MGC PHARMACEUTICALS LTD
AND CONTROLLED ENTITIES
ABN 30 116 800 269

APPENDIX 4D

REPORTING PERIOD	**PREVIOUS REPORTING PERIOD**
Interim financial period to 31 December 2016	Interim financial period to 31 December 2015

Half year information given to ASX under listing rule 4.2A.3
This information contained in this report should be read in conjunction with the most recent annual report.

RESULTS FOR ANNOUNCEMENT TO MARKET

	31-Dec-16	**Change%**	**31-Dec-15**
Revenue from ordinary activities	144,785	696%	18,190
(Loss) after income tax from ordinary activities	(3,099,215)	(10.5%)	(3,425,990)*
Net (loss) for the period	(3,099,215)	(10.5%)	(3,425,990)*
Dividend per share	n/a	-	n/a
Record date for determining entitlement to dividends	n/a	-	n/a
No dividends have been paid or declared during the year			

*Includes total extraordinary items of $2.3m relating to accounting adjustments of, a $1.6m provision for the impairment on the exploration and evaluation assets, and a $0.7m provision on the loans advanced to MGC; following the completion of the acquisition subsequent to period end, the latter is reversed in line with accounting standards

NET TANGIBLE ASSETS PER ORDINARY SHARE (cents)	0.32	0.23

DETAILS OF SUBSIDIARIES
There were no changes to the control of subsidiaries in the period, and there were no gains or losses.

DIVIDENDS	n/a	n/a
DIVIDENDS REINVESTMENT PLAN	n/a	n/a
ASSOCIATED AND JOINT VENTURE ENTITIES	n/a	n/a
FOREIGN ENTITIES ACCOUNTING STANDARD	n/a	n/a
AUDIT DISPUTE OR QUALIFICATION	n/a	n/a

ABN 30 116 800 269
MGC PHARMACEUTICALS LTD

INTERIM FINANCIAL REPORT

31 DECEMBER 2016

Contents

Corporate Directory

Directors

Brett Mitchell
Executive Chairman

Nativ Segev
Managing Director

Roby Zomer
Executive Director and CTO

Ross Walker
Non-Executive Director

Company Secretary

Rachel Kerr

Registered Office and Principal Place of Business

Level 7, 1008 Hay Street
Perth WA 6000
Tel: +61 8 9389 2000
Fax: +61 8 9389 2099

Solicitors

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6005

Auditors

PKF Mack
Level 4, 35 Havelock Street
West Perth WA 6872

Securities Exchange Listing

MGC Pharmaceuticals Ltd securities are listed on the Australian Securities Exchange (ASX)
Code 'MXC' for ordinary shares
Code 'MXCOD' for listed options

Share Registry

Computershare Investor Services Pty Ltd
Level 11
172 St Georges Terrace
Perth WA 6000

Directors' Report

Your directors submit the condensed interim financial report for the consolidated Group for the half-year ended 31 December 2016.

Directors

The names of directors who held office during or since the end of the half-year:

Director	Title	Appointment Date
Brett Mitchell	Executive Chairman	4 April 2013
Nativ Segev	Managing Director	15 February 2016
Roby Zomer	Executive Director & CTO	15 February 2016
Ross Walker	Non-executive Director	15 February 2016

Operating Results

The consolidated loss for the Group after providing for income tax from continuing operations amounted to $3,099,215 (2015: $3,425,990).

Dividends Paid or Recommended

No dividends have been paid or declared for payment during the financial period.

Review of Operations

During the period, MGC Pharmaceuticals achieved substantial operational progress across all its business initiatives. The Company made major advances with its medical cannabis research initiatives, moved toward its own API (Active Pharmaceutical Ingredient) CBD product via the establishment of an extraction facility and laboratory in Slovenia, advanced the commercialisation of its MGC Derma cosmetics range and progressed the development of 3 dermatological products. The Company also advanced its Australian strategy, moving towards its first application for an Australian Medical Cannabis license.

Strengthened Pharmaceutical Research Credentials

The acquisition of Panax Pharma s.r.o (Panax), completed post period, has significantly strengthened the Company's research credentials. The acquisition delivers a partnership with the highly respected Institute of Experimental Botany of the Academy of Sciences of the Czech Republic (IEB AS).

The IEB AS is a leading Czech research institute in plant biology, namely in plant genetics, physiology and biotechnology and has been granted a medical cannabis license for its program with MGC Pharmaceuticals. The license allows the parties to conduct research operations at the Academy's laboratories with 1,000m^2 of greenhouse growing space immediately available, with ability for further sale up.

The IEB AS is currently preparing a Research Plan for MGC Pharmaceuticals' approval. MGC Pharmaceuticals plans to immediately commence research operations on various strains of medical grade cannabis at the IEB AS and its facilities in Prague.

Wholesale Cannabinoids Extraction and Growing Operations

The Company expects the imminent activation of its wholesale Cannabinoid extract sales channel. MGC Pharmaceuticals intends to sell API Cannabinoid extract from its Slovenian extraction facility, which is on schedule to be completed during Q2 2017.

Directors' Report

- ***Slovenian Extraction Facility***

MGC Pharmaceuticals' API extraction facility in Slovenia allows the Company to extract high margin API Cannabinoids from cannabis and presents a significant commercial opportunity.

The extraction facility will supply the Company's API material for its own clinical studies and for the clinical trials of third-parties. Additionally, the facility once fully operational will be able to produce approximately 10 litres of raw material in 8 hours, which is then used to produce the high margin API Cannabinoids in resin form. The Company will also sell Cannabinoid extract on the wholesale market and incorporate these extracts into its dermatological and cosmetics products.

- **Growing Operations**

MGC Pharmaceuticals' European growing operations are progressing as planned. The Company harvested its first CBD Sativa L test crop from its farm in Slovenia in October 2016. The test crop allowed the Company to evaluate and establish the best soil, nutrients and growing conditions for the cultivation and production of cannabis for use in the Company's products.

The Company plans to plant its first 2017 outdoor crop in April/May, which is expected to be harvested in July 2017.

<u>Cosmetics Products – MGC Derma</u>

The Company has commenced the commercialisation of its MGC Derma CBD based cosmetics line with a European distribution deal signed and delivering purchase orders.

During the period, MGC Pharmaceuticals received its first European sales order of approximately AU$65,000 from its Czech Republic distribution deal with Czech Medical Herbs s.r.o (CMH). Via CMH, the MGC Derma range is being distributed at over 80 retail outlets across the Czech Republic. The agreement with CMH is worth approximately €320,000 (~AU$500,000) in gross sales per annum.

Following the recent US Federal election result, and subsequent strong indications of a change in federal and DEA policy towards medical cannabis and hemp products, the Company has adhered to legal advice deciding it was appropriate to delay its planned formal launch of the MGC Derma cosmetics range in California, and for the other key markets in the USA. The Company is currently reassessing its USA sales strategy for its Derma range to ensure it remains fully compliant with all US state and federal laws, including how to best deliver into its commercial contract with its Californian partner, and other potential distribution agreements negotiations that were materially advanced in other major US states.

During the period, international cosmetics consulting agency InHemp was engaged to fast track the Company's international sales strategy and market penetration, through its engagement with Mr Malcolm Kemp has an extensive international track record in expanding cosmetics companies into new markets. He successfully catapulted European cosmetics company, Deborah Italia Group into over 70 countries worldwide and was instrumental in its success. Mr Kemp also held a succession of senior roles at global cosmetics giant, Revlon International Corporation where he led its international expansion efforts throughout Europe, the African continent, the Middle East and Israel.

InHemp's immediate priority is to maximise retail distribution of MGC Derma's products throughout the UK via establishing exclusive agreements with e-tailers and establishing retail outlets and distribution agreements.

Directors' Report

Dermatological Product Range

MGC Pharmaceuticals' development of a dermatological CBD based skin care formula has progressed significantly. During the period, the Company completed microbiology tests and skin patch tests for the product range which is targeted for the relief of symptoms of acne, psoriasis and seborrhoea. Immediately subsequent to the end of the reporting date, the Company progressed to clinical tests on human volunteers. These tests seek to determine the efficacy of the skin care products for the relief of redness, dryness, flaky and oily indications for skin prone to acne, psoriasis and seborrhoea.

Following the end of the reporting period, the Company also received approval from the European Cosmetics Products Notification Portal (CPNP) for its three CBD based dermatological products. European CPNP registration allows the Company to sell its dermatological product throughout the European Union.

MGC Pharmaceuticals expects to commence sales of a dermatological product from Q3 2017 at select retail outlets, pharmacy chains and via the MGC Derma online shop http://www.mgcderma.com/.

Australian Opportunities

Expanding operations in Australia remains a key strategic priority for MGC Pharmaceuticals. To facilitate the Company's research and growing operations, MGC Pharmaceuticals has commenced the application process for a medical cannabis licence. A medical cannabis licence will allow MGC Pharmaceuticals to commence cultivation, production and manufacturing operations in Australia, with separate licences and permits required for each stage of operation.

During the reporting period, the Company published its second white paper titled *Clinical Evidence for Medical Cannabis: Epilepsy, Cancer and Multiple Sclerosis*. The white paper, published in conjunction with the University of Sydney Business School, evaluated the current evidence regarding the efficacy of medical cannabis in treating a variety of major diseases. The publication follows the Company's first white paper, also published in conjunction with The University of Sydney Business School, titled *Medicinal Cannabis in Australia: Science, Regulation and Industry.*

A key component of the Company's Australian strategy is the commencement of clinical trials for multiple conditions including epilepsy, lack of appetite, severe nausea, vomiting and severe pain in conjunction with reputable Australian medical institutions. With the view to collaborate on future joint clinical trials using medical cannabis to treat epilepsy symptoms, the Company signed a Collaboration Agreement (COA) with Epilepsy Action Australia (EAA). EAA is the leading Australian epilepsy association and provides support services to children and adults with epilepsy.

On 31 December 2016, the milestone was met for Milestone 1 of the Directors Performance Rights for the right to convert 21,900,000 Performance Rights into Ordinary Shares. As per the terms and conditions, the Performance Rights will convert at the election of the holder.

Corporate Update

Panax Acquisition

Subsequent to the end of the reporting period, the Company completed its acquisition of Czech-based medical cannabis company, Panax Pharma s.r.o.

Directors' Report

The Company now holds an 80% equity interest in Panax. Under the terms of the deal, 25% equity was issued upfront to MGC Pharmaceuticals Ltd and a further 55% equity at settlement was issued in return for MXC's commitment to fund the first 12 months of operating costs (capped at €700,000). The Company has the option to acquire the final 20% equity for €600,000 of MXC ordinary shares to be issued on a 20-day VWAP at the date of option exercise.

Financial Update

Use of Funds

During the reporting period, the Company used funds for working capital purposes and to progress its growth initiatives including building the Slovenian extraction facility and developing its MGC Derma cosmetic and dermatological product range.

Cash Position

The Company is well-funded to pursue its growth objectives which include further MGC Derma distribution deals and furthering its research objectives. At the end of the reporting period, MGC Pharmaceuticals had cash at bank of approximately $4.6 million.

Outlook

A key focus for MGC Pharmaceuticals is continuing to strengthen its pharmaceutical research credentials and the Company looks forward to commencing research initiatives at Panax in the months ahead. Additionally, the imminent commencement of operations at the Company's extraction facility will allow MGC Pharmaceuticals to extract high margin API grade CBD, an important part of the medical cannabis value chain. API grade CBD can be used in future clinical studies conducted by the Company and for commercial sale.

Furthermore, progressing the Company's Australian strategy is another priority in the period ahead. As part of this strategy, MGC Pharmaceuticals has commenced the application process for an Australian Medical Cannabis licence, which it expects to receive in the near term.

The Company continues to progress the commercialisation of its MGC Derma range, with MGC Pharmaceuticals currently in advanced discussions for further distribution deals across the globe. The Company's consultants, InHemp, are rolling out a distributional strategy to maximise retail distribution of MGC Derma products throughout the UK and Europe and this expected to contribute to an increase in sales of the MGC Derma range.

Events Subsequent to Reporting Date

9 January 2017	**European CPNP Approval Granted for Derma Products** The Company confirmed it had received the European Cosmetics Products Notification Portal (CPNP) approval for the registration of its three CBD based dermatological products for the relief of acne, psoriasis and seborrhoea skin conditions.
25 January 2017	**Commencement of Dermatological Clinical Trials** MXC confirmed it was commencing its clinical tests on human volunteers to determine the efficacy of its dermatological skin care products for the relief of redness, dryness, flaky and oily indications for skin prone to acne, seborrhea and psoriasis.

Directors' Report

7 February 2017	**Panax Acquisition Completed** The Company advised it has settled on the binding heads of agreement to acquire up to 100% equity in Czech-based medical cannabis company PANAX Pharma s.r.o. Completion follows the recent finalisation of independent legal due diligence on the Panax acquisition, operation of the business in the Czech Republic, together with finalisation of the formal research agreement with the IEB AS. Management has yet to assess whether the acquisition falls under AASB 3 Business Combinations.
14 February 2017	**Medical Cannabis Clinical Study Commencing** The Company confirmed it is commencing a clinical study following the signing of a binding research agreement with the University Children's Hospital Ljubljana for a Phase IIA Crossover (non-pivotal) clinical study. The study uses enriched medical cannabis products in children and adolescents with treatment-resistant epilepsy at the Hospital's Department of Adolescent & Developmental Neurology.
17 February 2017	**Release of Shares from Escrow - Appendix 3B** There were 140,000,000 Ordinary Shares and 70,000,000 Performance Shares released from escrow on 15 February 2017.
20 February 2017	**Cannabinoid Extraction Facility On Target Q2 Production** The Company confirmed construction of its Slovenian GMP Clean Room facility is near finalisation, with state of the art Cannabinoid extraction and production equipment on site (as shown in the pictures below) and on schedule to be installed by the end of March. Upon completion and commissioning the facility will allow MGC Pharmaceuticals to extract high margin API grade Cannabinoids and delivers on the Company's strategy to focus its production operations on this important part of the medical cannabis value chain.
23 February 2017	**Medical Cannabis Accessibility Accelerated for Patients in Australia** The Company was pleased to note changes announced on 22 February 2017 by the Australian Government to the medical cannabis regulatory framework. The Australian Federal Government will allow faster access to medical cannabis for patents by authorising the importation of medical cannabis products by approved suppliers from international sources.

Directors' Report

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 10 for the half-year ended 31 December 2016.

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

Brett Mitchell
Executive Chairman
Dated 28 February 2017

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF MGC PHARMACEUTICALS LTD

In relation to our review of the financial report of MGC Pharmaceuticals Ltd for the half year ended 31 December 2016, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PKF Mack

PKF MACK

SIMON FERMANIS
PARTNER

28 FEBRUARY 2017
WEST PERTH
WESTERN AUSTRALIA

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ABN 64 591 268 274

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Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2016

		CONSOLIDATED GROUP	
		31-Dec-16	**31-Dec-15**
	Note	**$**	**$**
Sales revenue		94,408	-
Cost of goods sold		(73,307)	-
Gross profit		**21,101**	**-**
Other income		50,377	18,190
Corporate costs		(112,213)	(106,707)
Professional and consultancy fees		(1,096,692)	(208,105)
Directors' fees		(558,341)	(112,500)
Employee benefit expenses		(162,059)	(74,291)
Share based payments expense		(721,366)	-
Travel expenses		(122,489)	(163,227)
Marketing expenses		(71,206)	(124,550)
Depreciation		(37,678)	-
Due-diligence expenditure		-	(152,937)
Doubtful debt expenditure		-	(789,083)
Office and administrative expenses		(106,855)	(21,328)
Finance costs		(37,675)	(11,326)
Impairment provision expense		(105,845)	(1,631,226)
Gain on re-measurement of performance shares	*5*	70,000	-
Other expenses		(108,274)	(48,900)
Loss before income tax		**(3,099,215)**	**(3,425,990)**
Income tax benefit		**-**	**-**
Loss after income tax from continuing operations		**(3,099,215)**	**(3,425,990)**
Loss after income tax for the half year attributable to:			
Member of the parent entity		(2,967,229)	(3,425,990)
Non-controlling interest		(131,986)	-
		(3,099,215)	**(3,425,990)**
Other comprehensive income for the half year			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on the translation of foreign operations		(28,114)	11,169
Other comprehensive income (net of tax) for the half year		**(28,114)**	**11,169**
Total comprehensive loss for the half year		(3,127,329)	**(3,414,821)**
Total comprehensive loss attributable to:			
Members of the parent entity		(2,994,234)	(3,414,821)
Non-controlling interest		(133,095)	-
		(3,127,329)	**(3,414,821)**
Earnings per share for loss attributable to the ordinary equity holders of the parent			
From continuing and discontinued operations:			
Basic loss per share (cents)		(0.32)	(0.69)
Diluted loss per share (cents)		(0.32)	(0.69)

The accompanying notes form part of these consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position

As at 31 December 2016

	Note	CONSOLIDATED GROUP 31-Dec-16 $	30-Jun-16 $
CURRENT ASSETS			
Cash and cash equivalents		4,604,257	7,895,539
Inventory		345,364	157,035
Trade and other receivables		810,745	477,372
Assets held for sale	*4a*	-	500,000
Total Current Assets		**5,760,366**	**9,029,946**
NON-CURRENT ASSETS			
Plant and equipment		386,725	211,074
Intangible asset		7,077,351	7,083,665
Exploration and evaluation expenditure	*4b*	-	-
Other asset		36,167	36,167
Total Non-Current Assets		**7,500,243**	**7,330,906**
TOTAL ASSETS		**13,260,609**	**16,360,852**
CURRENT LIABILITIES			
Trade and other payables		195,547	456,369
Contingent consideration	*5*	3,010,000	3,080,000
Borrowings	*6*	-	1,075,228
Total Current Liabilities		**3,205,547**	**4,611,597**
NON-CURRENT LIABILITIES			
Loans to third parties		63,760	20,393
Total Non-Current Liabilities		**63,760**	**20,393**
TOTAL LIABILITIES		**3,269,307**	**4,631,990**
NET ASSETS		**9,991,302**	**11,728,862**
EQUITY			
Contributed equity	*8*	32,335,561	32,343,143
Share based payment reserve	*7*	2,478,024	1,079,564
Foreign currency translation reserve		(1,666)	26,448
Retained earnings		(24,606,870)	(21,639,641)
Equity attributable to equity holders of the parent		**10,205,049**	**11,809,514**
Non-controlling interest		(213,747)	(80,652)
TOTAL EQUITY		**9,991,302**	**11,728,862**

The accompanying notes form part of these consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

For the half year ended 31 December 2016

	Contributed Equity $	Share Based Payment Reserve $	Foreign Currency Translation Reserve $	Retained Earnings $	Non-controlling interest $	Total $
Balance at 1 July 2015	**16,501,303**	**883,083**	**24,923**	**(15,482,497)**	**-**	**1,926,812**
Total comprehensive loss attributable to member of parent entity	-	-	11,169	(3,425,990)	**-**	**(3,414,821)**
Shares issued during the period (net of share issue costs)	2,562,260	97,970	-	-	**-**	**2,660,230**
Balance at 31 December 2015	**19,063,563**	**981,053**	**36,092**	**(18,908,487)**	**-**	**1,172,221**
Balance at 1 July 2016	**32,343,143**	**1,079,564**	**26,448**	**(21,639,641)**	**(80,652)**	**11,728,862**
Other comprehensive income	-	-	(28,114)	-	(1,109)	(29,223)
Loss after income tax expense	-	-	-	(2,967,229)	**(131,986)**	**(3,099,215)**
Total comprehensive loss for the year	**-**	**-**	**(28,114)**	**(2,967,229)**	**(133,095)**	**(3,128,438)**
Shares issued during the period (net of share issue costs)	(7,582)	-	-	-	**-**	**(7,582)**
Share based payment	-	1,398,460	-	-	**-**	**1,398,460**
Balance at 31 December 2016	**32,335,561**	**2,478,024**	**(1,666)**	**(24,606,870)**	**(213,747)**	**9,991,302**

The accompanying notes form part of these consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows

For the half year ended 31 December 2016

	Note	CONSOLIDATED GROUP 31-Dec-16	31-Dec-15 $
Cash flows from operating activities			
Receipts from customers		5,439	-
Interest received		47,106	18,190
Payments to suppliers and employees		(2,062,292)	(1,017,611)
Interest paid		(27,476)	-
MGC Derma joint venture partner operational costs		(251,515)	-
MGC Due Diligence and transaction costs		-	(148,707)
Net cash used in operating activities		**(2,288,738)**	**(1,148,128)**
Cash flows from investing activities			
Proceeds from disposal of exploration assets	4	500,000	-
Purchase of plant and equipment		(339,237)	-
Loans advanced to MGC UK		-	(789,083)
Net cash used in investing activities		**160,763**	**(789,083)**
Cash flows from financing activities			
Proceeds from issue of shares, net of share issue cost		-	2,709,033
Repayment of borrowings		(1,050,000)	-
Payment of capital raising costs		(97,790)	(148,211)
Net cash provided by financing activities		**(1,147,790)**	**2,560,822**
Net (decrease)/increase in cash and cash equivalents held		**(3,275,765)**	**623,611**
Cash and cash equivalents at beginning of period		7,895,539	436,985
Foreign exchange movement of cash		(15,517)	308
Cash and cash equivalents at end of period		**4,604,257**	**1,060,904**

The accompanying notes form part of these consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2016

NOTE 1. CORPORATE INFORMATION

The financial report of MGC Pharmaceuticals Ltd ('MGC' or the 'Company') and its controlled entities (the 'Group') for the half-year ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors on 28 February 2017.

MGC Pharmaceuticals Ltd is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The principal activity of the Group during the half year was that of developing and supplying high quality non-psychoactive Cannabidiol (CBD) resin extract to the growing demand in cosmetics and medical markets in Europe, North America and Australasia.

NOTE 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Basis of Preparation

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2016 annual financial report for the financial year ended 30 June 2016, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

a) Changes in Accounting Policy, Accounting Standards and Interpretations

In the half year ended 31 December 2016, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2016. It has been determined by the Company that, there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and therefore no change is necessary to Company accounting policies.

b) Estimates

The preparation of the interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim financial statements, significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements as at and for the year ended 30 June 2016.

Estimations and judgements on Intangible Assets

The Group tests intangible assets for indications of impairment at each reporting period, in line with accounting policies. The Licence held by the Group to grow industrial cannabis is its key asset and is recognized as an intangible asset with an expected indefinite useful life as only a renewal process is required annually.

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2016

It was considered that there are no indicators of impairment, based on the conclusion that the recoverable amount of the Licence is in excess of its carrying value on assessing the present value of future cashflows attributable to the asset; in addition, other matters were considered, including the Group's net asset position in comparison to its market capitalization and its contracted distribution deals to generate revenues (refer Directors Report) as reflected in the Group's future cashflow forecast.

c) Financial report prepared on a going concern basis

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

The consolidated entity incurred a loss from continuing operations of $3,099,215 (2015: $3,425,990) during the half year ended 31 December 2016, and had a cash and cash equivalents balance of $4,604,257 (30 June 2016: $7,895,539) at that date.

In the directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable as the Directors monitor and review the cash flow forecast on a continuous basis and believe that future projected cashflows are achievable.

NOTE 3. DIVIDENDS

There are no dividends paid or declared during the period.

NOTE 4. EXPLORATION AND EVALUATION EXPENDITURE

a) Assets classified as held for sale

	CONSOLIDATED GROUP	
	31-Dec-16	**30-Jun-2016**
Asset classified as held for sale - movement	**$**	**$**
Opening balance 1 July 2016	500,000	-
Exploration and evaluation assets – carrying value	-	500,000
Sale of assets	(500,000)	-
	-	**500,000**

b) Exploration and evaluation expenditure

Opening balance 1 July 2016	-	2,000,000
Additions during the year	6,251	50,902
Impairment provision expense during the year	(105,845)	(1,755,891)
Amortisation of share based payments during the period	99,594	196,843
Transfer to assets held for sale	-	(500,000)
Foreign currency movement	-	8,506
	-	-

The Group entered into a Binding Term Sheet on 10 August 2016 to sell its Bouroubourou and Lingokoto permits to its joint venture partner Afrigem SL for $500,000; the Company subsequently completed the sale following receipt of the funds on 15 August 2016.

Notes to the Condensed Consolidated Financial Statements
For the half year ended 31 December 2016

NOTE 5. CONTINGENT CONSIDERATION

	CONSOLIDATED GROUP	
	31-Dec-16	**30-Jun-16**
	$	**$**
Opening balance at 1 July	3,080,000	-
Contingent consideration arising on asset acquisition	-	1,300,000
Unrealised fair value movement recognised in profit or loss	(70,000)	1,780,000
	3,010,000	**3,080,000**

The contingent consideration liability arose from the equity consideration issued by the Company to the vendors as part of the deal terms for the acquisition of MGC Pharma (UK) Limited in the previous financial year.

The performance shares meet the definition of a financial liability where a variable amount of performance shares convert, contingent upon meeting the milestone, into fully paid ordinary shares at a rate of one ordinary share for every performance share that converts or consolidates into one performance share and converts to one ordinary share if no conversion occurs on or before the expiry date (3 years from completion of acquisition).

The determination of the fair value is based on a probability weighted payout approach. The key assumptions take into consideration the probability of meeting the performance targets. As part of accounting for the acquisition of MGC UK, the contingent consideration was initially measured at acquisition with a probability of 50%, at which date the share price was $0.026. At 30 June 2016, it was determined that the probability of meeting the targets was highly probable and the weighted outcome had increased to 70%, and as at that date the share price was $0.044, and the increase in value of $1,780,000 was taken to the consolidated statement of profit or loss and other comprehensive income. As at 31 December 2016, the share price was $0.043 with the decrease in value of $70,000 being taken to the consolidated statement of profit or loss and other comprehensive income. Future developments may require further revisions to the estimate.

NOTE 6. BORROWINGS

	CONSOLIDATED GROUP	
	31-Dec-16	**30-Jun-16**
	$	**$**
Current liabilities		
Opening balance 1 July	1,075,228	1,075,228
Repayment of borrowings	(1,075,228)	-
	-	**1,075,228**

In line with the Group's re-compliance and ASX relisting following the acquisition of MGC UK, the Group entered a facility agreement with a third party for a working capital loan of $1 million on 11 February 2016.

On 11 July 2016, the loan principal, facilitation fee and all incurred interests were repaid in full.

NOTE 7. SHARE BASED PAYMENTS

The fair value for all share options, as detailed below, are determined using a binomial option pricing method that takes into account the exercise price, the term of the option, the probability of exercise, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The inputs used for the valuations are tabled below for each class of option issued.

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2016

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The probability of the performance conditions occurring, where applicable are included in determining the fair value of the options.

a) Valuation of the Voluntary Holding Lock shares

As part of the acquisition of Erin Mineral Resources, Voluntary Holding Lock shares were issued to the Erin Mineral Resources shareholders.

The Voluntary Holding Lock shares (VHL Shares) may only be released from their holding lock upon the earlier of the following being satisfied:

a) a change in control of the Company; or
b) the Company achieving an enterprise value of at least $25 million for ten consecutive trading days.

The VHL Shares will be fully paid ordinary shares that will rank equally with all existing shares on issue.

If, within 5 years from the date of issue of the VHL shares, the milestone is not reached and there is no change of control event, in relation to MGC, the VHL Shares will be cancelled by way of selective capital reduction or share buy-back at a price of $0.000001 per share.

The VHL shares are included in the acquisition fair value of exploration and evaluation and amortised over a period of 5 years.

Number of VHL shares issued	13,000,000
Fair value per share[1]	$0.07
Total value of the issue	$906,588
Amortisation expense (based on 5 years)	$93,820

[1]The shares have been valued based on the probability of the events occurring, using the volatility and the share price on the date of acquisition.

The following table lists the inputs to the model used for valuation of options:

Valuation date	17-August-12
Dividend yield (%)	Nil
Expected volatility (%)	71.75%
Share price at grant date ($)	$0.25
Probability (%)	27.8%

b) Valuation of listed and unlisted options issued

(i) 4 million unlisted options

In part consideration for the provision of corporate advisory services to the Company, the Company issued 4,000,000 unlisted options (post consolidation) to Verona. The options have an exercise price of $0.20 each expiring on or before 30 June 2017. The options will only vest and become exercisable upon the voluntary holding lock in respect of the VHL Shares being released.

Number of options	4,000,000
Fair value per option	$0.01
Total value of the issue	$55,790
Amortisation expense (based on 5 years)	$5,773

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2016

The following table lists the inputs to the model used for valuation of options:

Valuation date	17 August-12
Dividend yield (%)	Nil
Expected volatility (%)	71.75%
Risk-free interest rate (%)	3.09%
Expected life of option (years)	5
Option exercise price ($)	$0.20
Share price at grant date ($)	$0.25
Expiry date	30 June 2017
Performance conditions	Described above

The options are amortised over their expected life, being 5 years, and included in the fair value acquisition cost of exploration and evaluation expenditure.

c) Issue of Performance Rights

(i) 32.5 million and 4 million Performance Rights

Following shareholder approval at the General Meeting held on 27 September 2016, 32.5 million unlisted Performance Rights were issued to Directors on 17 October 2016 and a further 4 million were issued on 23 December 2016 as approved at the Annual General Meeting on 29 November 2016.

The principal terms and conditions of the Performance Rights include, continuous service in their capacity as Director or Executive to the Company, or as otherwise agreed and are subject to vesting milestones as detailed below.

Number of Performance Rights issued	Milestone	Weighting	Milestone date
21,900,000	1) Continuous service in their capacity as a Director or Executive of the Company from the date of issue to 31 December 2016	60%	31 Dec 2016
14,600,000	2) Continuous service in their capacity as a Director or Executive of the Company from the date of issue to 31 December 2017	40%	31 Dec 2017

(ii) 22.2 million Performance Rights

Following shareholder approval at the General Meeting held on 27 September 2016, 22.2 million unlisted Performance Rights were issued to relevant employees of the Company on 23 December 2016.

The principal terms and conditions of the Performance Rights include, continuous service to the Company in their capacity as a full-time employee and permanent part-time employee, within set milestones as detailed below.

Number of Performance Rights issued	Milestone	Weighting	Milestone date
12,200,000	1) From the date of issue to 31 December 2016	33%	24 Feb 2017
	2) From the date of issue to 31 December 2017	33%	31 Dec 2017
	3) From the date of issue to 31 December 2018	34%	31 Dec 2018
10,000,000	1) From the date of issue to 24 February 2017	60%	24 Feb 2017
	2) From the date of issue to 31 December 2017	40%	31 Dec 2017

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2016

d) Reconciliation of share based payment expense

As at 31 December 2016	Number of VHL shares/ unlisted options	Date	Value $	Share based payment balance $
Opening balance				
VHL shares issued	13,000,000		0.069	720,478
Movement during the year:				93,820
Amortisation expense				
Total VHL share	**13,000,000**			**814,298**
Opening balance				
Unlisted option issued	23,750,000			359,086
Movement during the year:				
Unlisted options issued @ $0.20	-	14/09/13	0.014	5,773
Listed options issued @ $0.065	56,818,380	06/10/16	-	-
Listed options issued @ $0.065	35,000,000	10/11/16	0.0165	577,500
Performance rights issued @ $0.048	19,500,000	24/02/17	0.048	540,000
Performance rights issued @ $0.048	13,000,000	31/12/17	0.048	106,364
Performance rights issued @ $0.041	12,426,000	24/02/17	0.041	64,694
Performance rights issued @ $0.041	9,626,000	31/12/17	0.041	8,465
Performance rights issued @ $0.041	4,148,000	31/12/18	0.041	1,844
Total options	**174,268,380**			**1,663,726**
Total share based payment reserve	**187,268,380**			**2,478,024**
As at 30 June 2016				
Opening balance				
VHL shares issued	13,000,000		0.069	535,387
Movement during the year:				
Amortisation expense				185,091
Total VHL share	**13,000,000**			**720,478**
Opening balance				
Unlisted option issued	43,500,000			347,696
Movement during the year:				
Options expired	(19,750,000)			-
Unlisted options issued @ $0.20		14/09/13	0.014	11,390
Total unlisted options	**23,750,000**			**359,086**
Total share based payment reserve	**36,750,000**			**1,079,564**

Notes to the Condensed Consolidated Financial Statements
For the half year ended 31 December 2016

NOTE 8. CONTRIBUTED EQUITY

	CONSOLIDATED GROUP			
	31-Dec-16 NUMBER	30-Jun-16 NUMBER	31-Dec-16 $	30-Jun-16 $
Ordinary shares on issue, fully paid	905,959,855	905,638,006	32,335,561	32,343,143
VHL shares	13,000,000	13,000,000	-	-
	918,959,855	918,638,006	32,335,561	32,343,143

a) Reconciliation of movement in share capital

	CONSOLIDATED GROUP		
31 December 2016	No. Of Shares	Issue Price	Amount
Opening balance at 1 July 2016	918,638,006		32,343,143
Share issue – 12 August 2016	321,849	0.051	16,500
Less: costs of issues			(24,082)
Closing balance at 31 December 2016	918,959,855		32,335,561

30 June 2016	No. Of Shares	Issue Price	Amount
Opening balance at 1 July 2015	372,134,917		16,501,303
Exercise of listed options – 9 July 2015	12,032,711	0.020	240,654
Options raising – 14 July 2015	123,418,924	0.020	2,468,378
Placement – 15 February 2016	140,000,000	0.026	3,640,000
Share issue – 15 February 2016	60,000,000	0.026	1,560,000
Share issue – 15 February 2016	3,346,700	0.026	87,014
Share issue – 15 February 2016	500,000	0.026	13,000
Exercise of unlisted options – 11 May 2016	29,750,000	0.025	743,750
Share issue – 11 May 2016	2,000,000	0.048	96,000
Placement – 11 May 2016	113,636,384	0.044	5,000,000
Priority Offer – 31 May 2016	56,818,370	0.044	2,500,000
Exercise of unlisted options – 23 June 2016	2,500,000	0.025	62,500
Exercise of unlisted options – 23 June 2016	2,500,000	0.040	100,000
Less: costs of issue			(669,456)
Closing balance at 30 June 2016	**918,638,006**		**32,343,143**

NOTE 9. SEGMENT REPORTING

For management purposes, the Group is organised into business units based on its geographical locations; it was determined that there are two reportable segments:

- Australia – corporate and administrative function
- Slovenia – production and supply of medicinal cannabis products

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2016

The Slovenia operations relate to MGC Slovenia and MGC Derma which, based on their level of activities for the period to 31 December 2016, have been aggregated as one reportable operating segment as each company exhibit similar economic characteristics in respect of their inputs, processes, outputs and their regulatory environments, being that of the production and sale of medicinal cannabis for pharmaceutical and cosmetic purposes.

31 December 2016	Slovenia $	Australia $	Consolidated Group $
Total assets	**2,755,403**	**14,495,261**	**17,250,664**
Total liabilities	**4,202,759**	**3,056,603**	**7,259,362**
Sales revenues	**94,408**	**-**	**94,408**
Loss for the year:			
Members of the parent entity	(1,441,795)	(1,552,439)	(2,994,234)
Non-controlling interest	(133,095)	-	(133,095)
Total comprehensive loss for the year	**(1,574,890)**	**(1,552,439)**	**(3,127,329)**

NOTE 10. FAIR VALUE HIERARCHY

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy.

The following table presents the Group's financial assets and liabilities measured and recognised at fair value.

31 December 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Available for sale assets - exploration and evaluation asset				
Opening 1 July 2016	500,000	-	-	500,000
Disposal of assets in the period	(500,000)	-	-	(500,000)
Closing balance at 31 December 2016	**-**	**-**	**-**	**-**

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2016

	Level 1 $	Level 2 $	Level 3 $	Total $
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Contingent consideration				
Opening balance 1 July 2016	-	-	3,080,000	3,080,000
Fair value movement in the period	-	-	(70,000)	(70,000)
Closing balance at 31 December 2016	**-**	**-**	**3,010,000**	**3,010,000**

30 June 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Available for sale assets				
Exploration and evaluation asset	500,000	-	-	500,000
Closing balance at 30 June 2016	**500,000**	**-**	**-**	**500,000**

	Level 1 $	Level 2 $	Level 3 $	Total $
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Contingent consideration				
Fair value on initial recognition	-	-	1,300,000	1,300,000
Fair value movement in the period	-	-	1,780,000	1,780,000
Closing balance at 30 June 2016	**-**	**-**	**3,080,000**	**3,080,000**

a) Valuation techniques used to derive Level 1 fair values

The fair value of financial instruments recognised under Level 1 are measured based on the active market value, determined in this case by the value a third party is willing to pay for the assets.

b) Valuation techniques used to derive Level 3 fair values

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The contingent consideration is valued by applying the probability weighted payout approach as described in note 5, and is reviewed on a six monthly basis.

NOTE 11. CONTINGENT LIABILITIES

There were no additional contingent liabilities other than those disclosed in the Financial Report for the year ended 30 June 2016.

Notes to the Condensed Consolidated Financial Statements
For the half year ended 31 December 2016

NOTE 12. EVENTS SUBSEQUENT TO REPORTING DATE

9 January 2017	**European CPNP Approval Granted for Derma Products** The Company confirmed it had received the European Cosmetics Products Notification Portal (CPNP) approval for the registration of its three CBD based dermatological products for the relief of acne, psoriasis and seborrhoea skin conditions.
25 January 2017	**Commencement of Dermatological Clinical Trials** MXC confirmed it was commencing its clinical tests on human volunteers to determine the efficacy of its dermatological skin care products for the relief of redness, dryness, flaky and oily indications for skin prone to acne, seborrhea and psoriasis.
7 February 2017	**Panax Acquisition Completed** The Company advised it has settled on the binding heads of agreement to acquire up to 100% equity in Czech-based medical cannabis company PANAX Pharma s.r.o. Completion follows the recent finalisation of independent legal due diligence on the Panax acquisition, operation of the business in the Czech Republic, together with finalisation of the formal research agreement with the IEB AS. Management has yet to assess whether the acquisition falls under AASB 3 Business Combinations.
14 February 2017	**Medical Cannabis Clinical Study Commencing** The Company confirmed it is commencing a clinical study following the signing of a binding research agreement with the University Children's Hospital Ljubljana for a Phase IIA Crossover (non-pivotal) clinical study. The study uses enriched medical cannabis products in children and adolescents with treatment-resistant epilepsy at the Hospital's Department of Adolescent & Developmental Neurology.
17 February 2017	**Release of Shares from Escrow - Appendix 3B** There were 140,000,000 Ordinary Shares and 70,000,000 Performance Shares released from escrow on 15 February 2017.
20 February 2017	**Cannabinoid Extraction Facility On Target Q2 Production** The Company confirmed construction of its Slovenian GMP Clean Room facility is near finalisation, with state of the art Cannabinoid extraction and production equipment on site (as shown in the pictures below) and on schedule to be installed by the end of March. Upon completion and commissioning the facility will allow MGC Pharmaceuticals to extract high margin API grade Cannabinoids and delivers on the Company's strategy to focus its production operations on this important part of the medical cannabis value chain.
23 February 2017	**Medical Cannabis Accessibility Accelerated for Patients in Australia** The Company was pleased to note changes announced on 22 February 2017 by the Australian Government to the medical cannabis regulatory framework. The Australian Federal Government will allow faster access to medical cannabis for patents by authorising the importation of medical cannabis products by approved suppliers from international sources.

Directors' Declaration

The Directors of the Company declare that:

1. the interim financial statements and notes, are in accordance with the *Corporations Act 2001* and:

    a) comply with Australian Accounting Standard AASB134 Interim financial reporting and the Corporations Regulations 2001; and
    b) give a true and fair view of the Consolidated entity's financial position as at 31 December 2016 and its performance for the half year ended on that date; and

2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors, pursuant to s 303(5) of the Corporations Act.

Brett Mitchell
Executive Chairman
Dated 28 February 2017

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF

MGC PHARMACEUTICALS LTD

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of MGC Pharmaceuticals Ltd (the Company) and controlled entities (consolidated entity) which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at 31 December 2016, or during the half year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporation Regulations 2001. As the auditor of MGC Pharmaceuticals Ltd and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

PKF Mack
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Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. In accordance with the Corporations Act 2001, we have given the directors' of the company a written Auditor's Independence Declaration.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

PKF Mack

PKF MACK

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SIMON FERMANIS
PARTNER

28 FEBRUARY 2017
WEST PERTH
WESTERN AUSTRALIA