CRESO PHARMA

CRESO PHARMA LIMITED

ACN 609 406 911

Appendix 4E Preliminary Final Report
Year Ended 31 December 2022

Contents

Appendix 4E

Preliminary Final Report
For the year ended 31 December 2022, previous corresponding period is 31 December 2021.

Results for announcement to the market

	Up/(down)	**2022 $000's**	2021 $000's
Revenue from ordinary activities	39.7%	**8,689**	6,219
Loss from ordinary activities after tax attributable to members	9.2%	**(32,782)**	(30,031)
Loss from ordinary activities attributable to members	9.2%	**(32,782)**	(30,031)

Dividends
No dividends have been paid or declared by the Group since the end of the previous financial year (2021: Nil).

No dividend is recommended in respect of the current financial year (2021: Nil).

Financial Metrics

	2022	2021
Net Tangible Assets Per Security (cents)	**0.35**	1.51
Earnings Per Share (cents)	**(2.24)**	(2.71)
Earnings Per Share diluted (cents)	**(2.24)**	(2.71)

Audit Report

This report is based on the consolidated financial statements for the year ended 31 December 2022 which are in the process of being audited by BDO Audit Pty Ltd. The audit report in the consolidated financial statements is expected to contain an emphasis of matter with respect to material uncertainty over going concern.

Additional Appendix 4E disclosure requirements are set out in the following pages.

Signed on behalf of the directors

Signature

Mr Boaz Wachel

Non-Executive Chairman

28 February 2023

Review of Operations

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were:

a) to develop, register and commercialise pharmaceutical-grade cannabis and hemp-based nutraceutical products and treatments;
b) to cultivate, process and sell cannabis products;
c) to develop and sell beauty and personal care products using proprietary plant based processes including under the brands Green Goo, Southern Butter and Goodgoo; and
d) clinical trial and development of synthetic psilocybin micro and macro dose formulations to treat treatment-resistant depression and anxiety.

OPERATING AND FINANCIAL REVIEW

Operating Results

The operating results of the Group for the year ended 31 December 2022 were as follows:

	31-Dec-2022 $000's	31-Dec-2021 $000's
Cash and cash equivalents	**1,388**	7,184
Net assets	**22,294**	27,759
Total revenue	**8,689**	6,219
Other income	**339**	35
Adjusted EBITDA[2]	**(17,618)**	(29,200)
Net loss after tax from continuing operations	**(32,782)**	(30,031)

[1] Revenue for Sierra Sage Herbs is for four months since acquisition.
[2] Adjusted EBITDA comprises Net Earnings before interest, taxes, depreciation, amortisation and impairment charges.

The Company's ongoing growth was achieved through strong performances in most operating divisions. Notably Adjusted EBITDA (loss) improved to $17.6 million in 2022 from $29.2 million in 2021. The Company is committed to further reductions in operating expenses and increasing revenues to contribute to further improvements in Adjusted EBITDA in 2023.

Results of Operations

The Company achieved considerable progress during 2022 in most operating divisions, as the Company continues its transition to an international global health and wellness company. Over the course of the year, the Company not only materially increased revenue, but it also materially reduced costs across the entire business, and this effort remains ongoing.

Segment Results for 2022	**Asia Pacific $000's**	**Europe $000's**	**Canada $000's**	**USA $000's**	**All other segments[1] $000's**	**Total $000's**
Revenue from products	-	1,846	4,390	2,453	-	8,689
Royalty income	-	192	-	-	(192)	-
Total segment revenue	-	2,038	4,390	2,453	(192)	8,689
Other income	84	-	221	34	-	339
Adjusted EBITDA	(5,540)	(1,410)	(7,588)	(3,080)	-	(17,618)

Mernova Medicinal

Mernova posted $4.4m in revenues in 2022, a 21% increase over 2021. The division continues to expand its product range and customer base. It became a catalogued supplier in Ontario, the largest provincial cannabis market in Canada. New strains and a new brand were added to its product portfolio, which added to revenue in 2022. Mernova also entered the lucrative Canadian medicinal cannabis market through a partnership agreement for the production, distribution and online sale of medicinal cannabis products to patients across Canada.

Review of Operations

Sierra Sage Herbs
In August 2022, the Company acquired plant-based consumer packaged goods company, Sierra Sage Herbs LLC (SSH). The acquisition opened new markets for the Company in the USA, providing a new, established product range and additional revenue streams from major retailer and online distribution channels in one of the world's largest and fastest growing consumer markets. The Company also used its existing relationships in AsiaPac to introduce SSH products to new markets in Australia, Taiwan and Singapore.

Creso Pharma Switzerland
Revenues from Swiss operations in 2022 declined by 21% from 2021 to $2,038m due mainly to changes in European regulations. The business was restructured, enabling it to deliver sustainable results from 2023 onwards. The business is establishing supply channels for its nutraceutical products in South Korea. In addition, the business launched its own new products together with an SSH product in the Swiss and other European markets.

Creso Impactive Inc
In 2020, Impactive, which owns the brand ImpACTIVE, launched its maiden product, the ImpACTIVE Pro Releaf Stick through online channels. The product is GMP and ISO certified and is designed to provide relief to muscle aches, particularly in professional sport, and acts as an alternative to pharmacological solutions which have been shown to have addictive traits and other negative side effects. Impactive also appointed several leading brand ambassadors to promote product and brand awareness.

Halucenex Life Sciences Inc
Throughout 2022, Halucenex made considerable progress towards phase II clinical trials, which will test the efficacy of psilocybin on treatment resistant Post Traumatic Stress Disorder (PTSD). Milestones achieved during the year included Clinical Trial Authorisation (CTA) in February 2022, a key natural ingredients supply agreement, recruitment of clinical trial participants and approvals to commence trials. In December 2022, Halucenex successfully administered first doses of its Lucenex branded 10mg and 25mg synthetic psilocybin formulation.

Proposed acquisition of Health House International Ltd (ASX: HHI)
In August 2022, as part of its ongoing strategy to drive growth through M&A, the Company signed a non-binding agreement with Health House International Ltd (HHI) under which it is proposed that Creso Pharma will acquire HHI through a scheme of arrangement which will be subject to HHI shareholder and Court approval.
HHI is an international, licenced distributor to the UK, European and Australian medicinal cannabis markets. Upon completion of the transaction, the Company will benefit from HHI's complementary operations and revenue streams.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Financial Year Ended 31 December 2022

	Note	**2022** **$000's**	2021 $000's
Revenue from continuing operations			
Revenue	4	**8,689**	6,219
Other income	4	**339**	35
Expenses			
Raw materials and consumables used		**(8,402)**	(5,000)
Loss on fair value adjustments		**(407)**	(1,619)
Administrative expenses	5(a)	**(11,423)**	(23,173)
Depreciation and amortisation expenses	5(b)	**(1,949)**	(266)
Employee benefit expenses	5(c)	**(5,243)**	(3,810)
Impairment of intangibles	7	**(12,521)**	-
Other expenses		**(864)**	(704)
Loss on disposal of assets		**(307)**	-
Finance costs	5(d)	**(692)**	(1,713)
(Loss) from continuing operations before income tax		**(32,780)**	(30,031)
Income tax expense		**(2)**	-
(Loss) from continuing operations after income tax		**(32,782)**	(30,031)
Other comprehensive income			
Exchange differences on translation of foreign operations		**1,525**	1,082
Other comprehensive income for the year, net of tax		**1,525**	1,082
Total comprehensive (loss) for the year		**(31,257)**	(28,949)
(Loss) for the year attributable to:			
Non-controlling interest		**-**	-
Owners of Creso Pharma Australia Limited		**(32,782)**	(30,031)
		(32,782)	(30,031)
Total comprehensive (loss) for the year attributable to:			
Non-controlling interest		**-**	-
Owners of Creso Pharma Australia Limited		**(31,257)**	(28,949)
		(31,257)	(28,949)
(Loss) per share for the year attributable to the members of Creso Pharma Limited:			
Basic and Diluted loss per share (cents)		**(2.24)**	(2.71)

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

Consolidated Statement of Financial Position

As at 31 December 2022

	Note	2022 $000's	2021 $000's
ASSETS			
Current assets			
Cash and cash equivalents	6	**1,388**	7,184
Trade and other receivables		**2,563**	1,102
Inventories		**5,508**	1,398
Biological assets		**265**	457
Total current assets		**9,724**	10,141
Non-current assets			
Property, plant and equipment		**9,978**	10,436
Intangible assets	7	**15,848**	8,314
Other assets		**2,432**	423
Total non-current assets		**28,528**	19,173
Total assets		**37,982**	29,314
LIABILITIES			
Current liabilities			
Trade and other payables		**8,642**	1,471
Provisions		**375**	84
Borrowings	8	**6,671**	-
Total current liabilities		**15,688**	1,555
Total liabilities		**15,688**	1,555
Net assets		**22,294**	27,759
EQUITY			
Issued Capital	9	**128,382**	109,951
Reserves	10	**20,510**	12,631
Accumulated losses		**(126,598)**	(94,823)
Total equity		**22,294**	27,759

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

Consolidated Statement of Changes in Equity

For the Financial Year ended 31 December 2022

Group	Issued Capital $000's	Share-based Payment Reserve $000's	Foreign Currency Translation Reserve $000's	Accumulated Losses $000's	Non-Controlling Interest $000's	Total $000's
At 1 January 2022	**109,951**	**11,248**	**1,383**	**(94,823)**	**-**	**27,759**
Loss for the year	-	-	-	(32,782)	-	(32,782)
Other comprehensive income	-	-	1,525	-	-	1,525
Total comprehensive income/(loss) for the year after tax	**-**	**-**	**1,525**	**(32,782)**	**-**	**(31,257)**
Transactions with owners in their capacity as owners:						
Issue of share capital	9,942	-	-	-	-	9,942
Issue of shares for the acquisition (see note 12)	12,874	-	-	-	-	12,874
Issue of equity for services	504	2,561	-	-	-	3,065
Share-based payments	-	130	-	-	-	130
Shares issued to Directors	120	17	-	-	-	137
Exercise of options	20	-	-	-	-	20
Embedded derivative - Convertible Notes Options	-	49	-	-	-	49
Share issuance costs	(5,029)	4,604	-	-	-	(425)
Expired options	-	(1,007)	-	1,007	-	-
At 31 December 2022	**128,382**	**17,602**	**2,908**	**(126,598)**	**-**	**22,294**
At 1 January 2021	71,794	23,557	301	(82,000)	-	13,652
Loss for the year	-	-	-	(30,031)	-	(30,031)
Other comprehensive income	-	-	1,082	-	-	1,082
Total comprehensive income/(loss) for the year after tax	-	-	1,082	(30,031)	-	(28,949)
Transactions with owners in their capacity as owners:						
Issue of share capital	18,000	-	-	-	-	18,000
Issue of shares for the acquisition of Halucenex and Impactive	6,301	-	-	-	-	6,301
Issue of equity for services	3,481	4,616	-	-	-	8,097
Issue of equity to settle loan	3,280	-	-	-	-	3,280
Issue of equity to extinguish liability	863	160	-	-	-	1,023
Share-based payments	-	123	-	-	-	123
Shares issued to Directors	140	-	-	-	-	140
Exercise of options	8,528	-	-	-	-	8,528
Share issuance costs	(2,436)	-	-	-	-	(2,436)
Expired options	-	(17,208)	-	17,208	-	-
At 31 December 2021	**109,951**	**11,248**	**1,383**	**(94,823)**	**-**	**27,759**

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

Consolidated Statement of Cash Flows

For the Financial Year ended 31 December 2022

	Note	2022 $000's	2021 $000's
Cash flows from operating activities			
Receipts from customers		**8,851**	5,910
Payments to suppliers and employees		**(25,630)**	(27,939)
Payments for research		**(425)**	-
Interest received		**1**	-
Interest paid		**(103)**	(349)
Net cash used in operating activities	6(a)	**(17,306)**	(22,378)
Cash flows from investing activities			
Payments for plant and equipment		**(343)**	(451)
Payments for intangibles	7	**(5)**	(3)
Payment for Halucenex acquisition		**-**	(494)
Cash acquired on acquisition of Sierra Sage Herbs LLC	14	**164**	-
Loan to Sierra Sage Herbs LLC		**-**	(423)
Loan to HHI		**(2,100)**	-
Net cash used in investing activities		**(2,284)**	(1,371)
Cash flows from financing activities			
Proceeds from issue of shares	9	**9,942**	18,000
Proceeds from exercise of options	9	**20**	8,528
Proceeds from borrowings		**4,854**	-
Repayment of borrowings		**(266)**	(201)
Borrowing costs		**(117)**	-
Payment of share issue costs		**(622)**	(1,434)
Net cash from financing activities		**13,811**	24,893
Net increase/(decrease) in cash and cash equivalents		**(5,779)**	1,144
Cash and cash equivalents at the beginning of the year		**7,184**	6,047
Effect on exchange rate fluctuations on cash held		**(17)**	(7)
Cash and cash equivalents at the end of the year	6	**1,388**	7,184

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

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate Information

Creso Pharma Limited (referred to as “Creso” or the “Company”) is a company domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The consolidated financial statements of the Company as at and for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the “consolidated entity” or the “Group”).

The principal activities of the Group during the year were:

a) to develop, register and commercialise pharmaceutical-grade cannabis and hemp-based nutraceutical products and treatments;
b) to cultivate, process and sell cannabis products;
c) to sell beauty and personal care products using proprietary plant based processes including under the brands Green Goo, Southern Butter and Goodgoo; and
clinical trial and development of synthetic psilocybin micro and macro dose formulations to treat treatment-resistant depression and anxiety.

(b) Basis of Preparation

Statement of compliance
The consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”). Creso is a for-profit entity for the purpose of preparing the financial statements.

Basis of measurement
The consolidated financial statements have been prepared on a going concern basis in accordance with the historical cost convention, unless otherwise stated.

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only.

New, revised or amended standards and interpretations adopted by the Group
The consolidated entity has adopted all the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The new and revised Standards and Interpretations did not have any significant impact.

New standards and interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2022. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations is that they are not applicable.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2021 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

Significant Judgements and Estimates

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

Going Concern

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

As disclosed in the financial statements, the Group incurred a loss of $32,782,000 (2021: $30,031,000) and had net cash outflows from operating activities of $17,306,000 (2021: $22,378,000) for the year ended 31 December 2022. The Group had a deficiency between current assets and current liabilities of $5,964,000 (2021: 8,586,000 surplus) as at 31 December 2022.

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 business and at the amounts stated in the financial report.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon the Group being successful with the following factors:

- The ability of the Group to raise additional funds from shareholders, new investors and debt markets. The Group has successfully conducted a number of capital raises in both the current and recent years. When taking these into account, there is a reasonable expectation that alternative sources of funding can be sourced, as and when required. Further, the Company understands it will require further funding to continue to execute on its growth strategy as planned and is in negotiations with various parties to secure these funds and it is the Directors view that one or more of these funding arrangements will be successful;
- Increased revenue from opportunities with existing and new customers and sales arrangements as they are realised into sales revenue in the Group's North American and European operations; and
- Effective monitoring and reduction of the Group's overhead expenditures, including the continued realisation of head office cost reductions and additional efficiency in nearly acquired companies.

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Principles of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Creso as at 31 December 2022 and the results of all subsidiaries for the year then ended. Creso and its subsidiaries together are referred to in this financial report as the consolidated entity.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(d) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. Management has determined that based on the report reviewed by the Board and used to make strategic decisions, that the consolidated entity has four reportable segments.

(e) Foreign Currency Translation

Functional and presentation currency

Items included in the financial statements of each of the consolidated entity's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Australian dollars, which is Creso's functional and presentation currency.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Foreign Currency Translation (continued)

Consolidated entity companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position account presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of profit or loss and other comprehensive income account are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(f) Revenue Recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

The Group generates revenue through the sale of a range of products across its operations:

- Mernova Medicinal Inc ("MMI") generates revenue from the production and distribution of pharmaceutical-grade and recreational cannabis to large retailers and wholesalers throughout North America.
- Sierra Sage Herbs LLC (SSH") generates revenue from the production and distribution of personal beauty and health products through a number of distribution channels, including through traditional wholesaling and retailing channels, as well as via online distribution channels such as Amazon.
- Creso Pharma Switzerland ("CPS") generates revenue from the production and distribution of medicinal products for both the human and animal markets through wholesale and retail distribution chains.

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised. Revenue is recorded net of sales discounts and rebates, duties and taxes.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer, slotting fees, free fills (gifts with purchase), advertising co-op fees and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery. Where delivery cannot be determined on an individual order basis, a provision is recognised for deferred sales as disclosed in note 2 to properly recognise revenue in the period in which it has been earned.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goods sold via online systems, such as Amazon, pose a risk goods being returned or failing to be successfully delivered.

Interest revenue

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

(g) Income Tax

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

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

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

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

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

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

(h) Cash and Cash Equivalents

Cash on hand and in bank and short-term deposits are stated at nominal value. For the purpose of the statement of cash flows, cash includes cash on hand and in bank, and bank securities readily convertible to cash, net of outstanding bank overdrafts.

(i) Trade and Other Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Notes to the Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Property, Plant and Equipment

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(k) Intangible Assets

The Group has acquired significant intangible assets as a result of business acquisitions. Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Intellectual property is considered to provide a benefit to the Group over a finite useful life and is amortised using the straight-line method over the following periods:

	Useful life
Patents and trademarks	5 – 10 years
Licenses (Canadian)	5 – 30 years
Client relationships	5 years
Developed technology	5 years
Software	5 years

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

Research and development
Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 to 10 years.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intellectual Property

The Group has acquired and developed a range of intellectual property. The group's intellectual property includes the following:

- Patents and trademarks which involve significant costs which are deferred and amortised on a straight-line basis over the period of expected benefit.
- Brand names and associated trademarks which were acquired as part of a business combination see note 14 for further details. The cost of brand names and trademarks acquired have been recognised as an intangible asset and amortised on a straight-line basis over the period of expected benefit.
- Client relationships which were acquired as part of a business combination see note 14 for further details. The cost of client relationships acquired have been recognised as an intangible asset and amortised on a straight-line basis over the period of expected benefit.
- Developed technology which were acquired as part of a business combination see note 14 for further details. The cost of client relationships acquired have been recognised as an intangible asset and amortised on a straight-line basis over the period of expected benefit.

Intellectual property is considered to provide a benefit to the Group over a finite useful life and is amortised using the straight-line method over the following periods:

Licences

Significant costs associated with licences are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 to 30 years.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

(l) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(m) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received whether or not billed to the Group. Trade payables are usually settled within 30 days of recognition.

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fees are deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fees are capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Convertible Notes
When a conversion feature of a debt instrument results in the conversion of a fixed amount of stated principal into a fixed number of shares, it satisfies the 'fixed for fixed' criterion and, therefore, is classified as an equity instrument.

The value of the liability component and the equity conversion component were determined at the date the instrument was issued.

The fair value of the liability component at inception is calculated using a market interest rate for an equivalent instrument without a conversion option.

(o) Provisions

Provisions are recognised when the consolidated entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(p) Employee Benefits

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

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

(q) Share-based Payments

Equity-settled share-based compensation benefits are provided to Key Management Personnel, employees and outside parties for services provided.

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

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

(r) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(s) Earnings Per Share

Basic earnings per share
Basic earnings per share are calculated by dividing:

- The profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account:
- The after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

(u) Current and Non-Current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

(v) Dividends

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

(w) Investments in Associates

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a weighted average basis. Cost comprises direct materials and delivery costs, direct labour and import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

The Group manufactures and distributes a range of consumer products in the health and wellbeing category via its subsidiary Sierra Sage Herbs LLC. The inventory is valued at the lower of cost and net realisable value. Net realisable value takes into account the expected sales profile, prevailing sales prices, product deterioration rates seasonality and expected losses associated with slow-moving inventory items.

AASB 141 Agriculture (Biological assets)
The Company's biological assets consist of cannabis plants. The Company capitalises all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs, and production related depreciation. The Company measures biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost inventories after harvest. Costs to sell includes post-harvest production, shipping and fulfilment costs. The net unrealised gains or losses arising from changes in fair value less cost to sell during biological transformation are included in profit or loss of the related period. Seeds are measured at fair value. The Company recognises the mother plants used for cloning the cannabis plants through the statement of profit or loss as they have a useful life less than one year.

(y) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss
Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

(z) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

(aa) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(bb) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The category includes derivative instruments, including imbedded derivatives, with financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial liability out of fair value through profit or loss category.

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share based payments
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either a hybrid Monte Carlo or the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. The valuation model inputs are disclosed in note 7 and include forward-looking assumptions.

Income taxes
The consolidated entity is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity estimates its tax liabilities based on the consolidated entity's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Revenue from contracts with customers involving sale of goods
When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

Contract liabilities
Sierra Sage Herbs LLC. ("SSH"), a subsidiary of the Group distributes goods via online distribution channels such as Amazon. SSH has experienced specific delivery times in days to various parts of the continental USA, Hawaii, and Puerto Rico. Considering the transit time averages from point of origin to point of destination are between 3-7 days, management are required to make estimates regarding orders which have been dispatched but have not yet delivered to customers. To properly recognise sales in the period to which they have been earned, the consolidated entity recognises a provision for deferred revenue to reflect the average transit time of dispatched orders.

Claims for Merchandising costs
Contracts with certain customers of SSH include rights to claim various product merchandising charges, eg. vendor marketing, free-fill and slotting fees. SSH estimates accruals for such merchandising charges on an on-going basis, with reference to historical claim rates as a percentage of revenue per sales channel. Subsequent merchandising claims are expensed against the accrual.

Goods return
Sale by SSH of consumer goods via different sales channels may result in product returns and sometimes non-delivery. This can lead to reversal of sales in a future period and, depending on the cause, either a return to inventory or write-off of the product. Management review historical rates of returns and non-deliveries on an ongoing basis and use the information to estimate the liability for future returns or non-deliveries, resulting in an accrual against which subsequent reversals of sales are applied.

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND ASSUMPTIONS (CONTINUED)

Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- *Level 1*: Quoted prices in active markets for identical items (unadjusted)
- *Level 2*: Observable direct or indirect inputs other than Level 1 inputs
- *Level 3*: Unobservable inputs (i.e. not derived from market data)

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurements of the item. Transfers between items between levels are recognised in the period they occur. The Group measures a number of items at fair value, including the following which are considered level 3 in the fair value hierarchy:

- Biological assets
- Embedded derivative portion of the convertible notes

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

Research and development

Research and development includes expenses related to Halucenex. Research and development costs are recognised in the period in which they are incurred. The Group's research and development costs include employee compensation, licence fees, milestones under licence agreements, third-party contractors performing research, conducting clinical trials and developing drug materials, together with associated overhead expenses and facilities costs. The Group charges direct and indirect internal and external program costs to the development program.

Research and development costs are expensed or capitalised in accordance with the Group's research and development accounting policy as set out in note 1(k).

Clinical trials

Halucenex, a subsidiary of the Group is conducting clinical trials. The Group records expenses in connection with clinical trials under contracts with a contracted research organization (CRO) that supports conducting and managing the clinical trials.

Expenses related to clinical trials are accrued based on estimates and/or representations from service providers regarding work performed, including actual level of patient enrolment, completion of patient studies and progress of the clinical trials. Other incidental costs related to patient enrolment or treatment are accrued when reasonably certain. If the amounts the Group is obligated to pay under our clinical trial agreements are modified (for instance, as a result of changes in the clinical trial protocol or scope of work to be performed), the Group adjusts its accruals accordingly on a prospective basis. Revisions to the Group's contractual payment obligations are charged to expense in the period in which the facts that give rise to the revision become reasonably certain.

The Group currently has one Phase 2 clinical trial in process, with ongoing non-clinical support trials. As such, clinical trial expenses will vary depending on the all the factors set forth above and may fluctuate significantly from quarter to quarter.

Clinical trial costs are expensed or capitalised in accordance with the Group's research and development accounting policy as set out in note 1(k).

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions. (refer to note 7).

NOTE 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND ASSUMPTIONS (CONTINUED)

Biological assets and inventory

Biological assets

A subsidiary of the Group, Mernova Medicinal Inc. ("MMI") grows and manufactures a range of biological assets and harvested cannabis inventories. Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory including a number of assumptions, such as estimating the stage of growth of the cannabis, harvesting costs, sales price and expected yields.

Obsolescence

The Group distributes a range of consumer products in the health and wellbeing category via its subsidiary Sierra Sage Herbs LLC. ("SSH") and grows and manufactures a range of biological products through its subsidiary MMI. These products are subject to potential obsolescence. Management is required to make assumptions in relation to obsolescence of products and product categories. An inventory provision is recognised where the realisable value from sale of inventory is estimated to be lower than the inventory's carrying value. Inventory provisions for different products and product categories are estimated based on various factors, including expected sales profile, prevailing sales prices, product deterioration rates, seasonality and expected losses associated with slow-moving inventory items as well as on specific identification.

Goods returns

SSH operates within the online sales segment which creates a risk of customer returns. As disclosed above in "*Revenue from contracts with customers involving sale of goods",* this can lead to reversal of sales in a future period. Management review the rate of returns on an ongoing basis and utilise such evidence to make assumptions regarding return rates and inventory recoverability. Provisions for sales returns are made to reflect such assumptions regarding return along with appropriate adjustments to inventory.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates and forward-looking information that is available. The allowance for expected credit losses, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

NOTE 3 SEGMENT INFORMATION

The Group requires 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 includes Creso Pharma Switzerland GmbH ("Switzerland") which includes the development and commercialisation of its nutraceutical products – located in Switzerland.
- Canada includes the operating companies; Mernova Medicinal Inc ("Mernova"), Halucenex Life Sciences Inc. and ("Halucenex"), Creso Impactive Ltd ("Impactive"), together with corporate holding companies Creso Canada Corporate Limited, Creso Canada Limited, 3321739 Nova Scotia Limited, 4340965 Nova Scotia Limited and Kunna Canada Limited, all located in Canada.
- United States of America (USA) includes the operating company Sierra Sage Herbs LLC which develops and sells personal beauty and health products, together with corporate holding company Creso Pharma US, Inc., all located in USA.
- Asia Pacific includes the parent company Creso Pharma Limited ("Creso") which provides the Group's corporate administration – located in Australia.

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

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

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

Year ended 31 December 2022	Asia Pacific $000's	Europe $000's	Canada $000's	USA $000's	All other segments[i] $000's	Total $000's
Revenue from products	-	1,846	4,390	2,453	-	8,689
Royalty income	-	192	-	-	(192)	-
Total segment revenue	-	2,038	4,390	2,453	(192)	8,689
Other income	84	-	221	34	-	339
Loss before in tax expense[ii]	(6,023)	(7,931)	(8,242)	(10,584)	-	(32,780)
Total Segment Assets	3,113	6,490	21,671	6,708	-	37,982
Total Segment Liabilities	6,067	183	1,114	8,324		15,688

(i) Included in other segments is elimination of inter segment revenues. South America, a separate segment in prior periods, did not operate during 2022.

(ii) Included in profit and loss are impairments to operating segments of the Group as follows:

Year ended 31 December 2022	Asia Pacific $000's	Europe $000's	Canada $000's	USA $000's	All other segments $000's	Total $000's
Impairment of intangible assets	-	5,891	-	6,630	-	12,521

NOTE 3 SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2021	Asia Pacific $000's	Europe $000's	Canada $000's	USA $000's	South America[i] $000's	Total $000's
Revenue from products	-	2,580	3,639	-	-	6,219
Total segment revenue	-	2,580	3,639	-	-	6,219
Other income	10	-	25	-	-	35
Loss before in tax expense[i]	(16,743)	(3,516)	(9,654)	-	(118)	(30,031)
Total Segment Assets	4,676	3,154	21,484	-	-	29,314
Total Segment Liabilities	850	148	557	-	-	1,555

(i) South America is no longer considered a reportable segment. The loss of $118,000 has been restated to all other segments.

NOTE 4 REVENUE AND OTHER INCOME

	2022 $000's	2021 $000's
Revenue from continuing operations		
Revenue from sale of products	**8,689**	6,219
	8,689	6,219
Other income		
Interest received	**84**	-
Lease income	**26**	25
Other Income	**229**	10
	339	35

Disaggregation of revenue

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

Consolidated		
Major product lines		
Nutraceutical products	**1,846**	2,580
Cannabis products	**4,390**	3,639
Personal health and beauty products	**2,453**	-
Total	**8,689**	6,219
Geographical regions		
Europe	**1,846**	2,580
Canada	**4,390**	3,639
United States of America	**2,453**	-
Total	**8,689**	6,219
Timing of revenue recognition		
Goods transferred at a point in time	**8,689**	6,219
Total	**8,689**	6,219

NOTE 5 EXPENSES

		2022 $000's	2021 $000's
(a)	**Administrative expenses**		
	Accounting and company secretarial fees	**2,256**	1,006
	Travel costs	**311**	80
	General and administration expenses	**971**	540
	Compliance and regulatory expenses	**481**	647
	Consulting fees	**3,540**	8,025
	Corporate advisory and business development	**674**	4,038
	Legal fees	**1,021**	1,612
	Investor and Media Relations	**486**	1,386
	Marketing	**1,631**	3,080
	US based Marketing & Media Relations	**52**	2,759
		11,423	23,173
(b)	**Depreciation and amortisation expense**		
	Total depreciation	**663**	633
	Less: capitalised to inventory	**(629)**	(582)
	Amortisation expense per note 7	**1,915**	215
		1,949	266
(c)	**Employee benefit expenses**		
	Director fees	**1,388**	1,376
	Wages and salaries	**3,425**	1,788
	Recruitment fees	**4**	38
	Superannuation	**131**	89
	Other employee expenses	**165**	396
	Share-based payment expense	**130**	123
		5,243	3,810
(d)	**Finance costs**		
	Interest Expense	**208**	524
	Bank Charges	**73**	12
	Capital Raising Fees (EverBlu)	**176**	(6)
	Capital Raising Fees Other	**-**	153
	Realised Foreign Exchange Gain/Loss	**17**	7
	Gain on embedded derivative	**(17)**	-
	Loss on extinguish of liability	**235**	1,023
		692	1,713

NOTE 6 CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**1,388**	7,184
	1,388	7,184

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 rate, currently 0.01% (2021: 0.01%).

(a) Reconciliation of net loss after tax to net cash flows from operations

Loss for the financial year	**(32,782)**	(30,031)
Adjustments for:		
Depreciation and amortisation	**2,578**	848
(Gain)/loss on foreign exchange	**(17)**	7
Share based payments	**130**	123
NRV adjustments to inventory and fair value adjustments to biological assets	**(3,448)**	(2,526)
Loss on disposal of tangible assets	**307**	-
Impairment of intangible assets	**12,521**	-
Interest settled by issue of equity	**-**	280
Issue of equity for services	**3,202**	8,257
Issue of equity to extinguish liability	**-**	863
Absorption of depreciation costs in biological assets and inventory (see note 5)	**(629)**	(582)
Other non-cash items	**147**	(28)
Changes in assets and liabilities		
Receivables	**(196)**	465
Inventories	**(1,724)**	289
Biological assets	**192**	314
Trade and other payables	**2,270**	(692)
Provisions	**143**	35
Net cash used in operating activities	**(17,306)**	(22,378)

NOTE 6 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Non-cash investing and financing activities

	2022 $000's	2021 $000's
Equity issued for the conversion of convertible notes	**(49)**	-
Equity issued as share issue costs	**(4,604)**	(1,002)
Issue of shares for the acquisitions of Halucenex and Impactive	**-**	6,301
Issue of shares for the acquisitions of Sierra Sage Herbs	**12,874**	-
Issue of share to settle the loan	**-**	3,000

(c) Changes in liabilities arising from financing activities

	31 December 2021 $000's	**Cash Flows $000's**	**Non-cash Flows $000's**	**31 December 2022 $000's**
Movement in debt instruments	**-**	**4,471**	**(1,178)**	**3,293**
Sierra Sage Herbs LLC acquisition	**-**	**-**	**3,378**	**3,378**
	-	**4,471**	**2,200**	**6,671**

	31 December 2020 $000's	Cash Flows $000's	Non-cash Flows $000's	31 December 2021 $000's
Movement in convertible notes	3,150	(150)	(3,000)	-
Payment of interest on convertible notes	106	(106)	-	-
	3,256	(256)	(3,000)	-

NOTE 7 INTANGIBLE ASSETS

Current	**2022 $000's**	2021 $000's
Licences (Canadian) (i)	**280**	**1,156**
Intellectual property acquired on acquisition (ii)	**15,560**	**7,155**
Intellectual property purchased (iii)	**8**	**3**
Goodwill on acquisition (iv)	**-**	**-**
	15,848	**8,314**

(i) Licences Canadian
Comprise the cannabis cultivation licence granted by Health Canada to Mernova Medicinal Inc in March 2019.

(ii) Intellectual Property and goodwill acquired on acquisition
Comprises the results of clinical trials for the formulation of a synthetic psilocybin that were acquired with Halucenex, along with intellectual property acquired with Sierra Sage Herbs LLC, including client relationships, developed technologies, brand names and trademarks for detail of Sierra Sage Herbs LLC (see note 14 for detail of Sierra Sage Herbs LLC acquisition).

(iii) Intellectual Property
Comprises patents pending and trademarks acquired from Impactive.

(iv) Goodwill
Represents goodwill on acquisition of Sierra Sage Herbs LLC.

NOTE 7 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:

Consolidated	Licences (Canadian) $000's	Intellectual Property $000's	Computer Software $000's	Goodwill $000's	Total $000's
Balance at 1 January 2022	**1,156**	**7,158**	**-**	**-**	**8,314**
Additions	-	5	-	-	5
Acquired on acquisition (see note 14)	-	18,403	-	2,429	20,832
Impairment[i]	-	(10,089)	-	(2,432)	(12,521)
Foreign exchange translation	(28)	1,158	-	3	1,133
Amortisation expense	(848)	(1,067)	-	-	(1,915)
Balance at 31 December 2022	**280**	**15,568**	**-**	**-**	**15,848**
Remaining amortisation period (years)	25	5	-	-	

Consolidated	Licences (Canadian) $000's	Intellectual Property[(ii)] $000's	Computer Software $000's	Goodwill $000's	Total $000's
Balance at 1 January 2021	**1,275**	**-**	**2**	**-**	**1,277**
Additions	-	3	-	-	3
Acquired on acquisition	-	7,085	-	-	7,085
Impairment	-	-	-	-	-
Foreign exchange translation	94	70	-	-	164
Amortisation expense	(213)	-	(2)	-	(215)
Balance at 31 December 2021	**1,156**	**7,158**	**-**	**-**	**8,314**

(i) The Group conducted impairment testing as detailed below. As a result an impairment charge against intangible assets of $12,521,000 (2021: $NIL) was recognised during the period. Note 3 discloses the breakdown of impairment by segment.

(ii) The intellectual property recognised in respect of Halucenex is related to an in-process research and development (IPR&D) project and is considered to be indefinite-lived until the completion or abandonment of the associated research and development work. During the period the assets are considered indefinite-lived, they will not be amortized but will be tested for impairment. If and when development is complete, which generally occurs when regulatory approval to market a product is obtained, the associated assets are deemed finite-lived and are amortized over a period that best reflects the economic benefits provided by these assets.

Impairment indicators

As noted in note 1(k), 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 in the consideration of impairment indicators:

- The Swiss CGU 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 Swiss IP CGU of the Company's business holds intellectual property rights acquired from Sierra Sage Herbs.
- The Mernova CGU of the Company's business is in its early phase and needs to continue its development to grow its revenues and become cash flow positive.
- The Halucenex CGU of the Company's business currently conducting a clinical trial and receiving a Dealer's Licence amendment that now includes production and packaging, opening new revenue lines in the future. For these reasons and other general progress, there are no indicators of impairment in the carrying value.

NOTE 7 INTANGIBLE ASSETS (CONTINUED)

- The Sierra Sage Herbs CGU of the Company's business was acquired on 26 August 2022 in an arm's length transaction through a business combination. The business manufactures and sells consumer packaged goods focused on plant-based and CBD products under the Green Goo, Southern Butter, and GoodGoo brands offering products in the CBD, first aid, beauty, sexual wellness, women's health and pet categories.

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 Canadian operating segment.

The impairment testing performed at 31 December 2022 supported the recoverable amount of the CGU and did not result in any impairment charge during the period (2021: $Nil).

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.

The impairment testing performed at 31 December 2022 supported the recoverable amount of the CGU and did not result in any impairment charge during the period (2021: $Nil).

Switzerland Intellectual Property CGU
The Group's Switzerland Intellectual Property CGU, acquired during the period, represents its operations, being the exploitation of intellectual property rights. This CGU is attributed to the Company's European operating segment.

The impairment testing performed at 31 December 2022 indicated the recoverable amount of the CGU on a relief from royalty method to the carrying value of the associated intangibles, being brand names. The relief from royalty method is a calculation of the amount of the hypothetical royalty that would be paid if the brands were licensed from an independent third party. When the recoverable amount of the brand is less than the carrying amount, an impairment loss is recognised. This resulted in the Group recognising an impairment charge of $5,891,000 against the CGU during the period.

Sierra Sage Herbs CGU
The Group's Sierra Sage Herbs CGU, acquired during the period, represents its operations which manufacture and sell first aid and body care products. It offers products for pain relief, tattoo care, first aid, foot care, and skin care. Its products include gel and solid deodorants, castile and foaming soaps, bath salts, face wash, shampoos and conditioners, body scrubs, toothpaste, body butters, massage oils and balms. It offers products online and through various retail channels. This CGU is attributed to the Company's US operating segment.

The impairment testing performed at 31 December 2022 an impairment charge of $6,630,000 against the CGU during the period.

Significant Judgements and Estimates

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

	Mernova	Switzerland Operations	Switzerland IP	Sierra Sage Herbs
Forecast period and short-term revenue growth rate (a)	5 years	5 years	5 years	5 years
Terminal / long term revenue growth rate (b)	3% terminal rate	3% terminal rate	3% terminal rate	3% terminal rate
Post tax discount rate (c)	16%	40%	15%	15%
Royalty rate (d)	n/a	n/a	5%	n/a

NOTE 7 INTANGIBLE ASSETS (CONTINUED)

Assumption	Approach used to determine values
(a) Forecast period and short-term revenue growth rate	The forecast is based on a Board approved budget for FY23 and growth estimates for four periods beyond the budget period. Specific factors considered in the forecasts used in the impairment model: • The Mernova CGU is becoming established, with revenues continuously increasing as a result of production efficiencies, improvements in quality and yields, an expanded product range including premium products, penetration of new provinces and increased market share through a growing customer base. The CGU has an average forecast growth of 19% across the forecast period and the revenue growth in both % and dollar terms is expected to increase more significantly in earlier years due to the lower revenue base, as the business is moving from start up to growth phase. This growth trend is also supported by revenues increasing by 21% in FY2022 (2021: 199%), highlighting the growth phase that the Company is experiencing. • The Swiss CGU has an average forecast growth of 8% across the forecast period. • The Swiss IP CGU has an average forecast growth in the first year of 184% which decreases to an average growth rate over the following four years of 11%. This is consistent with the growth forecast within the Sierra Sage Herbs CGU. • The Sierra Sage Herbs CGU has forecast growth in the first year of 78% which decreases to an average growth rate over the following four years of 22%. This reflects the Group's strategy to significantly grow sales over the next 12 months within the business.
(b) Terminal / long term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the forecast period. The long-term growth rate has been set at 3% to reflect the uncertainty in the forecast future cash flows.
(c) Post tax discount rate	The post-tax 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 post-tax discount rate for Mernova has reduced from 22% to 16% when compared to 31 December 2021 based on the progress and de-risking of the business that has occurred in FY22. As noted above, this is supported by the significant increase in FY22 revenue and the plans in place to deliver continued growth. The directors and management note that the discount rate as at 31 December 2022 still includes a company specific risk premium based on an assessment of risks specific to the CGU, the early-stage business and execution risk of the forecasts. A post-tax discount rate used for Sierra Sage Herbs was 15% reflecting the specific risks associated with the business and its predominant operating environment.
(d) Royalty rate	The royalty rate used in the valuation was based on rates observed in the market.

For the Swiss Operations 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.

For the Sierra Sage Herbs, Swiss IP and Mernova CGU, if any adverse changes were made to the above key assumptions, the carrying amount would exceed the recoverable amount.

This sensitivity assumes the specific assumption moves in isolation, whilst all other assumptions are held constant. In reality, a change in this assumption may accompany a change in another assumption.

NOTE 8 BORROWINGS

	2022	2021
Secured borrowings	**$000's**	$000's
Deed of trust loans[a]	**2,393**	-
Other loans[b]	**2,952**	-
Total secured borrowings	**5,345**	-
Unsecured borrowings		
Convertible notes[c]	**851**	-
Related party loans[d]	**475**	-
Total unsecured borrowings	**1,326**	-
Total borrowings	**6,671**	-

(a) Secured deed of trust loans

The company entered into a loan facility via a Loan Trust Deed between Creso Pharma Limited and Briant Nominees Pty Ltd, denominated in Australian dollars. The facility operates with the following key terms:

- Maximum drawdown of $5,000,000 Australian dollars;
- Annualised interest rate of 30%;
- Repayment date of 21 May 2023;
- Capacity based on mutual agreement to rollover loans into convertible notes if required conditions are met by 31 January 2023, which was subsequently extended to 24 March 2023;
- Secured by a fixed charge against Mernova Medicinal Inc's ('MMI') Cannabis Cultivation Facility located in Nova Scotia, Canada.

During the period $2,320,000 was drawn down against the facility and $72,000 of accumulated interest has been recognised.

The conditions of the loans enable the loan to be rolled over by subscription into convertible notes with each note having a face value of A$100,000. The conditions precedent for rollover of loans into convertible notes are:

- the Company has made an offer to the lender, inviting them to subscribe for Convertible Notes; and
- the Company has obtained shareholder approval for the issue of the Convertible Notes to lenders or their nominees; and
- the lender has subscribed for convertible notes in accordance with the conditions as set out in the loan deed.

Attached to each Convertible Note (face value of A$100,000) are 1,000,000 options with an exercise price of $0.08 and an expiry date 4 years from date of issue. The notes are convertible into ordinary shares of the Company at a conversion price of $0.05 per share. In addition, on conversion, the note holder is entitled to one option for every 4 ordinary shares acquired on conversion. The exercise price of the options is $0.08 with options being able to be exercised on or before the elapse of four years after the first issue within the class of options. At 31 December 2022 no loans have been converted or redeemed.

The security charge is over MMI's facilities which is a purpose built facility to Health Canada GPP standard, scalable to 200,000 sq. ft. It contains 10 grow rooms with potential to produce 4,000kg. annually.

(b) Secured other loans

Sierra Sage Herbs LLC ('SSH') entered into a loan facility on 29 June 2021 with La Plata Capital LLC. ('La Plata loan'), denominated in United States dollars. During the period, the Company acquired 100% of the equity in SSH on the date of acquisition of SSH (26 August 2022). The facility remained operational and was continued post acquisition on the same terms and conditions as originally entered into. The facility operates with the following key terms:

- Maximum drawdown of $2,000,000 United States Dollars;
- Annualised interest rate of 13%;
- Repayable on demand as at 31 December 2022;
- Secured by a floating charge against the assets of Sierra Sage Herbs LLC.

NOTE 8 BORROWINGS (CONTINUED)

As at the balance sheet date the loan was fully drawn and payable on demand.

Subsequent to the balance sheet date, on 27 January 2023, the group restructured the La Plata loan resulting in the extension of maturity to US$1,282,500. The remaining US$717,500 will be repaid by 31 January 2023. See note 32 for further details.

(c) Unsecured convertible notes

The company entered into a convertible note loan facility with Obsidian Global GP LLC ("Obsidian") on 27 October 2022, denominated in Unites States dollars. The maximum drawdown under the facility was A$5,000,000 in three tranches as follows:

- Tranche 1 A$1,750,000 5 business days after execution of the agreement;
- Tranche 2 A$1,750,000 5 business days after shareholder approval; and
- Tranche 3 A$1,500,000 on a date to be agreed between the Company and investor.

At 31 December 2022, the convertible notes comprise convertible note facilities issued in Tranche 1 of 1,310,339 notes issued on 2 November 2022 at an issue price of US$1.00 per note. On issue, the notes are convertible at the lower of the conversion price and the average of the lowest 5 daily VWAP during the 15 days prior to the redemption date. Notwithstanding the price above notes are subject to a minimum conversion price of A$0.015 per share. Redemption is subject to certain conditions being met. The conversion price represents a maximum premium of 30% to the Volume weighted average share price of the ordinary shares during the five days immediately prior to the date the convertible notes were issued. The issuer is entitled to convert the lesser of 12th of the total notes issues to them or the amount outstanding beginning on 20 January 2023 and then every 30th day thereafter.

Beginning on 20 January 2023, and every month thereafter, the company must redeem 1/12 of the outstanding balance of the convertible securities by paying 105% of the face value of the relevant convertible securities to Obsidian or issuing shares to Obsidian at the Redemption Price. The Company may also redeem some or all of the convertible notes by paying Obsidian 110% of the amount outstanding in respect of the relevant convertible securities. The Company expects that the notes will be converted prior to maturity and will have a dilutive effect.

As part of the convertible note facilities, a maximum of 44,000,000 of free listed (CPHO) options will be issued at an exercise price of $0.25 with an expiration date of 2 November 2024 and exercisable at any time. As at 31 December 2022, 22,000,000 options have been issued.

Also, as part of the convertible note facilities, a maximum of 90,000,000 collateral shares have been available for issue to noteholders at any time. If at maturity, there are any collateral shares left, the holder either:

- sell the shares and pay 95% of the proceeds to the Group
- transfer them back to the Group's nominees for $1
- purchase them for the lower of the fixed conversion price and the redemption price.

In the case that at maturity the holder has collateral shares left, but there is a trading halt for a period longer than 60 days, the holder will have no further obligation and the collateral shareholding will reduce to zero.

NOTE 8 BORROWINGS (CONTINUED)

The holder has sale restrictions in respect of the notes on a given day, limiting sales to the greater of 20% of volume or $50,000.

The net proceeds received from the issue of the convertible notes was $1,750,000. These proceeds have been split between a financial liability element and an equity component. The financial liability component comprises the fair value of the convertible note together with the embedded derivative financial liability relating to the conversion feature and the collateral shares given.
The equity component represents the embedded derivative relating to the free options and has been credited to the options reserve.

The net proceeds on issue have been classified as follows:	**$'000s**
Equity component – free options	**49,000**
Liability component – convertible notes	**1,632,000**
Liability component – embedded derivative	**69,000**
Net proceeds on inception	**1,750,000**
Liability component – convertible notes	**1,632,000**
Transaction costs capitalised	**(1,038,000)**
Net borrowings recorded on inception	**594,000**

At 31 December 2022, the fair value of the liability components recorded was $851,000.

The convertible notes have been valued using the net present value discounted at an effective interest rate of 15% (inclusive of risk-free rate, market risk rate and operational risk rate and credit risk).

As at the balance sheet date tranches 2 and 3 had not been activated and remained undrawn. Subsequent to balance sheet date, $500,000 was drawn in relation to Tranche 2. Tranche 2 was reduced from $1,750,000 to $500,000 on mutual agreement between the Company and Obsidian.

(d) Unsecured related party loans

On 22 December 2022, William Lay advanced $75,000 Canadian dollars and $12,391 United States dollars to the Company. As at the balance sheet date, the Company recognised a liability of $100,000 which is reflected in **Error! Reference source not found.**.

On June 2021, Sierra Sage Herbs LLC. ('SSH') and the then controlling shareholder Jodi Scott entered into a revolving line of credit denominated in Unites States dollars. The facility operates with the following key terms:

- Maximum drawdown of $500,000 United States dollars;
- The facility operates with a fixed interest rate of 6.75% per annum;
- The facility matures on 15 June 2023.

Between 15 June 2022 and 30 September 2022 a total of $361,000 United States dollars were drawn down against the facility. Subsequent to which a total of $120,000 Unites States dollars has been repaid in four equal instalments. At balance sheet date outstanding liability recognised was $254,000 United States dollars.

(e) Fair value

The borrowings of the Group are of a short-term nature for which there is not a material difference between their fair value and carrying amount.

NOTE 9 ISSUED CAPITAL

(a) Issued and fully paid

	2022		2021	
	No.	**$000's**	No.	$000's
Ordinary shares	**1,835,962,135**	**128,382**	**1,226,370,447**	**109,951**

(b) Movement in issued shares – 2022

	Number	**$000's**
At 1 January 2022	**1,226,370,447**	**109,951**
Issuance of shares pursuant to a Placement	**199,351,467**	**9,942**
Issue of Shares as consideration for acquisitions	**357,614,203**	**12,874**
Exercise of options	**405,430**	**20**
Conversion of Employee Performance Rights	**5,550,000**	**-**
Issue of shares for services	**1,670,588**	**504**
Shares issued to Directors	**-**	**120**
Issue of shares as collateral shares to Obsidian	**45,000,000**	
Less: Equity raising costs	**-**	**(5,029)**
At 31 December 2022	**1,835,962,135**	**128,382**

Movement in issued shares – 2021

	Number	**$000's**
At 1 January 2021	902,295,934	71,794
Issuance of shares pursuant to a Placement	94,736,843	18,000
Issue of Shares as part consideration for acquisitions	48,768,327	6,301
Issue of shares to Employees & Consultants	15,000,000	2,025
Exercise of options	140,101,837	8,528
Conversion of Employee Performance Rights	300,000	-
Issue of shares to settle loan	13,666,666	3,280
Issue of shares for services	6,904,348	1,456
Shares issued to Directors	1,000,000	140
Issue of share capital for extinguish of liability	3,596,492	863
Less: Equity raising costs	-	(2,436)
At 31 December 2021	**1,226,370,447**	**109,951**

Ordinary shares

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

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

NOTE 10 RESERVES

	2022 $000's	2021 $000's
Share-based payments	**17,602**	11,248
Foreign currency translation reserve	**2,908**	1,383
	20,510	12,631
Movement reconciliation		
Share-based payments reserve		
Balance at the beginning of the year	**11,248**	23,557
Equity settled share-based payment transactions (Note 23)	**130**	123
Embedded derivative – convertible notes options	**49**	-
Issue of options for services	**7,182**	4,616
Issue of options to extinguish liability	**-**	160
Expired options	**(1,007)**	(17,208)
Balance at the end of the year	**17,602**	11,248
Foreign currency translation reserve		
Balance at the beginning of the year	**1,383**	301
Effect of translation of foreign currency operations to group presentation	**1,525**	1,082
Balance at the end of the year	**2,908**	1,383

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 using the Black-Scholes model.

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 11 SHARE BASED PAYMENTS

	2022 $	2021 $
(a) Recognised share-based payment transactions		
Unlisted options issued to employees and consultants	**48,298**	32,057
Performance rights issued to employees and consultants	**81,815**	90,622
Performance rights issued to key management personnel	**-**	-
	130,113	122,679

Share based payments are valued on the basis set out in note 1(q) of Significant Accounting Policies.

For share-based payments issued during a financial year the parameters used in the valuations are set out in the share-based payments note to the financial statements in that year.

(b) Movements in unlisted options during the year

Grant Date	Issue Date	Date of Expiry	Exercise Price	Balance at the start of the year	Issued during the year[i]	Exercised during the year	Expired/ Cancelled during the year	Balance at the end of the year
27-07-2018	27-07-2018	27-07-2022	$0.80	200,000	-	-	(200,000)	-
31-08-2018	31-08-2018	15-09-2022	$0.80	300,000	-	-	(300,000)	-
12-02-2020	12-02-2020	12-02-2023	$0.35	2,128,387	-	-	-	2,128,387
12-02-2020	12-02-2020	12-02-2023	$0.40	6,847,725	-	-	-	6,847,725
07-04-2020	07-04-2020	01-03-2024	$0.25	250,000	-	-	(250,000)	-
07-04-2020	07-04-2020	10-03-2024	$0.08	1,000,000	-	-	(1,000,000)	-
07-04-2020	07-04-2020	10-03-2024	$0.16	1,000,000	-	-	(1,000,000)	-
07-04-2020	07-04-2020	10-03-2024	$0.20	500,000	-	-	(500,000)	-
25-06-2020	25-06-2020	25-06-2023	$0.1389	5,752,688	-	-	-	5,752,688
02-06-2020	02-06-2020	02-06-2023	$0.17	27,764,706	-	-	-	27,764,706
02-06-2020	02-06-2020	02-06-2023	$0.25	4,000,000	-	-	-	4,000,000
02-06-2020	02-06-2020	02-06-2023	$0.20	8,000,000	-	-	-	8,000,000
23-12-2020	23-12-2020	23-12-2023	$0.20	833,333	-	-	-	833,333
23-12-2020	23-12-2020	23-12-2025	$0.039	30,000,000	-	-	-	30,000,000
11-01-2021	11-01-2021	11-01-2023	$0.24	8,000,000	-	-	-	8,000,000
11-01-2021	11-01-2021	11-01-2023	$0.27	8,000,000	-	-	-	8,000,000
11-01-2021	11-01-2021	11-01-2023	$0.30	8,000,000	-	-	-	8,000,000
11-01-2021	11-01-2021	11-01-2023	$0.40	2,500,000	-	-	-	2,500,000
11-01-2021	11-01-2021	11-01-2023	$0.40	300,000	-	-	-	300,000
14-07-2021	14-07-2021	14-07-2024	$0.38	12,000,000	-	-	-	12,000,000
31-08-2021	31-08-2021	01-08-2024	$0.15	12,000,000	-	-	-	12,000,000
31-08-2021	31-08-2021	01-08-2024	$0.18	12,000,000	-	-	-	12,000,000
06-09-2021	06-09-2021	06-09-2024	$0.18	10,000,000	-	-	-	10,000,000
06-09-2021	06-09-2021	06-09-2024	$0.25	10,000,000	-	-	-	10,000,000
25-10-2021	25-10-2021	25-10-2024	$0.1375	1,000,000	-	-	-	1,000,000
12-12-2022	12-12-2022	12-06-2024	$0.14	-	53,358,712	-	-	53,358,712
				172,376,839	**53,358,712**		**(3,250,000)**	**222,485,551**
Weighted average exercise price				$0.20	$0.14		$0.25	$0.18

(i) Issued unlisted options excludes 57,971,032 options due to Everblu Capital Pty Ltd and 175,000,000 options due to Everblu Capital Corporate Pty Ltd which remained unissued at 31 December 2022.

NOTE 11 SHARE-BASED PAYMENTS (CONTINUED)

(c) Movements of listed options during the year

Options	Issue Date	Date of Expiry	Issue Price	Exercise Price	Balance at start of the year	Issued during the year	Exercised during the year	Expired/ Cancelled during the year	Balance at end of the year
CPHO	02-11-2021	02-11-2024	$0.00	$0.25	400,942,239	22,000,000	(451)	-	422,941,788
CPHOA	22-01-2021	22-01-2023	$0.00	$0.05	64,358,997	-	(404,979)	-	63,954,018
					465,301,236	**22,000,000**	**(405,430)**	**-**	**486,895,806**

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

Balance at the start of the year	Granted during the year	Vested during the year	Cancelled during the year	Balance at the end of the year
16,798,000	**800,000**	**(5,350,000)**	**(1,699,000)**	**10,549,000**

NOTE 12 INVESTMENT IN CONTROLLED ENTITIES

Company Name	Principal Activities	Country of Incorporation	Ownership interest 2022 %	Ownership interest 2021 %
Creso Pharma Switzerland GmbH	Development of nutraceutical products	Switzerland	**100**	100
Creso Canada Limited	Corporate entity	Canada	**100**	100
Creso Canada Corporate Limited	Corporate entity	Canada	**100**	100
Mernova Medicinal Inc.	Cultivation of cannabis plants and sale of cannabis products	Canada	**100**	100
3321739 Nova Scotia Limited	Corporate Entity	Canada	**100**	100
Kunna Canada Limited	Corporate entity	Canada	**100**	100
Kunna S.A.S	Holder of cannabis licenses in Colombia	Colombia	**100**	100
Halucenex Life Sciences Inc.	Clinical stage psychedelic drug development company	Canada	**100**	100
Creso Impactive Limited	CBD based life sciences company	Canada	**100**	100
Sierra Sage Herb LLC	Manufacture and sale of packaged consumer products	United States of America	**100**	-
Creso Pharma US Inc.	Corporate entity	United States of America	**100**	-
4340965 Nova Scotia Limited	Corporate entity	Canada	**100**	100

NOTE 13 INVESTMENT FOR USING EQUITY METHOD

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

Name	Activity	Principal place of business/ Country of incorporation	Ownership interest 2022 %	Ownership interest 2021 %
CLV Frontier Brands Pty Ltd	Inactive	Estonia/ Australia	**33⅓%**	33⅓%

NOTE 14 BUSINESS COMBINATIONS

The Group is currently implementing a growth strategy with a focus on the global CBD market for consumer and medicinal products. As part of this strategy, management identified Sierra Sage Herbs LLC ('SSH') as an organisation capable of furthering the Group's objectives particularly in the US market. SSH represented an opportunity for the Group to acquire on an existing operation with a range of products complementing the Group's existing offering and providing the Group with an established consumer supply chain which can be leveraged as the Group continues to expand. On 26 August 2022 Creso Pharma US, Inc. (a wholly owned subsidiary of Creso Pharma Ltd) acquired 100% of the issued share capital of Sierra Sage Herbs LLC, a business manufacturing and selling packaged consumer goods in the natural products space. The collection of brands, which are plant-based, portable first aid and body care products, are crafted using a proprietary lipid-infusion process, rather than with pre-made extracts.

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

	$000's
Ordinary shares issued	12,874
Contingent consideration	-
Total purchase consideration	12,874

The fair value of the 357,614,203 shares issued as part of the consideration paid for Sierra Sage Herbs LLC. ($12.874m) was based on the published share price on 26 August 2022 of $0.036 per share.

The Company engaged a third party expert (MNP LLP) on March 15, 2022 to conduct a valuation of the SSH acquisition. Based on the results of a Monte Carlo simulation, the fair value of the contingent consideration was estimated to be nil at acquisition.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $000's
Cash	164
Inventory	2,385
Other current assets	1,467
Property plant and equipment	21
Intangible assets: developed technology	1,867
Intangible assets: client relationship	4,929
Intangible assets: brands and trademarks	11,607
Current liabilities	(5,247)
Borrowings	(6,748)
Net identifiable assets acquired	10,445
Add: goodwill	2,429
Net assets acquired	12,874

The fair value of assets of Sierra Sage Herbs LLC. were translated using the prevailing exchange rate on 26 August 2022, being US$0.6957 per Australian Dollar.

The recognised goodwill represents other intangible assets that do not qualify for separate recognition. Goodwill will not be deductible for tax purposes.

The acquired business contributed revenues of $2,453,000 and net loss of $10,584,000 to the group for the period from 26 August to 31 December 2022.

NOTE 14 BUSINESS COMBINATIONS (CONTINUED)

If the acquisition had occurred on 1 January 2022, consolidated pro-forma revenue and profit for the year ended 31 December 2022 would have been $12,351,000 and $39,167,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the group and the subsidiary; and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2022, together with the consequential tax effects.

Acquisition related costs of $802,000 (2021: $59,000) that were not directly attributable to the issue of shares are included in administrative expenses in the statement of profit or loss and in operating cash flows in the statement of cash flows.

NOTE 15 ASSETS PLEDGED AS SECURITY

The carrying amount of assets pledged as security for borrowings are:

	2022 $000's	2021 $000's
Current		
Floating charge		
Cash and cash equivalents	**352**	-
Trade and other receivables	**1,436**	-
Inventories	**2,548**	-
Total current assets pledged as security	**4,336**	-
Non-current assets		
First mortgage		
Land and buildings	**8,288**	-
Floating charge		
Plant and equipment	**16**	-
Intangible assets	**2,353**	-
	2,369	-
Total non-current assets pledged as security	**10,657**	
Total assets pledged as security	**14,993**	-

The Group has loans which are subject to security pledges. The pledged assets include a fixed charge over the production facility operated by Mernova Medicinal Inc. and a floating charge over the assets of Sierra Sage Herbs LLC. Further information regarding the borrowings is presented at note 8.