



CRESO
PHARMA

CRESO PHARMA LIMITED
ACN 609 406 911

**Appendix 4E Preliminary Final Report
for the Year Ended 31 December 2020**

Appendix 4E Preliminary Final Report for the year ended 31 December 2020

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Appendix 4E

Preliminary Final Report

For the year ended 31 December 2020, previous corresponding period is 31 December 2019.

Results for announcement to the market

| | | 2020 | 2019 |
|---|-----------|---------------------|--------------|
| | Up/(down) | \$ | \$ |
| Revenue from ordinary activities | (32.5)% | 2,447,761 | 3,626,427 |
| Loss from ordinary activities after tax attributable to members | 133.0% | (32,036,866) | (13,747,830) |
| Loss from ordinary activities attributable to members | 133.0% | (32,036,866) | (13,747,830) |

Refer to the Review of Operations for further information on the results.

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).

Net Tangible Assets Per Security

| | 2020 | 2019 |
|--|-------------|------|
| Net Tangible Assets Per Security (cents) | 1.37 | 7.35 |

Audit Report

This report is based on the consolidated financial statements which are in the process of being audited by BDO Audit Pty Ltd. The audit report on the consolidated financial statements will contain an emphasis of matter with respect to material uncertainty over going concern.

Additional Appendix 4E disclosure requirements are set out in the following pages.

Signed on behalf of the directors



Adam Blumenthal
NON-EXECUTIVE CHAIRMAN

28 February 2021

Review of Operations

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.

OPERATING AND FINANCIAL REVIEW

Operating Results

The operating results of the Group for the year ended 31 December 2020 are:

| | 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).

Overview and Financial Results

Creso Pharma ("Creso" or the "Company") 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.

Review of Operations

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 significant 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 the debt facilities the Company had 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 the Company to raise funds via "in the money" options and has helped with cash flow requirements substantially. This is a result of:

- On-going implementation of strategic initiatives
- Favourable global regulatory policy
- Appointment of world renowned Cannabis expert Bruce Linton as senior advisor
- Strong revenue growth in Mernova

Unlike many other companies in the cannabis sector, 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 its 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.

CORPORATE

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, albeit 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 CHF798,024 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.

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 | | 2,447,761 | 3,626,427 |
| Production costs | | - | (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 | | 317 | 57,093 |
| Royalty income | | 17,216 | 33,265 |
| Other income | | 177,512 | 25,468 |
| Expenses | | | |
| Administrative expenses | | (642,904) | (1,505,407) |
| Compliance and regulatory expenses | | (307,644) | (222,605) |
| Consultancy and legal expenses | | (5,152,713) | (3,769,054) |
| Depreciation and amortisation expenses | | (352,429) | (401,667) |
| Employee benefit expenses | | (2,367,632) | (2,692,551) |
| Finance costs | | (9,268,880) | (2,090,013) |
| Impairment of intangibles | | (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 | 8 | (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 | 9 | (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 | 9 | - | (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 | 5 | 6,047,091 | 2,800,318 |
| Trade and other receivables | | 636,720 | 1,698,499 |
| Inventories | | 1,108,963 | 1,992,931 |
| Biological assets | | 143,192 | 423,627 |
| Total current assets | | 7,935,966 | 6,915,375 |
| Non-current assets | | | |
| Property, plant and equipment | | 9,907,853 | 11,270,479 |
| Intangible assets | | 1,276,789 | 4,477,755 |
| Total non-current assets | | 11,184,642 | 15,748,234 |
| Total assets | | 19,210,608 | 22,663,609 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 2,162,911 | 2,111,075 |
| Provisions | | 49,772 | 51,255 |
| Borrowings | 6 | 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 | 7 | 71,794,123 | 46,528,519 |
| Reserves | | 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 | 9 | - | (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 Ltd 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 | | (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 from 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 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 | | 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 activity of the Group is developing pharmaceutical-grade cannabis and hemp-based nutraceutical products and treatments.

The Registered Office is Suite 5 CPC, 145 Stirling Highway, Nedlands, WA 6009 Australia.

(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 accounting policies used in the compilation of this financial report are consistent with those set out in the Group’s most recent annual report and have been applied consistently to all periods presented in these financial statements.

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.

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 the business and at the amounts stated in the financial report.

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

Basis of consolidation

Subsidiaries

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.

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.

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

Notes to the Consolidated Financial Statements

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.

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.

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.

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) | (30,894,873) |
| 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 |
| <i>Other income</i> | | |
| 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 |

NOTE 5 CASH AND CASH EQUIVALENTS

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

Significant 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 services rendered | 8,188,205 | - |
| Equity issued for the settlement of convertible notes | 1,650,048 | - |
| Equity issued to extinguish a liability | 310,350 | - |
| Equity issued as share issue costs | (4,352,158) | - |
| Impairment of intangible assets | (4,671,418) | - |
| Impairment on Colombian licence | - | (3,040,934) |

Notes to the Consolidated Financial Statements

NOTE 6 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 |

NOTE 7 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 for the acquisition of sales licence | 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 |
| Exercise of Exchangeable 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 8 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 |

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 | - | - | 34,764,706 |
| 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 8 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 9 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 | Construction of medicinal cannabis growing facility | Colombia | 100 | 100 |
| Creso Grow Limited | Construction of medicinal cannabis growing facility | 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.