CRESO PHARMA LIMITED

ACN 609 406 911

Appendix 4E for the Year Ended 31 December 2021

Final Report
For the year ended 31 December 2021, previous corresponding period is 31 December 2020.

Results for announcement to the market

	Up/(down)	**2021** **$**	2020 $
Revenue from ordinary activities	154.0%	**6,218,337**	2,447,761
Loss from ordinary activities after tax attributable to members	(6.3)%	**(30,030,967)**	(32,036,866)
Loss from ordinary activities attributable to members	(6.3)%	**(30,030,967)**	(32,036,866)

Refer to the Operating and Financial Review in the Annual Report 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 (2020: Nil).

No dividend is recommended in respect of the current financial year (2020: Nil).

Net Tangible Assets Per Security

	2021	2020
Net Tangible Assets Per Security (cents)	**1.51**	1.37

Audit Report

This report is based on the consolidated financial statements for the year ended 31 December 2021 which have been audited by BDO Audit Pty Ltd. The audit report in the consolidated financial statements contains an emphasis of matter with respect to material uncertainty over going concern.

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

Signed on behalf of the directors

James Ellingford
EXECUTIVE CHAIRMAN

28 February 2022

CRESO PHARMA LIMITED

ACN 609 406 911

Annual Report for the Year Ended 31 December 2021

Annual Report
For the year ended 31 December 2021

Contents

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 and Australia.

www.CresoPharma.com

Corporate Directory

Board of Directors

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

Secretaries

Ms Erlyn Dawson and Mr Winton Willesee, jointly

Registered Office

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

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

European Office

Allmendstrasse 11,
6312 Steinhausen
Switzerland

Telephone: +41 41 710 4706

Stock Exchange Listings

Listed on the Australian Securities Exchange (ASX Code: CPH)
Listed on the Australian Securities Exchange (ASX Code: CPHOA)
Listed on the Australian Securities Exchange (ASX Code: CPHO)
Listed on the U.S. OTCQB Market (OTC Code: COPHF)
Listed on the Frankfurt Stock Exchange (FRA Code: 1X8)

Auditors

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

Solicitors

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

Bankers

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

Share Registry

Automic Share Registry
Level 5, 191 St Georges Terrace
Perth WA 6000
Australia

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

Chairman's Address

Dear fellow shareholders,

I am delighted to present you Creso Pharma's 2021 Annual Report and financial statements, which encapsulate a year of transformational progress.

The Company continued its momentum, capitalising on the strong foundation laid in CY2020 to further its growth and transition plans to become a globally recognised company in the cannabis industry, as well as a world leading developer of evolutionary psychedelic medicines. Our vision of delivering emerging treatments for previously untreatable mental illnesses has been justified by ongoing regulatory reform that has transformed the global landscape.

The acquisition of Canadian psychedelics company Halucenex Life Sciences highlights the Board's vision and incorporates a complementary business to existing operations while providing access to a lucrative and high growth sector. It unlocks several near and long-term opportunities to enter new markets and positions Creso Pharma as the first ASX-listed company with an 100% owned psychedelic medicines subsidiary.

Initiatives undertaken during the year culminated with Halucenex submitting its Clinical Trial Authorisation filing with Health Canada in January 2022. This is the final step before commencing the planned Phase II clinical trial. The trial is designed to test the efficacy of psilocybin when used to treat treatment resistant Post Traumatic Stress Disorder (PTSD).

Extraordinary growth across the group's nutraceutical, cannabis cultivation and sales divisions was pleasing to see. Product development initiatives and launches, recurring business from new and existing partners and M&A activity all combined to generate record growth for the Company. More importantly, the Company's individual divisions continued Creso Pharma's global expansion and agreements are now in place in several key international markets.

During the period we welcomed Mr William Lay and former Director and founder, Dr Miri Halperin Wernli to contribute to Creso. In the short amount of time, we have benefited significantly from their extensive expertise across the psychedelic, recreational cannabis and CBD industries and have leveraged their established networks across international markets, with North America being a particular region of focus. I would like to again welcome Mr Lay and Dr. Halperin Wernli to the Company and I look forward to continuing our work together.

In February 2022, the group took a further major step to significantly increase its product range and access new markets with the agreement to acquire US-based Sierra Sage Herbs LLC ("SSH"). The acquisition will provide Creso Pharma with established, revenue generating operations in the USA. SSH is a female-founded and established leading consumer packaged goods company focused on plant-based and CBD products.

Once completed, the acquisition will represent the group's maiden entry into the US, creating opportunities in the US CBD market, which is expected to grow in value to US$12Bn by 2026[1]. Creso Pharma will leverage its own in-house IP and also SSH's supply chain, distribution, marketing and branding expertise to drive CBD product revenue in the US.

The all-scrip transaction will be materially accretive on a revenue per share basis. Creso expects to hold a shareholders' meeting to approve the transaction in or around late March 2022, with closing to occur soon thereafter. SSH co-founder and CEO, Ms Jodi Scott will join the Creso Pharma Board as Executive Director and President of US Operations – with her appointment strengthening the group's North American management and further sharpening our focus.

In order to grow our presence in North America we have commenced steps and preparation towards a dual listing on the NASDAQ. The decision follows a successful listing on the OTCQB market in the USA and will provide Creso with a greater level of access to the North American market. Integrating Creso Pharma's operations with the US market is a crucial step in increasing footprint to drive sales growth. Ongoing changes in the regulatory framework are expected to provide Creso Pharma with market opportunities in the coming years.

With several business and product development initiatives commenced across all operating divisions and the pending launch of Halucenex's phase II clinical trial, Creso Pharma is in an excellent position to continue delivering value for shareholders. The Board and management team will continue to work diligently to capitalise on further international regulatory changes and look to increase sales channels and drive growth across new international markets.

[1] https://content.brightfieldgroup.com/2021-us-cbd-market-report

Chairman's Address

I would like to take this opportunity to thank all our dedicated employees for their commitment throughout the year. Likewise, to my fellow directors, I wish to express my appreciation and gratitude for your ongoing support. Lastly, to the Company's shareholders I would like to thank you for the continued loyalty. I look forward to providing updates on operations throughout the new year as we look to build upon a successful CY2021 and unlock further value for shareholders.

Yours faithfully,

Dr James Ellingford

Executive Chairman

CEO's REPORT

CEO's Report:

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

I am very pleased to report on Creso's progress for the 2021 fiscal year, which was a transformative year for the company.

Due to the hard work of our talented global teams, Creso was able to report a record year for revenue of $6,213,358, an increase of 134% on prior revenue from the 2020 fiscal year.

During the year, the company also introduced several new products, significantly improved the quality of existing products, expanded its sales channels to new markets, completed substantial strategic M&A activity and added additional strength to its senior management team.

With a strong start to fiscal 2022, Creso continued to add strength to its management team and board of directors, achieved significant milestones in the business units, and announced the acquisition of Sierra Sage Herbs ("SSH"), a US based, plant based (CBD and non-CBD) beauty and personal care company with significant historical revenues.

I firmly believe that Creso has the foundation to accelerate its growth through 2022 and the coming years.

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 2021.

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:

Dr James Ellingford	Executive Chairman (change on 25 November 2021, formerly Executive Director)
Mr William Lay	CEO and Managing Director (appointed 17 January 2022)
Mrs Micheline MacKay	Executive Director (appointed 17 January 2022)
Mr Adam Blumenthal	Non-Executive Director (change on 25 November 2021, formerly Non-Executive Chairman)
Mr Boaz Wachtel	Non-Executive Director
Mr Bruce Linton	Non-Executive Director (appointed 17 January 2022)
Dr Miri Halperin Wernli	Director and Head of Technology, Innovation and Distribution (resigned 17 March 2021)

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

Dr James Ellingford, MBA. PG (Corp Mgmt). D.Mgt.
Executive Chairman
Chairman of the Remuneration and Nomination Committee
Chairman of the Audit and Risk Committee
(Originally appointed as Director on 20 November 2015, appointed as Executive Chairman on 25 November 2021)

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	January 2021
MinRex Resources Limited (ASX:MRR)	April 2018	June 2020

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

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

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

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

Directors' Report

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

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

Mrs MacKay is currently the Corporate Manager of Creso's wholly owned Canadian subsidiary, Mernova Medicinal Inc. ("Mernova"). She has been in the position for nearly three years and is responsible for multiple functions including HR, quality assurance, and regulatory affairs. Mrs MacKay is also the Health Canada designated Responsible Person in Charge at Mernova. Leveraging past experience, she has played a significant role in successfully growing Mernova and has implemented best industry standards. She has practical experience in managing a business through specified key performance indicators, managing budgets, conducting regular audits and performance management.

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

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

Adam Blumenthal has over 11 years' experience in Investment Banking and Corporate Finance. He has deep exposure to Australian and International markets, having provided capital raising and financing solutions to an extensive number of unlisted and listed companies. Adam has played a lead role in advising and supporting multiple organisations across a broad spectrum of industries, using his experience and extensive network of international contacts to provide corporate advisory and capital markets input. He has successfully brought to market several Medical Marijuana companies spanning Israel, Canada, Switzerland and Australia. He has also been actively involved in the Mining, Cyber Security, Health Care and IT sectors.

Adam is a director of EverBlu Capital Pty Ltd, the Company's appointed corporate advisor and lead manager to the various capital raisings undertaken by the Company in CY2021.

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

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

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

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

Directors' Report

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

Bruce Linton, BPA
Non-Executive Director
(Appointed 17 January 2022)

Mr Linton has a passion for entrepreneurship and making a positive difference in the world. He brings a wealth of experience in building strong technology-driven companies, developing world-class teams, and positioning his companies in sectors driven by waves of public policy change. Mr Linton is Founder and served as the Chairman and Chief Executive Officer of Canopy Growth Corporation (Nasdaq: CGC/TMX: WEED). As Chairman and Chief Executive Officer of Canopy Growth Corporation, Mr Linton led the Company through 31 acquisitions, and over 16 rounds of financing for a total of more than $6 billion of capital raises, including a $5 billion investment by Constellation Brands, the largest beer import company in the United States.

Mr Linton serves as the founding Executive Chairman of Gage Growth Corp. (CSE: GAGE); which recently announced its acquisition by leading North American MSO TerrAscend Corp (CSE: TER),(OTCQX: TRSSF) pending customary closing conditions. Mr Linton is the Chairman of the Advisory Board for Red Light Holland Corp., (CSE: TRIP), the psychedelics company whose focus is on premium brand 'magic' truffles and Advisor with Creso (ASX: CPH), and Above Foods. Co-Founder and Non-Executive Chairman of Óskare Capital, and an active investor with Slang Worldwide Inc. (CSE: SLNG) and with OG DNA Genetics Inc. Mr Linton is a Co-Chairman and former Chief Executive Officer of Martello Technologies Group Inc. (TSXV: MTLO). Mr Linton also sits on the Board of Directors of the Canadian Olympic Foundation and is an active member of The Ottawa Hospital Foundation, Campaign Executive Committee. In Sept 2021, Mr Linton stepped down from the board of Mind Medicine Inc. (NEO: MMED), where he was a founding Board of Director member and Chairman of the Governance and Compensation Committee. Mr Linton was also Chairman and Chief Executive Officer of Collective Growth Corporation; a special purpose acquisition company (SPAC) that went public on NASDAQ in May 2020 and completed its business combination transaction with Innoviz Technologies Ltd. (NASDAQ: INVZ) in March 2021.

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

Company	Appointed	Resigned
AusCann Group Holdings Ltd (ASX:AC8)	January 2017	September 2019

Directors' Report

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 year end.

Director	Ordinary Shares	Listed Options	Unlisted Options	Performance Rights
Dr James Ellingford	1,152,500	384,167	-	-
Mr William Lay(iv)	-	-	-	-
Mrs Micheline MacKay(iv)	-	-	-	-
Mr Adam Blumenthal	113,665,433(i)	37,888,479(ii)	26,128,387(iii)	-
Mr Boaz Wachtel(v)	8,800,000	2,933,334	-	1,600,000
Mr Bruce Linton(iv)	-	-	-	-
Dr Miri Halperin Wernli(vi)	-	-	-	-
Total	**123,617,933**	**41,205,980**	**26,128,387**	**1,600,000**

(i) Includes 113,665,432 shares held by Atlantic Capital Holdings Pty Ltd, a related party of Adam Blumenthal.
(ii) Includes 37,888,478 listed options held by Atlantic Capital Holdings Pty Ltd, a related party of Adam Blumenthal.
(iii) All the unlisted options are held by Atlantic Capital Holdings Pty Ltd, a related party of Adam Blumenthal.
(iv) All became directors after the year end therefore none held as directors at the reporting date.
(v) All holdings are held by International Water and Energy Savers Ltd, a related party of Boaz Wachtel.
(vi) Resigned 17 March 2021 therefore none held as a director at the reporting date.

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	9	9	-	-	4	4
Dr James Ellingford	9	9	2	2	4	4
Dr Miri Halperin Wernli	1	1	-	-	-	-
Mr Boaz Wachtel	9	9	2	2	-	-

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

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

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

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were:

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

Directors' Report

OPERATING AND FINANCIAL REVIEW

Operating Results

The operating results of the Group for the year ended 31 December 2021 were as follows:

	31-Dec-2021 **$**	31-Dec-2020 $
Cash and cash equivalents	**7,184,746**	6,047,091
Net assets	**27,758,953**	13,652,171
Revenue from products	**6,218,337**	2,447,761
Royalty income	**221**	17,216
Total revenue	**6,218,558**	2,464,977
Other income	**34,812**	177,829
Net loss after tax from continuing operations	**(30,030,967)**	(30,799,581)

Dividends

No dividends have been paid or declared by the Group since the end of the previous financial year (2020: Nil).

No dividend is recommended in respect of the current financial year (2020: Nil).

Overview and Financial Results:

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

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

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

Through its wholly owned, Canadian based psychedelics subsidiary, Halucenex Life Sciences Inc. ("Halucenex"), the Company is also focused on the development of synthetic and botanical psilocybin treatments for Treatment Resistant Post Traumatic Stress Disorder, and other mental health conditions.

Throughout 2021, Creso made rapid progress and continued its evolution in becoming a broader based consumer products company. The Company made important advancements, which were underpinned by several distribution agreements, product launches, acquisitions and new market entries which solidified its intent to become a global leader in the psychedelic, CBD and recreation and cannabis space.

Mernova Medicinal Inc.:

The Company's wholly owned subsidiary Mernova Medicinal Inc. posted a record year in terms of revenue, generating A$3,634,530, a 199% increase on the previous corresponding period (FY20: A$1,214,843) The increase was underpinned by continuously increasing cannabis quality and new product uptake, evidenced by a consistent stream of purchase orders over the course of the year. During FY21 the company implemented new advanced growing techniques, which resulted in testing of its Black Mamba strain reaching as high as 32.6% THC content, and testing of its Lemon Haze strain reaching as high as 29.4% THC content. These figures firmly position Mernova's products among the highest THC content products in Canada. According to a report from Deloitte in 2021, THC content is the number one attribute that existing cannabis consumers use to evaluate quality of product[2].

[2] https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/consumer-business/ca_cannabis_consumer_survey_en_aoda.pdf

Directors' Report

Recurring purchase orders were received from Creso's partners the Ontario Cannabis Retail Corporation ("OCRC"), which operates as the Ontario Cannabis Store ("OCS"), Cannabis New Brunswick ("Cannabis NB"), the Nova Scotia Liquor Corporation ("NSLC") and Yukon Liquor Corporation ("Yukon"). This strong network of partners across Canada highlights the level of product satisfaction Creso's products have achieved. Notably, during FY21, the company reached 4.5% retail market share in its home province of Nova Scotia. During the first 6 weeks of FY22, the company also received its maiden purchase order from a buying group in Saskatchewan, further expanding its sales channels. The company is in active discussions with two further provinces to continue this expansion.

To support increasing consumer demand for Mernova's cannabis products, the Company acquired 14 new cannabis strains that qualify according to Mernova's strict quality standards to be sold under the Ritual Green, Ritual Sticks and future Ritual brands. The introduction of the 14 strains followed extensive due diligence and market research, with each strain chosen for its quality and high THC content. Preliminary THC testing on pilot batches of a selection of these new strains demonstrated positive initial results (Mac 1 – 30.1% THC, Grape Cream Cakes – 25.9% THC, Monkey Berries – 23.6% THC, Vineyard Select – 19.6% THC), with quality expected to increase as growing procedures continue to be optimized for these strains prior to commercial production.

During FY21, the company began the installation of new lights in each of its grow rooms, which is expected to be completed for all grow rooms in the first half of FY22. Additionally, the company invested in higher quality nutrition products for the plants and irrigation system upgrades. Preliminary results show increased yields, which will provide additional supply of products for sale in FY22, as well as increased quality.

In the first two months of FY22, the company also signed an agreement with a manufacturer to extract THC from Mernova's biomass to create a line of vape products for Mernova. Additionally, Mernova expects to launch a blunt product imminently.

By continuing to produce products with industry leading quality, releasing new strains to the market, introducing new product delivery formats, and continuing to grow its number of provincial relationships, Mernova is well positioned to continue to grow revenue during FY22.

Human Health CBD division (Creso Pharma Switzerland):

The Human Health CBD division achieved revenues of A$756,635 in FY21, growing by 86.5% on FY20 (FY20: A$405,721).

The growing interest and demand for Creso's Human Health CBD products throughout 2021 can be attributed to a growing product range and expansion across key markets. In particular, new purchase orders from partners in Europe and South Africa allowed the Company to continue growing its global footprint. Creso now boasts over 3,500 international points of sale, for its innovative CBD products.

Creso's Human and Animal Health CBD Divisions are expected to significantly benefit from the pending acquisition of SSH, which currently has 90,000 points of distribution in the United States, including with retailers such as AAFES (Army & Air Force Exchange Service), CVS, Walgreens, Rite Aid, Alberstons Companies, The Kroger Family of Companies, Whole Foods, Walmart, AmazonUS and Target.com. The pending acquisition will mark Creso's maiden entry into the US market; the US CBD market is expected to grow to US$12Bn in value by 2026[3]. Creso and SSH are actively progressing multiple initiatives to accelerate entry of each company's products into new markets.

Products developed and launched during the year included three new CBD teas, which were formulated on a second-generation innovative technology that optimises the Hemp CBD content.

- cannaQIX® tea: designed to help the management of stress supporting a better quality of life.
- cannaQIX® NITE tea: to be consumed at nighttime to support a better sleep.
- cannaQIX® Immunity tea: which provides the supplements and taste to optimise well-being.

Creso also took its first steps entering the Swiss sport, health and wellness markets launching newly developed cannaDOL® products through established commercial channels and the recently developed e-commerce website.

- cannaDOL® booster: for use before sport and recreational activity
- cannaDOL® revitalize gel: which provides an immediate cooling effect, a long-lasting soothing and relaxing heat on skin and can be used before and after physical activity
- cannaDOL® recovery: to aid in recovery from sport and other physical activities

[3] https://content.brightfieldgroup.com/2021-us-cbd-market-report

Directors' Report

In January 2021, Creso completed all the required importing and exporting procedures and successfully delivered a second shipment of cannaQIX® products to the subsidiary of Lupin International (NYSE: LUPIN), Pharma Dynamics South Africa ("Pharma Dynamics"). Pharma Dynamics distributes the Company's hemp-based products across South Africa, with plans to extend the distribution to Namibia, Botswana, Zimbabwe, Swaziland, Lesotho, Angola, Mozambique and Uganda.

Cementing its position in Africa, Creso entered into a bilateral agreement with Cannabis Queen, South Africa ("Cannabis Queen"). The agreement expanded the Company's distribution network across the country and provides Creso with an additional partner to sell and distribute its Hemp CBD based product range. As part of the agreement, Creso began taking steps to market and distribute Cannabis Queen's Anti-Aging Serum 30ml and Argan & Cannabis Hair Treatment 50ml products in Switzerland and Europe.

A comprehensive distribution agreement was entered into with leading nutritional supplements company Route 2 Pharm Pvt Ltd ("Route2") to import, market, distribute and sell the Company's innovative hemp derived therapeutic products exclusively into Pakistan and Philippines. The agreement incorporated non-exclusivity into additional markets including Cambodia, Afghanistan, Azerbaijan, Bangladesh, Georgia, the Maldives, Myanmar, Tajikistan, Turkmenistan, Uzbekistan, and Vietnam. In June 2021 this agreement was extended to allow for distribution into Ecuador, providing a large market opportunity for Creso in the Latin American market.

Further extending the Company's European market presence, purchase orders were received from Swiss based health products distributor MHG GmbH Switzerland ("MHG") for Creso's cannaQIX® hemp seed oil lozenges and cannaQIX® 50 lozenges. The products are now sold through MHG's sales channels into a range of countries including Macedonia, Albania, Serbia, and Croatia amongst others.

In November, Creso executed a non-binding Letter of Intent ("LOI") with licenced cannabis grower Innuana AG, Switzerland ("Innuana") to grow and market medicinal cannabis for the burgeoning market in Switzerland. Innuana will grow medicinal cannabis based on Creso's specifications while Creso will bring its medical and pharmaceutical expertise, marketing and product knowledge. Creso will also leverage its established relationships with prescribers and clinics in Switzerland to drive prescription sales growth.

A new e-commerce site was also launched focussing on the Swiss consumer sport market under the 'Born to move' subcategory brand. The website unlocks potential new revenue channels and followed considerable due diligence and consultation with potential customers, suppliers and consumers. Further distribution into the sports market in Poland and Portugal are earmarked as potential expansion locations.

Animal Health division (Creso Switzerland):

The Animal Health CBD division achieved revenues of A$1,034,527 in FY21, growing 74.3% on FY20 (FY20: A$593,457).

The Animal Health division saw growth and expansion with several agreements signed for distribution into new markets. These new markets include Poland and Uruguay and represent a significant opportunity for Creso to further advance in this sector. Ongoing product development initiatives continued with a new innovative stress reduction and wellbeing product for pigs finalised during the year.

anibidiol® swine is a new hemp flour and oat bran based complementary feed product to support stress reduction and wellbeing in pigs. After discussions with farmers and breeders, the product was developed to address tail biting in pig herds. It is being marketed to farmers and breeders through established partners and distributors in the animal health space.

Creso entered into an LOI with Polvet Healthcare Teodorowski Spółka Jawna ("Polvet") to market and distribute the Company's animal health products for companion animals and livestock in Poland. Poland represented the Company's first entry into Eastern Europe and is one of the regions strongest domestic pet markets with 38m customers[4]. Two purchase orders were received during the year for Creso's hemp flour based, anibidiol® granule product for pets, large companion animals and livestock.

Following last year's regulatory approval from the Ministry of Agriculture and Animal feed in Uruguay, through Latin American commercial partner Adler Laboratories and Medara S.A. for the Company's anibidiol® products, Creso completed all required import procedures. The Company intends to use this as a catalyst to capitalise on the growing Latin American pet food market.

[4] https://globalpetindustry.com/article/polish-pet-market-2020

Directors' Report

Halucenex Life Sciences Inc. ("Halucenex"):

In July 2021, the Company announced the completion of the Halucenex acquisition, making Creso the first ASX-listed company with a 100% owned psychedelics subsidiary. The completion provides Creso with access to the emerging global market for psychedelic medicines. During the year extensive work was undertaken to accelerate the planned Phase II clinical trial to study the efficacy of psilocybin when used to treat treatment resistant PTSD.

One of the first major steps to de-risking the clinical trial timeline was securing a supply of synthetic psilocybin. Creso secured this from one of Canada's pharmaceutical grade synthetic psychedelics manufacturers, Psygen Industries Inc ("Psygen"). At the time, Halucenex was only one of eleven companies with a supply contract from Psygen. With growing demand and limited legal, GMP supply of synthetic psilocybin, the Psygen supply contract represents significant value to Halucenex ahead of its clinical trial.

Following the initial contract in May 2021, Halucenex more than doubled its supply of synthetic psilocybin by adding an additional 10g. This took the total inventory to 22.3g and provided Halucenex with a runway to expedite clinical trials, R&D initiatives, and provide a significant barrier to entry for competitors.

In August 2021, Halucenex secured its Controlled Drugs and Substances Dealer's Licence allowing the Company to possess, sell, transport and conduct R&D on a broad range of psychedelic substances including psilocybin, ketamine, LSD and MDMA amongst others. The licence considerably expanded the scope of work towards psychedelics.

Halucenex was subsequently awarded a Controlled Drugs and Substances Dealer's Licence Amendment from Health Canada. The amendment allows the Company to now produce, package and assemble psychedelic substances including psilocybin, ketamine, LSD, salvia divinorum, harmaline, salvinorin A, and MDMA amongst others. This marks the most extensive licence in regard to Controlled Drugs and Substances that can be awarded by Health Canada and is a significant competitive advantage.

In another major milestone, Halucenex completed all USP 61 and USP 62 testing requirements and achieved positive lab test results for its psilocybin active pharmaceutical ingredient ("API"), with the Company's API being deemed safe for human consumption ahead of the Phase II clinical trial. The favourable test results highlighted superior concentration of between 98.6% and 99.8% in GMP grade psilocybin with minor impurity levels. The positive tests allowed Halucenex to progress Clinical Trial Authorisation ("CTA") filing with Health Canada, the final step before commencing the phase II clinical trial.

Numerous agreements were entered into during the year, all with the intent of accelerating the planned phase II clinical trial. These agreements included:

- The appointment of True North Clinical Research ("True North") as the principal investigator for the planned phase II trials. True North is a leader in R&D and is comprised of a team of 30 highly qualified research staff clinicians. True North will provide clinical oversight, assist with facilitation of compliancy with the Nova Scotia Ethics Committee, undertake patient recruitment, conduct the trial, monitoring and compilation of data and results. The group will also ensure follow up measures are taken to ensure participant safety.
- The agreement secured with medical and recreational extraction experts Advanced Extraction Solutions Inc. ("AESI") to purchase a CO2 Supercritical Extraction System. The system has expedited certain product development and trial initiatives including breaking down psychedelic compounds of botanical psilocybin for future product development and exploring the efficacy of extracted distillates in various delivery mechanisms to determine faster compound onset and more effective dosing.
- The advisory agreement executed with Growing Together Research Inc. ("GTR"), a US-based biotechnology company focused on applying cutting-edge computational genomics and bioengineering to plant medicine. The agreement with GTR will assist Halucenex in creating an intellectual property portfolio to assist in maximising the active ingredients in various strains of magic mushrooms and explore which elements have the best efficacy when being used to treat specific conditions.
- A Letter of Intent signed with Sixth Wave Innovations Inc. ("Sixth Wave"), a world-class nanotechnology company focused on Molecularly Imprinted Polymers (MIPs) for imprinting, capturing and releases substances. Both parties worked to develop beads and columns to assist in producing psilocybin isolate from distillation of the product, allowing Halucenex to produce a natural pure psilocybin product for R&D, and for accurately dosing psilocybin for the treatment of mental disorders.

Directors' Report

- An agreement signed with Nucro-Technics, a Canadian company that partners with pharmaceutical, biologic and medical device companies globally to assist with R&D initiatives. Halucenex works with Nucro-Technics to test the stability and shelf life of psilocybin liquid formulations. Halucenex will have access to a GMP certified lab to formulate and test the bioavailability of its synthetic psilocybin compound, the ability to handle control substances for formulations of current delivery solutions and potential future methods that may have a faster onset.
- A Consultancy agreement secured with HeteroGeneity, LLC, a leading consultancy assisting companies achieve regulatory approval for new drug developments in the USA. The agreement will assist with potential future US expansion for Halucenex's botanical psilocybin products. Both parties will conduct a technology assessment to progress a development plan for a new botanical drug under pharmaceutical development for the US market.
- A MOU signed with Landing Strong a Nova Scotia-based mental health organisation that provides structured support for military members, first responders and veterans. The MOU provides an option for post clinical trial support and workplace integration programs for phase II clinical trial participants.
- A Research Collaboration Agreement secured with Acadia University to develop soft gel capsule drug delivery format containing CBD and psilocybin respectively. Located outside of Halifax, Nova Scotia the University's state of the art research centres are located near Halucenex's existing operations allowing both groups to expedite a number of value accretive activities. Product development initiatives are expected to strengthen Creso's IP and provide another strategic advantage in rapidly growing markets.

During the first two months of FY22, Halucenex achieved two significant milestones. In January 2022, Halucenex lodged its Clinical Trial Authorisation with Health Canada ahead of the proposed Phase II study. The Clinical Trial Authorisation is subject to 30-day review by Health Canada and approval from Health Canada, which, if obtained, will allow Halucenex to commence its clinical trial during Q2 CY2022. Separately, Halucenex was included on a list of approved suppliers under Health Canada's Special Access Program ("SAP"). The SAP is a federal program that allows healthcare professionals to apply for access to non-marketed medications that have not yet been approved for sale when such medications show clinical evidence of safety and efficacy and are intended to treat patients with severe or life-threatening illness. Halucenex will now be included on a list of several suppliers that will be provided to doctors requesting access to psilocybin for their patients, under certain circumstances.

Corporate Developments:

During the year, Creso undertook several initiatives to further its growth strategy into North American markets. With the appointment of several key executives, the Company embarked on multiple business development initiatives to increase partnerships, market penetration and M&A activity. Preparation for a proposed NASDAQ dual listing are underway which is expected to increase the Company's US market presence. The acquisition of Halucenex also provides Creso with access to the emerging global market for psychedelic medicines.

To further broaden US awareness, Creso completed a dual listing on the OTCQB ("OTC") market in the USA and commenced trading on Friday, 11 June 2021 (USA OTC market time) under the code COPHF. The dual listing may provide access to deeper capital markets and North American investors with accessibility to invest in established cannabis and psychedelics medicines businesses.

Upon the successful OTC listing, Creso shifted its efforts to a proposed NASDAQ dual listing in order to unlock additional growth opportunities. A dual listing will provide even greater access to capital and North American investors to invest in an established cannabis and psychedelics business. The secondary listing is also expected to allow for more efficient M&A activity, as well as expedited potential partnerships with North American groups allowing Creso to act quickly on potential legislative changes which may have a positive effect on the recreational cannabis industry and the use of psychedelic compounds.

Leading NY-based corporate advisory firm, EAS Advisors LLC ("EAS") is mandated to assist and expedite the proposed NASDAQ listing. The group has established American networks and a strong understanding of capital markets, allowing Creso to advance its dual listing. EAS will provide access to equity research providers to secure North American research coverage, generate global investor awareness with potential strategic investors in the USA, Europe, Asia and Australia and assist in financial modelling, presentation preparation, external dataroom maintenance and advise on additional M&A opportunities.

Directors' Report

In October 2021, Creso completed the acquisition of the assets of ImpACTIVE Holdings Ltd ("ImpACTIVE"). Founded in 2019, ImpACTIVE is a Canadian life sciences company established by current and former high-profile athletes seeking to provide alternative treatment routes to the athletic community. The group has developed a range of CBD based products, designed to reduce muscle and joint inflammation without the use of heavy narcotics or prescription pharmaceuticals. The acquisition provides another mechanism to increase North American exposure and broaden the Company's range of CBD products.

In February 2022, Creso announced the acquisition of SSH. SSH is a leading consumer products company based in Colorado, which generated US$5.7 million of unaudited gross revenue in CY2021. SSH is focused on plant-based solutions for consumers in the beauty and personal care segment, leveraging a proprietary lipid infusion process. SSH has a network of over 90,000 points of distribution in the United States, including with many significant big box retailers. The acquisition of SSH is a significant milestone for the company, as the Company expects that it will allow for the introduction of Creso Switzerland's human and animal health products into the lucrative US market. Additionally, the proposed transaction will accelerate the introduction of impACTIVE's products to these markets. The combined company will also progress the sale of SSH's existing product portfolio through Creso's existing global commercial partners. Ahead of the proposed NASDAQ dual listing, Creso made the key appointment of Mr William Lay as Executive Vice President – Strategy, Origination & Operations in September 2021, who is now CEO and Managing Director of the Group. In addition, the Company also made the appointment of founder and former director Dr Miri Halperin Wernli as strategic advisor. The two executives considerably strengthen the management team with both boasting extensive expertise in the psychedelic, recreational cannabis and CBD industries, as well as offering established networks across North America and other international markets.

In January 2022, Mr Lay was appointed Chief Executive Officer and Managing Director of Creso. Alongside Mr Lay's addition to the Creso board, the company also welcomed leading cannabis and psychedelics entrepreneur Bruce Linton, and Mernova Corporate Manager Micheline MacKay to its board.

Mr Lay and Mr Linton have extensive experience progressing M&A transactions from their time together at Canopy Growth. They will leverage their networks and expertise to further identify and execute additional strategic M&A transactions.

In conclusion, I am very excited to continue providing updates to investors over the course of FY22. Creso has all the pre-requisites in place to continue its strong growth from 2021 and I am confident that the contribution of our existing business, as well as the uplift from recent M&A transactions will significantly benefit the company over the course of the year.

Mr William Lay

Managing Director and Group CEO

Directors' Report

CORPORATE

Equity Transactions

On 11 January 2021, the Company announced that 10,000,000 options had been exercised into shares for a consideration of $1,668,600, the issue of 24,000,000 Options (with various exercise prices ranging from $0.235 to $0.30, on or before 11 January 2023) to an independent consultant in lieu of cash fees for business development, promotion and marketing services and 2,800,000 options ($0.40, 11 Jan 2023) issued to a service provider 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 exercised into 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 on or before 22 January 2023.

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 CPHOA listed options had been exercised into 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 CPHOA listed options had been exercised into shares for a consideration of $602,140.

On 19 February 2021, the Company announced that 3,070,979 CPHOA listed options had been exercised into shares for a consideration of $153,549.

On 26 February 2021, the Company announced that 4,134,290 CPHOA listed options had been exercised into shares for a consideration of $206,714.

On 19 March 2021, the Company announced that 24,692,921 CPHOA listed options had been exercised into shares for a consideration of $1,234,646.

On 26 March 2021, the Company announced that 5,368,091 CPHOA listed options had been exercised into shares for a consideration of $268,405 and an issue of 17,263,158 shares for the repayment of debt totalling $3,280,000.

On 1 April 2021, the Company announced that 4,429,832 CPHOA listed options had been exercised into shares for a consideration of $221,492, 2,000,000 shares were issued at a deemed value of $400,000 for investor relations and marketing services and 94,736,843 shares were issued for a consideration of $18,000,000 under a placement.

On 5 May 2021, the Company announced that 100,000 CPHOA listed options had been exercised into shares for a consideration of $5,000.

On 11 June 2021, the Company announced that it had completed the US OTC dual listing and trading had commenced under the code COPHF.

On 9 July 2021, the Company announced the issue of 2,450,000 shares upon the exercise of 2,450,000 CPHOA Listed options at $0.05, raising $122,500.

Directors' Report

CORPORATE (continued)

Equity Transactions (continued)

On 14 July 2021, the Company issued 43,851,795 ordinary shares as detailed below:

- 500,000 shares issued for nil consideration to Director, Boaz Wachtel as a bonus payment for out-of-scope services over the past two years.
- 500,000 shares issued for nil consideration to Director, James Ellingford as a bonus payment for out-of-scope services over the past two years.
- 10,000,000 shares issued for nil consideration to the Head of Swiss International Operations, Jorge Wernli.
- 3,600,000 shares issued to EverBlu as part consideration for fees relating to the $18 million placement announced on 1 April 2021.
- 29,251,795 shares issued (which were under voluntary escrow until 14 January 2022) to the vendors of Halucenex as part consideration for the acquisition, further details can be found above.

On 14 July 2021, the Company also announced the issue of 12,000,000 options ($0.38, 14 July 2024) to EverBlu for out-of-scope corporate advisory services and the issue of 17,551,077 performance shares ($Nil, 14 July 2022) to the vendors of Halucenex as part consideration for the acquisition, further details can be found above.

On 30 July 2021, the Company announced the issue of 48,146,347 shares upon the exercise of 48,146,347 CPHOA options at $0.05, raising $2,407,317.

On 31 August 2021, the Company announced the issue of 12,000,000 options ($0.15, 1 August 2024) and 12,000,000 options ($0.18, 1 August 2024) to the nominees of Odeon Capital Group LLC as consideration for advisory services in relation to the proposed NASDAQ Listing.

On 6 September 2021, the Company announced the issue of the following securities to William Lay's nominee for nil cash consideration as part of William Lay's remuneration package:

- 5,000,000 Shares;
- 10,000,000 CPHOPT41 options, exercisable at $0.18 subject to vesting conditions, on or before 6 September 2024;
- 10,000,000 CPHOPT42 options, exercisable at $0.25 subject to vesting conditions, on or before 6 September 2024; and
- 15,000,000 performance rights, subject to vesting conditions.

On 25 October 2021, the Company announced the issues of 1,000,000 options ($0.1375, 25 October 2024) to employees of the Company and 1,965,455 shares to the vendors of the assets of ImpActive Holdings Ltd at a deemed price of $0.11.

On 27 October 2021, the Company announced that 3,000,000 CPHOA listed options had been exercised into shares for a consideration of $150,000.

On 2 November 2021, the Company announced the issues of 400,942,239 CPHO listed options ($0.25, 2 November 2024) for nil consideration as a bonus issue to shareholders of the Company

On 4 November 2021, the Company announced the issue of 200,000 options ($0.20, 3 November 2024) to an advisor as part of their remuneration.

On 17 November 2021, the Company announced that 1,582,283 CPHOA listed options had been exercised into shares for a consideration of $79,114.

On 8 December 2021, the Company announced that 697,500 CPHOA listed options had been exercised into shares for a consideration of $34,875.

On 9 December 2021, the Company announced that 17,551,077 performance shares had been converted into shares for nil consideration on the satisfaction of a performance milestone regarding the Halucenex acquisition. The shares remained under voluntary escrow restrictions until 14 January 2022.

On 21 December 2021, the Company announced that 10,150 CPHOA listed options had been exercised into shares for a consideration of $507.

Directors' Report

CORPORATE (continued)

Mergers, acquisitions and divestments

On 15 March 2021, the Company announced that it had signed an agreement to acquire Canadian psychedelics company Halucenex Life Sciences Inc. ("Halucenex") The acquisition was subject to conditions precedent which were met after the half-year ended, further details can be found in Matters Subsequent to The Reporting Period on page 7.

On 17 June 2021, the Company announced that it had entered into a definitive agreement with Red Light Holland ("Red Light") to merge with the Company and create The HighBrid Lab.

On 15 July 2021, the Company announced that it had completed the acquisition of Halucenex Life Sciences Inc.

The consideration for the acquisition was as follows:

- A$538,155 in cash, paid on 14 July 2021
- 29,251,795 shares (voluntarily escrowed to 14 January 2022), issued on 14 July 2021
- 17,551,077 performance shares (voluntarily escrowed to 14 January 2022), issued on 14 July 2021. The conversion of the performance shares into fully paid ordinary shares was subject to certain conditions being met within 12 months of the settlement of the acquisition. As noted above, upon satisfaction of the vesting conditions, 17,551,077 performance shares were converted into 17,551,077 shares on 9 December 2021.

The acquisition has been determined to be an asset acquisition with a date of 14 July 2021, an estimate of the acquisition's financial effect on the Company is noted below:

	A$
Consideration in cash	538,155
Consideration in performance shares	6,084,373
Total consideration	6,622,528
Net liabilities acquired	(246,211)
Intellectual Property acquired	6,868,739

On 31 August 2021, the Company announced that the proposed merger with Red Light Holland Corp. ("Red Light") had been terminated. As part of the termination, it was agreed that the Company receive orders over the next two years totalling C$170k from Red Light. The Company was also required to pay a C$400k settlement to Red Light.

On 25 October 2021, the Company announced it had entered into an asset purchase agreement with ImpACTIVE Holdings Ltd ("Impactive") and completed the acquisition of the assets of Impactive on the same day.

The consideration for the acquisition was as follows:

- 1,965,455 Creso shares, issued on 25 October 2021
- Subject to shareholder approval at the Company's next General Meeting, the issue of 6,000,000 Creso performance shares, that will convert into fully paid ordinary shares if certain conditions are met within 5 years of the acquisition.

The acquisition has been determined to be an asset acquisition with a date of 25 October 2021, an estimate of the acquisition's financial effect on the Company is noted below:

	A$
Consideration in shares	216,200
Consideration in performance shares	-
Total consideration	216,200
Intellectual Property acquired	108,100
Media and Products acquired	108,100

Directors' Report

COVID-19

During FY2021 the effects of the COVID-19 pandemic upon the Group's operations have been minimal, whilst there has been some disruption with staff and distribution it has not had any material effect on the Group. The Board remains confident that the Company's strategies to develop its businesses in North America and Europe 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 reasonable and appropriate 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, the R&D business in Switzerland and the Halucenex IP were each separable Cash Generating Units ("CGU") which were subject to impairment assessment. Management concluded that there were indicators of impairment for both Mernova and the R&D business in Switzerland but not for the Halucenex IP. Management's 5-year cashflow forecasts for Mernova and Switzerland have been carefully reviewed for known and anticipated risks and opportunities. Similarly, the discount rates applied to the forecasts, which were based upon operational and market risk assessments and assumptions, were determined to be reasonable and appropriate.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

- On 17 January 2022, the Company announced the appointment of three new directors, being Mr William Lay as Group CEO and Managing Director, Mr Bruce Linton as a Non-Executive Director and Mrs Micheline MacKay as Executive Director and is the Health Canada designated Responsible Person in Charge at Mernova.
- On 28 January 2022, the Company announced that 400,000 options had been exercised into shares for a consideration of $20,000 and 1,470,588 shares were issued for a deemed issue price of 8.5c for investor relations and marketing services.
- On 3 February 2022, the Company announced it was to enter the US CBD market through the strategic acquisition of established US-based business, Sierra Sage Herbs LLC and leading Green Goo brand ("SSH"). The material terms within the agreement are as follows; Creso, via its wholly owned subsidiary, Creso Pharma US, Inc, will purchase a 100% interest in SSH for a total upfront consideration of US$21m, payable by the issue of fully paid ordinary shares in Creso. In addition to the upfront consideration, SSH vendors may also be entitled to certain milestone payments that can be paid either in shares or cash, the milestone payments could range between zero and US$38.5m. Creso have also agreed to provide up to US1.7m of growth capital in the form of a loan, at the year end, $0.4m had been drawn.
- On 25 February 2022, the Company announced it had raised $5m via the placement of approximately 72.4m shares at an issue price of $0.069.

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.

Directors' Report

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 25 to 37.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the year ended 31 December 2021, 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 2021 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 26 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.

Directors' Report

PROCEEDINGS ON BEHALF OF THE COMPANY

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

CORPORATE GOVERNANCE STATEMENT

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

James Ellingford
EXECUTIVE CHAIRMAN
28 February 2022

Remuneration Report (Audited)

This remuneration report for the year ended 31 December 2021 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:

Dr James Ellingford	(Executive Chairman)
Mr William Lay	(Managing Director and CEO) – Appointed on 17 January 2022
Mrs Micheline MacKay	(Executive Director) – Appointed on 17 January 2022
Mr Adam Blumenthal	(Non-Executive Director)
Mr Boaz Wachtel	(Non-Executive Director)
Mr Bruce Linton	(Non-Executive Director) – Appointed on 17 January 2022
Dr Miri Halperin Wernli	(Director and Head of Technology, Innovation and Distribution) – Resigned 17 March 2021

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

Mr Chris Grundy	Chief Financial Officer

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

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

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

A Remuneration Governance, Structure and Approvals

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

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

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

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 $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 2021 and 31 December 2020.

	31-Dec-2021	31-Dec-2020
Revenue from products	**6,218,337**	2,447,761
Royalty income	**221**	17,216
Total revenue ($)	**6,218,558**	2,464,977
Net loss after tax	**(30,030,967)**	(30,779,581)
EPS ($)	**(0.03)**	(0.08)
Share price	**0.082**	0.180

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.

Remuneration Report (Audited)

c) Variable Remuneration – Long Term Incentives (LTI)

Employee Incentive Plan

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

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

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

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

Performance will be assessed at the end of the performance period. Refer to Schedule 6 of the Notice of Annual General Meeting dated 19 May 2021 for further information on the Plan.

D Details of Remuneration

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

Table 1 – Remuneration of KMP of the Group for the year ended 31 December 2021 is set out below:

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

(i) Boaz Wachtel's Director's Fees are paid to International Water and Energy Savers Ltd.
(ii) 500,000 shares were issued to each party, granted on 14 July 2021 as a bonus payment for out-of-scope services over the past two years.
(iii) Resigned 17 March 2021.

Remuneration Report (Audited)

Table 2 – 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						
Chris 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 23 for further details).

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

Table 3 – Relative proportion of fixed vs variable remuneration expense

Name	Fixed Remuneration		At Risk – STI (%)		At Risk – LTI (%)	
	2021	2020	2021	2020	2021	2020
Directors						
Adam Blumenthal	**70%**	**81%**	**30%**	**19%**	**-**	**-**
James Ellingford	**28%**	**84%**	**60%**	**16%**	**12%**	**-**
Miri Halperin Wernli	**22%**	**77%**	**78%**	**23%**	**-**	**-**
Boaz Wachtel	**43%**	**61%**	**15%**	**39%**	**42%**	**-**
Senior Executives						
Chris Grundy	**64%**	**61%**	**36%**	**19%**	**-**	**20%**

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

31 December 2021	Balance at 01/01/2021	Granted as Remuneration	Exercised	Net Change – Other	Sold	Balance at 31/12/2021
Directors						
Adam Blumenthal	146,498,766	-	-	-	(32,833,333)	113,665,433
James Ellingford	1,450,000	500,000	-	-	(797,500)	1,152,500
Miri Halperin Wernli	13,633,333	-	-	(13,633,333)(i)		-
Boaz Wachtel	8,300,000	500,000	-	-		8,800,000
Senior Executives						
Chris Grundy	640,000	-	300,000	-		940,000
Total	**170,522,099**	**1,000,000**	**300,000**	**(47,264,166)**		**124,557,933**

(i) Resigned during the year.

Remuneration Report (Audited)

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

31 December 2021	Balance at 01/01/2021	Granted as Remuneration	Exercised	Net Change – Other	Sold	Balance at 31/12/2021	Vested & Exercisable
Directors							
Adam Blumenthal	14,128,387	-	-	12,000,000(i)	-	26,128,387	26,128,387
James Ellingford	-	-	-	-	-	-	-
Miri Halperin Wernli	-	-	-	-	-	-	-
Boaz Wachtel	-	-	-	-	-	-	-
Senior Executives							
Chris Grundy	-	-	-	-	-	-	-
Total	**14,128,387**	**-**	**-**	**12,000,000**	**-**	**26,128,387**	**26,128,387**

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

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

31 December 2021	Balance at 01/01/2021	Granted as Remuneration	Exercised	Net Change – Other(i)	Sold(i)	Balance at 31/12/2021	Vested & Exercisable
Directors							
Adam Blumenthal	-	-	-	125,700,456	(87,811,977)	37,888,479	37,888,479
James Ellingford	-	-	-	384,167	-	384,167	384,167
Miri Halperin Wernli	-	-	-	-	-	-	-
Boaz Wachtel	-	-	-	2,933,334	-	2,933,334	2,933,334
Senior Executives							
Chris Grundy	-	-	-	313,334	-	313,334	313,334
Total	**-**	**-**	**-**	**129,331,291**	**(87,811,977)**	**41,519,314**	**41,519,314**

(i) A total of 41,519,314 CPHO options were granted in a bonus issue and 87,811,977 CPHOA options were issued to Atlantic Capital Holdings Pty Ltd, a related party of Adam Blumenthal, for services relating to the October 2020 placement, these options were subsequently sold.

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

31 December 2021	Balance at 01/01/2021	Granted as Remuneration	Vested and Exercised	Others	Balance not Vested at 31/12/2021	Balance Vested not Exercised at 31/12/2021
Directors						
Adam Blumenthal	-	-	-	-	-	-
James Ellingford	-	-	-	-	-	-
Miri Halperin Wernli	-	-	-	-	-	-
Boaz Wachtel	1,600,000	-	-	-	1,600,000	-
Senior Executives						
Chris Grundy	400,000	-	(300,000)	(100,000)	-	-
Total	**2,000,000**	**-**	**(300,000)**	**(100,000)**	**1,600,000**	**-**

Remuneration Report (Audited)

E Service Agreements

❖ **Dr James Ellingford – Executive Chairman**
- 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.

❖ **Mr Adam Blumenthal – Non-Executive Director**
- Contract: Commenced on 20 November 2015.
- Director's Fee: $48,000 per annum (plus statutory superannuation entitlements).
- Mernova Medicinal Inc.- Consultancy 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.

❖ **Mr Boaz Wachtel – Non-Executive Director**
- Contract: Commenced on 18 October 2016.
- Director's Fee: $2,500 per month from November 2019 to May 2020.
- Director's Fee: $5,000 per month from June 2020 to 21 May 2021.
- Director's Fee: $6,667 per month from 22 May 2021 onwards.
- Director's Fees are paid to International Water and Energy Savers Limited.
- Term: 3 years or as extended per the Consultant Agreement.
- Notice Period: 12 months.
- Performance Based Bonus: Mr Wachtel is entitled to a discretionary bonus equal to 50% of the Fee on an annual basis, subject to meeting performance criteria agreed by the Board each year.

❖ **Mr Chris Grundy – Chief Financial Officer**
- Contract: Commenced on 21 November 2017.
- Base Salary: $240,000 per annum (plus statutory superannuation entitlements) to 25 March 2021.
- Base Salary: $290,000 per annum (plus statutory superannuation entitlements) from 26 March 2021.
- Term: No fixed term.
- Notice Period: 12 weeks.
- Bonus: Mr Grundy is entitled to a discretionary bonus on an annual basis as determined by the Company.

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 300,000 shares to KMP only upon vesting of their performance rights, refer to Table 4.

During the current financial year, the Company issued 1,000,000 shares to KMP as part of their remuneration, refer to Table 4.

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.

2021 Financial Year:

During the 2021 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 23 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	-	100%	-

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

G Equity Instruments Issued on Exercise of Remuneration Options

No remuneration options were exercised by KMP during the financial year (2020: 600,000).

Remuneration Report (Audited)

H Transactions with KMP and Related Parties

(a) Key Management Personnel Compensation

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

	2021	2020
	$	$
Short-term benefits	**1,738,131**	1,544,623
Post-employment benefits	**79,736**	89,325
Share-based payments	**140,000**	86,364
	1,934,497	1,720,312

(b) Transactions with related parties

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

	2021	2020
	$	$
EverBlu Capital Pty Ltd - a company of which Adam Blumenthal is the Chairman		
Capital raising fees payable in cash	**-**	828,475
Capital raising fees payable in shares(i)	**756,000**	
Legal fees	**36,364**	103,350
Monthly retainer	**330,000**	300,000
IRESS service fees	**4,415**	4,683
Out of scope fees	**417,381**	851,818
Cash component of share issues	**-**	1,949,831
	1,544,160	4,038,157
Balance owing to EverBlu Capital Pty Ltd at 31 December	**-**	-
Balance owing to Creso at 31 December	**-**	-
Everblu Capital Corporate Pty Ltd		
Capital raising fees	**1,573,406**	1,292,136
Reimbursement of invoices paid on Creso's behalf	**-**	76,230
Debt restructuring fees	**605,000**	-
Business development and investor relations	**440,000**	-
Facilitation fees	**275,000**	-
Out of scope fees, including restructuring and corporate advice	**968,000**	256,230
	3,861,406	1,624,596
Balance owing to EverBlu Capital Corporate Pty Ltd at 31 December	**197,322**	-
Balance owing to Creso at 31 December	**-**	-

The above fees are inclusive of GST.

Remuneration Report (Audited)

H Transactions with KMP and Related Parties (continued)

	2021 $	2020 $
Suburban Holdings Pty Ltd – related party		
Tranche 1 Convertible Notes		
Amount drawn down by Creso	-	-
Amount repaid	**250,000**	1,250,000
Balance owing at 31 December	-	250,000
Anglo Menda Pty Ltd – related party		
Short term loan to Creso	-	61,000
Share placement	-	1,000,000
Balance owing at 31 December	-	-
Atlantic Capital Pty Ltd – related party		
Share placement	-	3,000,000
Adam Blumenthal		
Balance owing from Creso at 31 December	-	50,000
Balance owing to Creso at 31 December(ii)	**85,000**	-
James Ellingford		
Balance owing from Creso at 31 December	-	48,144
Miri Halperin Wernli		
Balance owing from Creso at 31 December	-	125,000
International Water and Energy Savers Ltd - a company controlled by Boaz Wachtel		
Director's Fees for Boaz Wachtel	**127,143**	82,500
Balance owing from Creso at 31 December	-	30,000
Jorge Wernli – related party to Miri Halperin Wernli		
Salary and bonus	**174,512**	391,175
Balance owing from Creso 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 of $85,000 was owed by Adam Blumenthal due to an administration error. Interest has not been charged. The amount receivable was settled in February 2022.

Remuneration Report (Audited)

H Transactions with KMP and Related Parties (continued)

Other Share and Option Transactions with Related Parties				
	2021		2020	
	Shares	**Options**	Shares	Options
EverBlu Capital Pty Ltd				
Broker fees	**3,600,000**	**-**	-	-
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
Subtotal	**3,600,000**	**-**	19,098,718	66,281,108
Suburban Holdings Pty Ltd				
Issue of bonus listed options	**-**	**6,914,411**	-	-
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
Subtotal	**-**	**6,914,411**	58,217,107	10,738,832
Atlantic Capital Holdings Pty Ltd				
Issue of shares and listed options – October placement	**-**	**87,811,977**	34,364,261	-
Issue of shares – Additional placement	**-**	**-**	103,092,784	-
Issue of bonus listed options	**-**	**37,888,478**	-	-
Issue of unlisted options for EverBlu out of scope fees	**-**	**12,000,000**	-	-
Subtotal	**-**	**137,700,455**	137,457,045	-
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 or related parties during the year ended 31 December 2021.

Remuneration Report (Audited)

I Additional Information

The earnings of the consolidated entity for the five years to 31 December 2021 are summarised below:

	2021 $	2020 $	2019 $	2018 $	2017 $
Revenue from products	6,218,337	2,447,761	3,626,427	558,382	91,609
Revenue from services	-	-	-	-	152,189
Royalty income	221	17,216	33,265	19,840	1,112
Total Revenue	**6,218,558**	**2,464,977**	**3,659,692**	**578,222**	**244,910**
EBITDA	(29,241,149)	(25,486,532)	(10,991,546)	(16,730,515)	(15,069,438)
Loss after income tax	(30,030,967)	(30,779,581)	(15,339,772)	(16,845,686)	(15,076,076)
Share Price	0.082	0.180	0.125	0.49	0.92
Basic EPS ($)	(0.03)	(0.08)	(0.10)	(0.14)	(0.18)
Diluted EPS ($)	(0.03)	(0.08)	(0.10)	(0.14)	(0.18)

Voting and comments made at the Company’s 2021 Annual General Meeting (“AGM”):

At the 2021 AGM, 94.5% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2020. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

End of Audited Remuneration Report

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

DECLARATION OF INDEPENDENCE BY STEPHEN MAY TO THE DIRECTORS OF CRESO PHARMA LIMITED

As lead auditor of Creso Pharma Limited for the year ended 31 December 2021, 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.

Stephen May
Director

BDO Audit Pty Ltd

Sydney

28 February 2022

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 31 December 2021

	Note	2021 $	2020 $
Revenue from continuing operations			
Revenue	4	**6,218,558**	2,464,977
Cost of sales		**(4,999,775)**	(5,393,067)
Gross profit		**1,218,783**	(2,928,090)
Other income	4	**34,812**	177,829
Expenses			
Loss on fair value adjustments	12	**(1,619,173)**	(937,109)
Administrative expenses	5(a)	**(23,172,861)**	(7,089,440)
Depreciation and amortisation expenses	5(b)	**(266,150)**	(352,429)
Employee benefit expenses	5(c)	**(3,687,121)**	(2,367,632)
Impairment of intangibles	14	**-**	(4,671,418)
Share-based payment expenses	23	**(122,679)**	(179,216)
Other expenses		**(703,661)**	(497,199)
Gain on settlement of convertible notes		**-**	899,628
Loss on disposal of investment in Creso Grow Ltd	27	**-**	(1,443,662)
Foreign exchange gain/(loss)		**(6,585)**	50,137
Finance costs	5(d)	**(1,706,332)**	(11,440,980)
(Loss) from continuing operations before income tax		**(30,030,967)**	(30,779,581)
Income tax expense		**-**	-
(Loss) from continuing operations after income tax		**(30,030,967)**	(30,779,581)
Other comprehensive income			
Exchange differences on translation of foreign operations		**1,081,662**	(1,257,285)
Other comprehensive income for the year, net of tax		**1,081,662**	(1,257,285)
Total comprehensive (loss) for the year		**(28,949,305)**	(32,036,866)
(Loss) for the year attributable to:			
Non-controlling interest		**-**	-
Owners of Creso Pharma Australia Limited		**(30,030,967)**	(30,779,581)
		(30,030,967)	(30,779,581)
Total comprehensive (loss) for the year attributable to:			
Non-controlling interest		**-**	-
Owners of Creso Pharma Australia Limited		**(28,949,305)**	(32,036,866)
		(28,949,305)	(32,036,866)
(Loss) per share for the year attributable to the members of Creso Pharma Limited:			
Basic and Diluted loss per share (cents)		**(2.71)**	(8.30)

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 2021

	Note	2021 $	2020 $
ASSETS			
Current assets			
Cash and cash equivalents	8	**7,184,405**	6,047,091
Trade and other receivables	10	**1,101,790**	636,720
Inventories	11	**1,398,064**	1,108,963
Biological assets	12	**457,027**	143,192
Total current assets		**10,141,286**	7,935,966
Non-current assets			
Property, plant and equipment	13	**10,435,308**	9,907,853
Intangible assets	14	**8,314,320**	1,276,789
Other assets		**423,192**	-
Total non-current assets		**19,172,820**	11,184,642
Total assets		**29,314,106**	19,120,608
LIABILITIES			
Current liabilities			
Trade and other payables	15	**1,471,148**	2,162,911
Provisions	16	**84,346**	49,772
Borrowings	17	**-**	3,255,754
Total current liabilities		**1,555,494**	5,468,437
Total liabilities		**1,555,494**	5,468,437
Net assets		**27,758,612**	13,652,171
EQUITY			
Issued Capital	18	**109,950,694**	71,794,123
Reserves	19	**12,631,327**	23,858,528
Accumulated losses		**(94,823,409)**	(82,000,480)
Total equity		**27,758,612**	13,652,171

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 2021

Group	Issued Capital $	Share-based Payment Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Non-Controlling Interest $	Total $
At 1 January 2021	**71,794,123**	**23,557,350**	**301,178**	**(82,000,480)**	**-**	**13,652,171**
Loss for the year	**-**	**-**	**-**	**(30,030,967)**	**-**	**(30,030,967)**
Other comprehensive income	**-**	**-**	**1,081,662**	**-**	**-**	**1,081,662**
Total comprehensive income/(loss) for the year after tax	**-**	**-**	**1,081,662**	**(30,030,967)**	**-**	**(28,949,305)**
Transactions with owners in their capacity as owners:						
Issue of share capital	18,000,000	-	-	-	-	18,000,000
Issue of shares for the acquisition of Halucenex and Impactive	6,300,573	-	-	-	-	6,300,573
Issue of equity for services	3,481,000	4,616,775	-	-	-	8,097,775
Issue of equity to settle loan	3,280,000	-	-	-	-	3,280,000
Issue of equity to extinguish liability	863,158	159,721	-	-	-	1,022,879
Share-based payments	-	122,679	-	-	-	122,679
Shares issued to Directors	140,000	-	-	-	-	140,000
Exercise of options	8,528,092	-	-	-	-	8,528,092
Share issuance costs	(2,436,252)	-	-	-	-	(2,436,252)
Expired options	-	(17,208,038)	-	17,208,038	-	-
At 31 December 2021	**109,950,694**	**11,248,487**	**1,382,840**	**(94,823,409)**	**-**	**27,758,612**
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

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 2021

	Note	2021 $	2020 $
Cash flows from operating activities			
Receipts from customers		**5,910,220**	3,609,478
Payments to suppliers and employees		**(27,938,714)**	(13,121,485)
Interest received		**1**	317
Interest paid		**(349,423)**	(109,890)
Net cash used in operating activities	8(a)	**(22,377,916)**	(9,621,580)
Cash flows from investing activities			
Payments for plant and equipment		**(450,921)**	(44,362)
Payments for intangibles		**(3,393)**	(384,788)
Payment for Halucenex acquisition		**(493,955)**	-
Loan to Sierra Sage Herbs LLC		**(423,191)**	-
Payment on disposal of investment in Creso Grow Limited		**-**	(402,539)
Net cash used in investing activities		**(1,371,460)**	(831,689)
Cash flows from financing activities			
Proceeds from issue of shares		**18,000,000**	12,474,140
Proceeds from exercise of options		**8,528,092**	-
Proceeds from borrowings		**-**	7,095,741
Repayment of borrowings		**(200,625)**	(2,005,747)
Borrowing costs		**-**	(2,192,030)
Payment of share issue costs		**(1,434,191)**	(1,722,201)
Net cash from financing activities		**24,893,276**	13,649,903
Net increase/(decrease) in cash and cash equivalents		**1,143,900**	3,196,634
Cash and cash equivalents at the beginning of the year		**6,047,091**	2,800,318
Effect on exchange rate fluctuations on cash held		**(6,586)**	50,139
Cash and cash equivalents at the end of the year	8	**7,184,405**	6,047,091

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 2021 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 28 February 2022.

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 28.

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 2021. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations is that they are not applicable.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

As disclosed in the financial statements, the Group incurred a loss of $28,949,305 (2020: $32,036,866) and had net cash outflows from operating activities of $22,277,916 (2020: $9,621,580) for the year ended 31 December 2021.

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

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

- The ability of the Group to raise additional funds from shareholders, new investors and debt markets. The Group has successfully conducted a number of capital raises in both the current and recent years and on 25 February 2022, the Company announced to have received firm commitments for a capital raising of $5m via the placement of approximately 72.4m shares at an issue price of $0.069. When taking these into account, there is a reasonable expectation that alternative sources of funding can be sourced, as and when required. Further, the Company understands it will require further funding to continue to execute on its growth strategy as planned and is in negotiations with various parties to secure these funds and it is the Directors view that one or more of these funding arrangements will be successful;
- 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 North American and European 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 2021 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 amount’ method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved.

Sale of goods

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

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 – 30 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, employees and outside parties for services provided.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Inventories

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

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

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

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.
- North America includes the operating companies; Mernova Medicinal Inc ("Mernova"), Halucenex Life Sciences Inc. ("Halucenex") and Creso Impactive Ltd ("Impactive"), 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 2021	**Asia Pacific $**	**Europe & Middle East $**	**North America $**	**South America $**	**Total $**
Revenue from products	-	2,580,102	3,638,235	-	6,218,337
Royalty income	221	-	-	-	221
Total segment revenue	221	2,580,102	3,638,235	-	6,218,558
Other income	10,240	-	24,571	-	34,811
Loss before income tax expense	(16,742,721)	(3,516,308)	(9,653,462)	(118,475)	(30,030,967)
Total Segment Assets	4,676,061	3,153,930	21,484,115	-	29,314,106
Total Segment Liabilities	850,061	148,281	557,152	-	1,555,494

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

Notes to the Consolidated Financial Statements

NOTE 4 REVENUE AND OTHER INCOME	2021 $	2020 $
Revenue from continuing operations		
Revenue from sale of products	**6,218,337**	2,447,761
Royalty income	**221**	17,216
	6,218,558	2,464,977
Other income		
Interest received	**1**	317
Lease income	**24,571**	26,380
Other Income	**10,240**	151,132
	34,812	177,829

Disaggregation of revenue

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

Consolidated		
Major product lines		
Medicinal cannabis packaged products	**2,580,102**	1,232,918
Dried cannabis plant products	**3,638,235**	1,214,843
Royalty Income	**221**	17,216
Total	**6,218,558**	2,464,977
Geographical regions		
Europe & Middle East	**2,580,102**	1,232,918
North America	**3,638,235**	1,214,843
Asia Pacific	**221**	17,216
Total	**6,218,558**	2,464,977
Timing of revenue recognition		
Goods transferred at a point in time	**6,218,337**	2,447,761
Royalty income	**221**	17,216
Total	**6,218,558**	2,464,977

Notes to the Consolidated Financial Statements

NOTE 5 EXPENSES

		2021	2020
		$	$
(a)	**Administrative expenses**		
	Accounting and company secretarial fees	**722,766**	407,957
	Travel costs	**79,957**	62,157
	Consulting fees	**8,308,025**	3,511,590
	Corporate advisory and business development	**4,037,735**	644,171
	Legal fees	**1,612,269**	996,952
	Compliance and regulatory expenses	**646,676**	307,644
	Investor and media relations	**1,386,479**	516,772
	Marketing	**3,079,524**	469,407
	US based marketing and media relations	**2,759,314**	-
	General and administration expenses	**540,116**	172,790
		23,172,861	7,089,440
(b)	**Depreciation and amortisation expense**		
	Total depreciation per note (13)	**633,126**	623,948
	Less: capitalised to inventory	**(581,770)**	(617,074)
	Amortisation expense per note (14)	**214,794**	345,555
		266,150	352,429
(c)	**Employee benefit expenses**		
	Director fees	**1,375,741**	1,224,623
	Wages and salaries	**1,642,800**	711,612
	Recruitment fees	**38,412**	5,472
	Superannuation	**88,798**	81,120
	Other employee expenses	**541,370**	344,805
		3,687,121	2,367,632
(d)	**Finance costs**		
	Loan drawdown fees	**-**	167,777
	Loan raising fees settled in options issued	**-**	44,225
	Capital raising fees settled in cash	**153,750**	930,453
	Capital raising fees settled in shares (Related Party - EverBlu)	**(6,000)**	742,500
	Loan settlement fees settled in cash	**-**	1,300,000
	Loan settlement fee settled in shares	**-**	2,605,000
	Loss on extinguishment of liabilities	**1,022,879**	210,350
	Loss on embedded derivative	**-**	1,961,750
	Interest expense	**523,669**	3,179,883
	Transaction costs recognised on convertible notes	**-**	272,042
	Bank charges	**12,034**	27,000
		1,706,332	11,440,980

Notes to the Consolidated Financial Statements

NOTE 6 INCOME TAX EXPENSE	2021 $	2020 $
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	**(30,030,967)**	(30,779,581)
Prima facie tax benefit on loss before income tax at 27.5% (2020: 27.5%)	**(8,258,516)**	(8,464,385)
(b) Tax effect of:		
Tax effect on different tax rate of overseas subsidiaries	**1,772,056**	1,876,284
Share-based payments	**33,737**	49,284
Travel expenses	**5,288**	5,104
Legal expenses	**441,485**	274,162
Capital raising costs	**(227,841)**	(150,294)
Others non-deductible expenses	**53,963**	1,990,685
Temporary differences	**-**	(27,702)
Tax losses not recognised	**5,862,604**	4,446,862
Total	-	-
(c) Deferred tax assets not brought to account are:		
Carried forward losses	**16,018,561**	10,155,957
Total	**16,018,561**	10,155,957

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.

	2021	2020
	$	$
Net loss for the year	**(30,030,967)**	(30,779,581)
Non-controlling interest	**-**	-
Net loss for the year attributable to the owners of Creso Pharma Limited	**(30,030,967)**	(30,779,581)
Weighted average number of ordinary shares for basic and diluted loss per share.	**1,107,288,813**	370,624,639

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

Continuing operations		
• Basic and diluted loss per share (cents)	**(2.71)**	(8.30)

NOTE 8 CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**7,184,405**	6,047,091
	7,184,405	6,047,091

Cash at bank earns interest at floating rates based on daily deposit rates. Short-term deposits are made in varying periods between one day and three months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rate, currently 0.01% (2020: 0.20%).

(a) Reconciliation of net loss after tax to net cash flows from operations		
Loss for the financial year	**(30,030,967)**	(30,779,581)
Adjustments for:		
Depreciation and amortisation	**847,919**	352,429
(Gain)/loss on foreign exchange	**6,585**	(50,137)
Share based payments	**122,679**	179,216
NRV adjustments to inventory and fair value adjustments to biological assets	**(2,525,913)**	3,882,416
Impairment of intangible assets	**-**	4,671,418
Disposal of investment in Creso Grow Limited	**-**	1,041,123
Interest settled by issue of equity	**280,000**	-
Issue of equity for services	**8,257,494**	8,188,205
Issue of equity to extinguish liability	**863,158**	310,350
Absorption of depreciation costs in biological assets and inventory	**(581,769)**	617,074
Other non-cash items	**72,081**	4,682
Changes in assets and liabilities		
Receivables	**465,070**	1,061,778
Inventories	**289,101**	883,969
Biological assets	**313,834**	-
Trade and other payables	**(691,762)**	16,962
Provisions	**34,574**	(1,484)
Net cash used in operating activities	**(22,277,916)**	(9,621,580)

Notes to the Consolidated Financial Statements

NOTE 8 CASH AND CASH EQUIVALENTS (continued)

(b) Non-cash investing and financing activities

	2021 **$**	2020 $
Options issued on acquisition of cultivation licence	**-**	996,000
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	**(1,002,061)**	(4,352,158)
Impairment of intangible assets	**-**	(4,671,418)
Issue of shares for the acquisitions of Halucenex and Impactive	**6,300,573**	-
Issue of share to settle the loan	**3,000,000**	-

(c) Changes in liabilities arising from financing activities

	31 December 2020 **$**	**Cash Flows** **$**	**Non-cash Flows** **$**	**31 December 2021** **$**
Movement in convertible notes	**3,150,000**	**(150,000)**	**(3,000,000)**	**-**
Coupon interest on convertible notes	**105,754**	**(105,754)**	**-**	**-**
	3,255,754	**(255,754)**	**(3,000,000)**	**-**

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

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** **2021** %	2020 %
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

	2021	2020
	$	$
Trade debtors	**408,270**	27,055
Goods and Services Tax ('GST') receivable	**319,660**	371,199
Canadian HST Receivable	**59,388**	42,866
Receivable from related party[(i)]	**85,000**	-
Other deposits and receivables	**229,472**	195,600
	1,101,790	636,720

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 2021 (2020: Nil).

(i) $85,000 was due from Adam Blumenthal at the year end, this was caused by an administration error and was rectified in February 2022 with the amount being repaid.

NOTE 11 INVENTORIES

	2021	2020
	$	$
Finished goods – Medicinal cannabis packaged products	**158,948**	-
Finished goods – Harvested cannabis plant products	**1,152,675**	1,073,836
Finished goods – Consumables inventory	**86,441**	35,127
	1,398,064	1,108,963

During the year ended 31 December 2021, the Group gained $770,894 (2020: expensed $3,089,887) of fair value adjustments on the growth of its biological assets included in inventory sold. As at 31 December 2021, the Group holds 1,277 kilograms of harvested cannabis (2020: 1,100 kilograms).

NOTE 12 BIOLOGICAL ASSETS

The Company's biological assets consist of 8,559 cannabis plants as at 31 December 2021 (2020: 9,480 cannabis plants). The continuity of biological assets is as follows:

	2021	2020
	$	$
Carrying amount at 1 January	**143,192**	423,672
Production costs capitalised	**4,402,561**	3,359,907
Increase/(decrease) in FVLCS due to biological transformation	**(1,619,173)**	(937,109)
Foreign exchange translation	**14,474**	(14,708)
Less: Transfer to inventory upon harvest	**(2,484,027)**	(2,688,570)
Carrying amount at 31 December	**457,027**	143,192

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 2021 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.

Notes to the Consolidated Financial Statements

NOTE 12 BIOLOGICAL ASSETS (CONTINUED)

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

Dried Flower

The dried flower model utilises the following significant assumptions:

	Weighted Average 31 December 2021	Weighted Average 31 December 2020
Weighted average of expected loss of plants until harvest	**9%**	10%
Expected yields for cannabis plants (average grams per plant)	**28**	30
Expected number of growing weeks	**12**	12
Weighted average number of growing weeks completed as a percentage of total growing weeks at period-end	**51%**	57%
Estimated selling price per gram	**C$4.00**	C$2.25
After harvest costs to complete and sell per gram	**C$0.85**	C$0.50
Reasonable margin on after harvest costs to complete and sell per gram	**C$3.15**	C$1.75

Shake

The shake model utilises the following significant assumptions:

	Weighted Average 31 December 2021	Weighted Average 31 December 2020
Weighted average of expected loss of plants until harvest	**9%**	10%
Expected yields for cannabis plants (average grams per plant)	**13**	24
Expected number of growing weeks	**12**	12
Weighted average number for growing weeks completed as a percentage of total growing weeks at period-end	**51%**	57%
Estimated selling price per gram	**C$0.50**	C$0.20
After harvest costs to complete and sell per gram	**C$0.50**	C$0.20
Reasonable margin on after harvest costs to complete and sell per gram	**C$0.00**	C$0.00

Sensitivity analysis

Assuming all other unobservable inputs are held constant, management has quantified the sensitivity of the inputs and determined the following:

- Selling price per gram – a decrease in the average selling price per gram by 10% would result in the biological asset value decreasing by $53,653 and inventory decreasing by $97,095.
- Harvest yield per plant – a decrease in the harvest yield per plant of 10% would result in the biological asset value decreasing by $42,252.

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 2021 (2020: none).

At 31 December 2021, the Group had no commitments in relation to growing its cannabis (2020: nil).

Notes to the Consolidated Financial Statements

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

	2021 $	2020 $
Opening net book amount	**9,907,853**	11,270,479
Additions (Capital Expenditure and Acquired assets)	**544,452**	44,361
Disposals	**-**	(2,320)
Depreciation charge	**(633,126)**	(623,948)
Foreign exchange translation	**616,129**	(780,719)
Closing net book amount	**10,435,308**	9,907,853
Cost	**12,134,464**	10,973,883
Accumulated depreciation	**(1,699,156)**	(1,066,030)
Net book amount	**10,435,308**	9,907,853

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 2021	Additions	Acquired on acquisition	Disposals	Foreign currency fluctuation	Depreciation expense	Balance at 31 Dec 2021
Land	359,536	-	-	-	22,283	-	381,819
Buildings & Improvement	7,885,736	47,013	85,476	-	484,941	(293,401)	8,209,765
Plant and equipment	100,219	114,825	8,055	-	12,188	(44,371)	190,916
Machine & Equipment	162,786	52,528	-	-	10,320	(40,170)	185,464
Irrigation & Lighting	1,102,205	229,232	-	-	68,832	(201,548)	1,198,721
Security System	297,371	7,323	-	-	17,565	(53,636)	268,623
Total	**9,907,853**	**450,921**	**93,531**	**-**	**616,129**	**(633,126)**	**10,435,308**

	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**

Notes to the Consolidated Financial Statements

NOTE 14 INTANGIBLE ASSETS

Current	**2021** **$**	2020 $
Licences (Canadian) (a)	**1,156,443**	1,274,599
Licences (Colombian) (b)	**-**	-
Intellectual property (c)	**-**	2
Computer software (d)	**-**	2,188
Intellectual property acquired on acquisition (e)	**7,154,484**	-
Intellectual property purchased (f)	**3,393**	-
	8,314,320	1,276,789

(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. The Mernova facility commenced cultivation in 2019, its operations have grown continuously since then and the directors are confident of the growth prospects of the business.

(b) Licences 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.

(e) Intellectual Property
Comprises the results of clinical trials for the formulation of a synthetic psilocybin that were acquired from Halucenex.

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

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 2021	**1,274,599**	**-**	**2**	**2,188**	**1,276,789**
Additions	-	-	3,393	-	3,393
Acquired on acquisition	-	-	7,084,939	-	7,084,939
Impairment	-	-	-	-	-
Foreign exchange translation	94,357	-	69,543	93	163,993
Amortisation expense	(212,513)	-	-	(2,281)	(214,794)
Balance at 31 December 2021	**1,156,443**	**-**	**7,157,877**	**-**	**8,314,320**
Remaining amortisation period (years)	26	-	29	-	

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**

During the year ended 31 December 2021, the Group recorded an impairment charge to Intangible Assets of $Nil (2020: $4,671,418). 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 in the consideration of impairment indicators:

- The Swiss CGU of the Company's business has been affected by changes in the regulations of its products in its principal markets in Europe, leading to the need to re-formulate the products and rediscuss them with its distribution partners for those markets.
- The Mernova CGU of the Company's business is in its early phase and needs to continue its development to grow its revenues and become cash flow positive.
- The Halucenex CGU of the Company's business was acquired in July 2021 in an arm's length transaction through an asset acquisition. Since the acquisition, Halucenex has made strong progress ahead of its planned clinical trial and receiving a Dealer's Licence amendment that now includes production and packaging, opening new revenue lines in the future. For these reasons and other general progress, there are no indicators of impairment in the carrying value.

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.

The impairment testing performed at 31 December 2021 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 in prior periods 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.

The impairment testing performed at 31 December 2021 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:

	Mernova	**Switzerland**
Forecast period and short-term revenue growth rate (a)	5 years	5 years
Terminal / long term revenue growth rate (b)	3% terminal rate	3% terminal rate
Post tax discount rate (c)	22%	50%

Assumption	**Approach used to determine values**
(a) Forecast period and short-term revenue growth rate	The forecast is based on a Board approved budget for FY22 and growth estimates for periods beyond the budget period. Specific factors considered in the forecasts used in the impairment model: • The impact of COVID-19 has been comparatively minor in effect on operations and management have assumed moderate delays in the timing of expected growth. • The Mernova CGU is becoming established, with revenues continuously increasing as a result of production efficiencies, improvements in quality and yields, an expanded product range including premium products, penetration of new provinces and increased market share through a growing customer base. The CGU has an average forecast growth of 42% across the forecast period and the revenue growth in both % and dollar terms is expected to increase more significantly in earlier years due to the lower revenue base, as the business is moving from start up to growth phase. This growth trend is also supported by revenues increasing by 199% in FY2021, highlighting the growth phase that the Company is experiencing. • The Swiss CGU has an average forecast growth of 8% across the forecast period.
(b) Terminal / long term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the forecast period. Management have considered the impact of Covid-19 and determined that it is not expected to have a significant impact on the timing of expected growth. The long-term growth rate has been set at 3% to reflect the uncertainty in the forecast future cash flows beyond the budget period in each CGU.
(c) Post tax discount rate	The post-tax discount rate used in each CGU reflects management's estimate of the time value of money and the risks specific to the asset or CGU. The post-tax discount rate for Mernova has reduced from 26% to 22% when compared to 31 December 2020 based on the progress and de-risking of the business that has occurred in FY2021. As noted above, this is supported by the significant increase in FY2021 revenue and the plans in place to deliver continued growth. The directors and management note that the discount rate as at 31 December 2021 still includes a company specific risk premium based on an assessment of risks specific to the CGU, the early-stage business and execution risk of the forecasts.

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

For the Mernova CGU, if any one of the following changes were made to the above key assumptions, the carrying amount and recoverable amount would be equal:

	Mernova CGU
Post tax discount rate	Increase by approximately 1.5%
FY22 Revenue	Decrease by approximately 30%
Long term growth rate	Decrease by approximately 3%

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

Notes to the Consolidated Financial Statements

NOTE 15 TRADE AND OTHER PAYABLES

	2021	2020
	$	$
Trade payables	**281,587**	633,923
Payables to related parties (note 22)	**-**	250,000
Accrued expenses	**874,977**	757,885
Accrued expenses for related parties (note 22)	**197,322**	377,409
Income in Advance	**39,807**	57,160
Other payables	**77,455**	86,534
	1,471,148	2,162,911

NOTE 16 PROVISIONS

	2021	2020
	$	$
Employee provisions	**84,346**	49,772

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 17 BORROWINGS

	2021	2020
	$	$
Short-term loans	**-**	3,255,754
	-	3,255,754

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 loans were repaid in full during the first half of FY2021 via cash, shares and options.

The remaining $150,000 loan was from Rimoyne Pty Ltd, entered into on 25 September 2020, the loan was repaid in full in January 2021.

NOTE 18 ISSUED CAPITAL

(a) Issued and fully paid	**2021**		2020	
	No.	**$**	No.	$
Ordinary shares	**1,226,370,447**	**109,950,694**	902,295,934	71,794,123

(b) Movement in issued shares – 2021

	Number	**$**
At 1 January 2021	**902,295,934**	**71,794,123**
Issuance of shares pursuant to a Placement	**94,736,843**	**18,000,000**
Issue of Shares as part consideration for acquisitions	**48,768,327**	**6,300,573**
Issue of shares to Employees & Consultants	**15,000,000**	**2,025,000**
Exercise of options	**140,101,837**	**8,528,092**
Conversion of Employee Performance Rights	**300,000**	**-**
Issue of shares to settle loan	**13,666,666**	**3,280,000**
Issue of shares for services	**6,904,348**	**1,456,000**
Shares issued to Directors	**1,000,000**	**140,000**
Issue of share capital for extinguish of liability	**3,596,492**	**863,158**
Less: Equity raising costs	**-**	**(2,436,252)**
At 31 December 2021	**1,226,370,447**	**109,950,694**

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

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 19 RESERVES

	2021 $	2020 $
Share-based payments	**11,248,487**	23,557,350
Foreign currency translation reserve	**1,382,840**	301,178
	12,631,327	23,858,528
Movement reconciliation		
Share-based payments reserve		
Balance at the beginning of the year	**23,557,350**	21,044,323
Equity settled share-based payment transactions (Note 23)	**122,679**	179,216
Conversion of convertible notes	**-**	1,468,909
Issue of equity to settle convertible notes	**-**	232,522
Issue of options for services	**4,616,775**	1,715,616
Issue of options to extinguish liability	**159,721**	221,003
Unlisted options issued	**-**	935,443
Issue of exchangeable shares for the Mernova Milestone 2 Consideration	**-**	996,000
Expired options	**(17,208,038)**	-
Exchange of Exchangeable Preferred Shares	**-**	(3,235,682)
Balance at the end of the year	**11,248,487**	23,557,350
Foreign currency translation reserve		
Balance at the beginning of the year	**301,178**	1,558,463
Effect of translation of foreign currency operations to group presentation	**1,081,662**	(1,257,285)
Balance at the end of the year	**1,382,840**	301,178

Share-based payment reserve

The share-based payment reserve is used to record the value of share-based payments provided to outside parties, and share-based remuneration provided to employees and directors. The issue of the exchangeable shares are considered a share-based payment and are valued using the Black-Scholes model.

Foreign currency translation reserve

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

Notes to the Consolidated Financial Statements

NOTE 20 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:

	2021		
	CHF	**CAD**	**USD**
	Fr.	**$**	**$**
Cash and cash equivalents	**1,892,393**	**477,142**	**1,374**
Trade and other receivables	**88,390**	**509,879**	**208**
Trade and other payables	**98,340**	**510,483**	**9,807**

	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

The consolidated entity had net assets denominated in foreign currencies of $23,932,612 as at 31 December 2021 (2020: $13,756,350). Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% (2020: 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 $1,196,631 lower/$1,196,631 higher (2020: $687,818 lower/$687,818 higher) and equity would have been $1,196,631 lower/$1,196,631 higher (2020: $687,818 lower/$687,818 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management’s assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange gain for the year ended 31 December 2021 was $1,081,662 (2020: loss of $1,257,285).

Price risk

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

Notes to the Consolidated Financial Statements

NOTE 20 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 $Nil (2020: $3,255,754), are principal and interest payment loans, with interest capitalised on inception.

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 20 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 - 2021	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	**-**	**1,471,148**	**-**	**-**	**1,471,148**
Interest-bearing - fixed rate					
Short-term loan	**-**	**-**	**-**	**-**	**-**
Maturity Analysis					
1 – 3 months		**1,471,148**	**-**	**-**	**1,471,148**
4 – 6 months		**-**	**-**	**-**	**-**
Total non-derivatives		**1,471,148**	**-**	**-**	**1,471,148**

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

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 21 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 22 RELATED PARTY DISCLOSURE

(a) Key Management Personnel Compensation

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

	2021 **$**	2020 $
Short-term benefits	**1,738,131**	1,544,623
Post-employment benefits	**79,736**	89,325
Share-based payments	**140,000**	86,364
	1,934,497	1,720,312

(b) Transactions with related parties

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

	2021 **$**	2020 $
EverBlu Capital Pty Ltd - a company of which Adam Blumenthal is the Chairman		
Capital raising fees payable in cash	**-**	828,475
Capital raising fees payable in shares[(i)]	**756,000**	
Legal fees	**36,364**	103,350
Monthly retainer	**330,000**	300,000
IRESS service fees	**4,415**	4,683
Out of scope fees	**417,381**	851,818
Cash component of share issues	**-**	1,949,831
	1,544,160	4,038,157
Balance owing to EverBlu Capital Pty Ltd at 31 December	**-**	-
Balance owing to Creso at 31 December	**-**	-
Everblu Capital Corporate Pty Ltd		
Capital raising fees	**1,573,406**	1,292,136
Reimbursement of invoices paid on Creso's behalf	**-**	76,230
Debt restructuring fees	**605,000**	-
Business development and investor relations	**440,000**	-
Facilitation fees	**275,000**	-
Out of scope fees, including restructuring and corporate advice	**968,000**	256,230
	3,861,406	1,624,596
Balance owing to EverBlu Capital Corporate Pty Ltd at 31 December	**197,322**	-
Balance owing to Creso at 31 December	**-**	-

The above fees are inclusive of GST.

Notes to the Consolidated Financial Statements

NOTE 22 RELATED PARTY DISCLOSURE (CONTINUED)

	2021 $	2020 $
Suburban Holdings Pty Ltd – related party		
Tranche 1 Convertible Notes		
Amount drawn down by Creso	-	-
Amount repaid	250,000	1,250,000
Balance owing at 31 December	-	250,000
Anglo Menda Pty Ltd – related party		
Short term loan to Creso	-	61,000
Share placement	-	1,000,000
Balance owing at 31 December	-	-
Atlantic Capital Pty Ltd – related party		
Share placement	-	3,000,000
Adam Blumenthal		
Balance owing from Creso at 31 December	-	50,000
Balance owing to Creso at 31 December(ii)	85,000	-
James Ellingford		
Balance owing from Creso at 31 December	-	48,144
Miri Halperin Wernli		
Balance owing from Creso at 31 December	-	125,000
International Water and Energy Savers Ltd - a company controlled by Boaz Wachtel		
Director's Fees for Boaz Wachtel	127,143	82,500
Balance owing from Creso at 31 December	-	30,000
Jorge Wernli – related party to Miri Halperin Wernli		
Salary and bonus	174,512	391,175
Balance owing from Creso 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 of $85,000 was owed by Adam Blumenthal due to an administration error. Interest has not been charged. The amount receivable was settled in February 2022.

Notes to the Consolidated Financial Statements

NOTE 22 RELATED PARTY DISCLOSURE (CONTINUED)

(c) Transactions with related parties – non-cash

Other Share and Option Transactions with Related Parties				
	2021		2020	
	Shares	**Options**	Shares	Options
EverBlu Capital Pty Ltd				
Broker fees	**3,600,000**	**-**	-	-
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	**3,600,000**	-	19,928,718	66,281,108
Suburban Holdings Pty Ltd – Related Party				
Issue of bonus listed options	**-**	**6,914,411**	-	-
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	-	**6,914,411**	58,217,107	10,738,832
Atlantic Capital Holdings Pty Ltd				
Issue of shares and listed options – October placement	**-**	**87,811,977**	34,364,261	-
Issue of shares – Additional placement	**-**	**-**	103,092,784	-
Issue of bonus listed options	**-**	**37,888,478**	-	-
Issue of unlisted options for EverBlu out of scope fees	**-**	**12,000,000**	-	-
Subtotal	-	**137,700,455**	137,457,045	-
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 2021.

Notes to the Consolidated Financial Statements

NOTE 23 SHARE BASED PAYMENTS

	2021 $	2020 $
(a) Recognised share-based payment transactions		
Unlisted options issued to employees and consultants	**32,057**	18,216
Performance rights issued to employees and consultants	**90,622**	74,636
Performance rights issued to key management personnel	**-**	86,364
	122,679	179,216

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
23-01-2017	23-01-2017	23-01-2021	$0.50	300,000	-	-	(300,000)	-
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	-	-	(100,000)	300,000
12-02-2020	12-02-2020	12-02-2023	$0.35	2,128,387	-	-	-	2,128,387
12-02-2020	12-02-2020	12-02-2023	$0.40	6,847,725	-	-	-	6,847,725
07-04-2020	07-04-2020	01-03-2024	$0.25	250,000	-	-	-	250,000
07-04-2020	07-04-2020	10-03-2024	$0.08	1,000,000	-	-	-	1,000,000
07-04-2020	07-04-2020	10-03-2024	$0.16	1,000,000	-	-	-	1,000,000
07-04-2020	07-04-2020	10-03-2024	$0.20	500,000	-	-	-	500,000
25-06-2020	25-06-2020	25-06-2023	$0.1389	10,752,688	-	(5,000,000)	-	5,752,688
02-06-2020	02-06-2020	02-06-2023	$0.17	36,764,706	-	(9,000,000)	-	27,764,706
02-06-2020	02-06-2020	02-06-2023	$0.25	4,000,000	-	-	-	4,000,000
02-06-2020	02-06-2020	02-06-2023	$0.20	8,000,000	-	-	-	8,000,000
23-12-2020	23-12-2020	23-12-2023	$0.20	833,333	-	-	-	833,333
23-12-2020	23-12-2020	23-12-2025	$0.039	30,000,000	-	-	-	30,000,000
11-01-2021	11-01-2021	11-01-2023	$0.24	-	8,000,000	-	-	8,000,000
11-01-2021	11-01-2021	11-01-2023	$0.27	-	8,000,000	-	-	8,000,000
11-01-2021	11-01-2021	11-01-2023	$0.30	-	8,000,000	-	-	8,000,000
11-01-2021	11-01-2021	11-01-2023	$0.40	-	2,500,000	-	-	2,500,000
11-01-2021	11-01-2021	11-01-2023	$0.40	-	300,000	-	-	300,000
14-07-2021	14-07-2021	14-07-2024	$0.38	-	12,000,000	-	-	12,000,000
31-08-2021	31-08-2021	01-08-2024	$0.15	-	12,000,000	-	-	12,000,000
31-08-2021	31-08-2021	01-08-2024	$0.18	-	12,000,000	-	-	12,000,000
06-09-2021	06-09-2021	06-09-2024	$0.18	-	10,000,000	-	-	10,000,000
06-09-2021	06-09-2021	06-09-2024	$0.25	-	10,000,000	-	-	10,000,000
25-10-2021	25-10-2021	25-10-2024	$0.1375	-	1,000,000	-	-	1,000,000
				103,526,839	**83,800,000**	**(14,000,000,)**	**(950,000)**	**172,376,389,735,836**
Weighted average exercise price				$0.15	$0.25	$0.16	$0.60	$0.20

Notes to the Consolidated Financial Statements

NOTE 23 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
CPHOA Options	22-01-2021	22-01-2023	Nil	$0.05	-	190,460,834	(126,101,837)	-	64,358,997
CPHO Options	02-11-2021	02-11-2024	Nil	$0.25	-	400,942,239	-	-	400,942,239
					-	**591,403,073**	-	-	**465,301,236**

(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
2,298,000	**15,000,000**	**(300,000)**	**(200,000)**	**16,798,000**

NOTE 24 COMMITMENTS

	2021	2020
	$	$
Capital Commitments		
There were no capital commitments at either year end	**-**	-
	-	-
Operating Lease Commitments		
Within one year	**34,958**	38,577
One to five years	**-**	-
More than five years	**-**	-
	34,958	38,577

The Group does not have any arrangements for the 31 December 2021 (2020: nil) that meet the requirements of recognising a Right of Use asset/liability in accordance with AASB 16.

Notes to the Consolidated Financial Statements

NOTE 25 COMMITMENTS AND CONTINGENCIES

There are no contractual commitments or contingent liabilities at 31 December 2021 (2020: Nil).

NOTE 26 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:

	2021	2020
	$	$
Audit Services- BDO Audit Pty Ltd		
Audit and review of annual and half-year	**264,500**	277,609
Other services – BDO		
– Independent Expert Report	**29,538**	33,291
– Income tax return and GST audit	**39,600**	41,482
Other services – RSM		
– Income tax return and GST audit	**15,000**	-
– Independent Expert Report	**17,600**	-
Component Auditor Fees		
Audit and reviews of the financial statements – BDO	**50,966**	19,828
Audit and reviews of the financial statements – MNP	**33,000**	-
Audit and reviews of the financial statements – PwC	**80,060**	49,019
	530,264	421,229

NOTE 27 INVESTMENT IN CONTROLLED ENTITIES

Company Name	**Principal Activities**	**Country of Incorporation**	**Ownership interest 2021**	**Ownership interest 2020**
			%	%
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
Halucenex	Clinical stage psychedelic drug development company	Canada	**100**	-
Creso Impactive	CBD based life sciences company	Canada	**100**	-

Notes to the Consolidated Financial Statements

NOTE 28 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

	2021 **$**	2020 $
Total current assets	**4,231,012**	4,882,117
Loans receivable and investments in controlled entities	**24,377,661**	13,755,088
Total assets	**28,608,673**	18,637,205
Total current liabilities	**850,061**	4,985,034
Total liabilities	**850,061**	4,985,034
Equity		
Contributed equity	**109,950,694**	72,149,116
Reserves	**11,248,486**	23,103,825
Accumulated losses	**(93,440,568)**	(81,600,770)
Total equity	**27,758,612**	13,652,171
Total comprehensive profit/(loss)	**(29,047,835)**	(31,301,888)

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2021 and 31 December 2020.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2021 and 31 December 2020.

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 29 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 /	**2021**	2020
Name	**Country of incorporation**	**%**	%
CLV Frontier Brands Pty Ltd	Estonia/Australia	**33⅓%**	33⅓%

Summarised financial information	**CLV Frontier Brands Pty Ltd**	
	2021	2020
	$	$
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)	**-**	-

Notes to the Consolidated Financial Statements

NOTE 30 EVENTS AFTER THE REPORTING DATE

- On 17 January 2022, the Company announced the appointment of three new directors, being Mr William Lay as Group CEO and Managing Director, Mr Bruce Linton as a Non-Executive Director and Mrs Micheline MacKay as Executive Director and is the Health Canada designated Responsible Person in Charge at Mernova.
- On 28 January 2022, the Company announced that 400,000 options had been exercised into shares for a consideration of $20,000 and 1,470,588 shares were issued for a deemed issue price of 8.5c for investor relations and marketing services.
- On 3 February 2022, the Company announced it was to enter the US CBD market through the strategic acquisition of established US-based business, Sierra Sage Herbs LLC and leading Green Goo brand ("SSH"). The material terms within the agreement are as follows; Creso, via its wholly owned subsidiary, Creso Pharma US, Inc, will purchase a 100% interest in SSH for a total upfront consideration of US$21m, payable by the issue of fully paid ordinary shares in Creso. In addition to the upfront consideration, SSH vendors may also be entitled to certain milestone payments that can be paid either in shares or cash, the milestone payments could range between zero and US$38.5m. Creso have also agreed to provide up to US1.7m of growth capital in the form of a loan, at the year end, $0.4m had been drawn.
- On 25 February 2022, the Company announced it had firm commitments for a capital raising of $5m via the placement of approximately 72.4m shares at an issue price of $0.069.

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 2021 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

JAMES ELLINGFORD
EXECUTIVE CHAIRMAN
28 February 2022

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Creso Pharma Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Creso Pharma Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, 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 2021 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.

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

Material uncertainty related to going concern

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

Key audit matters

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

Related party transactions

Key audit matter	*How the matter was addressed in our audit*
The Group has disclosed related party transactions as required by AASB 124 *Related Party Transactions* in Note 22 of the financial report. The Group has undertaken numerous related party transactions during the year which this year included issues of shares and options to related parties. Related party disclosures are significant to our audit as they are material, and of interest to users of the financial report due to their nature and value.	Our audit procedures included, amongst others: • Reviewing documentation for related party transactions, to understand the underlying transactions and assess whether they had been recorded correctly; • Obtaining confirmations of related party transactions from all key management personnel and comparing to disclosures; • For transactions with related parties, we assessed management's and those charged with governance's evaluation that transactions were at arm's length, and, where possible, compared to equivalent transactions with third parties; and • Considering the completeness of disclosures in the financial statements and ensuring the disclosures are in accordance with AASB 124 *Related Party Disclosures*.

Valuation of biological assets and inventory

Key audit matter	*How the matter was addressed in our audit*
The Group held biological assets of $457,027 (Note 12) and inventory of $1,398,064 (Note 11) at 31 December 2021. 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 assets

Key audit matter	*How the matter was addressed in our audit*
At 31 December 2021, the carrying value of intangible assets was $8,314,320 as disclosed in Note 14. An annual impairment test for Intangible Assets is required for indefinite life assets or where there are indicators of impairment under Australian Accounting Standard (AASB) 136 *Impairment of Assets*. Impairment testing requires management to make significant judgements and estimates 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 2021, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

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

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 37 of the directors' report for the year ended 31 December 2021.

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

Stephen May
Director

Sydney, 28 February 2022

Shareholder Information

The shareholder information set out below was applicable as at 1 February 2022.

1. QUOTATION

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

3. ON MARKET BUY-BACK

There is no on-market buy back in place.

4. RESTRICTED SECURITIES

There are no restricted securities listed on the Company's register as at 1 February 2022.

5. DISTRIBUTION OF SECURITY HOLDERS

5.1 Fully Paid Ordinary Shares

Shares Range	Holders	Units	%
1 – 1,000	1,820	1,171,041	0.10%
1,001 – 5,000	9,169	29,053,979	2.37%
5,001 – 10,000	4,994	40,243,576	3.28%
10,001 – 100,000	9,631	330,766,888	26.93%
100,001 and above	1,490	827,005,551	67.33%
Total	**27,104**	**1,228,241,035**	**100.00%**

On 1 February 2022, there were 11,679 holders of unmarketable parcels of less than 5,953 ordinary shares (based on the closing share price of $0.084).

Shareholder Information

5.2 Listed CPHOA Options exercisable at $0.05 on or before 22 January 2023

Shares Range	Holders	Units	%
1 – 1,000	2	7	-
1,001 – 5,000	12	48,922	0.08%
5,001 – 10,000	17	143,788	0.22%
10,001 – 100,000	63	2,694,851	4.21%
100,001 and above	28	61,071,429	95.49%
Total	**122**	**63,958,997**	**100.00%**

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

Shares Range	Holders	Units	%
1 – 1,000	6,814	4,032,563	1.01%
1,001 – 5,000	10,753	26,439,047	6.59%
5,001 – 10,000	3,438	25,373,753	6.33%
10,001 – 100,000	4,435	126,212,822	31.48%
100,001 and above	412	218,884,054	54.59%
Total	**25,852**	**400,942,239**	**100.00%**

5.4 Unlisted Options

Class	Quantity on Issue	Distribution of Holders
CPHOPT17 Options ($0.80, 27/07/2022)	200,000	All the securities in this class are held by: - Mr Walter Von Wartberg
CPHOPT19 Options ($0.80, 15/09/2022)	300,000	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:

Shareholder Information

		- 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.
CPHOPT26 Options ($0.1386, 23/06/2023)	5,752,688	All the securities in this class are held by: - Lind Global Macro Fund LP
CPHOPT28 Options ($0.17, 02/06/2023)	27,764,706	All the securities in this class are held by: - CST Capital Pty Ltd <CST Investments Fund A/C>
CPHOPT29 Options ($0.25, 02/06/2023)	4,000,000	All the securities in this class are held by: - Atlantic Capital Holdings Pty Ltd <Atlantic Capital A/C>
CPHOPT31 Options ($0.20, 02/06/2023)	8,000,000	All the securities in this class are held by: - Atlantic Capital Holdings Pty Ltd <Atlantic Capital A/C>
CPHOPT32 Options ($0.20, 23/12/2023)	833,333	All the securities in this class are held by: - Rimoyne Pty Ltd
CPHOPT33 Options ($0.039, 23/12/2025)	30,000,000	All the securities in this class are held by: - Bruce Linton <The Linton Family 2040 A/C>
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%)
CPHOPT38 Options ($0.38, 14/07/2024)	12,000,000	All the securities in this class are held by: - Atlantic Capital Holdings Pty Ltd <Atlantic Capital A/C>
CPHOPT39 Options ($0.15, 1/08/2024)	12,000,000	There are 3 security holders, each holding more than 100,001 of securities in this class. The following holder holds more than 20% of securities in this class: - Mr Edward Sugar holds 9,000,000 securities (75%)
CPHOPT40 Options ($0.18, 1/08/2024)	12,000,000	There are 3 security holders, each holding more than 100,001 of securities in this class.

Shareholder Information

		The following holder holds more than 20% of securities in this class: - Mr Edward Sugar holds 9,000,000 securities (75%)
CPHOPT41 Options ($0.18, 6/09/2024)	10,000,000	All the securities in this class are held by: - Noble House Consulting Ltd
CPHOPT42 Options ($0.25, 6/09/2024)	10,000,000	All the securities in this class are held by: - Noble House Consulting Ltd
CPHOPT43 Options ($0.1375, 25/10/2024)	1,000,000	There are 2 security holders, each holding more than 100,001 of securities in this class. The following holders hold more than 20% of securities in this class: - Mr Kevin Tansey holds 500,000 securities (50%) - Mr Brett Ayers holds 500,000 securities (50%)

5.5 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
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.
CPHPERR43 Performance Rights	15,000,000	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.

6. 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 1 February 2022, 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: 113,665,433 fully paid ordinary shares, representing 10.31% as at 7 July 2021
Notice Received: 7 July 2021

Shareholder Information

7. TWENTY LARGEST SHAREHOLDERS AS AT 1 FEBRUARY 2022

	Name	Shares Held	%
1	ATLANTIC CAPITAL HOLDINGS PTY <ATLANTIC CAPITAL A/C>	100,415,432	8.18%
2	JAMBER INVESTMENTS PTY LTD <THE AMBER SCHWARZ FAM A/C>	50,392,066	4.10%
3	MR TYSON SCHOLZ	35,524,240	2.89%
4	MR BILL FLEMING <FLEMING FAMILY 2011 A/C>	30,568,312	2.49%
5	BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	29,201,889	2.38%
6	SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	28,279,263	2.30%
7	CITICORP NOMINEES PTY LIMITED	19,440,848	1.58%
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	15,551,767	1.27%
9	ATLANTIC CAPITAL HOLDINGS PTY LTD <ATLANTIC CAPITAL A/C>	13,250,000	1.08%
10	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	8,873,683	0.72%
11	INTERNATIONAL WATER & ENERGY SAVERS LTD	8,800,000	0.72%
12	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	6,972,451	0.57%
13	MR JOHN LANGLEY HANCOCK	6,440,068	0.52%
14	SUPERHERO NOMINEES PTY LTD <CLIENT A/C>	5,660,132	0.46%
15	MR KENNETH JOSEPH HALL <HALL PARK A/C>	5,000,000	0.41%
15	NOBLE HOUSE CONSULTING LTD	5,000,000	0.41%
16	MR NIALL BUCKLEY	4,680,256	0.38%
17	MR TYSON SCHOLZ	4,500,000	0.37%
18	MR MITCHEL FLEMING	4,399,440	0.36%
19	MR MATTHEW CLARKE MALLET	3,400,000	0.28%
20	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	3,031,955	0.25%
	Total	**389,381,802**	**31.70%**

8. TWENTY LARGEST LISTED CPHOA OPTION HOLDERS AS AT 1 FEBRUARY 2022

	Name	Shares Held	%
1	JAMBER INVESTMENTS PTY LTD <THE AMBER SCHWARZ FAM A/C>	48,608,757	76.00%
2	S3 CONSORTIUM PTY LTD	2,152,325	3.37%
3	ARCO INVESTMENT GROUP P/L <OCRAMID HOLDINGS FAM A/C>	1,657,777	2.59%
4	NANDIL PTY LTD	1,282,489	2.01%
5	SOLEVU PTY LTD <RT LIN SUPER FUND A/C>	862,500	1.35%
6	MR JOHN GUZZARDI	800,000	1.25%
7	MR SANJEEV PANGASA & MRS NEELOSHA PANGASA	629,746	0.98%
8	MR JOHN ARTHUR JARVIS <JOHN JARVIS FAMILY A/C>	550,000	0.86%
9	VICRUTH PTY LTD	500,000	0.78%

10	MR YI ZHANG	482,970	0.76%
11	SNOWY PLAINS PTY LTD	400,000	0.63%
12	MR AYMAN SALAME & MRS RAHAB SALAME	371,566	0.58%
13	MR TRISTAN ALEXANDER	342,339	0.54%
14	PLAUCS PTY LTD	300,000	0.47%
15	AJM SUPER CO PTY LTD <AJM SUPER FUND A/C>	205,917	0.32%
16	MR SAMER HILAL & MRS NIDAA HILAL	200,000	0.31%
17	MR TA SAHN TRAN	190,000	0.30%
18	MR SEAN THOMPSON & MR MITCHELL CLARKE <VEGATHOMPSON SUPERFUND A/C>	172,000	0.27%
19	GLENNFIELD PTY LTD <GLENNFIELD FAMILY A/C>	170,977	0.27%
20	GPIC NOMINEES PTY LTD <JH MURRAY FAMILY NO 1 A/C>	166,175	0.26%
	Total	**60,045,538**	**93.88%**

9. TWENTY LARGEST LISTED CPHO OPTION HOLDERS AS AT 1 FEBRUARY 2022

	Name	Shares Held	%
1	ATLANTIC CAPITAL HOLDINGS PTY <ATLANTIC CAPITAL A/C>	33,471,811	8.35%
2	JAMBER INVESTMENTS PTY LTD <THE AMBER SCHWARZ FAM A/C>	16,797,356	4.19%
3	BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	9,460,679	2.36%
4	SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	6,914,411	1.72%
5	MR BILL FLEMING <FLEMING FAMILY 2011 A/C>	6,368,399	1.59%
6	CITICORP NOMINEES PTY LIMITED	5,048,640	1.26%
7	ATLANTIC CAPITAL HOLDINGS PTY LTD <ATLANTIC CAPITAL A/C>	4,416,667	1.10%
8	MR HIN HONG LAI	3,046,583	0.76%
9	INTERNATIONAL WATER & ENERGY SAVERS LTD	2,933,334	0.73%
10	MR TYSON SCHOLZ	2,800,585	0.70%
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,349,835	0.59%
12	MS KAREN JOY ESPIE	2,285,313	0.57%
13	SUPERHERO NOMINEES PTY LTD <CLIENT A/C>	2,233,858	0.56%
14	MRS WANXIAN QIU	2,208,839	0.55%
15	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	1,976,965	0.49%
16	MR JOHN LANGLEY HANCOCK	1,896,690	0.47%
17	A & E ROBSON HOLDINGS PTY LTD <A & E FAMILY A/C>	1,891,876	0.47%
18	MR MICHAEL ESPIE	1,747,766	0.44%
19	NOBLE HOUSE CONSULTING LTD	1,666,667	0.42%
19	MR KENNETH JOSEPH HALL <HALL PARK A/C>	1,666,667	0.42%
20	CALCHE PTY LTD <CALLER INVESTMENT A/C>	1,321,600	0.33%
	Total	**112,504,541**	**28.06%**