

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

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

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

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

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

Director	Ordinary Shares	Listed Share Options	Unlisted Options	Performance Rights
Mr Adam Blumenthal	146,498,766(i)	-	14,128,387(ii)	-
Dr James Ellingford	1,450,000	-	-	-
Dr Miri Halperin Wernli	13,633,333(iii)	-	-	-
Mr Boaz Wachtel	8,300,000	-	-	1,600,000
Total	**169,882,099**	**-**	**14,128,387**	**1,600,000**

(i) Includes 7,083,333 shares held by Anglo Australia Pty Ltd and 139,415,432 shares held by Atlantic Capital Holdings Pty Ltd, both are related parties of Adam Blumenthal.
(ii) All the options are held by Atlantic Capital Holdings Pty Ltd, a related party of Adam Blumenthal.
(iii) Includes 300,000 shares held by Jorge Wernli, a related party of Miri Halperin Wernli and a consultant to Creso.

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 Adam Blumenthal	10	9	-	-	-	-
Dr James Ellingford	10	9	2	2	-	-
Dr Miri Halperin Wernli	10	10	-	-	-	-
Mr Boaz Wachtel	10	10	2	2	-	-

During 2020, the duties of the Remuneration and Nomination Committee were carried out during Board meetings.

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

Directors' Report

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

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

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; and
b) to cultivate, process and sell cannabis products.

Directors' Report

OPERATING AND FINANCIAL REVIEW

Operating Results

The operating results of the Group for the year ended 31 December 2020 were as follows:

	31-Dec-2020 **$**	31-Dec-2019 $
Cash and cash equivalents	**6,047,091**	2,800,318
Net assets	**13,652,171**	17,273,960
Revenue from products	**2,447,761**	3,626,427
Royalty income	**17,216**	33,265
Total revenue	**2,464,977**	3,659,692
Other income	**177,829**	82,561
Net loss after tax	**(30,799,581)**	(15,339,772)

Dividends

No dividends have been paid or declared by the Group since the end of the previous financial year (2019: Nil).

No dividend is recommended in respect of the current financial year (2019: Nil).

REVIEW OF OPERATIONS

Overview and Financial Results

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

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

In addition, through its wholly owned subsidiary Mernova Medicinal Inc. ("Mernova"), the Company cultivates and harvests cannabis plants and supplies dried cannabis plant retail products throughout Canada, as well as exporting to overseas wholesalers and distributors.

Throughout 2020, Creso laid a strong foundation for growth and actively implemented its strategy to develop and commercialise cannabis and hemp products worldwide. The Company's product distribution in Europe, North America, South America, South Africa and the Asia Pacific continued to grow, allowing Creso to further build its position as an international cannabis company with a burgeoning global footprint.

Notwithstanding the above, the Group's results for 2020 were inevitably affected by Covid-19. Total revenues for the Group declined by 33% or $1,178,666 compared to 2019. Whilst the Company was able to maintain its operations in Switzerland during the year, revenues from nutraceutical products fell by $1,532,906 due to the deferral of re-orders, albeit conditions appeared to improve in the later part of 2020, with some significant orders being received for delivery and recognition in 2021. However, Mernova, in its first full year of production, increased its revenues by $354,240 as it established itself as an emerging producer of superior artisanal cannabis products, with the outlook for revenues in Mernova in 2021 expected to grow further.

Directors' Report

Overview and Financial Results (continued)

Q1 2021 commenced with record sales and Purchase Orders and the Group is set to have a record year in revenue. Total expenses increased substantially over the previous year, with the main reasons being the non-cash expenses attributable to the settlement in full of all convertible notes, the loss on disposal of the Company's 74% share in the Israeli joint venture, the impairment of its operations in Canada and Switzerland and the issue of equity instruments in lieu of cash in the settlement of operating expenses. These were one-off costs associated with extinguishing debt facilities Creso used over the past 24 Months.

Having now tidied its balance sheet with the repayment of all convertible notes and reduction of some debt, Creso is now well positioned to capitalise on strong revenue growth through the Group. The strong share price performance in the second half of the year has allowed Creso to raise funds via "in the money" options and has helped with cash flow requirements substantially. This is a result of:

- Favourable global regulatory policy
- Appointment of world renounced Cannabis expert Bruce Linton as senior advisor
- Improved revenues across the Group

The Company ended the year in a stronger financial position, having more than doubled its cash reserves compared to 2019. The board is pleased with the achievements over the last 12 months, notwithstanding the challenges of Covid-19, and it's encouraged by the positive signs of recovery it has experienced in the last 6 months, and looks forward to continuing to update shareholders in due course.

Directors' Report

Human Health CBD Division:

Creso Pharma advanced both its cannaDOL® 0.5% and 1% CBD topical gels, as well as cannaQIX® products. The cannaQIX® hemp oil-derived food supplement is currently available in Switzerland, the UK, Germany, Australia, Brazil, New Zealand, Portugal, Spain, and South Africa (under the Cannamics brand).

Subject to further regulatory approvals, the Company is exploring opportunities to enter a number of additional markets including Pakistan, Afghanistan, Azerbaijan, Bangladesh, Cambodia, Georgia, the Maldives, Myanmar, the Philippines, Tajikistan, Turkmenistan, Uzbekistan and Vietnam as well as Namibia, Botswana, Zimbabwe, Swaziland, Lesotho, Angola, Mozambique and Uganda in Southern Africa. These potential new market entries are expected to provide revenue generating opportunities, with sales to add to the Company's growing revenues streams.

During the calendar year, Creso Pharma successfully developed and tested several new products. In February, the Company finalised its first oil free hemp plant-based gum arabicum lozenges. These were developed over a nine-month period, with the new technology allowing for hemp oil free production, bringing the full benefit of the natural hemp plant to the consumers. The product also offers significant regulatory advantages in several countries.

The product formulation contains various compounds, which are already approved for use in consumer products, providing the company with a clear path to market as a food supplement product within the corresponding regulatory framework.

During Q1 of CY2020 Creso announced the launch of its first cannaQIX® CBD instant hemp tea products, which were developed based on anibidol® granules technology. The Company offers two versions of the product.

The first is cannaQIX® CBD instant hemp tea formulated with CBD hemp, zinc, selene, elderberry and vitamins to support the immune system and manage stress, and the second is cannaQIX® NITE CBD instant hemp tea formulated with CBD hemp, zinc, selene, elderberry, lemon balm and vitamins to strengthen the immune system and support better sleep.

In April, Creso secured a binding letter of intent with Highnoon Laboratories Limited (PSX: HINOON) ("Highnoon") and Route2 Health Limited ("Route2") to enter into a strategic collaboration to expand distribution of its innovative hemp derived therapeutic products into Pakistan. Subject to regulatory approvals, both parties also agreed to consider leveraging their extensive experience and international reach to broaden the collaboration to a number of other key markets including Afghanistan, Azerbaijan, Bangladesh, Cambodia, Georgia, the Maldives, Myanmar, the Philippines, Tajikistan, Turkmenistan, Uzbekistan and Vietnam.

During the second half of the period, Creso Pharma signed a commercial agreement with DHS Business International ("DHS") for the distribution of the Company's CBD products into the Brazilian retail market. Brazil represents a large opportunity for the Company and the development followed a change in policy from the Brazilian National Health Regulatory Authority ("ANVISA"), which enables the sale of CBD products without THC to be sold through retail channels in the country.

Furthering Creso's international expansion initiatives, the Company secured a commercial agreement in August with DHS Business Portugal to introduce our products into the Iberic markets, with focus on Portugal and Spain. Both parties are aiming to sell products through sport focused retail outlets and pharmacies, which offer a large number of points of sale throughout the two countries.

In Australia, the Company entered into a Heads of Agreement ("HOA") with Martin & Pleasance Pty Ltd ("M&P"), a leading natural, sustainable health and lifestyle brand supplier, to capitalise on opportunities in the Australian and New Zealand markets. The agreement was secured in December and allows Creso to leverage M&P's extensive field force and relationships with over 4,000 pharmacies across Australia and NZ, as well as online channels, grocery and practitioner suppliers.

Directors' Report

Mernova Medicinal Inc. operations:

During the year, the Company's wholly-owned subsidiary Mernova Medicinal Inc. ("Mernova") delivered several important milestones and underpinned the Company's North American expansion initiatives.

In a major development, Mernova received its sales licence from Health Canada, effective from 8 May 2020. The licence provides for the sale of dried and fresh cannabis products to provincially and territorially authorised retailers, and for direct retail sales to patients for medicinal purposes, under the *Cannabis Act*. The licence facilitates the sale of Mernova's products into the high margin and emerging Canadian cannabis retail market. Throughout CY2020, Mernova continued to scale up production towards nameplate capacity. Scale up initiatives included the implementation of several proprietary processes to enhance product quality, allowing it to meet a growing demand for small batch, artisanal cannabis products in Canada. Post-harvest process improvements were also made, which has had positive effects on the aroma, appearance, feel, and overall quality of the cannabis.

Subsequent to receiving its sales license from Health Canada, Mernova has achieved another major milestone and launched its retail recreational cannabis products under the *Ritual Green* brand. Mernova secured a number of purchase orders for *Ritual Green* products during the period, allowing it to broaden its footprint into key growth provinces.

Mernova secured purchase orders from the Nova Scotia Liquor Corporation ("NSLC"), the Yukon Liquor Corporation, and Cannabis NB, which has allowed for the retail sale of Mernova's products in Nova Scotia, the Yukon, and New Brunswick. Mernova also secured a PO from the Truro Cannabis Company, a licenced producer in Canada.

Mernova made significant progress with the Ontario Cannabis Store. The Company secured a Notice to Purchase from the Province of Ontario, which marked its imminent entry into Canada's largest recreational market.
During the period, Mernova advised that it planned to expand into the emerging Canadian Hash market. The decision followed a comprehensive review of the significant market opportunities available across Canada, and positive customer feedback regarding Mernova's current product range.

Mernova management are currently working on a number of product development initiatives to diversify its product lines, in order to take advantage of opportunities to capitalise on the growing demand for Cannabis 2.0 products, such as hash and pre-roll joints. It is expected that the launch of these new products will underpin additional revenues from Mernova.

During the period, Mernova contributed A$1,383,441 in revenue to the Company. Revenue was generated through a number of purchase orders for Mernova's *Ritual Green* suite of cannabis strains to the Nova Scotia Liquor Corporation ("NSLC"), the Truro Cannabis Company, the Yukon Liquor Corporation, and Cannabis NB. Additional purchase orders from Israeli-based company Univo Pharmaceuticals Ltd also added to revenue.

The Company expects ongoing growth to materialise from Mernova's operations through new purchase orders, province entries, new product roll out, and as regulatory reform continues across North America.

Directors' Report

Animal Health

Creso secured three purchase orders totalling A$414,000 for its anibidiol® products, which were shipped to commercial partners in Europe during the second half of CY2020. These orders were a significant achievement for the Company and highlighted its ability to navigate stringent regulatory requirements for marketing hemp products across Europe, as well as management's ability to progress growth initiatives in difficult marketing conditions.

The purchase orders secured with European commercial partners took the total order value generated through the animal health business segment to ~A$975,000 during CY2020. This outlines the strong demand the Company is witnessing for its industry-leading products, with additional growth expected to occur during the current period and beyond.

Creso secured regulatory approval from the Ministry of Agriculture and Animal feed in Uruguay (Ministerio de Ganadaria Agricultura y Pesca) through its commercial partner, Adler Laboratories, Uruguay for anibidiol® making it the first CBD hemp-based complementary feed approved for pets in Latin America, which represented a ground-breaking milestone from a regulatory and business standpoint.

The development broadens the Company's international footprint and also unlocks a major market opportunity. Creso expects to deliver its first purchase order during the current period and enter into additional South American markets during CY2021.

Notable regulatory shifts:

During the period, a number of international regulatory shifts and legislative changes occurred, which provided Creso with very favourable operating conditions and high growth opportunities.

In the United States of America, the US House of Representatives passed the Marijuana Opportunity and Expungement ("MORE") Act, which aims to remove cannabis from the US Controlled Substances Act, erase certain federal convictions and essentially decriminalise cannabis on a national level. The MORE Act is also expected to encourage private investment and involve larger corporate entities to become more active in the US cannabis sector.

The United Nations Commissions on Narcotic Drugs voted to remove cannabis from Schedule IV of the 1961 drug convention treaty. Under the United Nation's system, Schedule IV substances are considered the most dangerous and addictive drugs and following the successful vote, cannabis will be moved to a Schedule I classification which is the least restrictive.

Creso's co-founder and director Mr Boaz Wachtel was part of the European Coalition for Just and Effective Drug Policies, which was directly involved in the reclassification. Mr Wachtel attended a number of UN Drug Convention meetings in Vienna and assisted in writing and coordinating research papers that were submitted ahead of the vote. He also liaised with over 250 non-government organisations that signed a petition to move cannabis to Schedule I.

In Europe, the Court of Justice of the European Union ("CJEU") ruled that member states must not prohibit the marketing of lawfully produced CBD. Further, the CJEU ruled that CBD is not considered a narcotic, and as a result, CBD can be freely sold in the European Union ("EU"). This landmark ruling is a major development and provides considerable opportunities for Creso Pharma.

In Australia, the Therapeutic Goods Administration made a ruling to down-schedule low-dose cannabidiol (CBD) products from Schedule 4 (Prescription Medicine) to Schedule 3 (Pharmacist Only Medicine). The decision will allow low-dose CBD products to be sold over-the-counter, without the need for a prescription.

The Company expects global regulatory shifts to continue and a number of value accretive opportunities to materialise. During the period, Creso explored a number of ways to capitalise on the opportunities that legislative changes will unlock, which it intends to implement as soon as possible.

Directors' Report

KEY APPOINTMENT:

During the year, Creso appointed Canopy Growth Corporation (TSX: WEED, NYSE: CGC) ("Canopy Growth") founder and ex-CEO Mr Bruce Linton as a strategic advisor. Mr Linton is one of the world's leading cannabis executives and has extensive experience as a founder, CEO, board member and advisor to a number of leading global cannabis companies.

Mr Linton's major achievements include his role as founder, Chairman and ex-CEO of Canopy Growth which reached a market capitalisation of US$15Bn during his tenure. He was also responsible for securing support for 16 financing rounds raising over US$5Bn and over 30 M&A activities. He led Canopy Growth from a start-up through to its listing as the first cannabis producing company to list on the New York Stock Exchange.

Mr Linton was attracted to Creso Pharma for its unique IP, established global distribution footprint and robust product pipeline targeting distinct categories. He believes this puts Creso Pharma in the optimal position to excel internationally and continue to develop innovative products to complement its existing portfolio.

As strategic advisor over a 24-month term, Mr Linton will leverage his connections, expertise and influence in the industry to consult and work closely with Creso Pharma's Board to shape its long-term strategy and various near term corporate and operational initiatives. In consideration for Mr Linton's services and to align his interests with those of shareholders, the Company has issued 30,000,000 Options to Mr Linton, each with an exercise price of $0.039 and an expiry date of 23 December 2025.

Directors' Report

CORPORATE

Equity Transactions

On 21 January 2020, the company announced it had entered replacement Corporate Advisory and Transactional Mandates with EverBlu Capital Pty Ltd.

On 5 February 2020, the company confirmed that it entered into a new convertible securities agreement with L1 Capital Global Opportunities Master Fund ("L1 Capital") to access up to $17,482,500. Under the new Convertible Securities Agreement, the company requested an initial advance of $1,750,000, which was advanced in two equal tranches. Prior to receiving the first tranche, the company issued L1 Capital 9,000,000 Fully Paid Ordinary Shares ("Shares") as collateral shares and paid L1 Capital a fee of 4% of the advance. On 20 April 2020, the Company also received a further drawdown from L1 Capital of $500,000. The Company also agreed, that in certain situations, the Company may be required to issue to L1 Capital up to a further 11,000,000 Shares as additional collateral shares. EverBlu Capital Pty Ltd ("EverBlu") acted as lead manager to this debt raising. EverBlu will be paid a cash fee of $200,000 and will also be issued, subject to the receipt of shareholder approval, 4,000,000 shares and 4,000,000 options.

EverBlu Capital Pty Ltd ("EverBlu") acted as lead manager to the debt raising under the New Convertible Securities Agreement. The Company agreed to pay EverBlu an upfront cash fee of $200,000, a 6% cash fee on the face value of the funds actually drawn down and subject to shareholder approval, up to 5,277,778 Shares and 4,000,000 Options ($0.25, 3 years from issue). The requisite shareholder approval was obtained on 28 May 2020 and the following securities were issued to EverBlu:

- 4,500,000 Shares were issued on 28 May 2020; and
- 4,000,000 Options ($0.35, 2 Jun 2023) were issued on 2 June 2020.

On 5 February 2020, the Company also agreed to issue 1,000,000 Shares to Mozaik Asset Management Pty Ltd ("Mozaik"), a Tranche 1 Investor, in consideration for the termination and settlement of the Original Convertible Securities Agreement (and the associated Debt Notes) between the Company and Mozaik. As a result of this termination, 222,222 Tranche 1 Convertible Notes were not issued to Mozaik.

On 11 February 2020, the Company issued 16,171,229 Shares; 8,125,000 Shares were issued to former lenders, 3,333,334 Shares were issued as collateral shares and 4,712,895 Shares were issued as payments for services rendered.

On 11 February 2020, 1,132,000 Performance Rights were also converted into shares.

On 18 February 2020, L1 Capital converted 575,000 Tranche 2 Convertible Notes into 6,388,889 shares.

On 7 April 2020, the Company issued an aggregate of 2,700,000 options to certain employees under the Company's incentive option plan.

On 20 April 2020, the Company issued 16,812,526 Shares; 10,812,526 Shares were issued to L1 Capital as additional collateral shares and 6,000,000 Shares were issued to Lind Global Macro Fund ("Lind") ("Initial Collateral Shares"). Subject to shareholder approval, it was agreed to issue a further 15,000,000 Collateral Shares ("Subsequent Collateral Shares") and 10,752,688 Options exercisable at $0.1386 each on or before 25 June 2023 to Lind. The Lind Collateral Shares related to a convertible securities agreement to raise $1 million. On 20 April 2020, the Company also agreed, subject to obtaining shareholder approval to issue an aggregate of 32,000,000 additional collateral shares at a nil issue price to the Tranche 1 Investors under the Original Convertible Note Agreements. The requisite shareholder approvals were obtained on 16 June 2020 and the 47,000,000 additional collateral shares were issued on 23 June 2020.

On 28 May 2020, the Company issued 6,500,000 Shares to EverBlu; 4,500,000 Share in part consideration for services in relation convertible securities agreement with L1 Capital and 2,000,000 Shares in part consideration for corporate advisory services to the Company.

On 28 May 2020, 66,000 Performance Rights were also converted into shares.

On 1 June 2020, Creso received firm commitments to raise $2.137 million through the issue of 35,619,008 Shares (the "1st Placement"). At this date 20,780,936 Shares were issued for $1.25 million. EverBlu Capital acted as lead manager and corporate advisor for the 1st Placement and received a fee of 6% of the total funds raised and, subject to shareholder approval and the consent of the Company's existing secured investors, be issued 3 Shares for every $4 raised under the 1st Placement.

Directors' Report

CORPORATE (continued)

Equity Transactions (continued)

On 2 June 2020, the Company issued 9,838,071 Shares for $0.59 million in relation to the 1st Placement announced on 1 June 2020. The Company also issued:

- 2,500,000 CPHCON4 Convertible Notes and 36,764,706 CPHOPT28 Options to L1 Capital in relation to the New Convertible Securities Agreement between the Company and L1 Capital;
- 4,000,000 CPHOPT29 Options to EverBlu in relation to the New Convertible Securities Agreement; and
- 8,000,000 CPHOPT31 Options to EverBlu in relation to the Corporate Advisory Mandate with the Company.

On 3 June 2020, the Company issued 3,333,334 Shares for $0.20 million in relation to the 1st Placement announced on 1 June 2020.

On 4 June 2020, Creso advised that it issued 14,000,000 Fully Paid Ordinary Shares upon the conversion of 700,000 CPHCON4 Convertible Notes.

On 23 June 2020, Creso issued 15,000,000 Additional Collateral Shares to L1 Capital, 2,000,000 Additional Collateral Shares to Chifley Portfolios Pty Ltd ("Chifley"), 15,000,000 Additional Collateral Shares to Suburban Holdings Pty Ltd ("Suburban"), 500,000 shares in lieu of cash fees for digital marketing services and 15,420,000 shares in lieu of cash payments for outstanding creditor invoices.

On 24 June 2020, Creso issued 15,000,000 Subsequent Collateral Shares to Lind.

On 25 June 2020, the Company issued 5,310,954 Shares to Cohen Propagation Nurseries Ltd and other parties under a Settlement Agreement. The Company also issued 10,752,688 CPHOPT26 Options and 1 CPHCON3 Convertible Notes to Lind.

On 26 June 2020, Creso issued 15,010,185 shares to the Mernova vendors as per an agreement to settle part of the debt in respect to the Milestone 2 payment. Milestone 2 was achieved on 14 February 2020.

On 3 July 2020, Creso redeemed 1,212,120 Performance Shares as Kunna Canada Ltd did not achieve the required milestone.

On 3 August 2020, the Company issued 4,000,000 Fully Paid Ordinary Shares upon the conversion of 80,000 CPHCON4 Convertible Notes.

On 1 September 2020, the Company issued 12,962,963 Fully Paid Ordinary Shares upon the conversion of $350,000 of the face value of CPHCON3 Convertible Note.

On 30 September 2020, the Company issued 20,250,000 Fully Paid Ordinary Shares upon the conversion of 405,000 CPHCON4 Convertible Notes.

On 5 October 2020, the Company issued 12,500,000 Fully Paid Ordinary Shares upon the conversion of 250,000 CPHCON4 Convertible Notes.

On 7 October 2020, Creso received firm commitments to raise $8.992 million through the issue of approximately 309,021,675 fully paid ordinary shares at an issue price of $0.0291 per Share and subject to shareholder approval, the issue of one option for every four shares issued (the "2nd Placement"). EverBlu Capital acted as lead manager and corporate advisor for the 2nd Placement and received a fee of 6% of the total funds raised and, subject to shareholder approval and the consent of the Company's existing secured investors, be issued 3 Shares for every $4 raised under the 2nd Placement.

On 12 October 2020, the Company issued 274,657,414 Shares for $7.992 million in relation to the 2nd Placement and 1,666,666 Shares for $0.1 million in relation to the 1st Placement.

Directors' Report

CORPORATE (continued)

Equity Transactions (continued)

On 17 December 2020, the Company issued 16,600,000 Shares on the conversion of Exchangeable Preferred Shares.

On 23 December 2020, Creso issued 197,277,517 Shares; 34,364,261 Shares for $1.0 million in relation to the 2nd Placement, 8,992,530 Shares to EverBlu as part consideration for acting as lead manager in the 2nd Placement, 833,333 Shares to EverBlu as consideration for acting as lead manager in the Lind convertible security agreement, 1,602,855 Shares to EverBlu as part consideration for acting as lead manager in the 1st Placement, 2,000,000 Shares to EverBlu in part consideration for corporate advisory services to the Company, 103,092,784 Shares in relation to the repayment of a $3.0 Million loan advanced by Director, Adam Blumenthal, 42,955,327 Shares for early settlement and cancellation of the Suburban convertible notes and 3,436,427 Shares to Azalea Consulting Pty Ltd in consideration for company secretarial and corporate advisory services.

Mergers, acquisitions and divestments

On 20 April 2020, Creso entered into a settlement agreement with Cohen Propagation Nurseries to agree a final settlement of the Israeli joint venture, Creso Grow Limited, in which the Group had a non-controlling interest. A loss of $1,443,662 was recorded in the respect of the disposal of the interest in Creso Grow Limited.

COVID-19

To date, as previously reported, the actual effects of the COVID-19 pandemic upon the Group's operations have been manageable, but the timing and amounts of sales were negatively impacted. Revenues for the full year 2020 from the Swiss segment of the Company's business were only CHF798,024 in 2020 due to restriction on production and ability to work, which represents a decrease of 55% on 2019 revenue. The Board remains confident that the Company's strategies to develop its businesses in Canada and Switzerland will continue to adapt where necessary and progress toward their objectives. However, whilst ever the pandemic continues as at present, the Board is keenly aware of the potentially disruptive effects of it upon the Group's operations, as potential future effects upon customer demand for the Company's products and upon supply chains remain uncertain.

IMPAIRMENT TESTING

The Board recognises that these are times to be prudent and cautious and, 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 Mernova Facility and the R&D business in Switzerland were each separable Cash Generating Units ("CGU") which were subject to impairment assessment. Management's 5-year cashflow forecasts for each CGU 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 realistic, prudent and cautious.

Directors' Report

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

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 and in Matters Subsequent to the End of the Financial Year above.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this Annual Report because the Directors believe it would result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

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

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

AUDITED REMUNERATION REPORT

The Audited Remuneration Report comprises a part of this Directors' Report and is set out in pages 23 to 35.

Directors' Report

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the year ended 31 December 2020, 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 2020 has been received and included within the financial statements section of this report.

NON-AUDIT SERVICES

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

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

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

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

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

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.

Directors' Report

CORPORATE GOVERNANCE STATEMENT

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

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

On behalf of the directors

Adam Blumenthal
NON-EXECUTIVE CHAIRMAN
9 March 2021

Remuneration Report (Audited)

This remuneration report for the year ended 31 December 2020 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 Adam Blumenthal	(Non-Executive Chairman)
Dr James Ellingford	(Executive Director)
Dr Miri Halperin Wernli	(Executive Director and Head of Technology, Innovation and Distribution)
Mr Boaz Wachtel	(Non-Executive Director)

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

Mr Christopher 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.

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

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

Remuneration Report (Audited)

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

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

The total aggregate fixed sum per annum to be paid to Non-Executive Directors in accordance with the Company's Constitution shall initially be no more than A$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.

B Remuneration Philosophy

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

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

No remuneration consultants were employed during the financial year.

Remuneration Report (Audited)

C Remuneration and Performance

The following table shows the gross revenue, losses, earnings per share ("EPS") and share price of the Group for the years ended 31 December 2020 and 31 December 2019.

	31-Dec-2020	31-Dec-2019
Revenue from products	**2,447,761**	3,626, 427
Royalty income	**17,216**	33,265
Total revenue ($)	**2,464,977**	3,659,692
Net loss after tax	**(30,779,581)**	(15,339,772)
EPS ($)	**(0.08)**	(0.10)
Share price	**0.180**	0.125

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

The pay and reward framework for key management personnel may consist of the following areas:

a) Fixed Remuneration – base salary
b) Variable Short-Term Incentives
c) Variable Long-Term Incentives

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

a) Fixed Remuneration – Base Salary

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

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

b) Variable Remuneration – Short Term Incentives (STI)

Discretionary cash bonuses may be paid to senior executives annually, subject to the requisite Board and shareholder approvals where applicable.

c) Variable Remuneration – Long Term Incentives (LTI)

Incentive Option Scheme

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

Options issued will not be quoted on ASX.

Remuneration Report (Audited)

Performance Rights Plan

The Creso Pharma Limited Performance Rights Plan ("Plan") was originally adopted by the Company during the year ended 31 December 2016, and re-adopted by the Company during the year ended 31 December 2019.

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

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

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

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

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

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

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

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

D Details of Remuneration

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

Table 1 – Remuneration of KMP of the Group for the year ended 31 December 2020 is set out below:

31 December 2020	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	-	50,000	19,000	-	269,000
James Ellingford	141,000	-	30,000	13,395	-	184,395
Miri Halperin Wernli	549,526	-	176,597	35,582	-	761,705
Boaz Wachtel	47,500(i)	-	30,000	-	-	77,500
Senior Executives						
Christopher Grundy	240,000	-	80,000	21,348	86,364	427,712
Total	1,178,026	-	366,597	89,325	86,364	1,720,312

(i) An amount of $47,500 has been paid/is payable to International Water and Energy Savers Ltd relating to Boaz Wachtel's Director's Fees.

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

Remuneration Report (Audited)

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

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

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

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

(iii) John Griese resigned on 30 November 2019.

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

Table 2 – Relative proportion of fixed vs variable remuneration expense

Name	Fixed Remuneration		At Risk – STI (%)		At Risk – LTI (%)	
	2020	2019	2020	2019	2020	2019
Directors						
Adam Blumenthal	**81%**	**76%**	**19%**	**-**	**-**	**24%**
James Ellingford	**84%**	**79%**	**16%**	**-**	**-**	**21%**
Miri Halperin Wernli	**77%**	**80%**	**23%**	**-**	**-**	**20%**
Boaz Wachtel	**61%**	**44%**	**39%**	**-**	**-**	**56%**
Senior Executives						
Christopher Grundy	**61%**	**37%**	**19%**	**-**	**20%**	**63%**
John Griese	**N/A**	**35%**	**N/A**	**-**	**N/A**	**65%**

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

31 December 2020	Balance at 01/01/2020	Granted as Remuneration	On Exercise of Performance Rights	Net Change – Other	Balance at 31/12/2020
Directors					
Adam Blumenthal	6,250,001	-	-	140,248,765(i)	146,498,766
James Ellingford	1,450,000	-	-	-	1,450,000
Miri Halperin Wernli	12,800,000	-	-	833,333(ii)	13,633,333
Boaz Wachtel	8,300,000	-	-	-	8,300,000
Senior Executives					
Christopher Grundy	40,000	-	600,000	-	640,000
Total	**28,840,001**	**-**	**600,000**	**141,082,098**	**170,522,099**

(i) 137,457,045 shares issued to Atlantic Capital Holdings Pty Ltd from share placements, 833,333 shares issued to Anglo Australasia Holdings Pty Ltd from share placements and 1,958,387 shares issued to Atlantic Capital Holdings Pty Ltd for services by EverBlu.

(ii) Shares issued from share placement.

Remuneration Report (Audited)

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

31 December 2020	Balance at 01/01/2020	Granted as Remuneration	Net Change – Other	Balance at 31/12/2020	Vested & Exercisable
Directors					
Adam Blumenthal	-	-	14,128,387(i)	14,128,387	14,128,387
James Ellingford	-	-	-	-	-
Miri Halperin Wernli	-	-	-	-	-
Boaz Wachtel	-	-	-	-	-
Senior Executives					
Christopher Grundy	-	-	-	-	-
Total	**-**	**-**	**14,128,387**	**14,128,387**	**14,128,387**

(i) Unlisted options issued to Atlantic Capital Holdings Pty Ltd for services by EverBlu.

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

31 December 2020	Balance at 01/01/2020	Granted as Remuneration	Net Change – Other(i)	Balance at 31/12/2020	Vested & Exercisable
Directors					
Adam Blumenthal	2,750,000	-	(2,750,000)	-	-
James Ellingford	550,000	-	(550,000)	-	-
Miri Halperin Wernli	4,147,950	-	(4,147,950)	-	-
Boaz Wachtel	3,000,000	-	(3,000,000)	-	-
Senior Executives					
Christopher Grundy	72,000	-	(72,000)	-	-
Total	**10,519,950**	**-**	**(10,519,950)**	**-**	**-**

(i) Listed options have now expired.

Table 6 – Performance rights holdings of KMP (direct and indirect holdings)

31 December 2020	Balance at 01/01/2020	Granted as Remuneration	Vested and Exercised	Others	Balance not Vested at 31/12/2020	Balance Vested not Exercised at 31/12/2020
Directors						
Adam Blumenthal	-	-	-	-	-	-
James Ellingford	-	-	-	-	-	-
Miri Halperin Wernli	-	-	-	-	-	-
Boaz Wachtel	1,600,000	-	-	-	1,600,000	-
Senior Executives						
Christopher Grundy	1,000,000	-	(600,000)	-	100,000	300,000
Total	**2,600,000**	**-**	**(600,000)**	**-**	**1,700,000**	**300,000**

Remuneration Report (Audited)

E Service Agreements

❖ **Mr Adam Blumenthal – Non-Executive Chairman**
- Contract: Commenced on 20 November 2015.
- Director's Fee: $48,000 per annum (plus statutory superannuation entitlements).
- Mernova Medicinal Inc.- Director's fee of $5,000 per month.
- Kunna Canada Limited and Kunna S.A.S – Director's fee of $6,000 per month.
- Remuneration Committee Fee: $20,000 per annum.
- Term: No fixed term.

❖ **Dr James Ellingford – Executive Director**
- Contract: Commenced on 20 November 2015.
- 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 Committee Fee: $20,000 per annum.
- Term: No fixed term.

❖ **Dr Miri Halperin Wernli – Non-Executive Director and Head of Technology, Innovation and Distribution**
- Contract: Commenced on 18 October 2016.
- Base salary: USD$250,000 per annum to 14 August 2020.
- Base salary reduced to $120,000 from 15 August 2020.
- Mernova Medicinal Inc.- Consultancy fee of USD$8,000 per month.
- Kunna Canada Limited and Kunna S.A.S - Director fee of $6,000 per month.
- Monthly motor vehicle allowance of USD$2,500.
- Term: 3 years or as extended per the Consultant Agreement.
- Notice Period: 12 months.
- Performance Based Bonus: Dr Halperin Wernli is entitled to a discretionary bonus equal to 50% of the Fee on an annual basis, subject to meeting performance criteria agreed by the Board each year.

❖ **Mr Boaz Wachtel – Non-Executive Director**
- Contract: Commenced on 18 October 2016.
- Director's Fee: $10,000 per month from January 2019 to October 2019.
- Director's Fee: $2,500 per month from November 2019 to May 2020.
- Director's Fee: $5,000 per month from June 2020 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 Christopher Grundy – Chief Financial Officer**
- Contract: Commenced on 21 November 2017.
- Base Salary: $240,000 per annum (plus statutory superannuation entitlements).
- Term: No fixed term.
- Notice Period: 12 weeks.
- Bonus: Mr Grundy is entitled to a discretionary bonus on an annual basis as determined by the Company.

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, the Company issued shares to KMP only upon vesting of their performance rights.

There are no shares issued to KMP as part of their remuneration.

Options

During the current financial year, the Company did not issue options to KMP as part of their remuneration.

Performance Rights

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

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

2017 Financial Year:

Code	Grant Date	Vesting date	Performance period	Expiry date	Value per Performance Right at Grant Date	Vested
CPHPERR6	27 July 2017	27 July 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	-

Remuneration Report (Audited)

2018 Financial Year:

Code	Grant Date	Vesting date	Performance period	Expiry date	Value per Performance Right at Grant Date	Vested
CPHPERR29	28 September 2018	21 November 2020	21 November 2017 – 21 November 2020	11 October 2023	$0.555	100%
CPHPERR30	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	$0.555	100%
CPHPERR32	28 September 2018	24 March 2021	28 September 2018 – 24 March 2021	11 October 2023	$0.555	-
CPHPERR35	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	$0.555	100%
CPHPERR36	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	$0.555	100%

2019 Financial Year:

During the 2019 financial year, the Company did not issue Performance Rights to KMP as part of their remuneration.

2020 Financial Year:

During the 2020 financial year, the Company did not issue Performance Rights to KMP as part of their remuneration.

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

Details of Performance Rights provided as part of remuneration to key management personnel are shown below.

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

Name	Grant Date	Expiry Date	Number of Performance Rights Granted	Value of the Performance Rights at Grant Date	Number of Performance Rights vested	Lapsed	Vested
Boaz Wachtel							
CPHPERR6	27 July 2017	27 July 2022	800,000	$456,000	800,000	-	-
CPHPERR7	27 July 2017	27 July 2022	800,000	$456,000	800,000	-	-
Chris Grundy							
CPHPERR29	28 September 2018	11 October 2023	300,000	$166,500	-	-	100%
CPHPERR32	28 September 2018	11 October 2023	100,000	$55,500	-	-	-

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

G Equity Instruments Issued on Exercise of Remuneration Options

600,000 Performance Rights were exercised by KMP during the financial year (2019: Nil).

Remuneration Report (Audited)

H Transactions with KMP

(a) Key Management Personnel Compensation

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

	2020	2019
	$	$
Short-term benefits	**1,544,623**	1,647,628
Post-employment benefits	**89,325**	56,714
Share-based payments	**86,364**	1,446,039
	1,720,312	3,150,381

(b) Transactions with related parties

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

	2020	2019
	$	$
EverBlu Capital Pty Ltd - a company of which Adam Blumenthal is the Chairman		
Capital raising fees payable in cash(i)	**828,475**	988,692
Legal fees	**103,350**	85,000
Monthly retainer	**300,000**	120,000
IRESS service fees	**4,683**	4,014
Out of scope fees	**851,818**	270,000
Cash component of share issues	**1,949,831**	-
Amount payable to Creso(ii)	**-**	(50,000)
	4,038,157	1,417,706
Balance owing to EverBlu Capital Pty Ltd at 31 December	**-**	336,323
Balance owing to Creso at 31 December	**-**	50,000
Everblu Capital Corporate Pty Ltd		
Capital raising fees	**1,292,136**	-
Reimbursement of invoices paid on Creso's behalf	**76,230**	-
Out of scope fees	**256,230**	-
	1,624,596	-
Balance owing to EverBlu Capital Corporate Pty Ltd at 31 December	**-**	-
Balance owing to Creso at 31 December	**-**	-

Remuneration Report (Audited)

H Transactions with KMP (continued)

	2020 $	2019 $
Suburban Holdings Pty Ltd – related party		
Draw down fees	**-**	60,000
Balance owing at 31 December	**-**	60,000
Tranche 1 Convertible Notes		
Amount drawn down by Creso	**-**	(1,500,000)
Amount repaid	**1,250,000**	-
Balance owing at 31 December	**250,000**	1,666,667
Anglo Menda Pty Ltd – related party		
Short term loan to Creso	**61,000**	31,000
Share placement	**1,000,000**	-
Balance owing at 31 December	**-**	31,000
Atlantic Capital Pty Ltd – related party		
Share placement	**3,000,000**	-
Adam Blumenthal		
Balance owing at 31 December	**50,000**	-
James Ellingford		
Balance owing at 31 December	**48,144**	-
Miri Halperin Wernli		
Balance owing at 31 December	**125,000**	-
International Water and Energy Savers Ltd - a company controlled by Boaz Wachtel		
Director's Fees for Boaz Wachtel	**82,500**	105,000
Balance owing at 31 December	**30,000**	5,000
Jorge Wernli – related party to Miriam Halperin Wernli		
Salary and bonus	**391,175**	-
Balance owing at 31 December	**124,265**	-

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

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

Remuneration Report (Audited)

H Transactions with KMP (continued)

Other Share and Option Transactions with KMP Related Parties				
	2020		2019	
	Shares	**Options**	Shares	Options
EverBlu Capital Pty Ltd				
Debt note offer	-	-	1,150,000	1,150,000
Placement	-	-	528,387	528,387
Tranche 2	-	-	450,000	450,000
Issue of Shares - New L1 Con Note Facility	**4,500,000**	-	-	-
Issue of Shares - Corporate Advisory Mandate	**2,000,000**	-	-	-
Issue of CPHOPT29 Options - New L1 Con Note Facility	-	**4,000,000**	-	-
Issue of CPHOPT30 Options - Corporate Advisory Mandate	-	**8,000,000**	-	-
Issue of options for capital raising from Lind	-	**833,333**	-	-
Services for October placement	**8,992,530**	-	-	-
Issue of shares – Lind convertible notes	**833,333**	-	-	-
Services for June placement	**1,602,855**	-	-	-
Issue of Shares - Corporate Advisory Mandate	**2,000,000**	-	-	-
Issue of options for October placement	-	**53,447,775**(i)		
Subtotal	**20,098,718**	**66,281,108**	2,128,387	2,128,387
Adam Blumenthal				
Issue of options – October placement	-	**8,591,066**(i)	-	-
Issue of options – Additional placement	-	**25,773,196**(i)	-	-
Subtotal	-	**34,364,262**	-	-
Suburban Holdings Pty Ltd				
Tranche 1 fee	-	-	261,780	2,727,272
Issue of collateral shares	-	-	3,333,334	-
Issue of shares and options – Tranche fee	**261,780**	-	-	-
Issue of additional collateral shares	**15,000,000**	-	-	-
Issue of shares – settle convertible note	**42,955,327**	-	-	-
Issue of options – settle convertible note	-	**10,738,832**(i)	-	-
Subtotal	**58,217,107**	**10,738,832**	3,595,114	2,727,272
Atlantic Capital Holdings Pty Ltd				
Issue of shares – October placement	**34,364,261**	-	-	-
Issue of shares – Additional placement	**103,092,784**	-	-	-
Subtotal	**139,415,432**	-	-	-
Anglo Menda Pty Ltd				
Issue of shares	**833,333**	-	-	-
Subtotal	**833,333**	-	-	-

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 2020.

Remuneration Report (Audited)

I Additional Information

The earnings of the consolidated entity for the five years to 31 December 2020 are summarised below:

	2020 $	2019 $	2018 $	2017 $	2016 $
Revenue from products	2,447,761	3,626,427	558,382	91,609	7,484
Revenue from services	-	-	-	152,189	538
Royalty income	17,216	33,265	19,840	1,112	-
Total Revenue	**2,464,977**	**3,659,692**	**578,222**	**244,910**	**8,022**
EBITDA	(25,486,532)	(10,991,546)	(16,730,515)	(15,069,438)	(4,207,963)
Loss after income tax	(30,779,581)	(15,339,772)	(16,845,686)	(15,076,076)	(4,584,239)
Share Price	0.180	0.125	0.49	0.92	0.24
Basic EPS ($)	(0.08)	(0.10)	(0.14)	(0.18)	(0.14)
Diluted EPS ($)	(0.08)	(0.10)	(0.14)	(0.18)	(0.14)

Voting and comments made at the Company's 2020 Annual General Meeting ("AGM"):

At the 2020 AGM, 92.43% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2019. 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 2020, 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

9 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 31 December 2020

	Note	2020 $	2019 $
Revenue from continuing operations			
Revenue	4	**2,447,761**	3,626,427
Production costs	12	**-**	(271,508)
Cost of sales		**(2,303,180)**	(1,733,109)
Gross profit before fair value adjustments		**144,581**	1,621,810
Fair value adjustment on sale of inventory		**(937,109)**	(298,827)
Fair value adjustment on growth of biological assets		**(3,089,887)**	802,907
Gross profit/(loss)		**(3,882,415)**	2,125,890
Other income			
Interest income	4	**317**	57,093
Royalty income		**17,216**	33,265
Other income	4	**177,512**	25,468
Expenses			
Administrative expenses	5(a)	**(642,904)**	(1,505,407)
Compliance and regulatory expenses		**(307,644)**	(222,605)
Consultancy and legal expenses	5(b)	**(5,152,713)**	(3,769,054)
Depreciation and amortisation expenses	5(c)	**(352,429)**	(401,667)
Employee benefit expenses	5(d)	**(2,367,632)**	(2,692,551)
Finance costs	5(e)	**(9,268,880)**	(2,090,013)
Impairment of intangibles	14	**(4,671,418)**	(3,040,934)
Marketing and investor relations expenses		**(986,179)**	(698,001)
Occupancy expenses		**(74,681)**	(122,373)
Share-based payment expenses	24	**(179,216)**	(2,356,008)
Research and development expenses		**(344,989)**	(286,026)
Other expenses		**(77,529)**	(247,106)
Gain on settlement of convertible notes		**899,628**	-
Loss on extinguishment of liabilities		**(210,350)**	-
Loss on embedded derivative		**(1,961,750)**	-
Loss on disposal of investment in Creso Grow Ltd	28	**(1,443,662)**	-
Foreign exchange gain/(loss)		**50,137**	(149,743)
(Loss) from continuing operations before income tax		**(30,779,581)**	(15,339,772)
Income tax expense		**-**	-
(Loss) from continuing operations after income tax		**(30,779,581)**	(15,339,772)
Other comprehensive income			
Exchange differences on translation of foreign operations		**(1,257,285)**	1,306,551
Other comprehensive income for the year, net of tax		**(1,257,285)**	1,306,551
Total comprehensive (loss) for the year		**(32,036,866)**	(14,033,221)
(Loss) for the year attributable to:			
Non-controlling interest		**-**	(285,391)
Owners of Creso Pharma Australia Limited		**(30,779,581)**	(15,054,381)
		(30,779,581)	(15,339,772)
Total comprehensive (loss) for the year attributable to:			
Non-controlling interest		**-**	(285,391)
Owners of Creso Pharma Australia Limited		**(32,036,866)**	(13,747,830)
		(32,036,866)	(14,033,221)
(Loss) per share for the year attributable to the members of Creso Pharma Limited:			
Basic and Diluted loss per share (cents)		**(8.30)**	(10.47)

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 2020

	Note	2020 $	2019 $
ASSETS			
Current assets			
Cash and cash equivalents	8	**6,047,091**	2,800,318
Trade and other receivables	10	**636,720**	1,698,499
Inventories	11	**1,108,963**	1,992,931
Biological assets	12	**143,192**	423,627
Total current assets		**7,935,966**	6,915,375
Non-current assets			
Property, plant and equipment	13	**9,907,853**	11,270,479
Intangible assets	14	**1,276,789**	4,477,755
Total non-current assets		**11,184,642**	15,748,234
Total assets		**19,120,608**	22,663,609
LIABILITIES			
Current liabilities			
Trade and other payables	16	**2,162,911**	2,111,075
Provisions	17	**49,772**	51,255
Borrowings	18	**3,255,754**	3,227,318
Total current liabilities		**5,468,437**	5,389,649
Total liabilities		**5,468,437**	5,389,649
Net assets		**13,652,171**	17,273,960
EQUITY			
Issued Capital	19	**71,794,123**	46,528,519
Reserves	20	**23,858,528**	22,602,786
Accumulated losses		**(82,000,480)**	(51,857,345)
Equity attributable to the owners of Creso Pharma Limited		**13,652,171**	17,649,001
Non-controlling interest	31	**-**	(375,041)
Total equity		**13,652,171**	17,273,960

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 2020

Group	Issued Capital $	Share-based Payment Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Non-Controlling Interest $	Total $
At 1 January 2020	**46,528,519**	**21,044,323**	**1,558,463**	**(51,482,304)**	**(375,041)**	**17,273,960**
Loss for the year	**-**	**-**	**-**	**(30,779,581)**	**-**	**(30,779,581)**
Other comprehensive income	**-**	**-**	**(1,257,285)**	**-**	**-**	**(1,257,285)**
Total comprehensive income/(loss) for the year after tax	**-**	**-**	**(1,257,285)**	**(30,779,581)**	**-**	**(32,036,866)**
Transactions with owners in their capacity as owners:						
Issue of share capital	**12,474,140**	**-**	**-**	**-**	**-**	**12,474,140**
Issue of shares for the acquisition of the sales licence	**750,509**	**-**	**-**	**-**	**-**	**750,509**
Conversion of convertible notes	**6,900,169**	**1,468,909**	**-**	**-**	**-**	**8,369,078**
Issue of equity for services	**6,472,589**	**1,715,616**	**-**	**-**	**-**	**8,188,205**
Issue of equity to settle convertible notes	**1,417,526**	**232,522**	**-**	**-**	**-**	**1,650,048**
Issue of equity to extinguish liability	**89,347**	**221,003**	**-**	**-**	**-**	**310,350**
Elimination of interests in Creso Grow Limited at disposal	**-**	**-**	**-**	**261,405**	**375,041**	**636,446**
Issue of unlisted options	**-**	**935,443**	**-**	**-**	**-**	**935,443**
Share-based payments	**-**	**179,216**	**-**	**-**	**-**	**179,216**
Exchangeable shares issued for the acquisition of the cultivation licence	**-**	**996,000**	**-**	**-**	**-**	**996,000**
Share issuance costs	**(6,074,358)**	**-**	**-**	**-**	**-**	**(6,074,358)**
Issue of share capital for exchangeable shares	**3,235,682**	**(3,235,682)**	**-**	**-**	**-**	**-**
At 31 December 2020	**71,794,123**	**23,557,350**	**301,178**	**(82,000,480)**	**-**	**13,652,171**
At 1 January 2019	38,222,883	14,547,170	251,912	(36,427,923)	(89,650)	16,504,392
Loss for the year	-	-	-	(15,054,381)	(285,391)	(15,339,772)
Other comprehensive income	-	-	1,306,551	-	-	1,306,551
Total comprehensive income/(loss) for the year after tax	-	-	1,306,551	(15,054,381)	(285,391)	(14,033,221)
Transactions with owners in their capacity as owners:						
Issue of share capital	8,664,938	-	-	-	-	8,664,938
Embedded derivative – convertible notes options	-	378,741	-	-	-	378,741
Share-based payments	-	3,878,730	-	-	-	3,878,730
Share issuance costs	(359,302)	-	-	-	-	(359,302)
Exchangeable shares issued for the acquisition of the cultivation licence	-	2,239,682	-	-	-	2,239,682
At 31 December 2019	46,528,519	21,044,323	1,558,463	(51,482,304)	(375,041)	17,273,960

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 2020

	Note	2020 $	2019 $
Cash flows from operating activities			
Receipts from customers		**3,609,478**	2,706,242
Payments to suppliers and employees		**(13,121,485)**	(12,370,813)
Interest received		**317**	57,093
Interest paid		**(109,890)**	(559,478)
Net cash used in operating activities	8(a)	**(9,621,580)**	(10,166,956)
Cash flows from investing activities			
Payments for plant and equipment		**(44,362)**	(1,922,600)
Payments for intangibles		**(384,788)**	(1,419,631)
Payment on disposal of investment in Creso Grow Limited		**(402,539)**	-
Net cash used in investing activities		**(831,689)**	(3,342,231)
Cash flows from financing activities			
Proceeds from issue of shares		**12,474,140**	9,710,160
Proceeds from issue of options		**-**	125,000
Proceeds from borrowings		**7,095,741**	13,323,500
Repayment of borrowings		**(2,005,747)**	(12,025,000)
Borrowing costs		**(2,192,030)**	(798,768)
Payment of share issue costs		**(1,722,201)**	(291,255)
Net cash from financing activities		**13,649,903**	10,043,637
Net increase/(decrease) in cash and cash equivalents		**3,196,634**	(3,465,550)
Cash and cash equivalents at the beginning of the year		**2,800,318**	6,390,538
Effect on exchange rate fluctuations on cash held		**50,139**	(124,670)
Cash and cash equivalents at the end of the year	8	**6,047,091**	2,800,318

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 2020 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; and
b) to cultivate, process and sell cannabis products.

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

The annual report was authorised for issue by the Board of Directors on 08 March 2021.

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 29.

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 2020. 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 2020 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 consolidated entity incurred a loss of $32,036,866 (2019: $14,033,221) and had net cash outflows from operating activities of $9,621,580 (2019: $10,166,956) for the year ended 31 December 2020.

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 recent years and there is a reasonable expectation that alternative sources of funding can be sourced;
- Receipt of cash from the exercise of options which are in the money;
- Increased revenue from opportunities with existing and new customers and sales arrangements as they are realised into sales revenue in the Group's Canadian and Switzerland operations; and
- Effective monitoring and reduction of the Group's overhead expenditures, including the continued realisation of head office cost reductions.

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 2020 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 three reportable segments.

(e) Foreign Currency Translation

Functional and presentation currency

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

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

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 and any other contingent events. Such estimates are determined using either the ‘expected value’ or ‘most likely mount’ 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.

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

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income Tax

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Intangible Assets

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 and employees.

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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.

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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

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.

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.

Notes to the Consolidated Financial Statements

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

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

Coronavirus ("COVID-19") pandemic
Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

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, the impact of the Coronavirus (COVID-19) pandemic 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 require operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segments and to assess their performance. On this basis, the Group's reportable segments under AASB 8 are as follows:

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

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 2020	**Asia Pacific $**	**Europe & Middle East $**	**North America $**	**South America $**	**Total $**
Revenue from products	-	1,232,918	1,214,843	-	2,447,761
Royalty income	17,216	-	-	-	17,216
Total segment revenue	17,216	1,232,918	1,214,843	-	2,464,977
Other income	144,769	6,372	26,688	-	177,829
Loss before income tax expense	(15,281,067)	(4,735,111)	(10,399,926)	(363,477)	(30,779,581)
Total Segment Assets	4,362,698	2,050,328	12,707,582	-	19,120,608
Total Segment Liabilities	4,462,877	399,752	605,808	-	5,468,437

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

Notes to the Consolidated Financial Statements

NOTE 4 REVENUE AND OTHER INCOME	2020 $	2019 $
Revenue from continuing operations		
Revenue from sale of products	**2,447,761**	3,626,427
Royalty income	**17,216**	33,265
	2,464,977	3,659,692
Other income		
Interest received	**317**	57,093
Lease income	**26,380**	9,432
Other Income	**151,132**	16,036
	177,829	82,561

Disaggregation of revenue

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

Consolidated		
Major product lines		
Medicinal cannabis packaged products	**1,232,918**	2,765,824
Dried cannabis plant products	**1,214,843**	860,603
Royalty Income	**17,216**	33,265
Total	**2,464,977**	3,659,692
Geographical regions		
Europe & Middle East	**1,232,918**	2,765,824
North America	**1,214,843**	860,603
Asia Pacific	**17,216**	33,265
Total	**2,464,977**	3,659,692
Timing of revenue recognition		
Goods transferred at a point in time	**2,447,761**	3,626,427
Royalty income	**17,216**	33,265
Total	**2,464,977**	3,659,692

Notes to the Consolidated Financial Statements

NOTE 5	EXPENSES	2020 $	2019 $
(a)	**Administrative expenses**		
	Accounting and company secretarial fees	**407,957**	629,072
	Travel costs	**62,157**	406,369
	General and administration expenses	**172,790**	469,966
		642,904	1,505,407
(b)	**Consultancy and legal expenses**		
	Consulting fees	**3,511,590**	1,348,126
	Corporate advisory and business development	**644,171**	783,136
	Legal fees	**996,952**	1,637,792
		5,152,173	3,769,054
(c)	**Depreciation and amortisation expense**		
	Total depreciation per note (13)	**623,948**	417,423
	Less: capitalised to inventory	**(617,074)**	(279,188)
	Amortisation expense	**345,555**	263,432
		352,429	401,667
(d)	**Employee benefit expenses**		
	Director fees	**1,224,623**	1,221,812
	Wages and salaries	**711,612**	1,246,574
	Recruitment fees	**5,472**	22,523
	Superannuation	**81,120**	89,964
	Other employee expenses	**344,805**	111,678
		2,367,632	2,692,551
(e)	**Finance Costs**		
	Loan drawdown fees	167,777	17,840
	Loan raising fees settled in options issued	44,225	390,000
	Capital Raising Fees settled in cash	930,453	-
	Capital raising fees settled in shares (Related Party - EverBlu)	742,500	-
	Loan settlement fees settled in cash	1,300,000	-
	Loan settlement fee settled in shares	2,605,000	-
	Interest expense	3,204,926	1,296,749
	Transaction costs recognised on convertible notes	272,042	368,268
	Bank charges	27,000	17,156
		9,268,880	2,090,013

Notes to the Consolidated Financial Statements

NOTE 6 INCOME TAX EXPENSE	2020 $	2019 $
The components of tax expense comprise:		
Current tax		
Deferred tax	**-**	-
(a) Income tax expense reported in the of profit or loss and other comprehensive income	**-**	-
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Loss before income tax expense	**(30,779,581)**	(15,339,772)
Prima facie tax benefit on loss before income tax at 27.5% (2019: 30%)	**(8,464,385)**	(4,601,932)
(b) Tax effect of:		
Tax effect on different tax rate of overseas subsidiaries	**1,876,284**	387,846
Share-based payments	**49,284**	706,802
Travel expenses	**5,104**	3,556
Legal expenses	**274,162**	491,260
Others non-deductible expenses	**1,840,391**	1,252,070
Temporary differences	**(27,702)**	-
Tax losses not recognised	**4,446,862**	1,760,398
Total	**-**	-
(c) Deferred tax assets not brought to account are:		
Carried forward losses	**10,155,957**	5,840,258
Total	**10,155,957**	5,840,258

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.

	2020	2019
	$	$
Net loss for the year	**(30,779,581)**	(15,339,772)
Non-controlling interest	**-**	285,391
Net loss for the year attributable to the owners of Creso Pharma Limited	**(30,779,581)**	(15,054,381)
Weighted average number of ordinary shares for basic and diluted loss per share.	**370,624,639**	143,784,112

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)	**(8.30)**	(10.47)

NOTE 8 CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**6,047,091**	2,800,318
	6,047,091	2,800,318

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 0.20% (2019: 0.95%)s.

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

Loss for the financial year	**(30,779,581)**	(15,339,772)
Adjustments for:		
Depreciation and amortisation	**352,429**	401,667
(Gain)/loss on foreign exchange	**(50,137)**	149,743
Share based payments	**179,216**	2,356,008
Fair value adjustments to inventory and biological assets	**3,882,416**	-
Impairment of intangible assets	**4,671,418**	3,040,934
Disposal of investment in Creso Grow Limited	**1,041,123**	-
Issue of equity for services	**8,188,205**	-
Issue of equity to extinguish liability	**310,350**	-
Capitalised borrowing costs	**-**	495,489
Absorption of depreciation costs in biological assets and inventory	**617,074**	279,188
Other non-cash items	**4,682**	76,161
Changes in assets and liabilities		
Receivables	**1,061,778**	(356,877)
Inventories	**883,969**	(1,549,395)
Trade and other payables	**16,962**	259,589
Provisions	**(1,484)**	20,309
Net cash used in operating activities	**(9,621,580)**	(10,166,956)

Notes to the Consolidated Financial Statements

NOTE 8 CASH AND CASH EQUIVALENTS (continued)

(b) Non-cash investing and financing activities

	2020	2019
	$	$
Options issued on acquisition of cultivation licence	**996,000**	2,239,682
Shares issued for the acquisition of a sales licence	**750,509**	-
Equity issued for the conversion of convertible notes	**8,369,078**	-
Equity issued for the settlement of convertible notes	**1,650,048**	-
Equity issued as share issue costs	**(4,352,158)**	
Impairment of intangible assets	**(4,671,418)**	-
Impairment on Colombian licence	**-**	(3,040,934)

(c) Changes in liabilities arising from financing activities

	31 December 2019	**Cash Flows**	**Non-cash Flows**	**31 December 2020**
	$	**$**	**$**	**$**
Proceeds from convertible notes	**3,178,160**	**5,089,994**	**(5,118,154)**	**3,150,000**
Coupon interest on convertible notes	**49,158**	**(109,890)**	**166,486**	**105,754**
	3,227,318	**4,980,104**	**(4,951,668)**	**3,255,754**

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

NOTE 9 INVESTMENT FOR USING EQUITY METHOD

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

Name	**Activity**	**Principal place of business/ Country of incorporation**	**Ownership interest 2020**	2019
			%	%
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.

Notes to the Consolidated Financial Statements

NOTE 10 TRADE AND OTHER RECEIVABLES

	2020 $	2019 $
Trade debtors	**27,055**	1,017,229
Goods and Services Tax ('GST') receivable	**371,199**	172,763
Canadian HST Receivable	**42,866**	77,014
Other deposits and receivables	**195,600**	431,493
	636,720	1,698,499

Allowance for expected credit losses

There are no expected credit losses and no loss recognised in the income statement for the year ended 31 December 2020 (2019: Nil).

NOTE 11 INVENTORIES

	2020 $	2019 $
Finished goods – Medicinal cannabis packaged products	**-**	312,863
Finished goods – Harvested cannabis plant products	**1,073,836**	1,661,020
Finished goods – Consumables inventory	**35,127**	19,048
	1,108,963	1,992,931

During the year ended 31 December 2020, the Group recorded $Nil (2019: $271,508) of productions costs. During the year ended 31 December 2020, the Group expensed $3,089,887 (2019: $298,827) of fair value adjustments on the growth of its biological assets included in inventory sold. As at 31 December 2020, the Group holds 1,100 kilograms of harvested cannabis (2019: 684 kilograms).

NOTE 12 BIOLOGICAL ASSETS

The Company's biological assets consist of 9,480 cannabis plants as at 31 December 2020 (2019: 4,793 cannabis plants). The continuity of biological assets is as follows:

	2020 $	2019 $
Carrying amount at 1 January	**423,672**	-
Production costs capitalised	**3,257,731**	1,852,120
Increase/(decrease) in FVLCS due to biological transformation	**(834,933)**	802,907
Foreign exchange translation	**(14,708)**	-
Less: Transfer to inventory upon harvest	**(2,688,570)**	(2,231,355)
Carrying amount at 31 December	**143,192**	423,672

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 2020 will grow to maturity, be harvested and converted into finished goods inventory and sold to Canadian and overseas customers.

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

The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

Management reviews all significant inputs based on historical information obtained as well as based on planned production schedules. Only when there is a material change from expected fair value used for cannabis does the Group make any adjustments to the fair value used. During the year, there was no material change to these inputs and therefore there has been no change in the determined fair value per plant.

Notes to the Consolidated Financial Statements

NOTE 12 BIOLOGICAL ASSETS (CONTINUED)

Dried Flower

The dried flower model utilises the following significant assumptions:

	Weighted Average 31 December 2020	Weighted Average 31 December 2019
Weighted average of expected loss of plants until harvest	**10%**	15%
Expected yields for cannabis plants (average grams per plant)	**30**	42
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$2.25**	C$3.50
After harvest costs to complete and sell per gram	**C$0.50**	C$0.30
Reasonable margin on after harvest costs to complete and sell per gram	**C$1.75**	C$2.60

Shake

The shake model utilises the following significant assumptions:

	Weighted Average 31 December 2020	Weighted Average 31 December 2019
Weighted average of expected loss of plants until harvest	**10%**	15%
Expected yields for cannabis plants (average grams per plant)	**24**	33
Expected number of growing weeks	**12**	12
Weighted average number for growing weeks completed as a percentage of total growing weeks at period-end	**57%**	51%
Estimated selling price per gram	**C$0.20**	C$1.50
After harvest costs to complete and sell per gram	**C$0.20**	C$0.30
Reasonable margin on after harvest costs to complete and sell per gram	**C$0.00**	C$1.00

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 $11,842 and inventory decreasing by $121,529.
- Harvest yield per plant – a decrease in the harvest yield per plant of 10% would result in the biological asset value decreasing by $14,059.

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 2020 (2019: none).

At 31 December 2020, the Group had no commitments in relation to growing its cannabis (2019: nil).

Notes to the Consolidated Financial Statements

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

	2020	2019
	$	$
Opening net book amount	**11,270,479**	9,900,422
Additions (Capital Expenditure and Acquired assets)	**44,361**	1,922,600
Disposals	**(2,320)**	(26,819)
Depreciation charge	**(623,948)**	(417,423)
Foreign exchange translation	**(780,719)**	(108,301)
Closing net book amount	**9,907,853**	11,270,479
Cost	**10,973,883**	11,712,561
Accumulated depreciation	**(1,066,030)**	(442,082)
Net book amount	**9,907,853**	11,270,479

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 2020	Additions	Transfers from Capital Works	Disposals	Foreign Currency fluctuation	Depreciation expense	Balance at 31 Dec 2020
Construction work in progress	2,614	-	-	(2,320)	(294)	-	-
Land	387,010	-	-	-	(27,474)	-	359,536
Buildings & Improvement	8,787,923	-	-	-	(606,739)	(295,448)	7,885,736
Plant and equipment	144,284	6,750	-	-	(22,277)	(28,538)	100,219
Machine & Equipment	191,917	30,469	-	-	(13,621)	(45,979)	162,786
Irrigation & Lighting	1,381,760	7,142	-	-	(86,832)	(199,865)	1,102,205
Security System	374,971	-	-	-	(23,482)	(54,118)	297,371
Total	**11,270,479**	**44,361**	**-**	**(2,320)**	**(780,719)**	**(623,948)**	**9,907,853**

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

Notes to the Consolidated Financial Statements

NOTE 14 INTANGIBLE ASSETS

Current	**2020** **$**	2019 $
Licences (Canadian) (a)	**1,274,599**	3,540,692
Licences (Colombian) (b)	**-**	-
Intellectual property (c)	**2**	927,287
Computer software (d)	**2,188**	9,776
	1,276,789	4,477,755

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

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

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

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

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) $**	**Licences (Colombian) $**	**Intellectual Property $**	**Computer Software $**	**Total $**
Balance at 1 January 2020	**3,540,692**	**-**	**927,287**	**9,776**	**4,477,755**
Additions	2,131,298	-	-	-	2,131,298
Impairment	(3,935,119)	-	(736,299)	-	(4,671,418)
Foreign exchange translation	(266,683)	-	(48,339)	(270)	(315,292)
Amortisation expense	(195,589)	-	(142,647)	(7,318)	(345,554)
Balance at 31 December 2020	**1,274,599**	**-**	**2**	**2,188**	**1,276,789**
Remaining amortisation period (years)	28	-	5	2	

Consolidated	**Licences (Canadian) $**	**Licences (Colombian) $**	**Intellectual Property $**	**Computer Software $**	**Total $**
Balance at 1 January 2019	507,282	2,985,565	608,331	-	4,101,178
Additions	3,144,544	55,369	456,225	13,485	3,669,623
Impairment	-	(3,040,934)	-	-	(3,040,934)
Foreign exchange translation	(3,827)	-	15,147	-	11,320
Amortisation expense	(107,307)	-	(152,416)	(3,709)	(263,432)
Balance at 31 December 2019	3,540,692	-	927,287	9,776	4,477,755

During the year ended 31 December 2020, the Group recorded an impairment charge to Intangible Assets of $4,671,418 (2019: $Nil). Refer to Note 2 for details.

Notes to the Consolidated Financial Statements

NOTE 14 INTANGIBLE ASSETS (CONTINUED)

Impairment indicators
As noted in Note 1(b), at the end of each reporting period, the Group assesses whether there were events or changes in circumstances that would indicate that a Cash Generating Unit ("CGU") was impaired. The following factors were identified as impairment indicators:

- The Swiss segment 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 market uptake of those re-formulated products remains uncertain and revenues in 2021 are expected to be adversely affected.
- The Mernova segment of the Company's business is in its initial phase and therefore currently derives its revenues from a limited number of customers and distributors.

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 North America operating segment.

As a cross-check, management obtained and reviewed comparable market data for comparison with the CGU's fair value and against the net book value of the assets less fixed costs to dispose.

The impairment testing performed at 31 December 2020 supported the recoverable amount of the CGU and did not result in any further impairment loss.

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. Impairment losses were recognized due to a change in overall industry/market conditions, changes in EU regulations resulting in a change in management's forecast sales and profitability and a realignment and refocus of strategic plans to meet expected market demand.

As a result of the impairment test, management concluded that the carrying value was higher than the recoverable amount and recorded impairment losses of $736,299 for the half-year ended 30 June 2020. Management allocated the impairment loss specifically to the assets it identified as impaired, with no individual assets being reduced below its recoverable amount. Management allocated $703,590 of impairment losses to the CGU's intangible assets (Note 14), $12,791 of impairment losses to property, plant and equipment (Note 13), $27,171 to the Group's investment in the CGU and $7,253 to net current assets.

The impairment testing performed at 31 December 2020 supported the recoverable amount of the CGU and did not result in any further impairment loss.

Notes to the Consolidated Financial Statements

NOTE 14 INTANGIBLE ASSETS (CONTINUED)

Significant Judgements and Estimates

The following key assumptions were used in the discounted cash flow model for each of the CGU's:

CGU	Mernova	Switzerland
Forecast period (a)	5 years	5 years
Terminal / Long-Term Revenue Growth Rate (b)	3% terminal rate	3% terminal rate
Discount Rate (c)	26%	50%

Assumption		Approach used to determine values
(a)	Forecast period	Budget period + growth estimates for periods beyond the budget period. Specific factors considered in the forecasts used in the impairment model: • Due to the impact of COVID-19, management have assumed moderate delays in the timing of expected growth. • The Mernova segment of the Company's business is in its initial phase and therefore currently derives its revenues from a limited number of customers and distributors. The loss of or significant decrease in business from any of those customers could affect Mernova's revenues and the Company's business until additional or alternative distribution/supply agreements are negotiated. • Revenues for the full year 2020 from the Swiss segment of the Company's business are lower than for 2019, due to reduced orders in the second half.
(b)	Terminal / Long-Term Growth Rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The outbreak of COVID-19 has resulted in the implementation and modification of significant governmental measures, including lockdowns, closures, quarantines, and travel bans, intended to control the spread of the virus. As a result, the long-term growth rate has been set at zero to reflect the uncertainty in the forecast future cash flows beyond the budget period in each CGU.
(c)	Discount Rate	The 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 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.

Notes to the Consolidated Financial Statements

NOTE 15 OTHER ASSETS

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

Opening balance	**-**	425,830
Write-off of CLV Frontier Brands provision	**-**	(425,830)
Closing balance	**-**	-

NOTE 16 TRADE AND OTHER PAYABLES

	2020	2019
	$	$
Trade payables	**633,923**	1,030,843
Payables to related parties (note 23)	**250,000**	93,736
Accrued expenses	**757,885**	650,063
Accrued expenses for related parties (note 23)	**377,409**	250,587
Income in Advance	**57,160**	34,405
Other payables	**86,534**	51,441
	2,162,911	2,111,075

NOTE 17 PROVISIONS

	2020	2019
	$	$
Employee provisions	**49,772**	51,256

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	**-**	-

Notes to the Consolidated Financial Statements

NOTE 18 BORROWINGS

	2020 $	2019 $
Convertible notes	**-**	3,147,160
Short-term loans	**3,255,754**	-
Loan from related party	**-**	31,000
Interest payable	**-**	49,158
	3,255,754	3,227,318

Convertible notes
Convertible notes on issue at 31 December 2019 were repaid during the year, no convertible notes were outstanding at the year end.

All convertible notes issued contained the following components:

- Equity component – free options
- Liability component – convertible notes (recorded net of transaction costs)
- Liability component – embedded derivative – collateral shares (recorded net of transaction costs)

The individual components of the convertible notes have been valued using accepted market valuation techniques. The valuation of the embedded derivative liability relating to collateral shares was performed using a Monte Carlo simulation. Inputs include simulated stock prices in the range of $0.030 – $0.172 and simulated exercise prices in the range of $0.0223 - $0.1256. The equity component value was confirmed using a Black-Scholes option valuation model, with assumptions including volatility of 67.58% – 100.39%, a 3-year term, and grant date and exercise prices as determined by underlying agreements. The increase in the implicit effective interest rate on the financial liability recorded in relation to the convertible notes is due to the change in economic circumstances over the past six months reflecting an increase in Creso's market, operational and credit risks. Convertible notes which are converted to shares rather than being redeemed by the Company have a dilutive effect upon shareholders at the time of conversion.

The terms of the various convertible notes are as follows:

Tranche 1 Convertible Notes
The convertible notes are convertible at a fixed conversion price of $0.35 subject to certain conditions being met. The conversion price represents a premium of 71% to the share price of the ordinary shares at the date the convertible notes were issued.

The Company must redeem the convertible notes by cash payments to the noteholders on 27 July 2020 and the date which is 270 days after the date of the first purchase, with a final payment 12 months after the date of the first purchase, at calculated amounts subject to certain terms and conditions. The noteholder can convert the notes at any time prior to the redemption dates, and the Company can redeem early at any time with penalties attached. Interest accrues daily on the notes at 4% per annum and is paid on fixed dates. The Company expects that the notes will be converted prior to maturity and will have a dilutive effect. The notes are secured by agreement over the Company's assets.

The collateral shares can be purchased at the lesser of $0.35 and 90% of the lowest daily VWAP during the 40 actual trading days immediately prior to the date of the collateral purchase notice, rounded down to the nearest A$0.01 and the purchase consideration can be used to reduce the amount of the convertible note outstanding subject to various conditions.

Suburban Holdings Pty Ltd ("Suburban")
As at 1 January 2020, the total amount advanced by Suburban for the issue of 1,666,667 debt notes was $1,500,000 which was converted into 1,666,667 convertible notes on 29 November 2019, each with a face value of $1.00. In conjunction with the advance of funds and issue of the convertible notes, Suburban were also issued:

- 261,780 Shares as part of the draw down fee on 11 February 2020;
- 3,333,334 Shares as collateral on 11 February 2020; and
- 2,727,272 Options on 12 February 2020 which are exercisable at $0.40 each on or before 12 February 2023.

Notes to the Consolidated Financial Statements

NOTE 18 BORROWINGS

The Company subsequently issued Suburban an additional 15,000,000 Shares on 23 June 2020 as collateral.

Creso entered into an early termination and settlement agreement on 12 October 2020 and the convertible notes were cancelled on 23 December 2020. Under the terms of the early termination and settlement agreement, Suburban:

- received a cash payment of $250,000 on 20 January 2021;
- its collateral shares were collateralized (releasing them of all restrictions); and
- Suburban was issued the following securities in the issued capital of Creso Pharma Limited:
    - 42,955,327 Shares on 23 December 2020 and
    - 10,738,832 Options (exercisable at $0.05 each on before 22 January 2023) on 22 January 2021.

Chifley Portfolios Pty Ltd ("Chifley")
As at 1 January 2020, the total amount advanced by Chifley for the issue of 277,778 debt notes was $250,000 which was converted into 277,778 convertible notes on 12 February 2020, each with a face value of $1.00. In conjunction with the advance of funds and issue of the convertible notes, Chifley were also issued:

- 43,630 Shares as part of the draw down fee on 27 November 2019;
- 555,555 Shares as collateral on 27 November 2019; and
- 454,545 Options on 12 February 2020 which are exercisable at $0.40 each on or before 12 February 2023.

The Company subsequently issued Chifley an additional 2,000,000 Shares as collateral.

Creso entered into an early termination and settlement agreement on 8 October 2020, whereby Chifley agreed to receive a cash payment of $350,000 and the collateral shares were collateralized (and released of all restrictions) in consideration for the termination of the convertible notes.

Mozaik Asset Management Pty Ltd ("Mozaik")
As at 1 January 2020, the total amount advanced by Mozaik for the issue of 222,222 debt notes was $250,000, each with a face value of $1.00. In conjunction with the advance of funds and issue of the debt notes, Mozaik were also issued:

- 34,904 shares as part of the drawdown fee on 27 November 2019;
- 444,444 shares as collateral on 27 November 2019; and
- 363,636 Options on 12 February 2020 which are exercisable at $0.40 each on or before 12 February 2023.

Creso entered into an early termination and settlement agreement on 5 February 2020, whereby Mozaik agreed to receive a cash payment of $8,000, an issue of 1,000,000 shares and the collateral shares were collateralized (and released of all restrictions) in consideration for the termination of the convertible notes.

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

NOTE 18 BORROWINGS (CONTINUED)

L1 Convertible Notes ("L1")
These convertible notes are convertible at the lesser of $0.35 and 90% of the lowest daily VWAP during the 40 actual trading days immediately prior to the date of the conversion notice, rounded down to the nearest A$0.01; subject to certain conditions being met.

The Company must redeem the convertible notes by a cash payment on the date that is 12 months after the purchase date of the relevant convertible notes, at calculated amounts subject to certain terms and conditions. The noteholder can convert the notes at any time prior to the redemption dates. Interest accrues daily on the notes at 4% per annum and is paid on fixed dates. The Company expects that the notes will be converted prior to maturity and will have a dilutive effect. The notes are secured by agreement over the Company's assets.

The collateral shares can be purchased at the lesser of $0.35 and 90% of the lowest daily VWAP during the 40 actual trading days immediately prior to the date of the collateral purchase notice, rounded down to the nearest A$0.01 and the purchase consideration can be used to reduce the amount of the convertible note outstanding subject to various conditions.

Tranche 1
As at 1 January 2020, the total amount advanced by L1 for the issue of 1,666,667 debt notes was $1,500,000 which was converted into 1,666,667 convertible notes on 12 February 2020, each with a face value of $1.00. In conjunction with the advance of funds and issue of the convertible notes, L1 were also issued:

- 261,780 Shares as part of the draw down fee on 27 November 2019;
- 3,333,334 Shares as collateral on 27 November 2019; and
- 2,727,272 Options on 12 February 2020 which are exercisable at $0.40 each on or before 12 February 2023.

Tranche 2
As at 1 January 2020, the total amount advanced by L1 for the issue of 575,000 debt notes was $517,500 which was converted into 575,000 convertible notes on 12 February 2020, each with a face value of $1.00. In conjunction with the advance of funds and issue of the convertible notes, L1 were also issued:

- 9,000,000 Shares as collateral on 5 February 2020; and
- 575,000 Options on 12 February 2020 which are exercisable at $0.40 each on or before 12 February 2023.

Tranche 3
During the year, the total amount advanced by L1 for the issue of 2,500,000 convertible notes was $2,250,000 each with a face value of $1.00. In conjunction with the advance of funds and issue of the convertible notes, L1 were also issued:

- 36,764,706 Options on 2 June 2020, exercisable at $0.17 each on or before 2 June 2023.

During the year there were the following advancements by L1:

- the first advance of $875,000 (less fees) on 6 February 2020;
- the second advance of $875,000 (less fees) on 11 February 2020; and
- the third advance of $500,000 (less fees) on or around 20 April 2020.

Notes to the Consolidated Financial Statements

NOTE 18 BORROWINGS (CONTINUED)

The Company issued L1 additional collateral shares as follows:

- 10,812,526 additional collateral shares on 23 June 2020, pursuant to a top up notice dated 4 April 2020; and
- 15,000,000 additional collateral shares on 23 June 2020.

The convertible notes set out above were converted as follows:

- 575,000 tranche 2 Convertible Notes were converted into 6,388,889 Shares on 18 February 2020;
- 700,000 tranche 3 Convertible Notes were converted into 14,000,000 Shares on 4 June 2020;
- 80,000 Tranche 3 Convertible Notes were converted into 4,000,000 Shares on 3 August 2020;
- 405,000 Tranche 3 Convertible Notes were converted into 20,250,000 Shares on 30 September 2020; and
- 250,000 Tranche 3 Convertible Notes were converted into 12,500,000 Shares on 5 October 2020.

Creso entered into an early termination and settlement agreement on 6 October 2020, whereby L1 agreed to receive a cash payment of $1,802,653 and the collateral shares were collateralized (and released of all restrictions) in consideration for the termination of the convertible notes.

Lind Convertible Notes ("Lind")

The convertible note is convertible at the lesser of $0.35 and 90% of the average of the 5 lowest daily VWAPs from the daily VWAPs for the 20 trading days immediately prior to the date of the conversion notice (provided that if the resultant number contains four or more decimal places, that number will be rounded down to the next lowest number containing three decimal places) subject to certain conditions being met.

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

The collateral shares can be purchased at the lesser of $0.35 and 90% of the average of the 5 lowest daily VWAPs from the daily VWAPs for the 20 trading days immediately prior to the date of the collateral purchase notice (provided that if the resultant number contains four or more decimal places, that number will be rounded down to the next lowest number containing three decimal places) and the purchase consideration can be used to reduce the amount of the convertible note outstanding subject to various conditions.

On 23 April 2020, Lind advanced a total of $1,000,000 for the issue of debt security with a face value of $1,111,111. This was converted into a convertible equity security following shareholder approval on 16 June 2020. In conjunction with the advance of funds and issue of the convertible note, Lind were also issued:

- 21,000,000 Shares for nil cash consideration as collateral (of which 6,000,000 Shares were issued on 20 April 2020 and 15,000,000 Shares were issued following shareholder approval which was obtained on 16 June 2020); and
- 10,752,6688 Options exercisable at $0.1386 each on or before 25 June 2023.

On 1 September 2020, Lind were issued 12,962,963 Shares upon the partial conversion of $350,000 of the face value of the convertible note.

Creso entered into an early termination and settlement agreement on 6 October 2020, whereby Lind agreed to receive a cash payment of $222,926.50 and the collateral shares were collateralized (and released of all restrictions) in consideration for the termination of the convertible security.

Notes to the Consolidated Financial Statements

NOTE 18 BORROWINGS (CONTINUED)

Short-term loans

On 31 December 2020, the Company drew down total loan facilities which had a face value of $3,150,000 which comprised of the following:

- $500,000 loan from Chifley Portfolios Pty Ltd
- $2,000,000 loan from Jamber Investments Pty Ltd
- $500,000 loan from L1 Capital Opportunities Master Fund

The above three loans all have the following terms:

- interest on each loan is a fixed amount equal to an effective interest rate of 35.01%
- interest is payable in cash on the date the loan was advanced or upon demand by the lender. No interest has been paid to date and interest is included in the loan amounts stated above.
- unless otherwise agreed, the Company must repay the loans on or before 1 July 2021.
- the loans are unsecured.
- the Company can elect to repay a loan amounts at any time before that date.

The remaining $150,000 loan was from Rimoyne Pty Ltd, entered into on 25 September 2020, with the following terms:

- interest on the loan of a fixed amount of $100,000 which equates to an effective interest rate of 194.67%
- no interest has been paid to date and interest is included in the loan amount stated above.
- unless otherwise agreed, the Company must repay the loan on or before 31 January 2021.
- the Company can elect to repay the loan amount at any time before that date.
- the loan is unsecured.
- the loan was repaid in full on 28 January 2021.

Notes to the Consolidated Financial Statements

NOTE 19 ISSUED CAPITAL

(a) Issued and fully paid

	2020		2019	
	No.	**$**	No.	$
Ordinary shares	**902,295,934**	**71,794,123**	174,117,250	46,528,519

(b) Movement in issued shares – 2020

	Number	**$**
At 1 January 2020	**174,117,250**	**46,528,519**
Issuance of shares	**391,368,148**	**12,474,140**
Issue of shares in lieu of cash payment of the Mernova Milestone 2 Cash Consideration	**15,010,185**	**750,509**
Exercise of options	**17,798,000**	**-**
Conversion of convertible notes	**146,415,522**	**6,900,169**
Issue of shares for services	**98,031,502**	**6,472,589**
Issue of shares to settle convertible note	**39,518,900**	**1,417,526**
Issue of share capital for extinguish of liability	**3,436,427**	**89,347**
Exchange of Exchangeable Preferred Shares	**16,600,000**	**3,235,682**
Less: Equity raising costs	**-**	**(6,074,358)**
At 31 December 2020	**902,295,934**	**71,794,123**

Movement in issued shares – 2019

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

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

	2020 $	2019 $
Share-based payments	**23,557,350**	21,044,323
Foreign currency translation reserve	**301,178**	1,558,463
	23,858,528	22,602,786
Movement reconciliation		
Share-based payments reserve		
Balance at the beginning of the year	**21,044,323**	14,547,170
Equity settled share-based payment transactions (Note 24)	**179,216**	2,356,008
Conversion of convertible notes	**1,468,909**	378,741
Issue of equity to settle convertible notes	**232,522**	-
Issue of options for services	**1,715,616**	-
Issue of options to extinguish liability	**221,003**	-
Listed options issued	**-**	1,522,722
Unlisted options issued	**935,443**	-
Issue of exchangeable shares for the Mernova Milestone 2 Consideration	**996,000**	2,239,682
Exchange of Exchangeable Preferred Shares (i)	**(3,235,682)**	-
Balance at the end of the year	**23,557,350**	21,044,323
Foreign currency translation reserve		
Balance at the beginning of the year	**1,558,463**	251,912
Effect of translation of foreign currency operations to group presentation	**(1,257,285)**	1,306,551
Balance at the end of the year	**301,178**	1,558,463

Share-based payment reserve

(i) The share-based payment reserve is used to record the value of share-based payments provided to outside parties, and share-based remuneration provided to employees and directors. The issue of the exchangeable shares are considered a share-based payment and are valued using the Black-Scholes model.
As part of the acquisition of Mernova Medicinal Inc. in 2017, the Company issued Exchangeable Preferred Shares (Exchangeable Shares) in a Canadian subsidiary of the Group (Creso Canada Limited). Each Exchangeable Share was to be exchanged for up to 16,600,000 ordinary shares in Creso Pharma Limited when the Milestones noted below were met:

- Milestone 1: Cash payment of CAD$800,000 ("Mernova Milestone 1 Cash Consideration") and CAD$4,150,000 of Exchangeable Shares ("Mernova Milestone 1 Equity Consideration") exchangeable at the election of the Mernova vendors on or after Creso's announcement to the market of Mernova Medicinal Inc. securing a cultivation license from Health Canada under the ACMPR in relation to the cultivation facility ("Mernova Milestone 1"). Mernova Milestone 1 was achieved on 14 March 2019.

- Milestone 2: Cash payment of CAD$800,000 ("Mernova Milestone 2 Cash Consideration") and CAD$4,150,000 of Exchangeable Shares ("Mernova Milestone 2 Equity Consideration") exchangeable at the election of the Mernova vendors on or after Creso's announcement to the market of the grant of a sales license to Mernova Medicinal Inc ("Mernova Milestone 2"). Milestone 2 was achieved on 14 February 2020.

On 26 June 2020, the Company issued 15,010,185 Shares as part settlement for the CAD$800,000 cash payment to be made upon the achievement of Milestone 2. On 18 December 2020, the Exchangeable Preferred Shares in the capital of Creso Canada Limited were exchanged for 16,600,000 shares in Creso Pharma Limited, at the election of the Mernova vendors.

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:

	2020		
	CHF	**CAD**	**USD**
	Fr.	**$**	**$**
Cash and cash equivalents	**1,344,819**	**149,296**	**1,374**
Trade and other receivables	**132,857**	**148,918**	**208**
Trade and other payables	**393,417**	**558,018**	**9,807**

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

The consolidated entity had net assets denominated in foreign currencies of $13,756,350 as at 31 December 2020 (2019: $21,360,816). Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% (2019: weakened by 5%/strengthened by 5%) against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been $687,818 lower/$687,818 higher (2019: $1,068,041 lower/$1,068,041 higher) and equity would have been $687,818 lower/$687,818 higher (2019: $1,068,041 lower/$1,068,041 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 31 December 2020 was $1,257,285 (2019: gain of $1,306,551).

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 consolidated entity's loans outstanding, totalling $3,255,754 (2019: $3,227,318), are principal and interest payment loans, with interest capitalised on inception. Monthly cash outlays of approximately Nil (2019: $15,000) per month are required to service the interest payments. No convertible notes were on issue at year end (2019: $4,408,333). All principal and interest payments are due during the year ending 31 December 2021.

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 - 2020	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Remaining contractual maturities $
Non-derivatives					
Non-interest bearing					
Trade and other payables	**-**	**2,162,911**	**-**	**-**	**2,162,911**
Interest-bearing - fixed rate					
Short-term loan	**43%**	**3,255,754**	**-**	**-**	**3,255,754**
Maturity Analysis					
1 – 3 months		**2,162,911**	**-**	**-**	**2,162,911**
4 – 6 months		**3,255,754**	**-**	**-**	**3,255,754**
Total non-derivatives		**5,418,665**	**-**	**-**	**5,418,665**

Consolidated - 2019	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Remaining contractual maturities $
Non-derivatives					
Non-interest bearing					
Trade and other payables	-	2,111,075	-	-	2,111,075
Interest-bearing - fixed rate					
Convertible notes	19%	4,408,333	-	-	4,408,333
Short-term loan		31,000	-	-	31,000
Interest expense		49,158	-	-	49,158
Total interest bearing		6,599,566	-	-	6,599,566
Maturity Analysis					
1 – 3 months		2,181,233	-	-	2,181,233
4 – 6 months		2,085,000	-	-	2,085,000
7 – 9 months		1,500,000	-	-	1,500,000
10 – 12 months		833,333	-	-	833,333
Total non-derivatives		6,599,566	-	-	6,599,566

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 the shareholder value. The Company's objective when managing capital is to safeguard the ability to continue as a going concern so that it can provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure.

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

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

NOTE 23 RELATED PARTY DISCLOSURE

(a) Key Management Personnel Compensation

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

	2020	2019
	$	$
Short-term benefits	**1,544,623**	1,647,628
Post-employment benefits	**89,325**	56,714
Share-based payments	**86,364**	1,446,039
	1,720,312	3,150,381

(b) Transactions with related parties - cash

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

	2020	2019
	$	$
EverBlu Capital Pty Ltd - a company of which Adam Blumenthal is the Chairman		
Capital raising fees payable in cash (i)	**828,475**	988,692
Legal fees	**103,350**	85,000
Monthly retainer	**300,000**	120,000
IRESS service fees	**4,683**	4,014
Out of scope fees	**851,818**	270,000
Cash component of share issues	**1,949,831**	-
Amount payable to Creso (ii)	**-**	(50,000)
	4,038,157	1,417,706
Balance owing to EverBlu Capital Pty Ltd at 31 December	**-**	336,323
Balance owing to Creso at 31 December	**-**	50,000
Everblu Capital Corporate Pty Ltd		
Capital raising fees	**1,292,136**	-
Reimbursement of invoices paid on Creso's behalf	**76,230**	-
Out of scope fees	**256,230**	-
	1,624,596	-
Balance owing to EverBlu Capital Corporate Pty Ltd at 31 December	**-**	-
Balance owing to Creso at 31 December	**-**	-

Notes to the Consolidated Financial Statements

NOTE 23 RELATED PARTY DISCLOSURE (CONTINUED)

Suburban Holdings Pty Ltd – related party		
Draw down fees	**-**	60,000
Balance owing at 31 December	**-**	60,000
Tranche 1 Convertible Notes		
Amount drawn down by Creso	**-**	(1,500,000)
Amount repaid	**1,250,000**	-
Balance owing at 31 December	**250,000**	1,666,667
Anglo Menda Pty Ltd – related party		
Short term loan to Creso(iii)	**61,000**	31,000
Share placement	**1,000,000**	-
Balance owing at 31 December	**-**	31,000
Atlantic Capital Pty Ltd – related party		
Share placement	**3,000,000**	-
Adam Blumenthal		
Balance owing at 31 December	**50,000**	-
James Ellingford		
Balance owing at 31 December	**48,144**	-
Miri Halperin Wernli		
Balance owing at 31 December	**125,000**	-
International Water and Energy Savers Ltd - a company controlled by Boaz Wachtel		
Director's Fees for Boaz Wachtel	**82,500**	105,000
Balance owing at 31 December	**30,000**	5,000
Jorge Wernli – related party to Miriam Halperin Wernli		
Salary and bonus	**391,175**	-
Balance owing at 31 December	**124,265**	-

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

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

(iii) During the half-year period ended 30 June 2020, Creso received short term, interest free and unsecured loans totalling $61,000 from Anglo Menda Pty Limited, a company indirectly owned by and controlled by Adam Blumenthal.

Notes to the Consolidated Financial Statements

NOTE 23 RELATED PARTY DISCLOSURE (CONTINUED)

(c) Transactions with related parties – non-cash

Other Share and Option Transactions with KMP Related Parties								
	2020				2019			
	Shares	**$**	**Options**	$	Shares	$	Options	$
EverBlu Capital Pty Ltd								
Capital Raising and corporate advisory fees payable in connection with:								
Debt note offer – Tranche 1 (November 2019)	-	-	-	-	1,150,000(ii)	190,109	1,150,000(ii)	71,470
November 2019 Placement	-	-	-	-	528,387(ii)	54,758	528,387(ii)	32,838
L1 Convertible Note Facility - Tranche 2 (December 2019)	-	-	-	-	450,000(ii)	74,391	450,000(ii)	27,967
L1 Convertible Note Facility (June 2020)	**4,500,000**	**723,025**	**4,000,000**	96,000	-	-	-	-
EverBlu Corporate Advisory sign on bonus	**2,000,000**	**136,000**	**8,000,000**	216,000	-	-	-	-
Lind Convertible Note Facility (June 2020)	**833,333**	**65,833**	**833,333**	33,425	-	-	-	-
June 2020 Placement	**1,602,855**	**108,994**	-	-	-	-	-	-
October 2020 Placement	**8,992,530**	**305,746**	**53,447,775(i)**	1,414,416	-	-	-	-
Everblu Corporate Advisory Mandate Fees for June 2020 to December 2020	**2,000,000**	**370,000**	-	-	-	-	-	-
Subtotal	**19,928,718**	**1,709,598**	**66,281,108**	1,759,841	2,128,387	319,258	2,128,387	132,275
Adam Blumenthal								
Participation in October 2020 Placement ($1M)	-	-	**8,591,066(i)**	-	-	-	-	-
Participation in October 2020 Placement ($3M)	-	-	**25,773,196(i)**	-	-	-	-	-
Subtotal	-	-	**34,364,262**	-	-	-	-	-
Suburban Holdings Pty Ltd								
Fees under Tranche 1 Convertible Note Facility	**261,780**	**50,000**	-	-	-	-	2,727,272(ii)	-
Collateral shares under Tranche 1 Convertible Note Facility	-	-	-	-	3,333,334(ii)	-	-	-
Additional collateral shares	**15,000,000**	**1,184,705**	-	-	-	-	-	-
Settlement of Suburban Convertible Notes	**42,955,327**	**1,417,526**	**10,738,832(i)**	232,522	-	-	-	-
Subtotal	**58,217,107**	**2,652,231**	**10,738,832**	232,522	3,333,334	-	2,727,272	-
Atlantic Capital Holdings Pty Ltd								
Participation in October 2020 Placement ($1M)	**34,364,261**	**1,000,000**	-	-	-	-	-	-
Participation in October 2020 Placement ($3M)	**103,092,784**	**3,000,000**	-	-	-	-	-	-
Subtotal	**137,457,045**	**4,000,000**	-	-	-	-	-	-
Anglo Menda Pty Ltd								
Participation in June 2020 Placement	**833,333**	**50,000**	-	-	-	-	-	-
Subtotal	**833,333**	**50,000**	-	-	-	-	-	-
Miriam Halperin Wernli								
Participation in June 2020 Placement	**833,333**	**50,000**	-	-	-	-	-	-
Subtotal	**833,333**	**50,000**	-	-	-	-	-	-

(i) Options were valued in the year per AASB 2 but were not issued until after the year end, see note 32 for details.

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

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. Where required, shareholder approval was also obtained prior to the issue of any equity securities to related parties

NOTE 24 SHARE BASED PAYMENTS

	2020 $	2019 $
(a) Recognised share-based payment transactions		
Unlisted options issued to employees and consultants	**18,216**	226,070
Performance rights issued to employees and consultants	**74,636**	531,624
Performance rights issued to key management personnel	**86,364**	1,466,039
Other share-based payments	**-**	132,275
	179,216	2,356,008

Share based payments are valued on the bases set out in Note 1 (r) 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	Exercised during the year	Expired/ Cancelled during the year	Balance at the end of the year
27-06-2016	27-06-2016	27-06-2020	$0.40	400,000	-	-	(400,000)	-
13-10-2016	13-10-2016	13-10-2020	$0.20	2,886,250	-	-	(2,886,250)	-
23-01-2017	23-01-2017	23-01-2021	$0.50	300,000	-	-	-	300,000
27-07-2017	27-07-2017	27-07-2020	$0.60	100,000	-	-	(100,000)	-
18-05-2018	18-05-2018	13-07-2021	$0.80	150,000	-	-	-	150,000
27-07-2018	27-07-2018	27-07-2021	$0.535	200,000	-	-	-	200,000
27-07-2018	27-07-2018	27-07-2022	$0.80	200,000	-	-	-	200,000
21-08-2018	21-08-2018	21-08-2021	$0.55	200,000	-	-	-	200,000
31-08-2018	31-08-2018	15-09-2022	$0.80	400,000	-	-	-	400,000
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	-	10,752,688	-	-	10,752,688
02-06-2020	02-06-2020	02-06-2023	$0.17	-	36,764,706	-	-	36,764,706
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
				4,836,250	**102,076,839**	**-**	**(3,386,250)**	**103,526,839**
Weighted average exercise price				$0.36	$0.15	-	$0.24	$0.16

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
Shareholders	21-08-2018	21-08-2020	$0.05	$0.80	24,377,710	-	-	(24,377,710)	-
Shareholders	11-09-2018	21-08-2020	$0.05	$0.80	26,865,000	-	-	(26,865,000)	-
Lender	17-12-2018	21-08-2020	-	$0.80	2,295,062	-	-	(2,295,062)	-
Lender	17-12-2018	21-08-2020	-	$0.80	1,604,938	-	-	(1,604,938)	-
Shareholders	30-01-2019	21-08-2020	-	$0.80	2,018,516	-	-	(2,018,516)	-
Shareholders	01-02-2019	21-08-2020	-	$0.80	185,185	-	-	(185,185)	-
Lender	02-07-2019	21-08-2020	$0.50	$0.80	15,450,000	-	-	(15,450,000)	-
					72,796,411	**-**	**-**	**(72,796,411)**	**-**

(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
3,496,000	**-**	**(1,198,000)**	**-**	**2,298,000**

(e) Summary of performance shares granted during the year

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

NOTE 25 COMMITMENTS

	2020	2019
	$	$
Capital Commitments		
There were no capital commitments at either year end	**-**	-
	-	-
Operating Lease Commitments		
Within one year	**38,577**	29,240
One to five years	**-**	-
More than five years	**-**	-
	38,577	29,240
Milestone 2 Commitments		
Cash payable in equal monthly instalments over 9 months commencing February 2020.	**-**	877,097
	-	877,097

Notes to the Consolidated Financial Statements

NOTE 26 COMMITMENTS AND CONTINGENCIES

There are no contractual commitments or contingent liabilities at 31 December 2020 (2019: Nil).

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, its network firms and unrelated firms:

	2020	2019
	$	$
Audit Services- BDO Audit Pty Ltd		
Audit and review of annual and half-year	277,609	290,000
Other services – BDO		
– Independent limited assurance report	-	61,000
– Independent Expert Report	33,291	50,000
– Income tax return and GST audit	41,482	-
Component Auditor Fees		
Audit and reviews of the financial statements	68,847	97,726
	421,229	498,726

NOTE 28 INVESTMENT IN CONTROLLED ENTITIES

Company Name	**Principal Activities**	**Country of Incorporation**	**Ownership interest**	
			2020	2019
			%	%
Creso Pharma Switzerland GmbH	Development of therapeutic 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
Creso Grow Limited	Early-stage cannabis cultivation project (now divested)	Israel	**-**	74

The Group incurred a loss of $1,443,662 on the disposal of its interest in the Creso Grow Limited Joint Venture which has been included in the Statement of Profit or Loss and Other Comprehensive Income.

Notes to the Consolidated Financial Statements

NOTE 29 PARENT ENTITY INFORMATION

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

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

	2020 **$**	2019 $
Total current assets	**4,882,117**	950,816
Loans receivable and investments in controlled entities	**13,755,088**	21,260,081
Total assets	**18,637,205**	22,210,897
Total current liabilities	**4,985,034**	4,936,937
Total liabilities	**4,985,034**	4,936,937
Equity		
Contributed equity	**72,149,116**	46,528,519
Reserves	**23,103,825**	21,044,323
Accumulated losses	**(81,600,770)**	(50,298,882)
Total equity	**13,652,171**	17,273,960
Total comprehensive loss	**(31,301,888)**	(14,033,222)

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2020 and 31 December 2019.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2020 and 31 December 2019.

Significant accounting policies

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

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

Notes to the Consolidated Financial Statements

NOTE 30 INTEREST IN ASSOCIATE

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

		Ownership interest	
	Principal place of business /	**2020**	2019
Name	**Country of incorporation**	**%**	%
CLV Frontier Brands Pty Ltd	Estonia/Australia	**33⅓%**	33⅓%

Summarised financial information	**CLV Frontier Brands Pty Ltd**	
	2020	2019
	$	$
Summarised statement of financial position		
Current assets	**-**	-
Non-current assets	**-**	-
Total assets	**-**	-
Current liabilities	**-**	-
Non-current liabilities	**-**	-
Total liabilities	**-**	-
Net Liability	**-**	-
Summarised statement of profit or loss and other comprehensive income		
Revenue	**-**	-
Cost of sales	**-**	-
Other income	**-**	-
Impairment of intangible assets	**-**	-
Expenses	**-**	-
(loss) before income tax	**-**	-
Income tax expense	**-**	-
(Loss) after income tax	**-**	-
Other comprehensive income	**-**	-
Total comprehensive (loss)	**-**	-

NOTE 31 EQUITY- NON-CONTROLLING INTEREST

	2020	2019
	$	$
Accumulated losses	**-**	**375,041**
	-	**375,041**

The non-controlling interest comprises a Nil (2019: 26%) equity holding in Creso Grow Limited.

Notes to the Consolidated Financial Statements

NOTE 32 EVENTS AFTER THE REPORTING DATE

Capital management and Funding

- On 11 January 2021, the Company announced that 10,000,000 options had been converted to shares for a consideration of $1,668,600.
- On 11 January 2021, the Company announced the issue of 24,000,000 Options to an independent consultant in lieu of cash fees for business development, promotion and marketing services and 2,800,000 options issued to service providers in lieu of cash fees for investor relation and marketing services.
- On 15 January 2021, the Company announced that 4,000,000 options had been converted to shares for a consideration of $554,400.
- On 22 January 2021, the Company issued 190,460,834 CPHOA listed options, exercisable at $0.05 each. The options issued comprised the following:
    - 68,664,317 options issued for nil consideration to investors who participated in the October 2020 placement.
    - 8,591,066 options issued for nil consideration to Adam Blumenthal in respect to a $1,000,000 share placement.
    - 62,947,715 options issued for nil consideration to EverBlu Capital in consideration for services provided in connection with the October 2020 placement.
    - 25,773,196 options issued for nil consideration to Adam Blumenthal in respect to a $3,000,000 share placement.
    - 10,738,832 options issued for nil consideration to Suburban Holdings as part of the repayment of a convertible note.
    - 13,745,708 options issued for nil consideration to Azalea Consulting in consideration for company secretarial and corporate advisory services.
- Also on 22 January 2021, the Company announced 300,000 performance rights had been converted to shares for nil cash consideration upon achievement of certain vesting conditions by an employee.
- On 5 February 2021, the Company announced that 16,376,638 options had been converted to shares for a consideration of $818,832 and 1,304,348 shares were issued for nil consideration for investor relations and marketing services.
- On 12 February 2021, the Company announced that 12,042,806 options had been converted to shares for a consideration of $602,140.
- On 19 February 2021, the Company announced that 3,070,979 options had been converted to shares for a consideration of $153,549.
- On 26 February 2021, the Company announced that 4,134,290 options had been converted to shares for a consideration of $206,714.

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

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

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the financial year ended on that date;

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

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

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

On behalf of the directors

ADAM BLUMENTHAL
Non-Executive Chairman
9 March 2021

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INDEPENDENT AUDITOR'S REPORT

To the members of Creso Pharma Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Creso Pharma Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, 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 2020 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.

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 a sample of related party transactions, including all individually material transactions, to understand the underlying transactions and assess whether they had been recorded correctly; • Obtaining confirmations from all key management personnel and comparing to disclosures; • Considering whether transactions with related parties were at arm's length. There was a particular focus on capital raising fees, which were assessed through comparisons to fees charged for similar transactions with arm's length parties by similar entities raising capital in order to benchmark the fees; and • Considering the completeness of disclosures in the financial statements and ensuring the disclosures are in accordance with AASB 124 *Related Party Disclosures*.

Convertible notes

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 18 of the financial report, the Group has issued convertible notes during the year. The accounting for convertible notes was considered a key audit matter due to the complexity involved in assessing whether to account for the notes as equity, a liability or a combination of both, as well as the subsequent measurement of the individual components, included the embedded derivatives, based on the terms and conditions of the agreement. During the year, there were multiple convertible notes issued which were subsequently redeemed or repaid by year end. Management engaged an expert to determine the fair value of the liability components which required judgement and estimation. The derivative liability is measured at fair value through profit or loss. Management performed the valuation of the embedded derivative equity component (options) which also required judgement and estimation. The audit of these financial instruments is a key audit matter due to the significant judgement and complexity involved in assessing the determination of the fair value of the identified derivative liabilities and resulting the accounting treatment.	Our audit procedures included, amongst others: • Obtaining an understanding of and assessing the terms and conditions of the convertible note agreements to determine if management's accounting treatment is appropriate; • Evaluating whether management's expert had the necessary competence, capabilities and objectivity. We obtained an understanding of the work of management's expert including an understanding of the relevant field of expertise; • Assessing the reasonableness of the inputs to the valuations; • Assessing the measurement and accounting for convertible notes on and subsequent to initial recognition, including determining whether fair value movements and finance costs have been correctly recorded through the profit and loss; and • Reviewing the disclosures made within the financial report to ensure there are in accordance with Australian Accounting Standards.

Valuation of biological assets and inventory

Key audit matter	*How the matter was addressed in our audit*
The Group held biological assets of $143,192 (Note 12) and inventory of $1,108,963 (Note 11) at 31 December 2020. 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.

Impairment of intangible assets

Key audit matter	*How the matter was addressed in our audit*
At 31 December 2020, the carrying value of intangible assets was $1,276,789 as disclosed in Note 14. The Group has recognised an impairment of $4,671,418 relating to licences held in Canada and Switzerland during the year. 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 in producing the discounted cash flow models to determine whether the carrying value of assets are recoverable. Detailed disclosures are contained in Note 14 to the financial report, which include the related accounting policies and the critical accounting judgements and estimates. 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; • Analysing management's key assumptions used in the discounted cash flow models to determine their reasonableness; • Challenging the appropriateness of management's discount rates used in the discounted cash flow models; • Checking the mathematical accuracy of the discounted cash flow model; and • Evaluating the adequacy of the impairment disclosures in the financial report, particularly those relating to intangible assets and to judgements and estimates.

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 2020, 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 (http://www.auasb.gov.au/Home.aspx) 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 23 to 35 of the directors' report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of Creso Pharma Limited, for the year ended 31 December 2020, 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, 9 March 2021

Shareholder Information

The shareholder information set out below was applicable as at 28 February 2021.

1. QUOTATION

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

2. VOTING RIGHTS

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

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

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

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

3. ON MARKET BUY-BACK

There is no on-market buy back in place.

4. GROUP CASH AND ASSETS

In accordance with Listing Rule 4.10.19, the Company confirms that it has been using the cash and assets for the year ended 31 December 2020 in a way that is consistent with its business objectives and strategy.

5. RESTRICTED SECURITIES

There are no restricted securities listed on the Company's register as at 28 February 2021.

6. DISTRIBUTION OF SECURITY HOLDERS

6.1 Fully Paid Ordinary Shares

Shares Range	Holders	Units	%
1 – 1,000	1,927	1,284,687	0.13%
1,001 – 5,000	8,875	26,628,873	2.79%
5,001 – 10,000	3,802	31,033,557	3.25%
10,001 – 100,000	7,202	243,235,254	25.51%
100,001 and above	1,092	651,342,624	68.31%
Total	**22,898**	**953,524,995**	**100.00%**

On 28 February 2021, there were 5,310 holders of unmarketable parcels of less than 7,426,636 ordinary shares (based on the closing share price of $0.21).

Shareholder Information

6.2 Listed CPHOA Options exercisable at $0.05 on or before 21 January 2023

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	9	33,548	0.02%
5,001 – 10,000	9	66,962	0.04%
10,001 – 100,000	33	1,727,265	1.12%
100,001 and above	48	153,008,346	98.82%
Total	**99**	**154,836,121**	**100.00%**

6.3 Unlisted Options

Class	Quantity on Issue	Distribution of Holders
CPHOPT14 Options ($0.80, 13/07/2021)	150,000	All the securities in this class are held by: - Mr Eugen Hans Merz
CPHOPT16 Options ($0.535, 27/07/2021)	200,000	All the securities in this class are held by: - Hession Group Pty Ltd <Palmaria A/C>
CPHOPT17 Options ($0.80, 27/07/2022)	200,000	All the securities in this class are held by: - Mr Walter Von Wartberg
CPHOPT18 Options ($0.55, 21/08/2021)	200,000	All the securities in this class are held by: - Hession Group Pty Ltd <Palmaria A/C>
CPHOPT19 Options ($0.80, 15/09/2022)	400,000	All the securities in this class are held by: - Carole Abel
CPHOPT20 Options ($0.35, 12/02/2023)	2,128,387	All the securities in this class are held by: - Atlantic Capital Holdings Pty Ltd <Atlantic Capital A/C>
CPHOPT21 Options ($0.40, 12/02/2023)	6,847,725	There are 4 security holders, each holding more than 100,001 of securities in this class. The following holders hold more than 20% of securities in this class: - CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C> holds 3,302,272 securities (48.22%) - Suburban Holdings Pty Ltd <The Suburban Super Fund A/C> holds 2,727,272 securities (39.83%)
CPHOPT22 Options ($0.25, 01/03/2023)	250,000	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.
CPHOPT23 Options ($0.08, 10/03/2024)	1,000,000	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.
CPHOPT24 Options ($0.16, 10/03/2024)	1,000,000	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.
CPHOPT25 Options ($0.20, 10/03/2024)	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.

Shareholder Information

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: - RS Family Holdings Pty Limited <The Ruth Simon Family A/C>
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>
CPHOPT34 Options ($0.235, 11/01/2023)	8,000,000	All the securities in this class are held by: - Mr David Deslauriers
CPHOPT35 Options ($0.27, 11/01/2023)	8,000,000	All the securities in this class are held by: - Mr David Deslauriers
CPHOPT36 Options ($0.30, 11/01/2023)	8,000,000	All the securities in this class are held by: - Mr David Deslauriers
CPHOPT37 Options ($0.40, 11/01/2023)	2,800,000	There are 2 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: - Zero Nominees Pty Ltd holds 2,500,000 securities (89.29%)

6.4 Performance Rights

Class	Quantity on Issue	Distribution of Holders
CPHPERR6 Performance Rights	800,000	All the securities in this class are held by: - International Water Energy Savers Ltd
CPHPERR7 Performance Rights	800,000	All the securities in this class are held by: - International Water Energy Savers Ltd
CPHPERR16 Performance Rights	100,000	All the securities in this class are held by: - Stephane Redey
CPHPERR22 Performance Rights	33,000	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.
CPHPERR23 Performance Rights	33,000	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.
CPHPERR24 Performance Rights	132,000	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.
CPHPERR32 Performance Rights	100,000	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.

Shareholder Information

7. SUBSTANTIAL SHAREHOLDERS

The names of the substantial shareholders in the Company and the number of equity securities to which each substantial holder and the substantial holder's associates have a relevant interest, as disclosed in substantial holding notices given to the Company as at 31 January 2021, are as follows:

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

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

Name: Adam Blumenthal
Holder of: 146,498,766 fully paid ordinary shares, representing 16.24% as at 23 December 2020
Notice Received: 11 January 2021

8. TWENTY LARGEST SHAREHOLDERS AS AT 28 FEBRUARY 2021

	Name	Shares Held	%
1	ATLANTIC CAPITAL HOLDINGS PTY <ATLANTIC CAPITAL A/C>	139,415,432	14.62%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	33,358,651	3.50%
3	SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	27,507,750	2.88%
4	JAMBER INVESTMENTS PTY LTD <THE AMBER SCHWARZ FAM A/C>	20,200,000	2.12%
5	CITICORP NOMINEES PTY LIMITED	19,026,497	2.00%
6	MR WILLIAM JAMES FLEMING	16,600,000	1.74%
7	MIRIAM HALPERIN WERNLI	13,333,333	1.40%
8	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	8,764,097	0.92%
9	INTERNATIONAL WATER & ENERGY SAVERS LTD	8,300,000	0.87%
10	RS FAMILY HOLDINGS PTY LTD <THE RUTH SIMON FAMILY A/C>	8,158,803	0.86%
11	ANGLO AUSTRALASIA HOLDINGS PTY LTD <ANGLO AUSTRALASIA A/C>	7,083,333	0.74%
12	MR LISHENG WANG	5,050,000	0.53%
13	MR KENNETH JOSEPH HALL <HALL PARK A/C>	5,000,000	0.52%
14	CHINCHERINCHEE NOMINEES PTY LTD	4,436,427	0.47%
15	S3 CONSORTIUM HOLDINGS PTY LTD <NEXTINVESTORS DOT COM A/C>	4,300,000	0.45%
16	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	4,205,098	0.44%
17	TENORIO PTY LIMITED <TENORIO A/C>	3,581,427	0.38%
18	MR MATTHEW CLARKE MALLET	3,400,000	0.36%
19	UBS NOMINEES PTY LTD	3,192,251	0.33%
20	COMSEC NOMINEES PTY LIMITED	3,176,508	0.33%
	Total	**338,089,607**	**35.46%**

Shareholder Information

9. TWENTY LARGEST LISTED CPHOA OPTION HOLDERS AS AT 28 FEBRUARY 2021

	Name	Shares Held	%
1	ATLANTIC CAPITAL HOLDINGS PTY <ATLANTIC CAPITAL A/C>	87,811,977	56.71%
2	CHINCHERINCHEE NOMINEES PTY LTD	12,745,708	8.23%
3	SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	10,738,832	6.94%
4	JAMBER INVESTMENTS PTY LTD <THE AMBER SCHWARZ FAM A/C>	8,419,244	5.44%
5	NANDIL PTY LTD	6,400,000	4.13%
6	HORATIO STREET PTY LIMITED <HORATIO STREET FAMILY A/C>	5,000,000	3.23%
7	MRS CHUNYAN NIU	3,347,830	2.16%
8	S3 CONSORTIUM PTY LTD	2,152,325	1.39%
9	KAVYA GLOBAL NETWORK AUSTRALIA PTY LTD	1,288,660	0.83%
10	ISIDORE 14 PTY LTD <GIBSON FAMILY A/C>	1,255,029	0.81%
11	RIMOYNE PTY LTD	1,176,976	0.76%
12	SIZZ PTY LTD <J H SUPER FUND A/C>	900,000	0.58%
13	SOLEVU PTY LTD <RT LIN SUPER FUND A/C>	862,500	0.56%
14	TENORIO PTY LIMITED <TENORIO A/C>	859,106	0.55%
15	WANIC PTY LTD <THE LEVY SUPER FUND A/C>	857,987	0.55%
16	MR PHILIP JOHN CAWOOD	800,000	0.52%
17	R A H (STC) PTY LIMITED	550,000	0.36%
18	SNOWY PLAINS PTY LTD	517,500	0.33%
19	VICRUTH PTY LTD	500,000	0.32%
20	UBS NOMINEES PTY LTD	469,882	0.30%
	Total	**146,653,556**	**94.72%**