ASX APPENDIX 4E

CRESO PHARMA LIMITED

ABN: 89 609 406 911

RESULTS FOR ANNOUNCEMENT TO THE MARKET
FOR THE YEAR ENDED 31 DECEMBER 2017

(Previous corresponding period is the year ended 31 December 2016)

KEY INFORMATION	31-Dec-17 $	31-Dec-16 $	% Change
Revenue from ordinary activities	**243,798**	**8,022**	2939%
Loss from ordinary activities after tax attributable to members	**(15,076,076)**	**(4,584,239)**	(229%)
Net loss attributable to members	**(15,076,076)**	**(4,584,239)**	(229%)

DIVIDEND INFORMATION

No dividend has been proposed or declared.

NET TANGIBLE ASSETS PER SECURITY	31-Dec-17	31-Dec-16
Net tangible assets per security	0.19	0.07

EARNINGS PER SHARE	31-Dec-17 Cents	31-Dec-16 Cents
Basic earnings per share	(18.13)	(0.14)
Diluted earnings per share	(18.13)	(0.14)

CONTROL GAINED OR LOST OVER ENTITIES IN THE PERIOD

There have been no gains or losses of control over entities in the year ended 31 December 2017.

CRESO PHARMA LIMITED

ACN 609 406 911

Annual Report for the Year Ended 31 December 2017

Annual Report
For the year ended 31 December 2017

Contents

Corporate Directory

Board of Directors

Mr Boaz Wachtel	(Non-Executive Chairman)
Dr Miriam Halperin Wernli	(Chief Executive Officer & Managing Director)
Mr Adam Blumenthal	(Non-Executive Director)
Mr James Ellingford	(Non-Executive Director)
Mr Simon Buckingham	(Non-Executive Director) (resigned 5 May 2017)

Secretary

Ms Sarah Smith

Registered Office

C/- Mirador Corporate Pty Ltd
Suite 2, Level 1
1 Altona Street
West Perth WA 6005

Telephone: 08 6559 1792
Website: www.cresopharma.com

Stock Exchange Listing

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

Auditors

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

Solicitors

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

Bankers

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

Share Registry

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

Telephone: 1300 288 664

Chairman's Report

Dear Shareholder,

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

Creso is spearheading the introduction of pharma expertise to the medical cannabis industry.

The Group's Co-Founder and Chief Executive Officer, Dr. Miri Halperin Wernli, brings a wealth of knowledge and experience from her previous career in Swiss big pharma to our Company. Her former company, Actelion Pharmaceuticals Ltd. - where she managed the clinical research division - was sold in 2017 to global pharmaceutical and consumer goods giant, Johnson & Johnson for $US30 billion (A$38.2 million).

Under the leadership of Dr. Halperin Wernli, with the support of employees, professional consultants and an experienced Board with significant experience in financing and developing medical cannabis (MC), Creso is poised for considerable growth and rapid global expansion.

The global MC industry is growing extremely strongly. Sales and market cap valuations of the leading global listed MC companies are in double digits. The medicinal herb's perception among patients, doctors and governments is changing rapidly due to data from multiple countries supporting the medical, social and economic benefits. While more and more countries are establishing national MC agencies to manage all aspects in the value chain, many governments still prefer to import MC rather than grow it locally.

The global medical marijuana market is projected to grow at a CAGR of 17.1% to US$55.8 billion (A$70.9 billion) by 2025 from 2015's level of US$11.4 billion (A$14.5 billion)[1].

Meanwhile, the international cannabis market is projected to hit $US31.4 billion (A$39.9 billion) by 2021, according to cannabis market research firm, the Brightfield Group. Currently, the global market is estimated to be worth $US7.7 billion (A$9.8 billion) and will see a compound annual growth rate of 60 percent as other countries liberalise their marijuana laws[2].

Creso has a four-pronged strategy to gain greater global presence and market share:

1. Develop, register (initially in Switzerland) and bring in early revenues with cannabinoid (CBD)-based nutraceuticals developed to pharma grade standards for animal and human health. Our significant expertise was required to overcome regulatory barriers and to secure first-rate commercial partners to provide market access in multiple countries. During Q12018, Creso's nutraceutical products will start generating initial revenues.

2. Secure a position/ownership in MC growing and processing assets, such as Mernova Medicinal Inc. in Canada, which we recently acquired, and our proposed acquisition of Kunna S.A.S in Colombia (currently under due diligence). Our goal here is to secure MC production to GMP standards in countries under the legal MC framework as part of our vision to vertically integrate production and supply. The upside of this strategy lies in our opportunity not only to obtain a market share in the growing MC segment in Canada, but to be able to serve the recreational market, which is many times larger than the MC market, once recreational cannabis is legalised in that country in mid 2018.

3. In line with the above strategy, Creso is aiming to build low-cost MC production capacity to GMP standards in Colombia to export to Mernova in Canada. This is designed to assist the Group in meeting the projected unmet demand by local Canadian MC producers anticipated post the legalisation of recreational cannabis in mid 2018 and build a competitive export capacity to countries that prefer to import MC. There are many advantages to growing cannabis in Colombia. In addition to its equatorial location and ideal microclimates, it is one of the most economically advantageous countries in the world to produce large volumes of high-quality, low-cost cannabis. The proposed Kunna acquisition will not only give Creso a foothold in the strategically important Latin American market but also means Creso is the only Australian-listed medicinal cannabis company with direct exposure to the Colombian market.

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[1] https://www.grandviewresearch.com/press-release/global-medical-marijuana-market; https://www.grandviewresearch.com/industry-analysis/medical-marijuana-market
[2] https://www.forbes.com/sites/monazhang/2017/11/07/global-marijuana-market-31-billion-investors-cautious/

4. In parallel, Creso is moving rapidly to develop cannabis-derived edible and drink products with CBD, terpenes and eventually, tetrahydrocannabinol (once regulated) with key, high-quality global marketing partners. This strategy augments the Group's ability to remain ahead of the competition and secure an early market position with multiple products in major markets.

Creso is unlocking the broad potential of cannabis in a number of areas:

- **Therapeutic:** The MC industry is still in its infancy and is dominated by small players with a minimal understanding of compliance requirements, emerging regulations and the complexities of bringing a therapeutic product to market.

- **Animal Health:** CBD from the hemp plant is just as effective in animals as in humans as they have the same endocannabinoid system regulating key body physiological functions. There exists a significant need for support to help manage animal stress, anxiety and chronic pain. Creso's anibidiol® range of animal health products are specifically designed to address these needs.

- **Nutraceuticals:** The global nutraceuticals industry now exceeds US$200 billion (A$254.27 billion) in sales and continues to grow at a significant pace. Products such as cannaQIX® demonstrate that, with the right knowledge, cannabis can be used to great consumer benefit in this sector.

- **Skin Care:** Creso is developing topically applied products with cannabinoids to leverage the endocannabinoid system to improve skin health and appearance without the use of harsh chemicals.

- **Lifestyle:** From the nutritional benefits of hemp seeds to a world of new and unique flavouring systems possible due to the use of cannabis terpenes, a whole world of enhanced food and beverage products from beer to chocolates is possible.

This strong and comprehensive commercial strategy means that Creso is in a very strong position to achieve further worldwide growth and commericalisation success with its unique products in 2018.

I would like to thank our Chief Executive Officer and fellow Co-Founder, Dr. Miri Halperin Wernli, my fellow Board members and the executive management team for their hard work and dedication over the financial year. 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 vision and commercial strategy.

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

Yours sincerely,

B. Wachtel.

Boaz Wachtel
Chairman

CEO's Report

I am very pleased to report on Creso's progress for the 2017 financial year, a period in which the Company achieved a number of significant milestones, both in terms of the development and commercialisation of our human and animal health CBD nutraceutical products and our medicinal cannabis expansion worldwide.

Over the past twelve months, we have made significant progress in terms of our go-to-market strategy. Not only have we launched our first animal health product in market – anibidiol® – but have set the stage for the commercial launch of our innovative cannaQIX®10 and 50 human health products, with a number of key agreements secured for product launches in 2018.

This progress has been achieved at a time when Creso has expanded its global presence.

We have entered Canada – the world's largest medicinal cannabis market – through the acquisition of Mernova Medicinal Inc., and the Latin American market through the planned acquisition of Kunna.

The Mernova acquisition delivers on Creso's strategy of establishing a Canadian presence and the pursuit of opportunities in the medicinal cannabis space, with added exposure to the huge recreational cannabis market once this is legalised, with legalisation expected in July 2018. The acquisition means that Creso is the only Australian cannabis company with direct exposure to the world's largest legal medical cannabis market in Canada.

The Kunna acquisition gives our Company a foothold in the strategically important Latin American market, which now includes Argentina, Colombia, Chile, Mexico and Uruguay. Creso is the only Australian-listed medicinal cannabis company with direct exposure to the Colombian market, which is expected to be exporting more than 40.5 tonnes of medicinal cannabis oil by 2019[3].

At the same time, the Company has also successfully diversified its product base into new lifestyle cannabis- derived products with plans and agreements to develop a portfolio range of unique cannabis and hemp- derived alcoholic and non-alcoholic beverages as well as the creation of an exciting range of unique, terpene-infused premium Swiss chocolates.

Animal health products

In November, Creso and Virbac (Switzerland) Limited launched Creso's animal health product, anibidiol®, in Switzerland.

anibidiol® is Creso's natural complementary feed product for companion animals containing a standardised amount of hemp extract with cannabidiol (CBD), the non-psychoactive substance of the hemp plant. It promotes the wellbeing of the animal by supporting its immunity and natural defence system and also supports the balanced behaviour of the pet. The CBD contained in anibidiol® does not cause GI and dependency side effects and has a very good safety and tolerability profile.

The product launch followed Creso registering hemp extract on the European Feeds Material Register in early 2017.

The product is the first Swiss Agroscope-conformed complementary feed for companion animals that contains natural hemp extract with CBD and is THC-free. Agroscope is a sub-department in the Swiss Federal Department of Economic Affairs, Education and Research (RAER) responsible for safe feed in Switzerland and trade from Switzerland.

Human health products

Commercialisation agreement for launch of cannaQIX®10 in Switzerland

In December, Creso secured an exclusive commercialisation agreement with Swiss pharma company, Doetsch Grether, for the marketing and distribution of cannaQIX®10 in Switzerland and Liechtenstein, setting the cornerstone for Creso's global commercialisation of the product.

[3] Source: El Tiempo newspaper, Bogota, November 2017

cannaQIX® is the first standardised nutraceutical containing organic hemp extract with CBD, vitamins and zinc, aiming to reduce stress and to support mental and nervous functions in humans.

The agreement covers the exclusive marketing and distribution of cannaQIX®10 in Switzerland for 10 years, targeting the biggest pharmacy and drug store chains in Switzerland and Lichtenstein, giving Creso access to more than 2,300 outlets.

Doetsch Grether is one of the Top 15 Pharma/OTC & Consumer Care companies in Switzerland. It is a medium-sized, family-owned company with traditional values specialised in the marketing and distribution of products in the pharma, OTC and consumer care market in Switzerland and has been operating since 1899.

cannaQIX® is compliant with the Swiss Federal Food Law 2017 and produced in Switzerland in a GMP facility by Creso's partner, Swiss-based food and pharma development company, Domaco, Dr. med Aufdermaur AG (Domaco) to the highest Swiss quality and with a "Swiss Made" label.

The introduction of cannaQIX® into the Swiss market is the gateway for further global launches. Creso Pharma is currently in the process of finalising access and distribution agreements in a number of key countries in Europe, as well as Latin America. Switzerland will be used as an international regulatory, quality and market reference country.

Agreement for import and distribution of cannaQIX®50 in Australia.

In November, Creso cemented its position in the Australian market, securing a deal with its Australian distribution partner, Health House International (Health House), for the import of cannaQIX®50, in CY 2018.

cannaQIX®50 is Creso's proprietary buccally formulated cannabidiol (CBD) lozenge product which is designed to support the management of chronic pain in humans.

Under the move, Health House will import the product under local medicinal cannabis regulations.

Once the product is imported, Health House International will distribute the product to pharmacies in all Australian states and territories. The lozenges will be available through the Therapeutic Goods Administration's (TGA) Special Access Scheme (SAS).

Other products

LOI with LGC Capital Ltd and Baltic Beer Company to create a JV company to develop a range of cannabis-derived beverages

In November 2017, Creso signed a binding Letter of Intent with Canadian diversified business group, LGC Capital Ltd and UK brewing company, Baltic Beer Company Ltd, to form a joint venture (JV) company to develop and market a portfolio of cannabis and hemp-derived alcoholic and non-alcoholic beverages.

It is expected that the first test batches of the cannabis terpene beers will reach selected markets in May 2018, with commercial sales expected to be ready for shipments from Q3 2018.

The JV companies have already identified potential distribution partners in Europe, far East Asia, Central and Latin America, Canada and Africa. Partners have also been identified in Australia and New Zealand following the recent legalisation of hemp seed-based food and drink products in those countries.

Further research and development will identify other opportunities within the legal framework of the target markets. The JV partners plan to expand their portfolio into other alcoholic and non-alcoholic beverages with further announcements being made in due course.

Successful import of first medicinal cannabis products into Australia

In May 2017, Creso's Australian partner, Health House successfully imported its first medicinal cannabis products into Australia.

The import was of a range of three cannabis oils for human health from Canadian medical cannabis group, CanniMed. The oils will be used for a variety of conditions as approved by prescribing physicians under Australian Federal and State laws and regulations.

Health House is distributing the CanniMed® products across Australia in authorised pharmacies in compliance with Federal and State legislation.

The successful import followed Health House International being granted a Federal import licence in February 2017 as part of the Australian Federal Government's move to authorise the importation of medicinal cannabis from international sources to boost domestic supply until there is sufficient local production available for Australian patients.

Global expansion initiatives

Acquisition of Mernova Medicinal Inc.

In July 2017, Creso Pharma successfully delivered on its strategy of establishing a Canadian presence and pursuing opportunities in the medicinal and soon-to-be legalised recreational cannabis space with the acquisition of emerging Nova Scotia-based medicinal cannabis producer, Mernova Medicinal Inc. (Mernova).

As a result of the deal, Creso gains direct exposure to the world's largest legal medical and recreational cannabis market and is able to vertically integrate its supply and production.

Mernova has applied for a medical cannabis cultivation licence under Health Canada's Access to Cannabis for Medical Purposes Regulation (ACMPR) program and has finalised the land acquisition and deed transfer for the 9.75 acre strategic parcel of land that is highly suited for development of a medical cannabis growing facility.

In late September 2017, Creso Pharma completed due diligence on Mernova. Construction of a 20,000 square foot production facility on the Mernova site also commenced in Q3 as planned. Creso Pharma also intends to build a state-of-the-art extraction facility that is fully GMP compliant at the Mernova site, which is an important strategical step for Mernova to ensure that it is fully able to capitalise on the Canadian market opportunity.

Construction of the production facility is progressing well, with site works such as the formation of roads and driveways and land excavation now complete. Site services have also been installed including water, sewer, drainage and power.

Completion of the facility is targeted to coincide closely with the July 2018 legalisation of recreational cannabis in Canada post granting of the appropriate licenses.

Entry into Latin American market with Kunna acquisition

Also, during the year Creso became the only Australian-listed medicinal cannabis company with direct exposure to the Colombian market through the proposed acquisition of Kunna Canada Ltd., and its wholly-owned Colombian subsidiary, medicinal cannabis group, Kunna S.A.S.

The move gives Creso a foothold in the strategically important Latin American market.

Kunna has a licence to produce, manufacture, market and export cannabis derivatives and products using extracts in Colombia and is in the process of applying for a licence to cultivate medicinal cannabis. It expects this licence to be granted in the second quarter of 2018.

The granting of the cultivation licence to Kunna will give Creso a significant competitive advantage as it will be one of the few companies globally, and the only medicinal cannabis company listed on the ASX, with the capacity to commercially cultivate medicinal-grade cannabis in Colombia.

It will also enable Creso to produce a full range of cannabis products and to develop a complete vertical offering of standardised, medicinal-grade therapeutic products for the Colombian and broader Latin American market.

Entry into the Chinese market

In November 2017, Creso gained a strategic foothold in China with a Strategic Partnership agreement with Zhejiang Kingdom Creative Co., Ltd (Kingdom Creative).

The Chinese health food market – which includes vitamins, dietary supplements and minerals, animal and herbal extracts and traditional Chinese medicine – is currently valued at RMB200 billion (US$31 billion; A$39 billion) and is projected to grow by 10 per cent every year between now and 2025[4].

The two companies will collaborate on research and development as well as the distribution of hemp and CBD products.

Creso is also in advanced discussions with other Asian pharmaceutical, nutraceutical, and cosmetic groups.
This will open up the path to bring Creso's products and IP to Asia in a fast, effective and efficient manner so the Company can reach a massive population of consumers and patients.

Financial results

The financial result for the year ended 31 December 2017 is a net loss after tax of $15,076,076 (2016: $4,584,239). The net loss after tax figure includes a non-cash cost of $8.598 million for the share-based payment expenses associated with options, performance rights and shares issued during the year (refer to Note 19). As at 31 December 2017, the Group had a net cash balance of $12,424,913 (2016: $3,046,054) and net assets of $21,028,634 (2016: $3,239,851).

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 FY2018.

The success achieved during the year in terms of the commercialisation preparations for both human and animal CBD nutraceutical products makes us very confident of further success in the 2018 financial year. We expect to achieve further significant progress over the months ahead, in terms of new product developments, product launches and further 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 medicinal cannabis and our efforts to produce safe and standardised, cannabis- and hemp-derived nutraceutical, therapeutic and lifestyle 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 their continued support and invite you to read the full Annual Report.

Dr. Miriam Halperin Wernli Group CEO and Co-Founder

[4] The Boston Consulting Group, *From Insight to Action: Capturing a Share of China's Consumer Health Market*, February 2014, accessed 7 February 2017.

Directors' Report

The Directors of Creso Pharma Limited ("Creso" or "the Company") present their report, together with the financial statements of the consolidated entity consisting of Creso Pharma Limited and its controlled entities (the "Group") for the financial year ended 31 December 2017.

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 | Non-Executive Chairman *(member of the Audit Committee)*
(Appointed 20 November 2015)

Mr Wachtel is a certified clinical research manager and holds an MA in Management and Marketing from the University of Maryland. He was Co-Founder and former Managing Director of MMJ Phytotech Ltd., Australia's first publicly traded medical cannabis company and also Co-Founder of the International Medical Cannabis Patient Coalition (IMCPC). He is an Israeli medical cannabis pioneer/activist, who formulated and assisted the Israeli 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 NGOs on medical cannabis program formulation, growing operations, international laws and UN drug convention compliance. Mr Wachtel is also the founder and former Chairman of the Green Leaf Party, an Israeli political party for cannabis legalisation/medicalisation, human rights and ecology.

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

Company	Appointed	Resigned
Roots Sustainable Agricultural Technologies Limited	December 2017	Current
MMJ Phytotech Limited	November 2014	August 2015

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

Dr. Halperin Wernli is a senior pharmaceutical and biomedical executive with more than 25 years strategic and operational leadership in the biopharmaceutical industry and a deep understanding of drug and product development. She is an experienced pharmaceutical leader with skills and broad expertise in drug development, regulatory affairs, project and portfolio management, development finance and control, and corporate strategy and governance. Dr. Halperin Wernli has held worldwide senior leadership positions in product development, R&D and strategic marketing in Switzerland and the US (Merck, Sharp & Dohme, Roche and Actelion). Her extensive pharmaceutical industry and biomed research and development experience covers the full spectrum of activities from preclinical, clinical development and strategy to drug registration and launch across several therapeutic areas. Her 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 held over the last 3 years, a directorship in any other publicly listed company.

Directors' Report

Adam Blumenthal | Non-Executive Director *(member of the Remuneration and Nomination Committee)*
(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. He 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. Mr Blumenthal has successfully brought to market several medical cannabis companies spanning Israel, Canada, Switzerland and Australia. He has also been actively involved in the mining, cyber security, health care and IT sectors. Outside of his formal business activities, Mr Blumenthal has lectured at a leading Sydney University covering corporate governance, corporate social responsibility and ASX listings - both at an undergraduate and postgraduate level. He holds a Bachelor of Commerce, Master of International Relations and Master of Business Administration degrees. He is a strong supporter of Israeli innovation, has previously lived in Israel and is a member of the Israel Business Club Sydney (IBCS). Mr Blumenthal is also Chairman of EverBlu Capital Pty Ltd, the Lead Manager to the Company's capital raisings during the year.

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

Company	Appointed	Resigned
Burrabulla Corporation Limited	January 2016	Current
Roots Sustainable Agricultural Technologies Limited	December 2017	Current
MOV Corporation Limited	February 2012	December 2014

James Ellingford | Non-Executive Director *(member of the Remuneration and Nomination Committee and a member of the Audit Committee)*
(Appointed 20 November 2015)

Dr Ellingford's professional life culminated in being President of an international publicly listed billion-dollar business with headquarters in Geneva, Switzerland and New York, US. 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 postgraduate degree in Corporate Management, a Masters' degree in Business Administration and a Doctorate in Management. Dr Ellingford also lecturers 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 publicly listed entities:

Company	Appointed	Resigned
Victory Mines Limited	January 2016	Current
Hardey Resources Limited (formerly Elysium Resources Limited)	March 2017	Current
Manalto Limited	September 2017	Current
Burrabulla Corporation Limited	May 2016	August 2017
Zyber Holdings Limited	January 2014	February 2016
Capital Mining Limited	January 2013	August 2015

Directors' Report

Simon Buckingham | Non-Executive Director
(Resigned 5 May 2017)

Dr Buckingham has more than 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 nine-years. Dr Buckingham is 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, a PhD from the University of Melbourne, 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	6,800,000	-	3,100,000
Dr Miriam Halperin Wernli	8,250,000	-	4,250,000
Mr Adam Blumenthal	4,000,001	-	2,250,000
Mr James Ellingford	1,000,000	-	450,000
Mr Simon Buckingham	-	250,000	-
Total	**20,050,001**	**250,000**	**10,050,000**

Directors' Report

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 Direct held office are:

Director	Board Meetings		Audit Committee Meetings		Remuneration and Nomination Committee Meetings	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
Mr Boaz Wachtel	6	6	2	2	-	-
Dr Miriam Halperin Wernli	6	6	-	-	-	-
Mr Adam Blumenthal	6	6	-	-	2	2
Mr James Ellingford	6	6	2	2	2	2
Mr Simon Buckingham	1	1	-	-	-	-

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.

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 for human and animal health.

REVIEW AND RESULTS OF OPERATIONS

Overview

Creso Pharma is a leader in cannabidiol (CBD) innovation, developing cannabis- and hemp-derived therapeutic-grade nutraceuticals and medical cannabis products with a broad range of applications in both human and animal health. Creso Pharma's innovative CBD fully plant-based nutraceutical products are non-psychoactive, as they contain only trace amounts of THC.

Creso Pharma's strategy is to develop, register, and globally commercialise pharmaceutical-grade cannabis- and hemp-derived products and treatments, according to the highest GMP quality standards.

The highlights for the current financial year include:

- On 7 March 2017, Creso signed a binding Letter of Intent (LOI) with high-tech Swiss food and pharma development company, Domaco, Dr. med Aufdermaur AG for the development of new human and animal health cannabinoid-rich nutraceutical products.
- On 22 March 2017, Creso signed a binding LOI with Brazil-based market-access and distribution service company, Sin Solution, for the distribution, marketing and sale of Creso products in Brazil.
- On 2 May 2017, Creso's Australian distribution partner, Health House International imported its first medicinal cannabis products into Australia.
- On 11 May, Creso signed a binding LOI with medicinal cannabis producer, LeafCann Group Pty Ltd to accelerate the development and commercialisation of locally manufactured medicinal cannabis products in Australia.
- On 1 June 2017, Creso signed a binding LOI with Cannapharm AG to provide patients in the Asia Pacific and Latin America regions with access to top-quality medicinal cannabis products from Switzerland.
- On 9 November 2017, Creso and LGC Capital Ltd announced the formation of a strategic alliance intended to create a vertically integrated cannabis operation with a global footprint.
- On 14 November 2017, Creso and Virbac (Switzerland) Limited launched Creso's animal health product, anibidiol®, in Switzerland.
- On 20 November 2017, Creso entered the Chinese market with a strategic partnership agreement with Zhejiang Kingdom Creative Co., Ltd.

Directors' Report

- On 22 November 2017, Creso secured a deal with its Australian distribution partner, Health House International for the import of its cannaQIX®50 human health product, in CY 2018.
- On 28 November 2017, Creso Pharma partnered with Swiss chocolate company, Aeschbach Chocolatier, to develop premium chocolates infused with a variety of terpenes and exotic spices for global distribution.
- On 29 November 2017, Creso signed a binding LOI with Canadian diversified business group, LGC Capital Ltd (TSXC: LG) and UK brewing company, Baltic Beer Company Ltd, to form a joint venture company to develop and market a portfolio of cannabis and hemp-derived alcoholic and non-alcoholic beverages.
- On 4 December 2017, the Company secured an exclusive commercialisation agreement with Swiss pharma company, Doetsch Grether, for the marketing and distribution of Creso's cannaQIX®10 in Switzerland and Liechtenstein.

Director and Senior Management Changes

On 5 May 2017, Mr Simon Buckingham resigned as Non-Executive Director.

Mr David Russell, who is a pharmaceutical and biotech industry professional, acted as a Contractor Operating Officer for 8 months till 6 December 2017.

Financial Performance

The financial results of the Group for the year ended 31 December 2017 are:

	31-Dec-17 $	31-Dec-16 $
Cash and cash equivalents	**12,424,913**	3,046,054
Net assets	**21,028,634**	3,239,851
Revenue	**243,798**	8,022
Net loss after tax	**(15,076,076)**	(4,584,239)

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:

Placements and Share Purchase Plans

During the financial year, Creso undertook two Placements and Share Purchase Plans (SPPs) which raised a total of A$25.6 million in new share capital.

On 31 March 2017, the Company successfully completed a Placement for institutional and professional investors raising A$8.8 million. The Company issued 12,727,188 shares at an issue price of A$0.69 per share.

On 10 April 2017, the Company completed an SPP issuing 1,449,160 shares at an issue price of A$0.69. The SPP raised A$1 million for the Company.

In November 2017, the Company completed a heavily oversubscribed Placement that was expanded from A$10 million to A$15.5 million (an additional A$5.5 million) in order to accommodate high demand from institutional, sophisticated and professional investors, both domestically and internationally.

On 21 December 2017, the Company closed its Share Purchase Plan offer and issued 326,358 fully paid ordinary shares at $1.10 per share to raise $358,994. The SPP was underwritten to $2 million by Energy Capital Partners Pty Ltd who are acting as Underwriter to the offer.

Directors' Report

Acquisition of Mernova Medicinal Inc.

In July 2017, the Company successfully expanded into the Canadian market with the proposed acquisition of emerging Nova Scotia-based medicinal cannabis producer, Mernova Medicinal Inc. (Mernova) for a total of C$10.1 million (A$10.2 million) in cash and equity.

Subsequent to year-end, on 19 February 2018, Creso completed the acquisition of Mernova. On completion, the shareholders of Mernova receive a cash payment of C$200,000 and issued a total of 8,300,000 exchangeable shares in Creso Canada Limited, with such shares being exchangeable for fully paid ordinary shares in Creso on the satisfaction of milestones.

Proposed Kunna acquisition

During the year, Creso became the only Australian-listed medicinal cannabis company with direct exposure to the Colombian market through the proposed acquisition of Kunna Canada Ltd., and its wholly-owned Colombian subsidiary, medicinal cannabis group, Kunna S.A.S. The move gives Creso a foothold in the strategically important Latin American market.

The acquisition followed Creso securing a binding Letter of Intent (LOI) with Brazil-based Sin Solution for the marketing, sale and distribution of Creso products in Brazil in March 2017.

Entry into the lucrative Chinese market

In November 2017, Creso entered the Chinese market with a Strategic Partnership agreement with Zhejiang Kingdom Creative Co., Ltd (Kingdom Creative).

The agreement provides Creso with a strategic foothold in China. The two companies will collaborate on research and development as well as the distribution of hemp and CBD products.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

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.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 11 January 2018, the Company formally launched its new joint venture company with LGC Capital Ltd (TSXC: LG) and Baltic Beer Company Ltd to capitalise on the fast-growing cannabis and hemp-derived beverage markets. The joint venture company, CLV Frontier Brands Pty Ltd (CLV), intends to develop and globally commercialise a bespoke portfolio of cannabis and hemp-derived alcoholic and non-alcoholic beverages.

On 17 January 2018, the Company secured a commercialisation agreement with UK-based Precision Healthcare Ltd to market and distribute Creso Pharma's cannaQIX®10 and 50 hemp-based human health nutraceutical products in the UK.

On 12 February 2018, the Company appointed Mr Amit Edri to the new role of International Business Development Executive. Mr Edri brings extensive medicinal cannabis industry expertise to the role and was most recently COO at Israel's largest medicinal cannabis company, The Bazelet Group.

On 19 February 2018, the acquisition of Mernova Medicinal Inc. ("Mernova") was completed. The Company has undertaken completion of the acquisition through two newly incorporated Canadian subsidiaries, Creso Canada Limited and Creso Canada Corporate Limited. On completion, the shareholders of Mernova were paid a cash payment of C$200,000 (A$201, 740) and issued a total of 8,300,000 exchangeable shares in Creso Canada Limited, with such shares being exchangeable for fully paid ordinary shares in Creso on the satisfaction of milestones.

Directors' Report

Other than the above, there has been no other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The achievements made during FY2017 put Creso in a strong position in terms of the commercialisation of its human and animal CBD nutraceutical products as well as its global expansion efforts and the Company expects to achieve further key milestones in FY2018.

The Company expects further market launches of its anibidiol® animal health product, following the initial Swiss launch in FY2017, as well as the commercial launch of its cannaQIX®10 and 50 human health products.

Creso also expects to achieve further significant progress in terms of new product developments and launches and further commercialisation agreements.

ENVIRONMENTAL REGULATION

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

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

Directors' Report

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 31 December 2017 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

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

Mr Boaz Wachtel	Non-Executive Chairman
Dr Miriam Halperin Wernli	Managing Director and Chief Executive Officer
Mr Adam Blumenthal	Non-Executive Director
Mr James Ellingford	Non-Executive Director
Mr Simon Buckingham	Non-Executive Director (resigned 5 May 2017)

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

Mr Christopher Grundy	Head of Finance (appointed 21 November 2017)
Mr David Russell	Contractor Chief Operating Officer (resigned 6 December 2017)

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

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

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

A Remuneration Governance, Structure and Approvals

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

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

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

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

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

Directors' Report

❖ **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 executives.

The main objectives sought when reviewing executive remuneration is that the Company has:

- Coherent remuneration policies and practices to attract and retain Executives;
- Executives who will create value for shareholders;
- Competitive remuneration offered benchmarked against the external market; and
- Fair and responsible rewards to Executives having regard to the performance of the Group, the performance of the Executives and the general pay environment.

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

❖ **Executive Remuneration Approvals**

The Company aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and aligned with market practice. Executive contracts are reviewed annually by the Remuneration Committee, for its 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.

B Remuneration Philosophy

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

The Group's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

No remuneration consultants were employed during the financial year.

Directors' Report

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 2017 and 31 December 2016.

	31-Dec-17	31-Dec-16
Revenue ($)	**243,798**	8,022
Net loss after tax ($)	**(15,076,076)**	(4,584,239)
EPS ($)	**(0.18)**	(0.14)
Share price	**0.92**	0.24

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

The pay and reward framework for key management personnel may consist of the following areas:
a) Fixed Remuneration – base salary
b) Variable Short-Term Incentives
c) Variable Long-Term Incentives

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.

c) Variable Remuneration – Long Term Incentives (LTI)

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

The Options 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.

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

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

Directors' Report

The objective of the Plan is to attract, motivate and retain KMPs and it is considered by the Group that the Plan and the future issue of Performance Rights under the Plan will provide selected participants with the opportunity to participate in the future growth of the Group. The Plan will enable the Group to make grants to Eligible Participants so that long-term incentives form a key component of their total annual remuneration.

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

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

Under the Plan, eligible Participants will be granted Performance Rights. Vesting of any of these Performance Rights will be subject to the achievement of various KPIs which can be varied each year and aligned to the individual's performance.

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

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

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

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

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 2017 is set out below:

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

(i) An amount of $120,000 has been paid/is payable to International Water and Energy Savers Ltd relating to Boaz Wachtel's Directors Fees.
(ii) An amount of $331,227 has been paid/is payable to WHP Management Consulting GmbH relating to Miriam Halperin Wernli Directors Fees.
(iii) During the year, one-off bonus payments were paid to Directors for the work completed around the Mernova acquisition.
(iv) Share-based payments are the options and performance rights expensed over the vesting period (refer to Note 19 for further details).
(v) Simon Buckingham resigned as Director on 5 May 2017.
(vi) Christopher Grundy was appointed as Head of Finance on 21 November 2017.
(vii) David Russell resigned as Chief Operating Officer on 6 December 2017.

Directors' Report

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 19 for further details).

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

Table 2 – Relative proportion of fixed vs variable remuneration expense

Name	Fixed Remuneration		At Risk – STI (%)		At Risk – LTI (%)	
	2017	2016	2017	2016	2017	2016
Directors						
Boaz Wachtel	**14%**	8%	**3%**	3%	**83%**	89%
Miriam Halperin Wernli	**32%**	12%	**16%**	3%	**52%**	85%
Adam Blumenthal	**16%**	10%	**6%**	6%	**78%**	78%
James Ellingford	**38%**	26%	**6%**	-	**56%**	74%
Simon Buckingham	**100%**	48%	**-**	-		52%
Senior Executives						
Christopher Grundy	**100%**	-	**-**	-	**-**	-
David Russell	**100%**	-	**-**	-	**-**	-

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

31 December 2017	Balance at 01/01/2017	Granted as Remuneration	On Exercise of Options	Net Change – Other	Balance at 31/12/2017
Directors					
Boaz Wachtel	2,300,000	-	-	4,500,000[i]	6,800,000
Miriam Halperin Wernli	3,000,000	-	-	5,250,000[i]	8,250,000
Adam Blumenthal	1,750,001	-	-	2,250,000[i]	4,000,001
James Ellingford	250,000	-	-	750,000[i]	1,000,000
Simon Buckingham	-	-	-	-[ii]	-
Senior Executives					
Christopher Grundy	-	-	-	9,090[iii]	9,090
David Russell	-	-	-	-	-
Total	**7,300,001**	**-**	**-**	**12,759,090**	**20,059,091**

(i) Shares issued to Directors on vesting of Performance Rights. The shares are subject to escrow until 20 October 2018.

(ii) 200,000 shares issued to Simon Buckingham on vesting of Performance Rights. Mr Buckingham resigned as Director on 5 May 2017.

(iii) Shares purchased under the Share Purchase Plan.

Directors' Report

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

31 December 2017	Balance at 01/01/2017	Granted as Remuneration	Net Change - Other	Balance at 31/12/2017	Vested & Exercisable
Directors					
Boaz Wachtel	-	-	-	-	-
Miriam Halperin Wernli	-	-	-	-	-
Adam Blumenthal	-	-	-	-	-
James Ellingford	-	-	-	-	-
Simon Buckingham	250,000	-	(250,000) (i)	-	-
Senior Executives					
Christopher Grundy	-	-	-	-	-
David Russell	-	550,000	(550,000) (ii)	-	-
Total	**250,000**	**550,000**	**(800,000)**	**-**	**-**

(i) Mr Buckingham resigned as Director on 5 May 2017.
(ii) Mr Russell resigned on 6 December 2017.

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

31 December 2017	Balance at 01/01/2017	Granted as Remuneration	Vested (i)	Lapsed	Balance at 31/12/2017
Directors					
Boaz Wachtel	6,000,000	1,600,000	(4,500,000)	-	3,100,000
Miriam Halperin Wernli	7,000,000	2,500,000	(5,250,000)	-	4,250,000
Adam Blumenthal	3,000,000	1,500,000	(2,250,000)	-	2,250,000
James Ellingford	1,000,000	200,000	(750,000)	-	450,000
Simon Buckingham	400,000	-	(200,000)	(200,000)	-
Senior Executives					
Christopher Grundy	-	-	-	-	-
David Russell	-	-	-	-	-
Total	**17,400,000**	**5,800,000**	**(12,950,000)**	**(200,000)**	**10,050,000**

(i) Shares issued to Directors on vesting of Performance Rights. The shares are subject to escrow until 20 October 2018.

E Service Agreements

❖ **Mr Boaz Wachtel – Non-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 by the Board each year.

❖ **Miriam Halperin Wernli – Managing Director**
- Contract: Commenced on 18 October 2016.
- Director's Fee: US$20,833 per month. From 1 November 2017, the Managing Director's base salary increased to US$22,833 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 by 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). From 1 November 2017, Mr Blumenthal's base salary increased to $6,000 per month.
- Remuneration Committee Fee: $20,000 per annum.
- Term: No fixed term.

Directors' Report

- **James Ellingford – Non-Executive Director**
  - Contract: Commenced on 20 November 2015.
  - Director's Fee: $4,000 per month (plus superannuation entitlements).
  - Audit Committee Fee: $6,000 per annum.
  - Remuneration Committee Fee: $20,000 per annum.
  - Term: No fixed term.

- **Christopher Grundy – Head of Finance**
  - Contract: Commenced on 21 November 2017.
  - Part-time Base Salary: $180,000 per annum (plus superannuation entitlements).
  - Term: No fixed term.
  - Notice Period: a period of 4 weeks during the first 6 months of the Term and 12 weeks after completion of the first 6 months of the Term.

- **Simon Buckingham – Non-Executive Director** (resigned 5 May 2017)
  - Contract: Commenced on 24 May 2016.
  - Director's Fee: $4,000 per month (plus superannuation entitlements).

- **David Russell – Chief Operating Officer** (resigned 6 December 2017)
  - Contract: Commenced on 1 April 2017.
  - Salary: $165,000 per annum ($13,750 per month).

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 550,000 options to David Russell. The terms and conditions of each option are as follows:

Class	Number of Options Granted	Issue Date	Expiry Date	Exercise Price	Value per Option
Class 6A	125,000	1 April 2017	27 July 2021	$0.30	$0.63
Class 6B	125,000	1 April 2017	27 July 2021	$0.30	$0.63
Class 7	100,000	1 April 2017	27 July 2019	$1.20	$0.32
Class 8	100,000	1 April 2017	27 July 2020	$1.60	$0.37
Class 9	100,000	1 April 2017	27 July 2020	$2.00	$0.40

Mr Russell resigned during the year and as a result, all options noted above have lapsed.

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	100%
Tranche 2	20 October 2016	20 October 2018	20 October 2016 – 20 October 2018	$0.164	100%
Tranche 3	20 October 2016	20 October 2019	20 October 2016 – 20 October 2019	$0.20	100%
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.

Directors' Report

Tranche	Grant Date	Vesting date	Performance period	Value per Performance Right at Grant Date	Vested
Tranche 1	27 July 2017	27 July 2018	27 July 2017 – 27 July 2018	$0.570	-
Tranche 2	27 July 2017	27 July 2018	27 July 2017 – 27 July 2018	$0.570	-
Tranche 3	27 July 2017	27 July 2022	27 July 2017 – 27 July 2022	$0.570	-
Tranche 4	27 July 2017	27 July 2022	27 July 2017 – 27 July 2022	$0.570	-
Tranche 5	27 July 2017	27 July 2022	27 July 2017 – 27 July 2022	$0.570	-
Tranche 6	27 July 2017	27 July 2019	27 July 2017 – 27 July 2019	$0.570	-
Tranche 7	27 July 2017	27 July 2018	27 July 2017 – 27 July 2018	$0.570	-
Tranche 8	27 July 2017	27 July 2019	27 July 2017 – 27 July 2019	$0.570	-

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 19 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
Boaz Wachtel						
Tranche 1	20 October 2016	20 October 2017	1,500,000	$244,470	1,500,000	100%
Tranche 2	20 October 2016	20 October 2018	1,500,000	$246,555	1,500,000	100%
Tranche 3	20 October 2016	20 October 2019	1,500,000	$300,000	1,500,000	100%
Tranche 4	20 October 2016	20 October 2020	1,500,000	$300,000	-	-
Tranche 1	27 July 2017	27 July 2018	800,000	$456,000	-	-
Tranche 2	27 July 2017	27 July 2018	800,000	$456,000	-	-
Miriam Halperin Werni						
Tranche 1	20 October 2016	20 October 2017	1,750,000	$285,215	1,750,000	100%
Tranche 2	20 October 2016	20 October 2018	1,750,000	$287,648	1,750,000	100%
Tranche 3	20 October 2016	20 October 2019	1,750,000	$350,000	1,750,000	100%
Tranche 4	20 October 2016	20 October 2020	1,750,000	$350,000	-	-
Tranche 3	27 July 2017	27 July 2022	1,250,000	$712,500	-	-
Tranche 4	27 July 2017	27 July 2022	1,250,000	$712,500	-	-
Adam Blumenthal						
Tranche 1	20 October 2016	20 October 2017	750,000	$122,235	750,000	100%
Tranche 2	20 October 2016	20 October 2018	750,000	$123,278	750,000	100%
Tranche 3	20 October 2016	20 October 2019	750,000	$150,000	750,000	100%
Tranche 4	20 October 2016	20 October 2020	750,000	$150,000	-	-
Tranche 5	27 July 2017	27 July 2022	750,000	$427,500	-	-
Tranche 6	27 July 2017	27 July 2019	750,000	$427,500	-	-
James Ellingford						
Tranche 1	20 October 2016	20 October 2017	250,000	$40,745	250,000	100%
Tranche 2	20 October 2016	20 October 2018	250,000	$41,093	250,000	100%
Tranche 3	20 October 2016	20 October 2019	250,000	$50,000	250,000	100%
Tranche 4	20 October 2016	20 October 2020	250,000	$50,000	-	-
Tranche 7	27 July 2017	27 July 2018	100,000	$57,000	-	-
Tranche 8	27 July 2017	27 July 2019	100,000	$57,000	-	-
Simon Buckingham						
Tranche 3	20 October 2016	20 October 2019	200,000	$40,000	200,000	100%
Tranche 4 [(i)]	20 October 2016	20 October 2020	200,000	$40,000	-	-

(i) Mr Buckingham resigned during the year and as a result, his Tranche 4 performance rights lapsed.

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

G Equity Instruments Issued on Exercise of Remuneration Options

No remuneration options were exercised during the financial year.

H Loans with KMP

There were no loans made to any KMP during the year ended 31 December 2017.

There were no loans from any KMP during the year ended 31 December 2017.

Directors' Report

I Other Transactions with KMP

During the year, the Group incurred corporate advisory fees, capital raising fees and rent expenses, payable to Everblu Capital Pty Ltd ("Everblu") (a company of which Adam Blumenthal is the Chairman). The total paid to Everblu during the year was $1,613,071. There was no outstanding balance at reporting date. All transactions were made on normal commercial terms and conditions and at market rates.

Other than the above, there were no other transactions with KMP during the year ended 31 December 2017.

J Additional Information

The earnings of the consolidated entity for the five years to 31 December 2017 are summarised below:

	2017 $	2016 $	2015 $
Sales Revenue	**243,798**	8,022	-
EBITDA	**(15,069,438)**	(4,207,963)	(11,572)
Loss after income tax	**(15,076,076)**	(4,584,239)	(11,572)
Share Price	**0.92**	0.24	-
Basic EPS ($)	**(0.18)**	(0.14)	(0.0128)
Diluted EPS ($)	**(0.18)**	(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

Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
27-06-2016	27-06-2020	$0.40	400,000
13-10-2016	13-10-2019	$0.20	2,500,000
13-10-2016	13-10-2020	$0.20	2,886,250
14-10-2016	14-10-2018	$0.40	250,000
06-12-2016	27-06-2020	$0.40	200,000
23-01-2017	23-01-2021	$0.50	300,000
25-01-2017	27-07-2019	$0.30	250,000
01-02-2017	27-07-2021	$0.40	210,000
27-07-2017	27-07-2020	$0.60	100,000
10-10-2017	13-04-2019	$0.80	250,000
			7,346,250

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

Shares issued on the exercise of options

The following ordinary shares of Creso Pharma Limited were issued during the year ended 31 December 2017 and up to the date of this report on the exercise of options granted:

Date Options Granted	Exercise price	Number of shares issued
10-10-2017	$0.80	250,000

Shares under Performance rights

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

Grant date	Expiry date	Exercise price	Number under performance right
20-10-2016	20-10-2020	Nil	5,000,000
27-07-2017	27-07-2022	Nil	750,000
27-07-2017	27-01-2019	Nil	750,000
27-07-2017	27-07-2018	Nil	100,000
27-07-2017	27-07-2019	Nil	100,000
27-07-2017	27-07-2022	Nil	2,500,000
27-07-2017	27-07-2018	Nil	1,600,000
27-07-2017	27-07-2018	Nil	350,000
27-07-2017	27-01-2019	Nil	6,000,000
27-07-2017	27-01-2019	Nil	100,000
27-07-2017	27-07-2020	Nil	100,000
			17,350,000

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

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the year ended 31 December 2017, 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.

Directors' Report

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

AUDITOR

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

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

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

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 31 December 2017 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.

B. Wachtel

Boaz Wachtel
NON-EXECUTIVE CHAIRMAN
27 February 2018

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 8 9261 9100
F +61 8 9261 9111

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

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

RSM AUSTRALIA PARTNERS

Perth, WA
Dated: 27 February 2018

TUTU PHONG
Partner

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 31 December 2017

	Note	2017 $	2016 $
Revenue from continuing operations			
Revenue from sale of products	4	**243,798**	8,022
Cost of sales		**(437,697)**	(32,828)
Gross loss		**(193,900)**	(24,806)
Other income			
Interest income	4	**98,453**	6,498
Expenses			
Administrative expenses	5(a)	**(1,224,943)**	(463,727)
Compliance and regulatory expenses		**(277,517)**	(114,925)
Consultancy and legal expenses	5(b)	**(5,120,654)**	(724,207)
Depreciation and amortisation expense		**(6,638)**	(1,318)
Employee benefit expenses	5(c)	**(1,174,438)**	(294,457)
Finance costs		**-**	(36,751)
Impairment of intangible assets		**-**	(344,705)
Impairment of receivables	9, 12	**(1,074,105)**	-
Marketing and investor relations		**(1,826,482)**	(238,225)
Occupancy expenses		**(109,216)**	(8,944)
Share-based payment expense	19	**(3,221,355)**	(1,783,447)
Research and development expense		**(788,623)**	(488,978)
Other expenses		**(100,633)**	(39,539)
Foreign exchange losses		**(56,025)**	(26,708)
Loss from continuing operations before income tax		**(15,076,076)**	(4,584,239)
Income tax expense	6	**-**	-
Loss from continuing operations after income tax		**(15,076,076)**	(4,584,239)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(15,403)**	60,894
Other comprehensive income for the year, net of tax		**(15,403)**	60,894
Total comprehensive loss attributable to the members of Creso Pharma Limited		**(15,091,480)**	(4,523,345)
Loss per share for the year attributable to the members of Creso Pharma Limited:			
Basic loss per share (cents)	7	**(18.13)**	(14.42)
Diluted loss per share (cents)	7	**(18.13)**	(14.42)

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 2017

	Note	2017 $	2016 $
ASSETS			
Current assets			
Cash and cash equivalents	8	**12,424,913**	3,046,054
Trade and other receivables	9	**941,337**	701,826
Inventories	10	**912**	2,519
Other assets	12	**1,228,351**	-
Total current assets		**14,595,513**	3,750,399
Non-current assets			
Plant and equipment	11	**50,996**	17,474
Other assets	12	**6,949,395**	-
Total non-current assets		**7,000,391**	17,474
Total assets		**21,595,904**	3,767,873
LIABILITIES			
Current liabilities			
Trade and other payables	13	**563,748**	525,828
Provisions	14	**3,522**	2,194
Total current liabilities		**567,270**	528,022
Total liabilities		**567,270**	528,022
Net assets		**21,028,634**	3,239,851
EQUITY			
Contributed equity	15	**35,138,519**	5,479,612
Reserves	16	**5,562,002**	2,356,050
Accumulated losses		**(19,671,887)**	(4,595,811)
Total equity		**21,028,634**	3,239,851

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 2017

Group	Issued Capital $	Share-based Payment Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
At 1 January 2017	**5,479,612**	**2,295,156**	**60,894**	**(4,595,811)**	**3,239,851**
Loss for the year	**-**	**-**	**-**	**(15,076,076)**	**(15,076,076)**
Other comprehensive income	**-**	**-**	**(15,403)**	**-**	**(15,403)**
Total comprehensive loss for the year after tax	**-**	**-**	**(15,403)**	**(15,076,076)**	**(15,091,479)**
Transactions with owners in their capacity as owners:					
Issue of share capital	**32,237,924**	**-**	**-**	**-**	**32,237,924**
Share issue costs	**(2,579,017)**	**-**	**-**	**-**	**(2,579,017)**
Share-based payments	**-**	**3,221,355**	**-**	**-**	**3,221,355**
At 31 December 2017	**35,138,519**	**5,516,511**	**45,491**	**(19,671,887)**	**21,028,634**
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

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 2017

	Note	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers		**92,721**	8,022
Payments to suppliers and employees		**(6,545,345)**	(2,325,346)
Payments for research expense		**(1,183,076)**	(216,384)
Interest received		**98,466**	5,333
Interest paid and other finance costs		**(899)**	(36,751)
Net cash used in operating activities	8(a)	**(7,538,133)**	(2,565,126)
Cash flows from investing activities			
Payments for plant and equipment		**(40,888)**	(5,496)
Cash acquired from business acquisition		**-**	26,155
Loans to other entities		**(6,006,676)**	-
Net cash from investing activities		**(6,047,564)**	20,659
Cash flows from financing activities			
Proceeds from issue of shares		**24,412,412**	6,005,500
Proceeds from exercise of options		**200,000**	-
Payment of share issue costs		**(1,647,856)**	(414,980)
Net cash from financing activities		**22,964,556**	5,590,520
Net increase in cash and cash equivalents		**9,378,859**	3,046,053
Cash and cash equivalents at the beginning of the year		**3,046,054**	1
Cash and cash equivalents at the end of the year	8	**12,424,913**	3,046,054

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 2017 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 27 February 2018.

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 2017 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 2017. 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.	Annual reporting periods commencing on or after 1 January 2018.	The Group does not hold complex financial instruments. The classification of its financial instruments will not change under the new accounting standard. Therefore, management does not expect the adoption of this accounting standard will have a material impact on the Group's financial performance.
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 *Revenue.*	Annual reporting periods commencing on or after 1 January 2018.	The consolidated entity will adopt this standard from 1 January 2018. The impact of this adoption is currently in the process of being assessed by the Group, however the impact has yet to be quantified.
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) 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 2017 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.

Provision for impairment of amounts owing from Hemp M&S OG

The provision for impairment of these amounts requires a significant degree of estimation and judgement. The level of provision is assessed by taking into account the ageing of amounts owed, historical collection rates and specific knowledge of the entity's financial position.

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 – located in Slovakia.
- Creso Pharma Switzerland GmbH ("Switzerland") which includes the development and commercialisation of its therapeutic products – located in Switzerland.
- Creso Pharma Limited ("Creso") which includes the Group's corporate administration – located in Australia.

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.

Year ended 31 December 2017	**Australia $**	**Slovakia $**	**Switzerland $**	**Total $**
Revenue from operations	**-**	**152,301**	**91,497**	**243,798**
Other revenue	**80,651**	**17,802**	**-**	**98,453**
Total segment revenue	**80,651**	**170,103**	**91,497**	**342,251**
Loss before income tax expense	**(13,166,717)**	**(150,627)**	**(1,758,732)**	**(15,076,076)**
Total Segment assets	**20,273,865**	**49,924**	**1,272,114**	**21,595,903**
Total Segment liabilities	**428,649**	**114,972**	**23,649**	**567,270**

Year ended 31 December 2016	**Australia $**	**Slovakia $**	**Switzerland $**	**Total $**
Revenue from operations	-	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

NOTE 4 REVENUE AND OTHER INCOME

	2017 $	2016 $
Revenue from continuing operations		
Revenue from services	**152,189**	538
Revenue from sale of products	**91,609**	7,484
	243,798	8,022
Other income		
Interest received	**98,453**	6,498

Notes to the Consolidated Financial Statements

	2017 $	2016 $
NOTE 5 EXPENSES		
(a) Administrative expenses		
Accounting and company secretarial fees	**302,324**	151,600
Travel costs	**740,290**	210,642
General and administration expenses	**182,329**	101,485
	1,224,943	463,727
(b) Consultancy and legal expenses		
Consulting fees	**785,323**	269,814
Corporate advisory and business development	**4,000,947**	-
Legal fees	**334,384**	454,393
	5,120,654	724,207
(c) Employee benefit expenses		
Director fees	**587,060**	264,341
Director bonuses	**231,918**	-
Wages and salaries	**235,262**	22,738
Superannuation	**27,278**	7,378
Other employee expenses	**92,920**	-
	1,174,438	294,457

NOTE 6 INCOME TAX

	2017 $	2016 $
(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	**(15,076,076)**	(4,584,239)
Prima facie tax benefit on loss before income tax at 27.5% (2016: 28.5%)	**(4,145,921)**	(1,306,508)
Tax effect of:		
Tax effect on different tax rate of overseas subsidiaries	**413,852**	200,455
Share-based payments	**1,750,347**	508,282
Travel expenses	**138,107**	49,774
Legal expenses	**11,265**	122,739
Others	**433,968**	52,871
Temporary differences	**(154,349)**	-
Tax losses not recognised	**1,552,731**	372,387
Total	-	-
(c) Deferred tax assets not brought to account are:		
Carried forward losses	**1,691,228**	303,642

The benefit for tax losses will only be obtained if:

- The Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; and
- The losses are transferred to an eligible entity in the Group; and
- The Group continues to comply with the conditions for deductibility imposed by tax legislation; and
- No changes in tax legislation adversely affect the consolidated in realising the benefit from the deduction for the losses.

Notes to the Consolidated Financial Statements

NOTE 7 LOSS PER SHARE

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

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

	2017 **$**	2016 $
Net loss for the year	**(15,076,076)**	(4,584,239)
Weighted average number of ordinary shares for basic and diluted loss per share.	**83,143,209**	31,790,206

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)	**(18.13)**	(14.42)

NOTE 8 CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**10,424,913**	1,046,054
Short-term deposits	**2,000,000**	2,000,000
	12,424,913	3,046,054

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 17.

	2017 **$**	2016 $
(a) Reconciliation of net loss after tax to net cash flows from operations		
Loss for the financial year	**(15,076,076)**	(4,584,239)
Adjustments for:		
Depreciation and amortisation	**6,638**	1,318
Impairment of asset		344,705
(Loss)/Gain on foreign exchange	**(22,882)**	60,894
Share based payments	**3,221,355**	1,783,447
Impairment of receivables	**1,074,105**	-
Fees settled in shares	**5,387,598**	-
Employee benefits expense	**69,332**	-
Other expense	**78,249**	-
Changes in assets and liabilities		
Receivables	**(2,487,862)**	(293,165)
Inventories	**1,608**	(2,519)
Trade and other payables	**207,608**	136,531
Provisions	**2,194**	(12,098)
Net cash used in operating activities	**(7,538,133)**	(2,565,126)

Notes to the Consolidated Financial Statements

NOTE 8 CASH AND CASH EQUIVALENTS (CONT'D)

Non-cash investing and financing activities	**2017** **$**	2016 $
Issue of shares for acquisition of subsidiary	**-**	200,000

NOTE 9 TRADE AND OTHER RECEIVABLES

Trade debtors – Hemp M&S OG	**495,379**	326,652
Less: Provision for doubtful debts (i)	**(495,379)**	-
GST receivable	**186,579**	104,169
Other deposits, prepayments and receivables	**754,758**	271,005
	941,337	701,826

(i) The Group recognises an allowance for doubtful debts based on estimated irrecoverable amounts based upon the financial situation of each debtor. The Group provide full provision of impairment of all trade receivables in relation to Hemp M&S OG.

Movements in the provision for impairment of receivables are as follows:

Opening balance	**-**	-
Additional provision recognised	**495,379**	-
Closing balance	**495,379**	-

NOTE 10 INVENTORIES

Inventory – Finished goods	**912**	2,519
	912	2,519

NOTE 11 PLANT AND EQUIPMENT

Year ended 31 December		
Opening net book amount	**17,474**	-
Additions	**40,888**	18,792
Depreciation charge	**(6,638)**	(1,318)
Foreign exchange translation	**(728)**	-
Closing net book amount	**50,996**	17,474
At 31 December		
Cost	**59,680**	18,792
Accumulated depreciation	**(8,684)**	(1,318)
Net book amount	**50,996**	17,474

Notes to the Consolidated Financial Statements

NOTE 12 OTHER ASSETS

	2017 $	2016 $
Current		
Shares issued pending cash received	**1,228,351**	-
	1,228,351	-
Non-Current		
Loan to Viru JV (i)	**30,850**	-
Loan to Mernova Medicinal Inc. (ii)	**5,898,545**	-
Prepayment - Facilitation Fee (iii)	**1,020,000**	-
Loan to Hemp M&S OG	**578,726**	-
Less: Impairment of loan - Hemp M&S OG (iv)	**(578,726)**	-
	6,949,395	-

i. In November 2017, Creso, LGC Capital Ltd (Canada), and Baltic Beer Company Ltd (UK), signed a Binding Letter of Intent to form a joint venture to develop and market a bespoke portfolio of cannabis and hemp-derived alcoholic and non-alcoholic beverages. In December 2017, Creso provided a loan of €20,000 to the joint venture for the establishment of operations. In January 2018, the joint venture was incorporated in Australia as CLV Frontier Brands Pty Limited.
ii. During the year, Creso loaned CAD$5,779,395 to Mernova Medicinal Inc for the construction of Creso's Canadian medicinal cannabis production facility in Nova Scotia.
iii. A facilitation fee was paid to a consultant as part of the Mernova Acquisition ("Acquisition"). The fee is equal to 10% of the total deal value in relation to the Acquisition. The fee comprised of the issue of 2,094,154 fully paid ordinary shares at $0.487 per share with a total value of $1,020,000.
iv. The Group has raised a provision to fully impair all loans to and amounts on trading account with Hemp M&S OG based upon the financial situation of that company as at 31 December 2017.

Movements in the provision for impairment of other receivables are as follows:

	2017 $	2016 $
Opening balance	**-**	-
Additional provision recognised	**578,726**	-
Closing balance	**578,726**	-

NOTE 13 TRADE AND OTHER PAYABLES

	2017 $	2016 $
Trade payables (i)	**282,271**	61,900
Accrued expenses	**104,975**	46,938
Other payables	**176,502**	416,990
	563,748	525,828

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

NOTE 14 PROVISIONS

	2017 $	2016 $
Employee provisions	**3,522**	2,194
	3,522	2,194

NOTE 15 CONTRIBUTED EQUITY

(a) Issued and fully paid	**2017 No.**	**2017 $**	2016 No.	2016 $
Ordinary shares	**109,505,544**	**35,138,519**	57,725,001	5,479,612

Notes to the Consolidated Financial Statements

NOTE 15 CONTRIBUTED EQUITY (CONT.)

Ordinary shares entitle the holder to participate in dividends and the proposed winding up of the company in proportion to the number and amount paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. The ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(b) Movement reconciliation	**Number**	**Issue Price**	**$**
At 1 January 2017	**57,725,001**	**-**	**5,479,612**
Placement - first tranche (i)	**8,158,750**	**$0.69**	**5,629,538**
Vesting of performance rights (ii)	**15,200,000**	**-**	**-**
Placement - second tranche (i)	**4,568,438**	**$0.69**	**3,152,222**
Shares issued in lieu of cash fees for Placement	**1,250,000**	**$0.75**	**931,250**
Share Purchase Plan (iii)	**1,449,160**	**$0.69**	**999,920**
Issue of Facilitation Fee shares – Mernova (iv)	**2,094,154**	**$0.49**	**1,020,000**
Issued to consultants in lieu of cash fees for services	**1,000,000**	**$0.60**	**600,000**
Issued to consultants in lieu of cash fees for services	**250,000**	**$0.60**	**150,000**
Exercise of options	**250,000**	**$0.80**	**200,000**
Placement (v)	**14,090,909**	**$1.10**	**15,500,000**
Issued to consultants in lieu of cash fees for services	**2,110,000**	**$1.10**	**2,321,000**
Consultant shares	**1,032,774**	**$1.33**	**1,375,000**
Share purchase plan (vi)	**326,358**	**$1.10**	**358,994**
Less: Equity raising costs	**-**	-	**(2,579,017)**
At 31 December 2017	**109,505,544**		**35,138,519**
At 1 January 2016	8,000,001	$0.0001	801
Seed capital escrowed to 19/01/17	6,750,000	$0.010	67,500
Seed capital escrowed to 22/02/17	6,000,000	$0.010	60,000
Seed capital escrowed to 13/04/17	7,237,500	$0.080	579,000
Seed capital escrowed to 21/06/17	2,325,000	$0.080	186,000
Seed capital escrowed to 14/07/17	1,187,500	$0.080	95,000
Seed capital escrowed to 18/07/17	225,000	$0.080	18,000
Issued as consideration for acquisition	1,000,000	$0.200	200,000
Shares issued - capital raising	25,000,000	$0.200	5,000,000
Less: Equity raising costs	-	-	(726,689)
At 31 December 2016	57,725,001		5,479,612

(i) On 31 March 2017, the Company successfully completed a Placement to professional and sophisticated investors and issued a total of 8,158,750 fully paid ordinary shares (Tranche 1) at $0.69 per share to raise $5,629,538. On 12 April 2017, the Company issued 4,568,438 fully paid ordinary shares (Tranche 2) issued at $0.69 per share to raise $3,152,222.

(ii) On 31 March 2017, the Company issued 15,200,000 fully paid ordinary shares to Directors and consultants on vesting of Performance Rights issued under the Company's Performance Rights Plan (as per the Prospectus). The shares are subject to escrow to 20 October 2018.

(iii) On 10 April 2017, the Company closed its Share Purchase Plan offer and on 18 April 2017 issued 1,449,160 fully paid ordinary shares at $0.69 per share.

(iv) On 1 December 2017, a facilitation fee was paid to a consultant as part of the Mernova Acquisition ("Acquisition"). The fee is equal to 10% of the total deal value in relation to the Acquisition. The fee comprised of the issue of 2,094,154 fully paid ordinary shares at $0.487 per share with a total value of $1,020,000.

(v) On 1 December 2017, the Company successfully completed a Placement and issued a total of 16,200,909 fully paid ordinary shares at an issue price of $1.10 per share to raise $17,821,000.

(vi) On 21 December 2017, the Company closed its Share Purchase Plan offer and issued 326,358 fully paid ordinary shares at $1.10 per share to raise $358,994.

Notes to the Consolidated Financial Statements

NOTE 16 RESERVES	2017 $	2016 $
Share-based payments	**5,516,511**	2,295,156
Foreign currency translation reserve	**45,491**	60,894
	5,562,002	2,356,050
Movement reconciliation		
Share-based payments reserve		
Balance at the beginning of the year	**2,295,156**	-
Equity settled share-based payment transactions (Note 19)	**3,221,355**	2,295,156
Balance at the end of the year	**5,516,511**	2,295,156
Foreign currency translation reserve		
Balance at the beginning of the year	**60,894**	-
Effect of translation of foreign currency operations to group presentation	**(15,403)**	60,894
Balance at the end of the year	**45,491**	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.

NOTE 17 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:

	2017 $	2016 $
Financial Assets		
Cash and cash equivalents	**12,424,913**	3,046,054
Trade and other receivables	**941,337**	701,826
	13,366,250	3,747,880
Financial Liabilities		
Trade and other payables	**563,748**	525,828
	563,748	525,828

Notes to the Consolidated Financial Statements

NOTE 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(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:

	2017		2016	
	EUR	**CHF**	EUR	CHF
	€	**Fr.**	€	Fr.
Cash and cash equivalents	**11,472**	**1,174,936**	154,843	868,316
Trade and other receivables	**2,908**	**81,726**	326,652	-
Trade and other payables	**111,450**	**23,649**	121,386	296,707

(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:

	2017		2016	
	Weighted average interest rate (i)	**Balance $**	Weighted average interest rate	Balance $
Cash and cash equivalents	**1.07%**	**12,424,913**	0.61%	3,046,054

(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 2017, 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:

	Post-tax profit higher/(lower)		**Other comprehensive higher/(lower)**	
Judgements of reasonably possible movements:	**2017 $**	2016 $	**2017 $**	2016 $
+ 1.0% (100 basis points)	**86,974**	21,322	**-**	-
- 1.0% (100 basis points)	**(86,974)**	(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.

Notes to the Consolidated Financial Statements

NOTE 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

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.

(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
2017	**$**	**$**	**$**	**$**	**$**
Trade and other payables	**563,748**	**-**	**-**	**-**	**563,748**
2016					
Trade and other payables	525,828	-	-	-	525,828

(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:
(i) Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets and liabilities;
(ii) 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
(iii) Level 3 – a valuation technique using inputs that are not based on observable market data (unobservable inputs).

As at 31 December 2017 and 31 December 2016, 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 18 RELATED PARTY DISCLOSURE

(a) Key Management Personnel Compensation

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

	2017	2016
	$	$
Short-term benefits	**962,766**	265,981
Post-employment benefits	**18,562**	7,290
Share-based payments	**1,695,650**	1,511,254
	2,676,978	1,784,525

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

(b) Transactions with related parties

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

Everblu Capital Pty Ltd	**1,613,071**	-
	1,613,071	-

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

NOTE 19 SHARE-BASED PAYMENTS

	2017	2016
	$	$
(a) Recognised share-based payment transactions		
Options issued to a Director	**-**	18,135
Options issued for consideration of services	**139,509**	321,220
Options issued to consultants	**117,290**	-
Performance rights issued	**2,964,556**	1,755,801
Shares issued for consideration of services	**5,377,250**	-
Facilitation Fee Shares – Mernova (i)	**1,020,000**	-
Performance shares issued as consideration for acquisition (Note 20)	**-**	200,000
	9,618,605	2,295,156
Reconciliation:		
Recognised as share-based payment expenses in statement of profit and loss and other comprehensive income	**8,598,605**	1,783,447
Recognised as a prepayment	**1,020,000**	-
Recognised as shares issue cost in equity	**-**	311,709
Recognised as investment of subsidiary	**-**	200,000
	9,618,605	2,295,156

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

Notes to the Consolidated Financial Statements

NOTE 19 SHARE-BASED PAYMENTS (CONT.)

(c) 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/ Cancelled during the year	Balance at the end of the year
Consultant	27-06-2016	27-06-2020	$0.40	400,000		-	-	400,000
Broker	13-10-2016	13-10-2019	$0.20	2,500,000		-	-	2,500,000
Consultant	13-10-2016	13-10-2020	$0.20	2,886,250		-	-	2,886,250
Director	14-10-2016	14-10-2018	$0.40	250,000		-	-	250,000
Consultant	06-12-2016	27-06-2020	$0.40	200,000		-	-	200,000
Consultant	23-01-2017	23-01-2021	$0.50	-	300,000	-	-	300,000
Consultant	25-01-2017	27-07-2019	$0.30	-	250,000	-	-	250,000
Consultant	01-02-2017	27-07-2021	$0.40	-	210,000	-	-	210,000
Consultant: Class 6A	01-04-2017	27-07-2021	$0.40	-	125,000	-	(125,000)	-
Consultant: Class 6B	01-04-2017	27-07-2021	$0.30	-	125,000	-	(125,000)	-
Consultant: Class 7	01-04-2017	27-07-2019	$0.30	-	100,000	-	(100,000)	-
Consultant: Class 8	01-04-2017	27-07-2020	$1.20	-	100,000	-	(100,000)	-
Consultant: Class 9	01-04-2017	27-07-2020	$1.60	-	100,000	-	(100,000)	-
Consultants	27-07-2017	27-07-2021	$0.40	-	100,000	-	-	100,000
Consultant	10-10-2017	13-04-2019	$0.80	-	500,000	(250,000)	-	250,000
				6,236,250	1,910,000	(250,000)	(550,000)	7,346,250
Weighted average exercise price			$0.29					

The options issued to consultants have been valued using the Black-Scholes model. The model and assumptions are shown in the table below:

31 December 2016

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

Notes to the Consolidated Financial Statements

NOTE 19 SHARE-BASED PAYMENTS (CONT.)

31 December 2017

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

31 December 2017

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

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

Notes to the Consolidated Financial Statements

NOTE 19 SHARE-BASED PAYMENTS (CONT.)

(d) Summary of performance rights granted during the year

Tranche	Issue Date	Date of Expiry	Exercise Price	Balance at the start of the year	Granted during the year	Vested during the year	Cancelled during the year	Balance at the end of the year
1	20-10-2016	20-10-2017	Nil	750,000	-	(750,000)	-	-
2	20-10-2016	20-10-2018	Nil	750,000	-	(750,000)	-	-
3	20-10-2016	20-10-2019	Nil	750,000	-	(750,000)	-	-
4	20-10-2016	20-10-2020	Nil	750,000	-	-	-	750,000
5	27-07-2017	27-07-2022	Nil	-	750,000	-	-	750,000
6	27-07-2017	27-01-2019	Nil	-	750,000	-	-	750,000
3	20-10-2016	20-10-2019	Nil	200,000	-	(200,000)	-	-
4	20-10-2016	20-10-2020	Nil	200,000	-	-	(200,000)	-
1	20-10-2016	20-10-2017	Nil	250,000	-	(250,000)	-	-
2	20-10-2016	20-10-2018	Nil	250,000	-	(250,000)	-	-
3	20-10-2016	20-10-2019	Nil	250,000	-	(250,000)	-	-
4	20-10-2016	20-10-2020	Nil	250,000	-	-	-	250,000
5	27-07-2017	27-07-2018	Nil	-	100,000	-	-	100,000
6	27-07-2017	27-07-2019	Nil	-	100,000	-	-	100,000
1	20-10-2016	20-10-2017	Nil	1,750,000	-	(1,750,000)	-	-
2	20-10-2016	20-10-2018	Nil	1,750,000	-	(1,750,000)	-	-
3	20-10-2016	20-10-2019	Nil	1,750,000	-	(1,750,000)	-	-
4	20-10-2016	20-10-2020	Nil	1,750,000	-	-	-	1,750,000
3	27-07-2017	27-07-2022	Nil	-	1,250,000	-	-	1,250,000
4	27-07-2017	27-07-2022	Nil	-	1,250,000	-	-	1,250,000
1	20-10-2016	20-10-2017	Nil	1,500,000	-	(1,500,000)	-	-
2	20-10-2016	20-10-2018	Nil	1,500,000	-	(1,500,000)	-	-
3	20-10-2016	20-10-2019	Nil	1,500,000	-	(1,500,000)	-	-
4	20-10-2016	20-10-2020	Nil	1,500,000	-	-	-	1,500,000
1	27-07-2017	27-7-2018	Nil	-	800,000	-	-	800,000
2	27-07-2017	27-7-2018	Nil	-	800,000	-	-	800,000
1	20-10-2016	20-10-2017	Nil	750,000	-	(750,000)	-	-
2	20-10-2016	20-10-2018	Nil	750,000	-	(750,000)	-	-
3	20-10-2016	20-10-2019	Nil	750,000	-	(750,000)	-	-
4	20-10-2016	20-10-2020	Nil	750,000	-	-	-	750,000
9	27-07-2017	27-07-2018	Nil	-	300,000	-	-	300,000
13	27-07-2017	27-07-2018	Nil	-	50,000	-	-	50,000
10	27-7-2017	27-1-2019	Nil	-	2,000,000	-	-	2,000,000
11	27-7-2017	27-1-2019	Nil	-	2,000,000	-	-	2,000,000
12	27-7-2017	27-1-2019	Nil	-	2,000,000	-	-	2,000,000
14	27-7-2017	27-7-2019	Nil	-	100,000	-	-	100,000
15	27-7-2017	27-7-2020	Nil	-	100,000	-	-	100,000
				20,400,000	12,350,000	(15,200,000)	(200,000)	17,350,000

Notes to the Consolidated Financial Statements

NOTE 19 SHARE-BASED PAYMENTS (CONT.)

In the prior 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:

31 December 2016

	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).

31 December 2016

	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

The Company issued performance rights to Directors and consultants to the Company in the current financial year.

In relation to Tranche 1 to Tranche 15 performance rights issued in the current year, these rights are straight-forward, non-market-based performance rights, with no consideration upon achievement. Accordingly, the fair value of the performance rights is by direct reference to the share price on grant date ($0.57).

31 December 2017

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Share Price at Grant Date	$0.57	$0.57	$0.57	$0.57	$0.57
Exercise Price	N/A	N/A	N/A	N/A	N/A
Volatility (up to date of issue)	N/A	N/A	N/A	N/A	N/A
Grant Date	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Vesting Date	27-07-2018	27-07-2018	27-07-2033	27-07-2022	27-07-2022
Risk-free Rate	N/A	N/A	N/A	N/A	N/A
Number of Rights Granted	800,000	800,000	1,250,000	1,250,000	750,000
Value per Right	$0.57	$0.57	$0.57	$0.57	$0.57
Total Fair Value of Rights	$456,000	$456,000	$712,500	$712,500	$427,500

Notes to the Consolidated Financial Statements

NOTE 19 SHARE-BASED PAYMENTS (CONT.)

31 December 2017

	Tranche 6	Tranche 7	Tranche 8	Tranche 9	Tranche 10
Share Price at Grant Date	$0.57	$0.57	$0.57	$0.57	$0.57
Exercise Price	N/A	N/A	N/A	N/A	N/A
Volatility (up to date of issue)	N/A	N/A	N/A	N/A	N/A
Grant Date	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Vesting Date	27-01-2019	27-07-2018	27-07-2019	27-07-2018	27-01-2019
Risk-free Rate	N/A	N/A	N/A	N/A	N/A
Number of Rights Granted	750,000	100,000	100,000	300,000	2,000,000
Value per Right	$0.57	$0.57	$0.57	$0.57	$0.57
Total Fair Value of Rights	$427,500	$57,000	$57,000	$171,000	$1,140,000

31 December 2017

	Tranche 11	Tranche 12	Tranche 13	Tranche 14	Tranche 15
Share Price at Grant Date	$0.57	$0.57	$0.57	$0.57	$0.57
Exercise Price	N/A	N/A	N/A	N/A	N/A
Volatility (up to date of issue)	N/A	N/A	N/A	N/A	N/A
Grant Date	27-07-2017	27-07-2017	27-07-2017	27-07-2017	27-07-2017
Vesting Date	27-07-2019	27-07-2019	27-07-2018	27-07-2019	27-07-2020
Risk-free Rate	N/A	N/A	N/A	N/A	N/A
Number of Rights Granted	2,000,000	2,000,000	50,000	100,000	100,000
Value per Right	$0.57	$0.57	$0.57	$0.57	$0.57
Total Fair Value of Rights	$1,140,000	$1,140,000	$28,500	$57,000	$57,000

NOTE 20 BUSINESS COMBINATIONS

(a) Summary of acquisition

In the prior year, 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:

	2016 $
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.

Notes to the Consolidated Financial Statements

NOTE 20 BUSINESS COMBINATIONS (CONT'D)

(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.

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.

NOTE 21 COMMITMENTS

	2017 $	2016 $
Operating Lease Commitments		
Within one year	**54,625**	-
One to five years	**-**	-
More than five years	**-**	-
	54,625	-

Notes to the Consolidated Financial Statements

NOTE 21 CONTINGENCIES

There are no contingent assets or contingent liabilities as at 31 December 2017 (2016: Nil).

NOTE 22 AUDITOR'S REMUNERATION

	2017	2016
	$	$
Amounts received or due and receivable by RSM Australia Partners for:		
Audit and review of the annual and half-year financial report	48,000	30,000
Other services - RSM Australia Pty Ltd for:		
– Independent Accountant's Report	-	15,950
– Income tax return	6,500	-
– Other	1,500	-
	56,000	45,950

NOTE 23 INVESTMENT IN CONTROLLED ENTITIES

	Principal Activities	**Country of Incorporation**	**Ownership interest**	
			2017	2016
			%	%
Hemp-Industries s.r.o.	Hemp growing operations	Slovakia	**100**	100
Creso Pharma Switzerland GmbH	Development of therapeutic products	Switzerland	**100**	100

Notes to the Consolidated Financial Statements

NOTE 24 PARENT ENTITY

	2017 $	2016 $
Assets		
Current assets	**13,323,559**	2,230,550
Non-current assets	**8,133,724**	1,117,036
Total assets	**21,457,282**	3,347,586
Liabilities		
Current liabilities	**428,649**	107,735
Total liabilities	**428,649**	107,735
Equity		
Contributed equity	**35,138,519**	5,479,612
Reserves	**5,516,511**	2,295,156
Accumulated losses	**(19,626,397)**	(4,534,917)
Total equity	**21,028,634**	3,239,851
Loss for the year	**(15,655,009)**	(4,523,345)
Other comprehensive income	**-**	-
Total comprehensive loss	**(15,091,479)**	(4,523,345)

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 11 January 2018, the Company formally launched its new joint venture company with LGC Capital Ltd (TSXC: LG) and Baltic Beer Company Ltd to capitalise on the fast-growing cannabis and hemp-derived beverage markets. The joint venture company, CLV Frontier Brands Pty Ltd ("CLV"), intends to develop and globally commercialise a bespoke portfolio of cannabis and hemp-derived alcoholic and non-alcoholic beverages.

On 17 January 2018, the Company secured a commercialisation agreement with UK-based Precision Healthcare Ltd to market and distribute Creso Pharma's cannaQIX®10 and 50 hemp-based human health nutraceutical products in the UK.

On 12 February 2018, the Company appointed Mr Amit Edri to the new role of International Business Development Executive.

On 19 February 2018, the acquisition of Mernova Medicinal Inc ("Mernova") was completed. The Company has undertaken completion of the acquisition through two newly incorporated Canadian subsidiaries, Creso Canada Limited and Creso Canada Corporate Limited. On completion, the shareholders of Mernova were paid a cash payment of C$200,000 and issued a total of 8,300,000 exchangeable shares in Creso Canada Limited, with such shares being exchangeable for fully paid ordinary shares in Creso on the satisfaction of milestones.

Other than the above, there has been no other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group.

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial year ended on that date;

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

B. Wachtel.

BOAZ WACHTEL
Non-Executive Chairman

27 February 2018

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 8 9261 9100
F +61 8 9261 9111

www.rsm.com.au

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 2017, 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 2017 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.

RSM

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.

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed this matter</th></tr>
<tr><td colspan="2">Recoverability of Receivables
Refer to Note 9 and 12 in the financial statements</td></tr>
<tr><td>At the reporting date, the Group had a material receivable due from an entity amounting to $1,074,105. The Group's accounting policy is to recognise a provision for impairment when there is objective evidence that the Group will not be able to collect all amounts due.

We determined this area to be a key audit matter due to the significant judgement required to determine the amount of provision that is required to be recognised.</td><td>Our audit procedures in relation to the recoverability of this amount included:

• Discussed and reviewed the audit workpapers of the component auditor in respect of their assessment of the recoverability of this amount;

• Challenged management's assumptions regarding the level of provisioning against this amount;

• Assessed the appropriateness of the Group's disclosures in respect of the recoverability of this amount in the financial report.</td></tr>
</table>

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 2017, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Creso Pharma Limited, for the year ended 31 December 2017, 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

RSM AUSTRALIA PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 27 February 2018

Corporate Governance

The Company and the Board of Directors are committed to achieving the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders.

A description of the Group's main corporate governance practices is set out on the Company's website at:

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

ASX Additional Information

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 19 February 2018.

TWENTY LARGEST SHAREHOLDERS

		Number Held	Percentage
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,898,142	8.13%
2	WHP MANAGEMENT CONSULTING GMBH	8,250,000	7.53%
3	INTERNATIONAL WATER ENERGY SAVERS LTD	6,800,000	6.21%
4	ANGLO AUSTRALASIA HOLDINGS PTY LTD <ANGLO AUSTRALASIA A/C>	4,000,000	3.65%
5	SUBURBAN HOLDINGS PTY LIMITED <SUBURBAN SUPER FUND A/C>	2,755,184	2.52%
6	ROSS SMITH <MOHAKA CAPITAL A/C>	2,750,000	2.51%
7	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,446,161	2.23%
8	CITICORP NOMINEES PTY LIMITED	1,459,651	1.33%
9	MR TEIK TATT OH	1,321,662	1.21%
10	MR VOLODYMYR YATSYNA	1,264,480	1.15%
11	JAMES ANTHONY ELLINGFORD	1,000,000	0.91%
12	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	963,489	0.88%
13	LANDPATH PTY LTD	528,589	0.48%
14	ROMAN STRECHAJ	500,000	0.46%
15	153 FISH CAPITAL PTE LTD	500,000	0.46%
16	MICHAL MASEK	500,000	0.46%
17	MR ROGER WILLIAMS PATEK & MRS MAREE HELEN PATEK <THE R W P SUPER FUND A/C>	500,000	0.46%
18	STOCK ASSIST GROUP PTY LTD	339,500	0.31%
19	BLUE FEATHER (QLD) INVESTMENTS PTY LTD <BLUE FEATHER A/C>	300,000	0.27%
20	TAC PROFESSIONAL SERVICES PTY LTD	289,364	0.26%
Total: Top 20 holders of ORDINARY FULLY PAID SHARES		**45,366,222**	**41.43%**

LARGEST LISTED OPTIONHOLDERS

		Number Held	Percentage
1	BIOLINGUS IP GMBH	2,886,250	36.55%
2	AUSTRALIAN SHARE NOMINEES PTY LTD <AUSTRALASIAN HOLDINGS A/C>	2,250,000	28.49%
3	DAVID RUSSELL	550,000	6.97%
4	GBTPHARMA LTD	300,000	3.80%
5	MR SIMON BUCKINGHAM	250,000	3.17%
6	MAURIZIO RAINISO	250,000	3.17%
7	JP SECURITY HOLDING PTY LTD <JP A/C>	250,000	3.17%
8	UBS NOMINEES PTY LTD <UBS A/C>	250,000	3.17%
9	NORMAN NASHED	210,000	2.66%
10	SARA RAQUEL PEYRAUBE BARQUI	200,000	2.53%
11	MR ISAAC KOBRIN	200,000	2.53%
12	PROF FELIX GUTZWILLER	200,000	2.53%
13	A & J TANNOUS NOMINEES PTY LTD <ASSAD TANNOUS A/C>	100,000	1.27%
Total: Top holders of UNLISTED OPTIONS		**7,896,250**	**100.00%**

ASX Additional Information

DISTRIBUTION OF EQUITY SECURITIES

(i) Ordinary share capital

(a) 109,505,544 fully paid shares held by 9,488 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

(b) Distribution of fully paid ordinary shareholders:

Range	Total holders	Units	% of Issued Capital
1 - 1,000	2,499	1,773,267	1.62%
1,001 - 5,000	4,281	11,632,990	10.62%
5,001 - 10,000	1,377	10,981,053	10.03%
10,001 - 100,000	1,266	33,503,570	30.60%
100,001 - 9,999,999,999	60	51,614,664	47.13%
Total	**9,483**	**109,505,544**	**100.00%**

(c) The number of fully paid ordinary shareholdings held in less than marketable parcels is 863 (based on a share price of $0.86).

UNQUOTED OPTIONS

As at 19 February 2018, there are a total of 7,896,250 unquoted options on issue.

- 250,000 unquoted options with an exercise price of $0.40 and an expiry date of 20 October 2018.
- 210,000 unquoted options with an exercise price of $0.40 and an expiry date of 27 July 2017.
- 250,000 unquoted options with an exercise price of $0.30 and an expiry date of 27 July 2019.
- 100,000 unquoted options with an exercise price of $0.60 and an expiry date of 27 July 2020.
- 250,000 unquoted options with an exercise price of $0.80 and an expiry date of 13 April 2020.
- 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.
- 250,000 unquoted options with an exercise price of $0.30 and an expiry of 27 July 2021.
- 100,000 unquoted options with an exercise price of $1.20 and an expiry of 27 July 2019.
- 100,000 unquoted options with an exercise price of $1.60 and an expiry of 27 July 2020.
- 100,000 unquoted options with an exercise price of $2.00 and an expiry of 27 July 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
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,898,142	8.13%
WHP MANAGEMENT CONSULTING GMBH	8,250,000	7.53%
INTERNATIONAL WATER ENERGY SAVERS LTD	6,800,000	6.21%

ASX Additional Information

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.

GROUP CASH AND ASSETS

In accordance with Listing Rule 4.10.19, the Company confirms that it has been using the cash and assets for the year ended 31 December 2017 in a way that is consistent with its business objectives and strategy.