



ASX Announcement

26 August 2019

## Creso Pharma Business Update

### Investment Highlights

- Significant synergies demonstrated with PharmaCielo, which aims to acquire Creso Pharma
- Increasing revenues and R&D activities in Europe
- Commencement of revenue generation from Canadian cannabis production facility
- Bolstering of key partnerships in Australasia, new partnership in South Africa
- Creso Pharma is well-funded to continue its operations pending a decision on its proposed acquisition by PharmaCielo

**Creso Pharma Limited (ASX:CPH, FRA:1X8) ('Creso Pharma' or 'the Company')** is pleased to provide the following update on its recent business activities.

In June 2019, Creso Pharma announced it had received a compelling acquisition offer from PharmaCielo Ltd (TSXV:PCLO) ('PharmaCielo') which included a loan to support Creso Pharma's continued growth. The offer will be voted on by the Company's shareholders and listed option holders.

### Synergies with PharmaCielo demonstrated

This month, Creso Pharma announced that it had received its first commercial cannabidiol (CBD) export of high-quality CBD isolate from PharmaCielo's operations in Colombia [ASX Announcement: 20 August 2019].

The shipment, which was delivered to Creso Pharma's Swiss headquarters, demonstrates the significant synergies between the two companies and provides further support for PharmaCielo's acquisition of the Company.

As the proposed acquisition continues to advance, PharmaCielo has successfully completed this first commercial export of CBD isolate to the Swiss headquarters of Creso Pharma. The inaugural shipment included high-quality CBD isolate, a key ingredient in various hemp- and cannabis-derived therapeutic, nutraceutical, topicals and lifestyle products.

The delivery to Creso Pharma comes just weeks after PharmaCielo secured the first commercial CBD isolate exporting permit from the Colombian government, announced on 25 July 2019.



The collaboration between PharmaCielo and Creso Pharma also spans beyond the current and future supply of cannabis isolates and oil extracts. PharmaCielo recently announced a multi-country sales agreement with Uruguay-based Laboratorios Adler in which it will supply PharmaCielo produced CBD oils and isolate to Adler for distribution in Uruguay, Paraguay, Bolivia and Southern Brazil. Following completion of the acquisition of Creso Pharma, PharmaCielo intends to expand the range of products supplied under this agreement to include Creso Pharma's veterinarian CBD complementary feed range of products.

PharmaCielo's proposed acquisition of Creso Pharma will bring together two complementary cannabis companies to create a well-capitalised, publicly-traded company with a strong growth profile and significant strategic advantages.

The rationale for the acquisition includes but is not limited to:

- Creation of a vertically-integrated supply chain between PharmaCielo, global leader in terms of price, quantity and quality in cannabis cultivation and Creso Pharma, an early mover in human and animal hemp- and cannabis-based products with a growing global distribution network
- A strengthened leadership team with Creso Pharma's Co-Founder and CEO, Dr Miri Halperin Wernli joining PharmaCielo's Board of Directors
- Expansion of cultivation and processing facilities based on a pooling of licenses and resources
- Expansion of commercial networks, with PharmaCielo's networks in South America, Mexico and Italy combining with Creso Pharma's presence in multiple European countries and across Brazil, Australasia and South Africa
- Expansion of the product portfolio through the combination of the entities' products
- Continued participation for Creso Pharma securityholders who will acquire a stake in a large global medicinal cannabis company listed on the TSX

Further details of the proposed acquisition are detailed in the ASX Announcement dated 7 June 2019.

The meetings at which the proposed acquisition will be considered by Creso Pharma shareholders and listed option holders are expected to take place at the end of October. Subject to those approvals the acquisition is expected to be completed by year-end.

To further support the process, Creso Pharma last month announced that it had reduced the balance of its secured loans, satisfying a key condition for the acquisition. [ASX Announcement 3 July 2019].



### **Creso Pharma well-funded to continue expansion**

As a condition of the proposed acquisition, PharmaCielo agreed to advance Creso Pharma a loan of up to C\$3.5 million (A\$3.85 million) in cash flow funding, with the first draw-down occurring in July.

The loan provides Creso Pharma with working capital for it to aggressively pursue its expansion and strategic growth plan until the acquisition is decided.

### **Europe drives strong revenue increase**

Creso Pharma's business strategy is designed to develop innovative products by combining cannabis and hemp ingredients, pharmaceutical and cannabis expertise and proprietary technologies for delivery.

Creso Pharma's primary brands are cannaQIX® and anibidiol®, as described below.

**cannaQIX®** - The cannaQIX® brand relates to hemp-oil based standardized nutraceutical food supplements for humans. It combines full spectrum hemp extract with CBD and hemp seed oil, zinc and vitamins B6, B12 and C, to help manage stress and support mental and nervous functions. The range of products are non-psychoactive, non-addictive and sugar-free and do not contain THC. The standardized strength and formulation allow for precise dosage control. cannaQIX®10 is commercialized in Switzerland, the UK and the Netherlands.



*Image 1: cannaQIX® 10*



Creso Pharma has also developed standardized high-quality hemp-derived complementary feed products to help manage pets' behavioural disorders, pain, and arthritis.

**anibidiol®** - The anibidiol® brand relates to a natural hemp oil based complementary feed for pets which contains non-psychoactive ingredient hemp oil CBD as well as a number of vitamins and minerals and the Omega 3, Omega 6 and Omega 9 fatty acids. The anibidiol® range of products do not contain THC.



Image 2: **anibidiol® 2.5**

The Company has continued its steady increase in the sales of its commercialized cannaQIX® and anibidiol® range of products. Revenues from sales of products increased 240% to \$907,017 for the half-year, compared to the previous half-year (H2'18), which itself had revenues increase by 203% compared to the preceding half-year (H1'18).

The increase in sales for human health is being supported by the Company's partnerships with Doestsch Grether Switzerland, Hempmade Switzerland, and Pharmacare UK, which have enabled the Company's human health CBD hemp oil nutraceutical products to achieve significant penetration into pharmacies and drug stores.

In animal health Creso's commercial partner Virbac is gradually introducing the anibidiol® range of products into a number of European markets in 2019.

### **R&D progress continues**

Creso Pharma also continues to make significant progress in its R&D program, researching innovative ways to treat humans and animals' unmet health needs with new hemp- and cannabis-based products.



The Company is currently developing technologies which maximise absorption and improve the bioavailability of cannabis-based supplements. The Company has a pipeline of new products targeting areas including stress, chronic pain and sleep-improvement ready for launch.

As set out in the Annual Report released on 25 March 2019, Creso Pharma has also developed several new products to complement and expand on its existing portfolio of animal and human health products. These products include:

- cannaQIX® Nite: a sugar-free and THC free food supplement which contains CBD hemp oil extract, vitamins, minerals, and lemon balm. This formulation is intended to help manage sleep and stress, as well as to support mental and nervous functions in humans;
- cannaPEAL®: a sugar-free and THC free food supplement which contains hemp seed oil, vitamins and minerals. This formulation is intended to help manage stress in humans; and
- cannaDOL®: a CBD-based functional topical gel addressing the management of pain in sports-related muscle injuries, arthritis and osteoarthritis.

### **First Canadian revenues**

Last month, Creso Pharma announcement that it had commenced sales from its Nova Scotia-based Mernova Medical facility ('Mernova') [ASX Announcement: 2 July 2019]. The first dried flower sale is part of multi-year agreements the Company has signed which will see revenue from Mernova rise from C\$150,000 to up to C\$5 million by the end of 2019.

As growing processes are fine-tuned, it is expected that yield per plant will increase over time. Furthermore, Creso Pharma plans to increase production capacity at Mernova to up to 4,000 kilograms of cannabis annually, with additional expansion capacity allowing for future increases of up to 10 times that amount.

### **Building on key partnerships in Australasia**

Creso Pharma also continues to build up momentum across Australasia with the bolstering of key partnerships in Australia and New Zealand.

This month, the Company announced that it had received orders for its flagship medicinal cannabis product cannaQIX®50 from Burleigh Heads Cannabis ('BHC'), one of Australia's foremost medicinal cannabis distribution companies [ASX Announcement: 1 August 2019].

Following this, Creso Pharma entered a distribution agreement with JC Logistics Ltd t/a Medleaf Therapeutics ('Medleaf') for the exclusive distribution of Creso's cannaQIX®50 and 10% CBD Oils in New Zealand [ASX Announcement: 6 August 2019].



### **Entry into South African market**

This month, Creso Pharma announced that it had entered the South African market via a commercial agreement with Pharma Dynamics, a subsidiary of Lupin Limited (NSE: LUPIN) [ASX Announcement 22 August 2019].

Creso Pharma and Pharma Dynamics have signed a Commercial Term Sheet providing Pharma Dynamics with for the sole distribution rights of Creso Pharma's organic, broad-spectrum hemp oil nutraceutical, cannaQIX®10, across South Africa, Namibia, Botswana, Zimbabwe, Swaziland, Lesotho, Angola, Mozambique and Uganda.

South Africa's regulatory framework has recently become highly favourable for CBD products. CBD was removed from South Africa's list of highly-controlled drugs in May 2019 and is now officially available on prescription. Furthermore, low-dose CBD products can be sold without prescription as long as several conditions are met. That exemption will be up for renewal on 15 May 2020.

**Dr Miri Halperin Wernli, Creso Pharma's CEO and co-founder said:** "Creso Pharma has made a strong start to the second half of the calendar year. Receiving a CBD shipment from PharmaCielo further underscores the compelling business rationale of its acquisition of Creso Pharma, which will create a vertically-integrated supply chain that can leverage the strengths and advantages of our respective companies. In addition, we are continuing to make significant progress across our European, Canadian and Australasia operations. We hope that the acquisition proceeds smoothly so that Creso Pharma securityholders can benefit from being part of a best-in-class and well-capitalised global medicinal cannabis company."

**Ends.**

**Investor Enquiries**

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**About Creso Pharma**

Creso Pharma brings the best of cannabis to better the lives of people and animals. It 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 Pharma uses GMP (Good Manufacturing Practice) development and manufacturing standards for its products as a reference of quality excellence with initial product registrations in Switzerland. It has worldwide rights for a number of unique and proprietary innovative delivery technologies which enhance the bioavailability and absorption of cannabinoids. To learn more please visit: [www.cresopharma.com](http://www.cresopharma.com)

**Forward Looking statements**

This announcement contains forward-looking statements with respect to Creso Pharma and its respective operations, strategy, investments, financial performance and condition. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "intends", "believe" or "continue" or the negative thereof or similar variations. The actual results and performance of Creso Pharma could differ materially from those expressed or implied by such statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Some important factors that could cause actual results to differ materially from expectations include, among other things, general economic and market factors, competition and government regulation.

The cautionary statements qualify all forward-looking statements attributable to Creso Pharma and persons acting on its behalf. Unless otherwise stated, all forward-looking statements speak only as of the date of this announcement and Creso Pharma has no obligation to up-date such statements, except to the extent required by applicable laws.



## ASX APPENDIX 4D

### CRESO PHARMA LIMITED

ABN: 89 609 406 911

### RESULTS FOR ANNOUNCEMENT TO THE MARKET FOR THE HALF-YEAR ENDED 30 JUNE 2019

(Previous corresponding period is the half-year ended 30 June 2018)

<b>KEY INFORMATION</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
Revenue from ordinary activities	<b>924,026</b>	<b>183,654</b>	403%
Loss from ordinary activities after tax attributable to members	<b>(6,276,707)</b>	<b>(7,583,472)</b>	(17%)
Net loss attributable to members	<b>(6,126,098)</b>	<b>(7,583,472)</b>	(19%)

#### **DIVIDEND INFORMATION**

No dividend has been proposed or declared.

#### **NET TANGIBLE ASSETS PER SECURITY**

	<b>30-Jun-19</b>	<b>30-Jun-18</b>
Net tangible assets per security	0.12	0.14

#### **LOSS PER SHARE**

	<b>30-Jun-19</b>	<b>30-Jun-18</b>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(9.31)	(6.93)
Diluted earnings per share	(9.31)	(6.93)

#### **CONTROL GAINED OR LOST OVER ENTITIES IN THE PERIOD**

Creso Pharma Limited sold Hemp Industries s.r.o. on 29 March 2019.



## DETAILS OF ASSOCIATE

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Name of associate	Reporting entity's percentage holding	
	Reporting period %	Previous period %
CLV Frontier Pty Ltd	33.33%	-%

## AUDIT QUALIFICATION OR REVIEW

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*Details of audit/review dispute or qualification (if any):*

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

Refer to the Directors Report for an explanation of the operational and financial results of the Company. This report is based on, and should be read in conjunction with, the attached financial report for the half-year ended 30 June 2018 for Creso Pharma Limited, which has been reviewed by BDO East Coast Partnership.



**CRESO**  
PHARMA

**CRESO PHARMA LIMITED**  
ACN 609 406 911

**HALF-YEAR FINANCIAL REPORT FOR**  
**30 JUNE 2019**

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## **Financial Report**

### **For the Half-year ended 30 June 2019**

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These interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual financial statements for the year ended 31 December 2018 and any public announcements made by Creso Pharma Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

## Corporate Directory

### Board of Directors

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)

### Secretary

Ms Eryln Dale and Mr Winton Willesee, jointly

### Registered Office

L24, 300 Barangaroo Avenue  
Barangaroo, NSW 2000  
Australia

Telephone: +61 2 8067 8606  
Website: [www.cresopharma.com](http://www.cresopharma.com)

### European Office

Alte Steinhauserstrasse 10,  
6330 Cham  
Switzerland

Telephone: +41 41 710 4706

### Stock Exchange Listing

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

### Auditors

BDO East Coast Partnership  
Level 11, 1 Margaret St  
Sydney, NSW 2000  
Australia

### Solicitors

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

### Bankers

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

### Share Registry

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

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

## Directors' Report

The Directors of Creso Pharma Limited ("Creso" or "the Company") present their report, together with the financial statements on the consolidated entity consisting of Creso Pharma Limited and its controlled entities (the "Group") for the half-year ended 30 June 2019.

### DIRECTORS

The names of the Company's Directors in office during the half-year and until the date of this report are as below. Directors were in office for the 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)

### PRINCIPAL ACTIVITIES

The principal activity of the Group during the period 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 during the period 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.

The highlights for the current financial period include:

- On 7 January 2019, Creso announced plans to expand the distribution of its therapeutic medicinal cannabis products into Sri Lanka.
- On 9 January 2019, Creso announced a binding letter of intent to build a comprehensive cannabis business in New Zealand, including Creso's full range of CBD-based medicinal cannabis products.
- 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 29 January 2019, Creso raised \$3 million in a placement to institutional and sophisticated investors ("Placement"). 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. 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 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.

## Directors' Report

### REVIEW AND RESULTS OF OPERATIONS CONTINUED

- 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 Europe.
- 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 Medicinal Inc. (Mernova), 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 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 11 April 2019, Creso announced that it had firm commitments from institutional and sophisticated investors to raise \$5.35 million in a series of secured loans. The funds were raised to support the sales and marketing of Creso's products and to accelerate its global cannabis cultivation and production operations.
- On 15 April 2019, Mernova commenced cultivation of premium cannabis clones.
- On 18 April 2019, Creso and its marketing partner SIN Solution were granted a licence enabling Creso's partner MedDepot Brazil to import and distribute its cannaQIX50<sup>®</sup> product in Brazil.
- On 30 April 2019, Creso signed a distribution agreement with Burleigh Heads Cannabis in Australia to import and distribute its cannaQIX50<sup>®</sup> product in Australia.
- On 23 May 2019, Creso announced that Mernova had harvested its first cannabis crop and that the Mernova cultivation facility was in full production.
- On 7 June 2019, Creso announced that it had entered into a definitive agreement with Canadian company PharmaCielo Limited (TSXV:PCL0) (PharmaCielo) for Creso Pharma to be acquired by PharmaCielo through a scheme of arrangement— refer to further details under Significant Changes in State of Affairs. As a condition of the scheme of arrangement, PharmaCielo agreed to provide a secured bridge loan to Creso Pharma of up to C\$3.5 million (approximately A\$3.85 million). The loan will be repayable on 31 December 2019, except if the scheme is not approved by Creso Pharma shareholders the loan will be repayable on the date which is four months after the date of the Creso Pharma shareholders meeting.

### Financial Performance

The financial results of the Group for the half-year ended 30 June 2019 are:

	30-Jun-19	31-Dec-18
	\$	\$
Cash and cash equivalents	3,578,130	6,390,538
Net Assets	17,278,151	16,504,392
		30-June-18
Revenue	924,026	183,654
Net loss after tax	(6,276,707)	(7,583,472)

The financial result for the half-year ended 30 June 2019 is a net loss after tax of \$6,276,707 (30 June 2018: loss of \$7,583,472). The net loss after tax includes a non-cash cost of \$965,087 for the share-based payment expenses associated with options and performance rights issued during the half-year. As at 30 June 2019, the Group had a net cash balance of \$3,578,130 (31 December 2018: \$6,390,538) and net assets of \$17,278,151 (2018: net assets of \$16,504,392).

### DIVIDENDS

No dividends have been paid or declared by the Group since the end of the previous financial year.

No dividend is recommended in respect of the current financial year.

## Directors' Report

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

#### Proposed PharmaCielo Transaction

On 7 June 2019, Creso announced that it had entered into a definitive agreement with Canadian company PharmaCielo Limited (TSXV:PCLO) (PharmaCielo) for Creso Pharma to be acquired by PharmaCielo, a leading cannabis company listed on Canada's TSX Venture Exchange. PharmaCielo is the Canadian parent of Colombia's premier cultivator and producer of medicinal cannabis oil, PharmaCielo Colombia Holdings S.A.S., the largest cannabis producer in Colombia and a fully licensed producer of medicinal cannabis oil products in Colombia. PharmaCielo has cash reserves of approximately C\$40 million.

The acquisition is proposed to be effected by a Scheme of Arrangement between Creso Pharma and its shareholders and a separate, concurrent, Scheme of Arrangement between Creso Pharma and its listed option holders.

Upon the approval of the scheme, Creso Pharma shareholders will receive 0.0775 PharmaCielo shares for every Creso Pharma share held and Creso Pharma listed option holders will receive 0.0185 PharmaCielo shares for each listed option held. Holders of Creso Pharma performance shares, performance rights and other unlisted securities will be eligible to receive PharmaCielo shares subject to agreed ratios.

Creso Pharma security holders will hold approximately 13% of the issued shares in PharmaCielo following implementation of the scheme.

Upon approval the proposed transaction is expected to create a well-capitalised publicly-traded company with a strong growth profile and significant strategic advantages, including:

- Creation of a vertically integrated supply chain. The combination of PharmaCielo, a global leader in price, quantity and quality in cannabis cultivation, production and extraction with Creso Pharma, an early-mover in human and animal cannabis-based products will create a strong, vertically integrated supply chain.
- Experienced Board and management team. The PharmaCielo Board will be strengthened by the appointment of Creso Pharma's Co-Founder and CEO, Dr Miri Halperin Wernli as a director following implementation of the schemes.
- Expansion of cultivation and processing facilities. PharmaCielo will hold dual-market licensed cultivation and processing facilities, in Canada and Colombia, allowing the company to provide high-grade medicinal cannabis products to multiple global markets.
- Expansion of commercial networks. PharmaCielo's sales networks in South America, Mexico and Italy will add to Creso Pharma's active commercial networks and sales presence in thirteen countries, including Switzerland, the United Kingdom, Germany, France, the Netherlands, Brazil, Australia and New Zealand.
- Expansion of product portfolio. Creso Pharma's product range will expand PharmaCielo's on-shelf product portfolio and be made available via PharmaCielo's global market presence, especially in South America.
- Continued participation for Creso Pharma security holders. Through their holdings in PharmaCielo shares, Creso Pharma security holders will retain continued participation in a global medicinal cannabis company with greater capitalisation, enabling aggressive market and sales development.

In the event that the proposed transaction is not approved, Creso Pharma will continue as a publicly listed entity. Depending on the circumstances in which the proposed transaction is not approved, a break fee of \$1.2 million may be payable by either party to the other. A cost reimbursement fee of \$450,000 will be payable by Creso Pharma to PharmaCielo if the proposed transaction is not approved by Creso Pharma shareholders. The secured loan from PharmaCielo to Creso Pharma, of up to C\$3.5 million, will be repayable four months after the date on which the transaction is formally not approved.

#### 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. In January 2018, the joint venture was incorporated in Australia as CLV Frontier Brands Pty Limited. 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.

## Directors' Report

### Subsidiary and Joint Venture Investee continued

On 12 March 2019, the Company decided, in conjunction with the Board of CLV, to cease funding the operations of the CLV joint Venture, due to the significant additional funding required to maintain a sustainable business. CLV's assets and liabilities were fully impaired at 31 December 2018 and the company's operations ceased at 12 March 2019.

#### *Hemp-Industries sro (HI)*

HI was a wholly-owned subsidiary of the Company 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 of Hemp Industries occurred on 29 March 2019 for consideration totalling A\$1,571.

### MATTERS SUBSEQUENT TO THE REPORTING PERIOD

Subsequent to the end of the half-year period, the Company made the following announcements:

- On 2 July 2019, Mernova commenced sales of dry cannabis leaf.
- On 3 July 2019, the Company reduced secured loans by \$5,150,000 through the issue and conversion of convertible notes. The repayment of the Company's secured debt is a key condition precedent to the proposed acquisition via a scheme of Arrangement by PharmaCielo Limited.
- On 9 July 2019, PharmaCielo advanced A\$1.5million to Creso Pharma under the terms of the secured bridging loan announced on 7 June 2019.
- On 25 July 2019, the Company issued 2,000,000 fully paid ordinary shares on vesting of Performance Rights (issued 27 July 2017) held by a Contractor to the company upon the achievement of a milestone.
- On 1 August 2019, Creso Pharma received orders for its flagship medicinal cannabis product cannaQIX®50 from Burleigh Heads Cannabis ('BHC'), one of Australia's foremost medicinal cannabis distribution companies.
- On 6 August 2019, Creso announced it had signed a distribution agreement to further build its cannabis business in New Zealand in partnership with JC Logistics Limited, trading as MedLeaf Therapeutics. MedLeaf placed second orders for Creso's CBD-based cannaQIX50.
- On 20 August 2019, Creso announced that it had taken delivery in Switzerland of PharmaCielo's first ever commercial export of CBD from Colombia to Europe, comprising high quality CBD isolate.
- On 22 August 2019, Creso announced that it has entered an agreement with leading South African pharmaceutical company, Pharma Dynamics, a subsidiary of Lupin Limited. The binding agreement allows Pharma Dynamics to distribute Creso Pharma's nutraceutical CannaQIX® products range in South Africa.

There have been no other matters or circumstances that have arisen since 30 June 2019 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.

### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporation Act 2001 is set out immediately after this Directors' Report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors,



**Boaz Wachtel**  
**EXECUTIVE CHAIRMAN**  
26 August 2019

## DECLARATION OF INDEPENDENCE BY GILLIAN SHEA TO THE DIRECTORS OF CRESO PHARMA LIMITED

As lead auditor for the review of Creso Pharma Limited for the half-year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Creso Pharma Limited and the entities it controlled during the period.



Gillian Shea  
Partner

**BDO East Coast Partnership**

Sydney, 26 August 2019

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half-Year ended 30 June 2019

	Note	30-Jun-19 \$	30-Jun-18 \$
<b>Revenue from continuing operations</b>			
Revenue from products	4	924,026	183,654
Cost of sales		(632,784)	(21,514)
Gross gain / loss on biological assets	9	679,847	-
Gross profit		971,089	162,140
<b>Other income</b>			
Interest income	4	33,611	85,451
Foreign exchange gain	4	846	61,207
Other income	4	1,571	3,856
<b>Expenses</b>			
Administrative expenses	5(a)	(624,507)	(766,402)
Compliance and regulatory expenses		(71,829)	(115,854)
Consultancy and legal expenses	5(b)	(1,803,653)	(1,312,410)
Depreciation and amortisation expense		(199,104)	(4,144)
Employee benefit expenses	5(c)	(1,604,920)	(1,082,777)
Finance Costs	5(d)	(1,424,245)	-
Exclusivity fee		-	(313,283)
Facilitation fee		-	(1,020,000)
Marketing and investor relations		(379,413)	(742,901)
Occupancy expenses		(61,982)	(87,345)
Share-based payment expense	16	(965,087)	(2,250,800)
Research and development costs		(101,312)	(155,555)
Other expenses		(47,772)	(44,555)
Share of net loss from associate		-	(100)
<b>Loss from continuing operations before income tax</b>		<b>(6,276,707)</b>	<b>(7,583,472)</b>
Income tax expense		-	-
<b>Loss from continuing operations after income tax</b>		<b>(6,276,707)</b>	<b>(7,583,472)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		798,841	(21,456)
<b>Other comprehensive income for the period, net of tax</b>		<b>798,841</b>	<b>(21,456)</b>
<b>Total comprehensive loss attributable to the members of Creso Pharma Limited</b>		<b>(5,477,866)</b>	<b>(21,456)</b>
(Loss) for the year attributable to:			
Non-controlling interest		(150,609)	-
Owners of Creso Pharma Australia Limited		(6,126,098)	-
		<b>(6,276,707)</b>	-
Total comprehensive (loss) for the year attributable to:			
Non-controlling interest		(160,596)	-
Owners of Creso Pharma Australia Limited		(5,317,270)	-
		<b>(5,477,866)</b>	-
<b>Loss per share for the half-year attributable to the members of Creso Pharma Limited:</b>			
Basic loss per share (cents)		(9.31)	(6.93)
Diluted loss per share (cents)		(9.31)	(6.93)

The Consolidated Statement of Profit or Loss and Comprehensive Income should be read in conjunction with the notes to the financial statements.

## Consolidated Statement of Financial Position

As at 30 June 2019

	Note	30-June-19 \$	31-Dec-18 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	3,578,130	6,390,538
Trade and other receivables	7	809,234	951,132
Inventories	8	389,457	443,535
Biological assets	9	846,641	-
Other assets		-	495,489
<b>Total current assets</b>		<b>5,623,462</b>	<b>8,280,694</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	11,869,855	9,900,422
Intangible assets	11	7,392,661	4,101,178
Investment accounted for using equity method		-	-
<b>Total non-current assets</b>		<b>19,262,516</b>	<b>14,001,600</b>
<b>Total assets</b>		<b>24,885,978</b>	<b>22,282,294</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	2,227,231	2,970,505
Provisions		30,596	30,947
Borrowings	13	5,350,000	2,776,450
<b>Total current liabilities</b>		<b>7,607,827</b>	<b>5,777,902</b>
<b>Total liabilities</b>		<b>7,607,827</b>	<b>5,777,902</b>
<b>Net assets</b>		<b>17,278,151</b>	<b>16,504,392</b>
<b>EQUITY</b>			
Contributed equity	14	41,137,516	38,222,883
Reserves	15	18,934,915	14,799,082
Accumulated losses		(42,544,021)	(36,427,923)
Equity attributable to the owners of Creso Pharma Limited		17,528,410	16,594,042
Non-controlling interest		(240,259)	(89,650)
<b>Total equity</b>		<b>17,278,151</b>	<b>16,504,392</b>

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 Half-Year Ended 30 June 2019

	Contributed Equity	Share-based Payment Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Non-Controlling Interest	Total
	\$	\$	\$	\$		\$
<b>As at 1 January 2019</b>	<b>38,222,883</b>	<b>14,547,170</b>	<b>251,912</b>	<b>(36,427,923)</b>	<b>(89,650)</b>	<b>16,504,392</b>
Loss for the period	-	-	-	(6,126,098)	(150,609)	(6,276,707)
Other comprehensive income	-	-	798,841	-	-	798,841
<b>Total comprehensive income/(loss) for the period after tax</b>	<b>-</b>	<b>-</b>	<b>798,841</b>	<b>(6,126,098)</b>	<b>(150,609)</b>	<b>(5,477,866)</b>
<b>Transactions with owners in their capacity as owners:</b>						
Issuance of share capital	2,930,778	-	-	-	-	2,930,778
Issuance of Listed Options	-	132,222	-	-	-	132,222
Share-based payments	-	965,087	-	-	-	965,087
Share issuance costs	(16,145)	-	-	-	-	(16,145)
Exchangeable shares issued for the acquisition of the cultivation licence	-	2,239,683	-	-	-	2,239,683
<b>As at 30 June 2019</b>	<b>41,137,516</b>	<b>17,884,162</b>	<b>1,050,753</b>	<b>(42,544,021)</b>	<b>(240,259)</b>	<b>17,278,151</b>
<b>As at 1 January 2018</b>	<b>35,138,519</b>	<b>5,516,511</b>	<b>45,491</b>	<b>(19,671,887)</b>	<b>-</b>	<b>21,028,634</b>
Loss for the period	-	-	-	(7,583,472)	-	(7,583,472)
Other comprehensive income/(loss)	-	-	(21,456)	-	-	(21,456)
<b>Total comprehensive income/(loss) for the period after tax</b>	<b>-</b>	<b>-</b>	<b>(21,456)</b>	<b>(7,583,472)</b>	<b>-</b>	<b>(7,604,928)</b>
<b>Transactions with owners in their capacity as owners:</b>						
Share-based payments	-	2,250,800	-	-	-	2,250,800
<b>As at 30 June 2018</b>	<b>35,138,519</b>	<b>7,767,311</b>	<b>24,035</b>	<b>(27,255,359)</b>	<b>-</b>	<b>15,674,506</b>

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 Half-Year Ended 30 June 2019

	Note	30-Jun-19 \$	30-Jun-18 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		711,673	195,234*
Payments to suppliers and employees		(4,697,307)	(3,515,909)*
Payments for research expense		(231,312)	(190,749)
Interest received		33,611	85,451
Interest paid		(276,266)	-
<b>Net cash used in operating activities</b>		<b>(4,459,601)</b>	<b>(3,425,973)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(2,177,182)	(1,947,258)
Payments for intangibles		(1,138,478)	(386,493)
Net cash payment for asset acquisition		-	(115,625)
Investment in joint venture		-	(100)
Loan to associate		-	(394,671)
Repayment from other entities		-	3,942,654
<b>Net cash from/(used in) investing activities</b>		<b>(3,315,660)</b>	<b>1,098,607</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares in prior period (net of costs)		2,975,000	1,228,351
Proceeds from borrowings		5,350,000	-
Repayment of borrowings		(2,700,000)	-
Borrowing costs		(641,809)	-
Payment of share issue costs		(16,145)	-
Proceeds from exercise of options		-	28,000
<b>Net cash from financing activities</b>		<b>4,967,046</b>	<b>1,256,351</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(2,808,215)</b>	<b>(1,071,015)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>6,390,538</b>	<b>12,424,914</b>
Effect of exchange rate fluctuations on cash held		(4,193)	-
<b>Cash and cash equivalents at the end of the period</b>	6	<b>3,578,130</b>	<b>11,353,899</b>

\*The amount for 2018 has been amended due to reclassifications, refer to Note 2.5.

The Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

## Notes to the Consolidated Financial Statements

### NOTE 1 CORPORATE INFORMATION

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 half-yearly report. The consolidated financial statements of the Company as at and for the period ended 30 June 2019 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.

The half-year financial report is a general purpose financial report prepared in accordance with AASB 134 ‘Interim Financial Reporting’ and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 ‘Interim Financial Reporting’.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group. The half-year financial report should be read in conjunction with the annual financial report of Creso Pharma Limited for the financial year ended 31 December 2018 which was prepared in accordance with the requirements of the Corporations Act 2001 and applicable Australian Accounting Standards. It is also recommended that the half-year financial report be considered together with any public announcements made by the parent entity during the period 1 January 2019 to the date of this report in accordance with the continuous disclosure obligation of the ASX listing rules.

### NOTE 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

#### 2.1 Basis of Preparation

The consolidated financial statements for the half-year ended 30 June 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2018.

#### **Going Concern**

The half year 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 half year financial statements, the consolidated entity incurred a loss of \$6,276,706 and had net cash outflows from operating and investing activities of \$4,459,601 and \$3,315,660 respectively for the half-year ended 30 June 2019. The consolidated entity was in a net current liability position at 30 June 2019 of \$1,984,362 (net current assets of \$2,502,792 at 31 December 2018).

These matters give rise to a material uncertainty that casts significant doubt upon the Group’s ability to continue as a going concern.

If the proposed transaction with PharmaCielo is approved and implemented, Creso Pharma will become a subsidiary of PharmaCielo Limited. The Directors believe that Creso Pharma has sufficient sources of funds available to it for it to continue as a going concern until the Schemes of Arrangement are voted on by Creso Pharma security holders.

In the event that the proposed transaction with PharmaCielo is not approved and implemented, 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 mainly relied on the issue of shares and other securities to raise funds. With the completion of the Mernova facility and the recent generation of revenues from it, the Company also has the option to borrow against the facility and the Company is planning to do so;

## Notes to the Consolidated Financial Statements

### NOTE 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES CONTINUED

#### 2.1 Basis of Preparation continued

##### *Going Concern continued*

- The Company continuously explores merger and acquisition opportunities with a view to strengthening its existing businesses or divesting operations which are no longer of strategic importance to it;
- Revenues from Switzerland and Mernova are growing and are expected to grow strongly with increases in products, markets and production. Mernova is expected to be both profitable and cash flow positive in the foreseeable future.
- The Company plans to issue additional shares in the next 12 months. This has previously proven to be successful;
- Subsequent to the reporting date, the Company had access to a secured loan of \$3.85 million; 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.

In the event that the Group is unable to achieve the matters detailed above, it may not be able to continue as a going concern and therefore the group may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial statements.

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.

#### 2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for new accounting policies as noted in 2.4 and the adoption of new standards effective as of 1 January 2019 as noted in 2.3. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, AASB 16 Leases that requires restatement of previous financial statements. As required by AASB 134, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Group.

#### 2.3 Summary of new and amended accounting standards

The accounting policies and methods of computation adopted in the preparation of the financial report are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 31 December 2018, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

##### *AASB 16 Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

## Notes to the Consolidated Financial Statements

### NOTE 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES CONTINUED

#### 2.3 Summary of new and amended accounting standards continued

##### *AASB 16 Lease Liabilities continued*

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease Commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The impact of the adoption of AASB 16 Leases, using a modified retrospective approach, is the recording of a right of use asset of \$31,990 (balance on transition of \$72,281) and lease liabilities of \$31,990 (balance at transition \$72,281).

##### *AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle*

###### *Amendments to AASB 3 Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

###### *Amendments to AASB 11 Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3.

The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

###### *Amendments to AASB 112 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the Interim financial statements of the Group.

## Notes to the Consolidated Financial Statements

### NOTE 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES CONTINUED

#### 2.4 Summary of new and amended accounting policies

##### *AASB 102 Inventory*

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

##### *AASB 141 Agriculture (Biological assets)*

The Company's biological assets consist of cannabis plants. The Company capitalises all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs, and production related depreciation. The Company measures biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost inventories after harvest. Costs to sell includes post-harvest production, shipping and fulfillment costs. The net unrealised gains or losses arising from changes in fair value less cost to sell during biological transformation are included in profit or loss of the related period. Seeds are measured at fair value. The Company recognises the mother plants used for cloning the cannabis plants through the statement of profit or loss as they have a useful life less than one year.

##### *AASB 116 Property, plant and equipment*

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives to estimate residual value. The following estimated useful lives are used in the calculation of depreciation:

Buildings and Improvements	30 years
Plant and Equipment	3 – 10 years
Machinery Equipment	5 – 10 years
Irrigation and Lighting	5 – 10 years
Security Systems	5 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is consolidated entity policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

The Mernova Facility located in Halifax was completed in February 2019 but was not available for use until May 2019.

## Notes to the Consolidated Financial Statements

### NOTE 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES CONTINUED

#### 2.4 Summary of new and amended accounting policies

##### *AASB 138 Intangible Assets*

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

Health Canada Licences	Useful life of facility
Other Licences	3 – 10 years
Patents and Trademarks	5 – 10 years
Software	5 years
Research and Development	5 -10 years

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

#### 2.5 Amounts mis-classified in the 2018 Half Year Financial Statements

The Company became aware that certain amounts in the Consolidated Comprehensive Statement of Cash Flows as reported in the half year 30 June 2018 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 half year financial statements. Details of the amounts mis-classified in 2018 and their amendment are disclosed below.

2018	\$ As previously reported	\$ Adjustment of mis-classification	\$ As amended
<b>Consolidated Statement of Cash flows for half year ended 30 June 2018</b>			
Receipts from customers	321,319	(126,085)	195,234
Payments to Suppliers and employees	(3,641,994)	126,085	(3,515,909)

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.

#### 2.6 Summary of new estimates and judgements

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.

##### *Biological assets and inventory*

Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stage of growth of the cannabis, harvesting costs, sales price and expected yields. These are detailed at Note 9.

## Notes to the Consolidated Financial Statements

### NOTE 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES CONTINUED

#### 2.6 Summary of new estimates and judgements continued

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realisable value. Management determines net realisable value which 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. The Company estimates the net realisable value of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by market-driven changes which may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets, refer to note 9.

### NOTE 3 SEGMENT INFORMATION

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

- Europe & Middle East includes Creso Pharma Switzerland GmbH ("Switzerland") which includes the development and commercialisation of its therapeutic products – located in Switzerland. Creso Grow Limited – Joint venture located in Israel. Hemp-Industries s.r.o. ("Hemp-Industries") (Sold on 29 March 2019) which includes hemp growing operations, outsourced CBD extraction and CBD product sales activities – located in Slovakia.
- 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.

	Asia Pacific	Europe & Middle East	North America	South America	Total
<b>Period ended 30 June 2019</b>					
Revenue from sale of products	17,009	907,017	-	-	924,026
Other revenue	6,971	1,571	27,486	-	36,028
Total segment revenue	23,980	908,588	27,486	-	960,054
Loss before income tax expense	(3,952,983)	(1,002,103)	(1,031,976)	(289,645)	(6,276,707)
Total Segment assets	624,176	3,086,073	18,167,349	3,008,380	24,885,978
Total Segment liabilities	6,614,803	184,847	800,696	7,481	7,607,827

## Notes to the Consolidated Financial Statements

### NOTE 3 SEGMENT INFORMATION CONTINUED

	Australia	Europe & Middle East	North America	South America	Total
Period ended 30 June 2018	\$	\$	\$	\$	\$
Revenue from sale of products	-	183,654	-	-	183,654
Other revenue	74,320	11,131	3,856	-	89,307
Total segment revenue	74,320	194,785	3,856	-	272,961
Loss before income tax expense	(6,901,250)	(505,184)	(177,038)	-	(7,583,472)
<b>As at 31 December 2018</b>					
Total Segment assets	2,722,208	1,962,913	14,700,354	2,996,819	22,382,294
Total Segment liabilities	3,457,840	362,151	1,951,095	6,816	5,777,902

### NOTE 4 REVENUE AND OTHER INCOME

	30-Jun-19	30-Jun-18
	\$	\$
<b>Revenue from continuing operations</b>		
Revenue from sale of products	907,017	183,654
Royalty income	17,009	-
	<b>924,026</b>	183,654
<i>Other income</i>		
Interest received	33,611	85,451
Foreign exchange gain	846	61,207
Other income	1,571	3,856

### NOTE 5 EXPENSES

<b>(a) Administrative expenses</b>		
Accounting and company secretarial fees	199,622	209,543
Travel costs	272,211	461,265
General and administration expenses	152,674	95,594
	<b>624,507</b>	766,402
<b>(b) Consultancy and legal expenses</b>		
Consulting fees	746,793	373,369
Corporate advisory fees	348,111	563,258
Legal fees	708,749	375,783
	<b>1,803,653</b>	1,312,410
<b>(c) Employee benefit expenses</b>		
Director fees	737,761	389,115
Wages and salaries	746,390	390,539
Superannuation	51,419	31,079
Recruitment fees	22,523	198,983
Other employee expenses	46,827	104,140
	<b>1,604,920</b>	1,082,777
<b>(d) Finance Costs</b>		
Capital raising fees	655,928	-
Loan raising fees settled in options issued	390,000	-
Interest expense	367,659	-
Bank fees	10,658	-
	<b>1,424,245</b>	-

## Notes to the Consolidated Financial Statements

### NOTE 6 CASH AND CASH EQUIVALENTS

	30-Jun-19	31-Dec-18
	\$	\$
Cash at bank and in hand	2,231,355	3,067,761
Funds held in trust	1,346,775	3,322,777
	<b>3,578,130</b>	<b>6,390,538</b>

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

Funds held in trust earn interest at 1.4% per annum.

### NOTE 7 TRADE AND OTHER RECEIVABLES

	30-Jun-19	31-Dec-18
	\$	\$
Trade debtors	266,890	-
Goods and Services Tax ('GST') receivable	172,698	591,942
Canadian HST Receivable	233,839	231,583
Other deposits and receivables	135,807	127,607
CLV JV -Joint Venture	-	102,147
Less: Allowance for expected credit losses	-	(102,147)
	<b>809,234</b>	<b>951,132</b>

#### *Allowance for expected credit losses*

There are no expected credit losses and no loss recognised in the income statement for the half-year ended 30 June 2019.

### NOTE 8 INVENTORIES

	30-Jun-19	31-Dec-18
	\$	\$
Inventory – finished goods	389,457	443,535
	<b>389,457</b>	<b>443,535</b>

## Notes to the Consolidated Financial Statements

### NOTE 9 BIOLOGICAL ASSETS

The Company's biological assets consist of 6,566 cannabis plants as at 30 June 2019. The continuity of biological assets is as follows:

	30-Jun-19
	\$
Carrying amount at 31 December 2018	-
Production costs capitalised	328,264
Gross gain / loss on biological assets	679,847
Transferred to inventories upon harvest	(161,470)
<b>Carrying amount at 30 June 2019</b>	<b>846,641</b>

The fair value was determined using an expected cash flow model which assumes the biological assets at the balance sheet date will grow to maturity, be harvested and converted into finished goods inventory and sold to Canadian licensed producers. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

The fair value was determined using an expected cash flow model which assumes the biological assets as at 30 June 2019 will grow to maturity, be harvested and converted into finished goods inventory and sold to Canadian licensed producers. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest. The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

#### Dried Flower

The dried flower model utilizes the following significant assumptions:

	Weighted Average 30 June 2019
Weighted average of expected loss of plants until harvest	5%
Expected yields for cannabis plants (average grams per plant)	37.5
Expected number of growing weeks	12
Weighted average number of growing weeks completed as a percentage of total growing weeks at period-end	51%
Estimated selling price per gram	C\$5.00
After harvest costs to complete and sell per gram	C\$0.30
Reasonable margin on after harvest costs to complete and sell per gram	C\$4.00

#### Shake

The shake model utilizes the following significant assumptions:

	Weighted Average 30 June 2019
Weighted average of expected loss of plants until harvest	5%
Expected yields for cannabis plants (average grams per plant)	37.5
Expected number of growing weeks	12
Weighted average number for growing weeks completed as a percentage of total growing weeks at period-end	51%
Estimated selling price per gram	C\$3.00
After harvest costs to complete and sell per gram	C\$0.30
Reasonable margin on after harvest costs to complete and sell per gram	C\$2.00

## Notes to the Consolidated Financial Statements

### NOTE 9 BIOLOGICAL ASSETS CONTINUED

The following table presents the effect of a 10% change on the fair valuation of biological assets as at 30 June 2019.

	<b>10% Change as at 30 June 2019</b>
Weighted average of expected loss of plants until harvest	10%
Expected yields for cannabis plants (average grams per plant)	67.5
Expected number of growing weeks	12
Weighted average number for growing weeks completed as a percentage of total growing weeks at year-end	12
Estimated selling price per gram	C\$3.60
After harvest costs to complete and sell(per gram)	C\$0.35
Reasonable margin on after harvest costs to complete and sell per gram	C\$2.45

### NOTE 10 PROPERTY, PLANT AND EQUIPMENT

	<b>30-Jun-19</b>	<b>31-Dec-18</b>
	<b>\$</b>	<b>\$</b>
Opening net book amount	<b>9,900,422</b>	50,996
Additions (capital expenditure and acquired assets)	<b>2,169,479</b>	9,806,129
Additions	<b>7,704</b>	39,656
Disposals	<b>(26,819)</b>	(15,038)
Depreciation charge	<b>(96,366)</b>	(17,293)
Foreign exchange translation	<b>(84,565)</b>	35,972
Closing net book amount	<b>11,869,855</b>	9,900,422
Cost	<b>11,966,221</b>	9,925,081
Accumulated depreciation	<b>(96,366)</b>	(24,659)
Net book amount	<b>11,869,855</b>	9,900,422

### NOTE 11 INTANGIBLE ASSETS

	<b>30-Jun-19</b>	<b>31-Dec-18</b>
	<b>\$</b>	<b>\$</b>
Licences (Canadian)	<b>3,586,164</b>	507,282
Licences (Colombian)	<b>3,003,651</b>	2,985,565
Intellectual property	<b>789,441</b>	608,331
Computer software	<b>13,405</b>	-
	<b>7,392,661</b>	4,101,178

### NOTE 12 TRADE AND OTHER PAYABLES

	<b>30-Jun-19</b>	<b>31-Dec-18</b>
	<b>\$</b>	<b>\$</b>
Trade payables	<b>800,033</b>	467,243
Accrued expenses	<b>1,131,260</b>	2,062,394
Income in advance	<b>179,315</b>	209,540
Other payables	<b>84,633</b>	231,328
Lease liabilities	<b>31,990</b>	0
	<b>2,227,231</b>	2,970,505

## Notes to the Consolidated Financial Statement

### NOTE 13 BORROWINGS

	30-Jun-19 \$	31-Dec-18 \$
Secured Loans	<b>5,350,000</b>	2,776,450
	<b>5,350,000</b>	2,776,450

On 11 April 2019, the Company raised A\$5,350,000 in secured loans from a syndicate of lenders ("Secured Lenders"), which included \$200,000 from PharmaCielo Ltd. The Convertible Notes have a face value of A\$50,000 each, a maturity date of 26 April 2020 and an interest rate of 15% p.a.

The convertible notes are secured over Creso's Mernova Cannabis Cultivation Facility which is located in Nova Scotia, Canada. A Trustee holds the security on behalf of noteholders.

On 3 July 2019, the Company reduced secured loans by A\$5,150,000 through the issue of ordinary shares. The repayment of the Company's secured debt is a key condition precedent to the proposed acquisition via a scheme of Arrangement by PharmaCielo Limited.

### NOTE 14 CONTRIBUTED EQUITY

#### (a) Issued and fully paid

	30-Jun-19		31-Dec-18	
	No.	\$	No.	\$
Ordinary shares	<b>137,850,384</b>	<b>41,137,516</b>	124,187,665	38,222,883

### NOTE 15 RESERVES

	30-Jun-19 \$	31-Dec-18 \$
Share-based payments	<b>17,884,162</b>	14,547,170
Foreign currency translation reserve	<b>1,050,753</b>	251,912
	<b>18,934,915</b>	14,799,082
<b><u>Movement reconciliation</u></b>		
<b>Share-based payments reserve</b>		
<b>Balance at the beginning of the year</b>	<b>14,547,170</b>	5,516,511
Equity settled share-based payment transactions	<b>965,087</b>	6,078,523
Issued for working capital	<b>132,222</b>	2,952,136
Exchangeable shares issued for acquisition of the cultivation licence	<b>2,239,683</b>	-
<b>Balance at the end of the year</b>	<b>17,884,162</b>	14,547,170
<b>Foreign currency translation reserve</b>		
<b>Balance at the beginning of the year</b>	<b>251,912</b>	45,491
Effect of translation of foreign currency operations to group presentation	<b>798,841</b>	206,421
<b>Balance at the end of the year</b>	<b>1,050,753</b>	251,912

#### Share-based payment reserve

The share-based payment reserve is used to record the value of share-based payments provided to outside parties, and share-based remuneration provided to employees and directors. The \$2,239,683 exchangeable shares issued for the acquisition of the cultivation licence were capitalised against the Mernova cultivation licence intangible. These shares were exercisable at 14 March 2019 and remain exercisable at 30 June 2019.

#### Foreign currency translation reserve

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

## Notes to the Consolidated Financial Statement

### NOTE 16 SHARE-BASED PAYMENTS

	30-Jun-19	30-Jun-18
	\$	\$
<b>Recognised share-based payment transactions</b>		
Unlisted options issued	115,102	28,833
Listed options issued	132,222	-
Performance rights issued	3,089,668	2,221,967
	<b>3,336,992</b>	<b>2,250,800</b>
<b>Reconciliation:</b>		
<i>Recognised as share-based payment expenses in statement of profit and loss and other comprehensive income</i>	965,087	2,250,800
<i>Recognised against equity</i>	132,222	-
<i>Recognised against an intangible</i>	2,239,683	-
	<b>3,336,992</b>	<b>2,250,800</b>

### NOTE 17 INVESTMENT IN CONTROLLED ENTITIES

Entity	Principal Activities	Country of Incorporation	Ownership interest	
			2019	2018
			%	%
Creso Pharma Switzerland GmbH	Development of therapeutic products	Switzerland	100	100
Hemp-Industries s.r.o.	Hemp cultivation and outsourced CBD extraction Entity sold on 29 March 2019	Slovakia	-	100
Creso Canada Limited	Corporate entity	Canada	100	100
Creso Canada Corporate Limited	Corporate entity	Canada	100	100
Mernova Medicinal Inc	Cultivation of cannabis plants and sale of cannabis products	Canada	100	100
3321739 Nova Scotia Limited	Corporate entity	Canada	100	100
Kunna Canada Limited	Corporate entity	Canada	100	-
Kunna S.A.S	Construction of medicinal cannabis growing facility	Colombia	100	-
Creso Grow Limited	Construction of medicinal cannabis growing facility	Israel	74	-

## Notes to the Consolidated Financial Statement

### NOTE 18 CONTINGENCIES

#### Mernova Milestone 2

As part of the acquisition of Mernova Medicinal Inc., the Company issued 4,150,000 fully paid Exchangeable Preferred Shares (Exchangeable Shares) in a Canadian subsidiary of the Group (Creso Canada Corporate Limited). The Exchangeable Shares will be exchanged for ordinary shares in Creso Pharma Limited if the Milestone noted below has been met. As at 30 June 2019, the Exchangeable Shares and contingent cash payment were as disclosed below:

If the Scheme of Arrangement with PharmaCielo Limited proceeds and Milestone 2 is met:

- The cash payment of CAD\$800,000
- the Milestone 2 Exchangeable Shares will be exchangeable for either:
  - 6,587,302 Creso Pharma Shares (if Milestone 2 is achieved and the Milestone 2 Exchangeable Shares are exchanged prior to the Share Scheme Record Date); or
  - 510,700 PCLO shares

the Scheme of Arrangement with PharmaCielo Limited does not proceed and Milestone 2 is met:

- The cash payment of CAD\$800,000
- the Milestone 2 Exchangeable Shares will be exchangeable for that number of Creso Pharma Shares calculated in accordance with the exchange formula set out below.

The Exchangeable Shares will be exchangeable into that number of Creso Shares based on the formula set out below:

$$\text{No. of Shares} = \text{No. of Exchangeable Shares} \times \frac{1}{\text{Exchangeable Price}}$$

Where the Exchangeable Price is equal to the VWAP of Shares trading on ASX over the 10 trading days immediately prior to the date of exchange of the Exchangeable Shares, provided that the VWAP will not be less than \$0.50 or greater than \$0.75.

#### Scheme of Arrangement with PharmaCielo Limited

In the event that the Scheme of Arrangement with PharmaCielo does not proceed, certain payments as described below may be required to be made:

A break fee of A\$1.2 million is payable by either party to the other in certain circumstances, but not merely because the resolution submitted to the Share Scheme Meeting in respect of the Share Scheme is not approved by the majorities required under section 411(4)(a)(ii) of the Corporations Act or if either party validly terminates the agreement. Therefore, in certain circumstances, a break fee of \$1.2 million may be payable by Creso to PharmaCielo.

Creso may be required to pay PharmaCielo a cost reimbursement fee of \$450,000.

Other than the above, there have been no material changes to contingent liabilities since 30 June 2019.

### NOTE 19 COMMITMENTS

#### Capital Commitments

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

Construction of the medicinal growing facility in Canada

	30-Jun-19	31-Dec-18
	\$	\$
	<u>81,631</u>	<u>1,221,338</u>

## Notes to the Consolidated Financial Statement

### NOTE 20 DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the half-year ended 30 June 2019.

### NOTE 21 EVENTS AFTER THE REPORTING DATE

Subsequent to the end of the half-year period, the Company made the following announcements:

- On 2 July 2019, Mernova commenced sales of dry cannabis leaf.
- On 3 July 2019, the Company reduced secured loans by \$5,150,000 through the issue and conversion of convertible notes into ordinary shares. The repayment of the Company's secured debt is a key condition precedent to the proposed acquisition via a scheme of Arrangement by PharmaCielo Limited.
- On 9 July 2019, PharmaCielo advanced A\$1.5million to Creso Pharma under the terms of the secured bridging loan announced on 7 June 2019.
- On 25 July 2019, the Company issued 2,000,000 fully paid ordinary shares on vesting of Performance Rights (issued 27 July 2017) held by a Contractor to the company upon the achievement of a milestone.
- On 27 July 2018, the Company issued 200,000 Unlisted Options exercisable at \$0.535 on or before 27 July 2021 and 200,000 Unlisted Options exercisable at \$0.80 on or before 27 July 2022. On the same day, the Company issued 650,000 fully paid ordinary shares on the vesting of Performance Rights upon the achievement of a Milestone.
- On 1 August 2019, Creso Pharma received orders for its flagship medicinal cannabis product cannaQIX®50 from Burleigh Heads Cannabis ('BHC'), one of Australia's foremost medicinal cannabis distribution companies.
- On 6 August 2019, Creso announced it had signed a distribution agreement to further build its cannabis business in New Zealand in partnership with JC Logistics Limited, trading as MedLeaf Therapeutics. MedLeaf placed second orders for Creso's CBD-based cannaQIX50.
- On 20 August 2019, Creso announced that it had taken delivery in Switzerland of PharmaCielo's first ever commercial export of CBD from Colombia to Europe, comprising high quality CBD isolate.
- On 22 August 2019, Creso announced that it has entered an agreement with leading South African pharmaceutical company, Pharma Dynamics, a subsidiary of Lupin Limited. The binding agreement allows Pharma Dynamics to distribute Creso Pharma's nutraceutical CannaQIX® products range in South Africa.

There have been no other matters or circumstances that have arisen since 30 June 2019 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:

1. The financial statements and notes thereto of the Group, as set out within this financial report, are in accordance with the *Corporations Act 2001* including:
  - a. Complying with Australian Accounting Standard AASB 134: Interim Financial Reporting, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b. Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the half-year then ended.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The declaration is made in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



**Boaz Wachtel**

**CHAIRMAN**

26 August 2019

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Creso Pharma Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of Creso Pharma Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, 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 half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

#### Emphasis of matter - Material uncertainty relating to going concern

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

#### Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim*



*Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

**BDO East Coast Partnership**

BDO

A handwritten signature in black ink, appearing to read 'Gillian Shea', written in a cursive style.

Gillian Shea  
Partner

Sydney, 26 August 2019