ABN: 89 609 406 911

CRESO PHARMA

31 August 2020

Appendix 4D and Half Year Report

Group Highlights:

- **Revenues for the half amounted to A$1,462k, compared to A$960k for H1 2019**
- **Cash balance of A$3.28m as at 30 June 2020**
- **Canadian cannabis producer - Mernova Medicinal Inc. (CPH: 100%) – continues to perform strongly with several important milestones delivered including:**
  - **A$257k (~C$230k) in sales revenue recorded for the half**
  - **Receipt of two purchase orders from Israel-based Univo Pharmaceuticals Ltd (TLV: UNVO) totalling C$1.4M**
  - **Retail Sales License received from Health Canada – facilitates entry into growing retail market as a leading 'premium product cannabis producer'**
  - **Senior management team strengthened with the appointment of ex-Canopy Growth executives Jack Yu as Managing Director and Isaac Allen as Vice President**
  - **Key proprietary processes implemented which further optimise state-of-the-art cannabis production and processing facility and improve product quality**
- **Nutraceutical product line cannaQIX® advanced its global expansion strategy – key highlights included:**
  - **Revenue for the half year of A$411k (~CHF261k)**
  - **Milestone reached of 2.5m cannaQIX® lozenges sold globally – representing over 100,000 packs sold since launch in April 2018**
  - **Pharma Dynamics successfully launched Creso's developed cannaQIX® under the brand of Cannamics in South Africa with major retail chains**
  - **Commercial agreement with DHS Business International for the distribution of CBD oral and topical products into the Brazilian retail market**
  - **Binding letter of intent with Highnoon Laboratories (PSX: HINOON) and Route2 Health to collaborate on potential distribution of products into Pakistan**
- **Animal health product line anibidiol® started the half year strongly, however this was steadied by the need to reformulate product line due to evolving European regulatory CBD changes:**
  - **Revenue for the half year of A$561k (~CHF357k)**
  - **Reached the milestone of 3m doses sold in Europe – estimated to have benefitted over 100,000 dogs (or equivalent) since its launch in 2017**
  - **Creso has been anticipating the evolving regulatory changes in Europe and as a result is well advanced in the reformulation process**

Creso Pharma Limited (ASX:CPH, FRA:1X8) ('Creso Pharma' or 'the Company') is pleased to provide its Appendix 4D and Half Year Report for the six month period ended 30 June 2020, together with the following commentary.

Management Commentary

Commenting on the half year performance Creso Pharma's Non-Executive Chairman Adam Blumenthal said: "The business enters the second half of the year in a strong position, guided by a well-defined strategy to further expand our footprint across a number of dynamic and growing markets. We are incredibly excited about our 100% owned Canadian subsidiary Mernova, as the foundations have now been set for its entry into the retail cannabis market in Canada, which will provide a hugely rewarding opportunity for Creso.

"We also have a number of promising R&D initiatives underway across both our animal health and nutraceutical divisions and we anticipate these will present new commercialisation opportunities.

"The Company recently reported strategic changes to its Board and management. These have been implemented to help us pursue a number of near-term opportunities. Our Board and management teams are excited by the opportunities ahead and I look forward to updating shareholders in due course."

Operational Summary:

<u>Update on COVID-19 business impacts</u>

Creso Pharma reacted swiftly to the onset of the COVID-19 pandemic by implementing a clear protocol to protect the health and safety of its staff and to allow the business to continue to operate at a high capacity during unprecedented times.

From an operational perspective, Creso Pharma is pleased that our cannabis production division in Nova Scotia has continued operating at pre-COVID-19 levels, despite the implementation of strict social distancing measures. This has allowed Mernova to take advantage of the increased global demand for medicinal cannabis over the past six months, and we expect this could present a tailwind for Mernova's planned entry into the retail market.

The Company's Board and management continues to monitor the COVID-19 situation on a global level and is well prepared to react to any changes or impacts felt directly by the business over the coming months.

<u>Mernova performs strongly – set for retail market expansion</u>

The Company's wholly owned subsidiary Mernova Medicinal Inc. ('Mernova') delivered several important milestones during the six-month period, which strongly position the business to quickly expand its sales footprint over the next six months.

Sales revenue for the half year from the Nova Scotia-based Mernova was A$257k (~C$230k).

Sales revenues are expected to improve over the coming months, driven largely by Mernova's retail market entry following the granting of its Sales License from Health Canada (announced in May) and a growing wholesale order pipeline supported by major industry players such as Israel-based Univo Pharmaceuticals Ltd (TLV: UNVO).

This strengthening sales partnership with Univo provides Creso Pharma with the opportunity to cement its position as a supplier into the rapidly growing Israeli cannabis market. Similar wholesale supply partnerships are also being pursued to set up direct supply lines into other key markets.

An important driver behind the solid performance of Mernova during the half year was the appointment of two experienced and well-credentialed executives to the senior leadership team. In May, Jack Yu was appointed as Managing Director and Isaac Allen was appointed Vice President. Both Jack and Isaac brought with them tremendous industry experience having been former employees of Canopy Growth Corp. (TSX:WEED, NYSE:CGC) ('Canopy'), the world's largest cannabis company by market capitalisation.

Since their appointment, Jack and Isaac have implemented a clear strategy to transform Mernova into one of the world's leading premium product, artisanal cannabis producers and this vision is taking shape very quickly.

Looking ahead, Mernova is poised to deliver several important objectives over the remainder of the year, highlighted by the commencement of retail sales, further improvements to product quality and production efficiency, and achieving further scale in its wholesale sales pipeline.

<u>Nutraceutical sales footprint expanded</u>

A key focus during the half year has been the continued expansion of the Company's nutraceutical sales footprint. This has been achieved through the entry of Creso's nutraceutical product line cannaQIX® into several new markets as outlined below:

- Pharma Dynamics successfully launched cannaQIX® under the brand of Cannamics in South Africa with major retail chains
- Commercial agreement with DHS Business International for the planned distribution of CBD oral and topical products into the Brazilian retail market
- Signed a binding letter of intent with Highnoon Laboratories (PSX: HINOON) and Route2 Health to collaborate on potential distribution of products into Pakistan

Sales revenue for the half was A$411k (~CHF261k) and the Company reached the encouraging milestone of 2.5 million cannaQIX® lozenges sold globally.

The Company anticipates that future revenue growth will be underpinned by expansion into these new markets and through the development of new hemp-based products.

<u>Realigning anibidiol® to navigate evolving regulatory changes</u>

As recently reported, changes to the regulatory classification of hemp oil in animal products in Europe, has forced the Company to reformulate its anibidiol® products with hemp oil. Importantly, the Company has been expecting these changes for some time, so the process to establish new formulations is well advanced.

Also, new hemp-derived dog biscuits have been formulated and will be launched to market in Q3 2020.

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Notwithstanding these regulatory changes, anibidiol® revenues for the half year stood at A$561k (~CHF357k).

Forward Outlook
Following the half year end, the Company announced that it had completed a strategic Board and management reshuffle which is designed to allow it to aggressively pursue several important near-term commercialisation opportunities.

The Board believes it is now well structured and well resourced to pursue these opportunities over the coming months and further updates on important corporate and operational developments will be reported in due course.

-Ends-

Authority and Contact Details
This announcement has been authorised for release by the Creso Board.

For further information, please contact:

Investor Enquiries
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About Creso Pharma
Creso Pharma Limited (ASX:CPH) brings the best of cannabis to better the lives of people and animals. It brings pharmaceutical expertise and methodological rigor to the cannabis world and strives for the highest quality in its products. It develops cannabis and hemp derived therapeutic, nutraceutical, and life style products with wide patient and consumer reach for human and animal health.

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

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

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

CRESO PHARMA

ASX APPENDIX 4D

RESULTS FOR ANNOUNCEMENT TO THE MARKET FOR THE HALF-YEAR ENDED 30 JUNE 2020

(Previous corresponding period is the half-year ended 30 June 2019)

KEY INFORMATION	30-Jun-20 $	30-Jun-19 $	% Change
Revenue from ordinary activities	**1,453,528**	924,026	57%
Loss from ordinary activities after tax attributable to members	**(17,406,878)**	(6,276,707)	(177%)
Net loss attributable to members	**(17,406,878)**	(6,126,098)	(184%)

DIVIDEND INFORMATION

No dividend has been proposed or declared.

NET TANGIBLE ASSETS PER SECURITY	30-Jun-20	30-Jun-19
Net tangible assets per security	**0.016**	0.12

LOSS PER SHARE	30-Jun-20 Cents	30-Jun-19 Cents
Basic earnings per share	**(7.97)**	(9.31)
Diluted earnings per share	**(7.97)**	(9.31)

CONTROL GAINED OR LOST OVER ENTITIES IN THE PERIOD

On 7 May 2020, Creso Pharma (Switzerland) GmbH, a wholly-owned subsidiary of Creso Pharma Limited, disposed of its 74% interest in Creso Grow Limited.

AUDIT QUALIFICATION OR REVIEW

Details of audit/review dispute or qualification (if any):
The financial statements were subject to a review by the auditors and the review report is attached as part of the Half-Year Financial Report.

OPERATIONAL AND FINANCIAL RESULTS

Refer to the Directors Report for an explanation of the operational and financial results of the Company. This report is based on, and should be read in conjunction with, the attached financial report for the half-year ended 30 June 2020 for Creso Pharma Limited, which has been reviewed by BDO Audit Pty Ltd.

CRESO PHARMA LIMITED

ACN 609 406 911

HALF-YEAR FINANCIAL REPORT FOR 30 JUNE 2020

Financial Report
For the Half-year ended 30 June 2020

Contents

These interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual financial statements for the year ended 31 December 2019 and any public announcements made by Creso Pharma Limited during the interim reporting period in accordance with the continuous disclosure requirements of ASX Listing Rules and the *Corporations Act 2001*.

Corporate Directory

Board of Directors

Mr Adam Blumenthal	(Non-Executive Chairman)
Mr Boaz Wachtel	(Non-Executive Director)
Dr Miriam Halperin Wernli	(Non-Executive Director and Head of Technology, Innovation and Distribution)
Dr James Ellingford	(Executive Director)

Secretary

Ms Erlyn Dale and Mr Winton Willesee, jointly

Registered Office

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6312 Steinhausen
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Stock Exchange Listing

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

Auditors

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

Solicitors

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

Bankers

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

Share Registry

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

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

Directors' Report

The Directors of Creso Pharma Limited ("Creso" or "the Company") present their report, together with the financial statements on the consolidated entity consisting of Creso Pharma Limited and its controlled entities (the "Group") for the half-year ended 30 June 2020.

DIRECTORS
The names of the Company's Directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Director responsibilities for the period to 14 August 2020:

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

With effect from 15 August 2020, the Company implemented the following changes to the Board:

- Mr Boaz Wachel moved from Executive Chairman to Non-Executive Director.
- Mr Adam Blumenthal moved from a Non-Executive Director to Non-Executive Chairman.
- Creso Pharma Co-founder Dr Miri Halperin Wernli transitioned from Managing Director and CEO to Non-Executive Director and Head of Technology, Innovation and Distribution.
- Dr James Ellingford moved from Non-Executive Director to Executive Director.

PRINCIPAL ACTIVITIES

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

A second principal activity of the Group is the cultivation and extraction of cannabis products for sale.

REVIEW AND RESULTS OF OPERATIONS

Overview
Creso's strategy is to develop and globally commercialise pharmaceutical-grade cannabis and hemp-derived products according to the highest GMP quality standards. Creso's innovative hemp derived nutraceutical products for human health and complementary feed products for animal health have been developed in innovative delivery technologies and are non-psychoactive containing no THC.

In addition, Creso, through its wholly-owned subsidiary Mernova Medicinal Inc ("Mernova"), cultivates and harvests cannabis plants and supplies dried cannabis plant products to Licenced Producers in Canada and for export.

Operations highlights, as announced by Creso during the current financial period, include:

Business Development

- On 21 January 2020, Creso exceeded the milestone of 3 million anibidiol doses sold in Europe since the product was launched in late 2017.
- On 28 January 2020, Creso exceeded the milestone of 2.5 million cannaQIX lozenges sold globally since the product was launched in April 2018.
- On 6 February 2020, Creso achieved of a key technological breakthrough that will be used to extend the cannaQIX human health product line.
- On 11 February 2020, Creso announced plans to launch a new hemp plant product targeted at equines and large animals in the second half of 2020.
- On 3 March 2020, Creso signed a commercial agreement with Farmagon Norway to enter the Scandinavian market with Creso products.
- On 11 March 2020, Creso appointed two executives to the Mernova senior management team; Mr Jack Yu as Managing Director and Mr Isaac Allen as Vice President. Mr Bill Fleming, the founding Managing Director of Mernova, left Mernova on 1 June 2020, following a transition period to Mr Yu's leadership.
- On 24 March 2020, Creso announced that its first cannaQIX® CBD instant hemp tea will be available on the international markets in Q3.

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)
Business Development (continued)

- On 26 March, Creso delivered the first order of its cannaQIX® regular product to the South African pharmaceutical company, Pharma Dynamics, who plan to launch it in South Africa.
- On 1 April 2020, wholly-owned subsidiary Mernova Medicinal IncLtd received a C$775k purchase order from Univo Pharmaceuticals Ltd, for shipment to Israel.
- On 2 April 2020, Creso provided an update to the market on the impact of the coronavirus (COVID-19) and the Company's response plans.
- On 7 April 2020, Creso announced that a shipment of anibidiol had been delivered to Virbac International, generating over A$200,000 in revenue.
- On 14 April 2020, Creso announced a collaboration with Highnoon Laboratories Limited, one of Pakistan's most successful and progressive pharmaceutical companies, and Route2 Health Limited, a leading player in the nutritional supplements area. Both Highnoon and Route2 are entities incorporated in Pakistan.
- On 11 May 2020, Creso advised that the Company's wholly owned subsidiary Mernova Medicinal Inc. received its Sales License from Health Canada, effective 8 May 2020.
- On 3 June 2020, Creso signed a commercial agreement with DHS Business International ("DHS") for distribution of the Company's CBD products into the Brazilian retail market.
- On 9 June 2020, Creso's South African commercial partner, Pharma Dynamics successfully launched cannaQIX®Regular under the brand name Cannamics nationwide.
- On 10 June 2020, Creso completed its legal due diligence and confirmed that Mernova will commence selling its dried and fresh cannabis products under its Sales Licence from Health Canada to provincially and territorially authorised retailers and to holders of a licence required for sale for medical purposes.
- On 24 June 2020, Canadian subsidiary Mernova streamlined operations and ramped up cannabis production ahead of premium retail product launch.

Capital Management and Funding

- On 21 January 2020, Creso entered into replacement Corporate Advisory and Transactional Mandates with EverBlu Capital Pty Ltd. In part consideration for entry into the new Corporate Advisory Mandate, the Company agreed, subject to obtaining shareholder approval, to issue EverBlu Capital, 2,000,000 shares for every 6 month term that EverBlu is engaged to provide Services under the Corporate Advisor Mandate up to a maximum of 6,000,000 shares and 8,000,000 unlisted options to acquire shares, each having an exercise price of $0.20 each and an expiry date 3 years from their date of issue.
- On 5 February 2020, Creso entered into a new convertible securities agreement with L1 Capital Global Opportunities Master Fund ("L1 Capital") to conditionally access up to $17,482,500 ("New Convertible Securities Agreement"). Under the New Convertible Securities Agreement, Creso requested an initial advance of $1,750,000, which was advanced in two equal tranches. Prior to receiving the first tranche of the advance, Creso issued L1 Capital 9,000,000 fully paid ordinary shares as collateral shares (which were issued on 5 February 2020) and paid L1 Capital a fee of 4% of the advance. The Company also agreed that, in certain situations, the Company may be required to issue to L1 Capital additional collateral shares (including up to a further 11,000,000 additional collateral shares which could be issued under the Company's placement capacity pursuant to Listing Rule 7.1 without requiring shareholder approval).
- EverBlu Capital Pty Ltd ("EverBlu") acted as lead manager to the debt raising under the New Convertible Securities Agreement. The Company agreed to pay EverBlu an upfront cash fee of $200,000 and, subject to shareholder approval, issue EverBLu 4,000,000 shares and 4,000,000 options (3 year term, $0.25 exercise price) . In addition, the Company agreed to pay EverBlu a 6% cash fee on the face value of the funds actually drawn down under the New Convertible Securities Agreement and subject to shareholder approval, issue EverBlu 1 share for every $5 of the face value of the funds actually drawn down under the New Convertible Securities Agreement.
- On 5 February 2020, the Company agreed to permit the investors who entered into convertible securities agreements with the Company in November 2019, being L1 Capital, Suburban Holdings Pty Ltd, Chifley Portfolios Pty Ltd and Mozaik Asset Management Pty Ltd (together, the "Tranche 1 Investors") to freely deal with the collateral shares that had previously been issued to them (and may be issued to them in the future) and agreed to amend the variable conversion price in respect of the collateral shares.

Directors' Report

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)
Capital Management and Funding (continued)

- On 5 February 2020, the Company agreed to issue 1,000,000 Shares to Mozaik Asset Management Pty Ltd ("Mozaik"), a Tranche 1 Investor, in consideration for the termination and settlement of the Original Convertible Securities Agreement (and the associated Debt Notes) between the Company and Mozaik, as announced in the disclosure document released to ASX on 18 November 2019. As a result of this termination, 222,222 Tranche 1 Convertible Notes were not issued to Mozaik.
- On 11 February 2020, the Company issued 8,125,000 shares to former secured lenders for nil cash consideration as part of a settlement, in accordance with shareholder approval obtained on 28 January 2020.
- On 11 February 2020, the Company issued 3,333,334 collateral shares and 261,780 fee shares for nil cash consideration to Suburban Holdings Pty Ltd, a related Tranche 1 Investor, in accordance with shareholder approval obtained on 28 January 2020.
- On 11 February 2020, the Company issued 2,183,334 shares to consultants and advisers of the Company in lieu of cash for corporate services.
- On 11 February 2020, 1,132,000 performance rights were converted into shares.
- On 12 February 2020, the Company issued 3,611,112 Tranche 1 Convertible Notes, each with a face value of $1.00 to the Tranche 1 Investors, 575,000 Tranche 2 Convertible Notes to L1 Capital and 6,847,725 Convertible Note Options (exercisable at $0.40 each on or before 12 February 2023) to the Tranche 1 Investors (including 575,000 Options which were issued to L1 Capital in respect of the draw down under the Tranche 2 Convertible Note Facility). These securities were issued in accordance with shareholder approval obtained on 28 January 2020.
- On 12 February 2020, the Company issued EverBlu Capital 2,128,387 Adviser Options, which are exercisable at $0.35 each on or before 12 February 2023 in respect of services provided in connection with the Original Convertible Securities Agreements which were entered into between the Company and the Tranche 1 Investors in November 2019.
- On 18 February 2020, L1 Capital Global Opportunities Master Fund converted 575,000 Tranche 2 Convertible Notes into 6,388,889 shares.
- On 11 March 2020, the Company agreed to issue an aggregate of 2,700,000 options to Isaac Allen and Jack Yu under the Company's incentive option plan.
- On 14 April 2020, Creso received a Collateral Purchase Notice and a Top-Up Notice from L1 Capital, issued in accordance with the terms of the New Convertible Securities Agreement. In accordance with the terms of the New Convertible Securities Agreement, the number of Tranche 1 Convertible Notes held by the CS Third Nominees Pty Limited (the nominee of L1 Capital) was reduced from 1,666,667 Tranche 1 Convertible Notes to 1,319,747 Tranche 1 Convertible Notes (through L1 Capital's election to purchase a reduction in the number of collateral shares held by it in consideration for reducing the outstanding amount of Tranche 1 Convertible Notes). The Company agreed to issue 10,812,526 fully paid ordinary shares as 'additional collateral shares' to the nominee of L1 Capital in order to top up L1 Capital's outstanding balance of collateral shares (following the reduction of the number of collateral shares held by L1 Capital).. These additional collateral shares were issued on 20 April 2020.
- On 20 April 2020, Creso entered into a convertible securities agreement with Lind Global Macro Fund to enable the Company to raise $1 million (less the applicable commitment fee of $77,777) ('Lind Convertible Securities Agreement'). The Company issued Lind a debt security with a face value of $1,111,111 and a subscription price of $1,000,000, which was issued as a unconvertible debt until such time as shareholder approval was obtained for the debt to be replaced by the issue of a convertible equity security ('Lind Convertible Note'), 6,000,000 collateral shares to Lind pursuant to its available placement capacity under Listing Rule 7.1 on 20 April 2020 ('Initial Collateral Shares') and agreed, subject to obtaining shareholder approval to issue a further 15,000,000 Collateral Shares ('Subsequent Collateral Shares') and 10,752,688 Options exercisable at $0.1386 each on or before the date that is 36 months from the date of issue ('Lind Options').
- In connection with the entry into the Lind Convertible Securities Agreement, EverBlu were paid a cash fee of $66,667 and the Company agreed, subject to the receipt of prior shareholder approval, to issue EverBlu 833,333 shares and 833,333 options (3-year term, $0.20 exercise price).
- On 20 April 2020, the Company received a further advance of $500,000 (less the applicable draw down fee of $20,000) from L1 Capital under the New Convertible Securities Agreement.

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

Capital Management and Funding (continued)

- On 20 April 2020, the Company agreed, subject to obtaining shareholder approval to issue an aggregate of 32,000,000 additional collateral shares at a nil issue price to the Tranche 1 Investors under the Original Convertible Note Agreements.
- On 28 May 2020, Creso issued 4,500,000 shares to EverBlu Capital for partial consideration of services in relation to the New Convertible Securities Agreement and a further 2,000,000 shares to the nominee of EverBlu in part consideration for corporate advisory services.
- On 28 May 2020, 66,000 Performance Rights were converted into shares.
- On 1 June 2020, Creso received firm commitments to raise $2.137 million through the issue of new fully paid ordinary shares in the Company ('Placement'). The Placement was to be settled in three tranches, with 20,780,936 Shares issued on Friday, 29 May 2020 pursuant to the Company's available placement capacity under Listing Rule 7.1A; 13,171,405 Shares which were issued on 2 June and 3 June 2020 pursuant to the Company's available placement capacity under Listing Rule 7.1, subject to the consent of the secured investors; and 1,666,666 Shares to bebeing issued to certain the Directors of the Company, subject to shareholder approval to be sought at the General Meeting of Shareholders to be held on 2 October 2020 and the consent of the Company's existing secured investors. EverBlu Capital acted as lead manager and corporate advisor for the Placement and received a fee of 6% of the total funds raised and, subject to shareholder approval and the consent of the Company's existing secured investors, shall be issued 3 Shares for every $4 raised under the Placement amounting to 1,602,855 shares.
- On 2 June 2020, the Company issued:
  - 2,500,000 CPHCON4 Convertible Notes and 36,764,706 CPHOPT28 Options to L1 Capital in relation to the New Convertible Securities Agreement between the Company and L1 Capital;
  - 4,000,000 CPHOPT29 Options to EverBlu in relation to the New Convertible Securities Agreement; and
  - 8,000,000 CPHOPT31 Options to EverBlu in relation to the Corporate Advisory Mandate with the Company.
- On 4 June 2020, Creso advised that it issued 14,000,000 Fully Paid Ordinary Shares upon the conversion of 700,000 CPHCON4 Convertible Notes.
- On 23 June 2020, Creso issued 500,000 shares in lieu of cash fees for digital marketing services and 15,420,000 shares in lieu of cash payments for outstanding creditor invoices.
- On 23 June 2020, Creso issued:
  - 15,000,000 Subsequent Collateral Shares to Lind Global Macro Fund LP ("Lind")
  - 10,752,688 CPHOPT26 Options to Lind,
  - 1 CPHCON3 Convertible Notes to Lind,
  - 15,000,000 Additional Tranche 1 Collateral Shares to L1 Capital,
  - 2,000,000 Additional Tranche 1 Collateral Shares to Chifley Portfolios Pty Ltd,
  - 15,000,000 Additional Tranche 1 Collateral Shares to Suburban Holdings Pty Ltd; and
  - 5,310,954 Shares to Cohen Propagation Nurseries Ltd and other parties under a Settlement Agreement.
- On 24 June 2020, Creso issued 15,000,000 Subsequent Collateral Shares to Lind Global Macro Fund LP.
- On 26 June 2020, Creso issued 15,010,185 shares to the Mernova vendors as per an agreement to settle part of the debt in respect to the Milestone 2 payment. Milestone 2 was achieved on 14 February 2020.

Mergers, Acquisitions and Divestments

Subsidiary

Mernova Medicinal Inc

- On 14 February 2020, the Company announced the achievement of the second milestone in respect of the Company's 2017 acquisition of Mernova Medicinal Inc (Mernova") ("Milestone 2"). As a result of the achievement of Milestone 2, the 4,150,000 Milestone 2 Exchangeable Shares issued in the Company's Canadian subsidiary have vested and became exchangeable, at the election of the Mernova vendors, for fully paid ordinary shares and the Milestone 2 cash payment of C$800,000 is became payable to the Mernova vendors. The Company and the Mernova vendors reached an agreement to settle this payment in equal monthly instalments over a period of 9 months.

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)
Mergers, Acquisitions and Divestments (continued)

Joint Venture Investee
Creso Grow Limited

- On 20 April 2020, entered into a settlement agreement with Asaf Cohen, Cohen Propagation Nurseries Ltd and various other parties ("Settlement Parties") to agree a final, absolute, and complete settlement in connection with all of the claims and counterclaims related to the Israeli joint venture agreements ("Israeli JV Agreements") between the Company's wholly owned subsidiary, Creso Pharma Switzerland GmbH and Cohen Nurseries and Cohen. Pursuant to the Settlement Agreement, Creso agreed to pay the Settlement Parties an amount of USD 260,000 and agreed, subject to obtaining shareholder approval, an aggregate of 5,310,954 shares to a nominee of the Settlement Parties.

Financial Performance

The financial results of the Group for the half-year ended 30 June 2020 are:

	30-Jun-20 **$**	31-Dec-19 $
Cash and cash equivalents	**3,282,130**	2,800,318
Net Assets	**6,523,220**	17,273,960
		30-June-19
Revenue	**1,453,528**	907,017
Net loss after tax	**(17,406,878)**	(6,276,707)

The financial result for the half-year ended 30 June 2020 is a net loss after tax of $17,406,878 (30 June 2019: loss of $6,276,707). As at 30 June 2020, the Group had a net cash balance of $3,282,130 (31 December 2019: $2,800,318) and net assets of $6,523,220 (31 December 2019: net assets of $17,273,960).

COVID-19
To date, as previously reported, the actual effects of the COVID-19 pandemic upon the Group's operations have been manageable. The timing and amounts of sales have been negatively impacted. Revenues for the full year 2020 from the Swiss segment of the Company's business are expected to be lower than for 2019, due to reduced orders in the second half, with gross margins also being reduced. The Board remains confident that the Company's strategies to develop its businesses in Canada and Switzerland will continue to adapt where necessary and progress toward their objectives. However, whilst ever the pandemic continues as at present, the Board is keenly aware of the potentially disruptive effects of it upon the Group's operations, as potential future effects upon customer demand for the Company's products and upon supply chains remain uncertain.

Going Concern
The independent auditor's review report contains a paragraph in relation to material uncertainty on the going concern basis of accounting. The review report has not been qualified in respect of this matter. 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. These disclosures have been included in Note 2 of the interim financial statements.

Impairment
The Board recognises that these are times to be prudent and cautious and, therefore, the Company implemented impairment assessments of its operating assets according to its accounting policies, which are detailed in Note 2 to the interim financial statements. The Board is also cognisant of the fact that the market capitalisation value of the Company, as determined by its prevailing share price, had become lower than the carrying value of its consolidated Net Assets. This was recognised as a further indicator of the need for impairment assessment. Specifically, the Company determined that the Mernova Facility and the R&D business in Switzerland were each separable Cash Generating Units (CGUs) which were subject to impairment assessment. Management's 5-year cashflow forecasts for each CGU have been carefully reviewed for known and anticipated risks and opportunities. Similarly, the discount rates applied to the forecasts, which were based upon operational and market risk assessments and assumptions, were determined to be realistic, prudent and cautious.

Directors' Report

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)
Financial Performance (continued)

DIVIDENDS

No dividends have been paid or declared by the Group during the interim period ended 30 June 2020. No dividend is recommended in respect of the current financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The significant changes in state of affairs during and subsequent to the end of the interim financial period are described elsewhere in this report.

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

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

Business Development

- On 10 July 2020, Creso advised that Mernova received a US$625,690 purchase order for its premium, cured and hand-trimmed dried medicinal cannabis flower from Israeli medicinal cannabis leader Univo Pharmaceuticals Ltd.
- On 12 August 2020, Creso announced that it signed a commercial agreement with DHS Business Portugal to introduce Creso's products into the Portuguese and Spanish markets.

Capital Management and Funding

- On 1 July 2020, Creso received a short term, interest free and unsecured loan of $200,000 from Anglo Menda Pty Limited, a company indirectly owned by and controlled by Adam Blumenthal.
- On 3 July 2020, Creso redeemed 1,212,120 Performance Shares as the performance milestone they were issued for was not achieved within the required period. This milestone was Kunna S.A.S successfully cultivating, extracting and selling 10kgs of cannabis extract which was required to be satisfied on or before 20 June 2020.
- On 9 July 2020, Creso received a short term, interest free and unsecured loan of $210,000 from Anglo Menda Pty Limited, a company indirectly owned by and controlled by Adam Blumenthal.
- On 29 July 2020, Creso received a short term, interest free and unsecured loan of $350,000 from Anglo Menda Pty Limited, a company indirectly owned by and controlled by Adam Blumenthal.
- On 3 August 2020, issued 4,000,000 shares upon the conversion of 80,000 CPHCON4 Convertible Notes.
- On 5 August 2020, Creso received a short term, interest free and unsecured loan of $150,000 from Anglo Menda Pty Limited, a company indirectly owned by and controlled by Adam Blumenthal.

Other than as described elsewhere in this report, there have been no other matters or circumstances that have arisen since 30 June 2020 that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporation Act 2001 is set out immediately after this Directors' Report. This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors,

Adam Blumenthal
NON-EXECUTIVE CHAIRMAN
31 August 2020

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Australia

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

As lead auditor for the review of Creso Pharma Limited for the half-year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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

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

Gillian Shea
Director

BDO Audit Pty Ltd

Sydney, 31 August 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half-Year ended 30 June 2020

	Note	**30-Jun-20**	30-Jun-19
		$	$
Revenue from continuing operations			
Revenue	4	**1,453,528**	907,017
Production costs	9	**(105,100)**	-
Cost of sales		**(856,929)**	(632,784)
Gross profit before fair value adjustment		**491,499**	274,233
Fair value adjustment on sale of inventory	9	**(56,651)**	-
Fair value adjustment on growth of biological assets	9	**(2,025,192)**	679,847
Gross profit/(loss)		**(1,590,344)**	954,080
Other income			
Interest income	4	**324**	33,611
Royalty Income	4	**9,110**	17,009
Foreign exchange gain	4	**6,757**	846
Other income	4	**83,464**	1,571
Expenses			
Administrative expenses		**(650,198)**	(624,507)
Compliance and regulatory expenses		**(244,893)**	(71,829)
Consultancy and legal expenses		**(1,618,905)**	(1,803,653)
Depreciation and amortisation expense		**(427,504)**	(199,104)
Employee benefit expenses		**(1,211,054)**	(1,604,920)
Finance Costs	5(a)	**(3,153,852)**	(1,424,245)
Marketing and investor relations		**(316,108)**	(379,413)
Occupancy expenses		**(53,294)**	(61,982)
Share-based payment expense	16	**(321,965)**	(965,087)
Research and development costs		**(255,683)**	(101,312)
Other expenses		**(103,387)**	(47,772)
Impairment expense	10; 11	**(4,671,418)**	-
Net loss on embedded derivative instruments at fair value through profit and loss	13	**(2,418,793)**	-
Loss on disposal of non-controlling interest	17	**(469,135)**	-
(Loss) from continuing operations before income tax		**(17,406,878)**	(6,276,707)
Income tax expense		**-**	-
(Loss) from continuing operations after income tax		**(17,406,878)**	(6,276,707)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(615,737)**	798,841
Other comprehensive income for the period, net of tax		**(615,737)**	798,841
Total comprehensive loss attributable to the members of Creso Pharma Limited		**(18,022,615)**	(5,477,866)
(Loss) for the year attributable to:			
Non-controlling interest		**-**	(150,609)
Owners of Creso Pharma Australia Limited		**(18,022,615)**	(6,126,098)
		(18,022,615)	(6,276,707)
Total comprehensive (loss) for the year attributable to:			
Non-controlling interest		**-**	(160,596)
Owners of Creso Pharma Australia Limited		**(18,022,615)**	(5,317,270)
		(18,022,615)	(5,477,866)

Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)

For the Half-Year ended 30 June 2020

Loss per share for the half-year attributable to the members of Creso Pharma Limited:			
Basic loss per share (cents)	14	**(7.97)**	(9.31)
Diluted loss per share (cents)	14	**(7.97)**	(9.31)

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

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	30-June-20 $	31-Dec-19 $
ASSETS			
Current assets			
Cash and cash equivalents	6	**3,282,130**	2,800,318
Trade and other receivables	7	**654,369**	1,698,499
Inventories	8	**1,249,474**	1,992,931
Biological assets	9	**363,343**	423,627
Total current assets		**5,549,316**	6,915,375
Non-current assets			
Property, plant and equipment	10	**10,675,499**	11,270,479
Intangible assets	11	**663,845**	4,477,755
Total non-current assets		**11,339,344**	15,748,234
Total assets		**16,888,660**	22,663,609
LIABILITIES			
Current liabilities			
Trade and other payables	12	**2,924,278**	2,111,075
Provisions		**64,956**	51,255
Borrowings	13	**7,376,206**	3,227,318
Total current liabilities		**10,365,440**	5,389,649
Total liabilities		**10,365,440**	5,389,649
Net assets		**6,523,220**	17,273,960
EQUITY			
Issued Capital	14	**50,929,505**	46,528,519
Reserves	15	**24,482,897**	22,602,786
Accumulated losses		**(68,889,182)**	(51,482,304)
Equity attributable to the owners of Creso Pharma Limited		**6,523,220**	17,649,001
Non-controlling interest		**-**	(375,041)
Total equity		**6,523,220**	17,273,960

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

Consolidated Statement of Changes in Equity

For the Half-Year Ended 30 June 2020

Group	Issued Capital $	Share-based Payment Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Non-Controlling Interest $	Total $
At 1 January 2020	**46,528,519**	**21,044,323**	**1,558,463**	**(51,482,304)**	**(375,041)**	**17,273,960**
Loss for the year	-	-	-	(17,406,878)		(17,406,878)
Other comprehensive income	-	-	(615,737)	-	-	(615,737)
Total comprehensive income/(loss) for the year after tax	-	-	(615,737)	(17,406,878)	-	(18,022,615)
Elimination of Non-Controlling Interests at disposal	-	-	-		375,041	375,041
Transactions with owners in their capacity as owners:						
Issue of share capital (Note 14c)	2,037,141	-	-	-	-	2,037,141
Issue of shares for the acquisition of the sales licence	750,509	-	-	-	-	750,509
Conversion of convertible notes	912,064	-	-	-	-	912,064
Issue of share capital to creditors	1,333,500	-	-	-	-	1,333,500
Embedded derivative – convertible notes options	-	1,675,883	-	-	-	1,675,883
Share-based payments	-	321,965	-	-	-	321,965
Exchangeable shares issued for the acquisition of the sales licence	-	498,000	-	-	-	498,000
Share issuance costs	(632,228)	-	-	-	-	(632,228)
At 30 June 2020	**50,929,505**	**23,540,171**	**942,726**	**(68,889,182)**	**-**	**6,523,220**
At 1 January 2019	38,222,883	14,547,170	251,912	(36,427,923)	(89,650)	16,504,392
Loss for the year	-	-	-	(6,126,098)	(150,609)	(6,276,707)
Other comprehensive income	-	-	798,841	-	-	798,841
Total comprehensive income/(loss) for the year after tax	-	-	798,841	(6,126,098)	(150,609)	(5,477,866)
Transactions with owners in their capacity as owners:						
Issue of share capital	2,930,778	-	-	-	-	2,930,778
Issue of listed options	-	132,222	-	-	-	132,222
Share-based payments	-	965,087	-	-	-	965,087
Share issuance costs	(16,145)	-	-	-	-	(16,145)
Exchangeable shares issued for the acquisition of the cultivation licence	-	2,239,683	-	-	-	2,239,683
At 30 June 2019	41,137,516	17,884,162	1,050,753	(42,544,021)	(240,259)	17,278,151

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

Consolidated Statement of Cash Flows
For the Half-Year Ended 30 June 2020

	Note	30-Jun-20 $	30-Jun-19 $
Cash flows from operating activities			
Receipts from customers		**2,962,380**	711,673
Payments to suppliers and employees		**(5,414,796)**	(4,697,307)
Payments for research expense		**(325,751)**	(231,312)
Interest received		**324**	33,611
Interest paid		**(955)**	(276,266)
Net cash used in operating activities		**(2,778,798)**	(4,459,601)
Cash flows from investing activities			
Payments for property, plant and equipment		**(33,977)**	(2,177,182)
Payments for intangibles		**(112,233)**	(1,138,478)
Net cash used in investing activities		**(146,210)**	(3,315,660)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		**1,409,995**	2,958,855
Proceeds from borrowings		**3,292,667**	5,350,000
Repayment of borrowings		**(31,000)**	(2,700,000)
Borrowing costs		**(1,273,268)**	(641,809)
Net cash from financing activities		**3,398,394**	4,967,046
Net increase/(decrease) in cash and cash equivalents		**473,386**	(2,808,215)
Cash and cash equivalents at the beginning of the period		**2,800,318**	6,390,538
Effect of exchange rate fluctuations on cash held		**8,426**	(4,193)
Cash and cash equivalents at the end of the period	6	**3,282,130**	3,578,130

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

Notes to the Consolidated Financial Statements

NOTE 1 CORPORATE INFORMATION

Creso Pharma Limited (referred to as “Creso” or the “Company”) is an ASX-listed public company domiciled in Australia. The address of the Company’s registered office and principal place of business is disclosed in the Corporate Directory of the half-yearly report.

The half-year consolidated financial statements of the Company as at and for the period ended 30 June 2020 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.

This half-year financial report was authorised for issue by the Board of Directors on 31 August 2020.

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

2.1 Basis of Preparation, & Significant Events and Transactions

The half-year financial report is a general-purpose financial report prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group. Accordingly, the half-year financial report should be read in conjunction with the annual financial report of Creso Pharma Limited for the financial year ended 31 December 2019 and any public announcements made by the Group during the period 1 January 2020 to the date of this report in accordance with the continuous disclosure obligations of ASX Listing Rule 3.1 and the *Corporations Act 2001*.

Unless otherwise stated, all amounts are presented in Australian Dollars (“A$” or “AUD”), which is the reporting currency of the Group.

(a) ***Going Concern***

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

As disclosed in the half year financial statements, the consolidated entity incurred a loss of $17,406,878 and had net cash outflows from operating and investing activities of $2,778,798 and $146,210 respectively for the half-year ended 30 June 2020. The consolidated entity was in a net current liability position at 30 June 2020 of $4,816,124 (net current assets of $1,525,726 at 31 December 2019).

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

The ability of the Group to continue as a going concern is dependent on obtaining additional funding facilities, scaling back corporate overheads and thereafter revenue growth in the operations in Canada and Switzerland and positive cash flows from operations.

The Directors are confident and believe there is sufficient basis to believe that sufficient funding will be raised in order to support the operations of the Group until such time that the Group incurs positive cash flows from operations. As of the date of this report, the Group has access to additional tranches from existing convertible notes already on issue (the “Tranche 1” and “Tranche 2” Notes) resulting in $2,182,500 further available but not yet drawn down.

Notes to the Consolidated Financial Statements

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

2.1 Basis of Preparation, & Significant Events and& Transactions (continued)

(a) *Going Concern (continued)*

During the half-year period ended 30 June 2020, the Group negotiated a new funding package with L1 Capital (the "New Convertible Securities Agreement") which gives the Group conditional access to a further $17,482,500 in funding. Each draw down under the New Convertible Securities Agreement is subject to the Company obtaining the agreement of L1 Capital and shareholder approval for the issue of securities to L1 Capital. The Group has drawn down $2,250,000 in funding on this agreement between 1 January 2020 and 30 June 2020. As of the date of this report, $15,232,500 is still available as additional funding under the New Convertible Securities Agreement, subject to satisfaction of the relevant conditions including the Company obtaining the agreement of L1 Capital and shareholder approval for the issue of securities to L1 Capital.

Management has prepared a cash flow projection for the period to 31 August 2021 that supports the ability of the consolidated entity to continue as a going concern subject to the events described above. However, forecast events frequently do not occur as expected as many external and internal factors impact on future events. This includes the uncertainty relating to the conversion or repayment of convertible notes issued.

The Directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report. Accordingly, no adjustments have been made to the recoverability and classification of recorded asset values and the amount and classification of liabilities that might be necessary should the consolidated entity and the Company not continue as going concerns.

(b) *Impairment of Property, Plant & Equipment and Intangible Assets*

Policy
Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that do not have independent cash flows are grouped together to form a cash-generating unit. Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Indicators of impairment
At the end of each reporting period, the Group assesses whether there were events or changes in circumstances that would indicate that a Cash Generating Unit ("CGU") was impaired. The Company considers external and internal factors, including overall financial performance and relevant entity-specific factors, as part of this assessment.

Impairment Testing – Value-in-use
Although the full nature and extent of the effect of the COVID-19 outbreak on the performance of the Company remains unknown, management performed an impairment test as at 30 June 2020 for the CGUs containing Property, Plant & Equipment and identifiable intangible assets.

Value-in-use is based on the estimated future cash flows using the most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year. Cash flow forecasts are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or CGU grouping.

Impairment losses recognised on assets such as property, plant and equipment (PPE) and identifiable intangible assets are permitted to be reversed in subsequent reporting periods. The Directors closely monitor the Company's operating circumstances and are prepared to make further impairment adjustments or to reverse of some or all impairment adjustments to date as and when future impairment assessments indicate the need for them.

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

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020 as noted in 2.3 and new accounting policies as noted in 2.4.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

2.3 Summary of new and amended accounting standards

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim consolidated financial statements of the Group.

Amendments to IFRS 3: *Definition of a Business*
The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all the inputs and processes needed to create outputs.

These amendments had no impact on the interim consolidated financial statements of the Group but may impact future periods should the Group enter any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: *Interest Rate Benchmark Reform*
The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide several reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

These amendments had no impact on the interim consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: *Definition of Material*
The amendments provide a new definition of material that states "*information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity*." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

These amendments had no impact on the interim consolidated financial statements of, nor is there expected to be any future impact to the Group.

Notes to the Consolidated Financial Statements

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

2.3 Summary of new and amended accounting standards (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no impact on the half-year consolidated financial report of the Group.

2.4 Summary of new and amended accounting policies

The accounting policies and methods of computation adopted in the preparation of the financial report are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020 listed above.

2.5 Summary of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results.

Although there have been no material revisions to the nature and amount of estimates of amounts reported in the annual report for the financial year ended 31 December 2019. However, as discussed in Note 2.1, several significant events and transactions required significant judgments and estimates to be made, including:

- Assessing the Going Concern assumption used in the preparation of this interim financial report;
- Calculating the recoverable amount for cash generating units that exhibit indicators of impairment as at the period end, and determining the amount of impairment attributable to the cash generating units; and
- Determining which information obtained subsequent to period end provides evidence of conditions that existed as at the end of the reporting period ('adjusting events after the reporting period') and which do not ('non-adjusting events after the reporting period'). For disclosure of events after the reporting period, refer to Note 22.

Notes to the Consolidated Financial Statements

NOTE 3 SEGMENT INFORMATION

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

- Europe & Middle East includes Creso Pharma Switzerland GmbH ("Switzerland") which includes the development and commercialisation of its therapeutic products – located in Switzerland. Creso Grow Limited – Joint venture located in Israel (Disposed on 7 May 2020). Hemp-Industries s.r.o. ("Hemp-Industries") (Sold on 29 March 2019) which included hemp growing operations, outsourced CBD extraction and CBD product sales activities – located in Slovakia.
- North America includes Creso Canada Corporate Limited, Creso Canada Limited, 3321739 Nova Scotia Limited, Mernova Medicinal Inc ("Mernova"), Kunna Canada Limited located in Canada.
- South America includes Kunna S.A.S. located in Colombia.
- Asia Pacific includes Creso Pharma Limited ("Creso") which provides the Group's corporate administration – located in Australia.

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

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

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

Period ended 30 June 2020	**Asia Pacific**	**Europe & Middle East**	**North America**	**South America**	**Total**
Revenue from sale of products	**-**	**1,196,891**	**256,637**	**-**	**1,453,528**
Other revenue	**71,116**	**-**	**21,782**	**-**	**92,898**
Total segment revenue	**71,116**	**1,196,891**	**278,419**	**-**	**1,546,426**
Loss before income tax expense	**13,984,544**	**603,493**	**2,686,563**	**132,278**	**17,406,878**
Total Segment assets	**424,787**	**3,159,266**	**13,304,607**	**-**	**16,888,660**
Total Segment liabilities	**9,572,188**	**-**	**786,159**	**7,093**	**10,365,440**

Period ended 30 June 2019	**Australia $**	**Europe & Middle East $**	**North America $**	**South America $**	**Total $**
Revenue from sale of products	17,009	907,017	-	-	924,026
Other revenue	6,971	1,571	27,486	-	36,028
Total segment revenue	23,980	908,588	27,486	-	960,054
Loss before income tax expense	(3,952,983)	(1,002,103)	(1,031,976)	(289,645)	(6,276,707)
As at 31 December 2019					
Total Segment assets	850,081	3,952,384	17,855,830	5,314	22,663,609
Total Segment liabilities	4,936,937	214,609	224,446	13,657	5,389,649

Notes to the Consolidated Financial Statements

NOTE 4 REVENUE AND OTHER INCOME	30-Jun-20 $	30-Jun-19 $
Revenue from continuing operations		
Revenue from sale of products	**1,453,528**	907,017
Royalty income	**9,110**	17,009
	1,462,638	924,026
Other income		
Interest received	**324**	33,611
Foreign exchange gain	**6,757**	846
Other income	**83,464**	1,571
	90,545	36,028

NOTE 5 EXPENSES

(a) Finance Costs		
Capital raising fees and transaction costs	**1,398,615**	-
Capital raising fees (Related Party - EverBlu)	**256,268**	655,928
Loan raising fees settled in options issued	**-**	390,000
Interest expense	**349,880**	367,659
Accretion of finance costs on convertible notes	**1,148,199**	-
Bank fees	**890**	10,658
	3,153,852	1,424,245

NOTE 6 CASH AND CASH EQUIVALENTS	30-Jun-20 $	31-Dec-19 $
Cash at bank and in hand	**3,282,130**	2,800,318
	3,282,130	2,800,318

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.

NOTE 7 TRADE AND OTHER RECEIVABLES	30-Jun-20 $	31-Dec-19 $
Trade debtors	**21,209**	1,017,229
Goods and Services Tax ('GST') receivable	**342,511**	172,763
Canadian HST Receivable	**66,522**	77,014
Other deposits and receivables	**224,127**	431,493
	654,369	1,698,499

Allowance for expected credit losses
There are no expected credit losses and no loss recognised in the income statement for the half-year ended 30 June 2020.

NOTE 8 INVENTORIES

	30-Jun-20 $	31-Dec-19 $
Finished goods – Medicinal cannabis packaged products	**-**	312,863
Finished goods – Harvested cannabis plant products	**2,719,856**	1,661,020
Less: Provision for obsolete harvested cannabis plant products	**(1,490,481)**	-
Finished goods – Consumables inventory	**20,099**	19,048
	1,249,474	1,992,931

NOTE 9 BIOLOGICAL ASSETS

The Company's biological assets consist of 7,085 cannabis plants as at 30 June 2020 (4,793 cannabis plants as at 31 December 2019). The continuity of biological assets is as follows:

	30-Jun-20 $	31-Dec-19 $
Carrying amount at 31 December 2019	**423,672**	-
Production costs capitalised	**1,731,926**	1,852,120
Increase / (decrease) in FVLCS due to biological transformation	**(56,651)**	802,907
Less: Transfer to inventory upon harvest	**(1,652,031)**	(2,231,355)
Foreign exchange translation	**(83,573)**	-
Carrying amount at 30 June 2020	**363,343**	423,672

The fair value of biological assets is determined using a valuation model to estimate expected harvest yield per plant applied to the estimated price per gram less processing and selling costs. The expected cash flow model assumes the biological assets as at 30 June 2020 will grow to maturity, be harvested and converted into finished goods inventory and sold to Canadian and overseas customers.

The sales price used in the valuation of biological assets is based on the average expected selling price of cannabis products and can vary based on different strains being grown. Selling costs vary depending on methods of selling ad are considered based on the expected method of selling and the determined additional costs which would be incurred. Expected yields for the cannabis plant is also subject to a variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing.

The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

Management reviews all significant inputs based on historical information obtained as well as based on planned production schedules. Only when there is a material change from expected fair value used for cannabis does the Group make any adjustments to the fair value used.

Notes to the Consolidated Financial Statements

NOTE 9 BIOLOGICAL ASSETS (CONTINUED)

Dried Flower

The dried flower model utilises the following significant assumptions:

	Weighted Average 30 June 2020	Weighted Average 31 December 2019
Weighted average of expected loss of plants until harvest	30%	15%
Expected yields for cannabis plants (average grams per plant)	46	42
Expected number of growing weeks	12	12
Weighted average number of growing weeks completed as a percentage of total growing weeks at period-end	44%	51%
Estimated selling price per gram	C$2.75	C$3.50
After harvest costs to complete and sell per gram	C$0.30	C$0.30
Reasonable margin on after harvest costs to complete and sell per gram	C$1.80	C$2.60

Shake

The shake model utilises the following significant assumptions:

	Weighted Average 30 June 2020	Weighted Average 31 December 2019
Weighted average of expected loss of plants until harvest	30%	15%
Expected yields for cannabis plants (average grams per plant)	24	33
Expected number of growing weeks	12	12
Weighted average number for growing weeks completed as a percentage of total growing weeks at period-end	44%	51%
Estimated selling price per gram	C$1.60	C$1.50
After harvest costs to complete and sell per gram	C$0.30	C$0.30
Reasonable margin on after harvest costs to complete and sell per gram	C$1.00	C$1.00

Sensitivity analysis

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

- Selling price per gram – a decrease in the average selling price per gram by 10% would result in the biological asset value decreasing by $39,018 and inventory decreasing by $318,886.
- Harvest yield per plant – a decrease in the harvest yield per plant of 10% would result in the biological asset value decreasing by $19,132.

These inputs are level 3 on the fair value hierarchy and are subject to volatility in market prices, unanticipated regulatory changes, harvest yields, loss of crops, and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

Other disclosures

All cannabis, as finished good and biological assets, was not pledged as security for the Group's loans or borrowings in 2020 (2019: none).

At 30 June 2020, the Group had no commitments in relation to growing its cannabis (2019: nil).

Notes to the Consolidated Financial Statements

NOTE 10 PROPERTY, PLANT AND EQUIPMENT	30-Jun-20 $	31-Dec-19 $
Opening net book amount	**11,270,478**	9,900,422
Additions (capital expenditure and acquired assets)	**33,977**	1,922,600
Disposals	**(2,320)**	(26,819)
Depreciation expense	**(323,176)**	(417,423)
Impairment (Note 2)	**(12,791)**	-
Foreign exchange translation	**(290,670)**	(108,301)
Closing net book amount	**10,675,498**	11,270,479
Cost	**11,440,756**	11,712,561
Accumulated depreciation	**(765,258)**	(442,082)
Net book amount	**10,675,498**	11,270,479

During the half-year period ended 30 June 2020, the Group recorded an impairment charge to Property, Plant & Equipment of $12,791. Refer to Note 11 for details.

NOTE 11 INTANGIBLE ASSETS	30-Jun-20 $	31-Dec-19 $
Licences (Canadian)	**657,943**	3,540,692
Licences (Colombian)	**-**	-
Intellectual property	**-**	927,287
Computer software	**5,902**	9,776
	663,845	4,477,755

Impairment indicators

As noted in Note 1(b), at the end of each reporting period, the Group assesses whether there were events or changes in circumstances that would indicate that a Cash Generating Unit ("CGU") was impaired. The following factors were identified as impairment indicators:

- The Swiss segment of the Company's business has been affected by changes in the regulations of its products in its principal markets in Europe, leading to the need to re-formulate the products and rediscuss them with its distribution partners for those markets. The market uptake of those re-formulated products remains uncertain and revenues in the latter part of 2020 are expected to be adversely affected.
- The Mernova segment of the Company's business is in its initial phase and therefore currently derives its revenues from a limited number of customers and distributors
- Market capitalisation value – As at 30 June 2020, the carrying amount of the Group's total net assets exceeded the Group's market capitalisation

Impairment Testing – Value-in-use

Mernova Cannabis Operations CGU

The Group's Mernova Cannabis operations CGU represents its operations dedicated to the cultivation, processing and sale of cannabis to both wholesale and retail customers. This CGU is attributed to the Group's North America operating segment.

Management performed an asset specific value-in-use impairment test. As a result of the impairment test, management concluded that the carrying value was higher than the recoverable amount and recorded an impairment loss of $3,935,119 for the half-year period ended 30 June 2020. Management allocated the impairment loss specifically to the assets it identified as impaired, with no individual assets being reduced below its recoverable amount. Management allocated $3,935,119 of impairment losses to the CGU's intangible assets (Note 11).

As a cross-check, management obtained and reviewed comparable market data for comparison with the CGU's fair value and against the net book value of the assets less fixed costs to dispose.

Notes to the Consolidated Financial Statements

NOTE 11 INTANGIBLE ASSETS (CONTINUED)

Switzerland Research & Development CGU

The Group's Switzerland Research & Development CGU represents its operations dedicated to the research and development of hemp and cannabis biotechnology, including the development of novel formulations and delivery forms, and the sale and distribution of hemp derived products. This CGU is attributed to the Company's European operating segment. Impairment losses were recognized due to a change in overall industry/market conditions, changes in EU regulations resulting in a change in management's forecast sales and profitability and a realignment and refocus of strategic plans to meet expected market demand.

As a result of the impairment test, management concluded that the carrying value was higher than the recoverable amount and recorded impairment losses of $736,299 for the half-year period ended 30 June 2020. Management allocated the impairment loss specifically to the assets it identified as impaired, with no individual assets being reduced below its recoverable amount. Management allocated $703,590 of impairment losses to the CGU's intangible assets (Note 11), $12,791 of impairment losses to property, plant and equipment (Note 10), $27,171 to the Group's investment in the CGU and $7,253 to net current assets.

Significant Judgements and Estimates

The following key assumptions were used in the discounted cash flow model for each of the CGU's:

CGU	Mernova	Switzerland
Forecast period (a)	5 years	3 years + 2 years projected
Terminal / Long-Term Revenue Growth Rate (b)	0% terminal rate	0% terminal rate
Discount Rate (c)	35%	40%

Assumption		Approach used to determine values
(a)	Forecast period	Budget period + growth estimates for periods beyond the budget period. Specific factors considered in the forecasts used in the impairment model: • Due to the impact of COVID-19, there is a delay in the timing of expected growth has been forecast by management • The Mernova segment of the Company's business is in its initial phase and therefore currently derives its revenues from a limited number of customers and distributors. The loss of or significant decrease in business from any of those customers could affect Mernova's revenues and the Company's business until additional or alternative distribution/supply agreements are negotiated. • Revenues for the full year 2020 from the Swiss segment of the Company's business are expected to be lower than for 2019, due to reduced orders in the second half.
(b)	Terminal / Long-Term Growth Rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The outbreak of COVID-19 has resulted in the implementation and modification of significant governmental measures, including lockdowns, closures, quarantines, and travel bans, intended to control the spread of the virus. As a result, the long-term growth rate has been set at zero to reflect the uncertainty in the forecast future cash flows beyond the budget period in each CGU.
(c)	Discount Rate	The discount rate used in each CGU reflects management's estimate of the time value of money and the risks specific to the asset or CGU.

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

NOTE 11 INTANGIBLE ASSETS (CONTINUED)

Reconciliations

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

	Licences (Canadian)	Licences (Colombian)	Intellectual Property	Computer Software	Total
Consolidated	$	$	$	$	$
Balance at 1 January 2019	3,540,692	-	927,287	9,776	**4,477,755**
Additions of cultivation license through Milestone 2	1,360,743	-	-	-	**1,360,743**
Foreign exchange translation	(4,857)	-	(135,381)	(102)	**(140,340)**
Amortisation expense	(303,516)	-	(55,607)	(3,772)	**(362,895)**
Impairment (Note 2)	(3,935,119)	-	(736,299)	-	**(4,671,418)**
Balance at 30 June 2020	**657,943**	**-**	**-**	**5,902**	**663,845**

	Licences (Canadian)	Licences (Colombian)	Intellectual Property	Computer Software	Total
Consolidated	$	$	$	$	$
Balance at 1 January 2019	507,282	2,985,565	608,331	-	**4,101,178**
Additions	3,144,544	55,369	456,225	13,485	**3,669,623**
Impairment	-	(3,040,934)	-	-	**(3,040,934)**
Foreign exchange translation	(3,827)	-	15,147	-	**11,320**
Amortisation expense	(107,307)	-	(152,416)	(3,709)	**(263,432)**
Balance at 31 December 2019	**3,540,692**	**-**	**927,287**	**9,776**	**4,477,755**

During the half-year period ended 30 June 2020, the Group recorded an impairment charge to Intangible Assets of $4,671,418. Refer to Note 2 for details.

NOTE 12 TRADE AND OTHER PAYABLES

	30-Jun-20	31-Dec-19
	$	$
Trade payables	**1,278,974**	1,030,843
Payables to related parties (Note 20)	**238,901**	93,736
Accrued expenses	**851,168**	650,063
Accrued expenses for related parties	**-**	250,587
Income in advance	**413,208**	34,405
Other payables	**142,027**	51,441
	2,924,278	2,111,075

NOTE 13 BORROWINGS

	30-Jun-20	31-Dec-19
	$	$
Convertible notes	**6,178,849**	3,147,160
Loan from related party (Note 20)	**-**	31,000
Interest payable	**1,197,357**	49,158
	7,376,206	3,227,318

MOVEMENT IN CONVERTIBLE NOTES

	30-Jun-20	31-Dec-19
	$	$
Opening balance	**3,147,160**	-
Convertible notes issued at fair value	**1,777,688**	3,588,759
Loan repaid	**-**	-
Other changes:		
Finance cost recognised	**1,148,199**	40,145
Conversion to shares	**(912,064)**	-
Transaction costs capitalised	**(203,571)**	(481,744)
Loss on embedded derivative	**2,418,794**	-
Closing balance	**7,376,206**	3,147,160

At 30 June 2020, convertible notes were issued to Suburban Holdings Pty Ltd, a related party, with a face value of $1,666,667 (refer Note 20).

No convertible notes on issue at 31 December 2019 were repaid during the half year.

Some convertible notes on issue at 31 December 2019 were assessed as substantially modified during the period and have been accounted for as a derecognition of the old notes and recording of a new issue during the period. A gain of $4,185 was recorded on derecognition.

The terms of the various convertible notes are as follows:

Tranche 1 Convertible Notes
The convertible notes are convertible at a fixed conversion price of $0.35 subject to certain conditions being met. The conversion price represents a premium of 71% to the share price of the ordinary shares at the date the convertible notes were issued.

The Company must redeem the convertible notes by cash payments to the noteholders on 27 July 2020 and the date which is 270 days after the date of the first purchase, with a final payment 12 months after the date of the first purchase, at calculated amounts subject to certain terms and conditions. The noteholder can convert the notes at any time prior to the redemption dates, and the Company can redeem early at any time with penalties attached. Interest accrues daily on the notes at 4% per annum and is paid on fixed dates. The Company expects that the notes will be converted prior to maturity and will have a dilutive effect. The notes are secured by agreement over the Company's assets.

The collateral shares can be purchased at the lesser of $0.35 and 90% of the lowest daily VWAP during the 40 actual trading days immediately prior to the date of the collateral purchase notice, rounded down to the nearest A$0.01 and the purchase consideration can be used to reduce the amount of the convertible note outstanding subject to various conditions.

Notes to the Consolidated Financial Statements

NOTE 13 BORROWINGS (CONTINUED)

L1 Convertible Notes
These convertible notes are convertible at the lesser of $0.35 and 90% of the lowest daily VWAP during the 40 actual trading days immediately prior to the date of the conversion notice, rounded down to the nearest A$0.01; subject to certain conditions being met.

The Company must redeem the convertible notes by a cash payment on the date that is 12 months after the purchase date of the relevant convertible notes, at calculated amounts subject to certain terms and conditions. The noteholder can convert the notes at any time prior to the redemption dates. Interest accrues daily on the notes at 4% per annum and is paid on fixed dates. The Company expects that the notes will be converted prior to maturity and will have a dilutive effect. The notes are secured by agreement over the Company's assets.

The collateral shares can be purchased at the lesser of $0.35 and 90% of the lowest daily VWAP during the 40 actual trading days immediately prior to the date of the collateral purchase notice, rounded down to the nearest A$0.01 and the purchase consideration can be used to reduce the amount of the convertible note outstanding subject to various conditions.

Lind Convertible Notes
The convertible note is convertible at the lesser of $0.35 and 90% of the average of the 5 lowest daily VWAPs from the daily VWAPs for the 20 trading days immediately prior to the date of the conversion notice (provided that if the resultant number contains four or more decimal places, that number will be rounded down to the next lowest number containing three decimal places) subject to certain conditions being met.

The Company must redeem the convertible notes by cash payments to the Lind on the dates which are 180 days and 270 days after the closing date, at calculated amounts subject to certain terms and conditions. The noteholder can convert the notes at any time prior to the redemption dates, and the Company can redeem early at any time with penalties attached. Interest accrues daily on the notes at 4% per annum and is paid on fixed dates. The Company expects that the notes will be converted prior to maturity and will have a dilutive effect. The notes are secured by agreement over the Company's assets.

The collateral shares can be purchased at the lesser of $ at the lesser of $0.35 and 90% of the average of the 5 lowest daily VWAPs from the daily VWAPs for the 20 trading days immediately prior to the date of the collateral purchase notice (provided that if the resultant number contains four or more decimal places, that number will be rounded down to the next lowest number containing three decimal places) and the purchase consideration can be used to reduce the amount of the convertible note outstanding subject to various conditions.

The net proceeds on issue for the convertible notes issued during the period have been classified as follows:

Equity component – free options	1,675,883
Liability component – convertible notes (net of transaction costs)	628,391
Liability component – embedded derivative – collateral shares (net of transaction costs)	945,726
Net proceeds on inception	3,250,000

At 30 June 2020, the fair value of the liability components recorded was $7,376,206.

As at 30 June 2020, 80,034,749 collateral shares have been issued and accounted for as the embedded derivative – collateral shares.

Notes to the Consolidated Financial Statements

NOTE 13 BORROWINGS (CONTINUED)

The individual components of the convertible notes have been valued using accepted market valuation techniques. The valuation of the embedded derivative liability relating to collateral shares was performed using a Monte Carlo simulation. Inputs include simulated stock prices in the range of $0.059 – $0.169 and simulated exercise prices in the range of $0.0232 - $0.1256. The equity component value was confirmed using a Black-Scholes option valuation model, with assumptions including volatility of 97%, a 3-year term, and grant date and exercise prices as determined by underlying agreements. The increase in the implicit effective interest rate on the financial liability recorded in relation to the convertible notes is due to the change in economic circumstances over the past six months reflecting an increase in Creso's market, operational and credit risks. Convertible notes which are converted to shares rather than being redeemed by the Company have a dilutive effect upon shareholders at the time of conversion.

NOTE 14 ISSUED CAPITAL

(a) Issued and fully paid	30-Jun-20		31-Dec-19	
	No.	$	No.	$
Ordinary shares	**362,381,374**	**50,929,505**	174,117,250	46,528,519

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

(b) Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share (EPS) computations:

	30-Jun-20	31-Dec-19
Basic loss per share (cents)	**(7.97)**	(10.47)
Diluted loss per share (cents)	**(7.97)**	(10.47)
Weighted average number of ordinary shares outstanding during the year used to calculated basic EPS	**218,342,707**	143,784,112
Loss from continuing operations used to calculated basic EPS and diluted EPS	**(17,406,878)**	(15,054,381)

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements. As at 30 June 2020, there were 148,476,167 options outstanding. Subsequent to 30 June 2020, 72,796,411 Listed Options expired on 21 August 2020. Options are not considered dilutive as they are currently out of the money.

NOTE 14 ISSUED CAPITAL (CONTINUED)

(c) Movement in issued shares – 2020

	Number	$
At 1 January 2020	174,117,250	46,528,519
Issuance of shares	149,771,901	2,787,650
Issuance of shares - creditors	18,103,334	1,333,500
Conversion of convertible notes (Note 13)	20,388,889	912,064
Less: Equity raising costs	-	(632,228)
At 30 June 2020	362,381,374	50,929,505

(d) Performance Shares

	Number	$
CPHPERSB Performance Shares	303,027	-
CPHPERSC Performance Shares	303,027	-
CPHPERSD Performance Shares	303,027	-
CPHPERSE Performance Shares	303,039	-
At 30 June 2020	1,212,120	-

On 3 July 2020, Creso redeemed 1,212,120 Performance Shares as the performance milestone they were issued for was not achieved. This milestone was Kunna S.A.S successfully cultivating, extracting and selling 10kgs of cannabis extract on or before 20 June 2020.

(e) Performance Rights

	Number	$
At 1 January 2020	3,496,000	
Conversion of CPHPERR15 Performance Rights	100,000	-
Conversion of CPHPERR22 Performance Rights	99,000	-
Conversion of CPHPERR23 Performance Rights	99,000	-
Conversion of CPHPERR27 Performance Rights	200,000	-
Conversion of CPHPERR28 Performance Rights	100,000	-
Conversion of CPHPERR30 Performance Rights	300,000	-
Conversion of CPHPERR31 Performance Rights	300,000	-
At 30 June 2020	4,694,000	-

NOTE 15 RESERVES

	30-Jun-20 $	31-Dec-19 $
Share-based payments (i)	**23,540,171**	21,044,323
Foreign currency translation reserve (ii)	**942,726**	1,558,463
	24,482,897	22,602,786
Movement reconciliation		
Share-based payments reserve		
Balance at the beginning of the year	**21,044,323**	14,547,170
Equity settled share-based payment transactions	**321,965**	2,356,008
Embedded derivative – convertible notes options	**1,675,883**	378,741
Listed options issued	**-**	1,522,722
Exchangeable shares issued for acquisition of the cultivation licence	**498,000**	2,239,682
Balance at the end of the year	**23,540,171**	21,044,323
Foreign currency translation reserve		
Balance at the beginning of the year	**1,558,463**	251,912
Effect of translation of foreign currency operations to group presentation	**(615,737)**	1,306,551
Balance at the end of the year	**942,726**	1,558,463

(i) **Share-based payment reserve**
The share-based payment reserve is used to record the value of share-based payments provided to outside parties, and share-based remuneration provided to employees and directors. The issue of the exchangeable shares are considered a share-based payment and are valued at the grant date. The $498,000 exchangeable shares issued for the acquisition of the cultivation licence were capitalised against the Mernova cultivation licence intangible. These shares were granted on 14 February 2020 and remained exercisable at 30 June 2020.

(ii) **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 16 SHARE-BASED PAYMENTS

	30-Jun-20 $	30-Jun-19 $
(a) Recognised share-based payment transactions		
Unlisted options issued	**134,692**	115,102
Listed options issued	**-**	132,222
Adviser options issued	**115,901**	-
Convertible notes options – embedded derivative equity component	**1,675,883**	-
Performance rights issued	**569,372**	3,089,668
	2,495,848	3,336,992
Reconciliation:		
Recognised as share-based payment expenses in statement of profit and loss and other comprehensive income	**321,965**	965,087
Borrowings costs recognised as prepayment	**-**	-
Conversion of options	**-**	132,222
Embedded derivative – equity component	**1,675,883**	-
Payment for intangible acquired	**498,000**	2,239,683
	2,495,848	3,336,992

NOTE 17 INVESTMENT IN CONTROLLED ENTITIES

The Group incurred a loss of $469,135 on the disposal of its interest in the Creso Grow Limited Joint Venture which has been included in the Statement of Profit or Loss.

NOTE 18 CONTINGENCIES

There are no contingent liabilities as at 30 June 2020.

At 31 December 2019, potential Milestone 2 payments were disclosed as a contingent liability. Subsequent to 31 December 2019, Milestone 2 has since been achieved and the exchangeable shares and payments to the Mernova vendors have been finalised.

NOTE 19 COMMITMENTS

	30-Jun-20 $	31-Dec-19 $
Operating Lease Commitments		
Within one year	**-**	29,240
One to five years	**-**	-
More than five years	**-**	-
	-	29,240
Milestone 2 Commitments		
Cash payable in equal monthly instalments over 9 months commencing February 2020.	**-**	877,097
	-	877,097

Notes to the Consolidated Financial Statement

NOTE 20 RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the half-year period ended 30 June 2020, the Group had transactions with related parties as follows:	30-Jun-20 $
Everblu Capital Pty Ltd - a company of which Adam Blumenthal is the Chairman	
Capital raising fees payable in cash (i)	622,562
Legal fees	77,500
Corporate advisory services	140,000
Corporate advisory services - transactions	40,000
IRESS service fees	2,676
Corporate advisory services – ad hoc consulting	544,318
Cash component of share issue	64,478
Amount payable to Creso (ii)	(50,000)
	1,441,534
Balance owing to EverBlu Capital Pty Ltd at 30 June	**177,182**
Balance owing to Creso at 30 June	**-**
Suburban Holdings Pty Ltd – related party	
Draw down fees	60,000
Balance owing at 30 June	**-**
Tranche 1 Convertible Notes	
Amount drawn down by Creso	(1,500,000)
Face value of amount owing to Suburban Holdings	1,666,667
Anglo Menda Pty Ltd – related party	
Short term loans to Creso (iii)	61,000
Cash component of share issue	39,000
Balance owing at 30 June	**39,000**
International Water and Energy Savers Ltd - a company controlled by Boaz Wachtel	
Director's Fees for Boaz Wachtel	22,500
Balance owing to International Water and Energy Savers Ltd at 30 June	**5,000**

(i) Capital Raising Fees payable in cash comprise 6% of funding amounts raised. Additional fees may be payable in certain instances in Creso securities as agreed with Creso and announced to the ASX at the time.

(ii) During the period, Creso had a receivable from EverBlu Capital Pty Ltd. In February 2020, the amount receivable was settled by offset against existing EverBlu invoices payable by Creso.

(iii) During the half-year period ended 30 June 2020, Creso received short term, interest free and unsecured loans totalling $61,000 from Anglo Menda Pty Limited, a company indirectly owned by and controlled by Adam Blumenthal.

Notes to the Consolidated Financial Statement

NOTE 20 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

Other Share and Option Transactions with KMP Related Parties			
		Issued in 2020	
	Date	Shares	Options
EverBlu Capital Pty Ltd (ii)			
Issue of Shares to EverBlu	11-Feb-20	2,128,387	-
Issue of CPHOPT20 Options	12-Feb-20	-	2,128,387
Issue of Shares - New L1 Con Note Facility	28-May-20	4,500,000	-
Issue of Shares - Corporate Advisory Mandate	28-May-20	2,000,000	-
Issue of CPHOPT29 Options - New L1 Con Note Facility	2-Jun-20	-	4,000,000
Issue of CPHOPT30 Options - Corporate Advisory Mandate	2-Jun-20	-	8,000,000
Total		8,628,387	14,128,387
Suburban Holdings Pty Ltd			
Issue of Collateral Shares	11-Feb-20	3,333,334	-
Issue of Tranche Fee Shares	11-Feb-20	261,780	-
Issue of Additional Tranche 1 Collateral Shares - Suburban	23-Jun-20	15,000,000	-
Total		18,595,114	-

Terms and conditions
All transactions with related parties were reviewed by the Board and were made on normal commercial terms and conditions and at market rates.

NOTE 21 DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the half-year ended 30 June 2020.

NOTE 22 EVENTS AFTER THE REPORTING DATE

There have been no matters or circumstances that have arisen since 30 June 2020 that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group.

Directors' Declaration

In the directors' opinion:

1. The financial statements and notes thereto of the Group, as set out within this financial report, are in accordance with the *Corporations Act 2001* including:

   a. Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   b. Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half-year then ended.

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors

Adam Blumenthal
NON-EXECUTIVE CHAIRMAN
31 August 2020

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Australia

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Creso Pharma Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Creso Pharma Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company 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 (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty relating to going concern

We draw attention to Note 2(a) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Responsibility of the directors for the financial report

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

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Company's financial position as at 30 June 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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

BDO Audit Pty Ltd

BDO

Gillian Shea
Director

Sydney, 31 August 2020