



CRESO
PHARMA

CRESO PHARMA LIMITED
ACN 609 406 911

**Annual Report for the
Year Ended 31 December 2018**

Annual Report

For the year ended 31 December 2018

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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 life style 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 five key areas:



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

www.CresoPharma.com

Corporate Directory

Board of Directors

Mr Boaz Wachtel	(Executive Chairman)
Dr Miriam Halperin Wernli	(Chief Executive Officer and Executive Director)
Mr Adam Blumenthal	(Non-Executive Director)
Dr James Ellingford	(Non-Executive Director)

Secretaries

Ms Eryln Dale and Mr Winton Willesee, jointly

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Stock Exchange Listings

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

Auditors

RSM Australia Partners
Level 32, Exchange Tower
2 The Esplanade
Perth WA 6000
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

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

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+61 2 9698 5414 (from outside Australia)

Chairman's Report

Dear Shareholder,

It's been an exciting year in the global cannabis industry and equally so for Creso Pharma. This year the industry has seen many milestones. A record number of companies publicly listed on exchanges with a combined capital accumulation of over US\$18 billion. Canada became the second and the largest country in the world to regulate cannabis for adult use. The United States signed the Hemp Farm Act of 2018, effectively de-scheduling hemp and cannabidiol (CBD) as schedule 1 narcotics and regulating the hemp industry on a federal basis. South Korea became the first Southeast Asian country to legalize medical cannabis.

Progress toward a globally accepted cannabis marketplace is happening at a very fast pace. As the benefits of cannabis are better understood, these global developments and others in the pipeline continue to play in Creso's favour.

As a global company with operations in North and South America, Europe, South East Asia and the Middle East, Creso is well positioned to sell the highest quality CBD and THC infused products to each of the regulated markets.

Creso's strategy from the onset has been to develop, register and sell initially in the Swiss market the highest quality, GMP, standardized CBD Nutraceuticals for humans and animals in partnership with top tier credible commercial partners. Once registered as a reference country and established in the market place in Switzerland, Creso introduces its brands with unique delivery technologies in other countries to create awareness and generate revenues. This strategic pillar has been executed very successfully with Creso's animal product, anibidiol® which has completed its first full year in market with increased revenues and broader geographic expansion. Likewise, our human product CannaQIX®, introduced in Q1 of 2018, was distributed to multiple European countries including the UK.

Parallel to commercializing nutraceuticals, Creso is building a pan-global medicinal cannabis cultivation company. With CBD's continued acceptance, Creso is positioned to gain traction in the international marketplace. As medicinal cannabis is regulated, Creso's nutraceutical and medicinal cannabis products are well placed to leverage the initial brand awareness which has already been developed.

Marking a significant milestone, Mernova Medicinal Inc, our Windsor, Nova Scotia, state-of-the-art cultivation facility, which was completed at the end of 2018 and received its License to Cultivate from Health Canada on 15 February 2019. This makes Creso the only ASX-listed company that has 100% ownership of a Canadian licensed producer.

Our Colombian acquisition, Kunna SAS, was completed prior to the end of 2018. This operation is set with a full suite of licenses and will have plants in the ground this year. Kunna SAS will provide low cost medicinal oils for the international market and raw material for Creso's nutraceuticals and medicinal products.

The Israeli parliament passed a bill to allow the export of medical cannabis from Israel. This long-awaited step gives the world access to the most sophisticated cannabis country in the world. Creso's joint venture with Cohen Propagation Nurseries (where Creso holds 76%) is in a position to capitalize on this and deliver cannabis strains engineered to provide specific relief to the medical community as well as feed new genetics to Creso's cultivation network.

Creso remains committed to building a global enterprise with products being sold in various markets around the world, all of which deliver health benefits in a format that can be trusted because of the pharmaceutical rigor that goes into their design, formulation and manufacturing. These products can be sold as a simple food supplement, a nutraceutical infused with CBD or a medical cannabis product, all of which provide relief and health support for humans and animals.

It is this combination of registered quality brands, global reach and professionalism which differentiates Creso from other medicinal cannabis companies. The global medicinal cannabis market is projected to reach US\$60B in five years and the global supplement markets for humans and pets will exceed US\$250B. These are the arenas and projected market sizes Creso is already serving.

Creso has an exceptional team of experts, owns all the assets necessary to execute Creso's strategy and has commercial products with growing revenues. 2019 will be a watershed year for Creso Pharma.

Thank you for your continued support and trust in Creso Pharma.



Boaz Wachtel
Executive Chairman

CEO's Report

I thank our shareholders for their continued support and invite you to read the full Annual Report.

I am very pleased to report on Creso's progress for the 2018 fiscal year, which has proven to be a truly formative year for the Company.

The cannabis industry is undergoing rapid transformation across the world as more and more countries and citizens discover the benefits of CBD and THC products. The regulatory environment is also evolving, and in many countries significant changes to regulation have legitimized the cannabis market. As a result, every day consumers are changing their perceptions towards cannabis and discovering its benefits.

For a product with a history like cannabis to be accepted globally, the industry will need to be strongly governed by regulating bodies and the products will need to be rigorously produced with the best ingredients to assure consumers of their quality and safety.

For the industry to work, emerging, regulated cannabis countries need to be trusted by the world and the products they produce must be trusted by the consumer.

Creso's strategy is built on its commitment to providing products that exceed the expectations of the governing bodies and consumers for quality, efficacy and control. One of Creso's greatest capabilities is therapeutic science; we are staffed with world class biomedical scientists, clinical researchers and medical professionals. We know how chemicals and human chemistry interact, and we are passionate about utilizing hemp and cannabis plant ingredients to deliver the most benefit to humans and animals.

Customers and consumers are telling us by their actions that Creso is delivering on this commitment.

Existing product expansion

After the first full year of distribution of our companion and large animal product anibidiol®, we have seen sales and distribution increase. In the 3rd quarter of 2018 our distribution partner Virbac Inc. (NASDAQ: VBAC), signed an agreement to expand distribution to 15 additional countries throughout Europe and Latin America. Virbac, a global supplier of products to the veterinary community, is seeing strong growth in vet and consumer demand. Our pet products are manufactured in the same pharmaceutical grade facility as our human products.

cannaQIX®, Creso's range of human CBD nutraceutical and medicinal "edibles" was introduced in the first quarter of 2018. cannaQIX® gained momentum in Europe, culminating in a distribution agreement with Pharmicare, a global pharmacy distribution company, to take the nutraceutical product to the UK.

cannaQIX®, in its nutraceutical and medicinal forms, is now sold in six countries and is growing rapidly.

Medicinal cannaQIX® is currently sold in New Zealand, it is about to be introduced in Brazil and it will be entering Australia and Sri Lanka in 2019. Moving forward on these plans, Creso has signed a Binding Letter of Intent with Burleigh Heads Cannabis Pty Ltd, one of Australia's leading medicinal cannabis distribution companies, to expand the distribution of its medical cannabis products into Australia, initially focusing on cannaQIX®50.

Total product sales are on the right track, increasing by over 500% from \$91,609 in 2017 to \$558,382 in 2018.

New product pipeline

To complement and expand our current portfolio, Creso has developed several new products.

Additional nutraceutical products have been developed, including;

- "cannaQIX®nite" to aid sleep;
- "cannaPEAL®" to introduce certain markets to the benefits of hemp seed oil-based products; and
- "cannaDOL®" to provide relief to athletes in the form of a topical application.

The pipeline extends well beyond this, and every product is designed with a specific purpose and efficacy.

CEO's Report



Figures 1 – 4: Packaging and branding: CannaQIX® and CannaQIX®nite; Packaging: CannaDOL® and CannaPEAL®

Global expansion

The primary focus of Creso's strategy is to build a global brand. Creso started by introducing its hemp CBD formulas to markets that readily accepted the commercialisation of CBD products. Many of these markets are still defining their position on CBD, hemp, medical or recreational cannabis. Creso will also introduce products with hemp seed oil but without CBD into emerging markets like Indonesia and Thailand.

All Creso products focus on effectiveness and quality, through formulation and understanding how the plant ingredients are delivered to the body. As cannabis markets evolve, product design can seamlessly introduce THC as an ingredient, thereby expanding potential patient and consumer base.

In anticipation of this, Creso has invested in cannabis cultivation and the benefits are already being reaped, with a license to cultivate being granted by Health Canada this month to our "Mernova Medical" state-of-the-art, GMP ready, indoor facility in Windsor, Nova Scotia. This gives Mernova Medical the ability to immediately plant crops and importantly, to already sell the first crops planted B2B. With a supply agreement already signed with TerrAscend Canada, a Licensed Producer (LP), revenue for 2019 is now assured.

In 2019, the Nova Scotia facility will build out its "edible cannabis" processing plant. It is also anticipated that our Ritual Green Brand of flower will be sold in the Nova Scotia Liquor Corporation's retail distribution channels.



Figures 5&6: The new Windsor, Nova Scotia facility

Figure 7: The Ritual Green Brand logo

Colombia is keen to distinguish itself, not only as a source of low cost raw material but as a power house of value-added products known for strong brands and highly effective ingredients. Colombia has established a robust regulatory framework and also invested in the resources necessary to assure successful rapid growth of the industry.

In 2018, Creso completed its acquisition of Colombian-based Kunna SAS, which holds a full suite of licenses providing access to all aspects of cultivating, manufacturing, exporting, and research and development. Creso's team has established relationships with the medical and academic community, and we recently announced that Dr Ricardo Salazar and the National University of Colombia would be a primary Creso advisor and research partner. Creso has also established strong relationships with the Colombian business development department and regulating body.

CEO's Report

Achieving a foothold at this early stage makes Creso one of few companies capable of capturing this opportunity. Creso is in the process of registering genetics, applying for quotas and registering branded products for distribution within Colombia.

Creso will have what very few companies have in Colombia; low cost CBD and THC for export as medicinal oils, on-shelf human and animal products (the recent agreement with Virbac will see anibidiol® distributed to Colombia), and a clinical research capability for therapeutic product development.

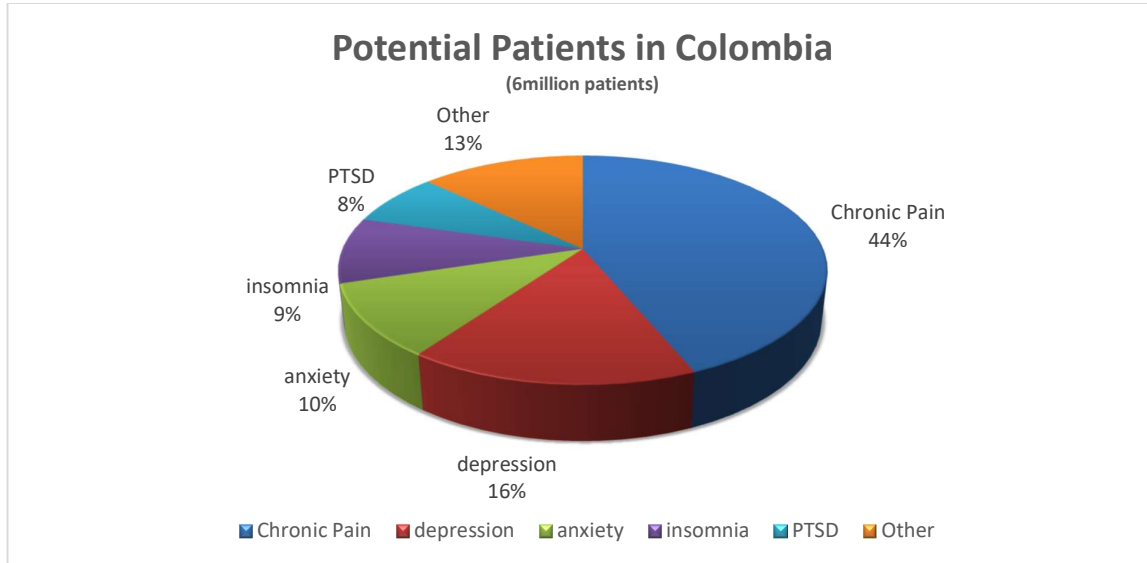


Figure 8: Number of potential patients in Colombia

The European CBD market is one of the world's largest, with strong forecasted growth rates over the next 10 years, and Creso is well placed to expand its network across the continent. A strategic collaboration agreement was recently signed with Hempmate AG Switzerland to strengthen Creso's presence in European countries, through new commercialisation opportunities. The first of the new products under the strategic collaboration have already been developed and will be launched in Q2 2019 in selected key European countries (Germany, UK, France, Italy, Spain).

Another country where Creso has established a strong foothold is Israel, where a bill was recently passed through parliament approving the export of cannabis. This is a key step in opening the world to the unique and exceptional supply available within Israel. Creso's 76% share of the joint venture with Cohen Propagation Nurseries is poised to capture this opportunity as soon as international export is approved.

Creso's approach to quality, efficacy and control will continue to deliver as we enter new markets with changing regulations.

In December 2018 the United States updated their Farm Bill and introduced the new Hemp Farm Act of 2018, which effectively regulates the Hemp industry on a federal basis, thereby legitimizing hemp derivatives as an industry.

In a sea of "homegrown" CBD products, Creso's pharmaceutical-grade product portfolio will be clearly differentiated as we enter the US market.

CEO's Report

In conclusion

2018 was pivotal for Creso's prospects:

- We established and strengthened our brands globally
- We generated growing revenues and created a growing demand for our products through repeat purchase and geographic expansion
- We solidified our cultivation strategy by physically building the infrastructure and we contracted future sales from this facility.

In short, Creso's strategy of building a global brand is rapidly materializing. The path forward is clear and executable.

2019 will be a huge year for the cannabis industry, and for Creso.

Our solid business strategy and sound fundamentals, including a very reasonable valuation, will be recognised.

Our team is executing against sales growth of our nutraceuticals and we expect our cultivation operations to generate meaningful revenues in 2019.

I am excited to see what the next year brings!



Dr. Miriam Halperin Wernli
Group CEO and Co-Founder

Director's 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 2018.

DIRECTORS

The names and particulars of the Company's directors in office during the financial year and at the date of this report are as follows. Directors held office for this entire period unless otherwise stated.

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

Boaz Wachtel MA.

Executive Chairman (*member of the Audit and Risk Committee*)
(Appointed 20 November 2015)

Mr Wachtel is a certified clinical research manager and holds an MA in Management and Marketing from the University of Maryland. 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.

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

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

Dr. Miriam Halperin Wernli BA. MA. MBA. PhD.

Executive Director, Group CEO and Co-Founder
(Appointed 20 November 2015)

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

Dr. Halperin Wernli is an experienced Pharmaceutical leader with skills and broad expertise in Drug Development, Regulatory Affairs, Project & Portfolio Management, Development Finance & Controlling, and Corporate Strategy and Governance.

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

Miri's depth of experience in Pharma drug development, as well as her leadership roles in complex highly regulated health environments in Europe and the USA, make her ideally qualified to lead Creso Pharma through this critical initial period of multiple product developments and rapid growth.

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

Director's Report

Adam Blumenthal BCom. MIR. MBA.

Non-Executive Director (*member of the Remuneration and Nomination Committee*)
(Appointed 20 November 2015)

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

Adam is Chairman of EverBlu Capital Pty Ltd, the Lead Manager to the Company's capital raisings.

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 has held directorships in the following ASX listed entities:

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

Dr James Ellingford MBA. PG (Corp Mgmt). D.Mgt.

Non-Executive Director (*member of the Remuneration and Nomination Committee and of the Audit and Risk Committee*)
(Appointed 20 November 2015)

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

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

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

Company	Appointed	Resigned
MinRex Resources Limited (ASX:MRR)	April 2018	Current
Manalto Limited (ASX:MTL)	September 2017	January 2019
Victory Mines Limited (ASX:VIC)	January 2016	January 2019
Burrabulla Corporation Limited (ASX:BUA) (now Pursuit Minerals Limited (ASX:PUR))	May 2016	August 2017
Elysium Resources Limited (ASX:EYM) (now Hardey Resources Limited (ASX:HDY))	March 2017	March 2017
Zyber Holdings Limited (ASX:ZYB)	January 2014	February 2016

Director's Report

DIRECTORS INTERESTS IN SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

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

Director	Ordinary Shares	Listed Share Options	Performance Rights
Mr Boaz Wachtel	6,800,000	3,000,000	3,100,000
Dr Miriam Halperin Wernli	8,400,000	4,147,950	4,400,000
Mr Adam Blumenthal	5,500,001	2,750,000	750,000
Dr James Ellingford	1,100,000	550,000	350,000
Total	21,800,001	10,447,950	8,600,000

EXECUTIVES

Chris Grundy B.Com. FCA. 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.

John Griese BA (Hons).
Chief Operating Officer, Americas
(Appointed 14 June 2018)

John Griese is an experienced operations executive with 30 years' experience in sales, manufacturing and supply chain with some of the world's most successful food and beverage companies. He has held executive leadership positions with PepsiCo in Canada and with Nestle in the United States. Mr. Griese has been responsible for commercializing products and optimizing the end-to-end efficiency of large scale operations.

John has extensive experience in the North American food and cannabis industries. He provides the knowledge and expertise needed to continue to grow Creso's presence in the Americas.

COMPANY SECRETARIES

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

Mr Willesee is an experienced company secretary. He 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. Mr. Willesee holds a Master of Commerce, a Post-Graduate Diploma in Business (Economics and Finance), a Graduate Diploma in Applied Finance and Investment, a Graduate Diploma in Applied Corporate Governance, a Graduate Diploma in Education and a Bachelor of Business. He is a Fellow of the Financial Services Institute of Australasia, a Graduate of the Australian Institute of Company Directors, a Member of CPA Australia and a Fellow of the Governance Institute of Australia and of the Institute of Chartered Secretaries and Administrators.

Erlyn Dale BCom. GradDipAppCorpGov. ACIS/AGIA.
Co-Company Secretary
(Appointed 19 October 2018)

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

Director's Report

Sarah Smith B.Com. ACA.

(Resigned as Company Secretary 19 October 2018)

Ms Smith specialises in corporate advisory, company secretarial and financial management services. Ms Smith's experience includes company secretarial and financial management services for ASX listed companies, capital raisings and IPOs, due diligence reviews and ASX and ASIC compliance. Ms Smith is a Chartered Accountant and has acted as the Company Secretary for a number of ASX listed companies.

DIRECTORS' MEETINGS

The number of Directors' 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 ¹		Remuneration and Nomination Committee Meetings	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
Mr Boaz Wachtel	12	12	-	-	-	-
Dr Miriam Halperin Wernli	12	12	-	-	-	-
Mr Adam Blumenthal	12	12	-	-	2	2
Dr James Ellingford	12	11	-	-	2	2

¹ During 2018, the duties of the Audit and Risk Committee were carried out during Board meetings.

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

PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was to develop, register and commercialise pharmaceutical-grade cannabis and hemp-based nutraceutical products and treatments.

The completion of the Mernova Medicinal facility in Halifax, Nova Scotia, Canada enables a second principal activity of the Group, being the cultivation and extraction of cannabis products for sale.

REVIEW AND RESULTS OF OPERATIONS

Overview

Creso Pharma is a leader in cannabidiol (CBD) innovation, developing cannabis and hemp-derived therapeutic-grade nutraceuticals and medical cannabis products with a broad range of applications in both human and animal health. Creso Pharma's innovative CBD fully plant-based nutraceutical products are non-psychoactive, as they contain only trace amounts of THC. Creso Pharma's strategy is to develop, register, and globally commercialise pharmaceutical-grade cannabis and hemp-derived products and treatments, according to the highest GMP quality standards.

Operations highlights for 2018 include:

- On 11 January 2018, Creso launched its new joint venture company with LGC Capital Ltd (TSXV: LG) ("LGC") and Baltic Beer Company ("Baltic Beer Company") to capitalise on the fast-growing cannabis and hemp-derived beverage markets. The joint venture company, CLV Frontier Brands Pty Ltd ("CLV"), intends to develop and globally commercialise a bespoke portfolio of cannabis and hemp-derived alcoholic and non-alcoholic beverages containing various ingredients, seeds, extracts and terpenes from hemp and cannabis plants.
- On 17 January 2018, Creso secured a commercialisation agreement with UK-based Precision Healthcare Ltd to market and distribute Creso Pharma's cannaQIX[®]10 and 50 hemp-based human health nutraceutical products in the UK.
- On 12 February 2018, the Company appointed Mr Amit Edri to the new role of International Business Development Executive. Mr Edri brings extensive medicinal cannabis industry expertise to the role and was most recently COO at one of Israel's largest medicinal cannabis companies, The Bazelet Group.

Director's Report

REVIEW AND RESULTS OF OPERATIONS (continued)

- On 14 May 2018, Creso announced that it is entering the strategic Israeli medical cannabis market through a binding agreement with Cohen Propagation Nurseries Limited (“Cohen”). Under the agreement, the partners established and incorporated a joint venture to operate a medical cannabis growing facility in Israel, in which Creso holds 74% of the JV.
- On 15 March 2018, Creso announced the development and plans to launch the cannaDOL[®] product range in 2019 with an oral Cannabidiol-(CBD)-based nutraceutical and a first-in-class CBD-based functional topical across Europe aiming to alleviate joint and muscle pain.
- On 21 May 2018, Creso signed a commercial agreement with Mediphos OTC Consumer Health BV, a Dutch company, to market and distribute its CBD hemp-based human nutraceutical product cannaQIX[®] in the Benelux region starting with the Netherlands.
- On 12 June 2018, the licence to cultivate medicinal cannabis in Colombia has been granted to Kuna S.A.S, the wholly owned subsidiary of Kunna Canada Ltd. Creso completed due diligence on Kunna Canada Ltd and Kunna S.A.S in July 2018.
- On 2 July 2018, the Company signed a commercial agreement with CB Distributors Limited, trading as CANNZ Logistics, for the introduction of its unique CBD medicinal cannabis product cannaQIX[®]50 to New Zealand.
- On 23 July 2018, Creso successfully completed its legal and technical due diligence to acquire 100% of Kunna Canada Ltd, and its wholly-owned subsidiary, medicinal cannabis group, Kunna S.A.S.
- On 23 July 2018, the Company announced it was considering a potential divestment of Hemp Industries s.r.o., its 100% owned subsidiary located in Slovakia. A sale agreement is in its final stages of completion.
- On 14 August 2018, the Company signed a commercial agreement with Dr. A. & L. Schmidgall GmbH & Co KG of the Hedoga Group to commercialise cannaQIX[®] in Austria and targeted Eastern and Northern European countries.
- On 21 August 2018, Creso signed a commercial agreement with Pharmacare Europe, based in the UK, to market and distribute its CBD hemp-based human nutraceutical product cannaQIX[®] and further products in the UK and potentially in other European countries.
- On 8 October 2018, Creso’s application to become a Licenced Producer was received by Health Canada.
- On 8 October 2018, the Company signed a short-term Construction Finance Loan for A\$2.7m to fast-track the completion of construction of the Mernova Medicinal Inc facility in Canada.
- On 30 October 2018, Creso established its Global Centre of Edible Cannabis Product Development and Research in Nova Scotia, Canada.
- On 1 November 2018, the Company signed an agreement with MedDepot Brazil for the import and delivery of Creso medicinal cannabis products in Brazil and also initiated marketing and sales activities with Brazilian partner, SIN Solutions, with prescribing physicians.
- On 14 November 2018, following successful introduction in the markets in Switzerland and Lichtenstein, Creso and Virbac Inc signed an exclusive distribution agreement for Creso’s veterinary products sales in 15 further countries, including Colombia, France and Germany.
- On 3 December 2018, Creso announced its intention to dual-list on the Toronto Venture Exchange (TSX-V) Canada. Creso will be the only cannabis company publicly listed in both Australia and Canada.
- On 17 December 2018, Virbac placed an order for A\$350k of Creso’s animal health products for distribution in markets in Europe and Latin America to be delivered in April 2019.
- On 20 December 2018, the Company completed the acquisition of 100% of Kunna Canada Ltd and its Colombian subsidiary Kuna SAS which holds licences to cultivate, produce, manufacture, market and export cannabis derivatives and products, using extracts in Colombia.

Further information on the operations of the Group and its business strategies and prospects is included in the CEO’s Report.

Director's Report

Financial Performance

The financial results of the Group for the year ended 31 December 2018 are:

	31-Dec-18 \$	31-Dec-17 \$
Cash and cash equivalents	6,390,538	12,424,913
Net assets	16,504,392	21,028,634
Revenue from products	558,382	91,609
Revenue from services	-	152,189
Royalty income	19,840	1,112
Total revenue	578,222	244,910
Other income	153,358	97,341
Net loss after tax	(16,845, 686)	(15,076,076)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

Subsidiary and Joint Venture Investee

CLV Frontier Brands Pty Limited (CLV)

The Company holds a 33⅓% share in the joint venture CLV, a business developing terpene-infused beers and adult soft-drinks in Estonia which are distributed in the UK and Swiss Markets. In January 2018, the joint venture was incorporated in Australia as CLV Frontier Brands Pty Limited. 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 is winding down its operations.

Hemp-Industries sro (HI)

HI is a wholly-owned subsidiary of the Company and is located in Slovakia. In 2017, the Company decided that the operations of HI were no longer a significant part of the Group's operations and the Company's investment in shares and loans to HI were provided for impairment in full. HI was subsequently classified as an asset available for sale and agreement was reached to sell the Company's holding in it. The sale is expected to take effect in March 2019.

Changes in number of Shares, options, performance rights and performance shares

	Quoted Shares	Listed Options	Unlisted Options	Performance Rights	Performance Shares
	No.	No.	No.	No.	No.
As at 31-Dec-17	109,505,544	-	7,346,250	17,350,000	1,000,000
Granted – services	-	-	1,150,000	-	-
Granted – KPIs	-	-	-	3,696,000	-
Exercised – conversion of performance rights	-	-	-	(6,150,000)	-
Issued – conversion of performance rights	6,150,000	-	-	-	-
Exercised – exercise of options	-	-	(320,000)	-	-
Issued – exercise of options	320,000	-	-	-	-
Issued – acquisition of Kunna	8,212,121	-	-	-	1,212,120
Issued – capital raising	-	51,242,710	-	-	-
Issued – cost of loans	-	3,900,000	-	-	-

Director's Report

Changes in number of Shares, options, performance rights and performance shares continued

As at 31-Dec-18	124,187,665	55,142,710	8,176,250	14,896,000	2,212,120
Exercised – conversion of performance rights	-	-	-	(2,750,000)	-
Issued – conversion of performance rights	2,750,000	-	-	-	-
Issued – services	195,556	-	-	-	-
Issued – capital raising	6,611,111	2,203,701	-	-	-
As at 22-Mar-19	133,744,332	57,346,411	8,176,250	12,146,000	2,212,120

Senior Management Appointments

On 12 February 2018, Mr Amit Edri was appointed International Business Development Executive, based in Israel.

On 1 March 2018, Mr Boaz Wachtel was appointed as Executive Director of the Company. Mr Wachtel was previously a non-Executive Director of the Company.

On 14 June 2018, Mr John Griese was appointed Chief Operating Officer for the Americas, based in Canada.

Change in Company Secretary

On 19 October 2018, Mr Winton Willesee and Ms Eryln Dale were appointed joint Company Secretaries, replacing Ms Sarah Smith.

DIVIDENDS

No dividends have been paid or declared by the Group since the end of the previous financial year (2017: nil).

No dividend is recommended in respect of the current financial year (2017: nil).

TAX STATUS

The Company is treated as a public company for taxation purposes.

FRANKING CREDITS

The Company has no franking credits.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

- On 7 January 2019, Creso announced plans to expand the distribution of its therapeutic medicinal cannabis products into Sri Lanka.
- On 21 January 2019, Creso announced it has signed a three-year supply agreement with TerrAscend Canada, a wholly-owned subsidiary of TerrAscend Corp., (CSE: TER; OTCQX: TRSSF) ("TerrAscend") to provide its premium cannabis product to help meet the significant consumer demand driven by Canada's federal legalisation of cannabis in October 2018. Under the terms of the Supply Agreement, Creso has agreed to sell and TerrAscend has agreed to purchase a minimum of 100 kgs of cannabis flower per month from Creso from the date that Creso is licensed to sell cannabis under Canadian laws.
- On 31 January 2019, the company announced that it had raised \$3 million in a placement to institutional and sophisticated investors ("Placement") on 30 January 2019. Under the terms of the Placement, the Company issued 6,666,667 fully paid ordinary shares in the capital of the Company at \$0.45 per share, together with one free attaching listed (ASX:CPHO) option (\$0.80, 21 August 2020) for every 3 shares subscribed for under the Placement.

Director's Report

The securities were issued pursuant to the Company's existing placement capacity under ASX Listing Rule 7.1 accordingly no shareholder approval will be required. The Placement was managed by Everblu Capital Pty Ltd ("EverBlu"), who receive a fee of 6% of the total funds raised. No related parties, employees or associates of EverBlu participated in the Placement.

- On 21 January 2019, Creso signed a three-year agreement with TerrAscend Canada for the supply to TerrAscend of 100kg of cannabis flower each month from the date that Creso is licensed to sell cannabis in Canada.
- On 30 January 2019, Einhorn Brau in Switzerland started the production under licence of the beers developed by Creso's joint venture partner CLV Frontier Brands.
- On 1 February 2019, Creso created a partnership with National University of Colombia in Bogota and appointed Dr Ricardo Salazar Lopez as Primary Medical Advisor in Colombia.
- On 13 February 2019, Creso entered a strategic collaboration with Burleigh Heads Cannabis Pty Ltd for the introduction of its medicinal cannabis products in Australia.
- On 13 February 2019, Creso signed a strategic collaboration agreement with Hempmate AG Switzerland for the co-development and commercialisation of Creso's products in Switzerland.
- On 15 February 2019, the Canadian government granted Creso a licence to cultivate cannabis at the facility run by Creso's wholly-owned subsidiary, Mernova Medical Inc., in Nova Scotia. Creso is now only the fifth licenced producer in the region, and the only ASX-listed company with a 100% ownership interest in a licenced Canadian cultivator. Under the terms of the licence granted by Health Canada, Mernova Medical is permitted to grow, sell and distribute dried and fresh cannabis, cannabis plants and cannabis plant seeds to pre-determined companies under the Cannabis Act.
- On 31 January 2019, The board agreed that Dr Miriam Halperin Wernli achieved a performance milestone which resulted in the vesting of 1,750,000 performance rights.
- On 12 March 2019, the Company decided, in conjunction with the Board of CLV Frontier Brands Pty Limited, to cease funding the operations of the CLV joint Venture, due to the significant additional funding required to maintain a sustainable business. CLV is winding down its operations.
- On 14 March 2019, in accordance with Milestone 1, Mernova Medicinal Inc secured a cultivation license from Health Canada under the ACMPR for its cultivation facility. This was achieved within 18 months of acquisition. The company paid C\$800,000 to Mr William Fleming with C\$4,150,000 of Exchangeable Shares to be exchanged at a future date for ordinary shares in the Company.

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 CEO's Report and in Matters Subsequent to the End of the Financial Year above.

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

ENVIRONMENTAL REGULATION

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

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

AUDITED REMUNERATION REPORT

The Audited Remuneration Report comprises a part of this Directors' Report and is set out in pages 22 to 31.

Director's Report

SHARES, OPTIONS, PERFORMANCE RIGHTS AND PERFORMANCE SHARES

Shares under option

Unissued ordinary shares of Creso Pharma Limited under unlisted options at the date of this report are as follows:

Unlisted Options		Exercise	Number
Grant date	Expiry date	Price	under option
27-06-2016	27-06-2020	\$0.40	400,000
13-10-2016	13-10-2019	\$0.20	2,500,000
13-10-2016	13-10-2020	\$0.20	2,886,250
06-12-2016	27-06-2020	\$0.40	200,000
23-01-2017	23-01-2021	\$0.50	300,000
25-01-2017	27-07-2019	\$0.30	250,000
01-02-2017	27-07-2021	\$0.40	140,000
27-07-2017	27-07-2020	\$0.60	100,000
10-10-2017	13-04-2019	\$0.80	250,000
18-05-2018	13-07-2021	\$0.80	150,000
27-07-2018	27-07-2021	\$0.535	200,000
27-07-2018	27-07-2022	\$0.80	200,000
21-08-2018	21-08-2021	\$0.55	200,000
31-08-2018	15-09-2022	\$0.80	400,000
			8,176,250

Unissued ordinary shares of Creso Pharma Limited under listed options at the date of this report are as follows:

Listed Options		Purchase	Exercise	Number
Grant Date	Expiry date	Price	Price	Under option
21-08-2018	21-08-2020	\$0.05	\$0.80	10,372,960
21-08-2018	21-08-2020	\$0.05	\$0.80	14,004,750
11-09-2018	21-08-2020	\$0.05	\$0.80	26,865,000
17-12-2018	21-08-2020	-	\$0.80	2,295,062
17-12-2018	21-08-2020	-	\$0.80	1,604,938
				55,142,710
30-01-2019	21-08-2020	-	\$0.80	2,018,516
01-02-2019	21-08-2020	-	\$0.80	185,185
				57,346,411

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

The following ordinary shares of Creso Pharma Limited were issued during the year ended 31 December 2018 and up to the date of this report on the exercise of unlisted options granted:

Date Options Granted	Exercise price	Number of shares issued
01-02-2017	\$0.40	70,000
14-10-2016	\$0.40	250,000

Director's Report

Shares under Performance Rights

Unissued ordinary shares of Creso Pharma Limited under performance rights at the date of this report are:

Code	Issue Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the period	Vested during the period	Cancelled during the period	Balance at the end of the period
CPHPERR4	20-10-2016	20-10-2020	Nil	750,000	-	(750,000)	-	-
CPHPERR10	27-07-2017	27-07-2022	Nil	750,000	-	(750,000)	-	-
CPHPERR11	27-07-2017	27-07-2019	Nil	750,000	-	(750,000)	-	-
CPHPERR4	20-10-2016	20-10-2020	Nil	250,000	-	-	-	250,000
CPHPERR12	27-07-2017	27-07-2018	Nil	100,000	-	(100,000)	-	-
CPHPERR13	27-07-2017	27-07-2019	Nil	100,000	-	-	-	100,000
CPHPERR4	20-10-2016	18-10-2020	Nil	1,750,000	-	-	-	1,750,000
CPHPERR8	27-07-2017	27-07-2022	Nil	1,250,000	-	-	-	1,250,000
CPHPERR9	27-07-2017	27-07-2022	Nil	1,250,000	-	-	-	1,250,000
CPHPERR4	20-10-2016	20-10-2020	Nil	1,500,000	-	-	-	1,500,000
CPHPERR6	27-07-2017	27-07-2018	Nil	800,000	-	-	-	800,000
CPHPERR7	27-07-2017	27-07-2018	Nil	800,000	-	-	-	800,000
CPHPERR4	20-10-2016	20-10-2020	Nil	750,000	-	-	-	750,000
CPHPERR14	27-07-2017	27-07-2018	Nil	300,000	-	(150,000)	-	150,000
CPHPERR12	27-07-2017	27-07-2018	Nil	50,000	-	(50,000)	-	-
CPHPERR17	27-07-2017	27-01-2019	Nil	2,000,000	-	(2,000,000)	-	-
CPHPERR18	27-07-2017	27-01-2019	Nil	2,000,000	-	(2,000,000)	-	-
CPHPERR19	27-07-2017	27-01-2019	Nil	2,000,000	-	(2,000,000)	-	-
CPHPERR15	27-07-2017	27-07-2019	Nil	100,000	-	-	-	100,000
CPHPERR16	27-07-2017	27-07-2020	Nil	100,000	-	-	-	100,000
CPHPERR20	16-07-2018	16-07-2023	Nil	-	50,000	(50,000)	-	-
CPHPERR21	16-07-2018	16-07-2023	Nil	-	50,000	-	-	50,000
CPHPERR22	16-07-2018	16-07-2023	Nil	-	50,000	-	-	50,000
CPHPERR23	16-07-2018	16-07-2023	Nil	-	50,000	-	-	50,000
CPHPERR24	16-07-2018	16-07-2023	Nil	-	50,000	-	-	50,000
CPHPERR22	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR23	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR24	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR22	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR23	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR24	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR22	16-07-2018	16-07-2023	Nil	-	16,000	-	-	16,000
CPHPERR23	16-07-2018	16-07-2023	Nil	-	16,000	-	-	16,000
CPHPERR24	16-07-2018	16-07-2023	Nil	-	16,000	-	-	16,000
CPHPERR25	16-07-2018	16-07-2023	Nil	-	100,000	(100,000)	-	-
CPHPERR26	16-07-2018	16-07-2023	Nil	-	200,000	(200,000)	-	-
CPHPERR27	16-07-2018	16-07-2023	Nil	-	200,000	-	-	200,000
CPHPERR28	16-07-2018	16-07-2023	Nil	-	100,000	-	-	100,000
CPHPERR29	11-10-2018	11-10-2023	Nil	-	300,000	-	-	300,000
CPHPERR30	11-10-2018	11-10-2023	Nil	-	300,000	-	-	300,000
CPHPERR31	11-10-2018	11-10-2023	Nil	-	300,000	-	-	300,000
CPHPERR32	11-10-2018	11-10-2023	Nil	-	100,000	-	-	100,000
CPHPERR33	11-10-2018	11-10-2023	Nil	-	150,000	-	-	150,000
CPHPERR34	11-10-2018	11-10-2023	Nil	-	150,000	-	-	150,000
CPHPERR35	11-10-2018	11-10-2023	Nil	-	500,000	-	-	500,000
CPHPERR36	11-10-2018	11-10-2023	Nil	-	400,000	-	-	400,000
CPHPERR37	11-10-2018	11-10-2023	Nil	-	400,000	-	-	400,000
				17,350,000	3,696,000	(8,900,000)	-	12,146,000

No person entitled to exercise the performance rights had or has any right by virtue of the performance rights to participate in any share issue of the Company or of any other body corporate.

Director's Report

Shares under Performance Shares

Unissued ordinary shares of Creso Pharma Limited under performance shares at the date of this report are:

Code	Issue Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the period	Vested during the period	Cancelled during the period	Balance at the end of the period
CPHPERSA	13-10-2016	13-10-2019	Nil	1,000,000	-	-	-	1,000,000
CPHPERSB	20-12-2018	20-06-2020	Nil	-	303,027	-	-	303,027
CPHPERSC	20-12-2018	20-06-2020	Nil	-	303,027	-	-	303,027
CPHPERSD	20-12-2018	20-06-2020	Nil	-	303,027	-	-	303,027
CPHPERSE	20-12-2018	20-06-2020	Nil	-	303,039	-	-	303,039
				1,000,000	1,212,120	-	-	2,212,120

No person entitled to exercise the performance shares had or has any right by virtue of the performance shares to participate in any share issue of the Company or of any other body corporate.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the year ended 31 December 2018, 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.

AUDITOR

RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF RSM AUSTRALIA PARTNERS

There are no officers of the Company who are former partners of RSM Australia Partners.

Director's Report

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 31 December 2018 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.

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



Boaz Wachtel
EXECUTIVE CHAIRMAN
22 March 2019

Remuneration Report (Audited)

This remuneration report for the year ended 31 December 2018 comprises a part of the Directors' Report. It outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 ("the Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

The Remuneration Report details the remuneration arrangements for Key Management Personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Parent company.

All monetary amounts stated in this report are in Australian Dollars unless otherwise indicated.

a) Key Management Personnel Disclosed in this Report

The Directors of the Group during or since the end of the financial year were:

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

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

Mr Christopher Grundy	Chief Financial Officer
Mr John Griese	Chief Operating Officer, Americas (appointed 14 June 2018)

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

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

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

A Remuneration Governance, Structure and Approvals

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

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

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

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

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

Remuneration Report (Audited)

❖ Non-Executive Directors' Remuneration Structure

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

The total aggregate fixed sum per annum to be paid to Non-Executive Directors in accordance with the Company's Constitution shall initially be no more than A\$300,000 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 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 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 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 and as at 31 December 2018 and 31 December 2017.

	31-Dec-18	31-Dec-17
Revenue from products	558,382	91,609
Revenue from services	-	152,189
Royalty income	19,840	1,112
Total revenue (\$)	578,222	244,910
Net loss after tax	(16,845,686)	(15,076,076)
EPS (\$)	(0.14)	(0.18)
Share price	0.49	0.92

Relationship between Remuneration and Company Performance

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

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

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

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

a) Fixed Remuneration – Base Salary

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

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

b) Variable Remuneration – Short Term Incentives (STI)

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

c) Variable Remuneration – Long Term Incentives (LTI)

Incentive Option Scheme

The Company adopted an Incentive Option Scheme during the year ended 31 December 2016. The Scheme allows eligible participants to be granted Options to acquire Shares in the Company. The Board may grant Options to any Director, full or part time employee, or casual employee or contractor who falls within the definition of an Eligible Participant as defined in ASIC Class Order 14/1000. Each Option granted under the Scheme will be granted for nil or nominal consideration. Each Option is exercisable into one Share in the Company and the exercise price and expiry date for Options granted under the Scheme will be determined by the Board prior to the grant of the Options.

The Options will not be quoted on ASX.

Remuneration Report (Audited)

Performance Rights Plan

The Creso Pharma Limited Performance Rights Plan (“Plan”) was adopted by the Company during the year ended 31 December 2016.

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

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

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

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

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

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

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

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

Remuneration Report (Audited)

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 2018 is set out below:

31 December 2018	Short-term Employee Benefits			Post-Employment	Share Based Payments	Total
	Salary & fees	Non-monetary benefits	Other/ bonus	Superannuation & Insurance	Performance Rights / Options ^(iv)	
	\$	\$	\$	\$	\$	
Directors						
Boaz Wachtel	120,000 ⁽ⁱ⁾	-	-	-	607,000	727,000
Miriam Halperin Wernli	470,677 ⁽ⁱⁱⁱ⁾	-	203,648 ⁽ⁱⁱⁱ⁾	-	1,393,750	2,068,075
Adam Blumenthal	121,000	-	-	11,495	738,125	870,620
James Ellingford	119,000	-	-	8,930	74,250	202,180
Senior Executives						
Christopher Grundy	221,250	-	-	19,553	30,587	271,390
John Griese ^(v)	169,530	-	20,653 ^(vi)	3,919	37,578	231,680
Total	1,221,457	-	224,301	43,897	2,881,290	4,370,945

- (i) An amount of \$120,000 has been paid/is payable to International Water and Energy Savers Ltd relating to Boaz Wachtel's Director's Fees.
- (ii) Including an amount of \$91,228 paid to WHP Management Consulting GmbH relating to Miriam Halperin Wernli's remuneration.
- (iii) During the year, one-off bonus payment of \$203,648 was made to Miriam Halperin Wernli.
- (iv) Share-based payments are the options and performance rights expensed over the vesting period (refer to Note 22 for further details).
- (v) John Griese was appointed on 14 June 2018.
- (vi) One-off sign on Bonus was paid to John Griese.

Remuneration of KMP of the Group for the year ended 31 December 2017 is set out below:

31 December 2017	Short-term Employee Benefits			Post-Employment	Share Based Payments	Total
	Salary & fees	Non-monetary benefits	Other ^(ix)	Superannuation	Performance Rights / Options ^(x)	
	\$	\$	\$	\$	\$	
Directors						
Boaz Wachtel	120,000 ^(vii)	-	28,000	-	735,376	883,376
Miriam Halperin Wernli	331,227 ^(viii)	-	169,918	-	533,356	1,034,501
Adam Blumenthal	60,333	-	24,000	8,138	332,063	424,534
James Ellingford	58,833	-	10,000	6,666	94,855	170,354
Simon Buckingham ^(xi)	16,667	-	-	1,710	-	18,377
Senior Executives						
Christopher Grundy ^(xii)	21,563	-	-	2,048	-	23,611
David Russell ^(xiii)	122,225	-	-	-	-	122,225
Total	730,848	-	231,918	18,562	1,695,650	2,676,978

- (vii) An amount of \$120,000 has been paid/is payable to International Water and Energy Savers Ltd relating to Boaz Wachtel's Directors Fees.
- (viii) An amount of \$331,227 was paid to WHP Management Consulting GmbH relating to Miriam Halperin Wernli's remuneration.
- (ix) During the year, one-off bonus payments were paid to Directors for the work on the Mernova acquisition.
- (x) Share-based payments are the options and performance rights expensed over the vesting period (refer to Note 22 for further details).
- (xi) Simon Buckingham resigned as Director on 5 May 2017.

Remuneration Report (Audited)

- (xii) Christopher Grundy was appointed on 21 November 2017.
 (xiii) David Russell resigned as Chief Operating Officer on 6 December 2017.

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

Table 2 – Relative proportion of fixed vs variable remuneration expense

Name	Fixed Remuneration		At Risk – STI (%)		At Risk – LTI (%)	
	2018	2017	2018	2017	2018	2017
Directors						
Boaz Wachtel	17%	14%	-	3%	83%	83%
Miriam Halperin Wernli	22%	32%	10%	16%	68%	52%
Adam Blumenthal	15%	14%	-	6%	85%	80%
James Ellingford	63%	36%	-	6%	37%	58%
Senior Executives						
Christopher Grundy	89%	-	-	-	11%	-
David Russell	-	100%	-	-	-	-
John Griese	75%	-	9%	-	16%	-

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

31 December 2018	Balance at 01/01/2018	Granted as Remuneration	On Exercise of Options	Net Change – Other	Balance at 31/12/2018
Directors					
Boaz Wachtel	6,800,000	-	-	-	6,800,000
Miriam Halperin Wernli	8,250,000	-	-	150,000 ⁽ⁱ⁾	8,400,000
Adam Blumenthal	4,000,001	-	-	1,500,000 ⁽ⁱ⁾	5,500,001
James Ellingford	1,000,000	-	-	100,000 ⁽ⁱ⁾	1,100,000
Senior Executives					
Christopher Grundy	9,090	-	-	4,910 ⁽ⁱⁱ⁾	14,000
John Griese ⁽ⁱⁱⁱ⁾	-	-	-	-	-
Total	20,059,091	-	-	1,754,910	21,814,001

- (i) Shares issued to Directors on vesting of Performance Rights.
 (ii) Shares purchased on-market.
 (iii) John Griese was appointed on 14 June 2018.

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

31 December 2018	Balance at 01/01/2018	Granted as Remuneration	Net Change – Other	Balance at 31/12/2018	Vested & Exercisable
Directors					
Boaz Wachtel	-	-	3,000,000 ⁽ⁱ⁾	3,000,000	3,000,000
Miriam Halperin Wernli	-	-	4,147,950 ⁽ⁱ⁾	4,147,950	4,147,950
Adam Blumenthal	-	-	2,750,000 ⁽ⁱ⁾	2,750,000	2,750,000
James Ellingford	-	-	550,000 ⁽ⁱ⁾	550,000	550,000
Senior Executives					
Christopher Grundy	-	-	72,000 ⁽ⁱ⁾	72,000	72,000
John Griese	-	-	-	-	-
Total	-	-	10,519,950	10,519,950	10,519,950

- (i) Listed Options purchased as part of Issue of Options in September 2018.

Remuneration Report (Audited)

Table 5 – Performance rights holdings of KMP (direct and indirect holdings)

31 December 2018	Balance at 01/01/2018	Granted as Remuneration	Vested ⁽ⁱ⁾	others	Balance at 31/12/2018
Directors					
Boaz Wachtel	3,100,000	-	-	-	3,100,000
Miriam Halperin Wernli	4,250,000 ⁽ⁱⁱ⁾	-	-	150,000 ⁽ⁱⁱⁱ⁾	4,400,000
Adam Blumenthal	2,250,000	-	(1,500,000)	-	750,000
James Ellingford	450,000	-	(100,000)	-	350,000
Senior Executives					
Christopher Grundy	-	1,000,000	-	-	1,000,000
John Griese	-	1,600,000	-	-	1,600,000
Total	10,050,000	2,600,000	(1,600,000)	150,000	11,200,000

- (i) Performance Rights vested and converted to shares upon achievement of personal KPIs during the year.
- (ii) The performance milestone attached to 2,500,000 of the total Performance Rights have been satisfied at 31 December 2018.
- (iii) The units are held by WHP Management Consulting which related party.

E Service Agreements

❖ Mr Boaz Wachtel – Executive Chairman

- Contract: Commenced on 18 October 2016.
- Director's Fee: \$10,000 per month, 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 bonus equal to 50% of the Fee on an annual basis, subject to meeting performance criteria agreed by the Board each year.

❖ Dr Miriam Halperin Wernli – Chief Executive Officer and Managing Director

- Contract: Commenced on 18 October 2016.
- Base salary: USD\$250,000 per annum.
- Mernova Medicinal Inc.-Consultancy fee of USD\$2,000 per month and increased to USD\$8,000 per month from April 18.
- Kuna Canada Limited and Kuna S.A.S -Director fee of \$6,000 per month.
- From 01 April 2018 a monthly Motor Vehicle Allowance of USD\$2,500.
- Term: 3 years or as extended per the Consultant Agreement.
- Notice Period: 12 months.
- Performance Based Bonus: Dr Halperin Wernli is entitled to a bonus equal to 50% of the Fee on an annual basis, subject to meeting performance criteria agreed by the Board each year.

❖ 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 \$2,000 per month and increased to \$5,000 per month from April 18.
- Kuna Canada Limited and Kuna S.A.S -Director fee of \$6,000 per month.
- Remuneration Committee Fee: \$20,000 per annum.
- Term: No fixed term.

❖ Dr James Ellingford – 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 from April 18.
- Audit and Risk Committee Fee: \$6,000 per annum.
- Remuneration Committee Fee: \$20,000 per annum.
- Term: No fixed term.

Remuneration Report (Audited)

❖ Mr Christopher Grundy – Chief Financial Officer

- Contract: Commenced on 21 November 2017.
- Part-time Base Salary: \$180,000 per annum (plus statutory superannuation entitlements). From 01 April 2018
- Full-time Base Salary: \$225,000 per annum (plus statutory superannuation entitlements). From 01 July 2018
- Full-time Base Salary: 240,000 per annum (plus statutory superannuation entitlements).
- Term: No fixed term.
- Notice Period: 12 weeks.

❖ Mr John Griese – Chief Operating Officer – Americas

- Contract: Commenced on 14 June 2018.
- Full-time Base Salary: CAD\$300,000 per annum (plus pension and social insurance entitlements) from 25 June 2018 to 25 September 2018. Full-time Base Salary: CAD\$325,000 per annum (plus pension and social insurance entitlements) from 26 September 2018.
- Sign-on Bonus: CAD\$20,000
- Term: No fixed term.
- Notice Period: 12 weeks.

F Share-based Compensation

The Company rewards Directors for their performance and aligns their remuneration with the creation of shareholder wealth by issuing share 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 only issued the shares to KMP upon vesting of their performance rights. There are no shares issued to KMP as part of the remuneration.

Options

During the current financial year, the Company did not issue options to KMP.

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:

2016 Financial Year:

Code	Grant Date	Vesting date	Performance period	Expiry date	Value per Performance Right at Grant Date	Vested
CPHPERR1	20 October 2016	20 October 2017	20 October 2016 – 20 October 2017	18 October 2021	\$0.163	100%
CPHPERR2	20 October 2016	20 October 2018	20 October 2016 – 20 October 2018	18 October 2021	\$0.164	100%
CPHPERR3	20 October 2016	20 October 2019	20 October 2016 – 20 October 2019	18 October 2021	\$0.20	100%
CPHPERR4	20 October 2016	20 October 2020	20 October 2016 – 20 October 2020	18 October 2021	\$0.20	-

The Performance Rights were issued for \$0.0001 each and no consideration will be payable upon the vesting of the Performance Rights.

Remuneration Report (Audited)

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 2018	27 July 2017 – 27 July 2018	27 July 2022	\$0.570	-
CPHPERR7	27 July 2017	27 July 2018	27 July 2017 – 27 July 2018	27 July 2022	\$0.570	-
CPHPERR8	27 July 2017	27 July 2022	27 July 2017 – 27 July 2022	27 July 2022	\$0.570	-
CPHPERR9	27 July 2017	27 July 2022	27 July 2017 – 27 July 2022	27 July 2022	\$0.570	-
CPHPERR10	27 July 2017	27 July 2022	27 July 2017 – 27 July 2022	27 July 2022	\$0.570	-
CPHPERR11	27 July 2017	27 July 2019	27 July 2017 – 27 July 2019	27 July 2022	\$0.570	-
CPHPERR12	27 July 2017	27 July 2018	27 July 2017 – 27 July 2018	27 July 2022	\$0.570	-
CPHPERR13	27 July 2017	27 July 2019	27 July 2017 – 27 July 2019	27 July 2022	\$0.570	-

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	-
CPHPERR30	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	\$0.555	-
CPHPERR31	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	\$0.555	-
CPHPERR32	28 September 2018	24 March 2021	28 September 2018 – 24 March 2021	11 October 2023	\$0.555	-
CPHPERR33	28 September 2018	25 June 2020	25 June 2018 - 25 June 2020	11 October 2023	\$0.555	-
CPHPERR34	28 September 2018	25 June 2021	25 June 2018 - 25 June 2021	11 October 2023	\$0.555	-
CPHPERR35	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	\$0.555	-
CPHPERR36	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	\$0.555	-
CPHPERR37	28 September 2018	28 September 2023	28 September 2018 – 28 September 2023	11 October 2023	\$0.555	-

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 22 to the financial statements.

Name	Grant Date	Vesting Date	Number of Performance Rights Granted	Value of the Performance Rights at Grant Date	Number of Performance Rights vested	Vested
<u>Boaz Wachtel</u>						
CPHPERR1	20 October 2016	20 October 2017	1,500,000	\$244,470	1,500,000	100%
CPHPERR2	20 October 2016	20 October 2018	1,500,000	\$246,555	1,500,000	100%
CPHPERR3	20 October 2016	20 October 2019	1,500,000	\$300,000	1,500,000	100%
CPHPERR4	20 October 2016	20 October 2020	1,500,000	\$300,000	-	-
CPHPERR6	27 July 2017	27 July 2018	800,000	\$456,000	-	-
CPHPERR7	27 July 2017	27 July 2018	800,000	\$456,000	-	-
<u>Miriam Halperin Werni</u>						
CPHPERR1	20 October 2016	20 October 2017	1,750,000	\$285,215	1,750,000	100%
CPHPERR2	20 October 2016	20 October 2018	1,750,000	\$287,648	1,750,000	100%
CPHPERR3	20 October 2016	20 October 2019	1,750,000	\$350,000	1,750,000	100%
CPHPERR4	20 October 2016	20 October 2020	1,750,000	\$350,000	-	-
CPHPERR8	27 July 2017	27 July 2022	1,250,000	\$712,500	1,250,000	100%
CPHPERR9	27 July 2017	27 July 2022	1,250,000	\$712,500	1,250,000	100%
<u>Adam Blumenthal</u>						
CPHPERR1	20 October 2016	20 October 2017	750,000	\$122,235	750,000	100%
CPHPERR2	20 October 2016	20 October 2018	750,000	\$123,278	750,000	100%
CPHPERR3	20 October 2016	20 October 2019	750,000	\$150,000	750,000	100%
CPHPERR4	20 October 2016	20 October 2020	750,000	\$150,000	-	-
CPHPERR10	27 July 2017	27 July 2022	750,000	\$427,500	750,000	100%
CPHPERR11	27 July 2017	27 July 2019	750,000	\$427,500	750,000	100%
<u>James Ellingford</u>						
CPHPERR1	20 October 2016	20 October 2017	250,000	\$40,745	250,000	100%
CPHPERR2	20 October 2016	20 October 2018	250,000	\$41,093	250,000	100%
CPHPERR3	20 October 2016	20 October 2019	250,000	\$50,000	250,000	100%
CPHPERR4	20 October 2016	20 October 2020	250,000	\$50,000	-	-
CPHPERR12	27 July 2017	27 July 2018	100,000	\$57,000	100,000	100%
CPHPERR13	27 July 2017	27 July 2019	100,000	\$57,000	-	-

Remuneration Report (Audited)

Name	Grant Date	Vesting Date	Number of Performance Rights Granted	Value of the Performance Rights at Grant Date	Number of Performance Rights vested	Vested
<u>Chris Grundy</u>						
CPHPERR29	28 September 2018	21 November 2020	300,000	\$166,500	-	-
CPHPERR30	28 September 2018	28 September 2023	300,000	\$166,500	-	-
CPHPERR31	28 September 2018	28 September 2023	300,000	\$166,500	-	-
CPHPERR32	28 September 2018	23 February 2020	100,000	\$55,500	-	-
<u>John Griese</u>						
CPHPERR33	28 September 2018	18 June 2020	150,000	\$83,250	-	-
CPHPERR34	28 September 2018	18 June 2021	150,000	\$83,250	-	-
CPHPERR35	28 September 2018	28 September 2023	500,000	\$277,500	-	-
CPHPERR36	28 September 2018	28 September 2023	400,000	\$222,000	-	-
CPHPERR37	28 September 2018	28 September 2023	400,000	\$222,000	-	-

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 during the financial year.

H Loans with KMP

There were no loans made to or from any KMP during the year ended 31 December 2018.

I Other Transactions with KMP

During the year, the Group:

- incurred corporate advisory fees, capital raising fees and IRESS expenses, payable to Everblu Capital Pty Ltd ("Everblu") (a company of which Adam Blumenthal is the Chairman). The total paid to Everblu during the year was \$269,907. The outstanding balance at reporting date was \$10,335. All transactions were made on normal commercial terms and conditions and at market rates.
- made payments of Director's fees to International Water and Energy Savers Limited on behalf of Boaz Wachtel. The outstanding balance at reporting date was \$10,000.

Other than the above, there were no other transactions with KMP during the year ended 31 December 2018.

J Additional Information

The earnings of the consolidated entity for the four years to 31 December 2018 are summarised below:

	2018 \$	2017 \$	2016 \$	2015 \$
Revenue from products	558,382	91,609	7,484	-
Revenue from services	-	152,189	538	-
Royalty income	19,840	1,112	-	-
Total Revenue	578,222	244,910	8,022	-
EBITDA	(16,730,515)	(15,069,438)	(4,207,963)	(11,572)
Loss after income tax	(16,845,686)	(15,076,076)	(4,584,239)	(11,572)
Share Price	0.49	0.92	0.24	-
Basic EPS (\$)	(0.14)	(0.18)	(0.14)	(0.0128)
Diluted EPS (\$)	(0.14)	(0.18)	(0.14)	(0.0128)

No further historical information is shown above as the company was incorporated in November 2015 and listed on the ASX in October 2016.

End of Audited Remuneration Report

RSM Australia Partners

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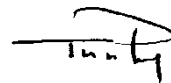
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Creso Pharma Limited for the year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.



RSM AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 22 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 31 December 2018

	Note	2018 \$	2017 \$
Revenue from continuing operations			
Revenue	4	578,222	244,910*
Cost of sales		(353,566)	(437,697)
Gross profit/(loss)		224,656	(192,787)*
Other income			
Interest income	4	144,037	97,341*
Other income		9,321	-
Expenses			
Administrative expenses	5(a)	(1,547,470)	(1,224,943)
Compliance and regulatory expenses		(450,073)	(277,517)
Consultancy and legal expenses	5(b)	(1,978,657)	(5,120,654)
Depreciation and amortisation expense		(38,721)	(6,638)
Employee benefit expenses	5(c)	(3,041,271)	(1,174,438)
Exclusivity and Facilitation fee	5(d)	(1,449,929)	-
Finance costs	5(e)	(432,216)	-
Impairment of receivables	10	(102,147)	(495,379)
Impairment of other assets	14	(425,830)	(578,725)
Marketing and investor relations		(1,231,530)	(1,826,482)
Occupancy expenses		(171,395)	(109,216)
Share-based payment expense	22	(6,078,523)	(3,221,355)
Research and development expense		(286,539)	(788,623)
Other expenses		(43,035)	(100,635)
Foreign exchange (gain)/losses		53,636	(56,025)
(Loss) from continuing operations before income tax		(16,845,686)	(15,076,076)
Income tax expense	6	-	-
(Loss) from continuing operations after income tax		(16,845,686)	(15,076,076)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(206,421)	(15,403)
Other comprehensive income for the year, net of tax		(206,421)	(15,403)
Total comprehensive (loss) for the year		(17,052,107)	(15,091,479)
(Loss) for the year attributable to:			
Non-controlling interest		(89,650)	-
Owners of Creso Pharma Australia Limited		(16,756,036)	-
		(16,845,686)	-
Total comprehensive (loss) for the year attributable to:			
Non-controlling interest		(89,650)	-
Owners of Creso Pharma Australia Limited		(16,962,457)	-
		(17,052,107)	-
(Loss) per share for the year attributable to the members of Creso Pharma Limited:			
Basic loss per share (cents)	7	(14.89)	(18.13)
Diluted loss per share (cents)	7	(14.89)	(18.13)

*The amount for 2017 has been amended due to reclassifications, refer to Note 1 (dd).

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 2018

	Note	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	6,390,538	12,424,913
Trade and other receivables	10	951,132	941,337
Inventories	11	443,535	912
Other assets	14	495,489	1,228,351
Total current assets		8,280,694	14,595,513
Non-current assets			
Property, plant and equipment	12	9,900,422	50,996
Intangible assets	13	4,101,178	-
Other assets	14	-	6,949,395
Investment accounted for using equity method	9	-	-
Total non-current assets		14,001,600	7,000,391
Total assets		22,282,294	21,595,904
LIABILITIES			
Current liabilities			
Trade and other payables	15	2,970,505	563,748
Provisions	16	30,947	3,522
Borrowings	17	2,776,450	-
Total current liabilities		5,777,902	567,270
Total liabilities		5,777,902	567,270
Net assets		16,504,392	21,028,634
EQUITY			
Issued Capital	18	38,222,883	35,138,519
Reserves	19	14,799,082	5,562,002
Accumulated losses		(36,427,923)	(19,671,887)
Equity attributable to the owners of Creso Pharma Limited		16,594,042	21,028,634
Non-controlling interest		(89,650)	-
Total equity		16,504,392	21,028,634

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 2018

Group	Issued Capital \$	Share-based Payment Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Non- Controlling Interest \$	Total \$
At 1 January 2018	35,138,519	5,516,511	45,491	(19,671,887)	-	21,028,634
Loss for the year	-	-	-	(16,756,036)	(89,650)	(16,845,686)
Other comprehensive income	-	-	206,421	-	-	206,421
Total comprehensive income/(loss) for the year after tax	-	-	206,421	(16,756,036)	(89,650)	(16,639,265)
Transactions with owners in their capacity as owners:						
Issue of share capital	3,084,364	-	-	-	-	3,084,364
Issue of options	-	2,952,136	-	-	-	2,952,136
Share-based payments	-	6,078,523	-	-	-	6,078,523
At 31 December 2018	38,222,883	14,547,170	251,912	(36,427,923)	(89,650)	16,504,392
At 1 January 2017	5,479,612	2,295,156	60,894	(4,595,811)	-	3,239,851
Loss for the year	-	-	-	(15,076,076)	-	(15,076,076)
Other comprehensive income	-	-	(15,403)	-	-	(15,403)
Total comprehensive income/(loss) for the year after tax	-	-	(15,403)	(15,076,076)	-	(15,091,479)
Transactions with owners in their capacity as owners:						
Issue of share capital	32,237,924	-	-	-	-	32,237,924
Share issue costs	(2,579,017)	-	-	-	-	(2,579,017)
Share-based payments	-	3,221,355	-	-	-	3,221,355
At 31 December 2017	35,138,519	5,516,511	45,491	(19,671,887)	-	21,028,634

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 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		570,904	244,910*
Payments to suppliers and employees		(8,245,348)	(6,697,534)*
Payments for research expense		(621,675)	(1,183,076)
Interest received		122,806	98,466
Interest paid		-	(899)
Net cash used in operating activities	8(a)	(8,173,313)	(7,538,133)
Cash flows from investing activities			
Payments for plant and equipment		(6,729,569)	(40,888)
Payments for intangibles		(629,759)	-
Acquisition of subsidiaries- Kunna acquisition	23	10,814	-
Acquisition of subsidiary- Mernova Acquisition	23	(120,759)	-
Payment for investment in associate		(100)	-
Loans to associate		(425,977)	-
Loans to other entities		3,756,824	(6,006,676)
Net cash from investing activities		(4,138,526)	(6,047,564)
Cash flows from financing activities			
Proceeds from issue of shares		1,356,351	24,412,412
Proceeds from issue of options		2,562,136	200,000
Proceeds from external loans		2,430,000	-
Borrowing costs		(117,486)	-
Payment of share issue costs		-	(1,647,856)
Net cash from financing activities		6,231,001	22,964,556
Net increase in cash and cash equivalents		(6,080,838)	9,378,859
Cash and cash equivalents at the beginning of the year		12,424,913	3,046,054
Effect on exchange rate fluctuations on cash held		46,463	-
Cash and cash equivalents at the end of the year	8	6,390,538	12,424,913

*The amount for 2017 has been amended due to reclassifications, refer to Note 1 (dd).

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) Reporting Entity

Creso Pharma Limited (referred to as “Creso” or the “Company”) is a company domiciled in Australia. The address of the Company’s registered office and principal place of business is disclosed in the Corporate Directory of the Annual Report. The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the “consolidated entity” or the “Group”). The Group is primarily involved in developing pharmaceutical-grade cannabis and hemp-based nutraceutical products and treatments.

(b) Basis of Preparation

Statement of compliance

The consolidated financial statements are general purpose financial statements which 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 Pharma Limited 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 22 March 2019.

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 of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (‘AASB’) that are mandatory for the current reporting period.

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

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 January 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income (‘OCI’). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Preparation (continued)

For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 January 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Impact of adoption

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. The Group does not hold complex financial instruments. The classification of its financial instruments will not change under the new accounting standard. Management has assessed the impact of the new standard and it does not have a material impact on the Group's financial performance. The consolidated entity has adopted this standard from 1 January 2018. There is no impact on the Group's current and prior periods.

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 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 January 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Preparation (continued)

Significant Judgements and Estimates

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

Going Concern

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

As disclosed in the financial statements, the consolidated entity incurred a loss of \$16,845,686 and had net cash outflows from operating and investing activities of \$8,173,313 and \$4,138,526 respectively for the year ended 31 December 2018.

These factors indicate significant uncertainty as to whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe that there are reasonable grounds to believe that the consolidated entity will be able to continue as a going concern, after consideration of the following factors:

- To date, the Company has relied on the issue of shares and other securities to raise funds. With the completion of the Mernova cultivation facility to produce cannabis products, and with it the imminent generation of revenues from it, the Company also has the option to borrow against the facility and the Company is planning to do so;
- The Company plans to issue additional shares in the next 12 months. This has previously proven to be successful;
- As disclosed in Note 32, subsequent to the reporting date, the Company raised approximately \$3 million (before costs); and;
- The Company plans to re-organise its operations during the next 12 months, including scaling back corporate overheads and other aspects of its cost base, in order to curtail expenditure, in the event that financial projections indicate that available cash will be insufficient to meet projected expenditure.

Accordingly, the Directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as a going concern.

(c) Principles of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Creso Pharma Limited ('Company' or 'parent entity') as at 31 December 2018 and the results of all subsidiaries for the year then ended. Creso Pharma Limited and its subsidiaries together are referred to in this financial report as the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Principles of Consolidation (continued)

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.

The acquisition method of accounting is used to account for business combinations by the consolidated entity. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

(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 Pharma Limited'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.

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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Foreign Currency Translation (Continued)

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. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

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.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest revenue

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

(g) Income Tax

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

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

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income Tax (continued)

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

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

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

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

(h) Business Combination

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Business Combination (continued)

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(i) 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.

(j) 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.

(k) 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:

Plant and equipment	5 years
Furniture and equipment	3 - 10 years
Buildings	20 – 40 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)

(l) 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.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

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.

Patents and trademarks

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 10 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.

(m) 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.

(n) 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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 fee is 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 fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

(p) Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

(q) 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.

(r) 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee Benefits (continued)

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.

(s) Share-based Payments

Equity-settled and cash-settled share-based compensation benefits are provided to Key Management Personnel and employees.

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

The cost of equity-settled transactions are 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 are 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.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- During the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- From the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Share-based Payments (continued)

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.

(t) 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.

(u) 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.

(v) 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 are 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)

(w) 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.

(x) Dividends

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

(y) Investments in Associates

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

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

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

(z) 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) 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.

(bb) 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)

(cc) 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.

(dd) Amounts mis-classified in the 2017 Financial Statements

The Company became aware that certain amounts in the Consolidated Statement of Profit or Loss and in the Comprehensive Statement of Cash Flows as reported in the 2017 Financial Statements were mis-classified. In these financial statements the amounts have correctly re-classified and amended amounts are shown for the comparative figures in the 2018 financial statements. Details of the amounts mis-classified in 2017 and their amendment are disclosed below.

2017	\$ As previously reported	\$ Adjustment of mis-classification	\$ As amended
Consolidated Statement of Profit and Loss and Other Comprehensive Income for 2017			
Revenue	243,798	1,112	244,910
Interest income	98,453	(1,112)	97,341
Consolidated Statement of Cash flows for 2017			
Receipts from customers	92,721	152,189	244,910
Payments to suppliers and employees	(6,545,345)	(152,189)	(6,697,534)

The amounts for Total Income and for Net Cash Flow from Operating Activities are not affected by the mis-classifications or by the amendments and remain unchanged.

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.

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.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

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 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 Hemp-Industries s.r.o. (“Hemp-Industries”) which includes hemp growing operations, outsourced CBD extraction and CBD product sales activities – located in Slovakia. Creso Pharma Switzerland GmbH (“Switzerland”) which includes the development and commercialisation of its therapeutic products – located in Switzerland. Creso Grow Limited – Joint venture located in Israel
- North America includes Creso Canada Corporate Limited, Creso Canada Limited, 3321739 Nova Scotia Limited, Mernova Medicinal Inc (“Mernova”), Kunna Canada Limited located in Canada.
- South America includes Kunna S.A.S. located in Colombia.
- Asia Pacific includes Creso Pharma Limited (“Creso”) which provides the Group’s corporate administration – located in Australia.

Such structural organisation is determined by the nature of risks and returns associated with each business segment and defines the management structure as well as the internal reporting system. It represents the basis on which the group reports its primary segment information to the Board.

The operating segment analysis presented in these financial statements reflects operations analysis by business. It best describes the way the group is managed and provides a meaningful insight into the business activities of the group.

The following table presents details of revenue and operating profit by business segment as well as reconciliation between the information disclosed for reportable segments and the aggregated information in the financial statements. The information disclosed in the table below is derived directly from the internal financial reporting system used by the Board of Directors to monitor and evaluate the performance of our operating segments separately.

Year ended 31 December 2018	Asia Pacific \$	Europe & Middle East \$	North America \$	South America \$	Total \$
Revenue from products	2,290	556,092	-	-	558,382
Royalty income	19,840	-	-	-	19,840
Total segment revenue	22,130	556,092	-	-	578,222
Other income	127,172	17,523	8,663	-	153,358
Loss before income tax expense	(10,353,533)	(2,557,918)	(3,934,235)	-	(16,845,686)
Total Segment Assets	2,622,208	1,962,913	14,700,354	2,996,819	22,282,294
Total Segment Liabilities	3,457,840	362,151	1,951,095	6,816	5,777,902

Revenue from services relates to Hemp Industries, a wholly owned subsidiary, which did not provide services in 2018.

Year ended 31 December 2017	Asia Pacific \$	Europe & Middle East \$	Total \$
Revenue from products	-	91,609	91,609
Revenue from services	-	152,189	152,189
Royalty income	1,112	-	1,112
Total segment revenue	1,112	243,798	244,910
Other revenue	79,539	17,802	97,341
Loss before income tax expense	(13,166,717)	(1,909,359)	(15,076,076)
Total Segment assets	20,273,865	1,322,038	21,595,903
Total Segment liabilities	428,649	138,621	567,270

Notes to the Consolidated Financial Statements

NOTE 4 REVENUE AND OTHER INCOME

	2018	2017
	\$	\$
Revenue from continuing operations		
Revenue from services **	-	152,189
Revenue from sale of products	558,382	91,609
Royalty income	19,840	1,112*
	578,222	244,910
<i>Other income</i>		
Interest received	144,037	97,341*
Lease income	8,663	-
Other Income	658	-
	153,358	97,341

*The amount for 2017 has been amended due to reclassifications, refer to Note 1 (dd).

**Revenue from services relates to Hemp Industries, a wholly owned subsidiary, which did not provide services in 2018.

Disaggregation of revenue

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

	Total
	\$
Consolidated - 2018	
<i>Major product lines</i>	
Medicinal Cannabis	558,382
Royalty Income	19,840
	578,222
<i>Geographical regions</i>	
Europe & Middle East	558,382
Asia Pacific	19,840
	578,222
<i>Timing of revenue recognition</i>	
Goods transferred at a point in time	558,382
Services recognised over time	19,840
	578,222

AASB 15 was adopted using the modified retrospective approach and as such comparatives have not been provided for disaggregation of revenue.

Notes to the Consolidated Financial Statements

NOTE 5 EXPENSES

	2018	2017
	\$	\$
(a) Administrative expenses		
Accounting and company secretarial fees	589,474	302,324
Travel costs	716,687	740,290
General and administration expenses	241,308	182,329
	<u>1,547,470</u>	<u>1,224,943</u>
(b) Consultancy and legal expenses		
Consulting fees	599,815	785,323
Corporate advisory and business development	715,980	4,000,947
Legal fees	662,862	334,384
	<u>1,978,657</u>	<u>5,120,654</u>
(c) Employee benefit expenses		
Director fees	1,029,884	587,060
Director bonuses	203,648	231,918
Wages and salaries	1,428,583	235,262
Superannuation	81,717	27,278
Other employee expenses	301,439	92,920
	<u>3,041,271</u>	<u>1,174,438</u>
(d) Exclusivity and facilitation fees		
Exclusivity fee ⁽ⁱ⁾	429,929	-
Facilitation fee ⁽ⁱⁱ⁾	1,020,000	-
	<u>1,449,929</u>	<u>-</u>
(i) Exclusivity fees of US\$335,000 were paid to Kunna Canada in accordance with the acquisition Heads of Agreement		
(ii) A facilitation fee was paid to a consultant as part of the Mernova Acquisition (“Acquisition”). The fee is equal to 10% of the total deal value in relation to the acquisition. The fee was recognised as a prepayment at 31 December 2017. Once the Acquisition was completed on 15 February 2018, the fee was expensed to the Statement of Profit or Loss and Other Comprehensive Income.		
(e) Finance Costs		
Loan servicing fee	270,000	-
Loan drawdown fee	85,766	-
Interest expense	76,450	-
	<u>432,216</u>	<u>-</u>

In October 2018, the Company entered into a syndicated construction loan agreement with a face value of \$2.7m from L1 Capital Global Opportunities Master Fund and the Canadian Special Opportunity Fund. Refer to Note 17 for details of the loan terms, interest and repayments.

Notes to the Consolidated Financial Statements

NOTE 6 INCOME TAX EXPENSES

	2018	2017
	\$	\$
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	(16,845,686)	(15,076,076)
Prima facie tax benefit on loss before income tax at 27.5% (2017: 27.5%)	(4,632,564)	(4,145,921)
(b)		
Tax effect of:		
Tax effect on different tax rate of overseas subsidiaries	966,062	413,852
Share-based payments	1,844,901	1,750,347
Travel expenses	24,776	138,107
Legal expenses	143,770	11,265
Others non-deductible expenses	426,510	433,968
Temporary differences	-	(154,349)
Tax losses not recognised	1,226,544	1,552,731
Total	-	-
(c) Deferred tax assets not brought to account are:		
Carried forward losses	2,773,811	1,691,228

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.

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.

	2018	2017
	\$	\$
Net loss for the year	(16,845,686)	(15,076,076)
Non-controlling interest	89,650	-
Net loss for the year attributable to the owners of Creso Pharma Limited	(16,756,036)	(15,076,076)
Weighted average number of ordinary shares for basic and diluted loss per share.	112,552,436	83,143,209

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)	(14.89)	(18.13)
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Notes to the Consolidated Financial Statements

NOTE 8 CASH AND CASH EQUIVALENTS

	2018	2017
	\$	\$
Cash at bank and in hand	3,067,761	10,424,913
Short-term deposits	-	2,000,000
Funds held in trust on behalf of the Company by a third party	3,322,777	-
	6,390,538	12,424,913

Cash at bank earns interest at floating rates based on daily deposit rates.

The Group's exposure to interest rate and credit risks is disclosed in Note 20.

	2018	2017
	\$	\$
(a) Reconciliation of net loss after tax to net cash flows from operations		
Loss for the financial year	(16,845,686)	(15,076,076)
<i>Adjustments for:</i>		
Depreciation and amortisation	38,721	6,638
(Loss)/Gain on foreign exchange	49,701	(22,882)
Share based payments	6,078,523	3,221,355
Impairment of receivables	527,977	1,074,105
Facilitation Fee	1,020,000	5,387,598
Employee benefits expense	-	69,332
Supplier Expense	-	78,249
<i>Changes in assets and liabilities</i>		
Receivables	(9,795)	(2,487,862)
Inventories	(442,625)	1,608
Trade and other payables	1,382,448	207,608
Provisions	27,423	2,194
Net cash used in operating activities	(8,173,313)	(7,538,133)

	2018	2017
	\$	\$
(b) Non-cash investing and financing activities		
Share issue on acquisition of subsidiary	2,956,363	-

Notes to the Consolidated Financial Statements

NOTE 9 INVESTMENT ACCOUNTED 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	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
CLV Frontier Brands Pty Ltd	Developing terpene beers and non-alcoholic beverages	Estonia/ Australia	33% -%
Reconciliation of the group's carrying amount			
Opening carrying amount		100	-
Share of (loss) after income tax		(100)	-
Closing carrying amount		-	-

The Joint Venture that formed CLV Frontier Brands Pty Ltd was entered into on 9 January 2018.

	2018 \$	2017 \$
NOTE 10 TRADE AND OTHER RECEIVABLES		
Loan Receivable – CLV Frontier Brands Pty Ltd	102,147	-
Less: Allowance for credit losses (2017: Provision for doubtful debts) ⁽ⁱ⁾	(102,147)	-
Trade debtors – Hemp M&S OG	-	495,379
Less: Allowance for credit losses (2017: Provision doubtful debts)	-	(495,379)
Canadian HST Receivable	591,942	-
GST/VAT receivable	231,583	186,579
Other receivables	127,607	754,758
	951,132	941,337

(i) The Group raised a provision to fully impair all investments, loans to and receivables from CLV Frontier Brands Pty Ltd. The amount of that provision is \$102,147 in trade receivables and \$425,830 in other assets (Note 14).

Movements in the allowance for expected credit losses (2017: provision for impairment of receivables) are as follows:

Opening balance	495,379	-
Write-off of Hemp M&S OG provision	(495,379)	-
Additional provision recognised	102,147	495,379
Closing balance	102,147	495,379

	2018 \$	2017 \$
NOTE 11 INVENTORIES		
Inventory – Finished goods	443,535	912
	443,535	912

Notes to the Consolidated Financial Statements

NOTE 12 PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2018

Opening net book amount	50,996	17,474
Additions (Capital Expenditure and Acquired assets)	9,806,129	-
Additions	39,656	40,888
Disposals	(15,038)	-
Depreciation charge	(17,293)	(6,638)
Foreign exchange translation	35,972	(728)
Closing net book amount	9,900,422	50,996

At 31 December 2018

Cost	9,925,081	59,680
Accumulated depreciation	(24,659)	(8,684)
Net book amount	9,900,422	50,996

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Construction work in progress \$	Land \$	Plant and equipment \$	Total \$
Balance at 1 January 2017	-	-	17,474	17,474
Additions	-	-	40,888	40,888
Disposals	-	-	-	-
Foreign Currency fluctuation	-	-	(728)	(728)
Depreciation expense	-	-	(6,638)	(6,638)
Balance at 31 December 2017	-	-	50,996	50,996
Additions	-	-	39,656	39,656
Additions through business combinations (note 23)	7,648,398	356,105	1,801,626	9,806,129
Disposals	-	-	(15,038)	(15,038)
Depreciation expense	-	-	(17,293)	(17,293)
Foreign Currency fluctuation	-	10,754	25,218	35,972
Balance at 31 December 2018	7,648,398	366,859	1,885,165	9,900,422

Notes to the Consolidated Financial Statements

	2018	2017
	\$	\$
NOTE 13 INTANGIBLE ASSETS		
Current		
Kunna S.A.S Licence acquired on acquisition ⁽ⁱ⁾	2,985,565	-
IP owned by Creso Pharma Switzerland GmbH ⁽ⁱⁱ⁾	608,331	-
Mernova Medicinal Inc. Cultivation Licence ⁽ⁱⁱⁱ⁾	507,282	-
	4,101,178	-

- (i) Includes cultivation and extraction licences held by Kunna S.A.S. upon acquisition.
(ii) Includes development costs capitalised in relation to the patents and other IP rights.
(iii) Includes cultivation licence created on acquisition of Mernova Medicinal Inc.

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Cultivation Licence	Development costs	Cultivation and extraction licences	Total
	\$	\$	\$	\$
Consolidated				
Balance at 1 January 2017	-	-	-	-
Additions through asset acquisitions (note 23)	507,282	-	2,985,276	3,492,558
Additions	-	629,759	289	630,048
Impairment	-	-	-	-
Amortisation expense	-	(21,428)	-	(21,428)
Balance at 31 December 2018	507,282	608,331	2,985,565	4,101,178

NOTE 14 OTHER ASSETS

	2018	2017
	\$	\$
Current		
Shares issued pending cash received	-	1,228,351
Capitalised borrowing costs	495,489	-
	495,489	1,228,351
Non-Current		
Loan to Viru JV	-	30,850
Loan to Mernova Medicinal Inc	-	5,898,545
Prepayment - Facilitation Fee	-	1,020,000
Loan to Hemp M&S OG	-	578,726
Less: Impairment of loan - Hemp M&S OG	-	(578,726)
Loan to CLV Frontier Brands Pty Ltd	425,830	-
Less: Impairment of loan – CLV Frontier Brands Pty Ltd ⁽ⁱ⁾	(425,830)	-
	-	6,949,395

- (i) In November 2017, Creso, LGC Capital Ltd (Canada), and Baltic Beer Company Ltd (UK), signed a Binding Letter of Intent to form a joint venture to develop and market a bespoke portfolio of cannabis and hemp-derived alcoholic and non-alcoholic beverages.

In December 2017, Creso provided a loan of €20,000 for the establishment of operations. In January 2018, the joint venture was incorporated in Australia as CLV Frontier Brands Pty Limited. The Company holds a 33% share in the joint venture, a business developing terpene-infused beers and adult soft-drinks in Estonia. The business was founded in January 2018 and it has developed ranges of both beers and adult soft drinks which are distributed in the UK and Swiss markets. On 12 March 2019, the Company decided, in conjunction with the Board of CLV Frontier Brands Pty Limited, to cease funding the operations of the CLV joint Venture, due to the significant additional funding required to construct a brewing facility and maintain a sustainable business. CLV is winding down its operations.

Following this decision the Company has provided in full for its investment in the JV and the amount receivable from it as at 31 December 2018. The amount of that provision is \$102,147 in trade receivables and \$425,830 in other assets.

Notes to the Consolidated Financial Statements

NOTE 14 OTHER ASSETS (CONTINUED)

	2018	2017
	\$	\$
<i>Movements in the provision for impairment of other receivables are as follows:</i>		
Opening balance	578,726	-
Write-off of Hemp M&S OG provision	(578,726)	-
Additional provision recognised	425,830	578,726
Closing balance	<u>425,830</u>	<u>578,726</u>

NOTE 15 TRADE AND OTHER PAYABLES

Trade payables ⁽ⁱ⁾	467,243	282,271
Accrued expenses	2,062,394	104,975
Income in Advance	209,540	-
Other payables	231,328	176,502
	<u>2,970,505</u>	<u>563,748</u>

(i) Trade payables are non-interest bearing and are normally settled on 60-day terms.

NOTE 16 PROVISIONS

Employee provisions	30,974	3,522
	<u>30,974</u>	<u>3,522</u>

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	-	-
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NOTE 17 Borrowings

Short Term Loans	2,700,000	-
Accrued Interest	76,450	-
	<u>2,776,450</u>	-

The Company entered into a construction finance loan with a face value of A\$2,700,00 from L1 Capital Global Opportunities Master Fund and The Canadian Special Opportunities Fund on 5 October 2018. The loan had a drawdown price of 90% of the face value and the Company received A\$2.43 million in funding to finalise the construction of Mernova's cannabis growing facility. The loan has an interest rate of 10% p.a, a maturity date of 28 June 2019.

The group does not have any unused facilities at the reporting date and the short-term loans are secured against the consolidated entity assets.

NOTE 18 ISSUED CAPITAL

(a) Issued and fully paid

	2018		2017	
	No.	\$	No.	\$
Ordinary shares	<u>124,187,665</u>	<u>38,222,883</u>	109,505,544	35,138,519

Ordinary shares entitle the holder to participate in dividends and the proposed winding up of the company in proportion to the number and amount paid on the shares held.

Notes to the Consolidated Financial Statements

NOTE 18 ISSUED CAPITAL (CONTINUED)

(b) Movement reconciliation

	Number	Issue Price	\$
At 1 January 2018	109,505,544	-	35,138,519
Vesting of performance rights	3,500,000	-	-
Exercise of options	70,000	\$0.40	28,000
Vesting of performance rights	2,000,000	-	-
Vesting of performance rights	650,000	-	-
Exercise of options	250,000	\$0.40	100,000
Issue of consideration shares- Kuna acquisition	8,212,121	\$0.36	2,956,364
At 31 December 2018	124,187,665	-	38,222,883

	Number	Issue Price	\$
At 1 January 2017	57,725,001	-	5,479,612
Placement - first tranche	8,158,750	\$0.69	5,629,538
Vesting of performance rights	15,200,000	-	-
Placement - second tranche	4,568,438	\$0.69	3,152,222
Shares issued in lieu of cash fees for Placement	1,250,000	\$0.75	931,250
Share Purchase Plan	1,449,160	\$0.69	999,920
Issue of Facilitation Fee shares - Mernova	2,094,154	\$0.49	1,020,000
Issued to consultants in lieu of cash fees for services	1,000,000	\$0.60	600,000
Issued to consultants in lieu of cash fees for services	250,000	\$0.60	150,000
Exercise of options	250,000	\$0.80	200,000
Placement and consultant shares	16,200,909	\$1.10	17,821,000
Consultant shares	1,032,774	\$1.33	1,375,000
Share purchase plan	326,358	\$1.10	358,994
Less: Equity raising costs	-	-	(2,579,017)
At 31 December 2017	109,505,544	-	35,138,519

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Notes to the Consolidated Financial Statements

NOTE 19 RESERVES

	2018	2017
	\$	\$
Share-based payments	14,547,170	5,516,511
Foreign currency translation reserve	251,912	45,491
	14,799,082	5,562,002
<u>Movement reconciliation</u>		
Share-based payments reserve		
Balance at the beginning of the year	5,516,511	2,295,156
Equity settled share-based payment transactions (Note 22)	6,078,523	3,221,355
Issued for working capital	2,952,136	-
Balance at the end of the year	14,547,170	5,516,511
Foreign currency translation reserve		
Balance at the beginning of the year	45,491	60,894
Effect of translation of foreign currency operations to group presentation	206,421	(15,403)
Balance at the end of the year	251,912	45,491

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.

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.

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:

NOTE 20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Notes to the Consolidated Financial Statements

Market risk (continued)

	EUR	CHF	CAD	USD
	€	Fr.	\$	\$
Cash and cash equivalents	214	572,925	3,489,702	7,633
Trade and other receivables	777	28,981	573,767	311
Trade and other payables	84,917	6,286	1,756,901	7,132

	2017			
	EUR	CHF	CAD	USD
	€	Fr.	\$	\$
Cash and cash equivalents	11,472	1,174,936	-	-
Trade and other receivables	2,908	81,726	-	-
Trade and other payables	111,450	23,649	-	-

The consolidated entity had net assets denominated in foreign currencies of \$3,118,755 as at 31 December 2018 (2017: \$1,133,547). Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% (2017: 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 \$156,000 lower/\$156,000 higher (2017: \$57,000 lower/\$57,000 higher) and equity would have been \$156,000 lower/\$156,000 higher (2017: \$57,000 lower/\$57,000 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 31 December 2018 was \$206,421 (2017: loss of \$15,403).

Price risk

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

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 bank loans outstanding, totalling \$2,700,000 (2017: \$nil), are principal and interest payment loans. Monthly cash outlays of approximately \$26,000 (2017: \$nil) per month are required to service the interest payments. An official increase/decrease in interest rates of 100 (2017: nil) basis points will have an adverse/ favourable effect on profit before tax of \$31,000 per annum. All principal and interest payments (2017: nil) are due during the year ending 31 December 2019 (2017: nil).

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

Notes to the Consolidated Financial Statements

NOTE 20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

The consolidated entity has a credit risk exposure with a 33% Joint Venture (CLV), which as at 31 December 2018 owed the consolidated entity \$527,977 (55% of trade receivables and 100% of the amount owing from CLV) (2017: \$495,000 (70.1% of trade receivables and 100% of the Hemp Industries receivable)). There are no guarantees against this receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with this customer and partner to mitigate risk.

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

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 manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

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.

	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Remaining contractual maturities \$
Consolidated - 2018					
Non-derivatives					
Non-interest bearing					
Trade and other payables	-	2,970,505	-	-	2,970,505
<i>Interest-bearing - fixed rate</i>					
Short term loans	10%	2,776,450	-	-	2,776,450
Total non-derivatives		5,746,955	-	-	5,746,955

	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Remaining contractual maturities \$
Consolidated - 2017					
Non-derivatives					
Non-interest bearing					
Trade and other payables	-	563,748	-	-	563,748
Total non-derivatives		563,748	-	-	563,748

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 RELATED PARTY DISCLOSURE

(a) Key Management Personnel Compensation

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

	2018	2017
	\$	\$
Short-term benefits	1,445,758	962,766
Post-employment benefits	43,897	18,562
Share-based payments	2,881,290	1,695,650
	4,370,945	2,676,978

Information regarding individual Directors and Key Management Personnel compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

(b) Transactions with related parties

During the year, the Group incurred corporate advisory, capital raising fees and rent expenses, payable to Everblu Capital Pty Ltd ("Everblu") (a company of which Adam Blumenthal is the Chairman).

Everblu Capital Pty Ltd	269,907	1,613,071
	269,907	1,613,071

The Group also made payment of Director's fees to International Water and Energy Savers Limited on behalf of Boaz Wachtel and WHP Management Consulting GmbH on behalf of Dr Miriam Halperin Wernli. The outstanding balance at reporting date was \$10,000.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

NOTE 22 SHARE-BASED PAYMENTS

	2018	2017
	\$	\$
(a) Recognised share-based payment transactions		
Options issued for consideration of services	390,000	139,509
Options issued to consultants	287,873	117,290
Performance rights issued	5,790,650	2,964,556
Shares issued for consideration of services	-	5,377,250
Shares issued for acquisition	2,956,364	-
Facilitation fee shares- Mernova(i)	-	1,020,000
	9,424,887	9,618,605
<i>Reconciliation:</i>		
<i>Recognised as share-based payment expenses in statement of profit and loss and other comprehensive income</i>	6,078,523	8,598,605
<i>Borrowings costs recognised as prepayment</i>	390,000	-
<i>Recognised as intangible asset on consolidation</i>	2,956,364	-
<i>Recognised as prepayment</i>	-	1,020,000
	9,424,887	9,618,605

(i) A facilitation fee was paid to a consultant as part of the Mernova Acquisition ("Acquisition"). The fee is equal to 10% of the total deal value in relation to the Acquisition. The fee comprised of the issue of 2,094,154 fully paid ordinary shares at \$0.487 per share with a total value of \$1,020,000. The share-based payment expense of \$1,020,000 has been recognised as a prepayment in the statement of financial position.

Notes to the Consolidated Financial Statements

NOTE 22 SHARE-BASED PAYMENTS (CONTINUED)

(b) Summary of unlisted options granted during the year

Grant Date	Issue Date	Date of Expiry	Exercise Price	Balance at the start of the year	Issued during the year	Converted during the year	Exercised during the year	Expired/Cancelled during the year	Balance at the end of the year
27-06-2016	27-06-2016	27-06-2020	\$0.40	400,000	-	-	-	-	400,000
13-10-2016	13-10-2016	13-10-2019	\$0.20	2,500,000	-	-	-	-	2,500,000
13-10-2016	13-10-2016	13-10-2020	\$0.20	2,886,250	-	-	-	-	2,886,250
14-10-2016	14-10-2016	14-10-2018	\$0.40	250,000	-	-	(250,000)	-	-
06-12-2016	06-12-2016	27-06-2020	\$0.40	200,000	-	-	-	-	200,000
23-01-2017	23-01-2017	23-01-2021	\$0.50	300,000	-	-	-	-	300,000
25-01-2017	25-01-2017	27-07-2019	\$0.30	250,000	-	-	-	-	250,000
01-02-2017	01-02-2017	27-07-2021	\$0.40	210,000	-	-	(70,000)	-	140,000
27-07-2017	27-07-2017	27-07-2021	\$0.40	100,000	-	-	-	-	100,000
10-10-2017	10-10-2017	13-04-2019	\$0.80	250,000	-	-	-	-	250,000
18-05-2018	16-07-2018	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	11-09-2018	15-09-2022	\$0.80	-	400,000	-	-	-	400,000
				7,346,250	1,150,000	-	(320,000)	-	8,176,250
Weighted average exercise price				\$0.32	\$0.73		\$0.40		\$0.36

31 December 2016 – Unlisted Options

Black-Scholes Option Pricing Model					
	Consultant	Broker	Consultant	Director	Consultant
Grant Date	27-06-16	13-10-16	13-10-16	14-10-16	06-12-16
Vesting Date	27-06-19	Immediately	13-10-20	Immediately	27-06-19
Strike (Exercise) Price	\$0.40	\$0.20	\$0.20	\$0.40	\$0.40
Underlying Share Price (at date of issue)	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
Risk-free Rate (at date of issue)	1.61%	1.72%	1.78%	1.73%	2.09%
Volatility	100%	100%	100%	100%	100%
Number of Options Issued	400,000	2,500,000	2,886,250	250,000	200,000
Dividend Yield	0%	0%	0%	0%	0%
Probability	100%	100%	0%	100%	100%
Black-Scholes Valuation	\$0.115	\$0.125	\$0.139	\$0.073	\$0.138
Total Fair Value of Options	\$46,144	\$311,709	-	\$18,135	\$27,644

31 December 2017 – Unlisted Options

Black-Scholes Option Pricing Model					
	Consultant	Consultant	Consultant	Consultant – Class 6A ⁽ⁱ⁾	Consultant – Class 6B ⁽ⁱ⁾
Grant Date	23-01-2017	25-01-2017	01-02-2017	01-04-2017	01-04-2017
Vesting Date	31-12-2019	Immediately	30-06-20	30-12-2017	01-04-2019
Strike (Exercise) Price	\$0.50	\$0.30	\$0.40	\$0.30	\$0.30
Underlying Share Price (at date of issue)	\$0.22	\$0.23	\$0.23	\$0.77	\$0.77
Risk-free Rate (at date of issue)	2.12%	1.81%	2.03%	2.06%	2.06%
Volatility	100%	100%	100%	100%	100%
Number of Options Issued	300,000	250,000	210,000	125,000	125,000
Dividend Yield	0%	0%	0%	0%	0%
Probability	100%	100%	100%	0%	0%
Black-Scholes Valuation	\$0.123	\$0.103	\$0.139	\$0.629	\$0.629
Total Fair Value of Options	\$36,807	\$25,865	\$29,185	-	-

Notes to the Consolidated Financial Statements

NOTE 22 SHARE-BASED PAYMENTS (CONTINUED)

31 December 2017 – Unlisted Options

Black-Scholes Option Pricing Model					
	Consultant – Class 7 ⁽ⁱ⁾	Consultant – Class 8 ⁽ⁱ⁾	Consultant – Class 9 ⁽ⁱ⁾	Consultants	Consultant
Grant Date	1-04-2017	1-04-2017	1-04-2017	27-07-2017	10-10-2017
Vesting Date	27-Jul-2019	27-Jul-2020	27-07-2021	Immediately	Immediately
Strike (Exercise) Price	\$1.20	\$1.60	\$2.00	\$0.40	\$0.80
Underlying Share Price (at date of issue)	\$0.77	\$0.77	\$0.77	\$0.57	\$0.56
Risk-free Rate (at date of issue)	2.06%	2.06%	2.06%	1.93%	1.93%
Volatility	100%	100%	100%	100%	100%
Number of Options Issued	100,000	100,000	100,000	100,000	500,000
Dividend Yield	0%	0%	0%	0%	0%
Probability	0%	0%	0%	100%	100%
Black-Scholes Valuation	\$0.323	\$0.365	\$0.407	\$0.351	\$0.209
Total Fair Value of Options	-	-	-	\$35,055	\$104,454

(i) Issued and cancelled during the year due to resignation.

31 December 2018 – Unlisted Options

Black-Scholes Option Pricing Model					
	Consultant	Consultant	Consultant	Consultant	Consultant
Grant Date	18-05-18	18-05-18	27-07-18	21-08-18	21-08-18
Vesting Date	18-05-19	18-05-20	Immediately	31-01-19	31-07-19
Strike (Exercise) Price	\$0.80	\$0.80	\$0.535	\$0.56	\$0.56
Underlying Share Price (at date of issue)	\$0.695	\$0.695	\$0.645	\$0.64	\$0.64
Risk-free Rate (at date of issue)	2.22%	2.22%	2.08%	2.04%	2.04%
Volatility	100%	100%	100%	100%	100%
Number of Options Issued	75,000	75,000	200,000	100,000	100,000
Dividend Yield	0%	0%	0%	0%	0%
Probability	100%	100%	100%	100%	100%
Black-Scholes Valuation	\$0.416	\$0.416	\$0.401	\$0.413	\$0.413
Total Fair Value of Options	\$31,204	\$31,204	80,200	41,300	41,300

31 December 2018 – Unlisted Options

Black-Scholes Option Pricing Model					
	Consultant	Consultant	Consultant	Consultant	Consultant
Grant Date	31-08-18	31-08-18	31-08-18	31-08-18	27-07-18
Vesting Date	Immediately	31-08-19	31-08-20	31-08-21	27-07-22
Strike (Exercise) Price	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80
Underlying Share Price (at date of issue)	\$0.615	\$0.615	\$0.615	\$0.615	\$0.645
Risk-free Rate (at date of issue)	2.18%	2.18%	2.18%	2.18%	2.18%
Volatility	100%	100%	100%	100%	100%
Number of Options Issued	100,000	100,000	100,000	100,000	200,000
Dividend Yield	0%	0%	0%	0%	0%
Probability	100%	100%	100%	100%	100%
Black-Scholes Valuation	\$0.402	\$0.402	\$0.402	\$0.402	\$0.427
Total Fair Value of Options	\$40,237	\$40,237	\$40,237	\$40,237	\$85,400

Notes to the Consolidated Financial Statements

NOTE 22 SHARE-BASED PAYMENTS (CONTINUED)

(c) Summary of listed options issued during the year

Options	Issue Date	Date of Expiry	Issue Price	Exercise Price	Balance at start of the year	Issued during the year	Exercised during the year	Expired/Cancelled during the year	Balance at end of the year
Shareholders ⁽ⁱ⁾	21-08-2018	21-08-2020	\$0.05	\$0.80	-	24,377,710	-	-	24,377,710
Shareholders ⁽ⁱ⁾	11-09-2018	21-08-2020	\$0.05	\$0.80	-	26,865,000	-	-	26,865,000
Lender ⁽ⁱⁱ⁾	17-12-2018	21-08-2020	-	\$0.80	-	2,295,062	-	-	2,295,062
Lender ⁽ⁱⁱ⁾	18-12-2018	21-08-2020	-	\$0.80	-	1,604,938	-	-	1,604,938
					-	55,142,710	-	-	55,142,710

- (i) These options were issued as per Non-Renounceable Entitlement announced on ASX on 23 July 2018. The Entitlement Issue offered eligible shareholders registered on the Record Date the ability to subscribe for Options on the basis of one (1) Option for every two (2) Shares held at an issue price of \$0.05 per Option.
- (ii) These options were issued to the lenders as part of cost of loan provided for construction of Mervova Medicinal growing facility.

Notes to the Consolidated Financial Statements

NOTE 22 SHARE-BASED PAYMENTS (CONTINUED)

(d) Summary of performance rights granted and vested during the year

Code	Issue Date	Date of Expiry	Exercise Price	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
CPHPERR4	20-10-2016	20-10-2020	Nil	750,000	-	-	-	750,000
CPHPERR10	27-07-2017	27-07-2022	Nil	750,000	-	(750,000)	-	-
CPHPERR11	27-07-2017	27-01-2019	Nil	750,000	-	(750,000)	-	-
CPHPERR4	20-10-2016	20-10-2020	Nil	250,000	-	-	-	250,000
CPHPERR12	27-07-2017	27-07-2018	Nil	100,000	-	(100,000)	-	-
CPHPERR13	27-07-2017	27-07-2019	Nil	100,000	-	-	-	100,000
CPHPERR4	20-10-2016	20-10-2020	Nil	1,750,000	-	-	-	1,750,000
CPHPERR8	27-07-2017	27-07-2022	Nil	1,250,000	-	-	-	1,250,000
CPHPERR9	27-07-2017	27-07-2022	Nil	1,250,000	-	-	-	1,250,000
CPHPERR4	20-10-2016	20-10-2020	Nil	1,500,000	-	-	-	1,500,000
CPHPERR6	27-07-2017	27-07-2018	Nil	800,000	-	-	-	800,000
CPHPERR7	27-07-2017	27-07-2018	Nil	800,000	-	-	-	800,000
CPHPERR14	27-07-2017	27-07-2018	Nil	300,000	-	(150,000)	-	150,000
CPHPERR12	27-07-2017	27-07-2018	Nil	50,000	-	(50,000)	-	-
CPHPERR17	27-07-2017	27-01-2019	Nil	2,000,000	-	(2,000,000)	-	-
CPHPERR18	27-07-2017	27-01-2019	Nil	2,000,000	-	(2,000,000)	-	-
CPHPERR19	27-07-2017	27-01-2019	Nil	2,000,000	-	-	-	2,000,000
CPHPERR15	27-07-2017	27-07-2019	Nil	100,000	-	-	-	100,000
CPHPERR16	27-07-2017	27-07-2020	Nil	100,000	-	-	-	100,000
CPHPERR20	16-07-2018	16-07-2023	Nil	-	50,000	(50,000)	-	-
CPHPERR21	16-07-2018	16-07-2023	Nil	-	50,000	-	-	50,000
CPHPERR22	16-07-2018	16-07-2023	Nil	-	50,000	-	-	50,000
CPHPERR23	16-07-2018	16-07-2023	Nil	-	50,000	-	-	50,000
CPHPERR24	16-07-2018	16-07-2023	Nil	-	50,000	-	-	50,000
CPHPERR22	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR23	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR24	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR22	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR23	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR24	16-07-2018	16-07-2023	Nil	-	33,000	-	-	33,000
CPHPERR22	16-07-2018	16-07-2023	Nil	-	16,000	-	-	16,000
CPHPERR23	16-07-2018	16-07-2023	Nil	-	16,000	-	-	16,000
CPHPERR24	16-07-2018	16-07-2023	Nil	-	16,000	-	-	16,000
CPHPERR25	16-07-2018	16-07-2023	Nil	-	100,000	(100,000)	-	-
CPHPERR26	16-07-2018	16-07-2023	Nil	-	200,000	(200,000)	-	-
CPHPERR27	16-07-2018	16-07-2023	Nil	-	200,000	-	-	200,000
CPHPERR28	16-07-2018	16-07-2023	Nil	-	100,000	-	-	100,000
CPHPERR29	11-10-2018	11-10-2023	Nil	-	300,000	-	-	300,000
CPHPERR30	11-10-2018	11-10-2023	Nil	-	300,000	-	-	300,000
CPHPERR31	11-10-2018	11-10-2023	Nil	-	300,000	-	-	300,000
CPHPERR32	11-10-2018	11-10-2023	Nil	-	100,000	-	-	100,000
CPHPERR33	11-10-2018	11-10-2023	Nil	-	150,000	-	-	150,000
CPHPERR34	11-10-2018	11-10-2023	Nil	-	150,000	-	-	150,000
CPHPERR35	11-10-2018	11-10-2023	Nil	-	500,000	-	-	500,000
CPHPERR36	11-10-2018	11-10-2023	Nil	-	400,000	-	-	400,000
CPHPERR37	11-10-2018	11-10-2023	Nil	-	400,000	-	-	400,000
				17,350,000	3,696,000	(6,150,000)	-	14,896,000

Notes to the Consolidated Financial Statements

NOTE 22 SHARE-BASED PAYMENTS (CONTINUED)

Performance rights issued in the prior year are straight-forward, non-market-based performance rights, with no consideration upon achievement. Accordingly, the fair value of the performance rights is by direct reference to the share price on grant date (\$0.57).

31 December 2017 – Performance Rights

	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Share Price at Grant Date	\$0.57	\$0.57	\$0.57	\$0.57	\$0.57
Exercise Price	N/A	N/A	N/A	N/A	N/A
Volatility (up to date of issue)	N/A	N/A	N/A	N/A	N/A
Issue Date	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Grant Date	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Vesting Date	27-07-2018	27-07-2018	27-07-2033	27-07-2022	27-07-2022
Risk-free Rate	N/A	N/A	N/A	N/A	N/A
Number of Rights Granted	800,000	800,000	1,250,000	1,250,000	750,000
Value per Right	\$0.57	\$0.57	\$0.57	\$0.57	\$0.57
Total Fair Value of Rights	\$456,000	\$456,000	\$712,500	\$712,500	\$427,500

31 December 2017 – Performance Rights

	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Share Price at Grant Date	\$0.57	\$0.57	\$0.57	\$0.57	\$0.57
Exercise Price	N/A	N/A	N/A	N/A	N/A
Volatility (up to date of issue)	N/A	N/A	N/A	N/A	N/A
Issue Date	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Grant Date	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Vesting Date	27-01-2019	27-07-2018	27-07-2019	27-07-2018	27-01-2019
Risk-free Rate	N/A	N/A	N/A	N/A	N/A
Number of Rights Granted	750,000	100,000	100,000	300,000	2,000,000
Value per Right	\$0.57	\$0.57	\$0.57	\$0.57	\$0.57
Total Fair Value of Rights	\$427,500	\$57,000	\$57,000	\$171,000	\$1,140,000

31 December 2017 – Performance Rights

	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Share Price at Grant Date	\$0.57	\$0.57	\$0.57	\$0.57	\$0.57
Exercise Price	N/A	N/A	N/A	N/A	N/A
Volatility (up to date of issue)	N/A	N/A	N/A	N/A	N/A
Issue Date	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Grant Date	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Vesting Date	27-07-2019	27-07-2019	27-07-2018	27-07-2019	27-07-2020
Risk-free Rate	N/A	N/A	N/A	N/A	N/A
Number of Rights Granted	2,000,000	2,000,000	50,000	100,000	100,000
Value per Right	\$0.57	\$0.57	\$0.57	\$0.57	\$0.57
Total Fair Value of Rights	\$1,140,000	\$1,140,000	\$28,500	\$57,000	\$57,000

31 December 2018 – Performance Rights

	26-06-2018	28-09-18	28-09-18	28-09-18	28-09-18	28-09-18
Share Price at Grant Date	\$0.69	\$0.56	\$0.56	\$0.56	\$0.56	\$0.56
Exercise Price	N/A	N/A	N/A	N/A	N/A	N/A
Volatility (up to date of issue)	N/A	N/A	N/A	N/A	N/A	N/A
Issue Date	16-07-2018	11-10-2018	11-10-2018	11-10-2018	11-10-2018	11-10-2018
Grant Date	26-06-2018	28-09-2018	28-09-2018	28-09-2018	28-09-2018	28-09-2018
Vesting Date	16-07-2023	28-09-2023	24-03-2021	25-06-2020	21-11-2020	25-06-2021
Risk-free Rate	N/A	N/A	N/A	N/A	N/A	N/A
Number of Rights Granted	1,096,000	1,900,000	100,000	150,000	300,000	150,000
Value per Right	\$0.69	\$0.56	\$0.56	\$0.56	\$0.56	\$0.56
Total Fair Value of Rights	\$721,740	\$1,064,000	\$56,000	\$84,000	\$168,000	\$84,000

In relation to the performance rights, issued in the current year these rights are straight-forward, non-market-based performance rights, with no consideration upon achievement. Accordingly, the fair value of the performance rights is by director reference to the share price on grant date.

Notes to the Consolidated Financial Statements

NOTE 22 SHARE-BASED PAYMENTS (CONTINUED)

(e) Summary of performance shares granted during the year

Code	Issue Date	Date of Expiry	Exercise Price	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
CPHPERSA	13-10-2016	13-10-2019	Nil	1,000,000	-	-	-	1,000,000
CPHPERSB	20-12-2018	20-06-2020	Nil	-	303,027	-	-	303,027
CPHPERSC	20-12-2018	20-06-2020	Nil	-	303,027	-	-	303,027
CPHPERSD	20-12-2018	20-06-2020	Nil	-	303,027	-	-	303,027
CPHPERSE	20-12-2018	20-06-2020	Nil	-	303,039	-	-	303,039
				1,000,000	1,212,120*	-	-	2,212,120

In relation to the performance shares issued in the current year, these shares are straight-forward, non-market-based performance shares, with no consideration upon achievement. Accordingly, the fair value of the performance shares is by direct reference to the share price on grant date:

	CPHPERSB	CPHPERSC	CPHPERSD	CPHPERSE
Share Price at Grant Date	\$0.36	\$0.36	\$0.36	\$0.36
Exercise Price	N/A	N/A	N/A	N/A
Volatility (up to date of issue)	N/A	N/A	N/A	N/A
Grant Date	20-12-2018	20-12-2018	20-12-2018	20-12-2018
Expiry Date	20-06-2020	20-06-2020	20-06-2020	20-06-2020
Risk-free Rate	N/A	N/A	N/A	N/A
Number of shares Granted	303,027	303,027	303,027	303,039
Value per shares	\$0.36	\$0.36	\$0.36	\$0.36
Total Fair Value of Rights	\$109,090	\$109,090	\$109,090	\$109,094
Probability at acquisition and reporting date	0%	0%	0%	0%

* Each Performance Share will be exchanged for one ordinary share in Creso Pharma Limited in the event Kunna S.A.S. successfully cultivates and sells 10kg of cannabis extract (with a minimum of 6% CBD or 6% THC in flower), which must occur on commercial arms length terms, from its operations within 18 months of Settlement.

NOTE 23 BUSINESS COMBINATIONS

(a) Purchase consideration and net assets acquired in the current year

Details of the purchase considerations and the net assets acquired in two new subsidiaries are as follows:

ACQUISITION OF SUBSIDIARY- MERNOVA MEDICINAL INC.

On 27 July 2017, Creso entered into a head of agreement (“HOA”) to acquire 100% of the shares in Mernova Medicinal Inc (“Mernova”), a company registered in Canada. The acquisition of Mernova was completed on 15 February 2018. The acquisition was assessed as an asset acquisition as Mernova has no inputs, processes and outputs as defined in AASB 3 Business Combination. The total consideration for the acquisition is as follows:

Summary of purchase consideration

	\$
Cash consideration (CAD\$200,000)	201,735

Net assets acquired are as follows:

	15-Feb-18
	\$
Cash and cash equivalent	80,976
Property, plant and equipment	1,801,626
Intangible asset	507,282
Total assets	2,389,884

Other current liabilities	319,084
Borrowings	1,869,065
Total liabilities	2,188,149
Net assets acquired	201,735

Notes to the Consolidated Financial Statements

NOTE 23 BUSINESS COMBINATIONS (CONTINUED)

ACQUISITION OF SUBSIDIARY- KUNNA CANADA LIMITED AND ITS CONTROLLED ENTITIES

On 13 December 2017, Creso entered into a heads of agreement (“HOA”) to acquire 100% of the shares in Kunna Canada Limited, a company registered in Canada, and its wholly owned subsidiary Kunna S.A.S. registered in Colombia. On 15 November 2018 heads of agreement was amended and restated. The acquisition was completed on 20 December 2018.

Kunna Canada Limited operates exclusively via Kunna S.A.S., which has a licence to manufacture and produce cannabis derivatives purely for scientific and medical use in accordance with the relevant legal requirements in Colombia (Production Licence) and a licence to cultivate cannabis in Colombia (Cultivation Licence). The acquisition was assessed as an asset acquisition as Kunna lacks some inputs, and has no processes and outputs as defined in AASB 3 Business Combination. The total consideration for the acquisition is as follows:

(b) Summary of purchase consideration

- (a) 8,212,121 fully paid Ordinary Shares (Ordinary Shares) in a Canadian subsidiary of the Company (being 3321739 Nova Scotia Limited). The shares were issued at fair value of \$0.36 per share, being the price on the day of issue.
- (b) 1,212,120 performance shares. Each Performance Share will be exchanged for one ordinary share in Creso Pharma Limited in the event Kunna S.A.S. successfully cultivates and sells 10 kg of cannabis extract (with a minimum of 6% CBD or 6% THC in flower), which must occur on commercial arms length terms, from its operations within 18 months of Settlement.

Summary of purchase consideration

	20-Dec-18
	\$
Consideration- Ordinary shares	2,956,364
Consideration- Performance shares*	-
	<u>2,956,364</u>

Net assets acquired are as follows:

	20-Dec-18
	\$
Cash and cash equivalent	10,814
Intangible asset – licence	55,084
Intangible asset	2,930,192
Prepayment	381
Total assets	<u>2,996,471</u>
Other current liabilities	40,107
Total liabilities	<u>40,107</u>
Net assets acquired	<u>2,956,364</u>

* Management has assessed the probability at acquisition date to be nil and hence no value attribute to the consideration.

Notes to the Consolidated Financial Statements

NOTE 24 COMMITMENTS

Capital Commitments

Capital expenditure budgeted for at the reporting date but not recognised as liabilities) is as follows:

Construction of the medicinal growing facility in Canada

	2018	2017
	\$	\$
	1,221,338	-
	1,221,338	-
	69,840	54,625
	2,441	-
	-	-
	72,281	54,625

Operating Lease Commitments

Within one year

One to five years

More than five years

NOTE 25 CONTINGENCIES

As part of the acquisition of Mernova Medicinal Inc., the Company issued 8,300,000 fully paid Exchangeable Preferred Shares (Exchangeable Shares) in a Canadian subsidiary of the Group (Creso Canada Corporate Limited). Each Exchangeable Share will be exchanged for one ordinary share in Creso Pharma Limited when the Milestones noted below are met. As at 31 December 2018, the Exchangeable Shares and contingent cash payment are disclosed below:

Milestone 1: Cash payment of CAD\$800,000 and CAD\$4,150,000 of Exchangeable Shares will be exchanged on Creso Pharma Limited's announcement to the market of Mernova Medicinal Inc. securing a cultivation license from Health Canada under the ACMPR in relation to the cultivation facility. Milestone 1 must be achieved within 18 months of settlement.

Milestone 2: Cash payment of CAD\$800,000 and CAD\$4,150,000 of Exchangeable Shares will be exchanged on Creso Pharma Limited's announcement to the market of the grant of a sales license to Mernova Medicinal Inc. under the ACMPR. Milestone 2 must be achieved within 12 months of Milestone 1 being satisfied.

As part of the acquisition of Kuna Canada Limited, the company issued 1,212,120 performance shares. Each Performance Share will be exchanged for one ordinary share in Creso Pharma Limited in the event Kunna S.A.S. successful cultivates and sells 10 kgs of cannabis extract (with a minimum of 6% CBD or 6% THC in flower), which must occur on commercial arms length terms, from its operations within 18 months of Settlement.

Other than the above, there have been no material changes to contingent liabilities since 31 December 2018.

NOTE 26 AUDITOR'S REMUNERATION

During the financial year the following fees were paid or payable for services provided by RSM Australia Partners, the auditor of the company, its network firms and unrelated firms:

	2018	2017
	\$	\$
<i>Audit Services- RSM Australia Partners</i>		
Audit and review of annual, half-year and quarterly financial report	142,500	48,000
Other services – RSM Australia Pty Ltd for:		
– Income tax return	9,075	6,500
– Other	-	1,500
<i>Component Auditor Fees</i>		
Audit and review of the financial statements	49,758	11,856
	201,333	67,856

Notes to the Consolidated Financial Statements

NOTE 27 INVESTMENT IN CONTROLLED ENTITIES

Company Name	Principal Activities	Country of Incorporation	Ownership interest	
			2018	2017
			%	%
Creso Pharma Switzerland GmbH	Development of therapeutic products	Switzerland	100	100
Hemp-Industries s.r.o.	Hemp cultivation and outsourced CBD extraction	Slovakia	100	100
Creso Canada Limited	Corporate entity	Canada	100	-
Creso Canada Corporate Limited	Corporate entity	Canada	100	-
Mernova Medicinal Inc.	Construction of medicinal cannabis growing facility	Canada	100	-
3321739 Nova Scotia Limited	Corporate Entity	Canada	100	-
Kunna Canada Limited	Corporate entity	Canada	100	-
Kunna S.A.S	Construction of medicinal cannabis growing facility	Colombia	100	-
Creso Grow Limited*	Production of medicinal cannabis	Israel	74	-

* Summarised financial information is not disclosed for the subsidiary with non-controlling interests as it is not material to the consolidated entity.

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

	2018 \$	2017 \$
Total current assets	2,622,209	13,323,559
Loans receivable and investments in controlled entities	27,719,890	-
Provision against Loans to and investments in controlled entities	(10,379,856)	-
Total non-current assets	17,340,034	-
Total assets	19,962,243	21,457,282
Total current liabilities	3,457,851	428,649
Total liabilities	3,457,851	428,649
Equity		
Contributed equity	38,222,882	35,138,519
Reserves	14,547,169	5,516,511
Accumulated losses	(36,265,659)	(19,626,397)
Total equity	16,504,392	21,028,634
Provision expense for loans to and investments in controlled entities (Loss) for the year	(10,379,856) (10,268,870)	- (15,655,009)
Total comprehensive loss	(20,648,726)	(15,091,479)
Contingent liabilities		

The parent entity had no contingent liabilities as at 31 December 2018 and 31 December 2017.

Notes to the Consolidated Financial Statements

NOTE 28 PARENT ENTITY INFORMATION (CONTINUED)

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2018 and 31 December 2017.

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.

NOTE 29 INTEREST IN ASSOCIATE

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
CLV Frontier Brands Pty Ltd	Estonia/Australia	33⅓%	-%

Summarised financial information	CLV Frontier Brands Pty Ltd	
	2018 \$	2017 \$
<i>Summarised statement of financial position</i>		
Current assets	45,457	-
Non-current assets	11,330	-
Total assets	<u>56,787</u>	<u>-</u>
Current liabilities	222,590	-
Non-current liabilities	-	-
Total liabilities	<u>222,590</u>	<u>-</u>
Net Liability	<u>(165,803)</u>	<u>-</u>
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	10,607	-
Cost of sales	(8,884)	-
Other income	3,517	-
Impairment of intangible assets	(986,626)	-
Expenses	<u>(451,444)</u>	<u>-</u>
(loss) before income tax	(1,432,830)	-
Income tax expense	<u>-</u>	<u>-</u>
(Loss) after income tax	(1,432,830)	-
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive (loss)	<u>(1,432,830)</u>	<u>-</u>

CLV Frontier Brands was incorporated on 9 January 2018 and therefore there are no comparative figures. No commitments or contingent liability noted for the investment in associate.

Notes to the Consolidated Financial Statements

NOTE 30 EQUITY- NON-CONTROLLING INTEREST

	2018	2017
	\$	\$
Accumulated losses	89,650	-
	<u>89,650</u>	<u>-</u>

The non-controlling interest has a 26% (2017: -%) equity holding in Creso Grow Limited.

NOTE 31 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Consolidated	Short term loans \$
Balance at 1 January 2017	-
Net cash from/(used in) financing activities	-
	<u> </u>
Balance at 31 December 2017	-
Net cash from/(used in) financing activities	2,430,000
	<u> </u>
Balance at 31 December 2018	<u>2,430,000</u>

NOTE 32 EVENTS AFTER THE REPORTING DATE

On 21 January 2019, Creso announced it has signed a three-year supply agreement with TerrAscend Canada, a wholly-owned subsidiary of TerrAscend Corp., (CSE: TER; OTCQX: TRSSF) (“TerrAscend”) to provide its premium cannabis product to help meet the significant consumer demand driven by Canada’s federal legalisation of cannabis in October 2018. Under the terms of the Supply Agreement, Creso has agreed to sell and TerrAscend has agreed to purchase a minimum of 100 kgs of cannabis flower per month from Creso from the date that Creso is licensed to sell cannabis under Canadian laws.

On 24 January 2019, the company announced that it had raised approximately \$3 million in a placement to institutional and sophisticated investors (“Placement”). Under the terms of the Placement, the Company issued 6,806,667 fully paid ordinary shares in the capital of the Company at \$0.45 per share, together with one free attaching listed (ASX:CPHO) option (\$0.80, 21 August 2020) for every 3 shares subscribed for under the Placement. The Placement was managed by Everblu Capital Pty Ltd (“EverBlu”), who receive a fee of 6% of the total funds raised. No related parties, employees or associates of EverBlu participated in the Placement.

On 15 February 2019, the Canadian government granted Mernova Medicinal Inca licence to cultivate cannabis at a facility run by Creso’s wholly-owned subsidiary Mernova Medical in Nova Scotia. Creso is now only the fifth licenced producer in the region, and the only ASX-listed company with a 100% ownership interest in a licenced Canadian cultivator. Under the terms of the licence granted by Health Canada, Mernova Medical is permitted to grow, sell and distribute dried and fresh cannabis, cannabis plants and cannabis plant seeds to pre-determined companies under the Cannabis Act.

On 31 January 2019, The board agreed that Dr Miriam Halperin Wernli achieved a performance milestone which resulted in the vesting of 1,750,000 performance rights.

On 12 March 2019, the Company decided, in conjunction with the Board of CLV Frontier Brands Pty Limited, to cease funding the operations of the CLV joint Venture, due to the significant additional funding required to construct a brewing facility and maintain a sustainable business. CLV is winding down its operations.

Notes to the Consolidated Financial Statements

NOTE 32 EVENTS AFTER THE REPORTING DATE (CONTINUED)

On 14 March 2019, in accordance with Milestone 1, Mernova Medicinal Inc secured a cultivation license from Health Canada under the ACMPR for its cultivation facility. This was achieved within 18 months of acquisition. The company paid C\$800,000 to Mr William Fleming with C\$4,150,000 of Exchangeable Shares to be exchanged at a future date for ordinary shares in the Company.

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 2018 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



BOAZ WACHTEL
Executive Chairman
22 March 2019

RSM Australia Partners

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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CRESO PHARMA LIMITED**

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 2018, 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 statements, 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 2018 and of its financial performance for the year then ended; 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 auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (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.

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Material Uncertainty Related to Going Concern

We draw attention to the going concern note in the Basis of Preparation section at Note 1(b), which indicates that the Group incurred a loss of \$16,845,686 for the year ended 31 December 2018 and, as of that date, the Group had net cash outflows from operating and investing activities of \$8,173,313 and \$4,138,526 respectively. As stated in the going concern note, these events or conditions, along with other matters as set forth in the going concern note, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. 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.

Key Audit Matter	How our audit addressed this matter
Acquisition of Subsidiary	
Refer to Note 23 in the financial statements	
<p>During the year, the Group acquired 100% interest of Mernova Medicinal Inc. (Mernova) for a purchase consideration of \$201,735.</p> <p>The accounting for this acquisition is considered to be a key audit matter because it involved the exercise of judgment in relation to:</p> <ul style="list-style-type: none"> • Determining whether the transaction is a business combination or an asset acquisition, based on whether the definition of a business in AASB 3 <i>Business Combinations</i> was met; • Determining the fair value of the consideration paid; and • Determining the acquisition date. 	<p>Our audit procedures in relation to the acquisition of Mernova included:</p> <ul style="list-style-type: none"> • Reviewing the binding heads of agreement to understand key terms and conditions; • Evaluating the management determination that the acquisition did not meet the definition of a business within AASB 3 <i>Business Combinations</i> and therefore was an asset acquisition as opposed to a business combination; • Evaluating the assumptions and methodology in management's determination of the fair value assets and liabilities acquired; • Assessing management's determination of the fair value of consideration paid; and • Assessing the appropriateness of the disclosures in the financial report.
Acquisition of Subsidiaries	
Refer to Note 23 in the financial statements	
<p>During the year, the Group acquired 100% interest of Kunna Canada Limited and Kunna S.A.S (Kunna) for a purchase consideration of \$2,956,364.</p> <p>The accounting for this acquisition is considered to be a key audit matter because it involved the exercise of judgment in relation to:</p> <ul style="list-style-type: none"> • Determining whether the transaction is a business combination or an asset acquisition, based on whether the definition of a business in AASB 3 <i>Business Combinations</i> was met; • Determining the fair value of the consideration paid; and • Determining the acquisition date. 	<p>Our audit procedures in relation to the acquisition of Kunna included:</p> <ul style="list-style-type: none"> • Reviewing the binding heads of agreement to understand key terms and conditions; • Evaluating the management determination that the acquisition did not meet the definition of a business within AASB 3 <i>Business Combinations</i> and therefore was an asset acquisition as opposed to a business combination; • Evaluating the assumptions and methodology in management's determination of the fair value assets and liabilities acquired; • Assessing management's determination of the fair value of consideration paid; and • Assessing the appropriateness of the disclosures in the financial report.

Impairment of Intangible Assets	
Refer to Note 13 in the financial statements	
<p>During the year, the Group capitalised intangible assets upon the acquisition of Mernova Medicinal Inc., Kunna Canada Limited and Kunna S.A.S which amounted to \$3,492,847 at the reporting date. These intangible assets are related to production and cultivation licences. These intangibles are not yet available for use and are subject to an annual impairment review by management to assess whether the asset's recoverable amount is greater than its carrying amount.</p> <p>Management's assessment involved:</p> <ul style="list-style-type: none"> • Evaluating the current status of the licences and future development plans to determine whether the licences are available for use as at 31 December 2018 for the purposes of determining whether amortisation of the licences should of commenced; and • Evaluating whether any events have occurred to indicate that the licences' recoverable amount may be materially less than its carrying amount. <p>In addition, management have also capitalised development costs with a net book value of \$608,331 as at the reporting date in relation to the Anibidiol and CannaQIX patents. Management has capitalised these development costs on the basis that it has met both the technical feasibility and economic feasibility criteria.</p> <p>We have determined this to be a key audit matter due to management's assessment requiring significant judgement and the risk that the outcome of this assessment could result in a material misstatement to the carrying value of the licences and development costs capitalised if applied incorrectly.</p>	<p>Our audit procedures in relation to intangible assets included:</p> <ul style="list-style-type: none"> • Assessing whether the Group's accounting policy in relation to intangible assets is in compliance with Australian Accounting Standards; • Assessing management's determination that at 31 December 2018, the licences are not yet available for use; • Assessing whether there are any indicators of impairment of the intangible assets, including enquiring with management on the current and planned commercialisation activities; • Assessing the reasonableness of management's assumptions included in the cashflow model; • Reviewing the component auditor's workpapers to ensure sufficient audit evidence has been obtained to conclude that impairment is not required in relation to the development costs capitalised; • Reviewing component auditor's workpapers to ensure development costs have been capitalised in accordance with Australian Accounting Standards; and • Assessing adequacy of the disclosures in the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2018, 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 accordingly 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 have 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: http://www.auasb.gov.au/auditors_responsibilities/ar1.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 within the directors' report for the year ended 31 December 2018.

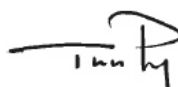
In our opinion, the Remuneration Report of Creso Pharma Limited, for the year ended 31 December 2018, complies with section 300A of the Corporations Act 2001.

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.



RSM AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 22 March 2019

Shareholder Information

The shareholder information set out below was applicable as at 1 March 2019.

1. QUOTATION

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

2. VOTING RIGHTS

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

- (a) at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
- (b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

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

3. ON MARKET BUY-BACK

There is no on-market buy back in place.

4. GROUP CASH AND ASSETS

In accordance with Listing Rule 4.10.19, the Company confirms that it has been using its cash and assets for the year ended 31 December 2018 in a way that is consistent with its business objectives and strategy.

5. RESTRICTED SECURITIES

The following restricted securities are listed on the Company's register as at 1 March 2019:

- 2,053,025 Fully Paid Ordinary Shares are escrowed to 20/03/2019
- 2,053,026 Fully Paid Ordinary Shares are escrowed to 20/06/2019
- 2,053,027 Fully Paid Ordinary Shares are escrowed to 20/09/2019
- 2,053,043 Fully Paid Ordinary Shares are escrowed to 20/12/2019
- 8,212,100

- 303,027 Class B Performance Shares are escrowed to 20/03/2019
- 303,027 Class C Performance Shares are escrowed to 20/06/2019
- 303,027 Class D Performance Shares are escrowed to 20/09/2019
- 303,039 Class E Performance Shares are escrowed to 20/12/2019
- 1,212,120

Shareholder Information

6. DISTRIBUTION OF SECURITY HOLDERS

6.1 Fully Paid Ordinary Shares

Shares Range	Holders	Units	%
1 – 1,000	2,504	1,787,303	1.34
1,001 – 5,000	4,491	11,954,475	8.94
5,001 – 10,000	1,425	11,409,527	8.53
10,001 – 100,000	1,483	39,767,242	29.73
100,001 and above	98	68,825,785	51.46
Total	10,001	133,744,332	100.00%

On 1 March 2019, there were 2,968 holders of unmarketable parcels of less than 2,308,784 ordinary shares (based on the closing share price of \$0.4050).

6.2 Listed CPHO Options exercisable at \$0.80 on or before 21 August 2020

Shares Range	Holders	Units	%
1 – 1,000	965	548,927	0.96
1,001 – 5,000	917	2,417,110	4.21
5,001 – 10,000	202	1,520,267	2.65
10,001 – 100,000	195	5,005,659	8.73
100,001 and above	27	47,854,448	83.45
Total	2,306	57,346,411	100.00%

Shareholder Information

6.3 Unlisted Options

Class	Quantity on Issue	Distribution of Holders
CPHOPT2 Options (\$0.40, 27/06/2020)	600,000	There are 3 holders, all holding more than 100,001 securities in this class. The following holders hold more than 20% of the securities in this class: <ul style="list-style-type: none"> - Sara Raquel Peyraube Barqui holds 200,000 securities (33.33%) - Mr Isaac Kobrin holds 200,000 securities (33.33%) - Prof Felix Gutzwiller holds 200,000 securities (33.33%)
CPHOPT3 Options (\$0.20, 13/10/2020)	2,886,250	All the securities in this class are held by: <ul style="list-style-type: none"> - Biologus IP GmbH
CPHOPT4 Options (\$0.20, 13/10/2019)	2,500,000	There are 2 holders, each holding more than 100,001 securities in this class. The following holder holds more than 20% of the securities in this class: <ul style="list-style-type: none"> - Australian Share Nominees Pty Ltd <Australasian Holdings A/C> holds 2,250,000 securities (90%).
CPHOPT5 Options (\$0.50, 23/01/2021)	300,000	All the securities in this class are held by: <ul style="list-style-type: none"> - GBTPharma Ltd
CPHOPT10 Options (\$0.40, 27/07/2021)	140,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Mr Norman Nashed
CPHOPT11 Options (\$0.30, 27/07/2019)	250,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Mr Maurizio Rainiso
CPHOPT12 Options (\$0.60, 27/07/2020)	100,000	All the securities in this class are held by: <ul style="list-style-type: none"> - A & J Tannous Nominees Pty Ltd <Assad Tannous A/C>
CPHOPT13 Options (\$0.80, 13/04/2019)	250,000	All the securities in this class are held by: <ul style="list-style-type: none"> - UBS Nominees Pty Ltd <UBS A/C>
CPHOPT14 Options (\$0.80, 13/07/2021)	150,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Mr Eugen Hans Merz
CPHOPT16 Options (\$0.535, 27/07/2021)	200,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Hession Group Pty Ltd <Palmaria A/C>
CPHOPT17 Options (\$0.80, 27/07/2022)	200,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Mr Walter Von Wartberg
CPHOPT18 Options (\$0.55, 21/08/2021)	200,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Hession Group Pty Ltd <Palmaria A/C>
CPHOPT19 Options (\$0.80, 15/09/2022)	400,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Carole Abel
	8,176,250	

Shareholder Information

6.4 Performance Rights

Class	Quantity on Issue	Distribution of Holders
CPHPERR4 Performance Rights	4,250,000	There are 4 holders, all holding more than 100,001 of securities in this class. The following holders hold more than 20% of the securities in this class: <ul style="list-style-type: none"> - Miriam Halperin Wernli holds 1,750,000 securities (41.18%); - International Water Energy Savers Ltd holds 1,500,000 (35.29%)
CPHPERR6 Performance Rights	800,000	All the securities in this class are held by: <ul style="list-style-type: none"> - International Water Energy Savers Ltd
CPHPERR7 Performance Rights	800,000	All the securities in this class are held by: <ul style="list-style-type: none"> - International Water Energy Savers Ltd
CPHPERR8 Performance Rights	1,250,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Miriam Halperin Wernli
CPHPERR9 Performance Rights	1,250,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Miriam Halperin Wernli
CPHPERR13 Performance Rights	100,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Dr James Anthony Ellingford
CPHPERR14 Performance Rights	150,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Jorge Wernli <WHP Management Consulting AC>
CPHPERR15 Performance Rights	100,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Stephane Redey
CPHPERR16 Performance Rights	100,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Stephane Redey
CPHPERR21 Performance Rights	50,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Stuart Fillman
CPHPERR22 Performance Rights	132,000	There are 4 holders, all holding between 10,001 and 100,000 securities in this class. The following holders hold more than 20% of the securities in this class: <ul style="list-style-type: none"> - Charles Williams holds 50,000 securities (37.88%) - Sean MacDougall holds 33,000 securities (25%) - Ian Kaye holds 33,000 securities (25%)
CPHPERR23 Performance Rights	132,000	There are 4 holders, all holding between 10,001 and 100,000 securities in this class. The following holders hold more than 20% of the securities in this class: <ul style="list-style-type: none"> - Charles Williams holds 50,000 securities (37.88%) - Sean MacDougall holds 33,000 securities (25%) - Ian Kaye holds 33,000 securities (25%)
CPHPERR24 Performance Rights	132,000	There are 4 holders, all holding between 10,001 and 100,000 securities in this class. The following holders hold more than 20% of the securities in this class: <ul style="list-style-type: none"> - Charles Williams holds 50,000 securities (37.88%) - Sean MacDougall holds 33,000 securities (25%) - Ian Kaye holds 33,000 securities (25%)
CPHPERR27 Performance Rights	200,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Hession Group Pty Ltd <Palmaria A/C>
CPHPERR28 Performance Rights	100,000	All the securities in this class are held by: <ul style="list-style-type: none"> - Hession Group Pty Ltd <Palmaria A/C>

Shareholder Information

6.4 Performance Rights (continued)

Class	Quantity on Issue	Distribution of Holders
CPHPERR29 Performance Rights	300,000	All the securities in this class are held by: - Mr Christopher Grundy
CPHPERR30 Performance Rights	300,000	All the securities in this class are held by: - Mr Christopher Grundy
CPHPERR31 Performance Rights	300,000	All the securities in this class are held by: - Mr Christopher Grundy
CPHPERR32 Performance Rights	100,000	All the securities in this class are held by: - Mr Christopher Grundy
CPHPERR33 Performance Rights	150,000	All the securities in this class are held by: - John Griesse
CPHPERR34 Performance Rights	150,000	All the securities in this class are held by: - John Griesse
CPHPERR35 Performance Rights	500,000	All the securities in this class are held by: - John Griesse
CPHPERR36 Performance Rights	400,000	All the securities in this class are held by: - John Griesse
CPHPERR37 Performance Rights	400,000	All the securities in this class are held by: - John Griesse
	12,146,000	

Shareholder Information

6.5 Performance Shares

Class	Quantity on Issue	Distribution of Holders
CPHPERSA Performance Shares	1,000,000	There are 2 holders, each holding more than 100,001 of securities in this class. The following holders hold more than 20% of the securities: - Michal Masek holds 500,000 securities (50%) - Roman Strechaj holds 500,000 securities (50%)
CPHPERSB Performance Shares (esc to 20/03/2019)	303,027	There are 17 holders, distributed as follows: - 1,001 – 5000 securities: 4 holders; - 5,001 – 10,000 securities: 6 holders; - 10,001 – 100,000 securities: 7 holders; None of the holders hold more than 20% of the securities in this class.
CPHPERSC Performance Shares (esc to 20/06/2019)	303,027	There are 17 holders, distributed as follows: - 1,001 – 5000 securities: 4 holders; - 5,001 – 10,000 securities: 6 holders; - 10,001 – 100,000 securities: 7 holders; None of the holders hold more than 20% of the securities in this class.
CPHPERSD Performance Shares (esc to 20/09/2019)	303,027	There are 17 holders, distributed as follows: - 1,001 – 5000 securities: 4 holders; - 5,001 – 10,000 securities: 6 holders; - 10,001 – 100,000 securities: 7 holders; None of the holders hold more than 20% of the securities in this class.
CPHPERSE Performance Shares (esc to 20/12/2019)	303,039	There are 17 holders, distributed as follows: - 1,001 – 5000 securities: 4 holders; - 5,001 – 10,000 securities: 6 holders; - 10,001 – 100,000 securities: 7 holders; None of the holders hold more than 20% of the securities in this class.
	2,212,120	

7. SUBSTANTIAL SHAREHOLDERS

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

- 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
- International Water and Energy Savers Ltd
Holder of: 6,800,000 fully paid ordinary shares, representing 8.39% as at 31 March 2017
Notice Received: 3 April 2017
- 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

Shareholder Information

8. TWENTY LARGEST SHAREHOLDERS AS AT 1 MARCH 2019

	Name	Shares Held	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,426,545	6.30%
2	MIRIAM HALPERIN WERNLI	8,250,000	6.17%
3	INTERNATIONAL WATER ENERGY SAVERS LTD	6,800,000	5.08%
4	ANGLO AUSTRALASIA HOLDINGS PTY LTD <ANGLO AUSTRALASIA A/C>	5,500,000	4.11%
5	PHEAKES PTY LTD <SENATE A/C>	4,000,000	2.99%
6	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	3,282,346	2.45%
7	CITICORP NOMINEES PTY LIMITED	2,175,192	1.63%
8	SUBURBAN HOLDINGS PTY LIMITED <SUBURBAN SUPER FUND A/C>	2,000,792	1.50%
9	PHEAKES PTY LTD <SENATE A/C>	2,000,000	1.50%
10	DORSON COMMERCIAL CORP	1,549,618	1.16%
11	PEDRO TOSIN	1,461,232	1.09%
12	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	1,121,707	0.84%
13	FRONTIER HYDROCARBONS LTD	1,117,016	0.84%
14	MR JAMES ANTHONY ELLINGFORD	1,100,000	0.82%
15	BB ENTERPRISES BVI	1,056,752	0.79%
16	MR TEIK TATT OH	593,506	0.44%
17	1661061 ALBERTA LTD	573,932	0.43%
18	CHRIS REID	568,076	0.42%
19	SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	541,591	0.40%
20	MS ELIZABETH ANN WILLIAMS	530,000	0.40%
20	MR GUOAN YU	530,000	0.40%
	Total	53,194,129	39.77%

Shareholder Information

9. TWENTY LARGEST LISTED CPHO OPTION HOLDERS AS AT 1 MARCH 2019

	Name	Options Held	%
1	JAMBER INVESTMENTS PTY LTD <THE AMBER SCHWARZ FAM A/C>	25,117,407	43.80%
2	MIRIAM HALPERIN WERNLI	4,072,950	7.10%
3	INTERNATIONAL WATER ENERGY SAVERS LTD	3,000,000	5.23%
4	ANGLO AUSTRALASIA HOLDINGS PTY LTD <ANGLO AUSTRALASIA A/C>	2,750,000	4.80%
5	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	2,139,395	3.73%
6	PHEAKES PTY LTD <SENATE A/C>	2,000,000	3.49%
7	CITICORP NOMINEES PTY LIMITED	1,780,492	3.10%
8	SUBURBAN HOLDINGS PTY LIMITED <SUBURBAN SUPER FUND A/C>	1,292,442	2.25%
9	CLAIRVAUX INVESTMENTS PTY LTD <CLAIRVAUX A/C>	645,000	1.12%
10	DR JAMES ANTHONY ELLINGFORD	550,000	0.96%
	PITTAR NOMINEES PTY LIMITED	500,000	0.87%
11	SOLOMONS FAMILY INVESTMENTS PTY LIMITED <RIONGLORE SUPER FUND A/C>	500,000	0.87%
12	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	478,143	0.83%
	ROTHERWOOD ENTERPRISES PTY LTD	448,835	0.78%
13	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	348,846	0.61%
14	SNOWY PLAINS PTY LTD	346,980	0.61%
15	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	285,001	0.50%
16	MR ROGER WILLIAMS PATEK & MRS MAREE HELEN PATEK <THE R W P SUPER FUND A/C>	250,000	0.44%
17	LYNWAR PTY LTD <THE WILLJUNE A/C>	200,000	0.35%
17	WALROO PTY LTD <RLW SUPER FUND A/C>	200,000	0.35%
17	MR DARRYL THOMAS AYRIS <BAJJAT FAMILY A/C>	157,500	0.27%
18	MR DARRYL AYRIS & MRS AMANDA JANE AYRIS <DARAMA SUPER FUND A/C>	152,500	0.27%
	Total	47,215,491	82.33%

10. ACQUISITION OF VOTING SHARES

No issues of securities have been approved for the purposes of Item 7 of Section 611 of the Corporations Act 2001.

Glossary of Terms and Abbreviations

ACMPR	<i>Access to Cannabis for Medical Purposes</i> Regulations (Canada)
anibidiol [®]	Creso's complementary feed for companion animals with CBD from full spectrum hemp oil extract.
ASX	The Australian Securities Exchange is Australia's primary securities exchange. It is owned by the Australian Securities Exchange Ltd, or ASX Limited, an Australian public company.
cannaDOL [®]	Creso's range of organic CBD-based functional topicals designed to address the analgesic need in sports related muscle injuries, arthritis and osteoarthritis.
cannaPEAL [®]	Creso's sugar free Food Supplement in innovative buccal formulation containing hemp seed oil and vitamins used OTC (without prescription) targeting healthy aging and support of stress reduction in humans. cannaPEAL [®] is formulated in a proprietary delivery system maximizing absorption
cannaQIX [®] 10	Creso's sugar free non-euphoric Food Supplement in innovative buccal formulation containing CBD from full spectrum hemp oil extract, vitamins, minerals and capsicum used OTC (without prescription). Targets stress reduction and support of mental and nervous functions in humans
cannaQIX [®] 50	Creso's proprietary buccally formulated cannabidiol ("CBD") lozenge which is designed to support the management of chronic pain. Each lozenge contains 50mg of CBD from full spectrum hemp plant extracts along with niacin, vitamins B6, B12, C, and zinc in a standardized pharma-grade formulation produced in Switzerland
cannaQIX [®] NITE	Creso's sugar free non-euphoric Food Supplement in innovative buccal formulation containing CBD from full spectrum hemp oil extract, vitamins, minerals and capsicum used OTC (without prescription) targeting sleep improvement and stress reduction and support of mental and nervous functions in humans.
CBD	CBD is one of the two main substances in the cannabis plant, the most well-known phytocannabinoids – the other is THC. CBD promotes resilience to the adverse psychological effects of stress and reduces anxiety. CBD exerts positive pharmacological effects on conditions such as anxiety and psychosis, epilepsy, inflammation and pain, as well as diabetes, cancer and neurogenerative disorders. As opposed to THC, CBD does not produce euphoria, intoxication, tolerance, or any alterations in thinking and perception, nor any other psychoactive effects, neither in animals nor in humans.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Company	Creso or Creso Pharma Limited ACN 609 406 911
COO	Chief Operating Officer
Corporations Act 2001	The Corporations Act 2001 (Cth) (the Corporations Act, or CA 2001) is an Act of the Commonwealth of Australia which sets out the laws dealing with business entities in Australia at federal and interstate level.
GMP	Good manufacturing practices are the practices required to conform to the guidelines recommended by agencies that control the authorization and licensing of the manufacture and sale of food and beverages, cosmetics, pharmaceutical products, dietary supplements, and medical devices.
JV	Joint Venture. Creso has two joint ventures: <ul style="list-style-type: none"> • 74% share of Creso Grow Ltd in Israel. 26% is held by Cohen Propagation Nurseries. • 33⅓% share of CLV Frontier Brands Pty Ltd. 33⅓% equal shares are held by each of LGC Capital Ltd and Baltic Beer Company Ltd.
KMP	Key Management Person/Personnel (excludes non-executive directors)
KPI	Key Performance Indicator - a measurable value that demonstrates how effectively a business objective is achieved.
LP	Licensed Producer. An entity that license to grow, harvest, dry, trim, cure, and package cannabis. The cannabis can then be sold to licensed wholesalers. A licensed producer can also sell live plants and seeds.
R&D	Research and Development (of products and processes).
RNC	Creso's Remuneration and Nominations Committee – a sub-committee of the Board

Glossary of Terms and Abbreviations

Ritual [®]	Creso's brand of dry cannabis leaf.
Terpene	Terpenes are a large and diverse class of organic compounds, produced by a variety of plants, particularly conifers, and by some insects. They often have a strong odour and may protect the plants that produce them by deterring herbivores and by attracting predators and parasites of herbivores. There are about 30,000 terpenes documented in literature with at least 100 found in the cannabis plant.
THC	THC is one of the two main substances in the cannabis plant, the most well-known phytocannabinoids – the other is CBD. THC is a phytocannabinoid responsible for the psychoactive effect of cannabis. It creates euphoria by stimulating the release of dopamine in the brain.
TSX-V	The TSX Venture Exchange is a stock exchange in Canada.