MGC PHARMACEUTICALS LTD AND CONTROLLED ENTITIES
ABN 30 116 800 269

APPENDIX 4E-PRELIMINARY FINAL FINANCIAL REPORT

1. REPORTING PERIOD
Financial Year end 30 June 2017

PREVIOUS REPORTING PERIOD
Financial Year end 30 June 2016

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

	30 June 2017	Change %	30 June 2016
Revenue	120,242	100%	2,197
(Loss) after income tax attributable to members[1]	(8,144,361)	-	(6,157,144)
Net (Loss) for the year attributable to members[1]	(8,144,361)	-	(6,157,144)

[1]Includes one-off items relating to the re-measurement of the performance shares issued as part of the consideration for the acquisition of MGC Pharma (UK) Ltd of $1.29 million (2016: $1.78m) and a share based payment expense of $2.05 million (2016: nil). Refer to notes to financial report for further details.

Dividends Paid or Recommended

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

3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Refer 'Consolidated Statement of Comprehensive Income' per the Financial Report.

4. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Refer 'Consolidated Statement of Financial Position' per the Financial Report.

5. CONSOLIDATED STATEMENT OF CASHFLOWS

Refer 'Consolidated Statement of Cashflows' per the Financial Report.

6. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Refer 'Consolidated Statement of Changes in Equity' per the Financial Report.

7. DIVIDENDS AND DISTRIBUTIONS

N/A

8. DIVIDEND AND DISTRIBUTION PLANS

N/A

9. NET TANGIBLE ASSETS PER SHARE

	2017 cents/share	2016 cents/share
Net tangible assets per share	1.42	0.51

10. DETAILS OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD

Control was gained over the Czech Republic based entity, Panax Pharma s.r.o during the year; refer to note 25 of the Financial Report for full details. There were no disposals during the year.

11. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

N/A

12. OTHER SIGNIFICANT INFORMATION

There were no other significant matters to report other than those disclosed in the Financial Report.

13. FOREIGN ENTITY REPORTING

Subsidiaries are incorporated in the United Kingdom, Slovenia and Czech Republic, where International Financial Reporting Standards are applied to compile local Financial Reports. Refer to note 17 for details on foreign entities controlled by the Company.

14. COMMENT ON RESULTS

Review of Operations

Refer to page 5 of the Financial Report.

Operating Results

	2017 cents/share	2016 cents/share
Earnings per share	(0.84)	(1.02)
Net (Loss) for the year attributable to members	(8,144,361)	(6,157,144)

The net loss after tax for the period includes significant one-off non-cash accounting adjustments relating to the re-measurement of financial liabilities of $1.29 million (2016: $1.78m) and a share-based payment expense of $2.05 million (2016: nil). Further details relating to the recognition of these items are disclosed in the notes to the financial statements.

Segment Analysis

Refer to note 28 of the notes to the financial statements.

Discussion of Trends on Performance

The Company continues to review further opportunities in the medicinal cannabis market. Refer to the Operational Review at page 5 of the Financial Report.

15. AUDIT STATUS

This report is based on Financial Statements that have been audited.

16. UNAUDITED FINANCIAL STATEMENTS

N/A

17. AUDIT OPINION

Not subject to a modified opinion, emphasis of matter or any other matter paragraph.

ABN 30 116 800 269

MGC PHARMACEUTICALS LTD

FINANCIAL REPORT
30 JUNE 2017

Contents

Corporate Directory

Directors

Brett Mitchell
Executive Chairman

Nativ Segev
Managing Director

Roby Zomer
Chief Executive Officer & Executive Director

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 6000

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)

ASX Code 'MXC' for ordinary shares
ASX Code 'MXCOD' for listed options

Share Registry

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

Website

www.mgcpharma.com.au

Directors' Report

The Directors present their report on MGC Pharmaceuticals Limited ("the Company") and its controlled entities ("the Group") for the financial year ended 30 June 2017.

Directors

The names of Directors in office at any time during or since the end of the year are:

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

Directors have been in office since the start of the financial year to the date of this report.

Company Secretary

Rachel Kerr held the position of Company Secretary for the full financial year.

Principal Activities

The Company is a European based specialist medical cannabis biopharma company with many years of technical, clinical and commercial experience in the medical cannabis industry. The Company's founders were key figures in the global medical cannabis industry and the core business strategy is to be a global leader in phytocannabinoid-based medicine within the biopharmaceutical medical markets in Europe, Australasia and North America.

Operating Results

The consolidated loss of the group amounted to $8,502,025 (2016: $6,230,063).

Dividends Paid or Recommended

No dividends have been paid or declared for payment during, or since, the end of the financial year.

Directors' Report

Review of Operations

Corporate

- $10m of capital raised to fast-track the Company's Botanic and Pharma research and development program, and to further commercialise its MGC Derma products
- Acquisition of Panax completed in early 2017, cementing a key strategic relationship with the highly-respected Institute of Experimental Botany of the Academy of Sciences of the Czech Republic (IEB AS), with a 5-year medical cannabis license. Operations are now underway with 470 plants (+1,000m^2) of THC/CBD medicinal cannabis currently growing in the Czech facility
- Leading epilepsy experts, Professor Uri Kramer and Professor David Neubauer joined the Company's Scientific Advisory Board, driving strong progress with MGC Pharmaceuticals' epilepsy program

Pharma division

- Completion of the European extraction facility on time and budget, with rapid progress towards commercialisation of API products and GMP certification to follow
- Landmark collaboration with the Royal Melbourne Institute of Technology (RMIT) for a full suite of medicinal cannabis research initiatives, initially centred on pre-clinical research on melanoma and establishment of a world first library of cannabis medicines
- Foundations laid to commence a Phase 2A crossover (non-pivotal) epilepsy clinical study in Slovenia, led by two world epilepsy experts
- Signed off take agreement for its future API production with leading regional Pharma and Labs Distributor Mikro+Polo d.o.o

Botanic division

- Harvest of the first Cannabidiol (CBD) test crop in Slovenia in late 2016, enabling analysis of the optimal climate and soil conditions for growing and the second crop of 5,000m^2 of high CBD Sativa outdoor crop has been planted in Slovenia and is currently maturing for harvest
- Newly acquired Panax operation commences its research breeding program with over 1,000m^2 under greenhouse cultivation
- New research collaboration with the University of Ljubljana in Slovenia for a breeding and genetics program to create medical cannabis strains that are tailored to treat specific medical conditions

Derma division

- Completion of a comprehensive safety and efficacy clinical testing program for the Company's *DermaPlus* range, resulting in European regulatory approval of the "dermatologically tested" products
- New wholesale reseller agreements for the CBD based cosmetic product lines in Europe, with dispensaries and cannabis lifestyle retailers in Spain, Italy and Romania

OPERATIONAL

The financial year 2017 was a period of high activity for MGC Pharmaceuticals as it progressed its corporate and operational plans to become a leading medicinal cannabis biopharma company in Europe and Australia.

Australian Leadership

In collaboration with the University of Sydney Business School, MGC Pharmaceuticals was proud to publish its second white paper, entitled *Clinical Evidence for Medical Cannabis: Epilepsy, Cancer and Multiple Sclerosis.* The new white paper evaluates the evidence currently existing for the efficacy of medical cannabis in treating a variety of major diseases. It also examines medical cannabis' applicability to the relief of a range of health-related issues, including pain, nausea and loss of appetite.

Directors' Report

MGC Pharma division

In a key milestone for the Pharma division, MGC Pharmaceuticals completed the construction of its European extraction facility on time and budget in April 2017. The facility contains state of the art extraction equipment as well as a clean room, enabling the division to produce approximately 3,000kg of raw materials into cannabinoid extracts per year at full capacity.

Shortly after the completion of the facility, the Company successfully produced its first cannabinoid extracts and once we receive Good Manufacturing Practice (GMP) certification, the Company will be able to produce and sell higher margin active pharmaceutical ingredient (API) grade extracts. These APIs will be used in MGC Pharmaceuticals' own clinical trials and research, along with representing an additional revenue stream for the Company by supplying third party customers with clinical trial material.

Ensuring the commercialisation of the API material, in readiness for GMP certification, has been another significant achievement for the division. The Company worked hard to rapidly secure its first exclusive distribution deal for the API material that will be produced at the facility. The agreement is with leading laboratory supplier, Mikro+Polo, the largest Slovenian supplier of laboratory equipment, chemicals and diagnostics to an established customer base of research institutions, academies and laboratories across Slovenia, Croatia and Bosnia.

In a landmark agreement, MGC Pharmaceuticals signed a Memorandum of Understanding (MOU) with the Royal Melbourne Institute of Technology (RMIT) to collaborate on a full suite of medicinal cannabis research initiatives, initially centred on the world first library of cannabis medicines and pre-clinical research on melanoma. This MOU brings together the best and most brilliant minds from one of Australia's leading research universities, with MGC Pharmaceuticals significant and deep understanding of the genetics of medicinal cannabis.

The project, which will involve programs of work from both MGC Pharmaceuticals' Pharma and Botanic divisions, will see the establishment of a world first library of cannabis medicines detailing the genetic make-up of a wide variety of cannabinoid strains. It will also involve the identifying of genetics and cannabinoids sequences for establishing medical cannabis cannabinoid profiles that are effective for treating specific diseases (including cancer) and the development of medical grade cannabis products for future clinical studies in Australia.

Following the end of the financial year, the Company proceeded to sign the umbrella agreement with RMIT, with a research license application to be submitted to the Office for Drug Control for the cultivation and production initiatives to take place at the RMIT secure facilities.

With the appointment of Professor Uri Kramer to MGC Pharmaceuticals' Advisory Board, the Company formed a strategic alliance with Epilepsy Action Australia (EAA) during the financial year. The EAA is the leading Australian epilepsy association and provides support services to children and adults with epilepsy. As part of this alliance, the EAA will introduce MGC Pharmaceuticals' CBD products to its members in accordance with their medical requirements. In addition, both parties plan to work towards future joint clinical trials using medicinal cannabis to help treat epilepsy.

Building on this momentum helping patients with epilepsy, the Pharma division made strong progress laying the foundations to commence its Phase 2A crossover (non-pivotal) epilepsy clinical study in Slovenia. The study will be run by two world experts in epilepsy, Professor David Neubauer and Professor Uri Kramer and will commence upon receipt of the final approval from the key regulatory body in Slovenia, the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia. The results from the study will deliver the Company a defined pathway to produce its own registered medicine for the treatment of epilepsy, as its first step to producing and selling its own medical grade product.

Directors' Report

MGC Botanic division

Within the Botanic division, MGC Pharmaceuticals' European growing and research program is progressing well. The division successfully harvested the Company's first cannabidiol (CBD) test crop in Slovenia early in the year, enabling it to evaluate and establish the optimal climate and soil conditions for further crops. The Company has been analysing new environmental data, such as water and soil analysis, pesticide and fertiliser protocols, and sunlight levels, as part of its research to improve outdoor CBD harvest yields.

The Company moved forward with its program to grow cannabis raw materials for its clinical studies. Seeding of the second crop of high CBD cannabis strains began towards the end of the financial year on the Company's 5,000m^2 open field farm in Slovenia. The crop is maturing well and is intended for harvest in October 2017. These raw materials will then be transported to the Company's European extraction facility for processing.

As part of the Botanic division, the Company's newly acquired Panax operation progressed its breeding program as part of its strategic partnership with the highly respected Czech Republic science institute, the IEB AS. Importantly, through the partnership with the IEB AS the Company has access to a medical cannabis breeding license for its joint breeding program. This breeding program forms part of the division's core objective to create new genetic strains of medicinal cannabis and the associated Intellectual Property (IP) for specific medical indications and high potency of phytocannabinoids.

The first batch of varying cannabis genetics produced by the Company's Panax operations with the IEB AS has been successful, with over 470 medicinal cannabis plants (over 1,000 m^2) successfully transferred from the IEB AS facility to the Company's larger greenhouse facility outside of Prague. The Company expects to harvest the first Panax medicinal cannabis crop in September.

Adding another strong research relationship, the Company signed a new research Collaboration Agreement with the Biotechnical Faculty of the University of Ljubljana in Slovenia. This is an exciting new botanic research agreement that will see the Company undertake a breeding and genetics program to explore ways to create medical cannabis strains that are tailored to treat specific medical conditions, including epilepsy, chronic pain and the side effects of oncology treatments.

MGC Derma division

The Company's Derma division (51% owned) is focused on penetrating the cosmetics market with its CBD skin care ranges, across several key geographies including Europe, the US and Australia. Globally, this is a very large market that was worth US$460 billion in 2014 and is estimated to reach US$675 billion by 2020. This gives it an impressive growth rate of 6.4%, according to ResearchAndMarkets, June 2015.

As part of its strategy to penetrate this market, MGC Pharmaceuticals has executed a program of microbiology and clinical tests to ensure the safety and efficacy of its key cosmetic products. The Company reported favourable microbiology results from the testing of its cannabidiol (CBD) skin care range early in the year, demonstrating the safety of the products. The range, branded *DermaPlus*, is for the relief and prevention of psoriasis, acne and seborrhoea conditions.

These results led to further safety tests, via skin patch testing on 30 human volunteers which yielded excellent safety results with no adverse dermatological symptoms on volunteers. This enabled the Company to successfully register its three DermaPlus products with the European Cosmetics Products Notification Portal (CPNP) allowing the products to be sold across Europe as "dermatologically tested" labelled products.

In addition to the safety tests completed, the Company completed clinical efficacy tests on the products. Over 90 human volunteers participated in these tests over 3 months, which investigated the efficacy of the Company's proprietary formulations for the relief of psoriasis, acne and seborrhea. These final tests delivered strong results for the *DermaPlus* range, with improvements observed on highly irritated or inflamed skin conditions. With these excellent results in hand, the Company is now able to sell the products with a strong competitive advantage.

Directors' Report

The Derma division was also delighted when it secured new wholesale reseller agreements for its CBD based cosmetic product lines in Europe, with dispensaries and cannabis lifestyle retailers in Spain, Italy and Romania. Under the contracts, the MGC Derma anti-aging and essentials products have been available for retail purchase by consumers instore, via retail venues and online since May 2017.

Significant Changes in State of Affairs
In the opinion of the directors, there have been no significant changes to the state of affairs of the Group during the year other than those disclosed elsewhere in the financial report or the notes thereto.

After Reporting Date Events
During the year the Group entered into a Binding Term Sheet with Chesser Resources Limited (CHZ) to acquire the MGC Pharmaceuticals Ltd subsidiary Erin Mineral Resources Pty Ltd which holds the Company's remaining Senegal gold assets Youboubou (100%), Woye (80%) and Garaboreya South (80%). On 12 July 2017, the acquisition was completed as announced by CHZ.

The Company announced on 23 August 2017 that it had signed a binding Umbrella Agreement with leading Australian research university, Royal Melbourne Institute of Technology (RMIT), to collaborate exclusively on medicinal cannabis research initiatives in Australia. This is a strategic collaboration to establish a world first library of cannabis medicines – developing genetics, breeding programs and protocols for specific medical cannabis strains. Initial research will focus on Melanoma, the third most common cancer in Australia.

Change in Nature and Scale of Operations
During the financial year there was no change in the nature and scale of operations of the Company.

Environmental Issues
The group's operations are subject to various environmental laws and regulations under the relevant Governments' legislation. Full compliance with these laws and regulations is regarded as a minimum standard for all operations to achieve. There have been no significant known breaches by the group during the financial year.

Future Developments, Prospects and Business Strategies
The Company will continue to pursue its policy of enhancing the prospect of greater returns to its investors through further strategic investments during the next financial year. Further information about likely developments in the operations of the group and the expected results of those operations in future financial years has not been included in this report, because disclosure of the information would be likely to result in unreasonable prejudice to the group.

Information on Directors and Secretary
Names, special responsibilities, qualifications and experience of current directors and company secretary

Brett Mitchell, BEc	**Executive Chairman**
Qualifications and Experience	Mr Mitchell is a corporate finance executive with over 20 years of experience in the finance, technology and resources industries. He has been the co-founder of a number of ASX and private companies across these sectors, and holds executive and non-executive directorship roles with his key business interests. His executive management responsibilities cover capital markets, corporate finance, new business strategy and treasury for these companies. Mr Mitchell holds a Bachelor of Economics from the University of Western Australia and is also a member of the Australian Institute of Company Directors (AICD).

Directors' Report

Interest in Shares and Options

Brett and Michelle Mitchell <Mitchell Spring Family A/C>
12,458,889 Ordinary Shares
8,000,000 Performance Rights
Brett and Michelle Mitchell <Lefthanders Super Fund A/C>
3,735,005 Ordinary Shares
2,000,000 Performance Rights

Directorships held in other listed entities in the past three years

Sky and Space Global Ltd (12 May 2016 – current)
Acacia Coal Limited (18 December 2015 – 2 August 2016)
Digital CC Limited (5 September 2014 – 24 July 2016)
Citation Resources Ltd (24 November 2011 – 1 December 2015)
Tamaska Oil and Gas Ltd (1 August 2011 – 1 February 2015)
Wildhorse Energy Ltd (22 April 2009 – 29 August 2014)

Nativ Segev — **Founder and Managing Director**

Qualifications and Experience

Mr Segev founded MGC Pharma in 2014 with a goal to expand into international markets and raise the quality of medicinal Phytocannabinoid products, in addition to making them accessible to patients all over the world. Prior to establishing MGC Pharma, Mr. Segev was leader in the Medical Cannabis industry with a sizeable patient-base.

He has over 10 years of experience in implementation, legislation and lobbying in the global Medical Cannabis industry, combined with over 15 years of experience in diverse executive roles.

Interest in Shares and Options

40,000,000 Ordinary Shares
20,000,000 Performance Shares

Brighght Global Limited
12,500,000 Performance Rights

Directorships held in other listed entities in the past three years

Nil

Roby Zomer — **CEO and Executive Director**

Qualifications and Experience

Mr Zomer joined Mr Segev as co-founder of MGC Pharma and then as the Executive Director & CTO, following 10 years of experience in the BioTech and AgroTech sectors, alongside running large scale projects. Mr Zomer brings his extensive list of business contacts and scientific and engineering expertise to ensure MXC is positioned as a leader in research and development, in addition to guaranteeing top performance from global operations.

Mr Zomer's recent appointment to CEO follows successful implementation of MXC's pipelines for pharmaceuticals in Europe and Australia, and indicates MXC's commitment to scientific leadership.

Interest in Shares and Options

Chitta Lu Limited
20,000,000 Ordinary Shares
10,000,000 Performance Shares
10,000,000 Performance Rights

Directorships held in other listed entities in the past three years

Nil

Directors' Report

Ross Walker, MBBS (Hons), FRACP, FCSANZ	**Non-Executive Director and Chairman of Strategic Advisory Board**
Qualifications and Experience	Dr Ross Walker is an eminent practicing cardiologist with over 35 years' experience as a clinician. For the past 20 years, he has been focusing on preventative cardiology and is one of Australia's leading preventative health experts. Dr Walker is considered one of the world's best keynote speakers and life coaches, he is the author of seven best-selling books, a health presenter in the Australian Media, including regular appearances on the Nine Network's 'Today Show' and 'A Current Affair', and Sky News, Switzer Business. He also has a weekly national radio show, Healthy Living with other regular segments on 2UE, 6PR, 4BC and 3AW.
Interest in Shares and Options	4,000,000 Performance Rights
Directorships held in other listed entities in the past three years	Nil
Rachel Kerr	**Company Secretary**
Qualifications and Experience	Mrs Kerr has 8 years' experience as a Company Secretary on both private and public companies, working on acquisitions, capital raisings, listing of companies on ASX, due diligence reviews and compliance of public companies. Mrs Kerr is also Company Secretary of Sky and Space Global Ltd.

Remuneration Report (Audited)

This report details the nature and amount of remuneration for each key management person of MGC Pharmaceuticals Limited, and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of MGC Pharmaceuticals Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board of MGC Pharmaceuticals Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the group is as follows:

- The remuneration policy, setting the terms and conditions for the key management personnel, was developed and approved by the Board.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The Board reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel are also entitled to participate in the employee share and option arrangements.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed. Shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by key management personnel. Options are valued using the Black-Scholes methodology.

Directors' Report

Remuneration Report (continued)

The Board policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the consolidated group. However, to align directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in the employee option plan.

Performance-based Remuneration

As part of each member of the key management personnel's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between key management personnel with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the areas each key management personnel are involved in and have a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short- and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

Company Performance, Shareholder Wealth and Director and Executive Remuneration

Key Management Personnel Remuneration Policy

The Board's policy for determining the nature and amount of remuneration of key management for the group is as follows:

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement.

All Directors had contracts in place with the Company during the financial year as detailed below:

Current Directors
Mr Brett Mitchell, Executive Chairman

- Director Letter of Appointment dated 20 February 2016, no termination date or payment on termination;
- MGC Pharmaceuticals Ltd executive services agreement was implemented on 20 February 2016, this agreement continues for 3 years unless terminated prior and will thereafter automatically renew every 12 months;
    - Fees of A$15,000 per month; as of 1 April 2017 the Board resolved to increase this to A$25,000 per month
    - A termination fee is payable and is dependent upon the Company terminating the services contract at its election, unless terminated by a just cause, and the payment would range between €192,000-€576,000 subject to the length of service provided to the Company
- MGC Pharma (UK) Ltd Non-Executive Director agreement commenced 30 June 2016; no termination date or payment on termination;
    - Fees of £910 per month

Directors' Report

Remuneration Report (continued)

Mr Nativ Segev, Managing Director

- MGC Pharmaceuticals Ltd executive services agreement was implemented on 20 February 2016, this agreement continues for 3 years unless terminated prior and will thereafter automatically renew every 12 months;
  - Fees of €12,500 per month plus benefits; as of 1 April 2017 the Board resolved to increase this to £17,000 per month plus benefits
  - A termination fee is payable and is dependent upon the Company terminating the services contract at its election, unless terminated by a just cause, with a termination fee of up to €800,000 payable.
- MGC Pharma (UK) Ltd Non-Executive Director agreement commenced 30 June 2016; no termination date or payment on termination;
  - Fees of £910 per month

Mr Roby Zomer, Executive Director

- MGC Pharmaceuticals Ltd executive services agreement was implemented on 20 February 2016, this agreement continues for 3 years unless terminated prior and will thereafter automatically renew every 12 months;
  - Fees of €10,000 per month plus benefits; as of 1 April 2017 the Board resolved to increase this to £15,000 per month plus benefits
  - A termination fee is payable and is dependent upon the Company terminating the services contract at its election, unless terminated by a just cause, and the payment would range between €192,000-€576,000 subject to the length of service provided to the Company
- MGC Pharma (UK) Ltd Non-Executive Director agreement commenced 30 June 2016; no termination date or payment on termination;
  - Fees of £910 per month

Dr Ross Walker, Non-Executive Director and Chairman of Strategic Advisory Board

- MGC Pharmaceuticals Ltd Director Letter of Appointment was implemented on 20 October 2015, no termination date and no payment upon termination;
  - Non-Executive Director fees of $3,000 per month and fees for Chairman of Strategic Advisory Board of $2,000 per month;

Details of Remuneration

Compensation of Key Management Personnel Remuneration

	Short-term Benefits			Post-employment benefits					
Directors	**Cash and salary**	**Perfor-mance Bonus**	**Other**	**Super-annuation**	**Termination benefits**	**Equity**	**Share based Payments**	**Total**	**Perform-ance related %**
2017									
Brett Mitchell	234,403	90,000	15,000	-	-	-	399,709	739,112	12%
Nativ Segev	277,999	105,000	63,559	-	-	-	499,636	946,194	11%
Roby Zomer	233,043	90,000	60,102	-	-	-	399,709	782,854	11%
Ross Walker	60,000	5,000	17,000	-	-	-	131,640	213,640	2%
Total	**805,445**	**290,000**	**155,661**	**-**	**-**	**-**	**1,430,694**	**2,681,800**	**36%**
2016									
Brett Mitchell	157,883	-	40,000	-	-	-	-	197,883	-
Nativ Segev	75,975	-	8,895	-	-	-	-	84,870	-
Roby Zomer	60,776	-	8,895	-	-	-	-	69,671	-
Ross Walker	22,500	-	-	-	-	-	-	22,500	-
Nick Castleden	22,600	-	-	-	-	-	-	22,600	-
Nick Poll	15,625	-	-	-	-	-	-	15,625	-
Total	**355,359**	**-**	**57,790**	**-**	**-**	**-**	**-**	**2,363,149**	**-**

Directors' Report

Remuneration Report (continued)

All Directors have contracts with the Company.

Option Holdings of Key Management Personnel

Details of options and rights held directly, indirectly or beneficially by KMP and their related parties are as follows:

Unlisted Options exercisable at $0.025, $0.04 and $0.20 all expired 30 June 2017

Directors	Opening Balance	Granted/Purchased	Exercised	Expired	Closing Balance
2017					
Brett Mitchell	5,800,000	-	5,000,000	800,000	-
Nativ Segev	-	-	-	-	-
Roby Zomer	-	-	-	-	-
Ross Walker	-	-	-	-	-
Total	**5,800,000**	**-**	**5,000,000**	**800,000**	**-**

Performance Shares held by Key Management Personnel

Details of performance shareholdings held directly, indirectly or beneficially by KMP and their related parties are as follows:

Directors	Opening Balance	Granted as Compensation	Options Exercised	Net Other Changes	Closing Balance
2017					
Brett Mitchell	-	-	-	-	-
Nativ Segev	20,000,000	-	-	-	20,000,000
Roby Zomer	10,000,000	-	-	-	10,000,000
Ross Walker	-	-	-	-	-
Total	**30,000,000**	**-**	**-**	**-**	**30,000,000**

Performance Rights held by of Key Management Personnel

Details of performance rights held directly, indirectly or beneficially by KMP and their related parties are as follows:

Directors	Opening Balance	Granted as Compensation	Options Exercised	Net Other Changes[1]	Closing Balance
2017					
Brett Mitchell	-	-	-	10,000,000	10,000,000
Nativ Segev	-	-	-	12,500,000	12,500,000
Roby Zomer	-	-	-	10,000,000	10,000,000
Ross Walker	-	-	-	4,000,000	4,000,000
Total	**-**	**-**	**-**	**36,500,000**	**36,500,000**

[1] Net other changes are as a result of rights allotted on right issues and other movement due to changes in directors and directors' related entities.

2016

There were no Performance Rights held by the Board or Key Management Personnel during the 2016 financial year.

Shareholdings of Key Management Personnel

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by KMP and their parties are as follows.

Directors' Report

Remuneration Report (continued)

Shareholdings

Directors	Opening Balance	Granted as Compensation	Options Exercised	Net Other Changes	Closing Balance
2017					
Brett Mitchell	11,193,894	-	5,000,000	-	16,193,894
Nativ Segev	40,000,000	-	-	-	40,000,000
Roby Zomer	20,000,000	-	-	-	20,000,000
Ross Walker	-	-	-	-	-
Total	**71,193,894**	**-**	**5,000,000**	**-**	**76,193,894**

Share-based Compensation

Value of Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

There were no options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2017.

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation are set out below:

Directors	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
2017				
Brett Mitchell	-	162,500	-	-
Nativ Segev	-	-	-	-
Roby Zomer	-	-	-	-
Ross Walker	-	-	-	-

End of Remuneration Report

Meetings of Directors

The Directors attendances at Board meetings held during the year were:

	Board Meetings	
	Number eligible to attend	Number attended
Brett Mitchell	5	5
Nativ Segev	5	5
Roby Zomer	5	5
Ross Walker	5	5

The Company does not have any remuneration, nomination or audit committees, these functions are performed by the Board as a whole.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of MGC Pharmaceuticals Limited support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that the Company is in compliance with many of those guidelines which are of importance to the commercial operation of the Company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. The Company's Corporate Governance Policy is available for review on the Company's website www.mgcpharma.com.au

Directors' Report

Options

At the date of this report the unissued ordinary shares of MGC Pharmaceuticals Limited under option are as follows:

Issue Date	Date of Expiry	Exercise Price	Number under Option
23 January 2013	23 January 2018	$0.30	1,000,000
23 January 2013	23 January 2018	$0.35	500,000
23 January 2013	23 January 2018	$0.40	500,000
6 October 2016, 10 November 2016	30 June 2019	$0.065	91,553,226
Total			**93,553,226**

Indemnifying Officers or Auditor

During or since the end of the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The Company has paid premiums to insure all of the Directors of the Company as named above, the Company secretary and all executive officers of the Company against any liability incurred as such by a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the notice of the liability and the amount of the premium.

The Company has not indemnified the auditor or paid any insurance premium on behalf of the auditor.

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Non-audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Board of Directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the service provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

During the year, there were no fees paid or payable for non-audit services by PKF Mack and its related practices.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 16 of the financial report.

This report is made in accordance with a resolution of Directors. These financial statements were authorised for issue in accordance with a resolution by the Directors of the Company on 21 August 2017.

Brett Mitchell
Executive Chairman
Dated 29 August 2017

Accounting, Financial and Business Advisory

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF MGC PHARMACEUTICALS LTD

In relation to our audit of the financial report of MGC Pharmaceuticals Ltd for the year ended 30 June 2017, 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

29 AUGUST 2017
WEST PERTH
WESTERN AUSTRALIA

PKF Mack
ABN 64 591 268 274

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2017

		CONSOLIDATED GROUP	
		30-Jun-17	**30-Jun-16**
	Note	**$**	**$**
Sales revenue	*5*	120,242	2,197
Cost of goods sold	*6*	(158,073)	(15,011)
Gross profit		**(37,831)**	**(12,814)**
Other income	*5*	127,258	46,033
Corporate costs		(246,203)	(309,573)
Professional and consultancy fees		(1,594,473)	(785,415)
Directors' fees		(1,304,052)	(442,888)
Employee benefit expenses	*7*	(767,444)	(178,463)
Employee share based payment expense	*7*	(2,052,053)	-
Travel expenses		(276,795)	(254,697)
Marketing expenses		(204,756)	(240,261)
Depreciation		(83,522)	(16,579)
Due diligence expenditure		-	(158,534)
Doubtful debt expense		(31,025)	-
Office and administrative expenses		(143,924)	(61,735)
Finance costs		(19,724)	(120,006)
Impairment provision expense		(237,666)	(1,755,891)
Loss on re-measurement of performance shares		(1,290,000)	(1,780,000)
Other expenses		(339,815)	(159,240)
Loss before income tax		**(8,502,025)**	**(6,230,063)**
Income tax benefit	*8*	**-**	**-**
Loss after income tax from continuing operations		**(8,502,025)**	**(6,230,063)**
Loss after income tax benefit for the year attributable to:			
Members of the parent entity		(8,144,361)	(6,157,144)
Non-controlling interest		(357,664)	(72,919)
		(8,502,025)	**(6,230,063)**
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on the translation of foreign operations		(68,512)	(2,459)
Other comprehensive income (net of tax) for the year		**(68,512)**	**(2,459)**
Total comprehensive loss for the year		**(8,570,537)**	**(6,232,522)**
Total comprehensive loss attributable to:			
Members of the parent entity		(8,206,658)	(6,155,619)
Non-controlling interest		(363,879)	(76,903)
		(8,570,537)	**(6,232,522)**
Earnings per share for loss attributable to the ordinary equity holders of the parent:			
From continuing and discontinued operations			
Basic loss per share (cents)	*10*	(0.84)	(1.02)
Diluted loss per share (cents)	*10*	(0.84)	(1.02)

The accompanying notes form part of these financial statements

Consolidated Statement of Financial Position

As at 30 June 2017

		CONSOLIDATED GROUP	
		30-Jun-17	**30-Jun-16**
	Note	**$**	**$**
CURRENT ASSETS			
Cash and cash equivalents	*11*	11,363,902	7,895,539
Inventory	*12*	507,873	157,035
Trade and other receivables	*13*	613,246	477,372
Assets held for sale	*14a)*	-	500,000
Total Current Assets		**12,485,021**	**9,029,946**
NON-CURRENT ASSETS			
Plant and equipment	*15*	1,258,478	211,074
Intangible assets	*16*	7,076,166	7,083,665
Other asset		-	36,167
Total Non-Current Assets		**8,334,644**	**7,330,906**
TOTAL ASSETS		**20,819,665**	**16,360,852**
CURRENT LIABILITIES			
Trade and other payables	*18*	596,275	456,369
Contingent consideration	*19*	4,370,000	3,080,000
Borrowings	*20*	-	1,075,228
Total Current Liabilities		**4,966,275**	**4,611,597**
NON-CURRENT LIABILITIES			
Loans to third parties	*20*	20,311	20,393
Deferred revenue		44,549	-
Total Non-Current Liabilities		**64,860**	**20,393**
TOTAL LIABILITIES		**5,031,135**	**4,631,990**
NET ASSETS		**15,788,530**	**11,728,862**
EQUITY			
Contributed equity	*21*	42,557,404	32,343,143
Share based payment reserve	*22a)*	3,495,614	1,079,564
Foreign currency translation reserve	*22b)*	(35,849)	26,448
Retained earnings		(29,784,002)	(21,639,641)
Equity attributable to equity holders of the parent		**16,233,167**	**11,809,514**
Non-controlling interest		(444,637)	(80,652)
TOTAL EQUITY		**15,788,530**	**11,728,862**

The accompanying notes form part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

CONSOLIDATED GROUP	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**
Other comprehensive income	-	-	1,525	-	(3,984)	**(2,459)**
Loss after income tax expense	-	-	-	(6,157,144)	(72,919)	**(6,230,063)**
Total comprehensive loss for the year	**-**	**-**	**1,525**	**(6,157,144)**	**(76,903)**	**(6,232,522)**
Shares issued during the year (net of share issue costs)	15,841,840	-	-	-	**-**	**15,841,840**
Share based payment	-	196,481	-	-	**-**	**196,481**
Recognition of non-controlling interest	-	-	-	-	(3,749)	**(3,749)**
Balance at 30 June 2016	**32,343,143**	**1,079,564**	**26,448**	**(21,639,641)**	**(80,652)**	**11,728,862**
Balance at 1 July 2016	**32,343,143**	**1,079,564**	**26,448**	**(21,639,641)**	**(80,652)**	**11,728,862**
Other comprehensive income	-	-	(62,297)	-	(6,215)	**(68,512)**
Loss after income tax expense	-	-	-	(8,144,361)	(357,664)	**(8,502,025)**
Total comprehensive loss for the year	**-**	**-**	**(62,297)**	**(8,144,361)**	**(363,879)**	**(8,570,537)**
Shares issued during the year (net of share issue costs)	9,803,195	-	-	-	**-**	**9,803,195**
Share based payment	-	2,827,116	-	-	**-**	**2,827,116**
Transfer to issued capital	411,066	(411,066)	-	-	**-**	**-**
Recognition of non-controlling interest	-	-	-	-	(106)	**(106)**
Balance at 30 June 2017	**42,557,404**	**3,495,614**	**(35,849)**	**(29,784,002)**	**(444,637)**	**15,788,530**

The accompanying notes form part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

		CONSOLIDATED GROUP	
		30-Jun-17	**30-Jun-16**
	Note	**$**	**$**
Cash flows from operating activities			
Receipts from customers		120,242	3,252
Payments to suppliers and employees		(4,871,517)	(3,096,009)
Interest received		127,258	46,090
Interest paid		(31,846)	(11,776)
Due diligence costs		-	(162,058)
Net cash used in operating activities	*29*	**(4,655,863)**	**(3,220,501)**
Cash flows from investing activities			
Proceeds from disposal of exploration assets		500,000	-
Cash acquired through asset acquisition	*25*	124	142,571
Purchase of plant and equipment		(1,131,356)	(88,517)
Payments for exploration assets		-	(159,403)
Payments to acquire financial assets		-	(33,423)
Cash advances to MGC Pharma (UK) Group pre-acquisition		-	(512,171)
Net cash used in investing activities		**(631,232)**	**(650,943)**
Cash flows from financing activities			
Proceeds from borrowings	*20*	-	1,000,000
Repayment of borrowings	*20*	(1,000,000)	(195,000)
Proceeds from issue of shares and options		10,533,235	11,125,283
Capital raising costs		(723,437)	(597,188)
Net cash provided by financing activities		**8,809,798**	**11,333,095**
Net increase in cash and cash equivalents held		**3,522,703**	**7,461,651**
Cash and cash equivalents at beginning of year		7,895,539	436,985
Foreign exchange movement in cash		(54,340)	(3,097)
Cash and cash equivalents at end of year	*11*	**11,363,902**	**7,895,539**

The accompanying notes form part of these financial statements

Notes to the Financial Statements

1. CORPORATE INFORMATION

The financial statements of MGC Pharmaceuticals Limited for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of Directors on 21 August 2017. These consolidated financial statements and notes represent those of MGC Pharmaceuticals Limited (the "Company") and Controlled Entities (the "consolidated group" or "group").

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001 as appropriate for 'for-profit' orientated entities.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"). Material accounting policies adopted in the preparation of these financial statements are presented below and they have been consistently applied unless otherwise stated.

b) Basis of Preparation

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The preparation of the 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 group'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 3.

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.

During the year ended 30 June 2017 the consolidated group incurred a loss from continuing operations of $8,502,025 (2016: $6,230,063), net operating cash outflows of $4,655,863 (2016: $3,220,501) and year-end cash and cash equivalents balance of $11,363,902 (2016: $7,895,539). Net losses include one-off non-cash adjustments of $1.29m (2016: $1.78m) relating to the re-measurement of performance shares (note 26b) and a share based payment expense of $2m (2016: $nil).

The Company's cashflow forecasts for the 12 months ending 30 September 2018 indicate that the Company will be in a position to meet its committed operational and administrative expenditure and thus continue to operate as a going concern.

In the Directors' opinion there are therefore reasonable grounds to believe that the consolidated group will be able to pay its debts as and when they become due and payable.

If the Company and group are unable to continue as a going concern, then assets and liabilities will not be discharged in the normal course of business and at values specified in the financial report.

c) Principles of Consolidation

The consolidated financial statements comprise the financial statements of MGC Pharmaceuticals Ltd and its subsidiaries as at 30 June 2017 ("the Group").

Notes to the Financial Statements

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary it, de-recognises the assets (including goodwill) and liabilities of the subsidiary; de-recognises the carrying amount of any non-controlling interests; de-recognises the cumulative translation differences recorded in equity; recognises the fair value of the consideration received; recognises the fair value of any investment retained; recognises any surplus or deficit in profit or loss; and reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

d) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate AASB. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Notes to the Financial Statements

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

e) Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence, or joint control, are similar to those necessary to determine control over subsidiaries.

The Group's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Notes to the Financial Statements

f) Intangible Assets

Intangible assets acquired as part of a business combination or asset acquisition, other than goodwill, are initially measured at their fair value at the date of 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. The gains and 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.

Licenses/permit costs

Costs associated with the acquisition of a license or permit to cultivate hemp are considered to be indefinite life identifiable intangible assets and are subject to regular impairment testing.

g) Current and Non-Current Classification

The group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- A Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when it is:

- Expected to be settled in normal operating cycle;
- Held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The group classifies all other liabilities as non-current.

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

h) Income Tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income.

Deferred income tax is provided on all temporary differences at the statement of financial position date, arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, and are recognised for all taxable temporary differences,

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and

Notes to the Financial Statements

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future extent that it is probable that the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of profit or loss and other comprehensive income.

Tax Consolidation
The Company and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidated legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 21 October 2005. The tax consolidated group has entered a tax funding agreement whereby each company in the group contributes to the income tax payable by the group in proportion to their contributions to the group's taxable income.

i) Impairment of Non-Financial Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease (refer 2x)). When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (refer 2x)).

j) Employee Benefits

A provision is made for the Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Notes to the Financial Statements

k) Foreign Currency Translation

Functional and Presentation Currency

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

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit and loss and other comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Transaction differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

l) Segment Reporting

An operating segment is a component of the consolidated group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the consolidated group's other components.

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 of Directors.

Specifically, the Group's reportable segments under AASB 8 are currently based on its geographic location, being the Australian and Slovenian operations.

m) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

n) Revenue

Revenue is measured at the fair value of the consideration received or receivable. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each type of revenue as described below.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

Interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset, or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the consolidated statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

p) Rounding of Amounts

The Company is a kind referred to in Legislative Instrument 2016/191 issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that class order to the nearest dollar.

q) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

r) Share Based Payments

Share based compensation relating to share options are recognised at fair value.

The fair value of the options is recognised as an employee benefit expense in the statement of profit or loss and other comprehensive income, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

s) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year, which remain unpaid at year end. The amounts are unsecured and are usually paid within 60 days of recognition. They are recognised at fair value on initial recognition and subsequently at amortised cost, using the effective interest rate method.

t) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less a provision for impairment. Trade receivables are generally due for settlement between thirty (30) and ninety (90) days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after reporting date.

Notes to the Financial Statements

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised in the profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.

u) Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit/loss in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

v) Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

Plant and equipment 3-5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

w) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

x) 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. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are 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 ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through the statement of profit or loss. Fair value movements are recognised in the profit or loss.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets, principally equity securities that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in the profit or loss when the asset is derecognised or impaired.

Impairment of financial assets
The group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

De-recognition
Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

y) Borrowings

All loans and 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 loans and borrowings using the effective interest method.

All borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

z) Fair value measurement

The group measures financial instruments and non-financial assets at fair value at each reporting date.
Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Notes to the Financial Statements

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

aa) Earnings per Share

Basic earnings per share
Basic earnings per share is calculated by dividing the net profit or loss after income tax attributable to equity holders 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.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the post income tax effect of interest and other financing costs associated with dilutive potential ordinary share and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

bb) Parent entity financial information

The financial information for the parent entity, MGC Pharmaceuticals Limited, disclosed in note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below:

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of MGC Pharmaceuticals Limited. Dividends received from associates are recognised in the parent entity's statement of profit or loss when its right to receive the dividend is established.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

a) Income Taxes

The group expects to have carried forward tax losses which have not been recognised as deferred tax assets as it is not considered sufficiently probable that these losses will be recouped by means of future profits taxable in the relevant jurisdictions.

b) Share Based Payments

The assessed fair value at grant date of share based payments granted during the period was determined using a binomial option pricing model that takes into account the exercise price, the price of the underlying share at grant date, the life of the option, the volatility of the underlying share, the risk-free rate and expected dividend payout and any applicable vesting conditions.

Management was required to make assumptions and estimates in order to determine the inputs into the binomial option pricing model.

c) Contingent Liabilities

A contingent consideration liability arose from the acquisition of MGC Pharma (UK) Limited, where Performance Shares can be converted into fully paid ordinary shares at a rate of one ordinary share for every Performance Share that converts.

The determination of the fair value is based on a probability weighted payout approach, where key assumptions take into consideration the probability of meeting each milestone and any future development may require further revisions to the estimate.

d) 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.

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 making this assessment significant assumptions include, growth of revenue streams pertaining to the Licence and applying a discount rate of 10% to the expected inflows. 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 as reflected in the Group's future cashflow forecast.

4. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

a) New or revised standards and interpretations that are first effective in the current reporting period

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial year.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

b) Accounting standards issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the group for the annual reporting period ending 30 June 2017, are set out below.

Reference	Title	Summary	Application date for reporting periods beginning or after	Application date for Company in financial year end
AASB 9, AASB 2014-7, AASB 2014-8 Amendments arising to Australian Accounting Standards arising from AASB 9	Financial Instruments	The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The Group are currently undergoing an assessment of the adoption of AASB 9 and its impact on the Group's financial instruments.	1 January 2018	30 June 2019
AASB 15, AASB 2014-5 Amendments arising from AASB 15, AASB	Revenue from Contracts with Customers	AASB 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 Construction Contracts, AASB 118 Revenue, Interpretation 13 Customer	1 January 2018	30 June 2019

Notes to the Financial Statements

Reference	Title	Summary	Application date for reporting periods beginning or after	Application date for Company in financial year end
2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15, AASB 2016-3 Clarifications to AASB 15		Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, and Interpretation 131 Revenue-Barter Transactions Involving Advertising Services. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group are currently undergoing an assessment of the adoption of AASB 9 and its impact on the Group's financial instruments.		

The following new or amended standards, applicable for annual reporting periods beginning after 1 January 2017 (unless otherwise stated), are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, AASB 2015-10 Amendments to Australian Accounting Standards – Effective Sate of Amendments to AASB 10 and AASB 128 (applicable 1 January 2018)
- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based payment transactions
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations (for which Australian equivalent Standards and Interpretations have not yet been issued) were in issue but not yet effective:

- IFRS 2 (Amendments) 'Classification and Measurement of Share-based Payment Transactions – effective 1 January 2018, applicable for the year ending 30 June 2019

5. REVENUE AND OTHER INCOME

	30-Jun-17 $	30-Jun-16 $
Sales revenue	120,242	2,197
Interest income	127,258	46,033
	247,500	**48,230**

6. COST OF GOODS SOLD

	30-Jun-17 $	30-Jun-16 $
Cost of goods sold	158,073	15,011
	158,073	**15,011**

Notes to the Financial Statements

7. EMPLOYEE EXPENSES

	30-Jun-17 $	30-Jun-16 $
Wages and salaries	767,359	178,431
Employee share option expense (note 27d)	2,052,053	-
Other employee costs	85	32
	2,819,497	**178,463**

8. INCOME TAX BENEFIT

	30-Jun-17	30-Jun-16
a) The components of income tax expense comprise:	**$**	**$**
current tax	-	-
deferred tax	(1,216,947)	(721,021)
DTA not recognised (losses)	1,349,517	821,619
DTA not recognised (temporary)	(132,570)	(100,598)
	-	-
b) The prima facie tax on (loss) from continuing operations and discontinued operations before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on (loss) from continuing operations and discontinued operations before income tax at 27.5%	(2,338,056)	(1,869,019)
Add: Tax effect of:		
Other non-allowable items	980,731	1,147,998
Other assessable items	140,378	-
Less: Tax effect of:		
Non-assessable items		
Loss of discontinued operations		
DTA not recognised (losses)	1,349,517	821,619
DTA not recognised (temporary)	(132,570)	(100,598)
Income tax expense/(benefit)	**-**	**-**
Deferred Tax Assets Not Brought to Account, the benefits of which will only be realised if the conditions for deductibility set out in Note (1h) occur		
Tax Losses	2,880,467	2,078,497
Temporary Differences	358,115	266,734
Total	**3,238,582**	**2,345,231**

9. AUDITOR'S REMUNERATION

	30-Jun-17 $	30-Jun-16 $
Remuneration of the auditors of the group:		
Audit fees and review of financial reports - PKF Mack	42,700	29,200
Preparation of Investigating Accountants Report – PKF Mack	-	12,500
	42,700	**41,700**
Audit fees and review of financial reports – subsidiaries' auditor	**59,312**	**-**

Notes to the Financial Statements

10. EARNINGS PER SHARE

	30-Jun-17 $	30-Jun-16 $
Basic loss per share (cents)	**(0.84)**	**(1.02)**
Diluted loss per share (cents)	**(0.84)**	**(1.02)**
Reconciliation of earnings to profit or loss		
(Loss) used in calculating basic and diluted EPS	(8,144,361)	(6,157,144)
	Number	**Number**
Weighted average number of ordinary shares and potential ordinary shares		
Weighted average number of ordinary shares used in calculating basic and diluted EPS	966,344,059	603,562,754

11. CASH AND CASH EQUIVALENTS

	30-Jun-17 $	30-Jun-16 $
Cash at bank	11,363,902	7,895,539
	11,363,902	**7,895,539**

12. INVENTORY

	30-Jun-17 $	30-Jun-16 $
At Cost		
Opening balance at 1 July	157,035	-
Inventory on acquisition of subsidiary (note 25)	-	14,536
Additions	360,873	146,986
Foreign currency translation reserve	(10,035)	(4,487)
	507,873	**157,035**

13. TRADE AND OTHER RECEIVABLES

	30-Jun-17 $	30-Jun-16 $
Current		
Other receivables	478,651	131,629
GST receivable	122,691	54,433
Prepayments	4,917	117,170
Short term loan to third party	6,987	174,140
	613,246	**477,372**

Other receivables are non-interest bearing and are generally on terms of 30 days.

Notes to the Financial Statements

14. EXPLORATION AND EVALUATION EXPENDITURE – ASSETS HELD FOR SALE

a) Assets classified as held for sale

	30-Jun-17 $	30-Jun-16 $
Opening balance 1 July 2016	500,000	-
Exploration and evaluation asset – carrying value	-	500,000
Sale of exploration and evaluation assets	(500,000)	-
	-	**500,000**

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, and completed the sale following receipt of the funds on 15 August 2016.

b) Reconciliation of exploration and evaluation expenditure

	30-Jun-17 $	30-Jun-16 $
Costs brought forward	-	2,000,000
Additions during the year	10,286	50,902
Impairment provision expense during the year	(207,849)	(1,755,891)
Amortisation of share based payments (note 27)	197,563	196,483
Transfer to assets held for sale (14a)	-	(500,000)
Foreign currency movement	-	8,506
	-	**-**

15. PLANT AND EQUIPMENT

	30-Jun-17 $	30-Jun-16 $
Plant and equipment		
- at cost	1,358,507	235,483
- accumulated depreciation	(100,029)	(24,409)
	1,258,478	**211,074**
Plant and equipment movement		
Opening balance at 1 July	211,074	-
Plant and equipment on acquisition of subsidiary (note 25)	-	28,933
Additions	1,146,952	198,218
Depreciation	(83,522)	(16,579)
Foreign currency translation reserve	(16,026)	502
	1,258,478	**211,074**

16. INTANGIBLE ASSETS

	30-Jun-17 $	30-Jun-16 $
Intangible assets – Licence in Slovenia		
Opening balance at 1 July	7,083,665	-
- at fair value on acquisition (note 25)	425	7,096,990
- foreign currency translation reserve	(7,924)	(13,325)
	7,076,166	**7,083,665**

Refer to note 3d) for detail on estimates and judgements pertaining to intangible assets.

Notes to the Financial Statements

17. CONTROLLED ENTITIES

The consolidated financial statements of the Group include:

	Country of incorporation	Percentage Owned (%)* 30-Jun-17	30-Jun-16
Parent Entity:			
MGC Pharmaceuticals Limited	Australia		
Subsidiaries of MGC Pharmaceuticals Limited:			
Erin Mineral Resources Limited	Australia	100	100
MGC Pharma (UK) Limited	UK	100	100
MGC Pharma (Aust) Pty Ltd	Australia	100	100
Subsidiaries of Erin Mineral Resources Limited:			
Erin Minerals Pty Limited	Australia	100	100
Erin Senegal S.A.U	Senegal	100	100
Subsidiaries of MGC Pharma (UK) Limited:			
MGC Pharmaceuticals d.o.o	Slovenia	100	100
MGC Derma d.o.o	Slovenia	51	51
Panax Pharma s.r.o[1]	Czech Republic	80	-

** Percentage of voting power in proportion to ownership*

[1]Refer note 25 for further details

18. TRADE AND OTHER PAYABLES

	30-Jun-17 $	30-Jun-16 $
Current		
Trade payables	464,788	145,280
Accruals	98,972	262,838
Other payables	32,515	48,251
	596,275	**456,369**

Refer to note 30 for details on management of financial risk.

19. CONTINGENT CONSIDERATION

	30-Jun-17 $	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	1,290,000	1,780,000
	4,370,000	**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 (note 25), 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).

Notes to the Financial Statements

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. This probability was revised at 30 June 2016 to 75%.

30 June 2017

As at 30 June 2017 it was determined that the probability of meeting the targets had increased and that the expected weighted outcome be revised to 95%. The share price as at that date was $0.046, and the increase in value of $1,290,000 (2016: $1,780,000) was taken to the consolidated statement of profit or loss and other comprehensive income.

Future developments may require further revisions to the estimate.

20. BORROWINGS

	30-Jun-17 $	30-Jun-16 $
Current liabilities		
Borrowings	-	1,075,228
	-	**1,075,228**
Non-current liabilities		
Loan payable to third party	20,311	20,393
	20,311	**20,393**

Borrowings

In line with the Group's re-compliance and ASX relisting following the acquisition of MGC UK (refer note 25), the Group entered a facility agreement with a third party for a working capital loan of $1 million on 11 February 2016. The loan is repayable on 10 February 2018 and incurs interest at a rate of 10% per annum.

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

21. CONTRIBUTED EQUITY

	30-Jun-17 NUMBER	30-Jun-16 NUMBER	30-Jun-17 $	30-Jun-16 $
Ordinary shares on issue, fully paid	1,083,608,703	905,638,006	42,557,404	32,343,143
VHL shares (note 27)	13,000,000	13,000,000	-	-
	1,096,608,703	**918,638,006**	**42,557,404**	**32,343,143**

a) Reconciliation of movement in share capital

30 June 2017	**No. Of Shares**	**Issue Price**	**Amount**
Opening balance of 1 July 2016	**918,638,006**		**32,343,143**
Share issue - 12 August 2016[1]	321,849	0.051	16,500
Conversion of Milestone 1 Performance Rights – 7 March 2017[2]	10,026,000	0.041	411,066
Exercise of unlisted options – 17 March 2017[3]	1,500,000	0.025	37,500
Exercise of unlisted options – 17 March 2017[3]	5,875,000	0.040	235,000
Exercise of listed options – 17 March 2017[4]	113,637	0.065	7,386
Exercise of listed options – 17 March 2017[4]	151,517	0.065	9,849
Placement - 23 March 2017[5]	153,846,155	0.065	10,000,000
Share issue – 23 March 2017[6]	761,539	0.065	49,500
Exercise of unlisted options – 30 June 2017[3]	2,500,000	0.025	62,500
Exercise of unlisted options – 30 June 2017[3]	2,875,000	0.040	115,000
Less: costs of issue			(730,040)
Closing balance at 30 June 2017	**1,096,608,703**		**42,557,404**

Notes to the Financial Statements

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**

[1] The Company issued shares to a consultant in lieu of cash for services provided at $0.051/share.
[2] On completion of Milestone 1 in relation to the Employee Performance Rights (as defined at note 27cii), the rights were converted to shares.
[3] A total of 12,750,000 shares were issued following the exercise of unlisted options during the year.
[4] A total of 265,154 shares were issued on the exercise of listed options during the year.
[5] The Company completed a $10m placement at $0.065/share to accelerate its clinical studies, and the research and development of pharmaceutical grade medical cannabis products.
[6] The Company issued shares in lieu of cash for services provided.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Ordinary shares have no par value.

b) Capital risk management

The group's objective when managing capital is to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

Consistent with others in the industry, the group manages its capital by assessing the group's financial risk and adjusts its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

The group is not subject to any externally imposed capital requirements.

22. RESERVES

	30-Jun-17 $	30-Jun-16 $
a) Share based payment reserve		
Opening balance at 1 July	1,079,564	883,083
Share based payment movement during the year	2,416,050	196,481
	3,495,614	**1,079,564**

This comprises the amortised position of the share based payment expense (refer note 27d).

Notes to the Financial Statements

	30-Jun-17 $	30-Jun-16 $
b) Foreign currency translation		
Opening balance at 1 July	26,448	24,923
Currency translation differences arising during the year	(62,297)	1,525
	(35,849)	**26,448**

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve as described in note 1k). The reserve is recognised in profit and loss when the net investment is disposed of.

23. CONTINGENT LIABILITIES AND COMMITMENTS

COMMITMENTS

The following commitments relate to Research and Development Agreements with Research Institutes.

	30-Jun-17 $	30-Jun-16 $
No later than one year	273,540	-
Later than one year and not later than five years	240,000	-
Total commitments	**513,540**	**-**

There were no further commitments or contingencies other than as disclosed.

24. RELATED PARTY TRANSACTIONS

a) Key Management Personnel Remuneration

Disclosures relating to key management personnel are in the Directors Report.

b) Transactions with Director related entities

Directors and officers, or their personally-related entities, hold positions in other entities that result in them having controls or significant influence over the financial or operating policies of those entities.

Details of the transactions including amounts accrued but unpaid at the end of the year are as follows:

			Transactions		Balances	
Entity	Relationship	Nature of transactions	Full Year 30-Jun-17 $	Full Year 30-Jun-16 $	Full Year 30-Jun-17 $	Full Year 30-Jun-16 $
Mr Brett Mitchell	(i)	Exercise of unlisted options on 30 June 2017	**(162,500)**	-	**162,500**	-
Brighght HK Ltd	(ii)	(Re-charges to)/reimbursement from Brighght HK for corporate administration costs	**(1,513)**	(477)	**-**	477
Chieftain Securities Pty Ltd	(iii)	(Re-charges to) / reimbursement from Cheiftain for corporate administration costs	**(170)**	-	**62**	-
Chitta Lu Ltd	(iv)	(Re-charges to) / reimbursement from Chitta Lu for corporate administration costs	**3,868**	-	**-**	-
Regeneration Pharma Pty Ltd	(v)	(Re-charges to) / reimbursement from Regeneration Pharma for corporate administration costs	**(141)**	-	**155**	-
Sibella Capital Pty Ltd	(vi)	(Re-charges to)/reimbursement from Sibella for corporate administration costs	**(9,290)**	(5,036)	**7,740**	6,713
Sky and Space Global Ltd	(vii)	(Re-charges to)/reimbursement from SAS for corporate administration costs	**(42,302)**	(41,506)	**2,571**	4,008
Verona Capital Pty Ltd	(viii)	(Re-charges to)/reimbursement from Verona for technical support and corporate administration costs and re-charges	**-**	-	**-**	31,025

Notes to the Financial Statements

(i) Mr Brett Mitchell is a Director of the Company.
(ii) Brighght HK Ltd is a company associated with Mr Nativ Segev.
(iii) Chieftain Securities Pty Ltd is a company associated with Mr Brett Mitchell.
(iv) Chitta Lu Ltd is a company associated with Mr Roby Zomer.
(v) Regeneration Pharma Pty Ltd is a company associated with Mr Brett Mitchell.
(vi) Sibella Capital Pty Ltd is a company associated with Mr Brett Mitchell.
(vii) Sky and Space Global Ltd (SAS) is a company associated with Mr Brett Mitchell.
(viii) Verona Capital Pty Ltd was a company controlled 20% by Brett Mitchell in the prior year.

c) Transactions with related subsidiaries

At the end of the period the following loans were owed by wholly owned subsidiaries of the Company:

Entity	Relationship	Amount owed 30-Jun-17 $	Amount (owing to) / owed 30-Jun-16 $
Subsidiaries of MGC Pharmaceuticals Limited:			
Erin Minerals Resources Ltd	A wholly owned subsidiary	-	3,600,527
MGC Pharmaceuticals (Aust) Pty Ltd	A wholly owned subsidiary	87,436	(100)
MGC Pharma (UK) Ltd	A wholly owned subsidiary	5,018,514	2,690,886
Subsidiaries of Erin Minerals Resources Ltd			
Erin Minerals Pty Ltd	A wholly owned subsidiary	15,017,264	15,483,189
Subsidiaries of Erin Minerals Resources Ltd			
Erin Senegal S.A.U	A wholly owned subsidiary	12,130	338,974
Subsidiaries of MGC Pharma (UK) Ltd			
MGC Pharmaceuticals d.o.o	A wholly owned subsidiary	2,328,989	1,251,159
MGC Derma d.o.o	A 51% owned subsidiary	1,436,610	609,093
Panax Pharma s.r.o	An 80% owned subsidiary	-	-

Details of interests in wholly owned controlled entities are set out in note 17.

Loans between entities in the wholly owned group are denominated in AUD($) and Euro(€), they are non-interest bearing (with the exception of the loan with MGC Derma d.o.o which incurs interest of 10%), unsecured and are repayable upon reasonable notice having regard to the financial stability of the Company.

d) Other related party transactions

There were no other related party transactions.

25. ASSET ACQUISTION

Subsidiaries acquired

30 June 2017

Acquisition of Panax Pharma s.r.o

	Principal activity	Date of acquisition	Proportion of share acquired %	Total Consideration $
Subsidiaries of MGC Pharma (UK) Ltd acquired during the year:				
Panax Pharma s.r.o	Research in collaboration with the Institution of Experimental Botany at the Academy of Botanical Sciences	15-Mar-17	80	-

Notes to the Financial Statements

During the year, through its subsidiary MGC Pharma (UK) Ltd, the Group completed its 80% acquisition of the equity of Panax Pharma s.r.o ("Panax"), a company incorporated in Czech Republic, as follows:

i) 25% equity in Panax issued;

ii) 55% equity in Panax issued for the Group's commitment to fund the first 12 months operating costs (capped at €700,000); and

An option (exercisable within 3 years following the end of the 12-month funding period) to acquire the final 20% equity in Panax at the Group's election for €600,000 of the Group's ordinary shares to be issued on a 20-day VWAP at the date of option exercise.

The acquisition is considered to be an asset acquisition as Panax does not constitute a 'business' under relevant standards.

There were no disposals during the year.

30 June 2016

Acquisition of MGC Pharma (UK) Ltd

	Principal activity	Date of acquisition	Proportion of share acquired %	Total Consideration $
MGC Pharma (UK) Ltd	Opportunities to acquire businesses and companies focused in the medicinal cannabis sector	15-Feb-16	100	6,951,475
Subsidiaries of MGC Pharma (UK) Ltd:				
MGC Pharmaceuticals d.o.o	Licensing for growing and selling of cannabidiol products for use on medicinal cannabis products	15-Feb-16	100	105,358
MGC Derma d.o.o	Sale of medicinal cannabis products	01-Apr-16	51	40,157

Following the Company exercising its right to acquire 100% of the issued capital of the medicinal cosmetic cannabis company, MGC Pharma (UK) Ltd ("MGC UK"), the Company then entered into a Share Sale and Purchase Agreement with MGC UK and subsequently completed its acquisition on 15 February 2016 through the issue of 200,000,000 shares and 100,000,000 performance shares.

MGC UK holds interests in MGC Slovenia d.o.o ("MGC Slovenia") and MGC Derma d.o.o ("MGC Derma") of 100% and 51% respectively.

MGC UK is a privately held entity, that does not consist of inputs, nor processes that generate outputs, and therefore does not meet the definition of a business. Where a transaction does not meet the definition of a business, and therefore not within the scope of IFRS 3 Business Combinations, the transaction is that of an asset acquisition and is therefore a share based payment transaction under AASB 2 Share Based Payments.

This transaction was accounted for as an asset acquisition that principally involved the acquisition of the growing licences held under MGC Slovenia for growing of cannabis for medicinal and cosmetic purposes; MGC Derma being the cosmetics sale entity.

Under asset acquisition accounting the acquirer identifies and recognises the individual assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38) and liabilities assumed; and allocates the cost of the group of assets and liabilities to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

Notes to the Financial Statements

The principal terms of the acquisition are as follows:

	MGC Pharma (UK) Ltd $	MGC Pharmaceuticals d.o.o $	MGC Derma d.o.o $	YTD Foreign currency translation reserve $	Total $
Fair value of consideration equity instruments	**6,500,000**	**-**	**-**	**-**	**6,500,000**
Cash acquired on acquisition	-	79,559	63,012	-	**142,571**
Excess of net liabilities over consideration	6,951,475	25,799	(22,855)	(13,325)	**6,941,094**
Initial consideration determined at acquisition date	**6,951,475**	**105,358**	**40,157**	**(13,325)**	**7,083,665**

The securities issued as consideration for the acquisition are:

(i) 200,000,000 fully paid ordinary shares in MGC; and
(ii) 100,000,000 performance shares.

The Company issued 200,000,000 ordinary shares for 100% interest in the MGC UK Group. The fair value of the shares is calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was $0.026 per share. The fair value on consideration given was therefore $5,200,000.

The 100,000,000 performance shares issued by the Company to the Vendors are convertible to ordinary shares (on a one for one basis) upon the Company securing an off-take agreement to sell CBD oil that contains a minimum purity of 50% CBD and/or MGC products, and achieving revenue of €1 million from the supply of CBD oil and /or other MGC products under that off-take agreement.

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 target (as detailed above). As part of accounting for the acquisition of MGC UK, the estimated fair value of the performance shares of $1,300,000 are recognised on acquisition based on a probability weighting of 50% that the target would be met, at which date the underlying share price was $0.026.

Consideration	**Acquisition consideration $**
Paid consideration	
Fully paid ordinary shares in the Company	
• 200,000,000 shares at $0.026 per share	5,200,000
Contingent consideration	
• 100,000,000 performance shares at $0.026 per share at 50% (note 19)	1,300,000
Total consideration	**6,500,000**

There were no disposals during the year.

26. NON-CONTROLLING INTEREST

	30-Jun-17 $	**30-Jun-16 $**
Opening balance at 1 July	(80,652)	-
Non-Controlling interest arising on the acquisition of MGC Derma d.o.o	-	(3,749)
Non-Controlling interest arising on the acquisition of Panax Pharma s.r.o	(105)	-
Share of total comprehensive income for the year	(357,664)	(76,903)
Foreign currency translation reserve	(6,216)	-
	(444,637)	**(80,652)**

Notes to the Financial Statements

27. 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.

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 Limited (EMRL), Voluntary Holding Lock shares were issued to the EMRL 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 buyback at a price of $0.000001 per share.

The VHL shares are included in the acquisition fair value of exploration and evaluation expenditure, and amortised over a period of 5 years. Amounts are written off in line with treatment of exploration and evaluation expenditure.

Number of VHL shares issued	13,000,000
Fair value per share[1]	$0.07
Total value of the issue	$906,588
Amortisation expense during the year	$186,110

[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 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 Capital Pty Ltd. 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.

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

As at 30 June 2017 these options expired.

Number of options	4,000,000
Fair value per option	$0.01
Total value of the issue	$55,790
Amortisation expense during the year	11,452

Notes to the Financial Statements

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	As above
Valuation of option	$0.0051

(ii) 2 million unlisted options

On 23 January 2013, a total of 2 million unlisted share options were issued to Mr Paul Cranney in consideration for geological consultancy services provided to the Company. The options were issued in three tranches and have an expiry date of 23 January 2018.

The options are amortised over their vesting date, and are expensed accordingly.

	Tranche 1	Tranche 2	Tranche 3	Total
Number of options	1,000,000	500,000	500,000	2,000,000
Fair value per option	$0.034	$0.032	$0.030	-
Total value of the issue	$34,000	$16,000	$15,000	$65,000
Amortisation expense (based on 5 years)	-	-	$1,497	$1,497

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

	Tranche 1	Tranche 2	Tranche 3
Valuation date	23 January-13	23 January-13	23 January-13
Vesting Date	23 January-13	27 August-13	27 August-14
Dividend yield (%)	Nil	Nil	Nil
Expected volatility (%)	81%	81%	81%
Risk-free interest rate (%)	3.29%	3.29%	3.29%
Expected life of option (years)	5	5	5
Option exercise price ($)	$0.30	$0.35	$0.40
Share price at grant date ($)	$0.08	$0.08	$0.08
Expiry date	23 Jan 2018	23 Jan 2018	23 Jan 2018
Performance conditions	As above	As above	As above

(iii) 15 million listed options

On 16 May 2014, the Company issued 15 million listed options to external consultants in lieu of cash payment for services provided to the Company. The options are exercisable at $0.02 each on or before 30 June 2015.

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

Valuation date	18 June 2014
Dividend yield (%)	Nil
Expected volatility (%)	125%
Risk-free interest rate (%)	2.68%
Expected life of option (years)	1.1
Option exercise price ($)	$0.02
Share price at grant date ($)	$0.013
Expiry date	30 June 2015
Performance conditions	As above
Valuation of option	$0.0051
Total value of option	$76,500

Notes to the Financial Statements

(iv) 3.5 million unlisted options

On 22 July 2014, 3.5 million unlisted options in two tranches of 1,750,000 were issued to Key Personnel for their past and ongoing services to the Company.

	Tranche 1	Tranche 2	Total
Number of options	1,750,000	1,750,000	3,500,000
Fair value per option	$0.0082	$0.0072	-
Total value of the issue	$14,350	$12,600	$26,950

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

	Tranche 1	Tranche 2
Valuation date	18 July 2014	18 July 2014
Dividend yield (%)	Nil	Nil
Expected volatility (%)	125%	125%
Risk-free interest rate (%)	2.79%	2.79%
Expected life of option (years)	3	3
Option exercise price ($)	$0.025	$0.04
Share price at grant date ($)	$0.013	$0.013
Expiry date	30 June 2017	30 June 2017

(v) 19 million unlisted options

On 17 September 2014, 19 million unlisted options were issued in tranches of 9.5 million to Directors (and a past director) for their services to the Company.

	Tranche 1	Tranche 2	Total
Number of options	9,500,000	9,500,000	19,000,000
Fair value per option	$0.0082	$0.0072	-
Total value of the issue	$77,900	$68,400	$146,300

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

	Tranche 1	Tranche 2
Valuation date	18 July 2014	18 July 2014
Dividend yield (%)	Nil	Nil
Expected volatility (%)	125%	125%
Risk-free interest rate (%)	2.79%	2.79%
Expected life of option (years)	3	3
Option exercise price ($)	$0.025	$0.04
Share price at grant date ($)	$0.01	$0.01
Expiry date	30 June 2017	30 June 2017

(vi) 56 million listed options

Pursuant to the capital raising, completed on 12 May 2016, the Company issued 56,818,380 listed options as free attaching options, one for every three shares issued, on 6 October 2016.

(vii) 35 million listed options

On 10 November 2016, 35 million listed options were issued to consultants and advisors of the Company as detailed in the Notice of General Meeting issued on 26 August 2016, and as approved by shareholders on 27 September 2016. The options are exercisable at $0.065 each expiring on or before 30 June 2019.

Notes to the Financial Statements

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

Valuation date	27 Sept 2016
Dividend yield (%)	Nil
Expected volatility (%)	85%
Risk-free interest rate (%)	1.62%
Expected life of option (years)	2.76
Option exercise price ($)	$0.065
Share price at grant date ($)	$0.040
Expiry date	30 June 2019
Valuation of option	$0.0165
Total value of option	$577,500

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	Probability	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	100%	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	100%	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	Probability	Weighting	Milestone date
12,200,000	1)	From the date of issue to 31 December 2016	100%	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	100%	60%	24 Feb 2017
	2)	From the date of issue to 31 December 2017		40%	31 Dec 2017

Notes to the Financial Statements

d) Reconciliation of share based payment expense

As at 30 June 2017	Note	Number of VHL shares/ unlisted options	Vesting date	Value $	Share based payment at 30 June $
Opening balance					
VHL shares issued		13,000,000		0.069	720,478
Movement during the year:					
Amortisation expense	*27a)*				186,110
Total VHL share		**13,000,000**			**906,588**
Opening balance – Unlisted options					
Unlisted options issued		18,750,000			359,086
Movement during the year:					
Unlisted options expense	*27bi)*	-	14/09/13	0.014	11,452
Unlisted options expired	*27bi)*	(4,000,000)			-
Unlisted options exercised	*21a)*	(12,750,000)			-
Total unlisted options		**2,000,000**			**370,538**
Opening balance – Listed options					
Listed options issued		-	-		
Movement during the year:					
Listed options issued	*27bvi)*	56,818,380	06/10/16	0.0165	-
Listed options issued	*27bvii)*	35,000,000	10/11/16	0.0165	577,500
Listed options exercised	*21a)*	(265,154)			-
Total listed options		**91,553,226**			**577,500**
Opening balance - Performance rights					
Performance rights issued		**-**			**-**
Movement during the year:					
Performance rights issued (milestone 1)	*27ci)*	19,500,000	31/05/17	$0.048	936,000
Performance rights issued (milestone 2)	*27ci)*	13,000,000	31/12/17	$0.048	363,055
Performance rights issued (milestone 1)	*27cii)*	10,026,000	07/03/17	$0.041	411,066
Performance rights issued (milestone 2)	*27cii)*	8,026,000	31/12/17	$0.041	166,739
Performance rights issued (milestone 3)	*27cii)*	4,148,000	31/12/18	$0.041	43,554
Performance rights issued (milestone 1)	*27ci)*	2,400,000	31/05/17	$0.041	98,400
Performance rights issued (milestone 2)	*27ci)*	1,600,000	31/12/17	$0.041	33,240
Conversion of performance rights (milestone 1)		(10,026,000)	07/03/17		(411,066)
Total Performance rights		**48,674,000**			**1,640,988**
Total share based payment reserve					**3,495,614**
As at 30 June 2016					
Opening balance					
VHL shares issued	*27a)*	13,000,000		0.069	535,387
Movement during the year:					
Amortisation expense					185,091
Total VHL share		**13,000,000**			**720,478**

Notes to the Financial Statements

As at 30 June 2016	Note	Number of VHL shares/ unlisted options	Vesting date	Value $	Share based payment at 30 June $
Opening balance					
Unlisted option issued		43,500,000			347,696
Movement during the year:					
Options expired		(19,750,000)			-
Unlisted options issued @ $0.20	*27bi)*	-	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**

28. SEGMENT REPORTING

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

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

The Slovenia operations relate to MGC Slovenia and MGC Derma which, based on their level of activities for the year ended 30 June 2017, 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.

30 June 2017	Slovenia $	Australia $	Elimination $	Consolidated Group $
Total assets	**2,550,388**	**24,251,455**	**(5,982,178)**	**20,819,665**
Total liabilities	**5,141,257**	**4,452,254**	**(4,563,110)**	**5,031,135**
Sales revenues	**120,242**	**-**	**-**	**120,242**
Loss for the year:				
Members of the parent entity	(2,976,639)	(5,230,019)	-	(8,206,658)
Non-controlling interest	(363,879)	-	-	(363,879)
Total comprehensive loss for the year	**(3,340,518)**	**(5,230,019)**	**-**	**(8,570,537)**
30 June 2016				
Total assets	**1,849,526**	**14,733,486**	**(222,160)**	**16,360,852**
Total liabilities	**2,680,634**	**4,362,958**	**(2,411,603)**	**4,631,990**
Sales revenues	**2,197**	**-**	**-**	**2,197**
Loss for the year:				
Members of the parent entity	(1,018,377)	(5,137,242)	-	(6,155,619)
Non-controlling interest	(76,903)	-	-	(76,903)
Total comprehensive loss for the year	**(1,095,280)**	**(5,137,242)**	**-**	**(6,232,522)**

Notes to the Financial Statements

29. CASH FLOW INFORMATION

	30-Jun-17 $	30-Jun-16 $
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
(Loss) after income tax	(8,570,537)	(6,232,522)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in loss		
Depreciation and amortisation	83,522	16,579
Impairment expense	227,380	1,755,891
Exploration, evaluation and development expenditure	-	-
Share based payment expense	2,629,553	-
Doubtful debt expense	31,025	-
Loss on re-measurement of financial liability	1,290,000	1,780,000
Changes in assets and liabilities, net of the effects of purchase of subsidiaries		
(Increase) in inventory	(350,838)	(157,035)
(Increase) in trade and other receivables	(135,874)	(393,754)
Increase in trade payables and accruals	139,906	10,340
Cash flow from operations	**(4,655,863)**	**(3,220,501)**

30. FINANCIAL RISK MANAGEMENT

The group's financial instruments consist mainly of cash at bank, payables and receivables.

The group has not formulated any specific management objectives and policies in respect to debt financing, derivatives or hedging activity. As a result, the group has not formulated any specific management objectives and policies in respect to these types of financial instruments. Should the group change its position in the future, a considered summary of these policies will be disclosed at that time.

The Group's current exposure to the risk of changes in the market is managed by the Board of Directors.

Market risks

The Group is exposed to a variety of financial risks through its financial instruments for example, interest rate risk, liquidity risk and credit risk, as well as foreign currency risk.

Interest rate risk

At reporting date, the Group does not have long term borrowings and its exposure to interest rate risk is assessed as low. The risk monitors its interest rate risk through sensitivity analysis, as outlined below.

The consolidated group's exposure to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets of the group are summarised in the following tables:

30 June 2017	Floating interest rate $	1 Year or less $	Over 1 to 5 years $	Non-interest bearing $	Remaining contractual maturities $	Weighted average interest rate %
Financial assets						
Cash and cash equivalents	11,361,882	11,361,882	-	2,020	11,363,902	**1.12%**
Other receivables	-	-	-	6,987	6,987	
	11,361,882	**11,361,882**	**-**	**9,007**	**11,370,889**	
Financial liabilities						
Other payables and sundry accruals	-	-	-	596,275	596,275	
Borrowings	-	-	-	-	-	**-**
Loans payable	-	-	-	64,860	64,860	
	-	**-**	**-**	**661,135**	**661,135**	

	Floating interest rate	1 Year or less	Over 1 to 5 years	Non-interest bearing	Remaining contractual maturities	Weighted average interest rate
30 June 2016	**$**	**$**	**$**	**$**	**$**	**%**
Financial assets						
Cash and cash equivalents	7,890,519	7,890,519	-	5,020	7,895,539	**0.58%**
Other receivables	-	-	-	174,140	174,140	
	7,890,519	**7,890,519**	**-**	**179,160**	**8,069,679**	
Financial liabilities						
Other payables and sundry accruals	-	-	-	456,369	456,369	
Borrowings	1,075,228	1,075,228	-	-	1,075,228	**10.00%**
Loans payable	-	-	-	20,393	20,393	
	1,075,228	**1,075,228**	**-**	**476,762**	**1,551,990**	

At 30 June 2017, if interest rates had changed by -/+100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been $113,619 lower/higher (2016: $68,153).

Liquidity risk

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

Credit risk

Management has assessed the credit risk exposure as minimal at reporting date. Credit risk arises from exposure to customers and deposits with banks. Management monitors its exposure to ensure recovery and repayment of outstanding amounts. Cash deposits are only made with reputable banking institutions.

Foreign currency risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Senegal currency (CFA Franc (XOF)), GBP (£), Euro (€) and United States Dollars (USD).

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

The consolidated entity has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency. The board manages the purchase of foreign currency to meet operational requirements.

The consolidate entity's exposure to foreign currency risk at the reporting date was as follows:

	30-Jun-17	30-Jun-16
	$	**$**
Trade payables in denomination currency		
Trade payables – EUR (€)	197,074	18,595
Trade payables – CZK (Kč)	215,782	-
Cash and cash equivalents held in denomination currency		
Cash and cash equivalents – EUR (€)	250,626	924,634
Cash and cash equivalents – GBP (£)	27,520	-
Cash and cash equivalents – CZK (Kč)	9,905	-
Cash and cash equivalents – XOF	121	1,606

Notes to the Financial Statements

	30-Jun-17 $	30-Jun-16 $
Consolidated entity sensitivity		
Exchange rates per AUD as at 30 June		
EUR (€)	0.6729	0.6701
GBP (£)	0.5911	-
CZK (Kč)	17.6266	-
XOF	441.36	441.62

A 10% increase or decrease in value of Australia dollar against the above currencies at 30 June would have the following effect:

	30-Jun-2017 $		30-Jun-2016 $	
	Profit/(loss) 10% increase	**Profit/(loss)** 10% decrease	**Profit/(loss)** 10% increase	**Profit/(loss)** 10% decrease
Euro €	(5,355)	5,335	(94,323)	94,323
Czech Koruna (Kč)	(2,752)	2,752	-	-
Great British Pound (£)	20,588	(20,588)	-	-
CFA Franc (XOF)	(12)	12	(161)	161
	12,469	**(12,469)**	**(94,484)**	**94,484**

31. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, as described at note 1z).

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

	Level 1	Level 2	Level 3	Total
30 June 2017	**$**	**$**	**$**	**$**
Financial assets				
Available for sale assets				
Opening balance – 1 July	500,000	-	-	**500,000**
Sale of Exploration and Evaluation Asset	(500,000)	-	-	**(500,000)**
Closing balance at 30 June 2017	**-**	**-**	**-**	**-**
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Contingent consideration				
Fair value on initial recognition	-	-	3,080,000	**3,080,000**
Fair value movement in the period	-	-	1,290,000	**1,290,000**
Closing balance at 30 June 2017	**-**	**-**	**4,370,000**	**4,370,000**
30 June 2016				
Financial assets				
Available for sale assets				
Exploration and evaluation asset	500,000	-	-	500,000
Closing balance at 30 June 2016	**500,000**	**-**	**-**	**500,000**

Notes to the Financial Statements

30 June 2016	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 (refer note 14a).

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 was valued by applying the probability weighted payout approach as described in note 19, and is reviewed on a six monthly basis.

A 5% increase or decrease in the probability applied, or MGC's share price, would result in the following movements:

	30-Jun-2017 $'000		30-Jun-2016 $'000	
	Profit/(loss) 5% increase	**Profit/(loss)** 5% decrease	**Profit/(loss)** 10% increase	**Profit/(loss)** 10% decrease
Probability	**(230)**	**230**	**(440)**	**440**
Share price	**(219)**	**219**	**(308)**	**308**

c) Fair value of other financial instruments

The group also has a number of financial instruments that are not measured at fair value in the balance sheet. The carrying value of cash, trade receivables and payables is a reasonable approximation of their fair values due to their short-term nature.

32. PARENT COMPANY DISCLOSURES

a) Summary of financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	30-Jun-17 $	30-Jun-16 $
Current assets	11,314,902	7,057,774
Non-current assets	13,021,088	10,771,453
Total Assets	**24,335,990**	**17,829,227**
Current liabilities	4,447,518	4,355,818
Non-current liabilities	-	-
Total Liabilities	**4,447,518**	**4,355,818**

Notes to the Financial Statements

	30-Jun-17 $	30-Jun-16 $
Contributed equity	42,557,404	32,343,143
Share based payment reserve	3,495,614	1,079,564
Accumulated losses	(26,164,546)	(19,949,298)
Total Equity	**19,888,472**	**13,473,409**
Loss for the year	**(6,215,248)**	**(3,998,902)**
Total comprehensive loss for the year	**(6,215,248)**	**(3,998,902)**

b) Commitments and contingent liabilities of the parent

The parent entity did not have any contingent liabilities or commitments, as at 30 June 2017 (30 June 2016: nil).

c) Guarantees entered into the parent entity

There were no guarantees entered into by the parent entity.

33. EVENTS AFTER THE REPORTING DATE

During the year the Group entered into a Binding Term Sheet with Chesser Resources Limited (CHZ) to acquire the MGC Pharmaceuticals Ltd subsidiary Erin Mineral Resources Pty Ltd which holds the Company's remaining Senegal gold assets Youboubou (100%), Woye (80%) and Garaboreya South (80%). On 12 July 2017, the acquisition was completed as announced by Chesser.

The Company announced on 23 August 2017 that it had signed a binding Umbrella Agreement with leading Australian research university, Royal Melbourne Institute of Technology (RMIT), to collaborate exclusively on medicinal cannabis research initiatives in Australia. This is a strategic collaboration to establish a world first library of cannabis medicines – developing genetics, breeding programs and protocols for specific medical cannabis strains. Initial research will focus on Melanoma, the third most common cancer in Australia.

34. DIVIDENDS

No dividends have been paid or provided during the year.

Directors' Declaration

The Directors' of the Company declare that in their opinion:

1. The financial statements and notes, as set out in pages 17 to 53, are in accordance with the *Corporations Act 2001* and:

   a) comply with Accounting Standards and the Corporations Regulations 2001;
   b) are in accordance with International Financial Reporting Standards, as stated in note 2a to the financial statements; and
   c) give a true and fair view of the Company's and consolidated group's financial position as at 30 June 2017 and their performance for the year ended on that date.

2. The Directors have been given the declaration required by section 295A of the Corporations Act 2001.

3. The remuneration disclosures contained in the Remuneration Report comply with s300A of the Corporations Act 2001.

4. 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.

Brett Mitchell
Executive Chairman
Dated 29 August 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MGC PHARMACEUTICALS LTD

Report on the Financial Report

Opinion

We have audited the accompanying financial report of MGC Pharmaceuticals Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion the financial report of MGC Pharmaceuticals Ltd is in accordance with the Corporations Act 2001, including:

i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the consolidated entity in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. This matter was addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Our description of how our audit addressed the matter is provided in that context.

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Carry value and impairment of intangible asset

Why significant	How our audit addressed the key audit matter
At reporting date, the consolidated entity has a capitalised intangible asset totalling $7,076,166 as disclosed in Note 16. The intangible asset is a significant component of the Statement of Financial Position as at 30 June 2017 at 34% of total assets. Under Australian Accounting Standards, an entity shall assess whether at the end of the reporting period there is any indication that its intangible assets are impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. At year end, the consolidated entity has concluded that there were no impairment triggers. As a result no impairment was recognised at year end on the capitalised intangible asset. The assumptions of indicators of impairment are highly judgemental and include modelling key assumptions and estimates based on expected future performance that may be impacted by future economic conditions. Key assumptions, judgements and estimates used in the consolidated entity's assessment of impairment of intangible assets are set out in the financial report in Note 3 (d).	We evaluated the assumptions, methodologies and conclusions used by the consolidated entity in particular, those relating to the determination of the Cash Generating Unit ("CGU"), forecast inflows and inputs used to formulate them. This included assessing the reasonableness of the significant assumptions including the expected future revenues adopted in the consolidated entity's model and performing sensitivity analysis on the consolidated entity's inputs. We assessed the reasonableness of the anticipated future inflows from the CGU. We also considered the adequacy of the financial report disclosures concerning the judgemental nature of the consolidated entity's assessment of impairment of this intangible asset. These key assumptions, judgements and estimates are set out in the financial report in Note 3 (d).

Other Information

Other information is financial and non-financial information in the annual report of the consolidated entity which is provided in addition to the Financial Report and the Auditor's Report. The directors are responsible for Other Information in the annual report.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's report. The remaining Other Information is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor does not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information in the Financial Report and based on the work we have performed on the Other Information that we obtained prior the date of this Auditor's Report we have nothing to report.

Directors' Responsibilities for the Financial Report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2 (a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

Opinion

In our opinion, the Remuneration Report of MGC Pharmaceuticals Ltd for the year ended 30 June 2017 complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PKF Mack

PKF MACK

SIMON FERMANIS
PARTNER

29 AUGUST 2017
WEST PERTH
WESTERN AUSTRALIA