



ASX Announcement

28th February, 2017

Full-Year Results Report

Highlights:

- **Significant progress with development and commercialisation plans for the first human health and animal health nutraceutical products, putting Creso in a strong position to achieve its targets in FY2017.**
- **Several binding letters of intent (LOIs) and collaborative agreements secured with various partners for both the human and animal health products.**
- **Product development for the human health product moved to pilot production; regulatory strategy is established and regulatory filings are being prepared.**
- **Following the end of the financial year, Creso obtained the first-ever EU registration for two CBD-based animal feed nutraceutical products for commercialisation in the global companion animal market.**
- **In February, Creso expanded its Australian presence, securing an Australian LOI with pharmaceutical group Health House International Pty Ltd (Health House International) for the import and sale of Canadian cannabis products in the Australian market.**

Creso Pharma Limited (ASX:CPH, the “Company”) is pleased to provide its financial results for the full year ending 31 December 2016.

Creso officially started trading on the Australian Securities Exchange under the ticker “CPH” in October 2016, following a successful A\$5 million capital raising that was significantly oversubscribed.

Operational Overview

During FY2016, Creso Pharma made significant progress with its development and commercialisation plans for its first human health and animal health nutraceutical products, putting it in a strong position to achieve further key milestones in FY2017.

In February, Creso expanded its Australian presence, securing an Australian letter of intent (LOI) with pharmaceutical group Health House International Pty Ltd (Health House International) for the import and sale of Canadian cannabis products in the Australian market.

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Health House International will initially conduct a trial importation of cannabis oil products from Canadian-based third-parties introduced by Creso. Following success of the trial in accordance with all Australian Laws and regulations, the parties agree to enter into an agreement for an initial two-year term (with an option of extension), subject to Health House International purchasing and importing the agreed minimum quantities of product.

Creso will act as the exclusive facilitator for the import of the products into Australia and earn a facilitation fee on each Health House International import.

Animal health products

Post the reporting period, Creso and its commercialisation partner, Greveling Holding BV (Greveling) obtained the first-ever and unique EU registration for two proprietary formulation animal feed CBD-based nutraceutical products for commercialisation in the global companion animal market.

The registration paves the way for Creso to sell the two nutraceutical products globally and the first-mover advantage will help Creso capture a leading share of the global companion animal market and a leading market share of the hemp-derived animal health market worldwide. Creso aims to launch the products in July 2017.

This followed Creso securing a binding LOI in November with Greveling and Swiss animal health company A&H Health Switzerland, to develop and commercialise Creso's innovative cannabidiol (CBD)-rich hemp-derived nutraceutical products for the global pet care market.

The veterinary health market represents an attractive opportunity for Creso with the market estimated to be worth \$US39.7 billion by 2021¹. Currently, the number of treatment options available to veterinarians are limited and available treatments are often human therapeutics that are poorly adapted to animals.

For the animal health product, Creso also initiated observational field studies in Switzerland and the Netherlands to gather data which will be used to support the company's development and commercialisation efforts.

Human health products

Product development for the first human health nutraceutical product has moved to pilot production, and Creso is preparing the relevant regulatory filings. Also during the year, formulation development and analytical tests were successfully concluded.

As well as in the animal health products, the Company also made good progress towards commercialisation preparation of the human health products, with several letters of intent (LOIs) already signed and various others being prepared for partners in Switzerland, Europe and Latin America.

Creso also initiated collaboration with patient organisations for its human health products for anxiety and stress, which are progressing significantly in line with a 2018 commercial availability timeline. The patient organisations will play a key role in supporting the treatment rationale for the products.

¹ Source: Mordor Intelligence, https://www.mordorintelligence.com/industry-reports/global-veterinary-animal-healthcare-market-industry?gclid=Cj0KEQjwHbzABRDHw_i4q6fXoLIBEiQANZKGW4D-M9PWyi7pnUEiajZ9YB0ZbK-f90LaU9pfumyAl8caArjj8P8HAQ.

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Hemp-Industries' second shipment

Also during the year, Creso's subsidiary, Hemp-Industries, successfully delivered its second shipment of hemp protein to one of the largest bakeries in Slovakia, Pekárne Liptovský Hrádok, s.r.o. (PLH).

Hemp Industries is anticipating growing demand for its product from PLH due to increasing public awareness of the health benefits of hemp seeds, which are regarded as the next big thing in the "superfood" industry for its high content of amino acids, omega acids, protein and other beneficial substances. The hemp protein is used by PLH to produce several top-quality protein bar products, which are sold in leading grocery chains like Tesco, Kaufland and others.

Corporate and Financials

The Company's net loss for the full year to 31 December 2016 was \$4,584,239 (including a non-cash cost of \$1.8 million for the share based payment expenses associated with options and performance rights issued during the year). The net loss of the previous corresponding period of \$11,572. Total revenues for the period were \$8,022 up 100% from the previous corresponding period.

The Appendix 4E report attached to this report contains the Company's full financial results for FY2016.

Outlook

The achievements made during FY2016 put Creso in a strong position in terms of its development and commercialisation efforts and the Company expects to achieve further key milestones in FY2017.

In terms of its animal health products, the award of EU registration for Creso's two cannabidiol (CBD)-based proprietary formulation animal feed nutraceutical products gives the company a first-mover advantage in the growing veterinary health market.

Creso is also making further solid progress towards commercialisation preparation of both its human health and animal health products.

"The success achieved during this year in our development and commercialisation preparations for both our human and animal nutraceutical products makes us very confident of further success in the 2017 financial year. We expect to achieve further significant progress over the months ahead, both in terms of product development and additional commercialisation agreements," said Creso Pharma Group CEO and Co-Founder, Dr. Miriam Halperin Wernli.

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About Creso Pharma

Creso Pharma brings pharmaceutical expertise and methodological rigour to the world of medical cannabis and strives for the highest quality in its products. It is the leader in cannabidiol (CBD) innovation and develops cannabis- and hemp-derived therapeutic-grade CBD nutraceuticals and medical cannabis products with wide patient 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. It has worldwide rights for a number of unique and proprietary innovative delivery technologies which enhance the bioavailability and absorption of cannabinoids. The Company is already generating revenues via its subsidiary, Hemp-Industries.

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ASX APPENDIX 4E

CRESO PHARMA LIMITED

ABN: 89 609 406 911

RESULTS FOR ANNOUNCEMENT TO THE MARKET
FOR THE YEAR ENDED 31 DECEMBER 2016

(Previous corresponding period is the year ended 31 December 2015)

KEY INFORMATION	31-Dec-16	31-Dec-15	% Change
	\$	\$	
Revenue from ordinary activities	8,022	-	100%
Loss from ordinary activities after tax attributable to members	(4,584,239)	(11,572)	395%
Net loss attributable to members	(4,584,239)	(11,572)	395%

DIVIDEND INFORMATION

No dividend has been proposed or declared.

NET TANGIBLE ASSETS PER SECURITY

	31-Dec-16	31-Dec-15
Net tangible assets per security	0.07	-

EARNINGS PER SHARE

	31-Dec-16	31-Dec-15
	Cents	Cents
Basic earnings per share	(14.42)	(1.28)
Diluted earnings per share	(14.42)	(1.28)

CONTROL GAINED OR LOST OVER ENTITIES IN THE PERIOD

During the year, the Group acquired Hemp-Industries s.r.o. Hemp-Industries owns an existing hemp growing operation, outsourced CBD extraction and CBD product sales activities. The Hemp-Industries grow operation has been in existence for 3 years and is run by a professional team.

This report is based on, and should be read in conjunction with, the attached financial report for the year ended 31 December 2016 for Creso Pharma Limited, which has been audited by RSM Australia Pty Ltd.

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CRESO
PHARMA

CRESO PHARMA LIMITED

ACN 609 406 911

**Annual Report for the
Year Ended 31 December 2016**

Annual Report
For the year ended 31 December 2016

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Corporate Directory

Board of Directors

Mr Boaz Wachtel	(Executive Chairman)
Dr Miriam Halperin Wernli	(Managing Director)
Mr Adam Blumenthal	(Non-Executive Director)
Mr James Ellingford	(Non-Executive Director)
Mr Simon Buckingham	(Non-Executive Director)

Secretary

Ms Sarah Smith

Registered Office

C:\ Mirador Corporate Pty Ltd
Suite 4, Level 1
11 Ventnor Avenue
West Perth WA 6005

Telephone: 08 6381 0054
Facsimile: 08 9481 4950
Website: www.cresopharma.com

Stock Exchange Listing

Listed on the Australian Securities Exchange (ASX Code: CPH)

Auditors

RSM Australia Partners
8 St Georges Terrace
Perth WA 6000

Solicitors

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

Bankers

Westpac Banking Corporation
Level 13, 109 St Georges Terrace
Perth WA 6000

Share Registry

Automic Share Registry
Level 1, 7 Ventnor Avenue
West Perth WA 6872

Telephone: 08 9324 2099
Facsimile: 08 9321 2337

Chairman's Report

Dear Shareholders,

On behalf of the Creso Pharma Board, it is with great pleasure that I present this inaugural Annual Report to our investors.

Our Company brings a unique point of difference to the world of medical cannabis, bringing both pharmaceutical expertise and methodological rigour to the field. We leverage both science and research in order to develop, register and commercialise innovative therapeutic approaches targeting the endocannabinoid system.

This important system regulates a number of physiological processes in both humans and animals such as cardiovascular, digestive, immune and nervous system functions. The health of individuals and animals is dependent on it functioning at optimum levels.

Creso is leading the development of cannabidiol (CBD) – one of the active cannabinoids found in the cannabis plant – to assist with the optimum functioning of the endocannabinoid system. Unlike its rivals, the Company uses full plant extracts with full spectrum cannabinoid blends for improved safety and efficacy. These products include a number of cannabis- and hemp-derived therapeutic-grade nutraceuticals and medical cannabis products with a broad range of applications in both human and animal health.

The market potential and range of applications for our products is vast. Medical conditions that we aim to treat include pain and anxiety disorders, metabolic disorders and inflammatory disorders in both humans and companion animals.

Our innovative CBD fully plant-based nutraceutical products are also non-psychoactive, as they contain only trace amounts of THC, the psychoactive component of the cannabis plant.

Another point of difference in our treatments is that we are focusing on unique and innovative product delivery systems. These delivery systems, which include buccal absorption (through the lining of the cheek) and sublingual absorption (under the lining of the tongue), greatly enhance the bioavailability and absorption of cannabinoids. We have exclusive worldwide licences to cutting-edge Swiss and German drug delivery technologies from global pharmaceutical companies for these delivery methods.

Our products are also manufactured to the highest Good Manufacturing Practice (GMP) standards and Creso is committed to maintaining the highest levels of compliance across its supply chain. Furthermore, our standardised dosage forms are specifically designed and adapted for human health and animal health.

This year saw our Company achieve a major milestone in terms of its corporate development, namely our listing on the Australian Securities Exchange in October 2016 following our significantly oversubscribed \$5 million capital raising. The funds raised from the initial public offer have put us in a strong financial position to further develop and commercialise our nutraceutical product ranges for both humans and animals.

We have made substantial progress in the few short months since our listing in both our development and commercialisation plans for our first human and animal health nutraceutical products, putting our Company in a strong position to achieve our targets over the coming financial year.

Since listing, we have secured a number of binding letters of intent (LOIs) and collaborative agreements with various partners for both the human and animal health products.

Product development for the human health product has also moved to pilot batch production and regulatory procedures are in place. For our animal health product, we also obtained the first-ever EU registration for two CBD-based animal feed nutraceutical products for commercialisation in the global companion animal market.

Creso also successfully expanded its Australian presence, securing an Australian LOI for the import and sale of Canadian cannabis products in the Australian market.

I would like to thank our Chief Executive Officer and fellow Co-Founder, Dr. Miriam Halperin Wernli, my fellow Board members and the executive management team for their hard work and dedication over the financial year and especially over the past few months following our public listing.

Creso has a highly-experienced Board and management team with the right expertise and skill set to take the Company forward as we continue to progress our commercialisation efforts for our unique and innovative products.

Finally, on behalf of the Board, we would like to thank our shareholders for your ongoing support and backing of Creso's vision. I look forward to updating you on our progress and achievements in the months ahead.

Yours sincerely,



Boaz Wachtel
Chairman

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CEO's Report

I am extremely pleased to report on Creso's activities for the 2016 financial year, especially over the past few months since we successfully listed on the Australian Securities Exchange in October 2016.

The listing was a significant milestone for our Company with the funds raised from the initial public offer allowing us to advance the development of our innovative CBD hemp full-plant extract nutraceutical products for both human and animal health.

In just a few short months, we have made significant progress towards the development, registration and eventual commercialisation of these unique products, which puts us in a strong position to achieve our targets in the 2017 financial year.

Several LOIs and collaborative agreements are being developed with various potential commercialisation partners in Switzerland, Europe and Latin America for both our human and animal health nutraceutical products which target a range of medical conditions, including pain and anxiety disorders and metabolic and inflammatory conditions.

Human health products

During FY2016, product development for the first human health product moved to pilot production after we successfully concluded formulation development and analytical tests.

This first CBD hemp full-plant extract nutraceutical product will provide people with nutritional support to their endocannabinoid system to manage situations of everyday anxiety and stress, with the body of evidence supporting CBD as an effective treatment for anxiety being particularly strong. Existing CBD-based products are sub-optimal as they are not pharmaceutical grade and there is a lack of proper standardisation both in terms of dosage and formulation, while alternative pharmacological synthetic treatments are mainly benzodiazepines, which have a problematic safety profile.

Following pilot production, Creso plans stability testing in July 2017 before moving into full-scale production and regulatory submission to health authorities. We have developed a strong branding and marketing plan ahead of our expected commercial launch of the product in the first half of 2018. The initial launch will be in Switzerland, followed by key European and Latin American countries.

Over the financial year, we also made good progress towards commercialisation preparations of the human health product, with several letters of intent (LOIs) already signed and various others being prepared for partners in Switzerland, Europe and Latin America.

Animal health products

In January this year, Creso and its commercialisation partner, Greveling Holding BV obtained the first-ever and unique EU registration for two proprietary formulation animal-feed CBD-based nutraceutical products for commercialisation in the global companion animal market.

This milestone gives Creso a first-mover advantage and paves the way for Creso to sell these products globally and capture a leading share of the companion animal market and the hemp-derived animal health market worldwide.

The veterinary health market represents an attractive opportunity for Creso. The number of treatment options available are limited and are often human therapeutics that are poorly adapted to animals. Creso's products provide a strong alternative to existing therapies for behavioural disorders, pain, arthritis and inflammation, and contain very low THC (the psychoactive component of cannabis) at levels below legal thresholds.

The registration followed Creso securing a binding LOI in November with Greveling and Swiss animal health company A&H Health Switzerland, to develop and commercialise these innovative products.

Hemp-Industries' second shipment

Also during the financial year, Creso's subsidiary, Hemp-Industries, successfully delivered its second shipment of hemp protein to one of the largest bakeries in Slovakia, Pekárne Liptovský Hrádok, s.r.o. (PLH).

Hemp Industries is anticipating growing demand for its product from PLH due to increasing public awareness of the health benefits of hemp seeds, which are regarded as the next big thing in the "superfood" industry for its high content of amino acids, omega acids, protein and other beneficial substances. The hemp protein is used by PLH to produce several top-quality protein bar products, which are sold in leading grocery chains like Tesco, Kaufland and others.

Financial results

The financial results of the Group for the year ended 31 December 2016 are:

	31-Dec-16
	\$
Cash and cash equivalents	3,046,054
Net Assets/(Liabilities)	3,239,851
Revenue	8,022
Net loss after tax	(4,584,239)

The financial result for the year ended 31 December 2016 is a net loss after tax of \$4,584,239 (2015: \$11,572). The net loss after tax figure includes a non-cash cost of \$1.8 million for the share based payment expenses associated with options and performance rights issued during the year (refer to Note 18). As at 31 December 2016, the Group had a net cash balance of \$3,046,054 (2015: \$1) and net assets of \$3,239,851 (2015: net liabilities of \$10,771).

Outlook

Thanks to the achievements over the financial year, Creso is in a strong position in terms of its development and commercialisation efforts, and expects to achieve further key milestones in FY2017.

The success achieved during this year in our development and commercialisation preparations for both our human and animal nutraceutical products makes us very confident of further success in the 2017 financial year. We expect to achieve further significant progress over the months ahead, both in terms of product development and additional commercialisation agreements, and I look forward to updating you on our efforts.

I would like to thank my fellow Board members and management team for their exceptional work and dedication to the important and innovative products that we are developing.

Creso is uniquely positioned in the world of medical cannabis and our efforts to produce safe and standardised, cannabis- and hemp- derived therapeutic products for humans and pets promise to create better overall health worldwide.

It is with the hard work and tremendous efforts of our team and the support of our shareholders that is helping us make this aim a reality.

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



Dr. Miriam Halperin Wernli
Group CEO and Co-Founder

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 financial year ended 31 December 2016.

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.

Boaz Wachtel | Executive Chairman
(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 publically 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 four 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 and former chairman of the Green Leaf Party – a political party for cannabis legalisation/medicalisation, human rights and ecology.

Mr Wachtel does not hold, and has not over the last 3 years held, a directorship in any other public listed company.

Dr. Miriam Halperin Wernli | Managing Director & Co-Founder, PhD, MBA
(Appointed 20 November 2015)

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

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

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.

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 US 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 over the last 3 years held, a directorship in any other public listed company.

Directors' Report

Adam Blumenthal | Non-Executive Director
(Appointed 20 November 2015)

Adam Blumenthal has 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 Mining, Cyber Security, Health Care and IT sectors.

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, Adam is a member of the Israel Business Club Sydney (IBCS).

Adam is also a consultant with EverBlu Capital Pty Ltd, the Lead Manager to the Offer.

During the past three (3) years Mr Blumenthal has held directorships in the following other listed entities:

Company	Appointed	Resigned
Burrabulla Corporation Limited	January 2016	Current

James Ellingford | Non-Executive Director
(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 in Corporate Management, a Masters in Business Administration as well as a Doctorate in Management. Dr Ellingford also lectures MBA students in Corporate Governance at a leading Sydney University and has a keen interest in ethics and governance.

During the past three (3) years Mr Ellingford has held directorships in the following other listed entities:

Company	Appointed	Resigned
Victory Mines Limited	January 2016	Current
Zyber Holdings Limited	January 2014	February 2016
Capital Mining Limited	January 2013	August 2015

Directors' Report

Simon Buckingham | Non-Executive Director
(Appointed 24 May 2016)

Dr Buckingham has over 25 years' experience in the global pharmaceutical industry across a range of functions and a variety of therapeutic areas. Now based in Sydney, he is currently a Senior Global Advisor / Consultant to Actelion, one of the world's leading biopharmaceutical companies, and is a Director of Actelion Australia.

Dr Buckingham was President, Global Corporate and Business Development at Actelion from 2005-2011, a position which spanned licensing, M&A, alliance management and corporate strategic planning. He served as President, North America and Asia-Pacific at Actelion from 2000-2005, with responsibility for all commercial operations in the region. He was the founding President of Actelion Pharmaceuticals US. From 1998-2000 he worked in sales and marketing for Parke-Davis (now part of Pfizer) in the US and prior to that served in roles in sales, marketing and development at Roche, both in Switzerland and Australia, for 9 years.

Dr Buckingham is currently a non-executive director of Pharmaxis, an ASX listed pharmaceutical R&D company focused on inflammation and fibrosis; Vaxxilon, a European based start-up dedicated to the discovery, development and commercialisation of innovative synthetic carbohydrate vaccines; and Can Too Foundation, a non-profit organisation raising funds for cancer research and promoting fitness, health and well-being.

He holds a Bachelor of Veterinary Science degree from the University of Sydney (1984), a PhD from the University of Melbourne (1988), a Graduate Management Qualification from the AGSM, University of NSW (1990) and is a Graduate of the Australian Institute of Company Directors.

During the past three (3) years Mr Buckingham has held directorships in the following other listed entities:

Company	Appointed	Resigned
Pharmaxis Ltd	July 2012	Current

COMPANY SECRETARY

Sarah Smith
(Appointed 20 November 2015)

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.

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	Unlisted Share Options	Performance Rights
Mr Boaz Wachtel	2,300,000	-	6,000,000
Dr Miriam Halperin Wernli	3,000,000	-	7,000,000
Mr Adam Blumenthal	1,750,001	-	3,000,000
Mr James Ellingford	250,000	-	1,000,000
Mr Simon Buckingham	-	250,000	400,000
Total	7,300,001	250,000	17,400,000

Directors' Report

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.

REVIEW AND RESULTS OF OPERATIONS

Overview

Creso Pharma Limited was incorporated on 20 November 2015 and is a leading medicinal cannabis manufacturer. On 20 October 2016, the Company commenced trading the Australian Stock Exchange under the ticker code CPH, following a successful Initial Public Offer ("IPO") that raised \$5 million.

On 9 April 2016, the Company entered into a Heads of Agreement to acquire 100% of the issued share capital of Hemp-Industries s.r.o ("Hemp-Industries"). Hemp-Industries owns an existing hemp growing operation, outsourced CBD extraction and CBD product sales activities. The Hemp-Industries grow operation has been in existence for 3 years and is run by a professional team.

During FY2016, Creso Pharma made significant progress with its development and commercialisation plans for its first human health and animal health nutraceutical products, putting it in a strong position to achieve further key milestones in FY2017.

In February, Creso expanded its Australian presence, securing an Australian letter of intent (LOI) with pharmaceutical group Health House International Pty Ltd (Health House International) for the import and sale of Canadian cannabis products in the Australian market.

Health House International will initially conduct a trial importation of cannabis oil products from Canadian-based third-parties introduced by Creso. Following success of the trial in accordance with all Australian Laws and regulations, the parties agree to enter into an agreement for an initial two-year term (with an option of extension), subject to Health House International purchasing and importing the agreed minimum quantities of product.

Creso will act as the exclusive facilitator for the import of the products into Australia and earn a facilitation fee on each Health House International import.

Animal health products

Post the reporting period, Creso and its commercialisation partner, Greveling Holding BV (Greveling) obtained the first-ever and unique EU registration for two proprietary formulation animal feed CBD-based nutraceutical products for commercialisation in the global companion animal market.

The registration paves the way for Creso to sell the two nutraceutical products globally and the first-mover advantage will help Creso capture a leading share of the global companion animal market and a leading market share of the hemp-derived animal health market worldwide. Creso aims to launch the products in July 2017.

This followed Creso securing a binding LOI in November with Greveling and Swiss animal health company A&H Health Switzerland, to develop and commercialise Creso's innovative cannabidiol (CBD)-rich hemp-derived nutraceutical products for the global pet care market.

The veterinary health market represents an attractive opportunity for Creso with the market estimated to be worth \$US39.7 billion by 2021. Currently, the number of treatment options available to veterinarians are limited and available treatments are often human therapeutics that are poorly adapted to animals.

For the animal health product, Creso also initiated observational field studies in Switzerland and the Netherlands to gather data which will be used to support the company's development and commercialisation efforts.

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Product development for the first human health nutraceutical product has moved to pilot production, and Creso is preparing the relevant regulatory filings. Also during the year, formulation development and analytical tests were successfully concluded.

As well as in the animal health products, the Company also made good progress towards commercialisation preparation of the human health products, with several letters of intent (LOIs) already signed and various others being prepared for partners in Switzerland, Europe and Latin America.

Creso also initiated collaboration with patient organisations for its human health products for anxiety and stress, which are progressing significantly in line with a 2018 commercial availability timeline. The patient organisations will play a key role in supporting the treatment rationale for the products.

Hemp-Industries' second shipment

Also during the year, Creso's subsidiary, Hemp-Industries, successfully delivered its second shipment of hemp protein to one of the largest bakeries in Slovakia, Pekárne Liptovský Hrádok, s.r.o. (PLH).

Hemp Industries is anticipating growing demand for its product from PLH due to increasing public awareness of the health benefits of hemp seeds, which are regarded as the next big thing in the "superfood" industry for its high content of amino acids, omega acids, protein and other beneficial substances. The hemp protein is used by PLH to produce several top-quality protein bar products, which are sold in leading grocery chains like Tesco, Kaufland and others.

Financial Performance

The financial results of the Group for the year ended 31 December 2016 are:

	31-Dec-16	31-Dec-15
	\$	\$
Cash and cash equivalents	3,046,054	1
Net Assets/(Liabilities)	3,239,851	(10,771)
Revenue	8,022	-
Net loss after tax	(4,584,239)	(11,572)

The financial result for the year ended 31 December 2016 is a net loss after tax of \$4,584,239 (2015: \$11,572). The net loss after tax figure includes a non-cash cost of \$1.8 million for the share based payment expenses associated with options and performance rights issued during the year (refer to Note 18). As at 31 December 2016, the Group had a net cash balance of \$3,046,054 (2015: \$1) and net assets of \$3,239,851 (2015: net liabilities of \$10,771).

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.

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:

Acquisition of Hemp-Industries s.r.o.

On 9 April 2016, the Company entered into a Heads of Agreement to acquire 100% of the issued share capital of Hemp-Industries s.r.o. ("Hemp-Industries"). Hemp-Industries owns an existing hemp growing operation, outsourced CBD extraction and CBD product sales activities. The Hemp-Industries grow operation has been in existence for 3 years and is run by a professional team.

Directors' Report

Capital Raising and Successful Listing

On 20 October 2016, the Company commenced trading the Australian Stock Exchange under the ticker code CPH, following a successful Initial Public Offer ("IPO") that raised \$5 million. This capital raising provided the funding for the integration of cannabinoids with advanced delivery technologies and the commercialisation of end products.

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

On 24 January 2017, the Company issued 300,000 unlisted options for nil consideration. Options are exercisable at \$0.50 on or before 23 January 2021.

There has not 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

The achievements made during FY2016 put Creso in a strong position in terms of its development and commercialisation efforts and the Company expects to achieve further key milestones in FY2017.

In terms of its animal health products, the award of EU registration for Creso's two cannabidiol (CBD)-based proprietary formulation animal feed nutraceutical products gives the company a first-mover advantage in the growing veterinary health market.

Creso is also making further solid progress towards commercialisation preparation of both its human health and animal health products.

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	Number Eligible to Attend	Number Attended
Mr Boaz Wachtel	3	3
Dr Miriam Halperin Wernli	3	3
Mr Adam Blumenthal	3	3
Mr James Ellingford	3	3
Mr Simon Buckingham	3	3

In addition to the scheduled Board meetings, Directors regularly communicate by telephone, email or other electronic means, and where necessary, circular resolutions are executed to effect decisions.

Due to the size and scale of the Company, there is no Remuneration and Nomination Committee or Audit Committee at present. Matters typically dealt with by these Committees are, for the time being, managed by the Board. For details of the function of the Board, please refer to the Corporate Governance Statement.

Directors' Report

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 31 December 2016 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.

a) Key Management Personnel Disclosed in this Report

Key Management Personnel of the Group during or since the end of the financial year were:

Mr Boaz Wachtel	Executive Chairman
Dr Miriam Halperin Wernli	Managing Director
Mr Adam Blumenthal	Non-Executive Director
Mr James Ellingford	Non-Executive Director
Mr Simon Buckingham	Non-Executive Director

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 Philosophy
B	Remuneration Governance, Structure and Approvals
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 Philosophy

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

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.

B Remuneration Governance, Structure and Approvals

Remuneration of Directors is currently set by the Board of Directors. The Board has not established a separate Remuneration Committee at this point in the Group's development, nor has the Board engaged the services of an external remuneration consultant. It is considered that the size of the Board along with the level of activity of the Group renders this impractical. The Board is primarily responsible for:

- 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.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company.

❖ Non-Executive Remuneration Structure

The remuneration of Non-Executive Directors consists of Directors' fees, payable in arrears. 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.

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. In accordance with the Company's Constitution, the Directors may at any time, subject to the Listing Rules, adopt any 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.

The remuneration of Non-Executive is detailed in Table 1 and their contractual arrangements are disclosed in "Section E – Service Agreements".

Remuneration may also include an invitation to participate in share-based incentive programmes in accordance with Company policy.

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.

❖ 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 performance Directors.

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 Board, in the absence of a Remuneration Committee, for their approval. 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.

C Remuneration and Performance

The following table shows the gross revenue, losses, earnings per share ("EPS") and share price of the Group as at 31 December 2016. Given the Company listed during the financial year, no comparative information is available.

	31-Dec-16
Revenue (\$)	8,022
Net loss after tax (\$)	(4,584,239)
EPS (\$)	(0.14)
Share price	0.24

Relationship between Remuneration and Company Performance

Given the recent listing of the Company and the current phase of the Company's development, the Board does not consider earnings during the current and previous financial year when determining, and in relation to, 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

The combination of these would comprise 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 any key management personnel's contract.

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. No bonus payments were made during the financial year.

c) Variable Remuneration – Long Term Incentives (LTI)

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 granted may be subject to conditions on exercise as may be fixed by the Directors prior to grant of the Options. The Options will not be quoted on ASX.

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 2016 is set out below:

31 December 2016	Short-term Employee Benefits			Post-Employment	Share Based Payments	Total
	Salary & fees	Non-monetary benefits	Other	Superannuation	Performance Rights / Options (iv)	
	\$	\$	\$	\$	\$	
Directors						
Boaz Wachtel	43,003 ⁽ⁱ⁾	-	20,000 ⁽ⁱⁱⁱ⁾	-	525,366	588,369
Miriam Halperin Wernli	86,244 ⁽ⁱⁱ⁾	-	20,000 ⁽ⁱⁱⁱ⁾	-	612,928	719,172
Adam Blumenthal	28,800	-	20,000 ⁽ⁱⁱⁱ⁾	2,736	262,684	314,220
James Ellingford	28,800	-	-	2,736	87,562	119,098
Simon Buckingham	19,134	-	-	1,818	22,714	43,666
Total	205,981	-	60,000	7,290	1,511,254	1,784,525

- (i) An amount of \$43,003 has been paid/is payable to International Water and Energy Savers Ltd relating to Boaz Wachtel's Directors Fees.
- (ii) An amount of \$86,244 has been paid/is payable to WHP Management Consulting GmbH relating to Miriam Halperin Wernli Directors Fees.
- (iii) During the year, additional fees of \$20,000 were paid to Boaz Wachtel, Miriam Halperin Wernli and Adam Blumenthal as consideration for the significant amount of work completed during the Company's pre-IPO period from 20 November 2015 to 20 October 2016.
- (iv) Share-based payments are the options and performance rights expensed over the vesting period (refer to Note 18 for further details).

31 December 2015	Short-term Employee Benefits			Post-Employment	Share Based Payments	Total
	Salary & fees	Non-monetary benefits	Other	Superannuation	Performance Rights / Options (iv)	
	\$	\$	\$	\$	\$	
Directors						
Boaz Wachtel	2,762	-	-	-	-	2,762
Miriam Halperin Wernli	2,762	-	-	-	-	2,762
Adam Blumenthal	2,762	-	-	262	-	3,024
James Ellingford	2,762	-	-	262	-	3,024
Total	11,048	-	-	524	-	11,572

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 (%)	
	2016	2015	2016	2015	2016	2015
Directors						
Boaz Wachtel	8%	100%	3%	-	89%	-
Miriam Halperin Wernli	12%	100%	3%	-	85%	-
Adam Blumenthal	10%	100%	6%	-	84%	-
James Ellingford	26%	100%	-	-	74%	-
Simon Buckingham	48%	-	-	-	52%	-

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

31 December 2016	Balance at 01/01/2016	Granted as Remuneration	On Exercise of Options	Net Change – Other	Balance at 31/12/2016
Directors					
Boaz Wachtel	-	2,300,000	-	-	2,300,000
Miriam Halperin Wernli	-	3,000,000	-	-	3,000,000
Adam Blumenthal	-	1,750,001	-	-	1,750,001
James Ellingford	-	250,000	-	-	250,000
Simon Buckingham	-	-	-	-	-
Total	-	7,300,001	-	-	7,300,001

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

31 December 2016	Balance at 01/01/2016	Granted as Remuneration	Exercised	Balance at 31/12/2016	Vested & Exercisable
Directors					
Boaz Wachtel	-	-	-	-	-
Miriam Halperin Wernli	-	-	-	-	-
Adam Blumenthal	-	-	-	-	-
James Ellingford	-	-	-	-	-
Simon Buckingham	-	250,000	-	250,000	250,000
Total	-	250,000	-	250,000	250,000

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

31 December 2016	Balance at 01/01/2016	Granted as Remuneration	Vested	Lapsed	Balance at 31/12/2016
Directors					
Boaz Wachtel	-	6,000,000	-	-	6,000,000
Miriam Halperin Wernli	-	7,000,000	-	-	7,000,000
Adam Blumenthal	-	3,000,000	-	-	3,000,000
James Ellingford	-	1,000,000	-	-	1,000,000
Simon Buckingham	-	400,000	-	-	400,000
Total	-	17,400,000	-	-	17,400,000

E Service Agreements

❖ Mr Boaz Wachtel – Executive Chairman

- Contract: Commenced on 18 October 2016.
- Director's Fee: \$10,000 per month.
- 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 to with the Board each year.

❖ Miriam Halperin Wernli – Managing Director

- Contract: Commenced on 18 October 2016.
- Director's Fee: US\$20,833.33 per month.
- 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 to with the Board each year.

❖ Adam Blumenthal – Non-Executive Director

- Contract: Commenced on 20 November 2015.
- Director's Fee: \$4,000 per month (plus superannuation entitlements).
- Term: No fixed term.

❖ James Ellingford – Non-Executive Director

- Contract: Commenced on 20 November 2015.
- Director's Fee: \$4,000 per month (plus superannuation entitlements).
- Term: No fixed term.

❖ **Simon Buckingham – Non-Executive Director**

- Contract: Commenced on 24 May 2016.
- Director's Fee: \$4,000 per month (plus superannuation entitlements).
- Term: No fixed term.

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.

Options

During the current financial year, the Company issued 250,000 options to Simon Buckingham, exercisable at \$0.40 on or before the date which is two (2) years from the date the Company is admitted to the official list of the ASX.

At the date of this report, the unissued ordinary shares of the Company under option carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

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:

Tranche	Grant Date	Vesting date	Performance period	Value per Performance Right at Grant Date	% Vested
Tranche 1	20 October 2016	20 October 2017	20 October 2016 – 20 October 2017	\$0.163	-
Tranche 2	20 October 2016	20 October 2018	20 October 2016 – 20 October 2018	\$0.164	-
Tranche 3	20 October 2016	20 October 2019	20 October 2016 – 20 October 2019	\$0.20	-
Tranche 4	20 October 2016	20 October 2020	20 October 2016 – 20 October 2020	\$0.20	-

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

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 18 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>						
Tranche 1	20 October 2016	20 October 2017	1,500,000	\$244,470	-	-
Tranche 2	20 October 2016	20 October 2018	1,500,000	\$246,555	-	-
Tranche 3	20 October 2016	20 October 2019	1,500,000	\$300,000	-	-
Tranche 4	20 October 2016	20 October 2020	1,500,000	\$300,000	-	-
<u>Miriam Halperin Werni</u>						
Tranche 1	20 October 2016	20 October 2017	1,750,000	\$285,215	-	-
Tranche 2	20 October 2016	20 October 2018	1,750,000	\$287,648	-	-
Tranche 3	20 October 2016	20 October 2019	1,750,000	\$350,000	-	-
Tranche 4	20 October 2016	20 October 2020	1,750,000	\$350,000	-	-
<u>Adam Blumenthal</u>						
Tranche 1	20 October 2016	20 October 2017	750,000	\$122,235	-	-
Tranche 2	20 October 2016	20 October 2018	750,000	\$123,278	-	-
Tranche 3	20 October 2016	20 October 2019	750,000	\$150,000	-	-
Tranche 4	20 October 2016	20 October 2020	750,000	\$150,000	-	-
<u>James Ellingford</u>						
Tranche 1	20 October 2016	20 October 2017	250,000	\$40,745	-	-
Tranche 2	20 October 2016	20 October 2018	250,000	\$41,093	-	-
Tranche 3	20 October 2016	20 October 2019	250,000	\$50,000	-	-
Tranche 4	20 October 2016	20 October 2020	250,000	\$50,000	-	-
<u>Simon Buckingham</u>						
Tranche 3	20 October 2016	20 October 2019	200,000	\$40,000	-	-
Tranche 4	20 October 2016	20 October 2020	200,000	\$40,000	-	-

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.

Fair values at grant date are independently determined using a standard binomial pricing model that takes into account the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the Performance Right.

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 any KMP during the year ended 31 December 2016.

There were no loans from any KMP during the year ended 31 December 2016.

I Other Transactions with KMP

There were no other transactions with KMP during the year ended 31 December 2016.

J Additional Information

The earnings of the consolidated entity for the five years to 31 December 2016 are summarised below:

	2016 \$	2015 \$
Sales Revenue	8,022	-
EBITDA	(4,207,963)	(11,572)
EBIT	(4,546,170)	(11,572)
Loss after income tax	(4,584,239)	(11,572)
Share Price	0.24	-
Basic EPS (\$)	(0.14)	(0.0128)
Diluted EPS (\$)	(0.14)	(0.0128)

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

End of Audited Remuneration Report.

Directors' Report

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the year ended 31 December 2016, 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 RSM Australia Partners.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 31 December 2016 has been received and included within these financial statements.

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 outline in Note 22 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.

This report is signed in accordance with a resolution of Board of Directors.



Boaz Wachtel
EXECUTIVE CHAIRMAN
28 February 2017

RSM Australia Partners

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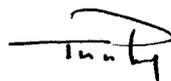
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Creso Pharma Limited for the year ended 31 December 2016, 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: 28 February 2017

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RSM Australia Partners ABN 36 965 185 036

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 31 December 2016

	Note	Group 2016 \$	Company 20 November to 31 December 2015 \$
Revenue from continuing operations			
Revenue from products	4	8,022	-
Cost of sales		(32,828)	-
Gross loss		(24,806)	-
Other income			
Interest income	4	6,498	-
Expenses			
Administrative expenses	5(a)	(463,727)	-
Compliance and regulatory expenses		(114,925)	-
Consultancy and legal expenses	5(b)	(724,207)	-
Depreciation and amortisation expense		(1,318)	-
Employee benefit expenses	5(c)	(294,457)	(11,572)
Finance costs		(36,751)	-
Impairment of intangible assets		(344,705)	-
Marketing and investor relations		(238,225)	-
Occupancy expenses		(8,944)	-
Share-based payment expense	18	(1,783,447)	-
Research expense		(488,978)	-
Other expenses		(39,539)	-
Foreign exchange losses		(26,708)	-
Loss from continuing operations before income tax		(4,584,239)	(11,572)
Income tax expense	6	-	-
Loss from continuing operations after income tax		(4,584,239)	(11,572)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		60,894	-
Other comprehensive income for the year/period, net of tax		60,894	-
Total comprehensive loss attributable to the members of Creso Pharma Limited		(4,523,345)	(11,572)
Loss per share for the year attributable to the members of Creso Pharma Limited:			
Basic loss per share (cents)	7	(14.42)	(1.28)
Diluted loss per share (cents)	7	(14.42)	(1.28)

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 2016

	Note	Group 2016 \$	Company 2015 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	3,046,054	1
Trade and other receivables	9	701,826	800
Inventories	10	2,519	-
Total current assets		3,750,399	801
Non-current assets			
Plant and equipment	11	17,474	-
Total non-current assets		17,474	-
Total assets		3,767,873	801
LIABILITIES			
Current liabilities			
Trade and other payables	12	525,828	11,572
Provisions	13	2,194	-
Total current liabilities		528,022	11,572
Total liabilities		528,022	11,572
Net assets/(liabilities)		3,239,851	(10,771)
EQUITY			
Contributed equity	14	5,479,612	801
Reserves	15	2,356,050	-
Accumulated losses		(4,595,811)	(11,572)
Total equity		3,239,851	(10,771)

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 2016

Group	Issued Capital \$	Share-based Payment Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
At 1 January 2016	801	-	-	(11,572)	(10,771)
Loss for the year	-	-	-	(4,584,239)	(4,584,239)
Other comprehensive income	-	-	60,894	-	60,894
Total comprehensive income/(loss) for the year after tax	-	-	60,894	(4,584,239)	(4,523,345)
Transactions with owners in their capacity as owners:					
Issue of share capital	6,205,500	-	-	-	6,205,500
Share issue costs	(726,689)	-	-	-	(726,689)
Share-based payments	-	2,295,156	-	-	2,295,156
At 31 December 2016	5,479,612	2,295,156	60,894	(4,595,811)	3,239,851
Company					
At 20 November 2015 (date of incorporation)	-	-	-	-	-
Loss for the period	-	-	-	(11,572)	(11,572)
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(loss) for the period after tax	-	-	-	(11,572)	(11,572)
Transactions with owners in their capacity as owners:					
Issue of share capital	801	-	-	-	801
At 31 December 2015	801	-	-	(11,572)	(10,771)

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 2016

	Note	Group 2016 \$	Company 2015 \$
Cash flows from operating activities			
Receipts from customers		8,022	-
Payments to suppliers and employees		(2,325,346)	-
Payments for research expense		(216,384)	-
Interest received		5,333	-
Interest paid and other finance costs		(36,751)	-
Net cash used in operating activities	8(a)	<u>(2,565,126)</u>	-
Cash flows from investing activities			
Payments for property, plant and equipment		(5,496)	-
Cash acquired from business acquisition		26,155	-
Net cash from investing activities		<u>20,659</u>	-
Cash flows from financing activities			
Proceeds from issue of shares		6,005,500	1
Payment of share issue costs		(414,980)	-
Net cash from financing activities		<u>5,590,520</u>	1
Net increase / (decrease) in cash and cash equivalents		3,046,053	1
Cash and cash equivalents at the beginning of the year		1	-
Cash and cash equivalents at the end of the year	8	<u>3,046,054</u>	<u>1</u>

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 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 2016 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 annual report was authorised for issue by the Board of Directors on 28 February 2017.

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.

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 24.

New, revised or amended standards and interpretations adopted by the Group

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”) that are mandatory for the current reporting period.

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2016 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

New standards and interpretations not yet mandatory or early adopted

The Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2016. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(b) Basis of Preparation (cont.)

Reference and Title	Summary	Application Date of Standard	Impact on Creso Pharma Limited Financial Statements
AASB 9 – Financial Instruments	AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a simple, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. AASB 9 is effect for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application.	Annual reporting periods commencing on or after 1 January 2018.	When this standard is first adopted from 1 January 2018, there will be no impact on transactions and balances recognised in the financial statements.
AASB 15 – Revenue from Contracts with Customers	An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchanged for those goods or services. This means that revenue will be recognised when control of foods or services is transferred, rather than on transfer of risks and rewards as is current the case under IAS 18 <i>Revenue</i> .	Annual reporting periods commencing on or after 1 January 2018.	When this standard is first adopted from 1 January 2018, this standard will not significantly impact transactions and balances recognised in the financial statements.
AASB 16 (issued February 2016) Leases	AASB 16 eliminates the operating and finance lease classifications for lessees current accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117.	Annual reporting periods commencing on or after 1 January 2019.	When this standard is first adopted from 1 January 2019, there will be minimal impact on transactions and balances recognised in the financial statements.

Significant Judgements and Estimates

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

(c) Comparatives

Comparative balances for the Company are for the financial period 20 November 2015 (date of incorporation) to 31 December 2015.

(d) 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 2016 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.

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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(d) Principles of Consolidation (cont.)

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.

(e) 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.

(f) 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.

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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(g) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable to the extent that it is probably that economic benefits will flow to the consolidated entity and the revenue can be reliably measured.

Sale of goods

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue

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

(h) Income Tax

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

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

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

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

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

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

(i) 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(i) Business Combination (cont.)

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.

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.

(j) 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.

(k) Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

(l) 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 (CONT.)

(m) Plant and Equipment

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

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.

(n) Intangible Assets Other than Goodwill

Other intangible assets that are acquired by the Group and have finite useful lives are measured at costs less accumulated amortisation and accumulated impairment losses.

(o) Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Where an impairment loss subsequently reverses, the carrying amount of the asset, other than goodwill, is increased to the revised estimate of its recoverable amount, but only to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(p) 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.

(q) 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(r) 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.

(s) Employee Benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(t) Research and Development Expenditure

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it probable that the project will be a success considering its commercial and technical feasibility, the Group is able to use or sell the asset, the Group 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.

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.

(u) 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(u) Share-based Payments (cont.)

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.

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.

(v) 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.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(w) 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.

(x) Goods and Services Tax ("GST")

Revenue, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables area stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

(y) 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.

(z) Dividends

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

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.

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:

- Hemp-Industries s.r.o. ("Hemp-Industries") which includes hemp growing operations, outsourced CBD extraction and CBD product sales activities.
- Creso Pharma Switzerland GmbH ("Switzerland") which includes the development and commercialisation of its therapeutic products.
- Creso Pharma Limited ("Creso") which includes the Group's corporate administration.

Notes to the Consolidated Financial Statements

NOTE 3 SEGMENT INFORMATION (CONT.)

Such structural organisation is determined by the nature of risks and returns associated with each business segment and define 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.

	Australia	Slovakia	Switzerland	Total
Year ended 31 December 2016	\$	\$	\$	\$
Revenue from products	-	8,022	-	8,022
Other revenue	4,269	2,229	-	6,498
Total segment revenue	4,269	10,251	-	14,520
Loss before income tax expense	(3,857,456)	(102,540)	(624,243)	(4,584,239)
Total Segment assets	2,128,189	743,396	896,288	3,767,873
Total Segment liabilities	107,735	123,580	296,707	528,022

	Australia	Slovakia	Switzerland	Total
Period ended 31 December 2015	\$	\$	\$	\$
Revenue from products	-	-	-	-
Other revenue	-	-	-	-
Total segment revenue	-	-	-	-
Loss before income tax expense	(11,572)	-	-	(11,572)
Total Segment assets	801	-	-	801
Total Segment liabilities	11,572	-	-	11,572

NOTE 4 REVENUE AND OTHER INCOME

	2016	2015
	\$	\$
Revenue from continuing operations		
Revenue from services	538	-
Revenue from sale of products	7,484	-
	8,022	-
<i>Other income</i>		
Interest received	6,498	-

Notes to the Consolidated Financial Statements

	2016 \$	2015 \$
NOTE 5 EXPENSES		
(a) Administrative expenses		
Accounting and company secretarial fees	151,600	-
Travel costs	210,642	-
General and administration expenses	101,485	-
	463,727	-
(b) Consultancy and legal expenses		
Consulting fees	269,814	-
Legal fees	454,393	-
	724,207	-
(c) Employee benefit expenses		
Wages and salaries	287,079	11,048
Superannuation	7,378	524
	294,457	11,572
NOTE 6 INCOME TAX		
(a) The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
Income tax expense reported in the of profit or loss and other comprehensive income	-	-
(b) 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	(4,584,239)	(11,572)
Prima facie tax benefit on loss before income tax at 28.5% (2015: 28.5%)	(1,306,508)	(3,298)
Tax effect of:		
Tax effect on different tax rate of overseas subsidiaries	200,455	-
Share based payments	508,282	-
Travel expenses	49,774	-
Legal expenses	122,739	-
Others	52,871	-
Tax losses not recognised	372,387	3,298
Total	-	-
(c) Deferred tax assets not brought to account are:		
Carried forward losses	303,642	3,298
The benefit for tax losses will only be obtained if:		
<ul style="list-style-type: none"> ▪ The Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; and ▪ The losses are transferred to an eligible entity in the Group; and ▪ The Group continues to comply with the conditions for deductibility imposed by tax legislation; and ▪ No changes in tax legislation adversely affect the consolidated in realising the benefit from the deduction for the losses. 		

Notes to the Consolidated Financial Statements

NOTE 7 LOSS PER SHARE

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	2016 \$	2015 \$
Net loss for the year/period	<u>(4,584,239)</u>	<u>(11,572)</u>
Weighted average number of ordinary shares for basic and diluted loss per share.	31,790,206	898,630
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)	(14.42)	(1.28)

NOTE 8 CASH AND CASH EQUIVALENTS

Cash at bank and in hand	1,046,054	1
Short-term deposits	<u>2,000,000</u>	-
	<u>3,046,054</u>	<u>1</u>

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.

The Group's exposure to interest rate and credit risks is disclosed in Note 16.

Notes to the Consolidated Financial Statements

	2016 \$	2015 \$
NOTE 8 CASH AND CASH EQUIVALENTS (CONT.)		
(a) Reconciliation of net loss after tax to net cash flows from operations		
Loss for the financial year/period	(4,584,239)	(11,572)
<i>Adjustments for:</i>		
Depreciation	1,318	-
Impairment of asset	344,705	-
Foreign exchange loss	60,894	-
Share based payments	1,783,447	-
<i>Changes in assets and liabilities</i>		
Receivables	(293,165)	-
Inventories	(2,519)	-
Trade and other payables	136,531	11,572
Provisions	(12,098)	-
Net cash used in operating activities	(2,565,126)	-
Non-cash investing and financing activities		
Issue of shares for acquisition of subsidiary	200,000	-

NOTE 9 TRADE AND OTHER RECEIVABLES

Trade debtors	326,652	-
GST receivable	104,169	-
Other deposits and receivables	271,005	800
	701,826	800

(a) Allowance for impairment loss

Receivables past due but not considered impaired are nil (2015: Nil). Other receivables are non-interesting bearing and are generally on terms of 30 days.

NOTE 10 INVENTORIES

Inventory – Finished goods	2,519	-
	2,519	-

Notes to the Consolidated Financial Statements

	2016	2015
	\$	\$
NOTE 11 PLANT AND EQUIPMENT		
Year ended 31 December		
Opening net book amount	-	-
Additions	18,792	-
Depreciation charge	(1,318)	-
Closing net book amount	17,474	-
At 31 December		
Cost	18,792	-
Accumulated depreciation	(1,318)	-
Net book amount	17,474	-

NOTE 12 TRADE AND OTHER PAYABLES

Trade payables ⁽ⁱ⁾	61,900	-
Accrued expenses	46,938	11,572
Other payables	416,990	-
	525,828	11,572

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

NOTE 13 PROVISIONS

Employee provisions	2,194	-
	2,194	-

NOTE 14 CONTRIBUTED EQUITY

(a) Issued and fully paid	2016		2015	
	\$	No.	\$	No.
Ordinary shares	5,479,612	57,725,001	801	8,000,001

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 share hold.

Notes to the Consolidated Financial Statements

NOTE 14 CONTRIBUTED EQUITY (CONT.)

(b) Movement reconciliation

	Number	\$
At 20 November 2015 (date of incorporation)	-	-
Share issued- Founder shares	8,000,001	801
At 31 December 2015	8,000,001	801
At 1 January 2016	8,000,001	801
Seed capital escrowed to 19/01/17	6,750,000	67,500
Seed capital escrowed to 22/02/17	6,000,000	60,000
Seed capital escrowed to 13/04/17	7,237,500	579,000
Seed capital escrowed to 21/06/17	2,325,000	186,000
Seed capital escrowed to 14/07/17	1,187,500	95,000
Seed capital escrowed to 18/07/17	225,000	18,000
Issued as consideration for acquisition	1,000,000	200,000
Shares issued - capital raising	25,000,000	5,000,000
Less equity raising costs	-	(726,689)
At 31 December 2016	57,725,001	5,479,612

NOTE 15 RESERVES

	2016 \$	2015 \$
Share-based payments	2,295,156	-
Foreign currency translation reserve	60,894	-
	2,356,050	-
Movement reconciliation		
Share-based payments reserve		
Balance at the beginning of the year	-	-
Equity settled share-based payment transactions (Note 18)	2,295,156	-
Balance at the end of the year	2,295,156	-
Foreign currency translation reserve		
Balance at the beginning of the year	-	-
Effect of translation of foreign currency operations to group presentation	60,894	-
Balance at the end of the year	60,894	-

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.

Notes to the Consolidated Financial Statements

NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange prices. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future cash flow forecasts.

Risk management is carried out by Management and overseen by the Board of Directors with assistance from suitably qualified external advisors.

The main risks arising for the Group are foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The carrying values of the Group's financial instruments are as follows:

	2016 \$	2015 \$
Financial Assets		
Cash and cash equivalents	3,046,054	1
Trade and other receivables	701,826	800
	<u>3,747,880</u>	<u>801</u>
Financial Liabilities		
Trade and other payables	525,828	11,572
	<u>525,828</u>	<u>11,572</u>

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the Euro and Swiss Franc.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Group's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars was as follows:

	2016		2015	
	EUR	CHF	EUR	CHF
	€	Fr.	€	Fr.
Cash and cash equivalents	154,843	868,316	-	-
Trade and other receivables	326,652	-	-	-
Trade and other payables	121,386	296,707	-	-

Notes to the Consolidated Financial Statements

NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT.)

(ii) Interest rate risk

The Group is exposed to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest bearing financial instruments. The Group's exposure to this risk relates primarily to the Group's cash and any cash on deposit. The Group does not use derivatives to mitigate these exposures. The Group manages its exposure to interest rate risk by holding certain amounts of cash in fixed and floating interest rate facilities. At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	2016		2015	
	Weighted average interest rate ⁽ⁱ⁾	Balance \$	Weighted average interest rate	Balance \$
Cash and cash equivalents	0.61%	3,046,054	-	1

(i) This interest rate represents the average interest rate for the period.

Sensitivity

Within the analysis, consideration is given to potential renewals of existing positions and the mix of fixed and variable interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. The 1% increase and 1% decrease in rates is based on reasonably expected possible changes over a financial year, using the observed range of historical rates for the preceding five-year period.

At 31 December 2016, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax losses and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post-tax profit higher/(lower)		Other comprehensive higher/(lower)	
	2016 \$	2015 \$	2016 \$	2015 \$
+ 1.0% (100 basis points)	21,322	-	-	-
- 1.0% (100 basis points)	(21,322)	-	-	-

(b) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and other financial assets. The Group's exposure to credit risk arises from potential default of the counterparty, with maximum exposure equal to the carrying amount of the financial assets.

The Group's policy is to trade only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms will be subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group except for cash and cash equivalents and other financial assets held in reputable major banks in Switzerland and Slovakia.

Notes to the Consolidated Financial Statements

NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT.)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Group does not have any external borrowings. The following are the contractual maturities of financial liabilities:

	6 months	6-12 months	1-5 years	> 5 years	Total
	\$	\$	\$	\$	\$
2016					
Trade and other payables	525,828	-	-	-	525,828
2015					
Trade and other payables	11,572	-	-	-	11,572

(d) Capital risk management

The Group's objectives when managing capital are to:

- Safeguard their ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- Maintain an optimal capital structure to reduce the cost of capital.

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

Given the stage of the Company's development there are no formal targets set for return on capital. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements. The net equity of the Company is equivalent to capital. Net capital is obtained through capital raisings on the Australian Securities Exchange ("ASX").

(e) Fair values

The management assessed that the carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values largely due to the short-term maturities of these instruments. The carrying amounts are determined in accordance with accounting policies disclosed in Note 1.

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – a valuation technique using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. prices), or indirectly (i.e. derived from prices); or
- Level 3 – a valuation technique using inputs that are not based on observable market data (unobservable inputs).

As at 31 December 2016 and 31 December 2015, the Group did not have financial liabilities measured and recognised at fair value. Due to their short-term nature, the carrying amount of the current receivables and payables is assumed to approximate their fair value.

The Group does not have any level 2 or 3 assets or liabilities.

Notes to the Consolidated Financial Statements

NOTE 17 RELATED PARTY DISCLOSURE

(a) Key Management Personnel Compensation

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

	2016 \$	2015 \$
Short-term benefits	265,981	11,048
Post-employment benefits	7,290	524
Share-based payments	1,511,254	-
	<u>1,784,525</u>	<u>11,572</u>

Information regarding individual Directors 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.

NOTE 18 SHARE-BASED PAYMENTS

(a) Recognised share-based payment transactions

	2016 \$	2015 \$
Options issued to Director ⁽ⁱ⁾	18,135	-
Options issued for consideration of services ⁽ⁱⁱ⁾	321,220	-
Performance rights issued	1,755,801	-
Performance shares issued as consideration for acquisition (Note 19)	200,000	-
	<u>2,295,156</u>	<u>-</u>
<i>Reconciliation:</i>		
<i>Recognised as share based payment expenses in statement of profit and loss and other comprehensive income</i>	1,783,447	-
<i>Recognised as shares issue cost in equity</i>	311,709	-
<i>Recognised as investment of subsidiary</i>	200,000	-
	<u>2,295,156</u>	<u>-</u>

(i) Options issued to Director

The Company issued Mr Simon Buckingham 250,000 unlisted options prior to the Company's admission to the official list of the ASX as part of his remuneration package. The fair value of these shares was treated as a share-based payment expense in the statement of profit or loss and other comprehensive income. The fair value per option was calculated using the Black-Scholes Option Pricing Model. The total value of the options issued was \$18,135.

(ii) Options issued for consideration of services

In connection with the IPO, Everblu Capital Pty Ltd were issued 2,500,000 unlisted options at an exercise price of A\$0.20 per share, expiring on the three-year anniversary of completion. Everblu Capital Pty Ltd acted as the lead manager for the October 2016 IPO. The share-based payment expense of \$311,709 has been recognised as a share issue cost in the statement of changes in equity.

Notes to the Consolidated Financial Statements

NOTE 18 SHARE-BASED PAYMENTS (CONT.)

(b) Summary of options granted during the year

Options	Issue Date	Date of Expiry	Exercise Price	Balance at the start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year
Consultant	27-06-16	27-06-20	\$0.40	-	400,000	-	-	400,000
Broker	13-10-16	13-10-19	\$0.20	-	2,500,000	-	-	2,500,000
Consultant	13-10-16	13-10-20	\$0.20	-	2,886,250	-	-	2,886,250
Director	14-10-16	14-10-18	\$0.40	-	250,000	-	-	250,000
Consultant	06-12-16	27-06-20	\$0.40	-	200,000	-	-	200,000
				-	6,236,250	-	-	6,236,250
Weighted average exercise price			\$0.23					

The options issued to consultants, Simon Buckingham and Everblu Capital Pty Ltd have been valued using the Black-Scholes model. The model and assumptions are shown in the table below:

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%	5%	100%	100%
Black-Scholes Valuation	\$0.115	\$0.125	\$0.139	\$0.073	\$0.138
Total Fair Value of Options	\$46,144	\$311,709	\$20,032	\$18,135	\$27,644

(c) Summary of performance rights granted during the year

During the year, the Company issued performance rights to various nominees. These performance rights will convert upon satisfaction of the vesting conditions for each tranche.

In relation to the performance rights in Tranche 1 and Tranche 2, the fair value at grant date is determined using a Monte Carlo model with the following factors relevant:

	Tranche 1	Tranche 2
Share Price at Grant Date	\$0.20	\$0.20
Exercise Price	N/A	N/A
Volatility (up to date of issue)	100%	100%
Grant Date	20-10-16	20-10-16
Vesting Date	Immediately	Immediately
Risk-free Rate	1.50%	1.50%
Number of Rights Granted	5,000,000	5,000,000
Value per Right	\$0.163	\$0.164
Total Fair Value of Rights	\$814,900	\$821,850

In relation to the Tranche 3 and Tranche 4 performance rights, 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 (\$0.20).

Notes to the Consolidated Financial Statements

NOTE 18 SHARE-BASED PAYMENTS (CONT.)

	Tranche 3	Tranche 4
Share Price at Grant Date	\$0.20	\$0.20
Exercise Price	N/A	N/A
Volatility (up to date of issue)	N/A	N/A
Grant Date	20-10-16	20-10-16
Vesting Date	20-10-19	20-10-20
Risk-free Rate	N/A	N/A
Number of Rights Granted	5,200,000	5,200,000
Value per Right	\$0.20	\$0.20
Total Fair Value of Rights	\$1,040,000	\$1,040,000

NOTE 19 BUSINESS COMBINATIONS

(a) Summary of acquisition

On 20 October 2016, the Company acquired 100% of the share capital of Hemp-Industries s.r.o. ("Hemp-Industries" or "HI"), a company based in Slovakia.

Hemp-Industries owns an existing hemp growing operation and has been operating for three years in Slovakia. HI has also outsourced CBD extraction and CBD product sales activities. They also currently sell its CBDium products to the European market and seek to expand into other markets where CBD products have been legalised.

(b) Purchase consideration and net assets acquired

Details of the purchase consideration and the net assets acquired are as follows:

	\$
Cash paid ⁽ⁱ⁾	47,066
Shares issued ⁽ⁱⁱ⁾	200,000
Contingent consideration – Performance Shares ⁽ⁱⁱⁱ⁾	200,000
	447,066

(i) Cash payment of EUR30,000 converted to AUD47,066 on date of payment.

(ii) 1,000,000 shares issued at \$0.20 per share.

(iii) 1,000,000 performance shares issued at \$0.20 per share. The performance shares issued to the shareholders of Hemp-Industries will convert upon satisfaction of Hemp Industries generating gross revenue in excess of \$1,000,000 in aggregate over any rolling 12 month period within three years from Settlement (20 October 2016). The performance shares issued are straight forward non-market 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 (listing price \$0.20).

The total fair value of the share-based payment is \$200,000.

Notes to the Consolidated Financial Statements

NOTE 19 BUSINESS COMBINATIONS (CONT.)

Details of the acquisition are as follows:

	Fair Value
	\$
Cash	73,221
Trade and other receivables	321,561
Other receivables	88,445
Intangible assets	344,705
Property, plant and equipment	13,296
Total assets	841,228
Trade and other payables	(13,161)
Provisions	(14,291)
Other current liabilities	(154,757)
Tax liabilities	(293)
Borrowings	(211,660)
Total liabilities	(394,162)
Net identifiable assets of Hemp-Industries acquired	447,066
(c) Purchase consideration - cash inflow/(outflow)	\$
Cash acquired	73,221
Less: Cash consideration	(47,066)
Inflow of cash – investing activities	26,155

The acquired business contributed revenues of \$8,022 and loss after tax of \$102,540 to the consolidated entity for the period from 21 October 2016 to 31 December 2016. If the acquisition occurred on 1 January 2016, the full year contributions would have been revenues of \$308,880 and loss after tax of \$29,253. The values identified in relation to the acquisition of HI are final as at 31 December 2016.

Notes to the Consolidated Financial Statements

NOTE 20 COMMITMENTS

There are no commitments as at 31 December 2016 (2015: nil).

NOTE 21 CONTINGENCIES

There are no contingent assets or contingent liabilities as at 31 December 2016 (2015: nil).

NOTE 22 AUDITOR'S REMUNERATION

	2016
	\$
Amounts received or due and receivable by RSM Australia Partners for:	
Audit and review of the annual and half-year financial report	<u>30,000</u>
Other services - RSM Australia Corporate Finance Pty Ltd for: – Independent Accountant's Report	<u>15,950</u>
	<u>45,950</u>

NOTE 23 INVESTMENT IN CONTROLLED ENTITIES

	Principal Activities	Country of Incorporation	Ownership interest	
			2016	2015
			%	%
Hemp-Industries s.r.o. ⁽ⁱ⁾	Hemp growing operations	Slovakia	100	-
Creso Pharma Switzerland GmbH ⁽ⁱⁱ⁾	Development of therapeutic products	Switzerland	100	-

(i) Acquired on 20 October 2016 (refer to Note 19).

(ii) Incorporated in April 2016.

Notes to the Consolidated Financial Statements**NOTE 24 PARENT ENTITY**

	2016	2015
	\$	\$
Assets		
Current assets	2,230,550	801
Non-current assets	1,117,036	-
Total assets	<u>3,347,586</u>	<u>801</u>
Liabilities		
Current liabilities	107,735	11,572
Total liabilities	<u>107,735</u>	<u>11,572</u>
Equity		
Contributed equity	5,479,612	801
Reserves	2,295,156	-
Accumulated losses	(4,534,917)	(11,572)
Total equity	<u>3,239,851</u>	<u>(10,771)</u>
Loss for the year	(4,523,345)	(11,572)
Other comprehensive income	-	-
Total comprehensive loss	<u>(4,523,345)</u>	<u>(11,572)</u>

Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Other Commitments and Contingencies

The Parent has no commitments to acquire property, plant and equipment, and has no contingent liabilities.

NOTE 25 EVENTS AFTER THE REPORTING DATE

On 24 January 2017, the Company issued 300,000 unlisted options exercisable at \$0.50 on or before 23 January 2021.

There has not 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:

- a) The financial statements and accompanying notes are in accordance with the Corporations Act 2001, including:
 - i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the year ended on that date.
- b) The financial statements and notes comply with International Financial Reporting Standards.
- c) 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 Directors have been given the declarations required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



BOAZ WACHTEL
Executive Chairman

28 February 2017

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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 2016, 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 2016 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.

THE POWER OF BEING UNDERSTOOD
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RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

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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.

Key Audit Matter	How our audit addressed this matter
<p>Acquisition of Subsidiary Refer to Note 19 in the financial statements</p>	
<p>During the year, the Group acquired 100% interest of Hemp-Industries s.r.o. (Hemp-Industries) for the purchase consideration of \$447,066.</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 the fair value of acquired assets and liabilities. The accounting for the acquisition is significant to our audit as Hemp-Industries is a material component to the Group.</p>	<p>Our audit procedures in relation to the acquisition of Hemp-Industries included:</p> <ul style="list-style-type: none"> • Reviewing the sale and purchase agreement to understand key terms and conditions; • Evaluating the assumptions and methodology in management's determination of the fair value assets and liabilities acquired; • Reviewing the component auditor's working papers on Hemp-Industries' statement of financial position at the acquisition date as part of the fair value determination; • Assessing management's determination of the fair value of consideration paid; and • Assessing the appropriateness of the Group's disclosures in respect of the acquisition.

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 2016, 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.

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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/Pronouncements/Australian-Auditing-Standards/Auditors-Responsibilities.aspx>. 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 2016.

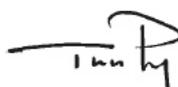
In our opinion, the Remuneration Report of Creso Pharma Limited, for the year ended 31 December 2016, complies with section 300A of the Corporations Act 2001.

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: 28 February 2017

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Corporate Governance Statement

The Company's Corporate Governance Statement can be found at the following URL:

<http://www.cresopharma.com/profile/corporate-governance/>

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Additional information required by the Australian Securities Exchange and not shown elsewhere in this Annual Report is as follows. The information is current as of 24 February 2017.

TWENTY LARGEST SHAREHOLDERS

		Number Held	Percentage
1	SUBURBAN HOLDINGS PTY LTD <SUBURBAN SUPER FUND A/C>	4,000,000	6.93%
2	PHEAKES PTY LTD <SENATE A/C>	3,375,000	5.85%
3	WHP MANAGEMENT CONSULTING GMBH	3,000,000	5.20%
4	GOLDEN DAWN LIMITED	2,650,000	4.59%
5	INTERNATIONAL WATER ENERGY SAVERS LTD	2,300,000	3.98%
6	MR TEIK TATT OH	2,000,000	3.46%
7	ANGLO AUSTRALASIA HOLDINGS PTY LTD <ANGLO AUSTRALASIA A/C>	1,750,000	3.03%
8	STOCK ASSIST GROUP PTY LTD	1,323,783	2.29%
9	MR VOLODYMYR YATSYNA	1,264,480	2.19%
10	SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	1,250,000	2.17%
11	SUBURBAN HOLDINGS PTY LIMITED <SUBURBAN SUPER FUND A/C>	1,250,000	2.17%
12	R A H (STC) PTY LIMITED <MEH RETIREMENT FUND A/C>	1,000,000	1.73%
13	J P MORGAN NOMINEES AUSTRALIA LIMITED	921,083	1.60%
14	MR PHILLIP FREDERICK CUTTING	700,000	1.21%
15	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	632,561	1.10%
16	A & J TANNOUS NOMINEES PTY LTD <ASSAD TANNOUS A/C>	525,000	0.91%
17	MICHAL MASEK	500,000	0.87%
18	ROSS SMITH <MOHAKA CAPITAL A/C>	500,000	0.87%
19	CHIFLEY INVESTOR GROUP PTY LTD	500,000	0.87%
20	ROMAN STRECHAJ	500,000	0.87%
Total: Top 20 holders of ORDINARY FULLY PAID SHARES		34,071,628	59.02%

LARGEST LISTED OPTIONHOLDERS

		Number Held	Percentage
1.	BIOLINGUS IP GMBH	2,886,250	44.16%
2.	AUSTRALIAN SHARE NOMINEES PTY LTD <AUSTRALASIAN HOLDINGS A/C>	2,250,000	34.42%
3.	GBTPHARMA LTD	300,000	4.59%
4.	MR SIMON BUCKINGHAM	250,000	3.82%
5.	JP SECURITY HOLDING PTY LTD <JP A/C>	250,000	3.82%
6.	PROF FELIX GUTZWILLER	200,000	3.06%
7.	SARA RAQUEL PEYRAUBE BARQUI	200,000	3.06%
8.	MR ISAAC KOBRIN	200,000	3.06%
Total: Top holders of UNLISTED OPTIONS		6,536,250	100.00%

DISTRIBUTION OF EQUITY SECURITIES

(i) **Ordinary share capital**

- 57,725,001 fully paid shares held by 1,245 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

DISTRIBUTION OF EQUITY SECURITIES (CONTINUED)

The number of shareholders, by size of holding, is:

Range	Total holders	Units	% of Issued Capital
1 - 1,000	66	5,960	0.01%
1,001 - 5,000	479	1,488,744	2.58%
5,001 - 10,000	247	2,047,409	3.55%
10,001 - 100,000	377	12,755,975	22.10%
100,001 - 9,999,999,999	76	41,426,916	71.77%
Total	1,245	57,725,001	100.00%

(ii) Unlisted Options

- 250,000 unquoted options with an exercise price of \$0.40 and an expiry date of 14 October 2018.
- 600,000 unquoted options with an exercise price of \$0.40 and an expiry of 27 June 2020.
- 2,886,250 unquoted options with an exercise price of \$0.20 and an expiry of 13 October 2020.
- 2,500,000 unquoted options with an exercise price of \$0.20 and an expiry of 13 October 2019.
- 300,000 unquoted options with an exercise price of \$0.50 and an expiry of 23 January 2021.

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Holding Balance	% of Issued Capital
SUBURBAN HOLDINGS PTY LTD <SUBURBAN SUPER FUND A/C>	4,000,000	6.93%
PHEAKES PTY LTD <SENATE A/C>	3,375,000	5.85%
WHP MANAGEMENT CONSULTING GMBH	3,000,000	5.20%

ON-MARKET BUY-BACK

There is no current on-market buy-back.

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.

TAX STATUS

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

FRANKING CREDITS

The Company has no franking credits.