

MGC PHARMACEUTICALS LTD  
 AND CONTROLLED ENTITIES  
 ABN 30 116 800 269

APPENDIX 4D

**REPORTING PERIOD**

Interim financial period to 31 December 2017

**PREVIOUS REPORTING PERIOD**

Interim financial period to 31 December 2016

**Half year information given to ASX under listing rule 4.2A.3**

This information contained in this report should be read in conjunction with the most recent annual report.

**RESULTS FOR ANNOUNCEMENT TO MARKET**

	<b>31-Dec-17</b>	<b>Change%</b>	<b>31-Dec-16</b>
Revenue from ordinary activities	127,377	(13.6%)	144,785
(Loss) after income tax from ordinary activities*	(7,194,527)	132%	(3,099,215)
Net (loss) for the period*	(7,193,489)	132%	(3,099,215)
Dividend per share	n/a	-	n/a
Record date for determining entitlement to dividends	n/a	-	n/a
No dividends have been paid or declared during the year			

**\*Major contribution to losses relate to an extraordinary adjustment on the re-measurement of the performance shares issued as part of the consideration for the acquisition of MGC Pharma (UK) Ltd of \$4,085,000 (2016: \$70,000), which on exclusion results in a net loss for the period of \$3,109,527. In addition increased losses for the period are attributable to a share based payment expense of \$0.5m (2016: \$0.7m) and increase in Director fees, employee benefits expense and marketing costs in line with growth in operations.**

<b>NET TANGIBLE ASSETS PER ORDINARY SHARE (cents)</b>	0.19	0.32
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**DETAILS OF SUBSIDIARIES**

During the period the Erin Mineral Resources Pty Ltd Group of entities, that hold the Senegal assets, were disposed of. Refer to note 4 of the interim financial report for further details.

<b>DIVIDENDS</b>	n/a	n/a
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<b>DIVIDENDS REINVESTMENT PLAN</b>	n/a	n/a
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<b>ASSOCIATED AND JOINT VENTURE ENTITIES</b>	n/a	n/a
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<b>FOREIGN ENTITIES ACCOUNTING STANDARD</b>	n/a	n/a
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Subsidiaries are incorporated in the United Kingdom, Slovenia and Czech Republic, where International Financial Reporting Standards are applied to compile local Financial Reports.

<b>AUDIT DISPUTE OR QUALIFICATION</b>	n/a	n/a
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Not subject to a modified opinion, emphasis of matter or any other matter paragraph.

**mgc** pharma

CBD HEALTH



ABN 30 116 800 269  
MGC PHARMACEUTICALS LTD

**INTERIM FINANCIAL REPORT**

**31 DECEMBER 2017**

**Contents**

<b>Corporate Directory .....</b>	<b>3</b>
<b>Directors' Report .....</b>	<b>4</b>
<b>Auditor's Independence Declaration .....</b>	<b>10</b>
<b>Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income .....</b>	<b>11</b>
<b>Condensed Consolidated Statement of Financial Position .....</b>	<b>12</b>
<b>Condensed Consolidated Statement of Changes in Equity .....</b>	<b>13</b>
<b>Condensed Consolidated Statement of Cash Flows .....</b>	<b>14</b>
<b>Notes to the Condensed Consolidated Financial Statements .....</b>	<b>15</b>
<b>Directors' Declaration .....</b>	<b>24</b>
<b>Independent Review Report to Members .....</b>	<b>25</b>

## **Corporate Directory**

### **Directors**

**Brett Mitchell**  
Executive Chairman

**Nativ Segev**  
Managing Director

**Roby Zomer**  
Executive Director and CTO

**Ross Walker**  
Non-Executive Director

### **Joint Company Secretary**

Rachel Kerr  
Kate Sainty (appointed 2 January 2018)

### **Registered Office and Principal Place of Business**

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

### **Solicitors**

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

### **Auditors**

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

### **Securities Exchange Listing**

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

### **Share Registry**

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

**Directors' Report**

The directors submit the consolidated condensed interim financial report for MGC Pharmaceuticals and its controlled entities (the "Consolidated Group" or "Group") for the half-year ended 31 December 2017.

**Directors**

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

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

**Operating Results**

The consolidated loss for the Group after providing for income tax from continuing operations amounted to \$7,194,527 (2016: \$3,099,215).

**Dividends Paid or Recommended**

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

**Review of Operations**

MGC Pharmaceuticals made substantial progress across its three business divisions MGC Pharma, MGC Botanic and MGC Derma during the first half of 2018, with key operational milestones met across all three divisions.

The Company continues to advance in its vision of a pharmaceutical Company with a fully self-contained value chain, spanning growing operations through to research and drug development.

Achievements across the first half of the year include a marquee agreement with HL Pharma Pty Ltd providing an entry point into the multi-million-dollar Australian pharma market, a strategic agreement with Royal Melbourne Institute of Technology (RMIT) to advance medicinal cannabis research and advances in the Derma business through key agreements with global distributor, UK-based Cult Beauty.

**MGC Pharma Division**

The Pharma Division is at the core of the Company's strategy to be a future leader in the phytocannabinoid-based medicine within the biopharmaceutical markets in Europe, Australia and North America. Post the reporting period, the Company has received initial Good Manufacturing Practice (GMP) Certification at its European production facility and is now in the final stages of full certification. Once received, GMP certification will allow MXC to produce its adult epilepsy product CannEpi<sup>TM</sup> as well as other medicinal cannabis products within the state of the art European facility

**Strategic Agreement with RMIT**

In August, MXC executed a binding umbrella agreement with the RMIT to collaborate exclusively on medicinal cannabis research initiatives in Australia.

## **Directors' Report**

The agreement signalled the start of two projects and both parties expect the relationship to develop into a broad ongoing collaboration in the long term. The first project aims to establish a world first library of cannabis medicine. The library will be a repository for medical cannabis research, cannabinoids sequences and their treatments.

The second project will investigate the positive effects of medicinal cannabis derived formulations on several types of cancer and cancer side effects. The initial focus has been on melanoma treatment, which is the third most common cancer in Australia and is estimated to account for 12% of all new cancers diagnosed in 2017.

### **- European pharma supply agreements**

MXC signed two significant pharmaceutical supply and distribution agreements during the period which has further bolstered the Company's position as a leading pharmaceutical group.

The first was with European pharmaceutical distribution company, Lenis farmaceutika d.o.o. (Lenis). Under the agreement, MXC will supply four of its cannabinoid rich medicinal cannabis flower products for wholesale distribution by Lenis into territories across Europe.

The second agreement is a multi-year binding agreement with European medicinal products distributor, Mabsut Agriculture d.o.o (Mabsut Life) to supply a specially developed cannabidiol (CBD) extract from its European facility. The specialised CBD extract was developed using MXC's leading European Research and Development (R&D) facilities. The agreement sets out a minimum supply of 12kg of CBD extract to be supplied per quarter, delivering A\$1 million in annual revenues.

### **- Bringing CannEpi™ to the Australian market**

Post the reporting period, MXC expects to commence production of the first batch of CannEpi™ at its European facility following the receipt of initial GMP certification in March 2018.

This follows the execution in November, of a definitive supply agreement with specialist Australian pharmaceutical distributor, HL Pharma Pty Ltd to bring CannEpi™ to the Australian market.

The agreement creates a clear pathway for MXC to deliver its first medical cannabis product to the Australian market. CannEpi™ is targeted for the treatment of drug-resistant epilepsy (DRE), known as refractory epilepsy, which accounts for approximately 30% of all epilepsy cases (approximately 70,000 persons in Australia).

Through its relationship with Epilepsy Action Australia (EAA) and its scientific board of advisors, the Company has been building an Australian patient market for CannEpi™ through the registration of authorised prescribing doctors. The number of registered patients is currently less than 100 but is expected to grow significantly over the near to medium term.

## **MGC Botanic Division**

MXC's Botanic Division engages with multiple cultivation sites to meet increasing global demand for high quality raw materials, alongside research into breeding and genetics with leading institutions and academia. MGC Botanic harvest product in Slovenia and Czech Republic, and use the raw material at MGC's own production facility, as well as providing the product globally.

## **Directors' Report**

### **Raw material production**

During the period, the Company completed its first harvest of raw material at its open field farm in Slovenia, delivering more than 4,000kg of biomass. This biomass has since undergone preparation for its use in the Company's facility in Slovenia where it will be turned into food-grade cannabis, with the CBD being used in MXC's nutrient and derma cosmetic products.

#### **- Breeding and Cultivation Research Operations – Czech Republic**

The Company also completed a successful harvest at its Czech Republic glasshouse facility, delivering more than 400kg of biomass and has commenced preparations for the second season. This biomass is now undergoing processing for use across the pharma business.

During the period, MXC also commenced preparations for the extension of its growing operations which will enable the Company to cultivate an area twice the size of the current operation, taking it to more than 2,000m<sup>2</sup>. The expansion will ensure the Company is well-positioned to meet future demand across the emerging European markets.

MXC is also using key learnings from analysis of the first season to further optimise its growing protocols and maximise yields of its medicinal cannabis strains.

#### **- Slovenian research collaboration delivering strong genetics and breeding outcomes**

In the period, MXC released its semi-annual report, in conjunction with the University of Ljubljana, outlining the progress of its breeding program and registration of genetics. This report highlighted that the Company has made strong progress to date including the mapping of the genome (DNA) of plants and the success of the breeding using MXC genetics which has a success rate of more than 80%.

### **MGC Derma Division**

MGC Derma is a leading cannabidiol (CBD) cosmetic brand with an aggressive plan to expand across a number of new markets. The Derma Division (MXC 51%) has executed a number of key deals during the period including a binding cosmetic sales agreement signed in October 2017 with emerging Korean health care and beauty cosmetics company, Varm Cosmo Inc.

Under the agreement, MXC is supplying five of its CBD cosmetic products in bulk to Varm Cosmo which are being sold to consumers as part of Varm Cosmo's cosmetics range.

Post the reporting period, MGC Derma signed a strategic distribution agreement with world renowned online beauty store, Cult Beauty. The deal will see 15 of MGC Derma's cosmetics products sold on the Cult Beauty site, making them available to consumers worldwide.

MGC Derma also launched the first product in its Derma Plus product line, a CBD herbal repair cream which is specifically targeted for the relief of mild forms of psoriasis. The Company expects to release two additional Derma Plus products, a herbal balm and a herbal replenish cream, for treatment of acne and dermatitis conditions, in early 2018.

## **Directors' Report**

### **Update and Outlook**

Subsequent to the reporting period MGC Pharmaceuticals received notification that it had received initial GMP certification at its European Medicinal Cannabis Manufacturing Facility. The certification followed an 18-month process and is one of the final steps toward full GMP certification which will make the facility one of the most advanced of its kind in Europe.

GMP certification will deliver a fully integrated GMP facility that will enable MXC to commence full scale manufacturing and be licensed for distribution for CannEpi<sup>TM</sup> as well as other pharmaceutical grade medicinal cannabis products.

The Company has also been encouraged by the regulatory changes from governments around the world including the announcement in January 2018 that the Australian Government would allow for the export of medicinal cannabis products from Australia. MXC is well placed to take advantage of the evolving regulatory landscape for medicinal cannabis as governments across the world continue to establish clearer legislative and regulatory frameworks for the cultivation, distribution, import and export of medicinal cannabis products.

### **Financial Update**

#### ***Use of Funds***

During the reporting period, the Company used funds for working capital purposes and to progress its European botanical and pharmaceutical initiatives including GMP certification at the Slovenian extraction facility and developing new markets for its MGC Derma cosmetic and dermatological product range.

#### ***Cash Position***

As at 31 December 2017, the Company had a cash balance of \$8,329,678, and remains well funded ahead of a number of key revenue generating milestones for the Company in early 2018 including GMP certification, the production of the first batch of CannEpi<sup>TM</sup> and the development of new markets for its MGC Derma and Derma Plus product ranges.



## MGC PHARMACEUTICALS LTD

### Consolidated Interim Financial Report 31 December 2017

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#### Directors' Report

##### Events Subsequent to Reporting Date

<b>4 January 2018</b>	<b>MGC Derma Launches CBD Herbal Psoriasis Cream</b> MGC Pharmaceuticals Derma division officially launched its first Derma Plus product, a CBD Herbal Repair Cream, specifically developed for the relieve of psoriasis. The Derma plus range, comprising three products underwent successful clinical trials at a leading dermatological clinic in 2017.
<b>5 January 2018</b>	<b>MXC Welcomes Federal Export Legislation</b> The Company welcomed announcement by the Australian Federal Government to allow for the export of medicinal cannabis products. The announcement ensures the Company can strengthen its focus on a development plan for future Australian operations with a clear federal legislative and regulatory framework.
<b>22 January 2018</b>	<b>MXC Signs Exclusive Distribution Agreement with Cult Beauty</b> MGC Pharmaceuticals Derma division signed a strategic distribution agreement with world renowned online beauty store, Cult Beauty. The deal will see 15 of MGC Derma's cosmetics products sold on the Cult Beauty site including a six-month exclusive sales campaign on the MGC Derma products
<b>25 January 2018</b>	<b>Initial GMP Certification for European Production Facility</b> The Company was formally granted interim GMP Certification for its European Medicinal Cannabis manufacturing facility. The interim licence is one of the final steps for full GMP certification which, once achieved, will make MXC's facility one of the most advances in Europe for pharmaceutical grade medial cannabis production.
<b>30 January 2018</b>	<b>Conversion of Performance Rights – Appendix 3B</b> The Company confirmed Milestone 1 and 2 of the 36,500,000 Performance Rights held by Directors was met on 31 December 2016 and 31 December 2017. Additionally, Milestone 2 of the 8,026,000 Performance Rights held by employees was also met on 31 December 2017. On 30 January 2018, a total of 34,526,000 Performance Rights held by Directors and employees were converted to ordinary shares in the capital of the Company.
<b>14 February 2018</b>	<b>MXC Derma Products Officially Launched on Cult Beauty Online</b> The Company confirmed the official sales launch of MGC Derma and Derma Plus cosmetic ranges on leading global online cosmetics store, Cult Beauty. The launch is supported by a 6-month exclusive sales campaign on MGC Derma products and additional promotional activities, with feature articles already secured in leading industry publications.

**Directors' Report**

**Auditor's Independence Declaration**

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 10 for the half-year ended 31 December 2017.

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



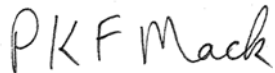
Brett Mitchell

Executive Chairman

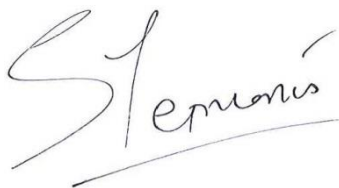
Dated 23 February 2018

## AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF MGC PHARMACEUTICALS LTD

In relation to our review of the financial report of MGC Pharmaceuticals Ltd for the half year ended 31 December 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



SIMON FERMANIS  
PARTNER

23 FEBRUARY 2018  
WEST PERTH,  
WESTERN AUSTRALIA

**MGC PHARMACEUTICALS LTD**
**Consolidated Interim Financial Report 31 December 2017**
**Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income**

For the half year ended 31 December 2017

	Note	31-Dec-17 \$	31-Dec-16 \$
Sales revenue		29,681	94,408
Cost of goods sold		(70,148)	(73,307)
<b>Gross profit</b>		<b>(40,467)</b>	<b>21,101</b>
Other income		97,696	50,377
Corporate costs		(110,230)	(112,213)
Professional and consultancy fees		(363,261)	(1,096,692)
Research expense		(258,327)	-
Directors' fees		(666,389)	(558,341)
Employee benefit expenses		(496,001)	(162,059)
Share based payments expense		(498,035)	(721,366)
Travel expenses		(142,733)	(122,489)
Marketing expenses		(283,459)	(71,206)
Depreciation		(67,116)	(37,678)
Office and administrative expenses		(83,067)	(106,855)
Finance costs		(189)	(37,675)
Impairment provision expense		-	(105,845)
Gain on disposal of subsidiary	4	86,352	-
(Loss) on disposal of property, plant and equipment		(26,887)	-
(Loss) / Gain on re-measurement of performance shares	5	(4,085,000)	70,000
Other expenses		(257,414)	(108,274)
<b>Loss before income tax</b>		<b>(7,194,527)</b>	<b>(3,099,215)</b>
Income tax benefit		-	-
<b>Loss after income tax from continuing operations</b>		<b>(7,194,527)</b>	<b>(3,099,215)</b>
Profit from discontinued operations	4	1,038	-
<b>Total loss after income tax</b>		<b>(7,193,489)</b>	<b>(3,099,215)</b>
<b>Loss after income tax for the half year attributable to:</b>			
Member of the parent entity		(6,993,962)	(2,967,229)
Non-controlling interest		(199,527)	(131,986)
		<b>(7,193,489)</b>	<b>(3,099,215)</b>
<b>Other comprehensive income for the half year</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on the translation of foreign operations		62,296	(29,223)
<b>Other comprehensive income (net of tax) for the half year</b>		<b>62,296</b>	<b>(29,223)</b>
<b>Total comprehensive loss for the half year</b>		<b>(7,131,193)</b>	<b>(3,128,438)</b>
<b>Total comprehensive loss attributable to:</b>			
Members of the parent entity		(6,900,449)	(2,995,343)
Non-controlling interest		(230,744)	(133,095)
		<b>(7,131,193)</b>	<b>(3,128,438)</b>
<b>Earnings per share for loss attributable to the ordinary equity holders of the parent</b>			
<i>From continuing and discontinued operations:</i>			
Basic and Diluted (loss) per share (cents)		(0.64)	(0.32)

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

**MGC PHARMACEUTICALS LTD**

**Consolidated Interim Financial Report 31 December 2017**

**Condensed Consolidated Statement of Financial Position**

As at 31 December 2017

	<i>Note</i>	<b>31-Dec-17</b>	<b>30-Jun-17</b>
		<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		8,329,678	11,363,902
Inventory		581,068	507,873
Trade and other receivables		656,418	613,246
<b>Total Current Assets</b>		<b>9,567,164</b>	<b>12,485,021</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		1,240,988	1,258,478
Intangible asset		7,080,800	7,076,166
Other asset		53,185	-
<b>Total Non-Current Assets</b>		<b>8,374,973</b>	<b>8,334,644</b>
<b>TOTAL ASSETS</b>		<b>17,942,137</b>	<b>20,819,665</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		249,698	596,275
Contingent consideration	5	8,455,000	4,370,000
<b>Total Current Liabilities</b>		<b>8,704,698</b>	<b>4,966,275</b>
<b>NON-CURRENT LIABILITIES</b>			
Loans from third parties		21,289	20,311
Deferred revenue		50,669	44,549
<b>Total Non-Current Liabilities</b>		<b>71,958</b>	<b>64,860</b>
<b>TOTAL LIABILITIES</b>		<b>8,776,656</b>	<b>5,031,135</b>
<b>NET ASSETS</b>		<b>9,165,481</b>	<b>15,788,530</b>
<b>EQUITY</b>			
Contributed equity	6	42,567,513	42,557,404
Share based payment reserve	7	3,993,649	3,495,614
Foreign currency translation reserve		57,664	(35,849)
Retained earnings		(36,777,964)	(29,784,002)
<b>Equity attributable to equity holders of the parent</b>		<b>9,840,862</b>	<b>16,233,167</b>
Non-controlling interest		(675,381)	(444,637)
<b>TOTAL EQUITY</b>		<b>9,165,481</b>	<b>15,788,530</b>

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

**MGC PHARMACEUTICALS LTD**

**Consolidated Interim Financial Report 31 December 2017**

**Condensed Consolidated Statement of Changes in Equity**

For the half year ended 31 December 2017

	Contributed Equity \$	Share Based Payment Reserve \$	Foreign Currency Translation Reserve \$	Retained Earnings \$	Non- controlling interest \$	Total \$
<b>Balance at 1 July 2016</b>	<b>32,343,143</b>	<b>1,079,564</b>	<b>26,448</b>	<b>(21,639,641)</b>	<b>(80,652)</b>	<b>11,728,862</b>
Other comprehensive income	-	-	(28,114)	-	(1,109)	(29,223)
Loss after income tax expense	-	-	-	(2,967,229)	(131,986)	(3,099,215)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(28,114)</b>	<b>(2,967,229)</b>	<b>(133,095)</b>	<b>(3,128,438)</b>
Shares issued during the period (net of share issue costs)	(7,582)	-	-	-	-	(7,582)
Share based payment	-	1,398,460	-	-	-	1,398,460
<b>Balance at 31 December 2016</b>	<b>32,335,561</b>	<b>2,478,024</b>	<b>(1,666)</b>	<b>(24,606,870)</b>	<b>(213,747)</b>	<b>9,991,302</b>
<b>Balance at 1 July 2017</b>	<b>42,557,404</b>	<b>3,495,614</b>	<b>(35,849)</b>	<b>(29,784,002)</b>	<b>(444,637)</b>	<b>15,788,530</b>
Other comprehensive income	-	-	93,513	-	(31,217)	62,296
Loss after income tax expense	-	-	-	(6,993,962)	(199,527)	(7,193,489)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>93,513</b>	<b>(6,993,962)</b>	<b>(230,744)</b>	<b>(7,131,193)</b>
Shares issued during the period (net of share issue costs)	10,109	-	-	-	-	10,109
Share based payment	-	498,035	-	-	-	498,035
<b>Balance at 31 December 2017</b>	<b>42,567,513</b>	<b>3,993,649</b>	<b>57,664</b>	<b>(36,777,964)</b>	<b>(675,381)</b>	<b>9,165,481</b>

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

**Condensed Consolidated Statement of Cash Flows**

For the half year ended 31 December 2017

	Note	31-Dec-17	31-Dec-16 \$
<b><i>Cash flows from operating activities</i></b>			
Receipts from customers		29,681	5,439
Interest received		82,808	47,106
Payments to suppliers and employees		(3,140,180)	(2,062,292)
Interest paid		(187)	(27,476)
MGC Derma joint venture partner operational costs		-	(251,515)
<b>Net cash used in operating activities</b>		<b>(3,027,878)</b>	<b>(2,288,738)</b>
<b><i>Cash flows from investing activities</i></b>			
Proceeds from disposal of exploration assets	4	-	500,000
Proceeds from disposal of plant and equipment		68,501	-
Purchase of plant and equipment		(197,043)	(339,237)
<b>Net cash provided by/(used in) investing activities</b>		<b>(128,542)</b>	<b>160,763</b>
<b><i>Cash flows from financing activities</i></b>			
Proceeds from issue of shares, net of share issue cost		7,386	-
Repayment of borrowings		-	(1,050,000)
Payment of capital raising costs		(77)	(97,790)
<b>Net cash provided by/(used in) financing activities</b>		<b>7,309</b>	<b>(1,147,790)</b>
<b>Net (decrease) in cash and cash equivalents held</b>		<b>(3,149,111)</b>	<b>(3,275,765)</b>
Cash and cash equivalents at beginning of period		11,363,902	7,895,539
Foreign exchange movement of cash		114,887	(15,517)
<b>Cash and cash equivalents at end of period</b>		<b>8,329,678</b>	<b>4,604,257</b>

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

**Notes to the Condensed Consolidated Financial Statements**

For the half year ended 31 December 2017

**NOTE 1. CORPORATE INFORMATION**

The financial report of MGC Pharmaceuticals Ltd ('MGC' or the 'Company') and its controlled entities (the 'Group') for the half-year ended 31 December 2017 was authorised for issue in accordance with a resolution of the directors on 23 February 2018.

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

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

**NOTE 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

**Statement of Compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

**Basis of Preparation**

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2017 annual financial report for the financial year ended 30 June 2017, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

**a) Changes in Accounting Policy, Accounting Standards and Interpretations**

In the half year ended 31 December 2017, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2017. It has been determined by the Company that, there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and therefore no change is necessary to Company accounting policies.

**b) Estimates**

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

In preparing these interim financial statements, significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements as at and for the year ended 30 June 2017.

*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. The Licence requires only an annual renewal process and is therefore defined as having an indefinite useful life.



## Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2017

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

## c) Financial report prepared on a going concern basis

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

During the half year ended 31 December 2017 the consolidated entity incurred a loss from continuing operations of \$7,194,527 (2016: \$3,099,215) and had a cash and cash equivalents balance of \$8,329,678 (30 June 2017: \$11,363,902) as at the half year end.

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

## NOTE 3. DIVIDENDS

There are no dividends paid or declared during the period.

## NOTE 4. DISPOSAL OF SUBSIDIARY

On 12 July 2017 ("completion date") the Group completed the disposal of its Erin Mineral Resources Pty Limited ("EMRPL") subsidiary, and the entities EMRPL controls which hold the remaining Senegal gold assets, to Chesser Resources Ltd ("CHZ").

On completion CHZ issued the following as Consideration:

- 1,214,286 fully paid ordinary shares;
- 95,000 unlisted options, exercisable at \$0.06 per share with an expiry date of 31 December 2019;
- 95,000 unlisted options exercisable at \$0.06 per share with an expiry date of 31 December 2020;
- 5,714,286 Class A Performance Shares to convert into fully paid ordinary shares upon certification by an independent Competent Person of a JORC Mineral Resource of 0.5Moz Au with an average grade of at least 2.0g/t gold in relation to the Projects; and
- 5,714,286 Class B Performance Shares to convert into fully paid ordinary shares upon certification by an independent Competent Person of a JORC Mineral Resource of 1.5Moz Au with an average grade of at least 2.0g/t gold in relation to the Projects.

In line with relevant standards, the consideration is fair valued as at the date of disposal at which point the effective share price of the CHZ shares was \$0.042 per share.

*Fully paid ordinary shares in CHZ*

1,214,286 shares at \$0.042

*Unlisted options in CHZ*

95,000 unlisted options at \$0.013

95,000 unlisted options at \$0.010

**Total Consideration**

Sale consideration	\$
	51,000
	1,235
	950
	<b>53,185</b>

The Performance Shares are contingent on the completion of certain milestones, and are therefore not required to be recognised until it is virtually certain that economic benefits will flow.

## Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2017

Assets, liabilities, financial performance and cash flow information for the EMRPL Group were considered immaterial. The gain on disposal of subsidiary includes a deconsolidation adjustment totalling \$33,167.

**NOTE 5. CONTINGENT CONSIDERATION**

	31-Dec-17 \$	30-Jun-17 \$
Opening balance at 1 July	4,370,000	3,080,000
Unrealised fair value movement recognised in profit or loss	4,085,000	1,290,000
	<b>8,455,000</b>	<b>4,370,000</b>

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

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

The determination of the fair value is based on a probability weighted payout approach. The key assumptions take into consideration the probability of meeting the performance targets. As part of accounting for the acquisition of MGC UK, the contingent consideration was initially measured at acquisition with a probability of 50%, at which date the share price was \$0.026.

At 30 June 2017, it was determined that the probability of meeting the targets was highly probable and the weighted outcome had increased to 95%, and as at that date the share price was \$0.046; the resulting increase in value of \$1,290,000 was taken to the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2017, the share price was \$0.089, with a probability of 95%; the resulting increase in value of \$4,085,000 is taken to the consolidated statement of profit or loss and other comprehensive income. Future developments may require further revisions to the estimate.

**NOTE 6. CONTRIBUTED EQUITY**

	31-Dec-17 NUMBER	30-Jun-17 NUMBER	31-Dec-17 \$	30-Jun-17 \$
Ordinary shares on issue, fully paid	1,083,722,340	1,083,608,703	42,567,513	42,557,404
VHL shares	13,000,000	13,000,000	-	-
	<b>1,096,722,340</b>	<b>1,096,608,703</b>	<b>42,567,513</b>	<b>42,557,404</b>

**a) Reconciliation of movement in share capital**

31 December 2017	No. Of Shares	Issue Price	Amount
Opening balance at 1 July 2017	1,096,608,703		42,557,404
Exercise of options – 15 December 2017	113,637	0.065	7,386
Less: costs of issues			2,723
<b>Closing balance at 31 December 2017</b>	<b>1,096,722,340</b>		<b>42,567,513</b>

# MGC PHARMACEUTICALS LTD

## Condensed Consolidated Interim Financial Report 31 December 2017

### Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2017

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

### NOTE 7. SHARE BASED PAYMENTS

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

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

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) Issue of Performance Rights

##### (i) 32.5 million and 4 million Performance Rights

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

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

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

**Notes to the Condensed Consolidated Financial Statements**

For the half year ended 31 December 2017

**(ii) 22.2 million Performance Rights**

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

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

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

**b) Reconciliation of share based payment expense**

	Number of VHL shares/ unlisted options	Date	Value \$	Share based payment balance \$
<b>As at 31 December 2017</b>				
<b>Opening balance – VHL shares</b>				
VHL shares issued	13,000,000		0.069	906,588
<b>Movement during the year:</b>				
Amortisation expense	-			-
<b>Total VHL share</b>	<b>13,000,000</b>			<b>906,588</b>
<b>Opening balance – Unlisted options</b>				
Unlisted option issued	2,000,000			370,538
	<b>2,000,000</b>			<b>370,538</b>
<b>Opening balance – Listed options</b>				
Listed options issued	91,553,226			577,500
<b>Movement during the year:</b>				
Listed options exercised	(113,637)			-
<b>Total listed options</b>	<b>91,439,589</b>			<b>577,500</b>
<b>Opening balance – Performance rights</b>				
Performance rights issued	48,674,000			1,640,988
<b>Movement during the year:</b>				
Performance right issued (milestone 2)	-	31-12-17	0.048	260,945
Performance right issued (milestone 2)	-	31-12-17	0.041	162,327
Performance right issued (milestone 3)	-	31-12-18	0.041	42,202
Performance right issued (milestone 2)	-	31-12-17	0.041	32,361
<b>Total Performance rights</b>	<b>48,674,000</b>			<b>2,139,023</b>
<b>Total share based payment reserve</b>				<b>3,993,649</b>

## MGC PHARMACEUTICALS LTD

### Condensed Consolidated Interim Financial Report 31 December 2017

#### Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2017

##### As at 30 June 2017

##### Opening balance – VHL shares

VHL shares issued	13,000,000		0.069	720,478
<b>Movement during the year:</b>				
Amortisation expense	-			186,110
<b>Total VHL share</b>	<b>13,000,000</b>			<b>906,588</b>

##### Opening balance – Unlisted options

Unlisted option issued	18,750,000			347,696
<b>Movement during the year:</b>				
Unlisted options issued @ \$0.20	-	14-09-13	0.014	11,452
Unlisted options expired	(4,000,000)			-
Unlisted options exercised	(12,750,000)			-
<b>Total unlisted options</b>	<b>2,000,000</b>			<b>370,538</b>

##### Opening balance – Listed options

Listed option issued	-			-
<b>Movement during the year:</b>				
Listed options issued	56,818,380	06-10-16	0.0165	-
Listed options issued	35,000,000	10-11-16	0.0165	577,500
Listed options exercised	(265,154)			-
<b>Total Listed options</b>	<b>91,553,226</b>			<b>577,500</b>

##### Opening balance – Performance rights

Performance rights issued	-			-
<b>Movement during the year:</b>				
Performance right issued (milestone 1)	19,500,000	31-05-17	0.048	936,000
Performance right issued (milestone 2)	13,000,000	31-12-17	0.048	363,055
Performance right issued (milestone 1)	10,026,000	7-03-17	0.041	411,066
Performance right issued (milestone 2)	8,026,000	31-12-17	0.041	166,739
Performance right issued (milestone 3)	4,148,000	31-12-18	0.041	43,554
Performance right issued (milestone 1)	2,400,000	31-05-17	0.041	98,400
Performance right issued (milestone 2)	1,600,000	31-12-17	0.041	33,240
Conversion of performance rights (milestone 1)	(10,026,000)	7-03-17	0.041	(411,066)
<b>Total performance right</b>	<b>48,674,000</b>			<b>1,640,988</b>

##### Total share based payment reserve

**3,495,614**

#### NOTE 8. SEGMENT REPORTING

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

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

The Slovenia operations relate to MGC Slovenia and MGC Derma which, based on their level of activities for the period to 31 December 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.

**MGC PHARMACEUTICALS LTD**
**Condensed Consolidated Interim Financial Report 31 December 2017**
**Notes to the Condensed Consolidated Financial Statements**

For the half year ended 31 December 2017

<b>31 December 2017</b>	<b>Slovenia \$</b>	<b>Australia \$</b>	<b>Elimination \$</b>	<b>Consolidated Group \$</b>
Current assets	1,642,483	7,924,681	-	9,567,164
Non-current assets	1,370,313	13,469,776	(6,465,116)	8,374,973
<b>Total Assets</b>	<b>3,012,796</b>	<b>21,394,457</b>	<b>(6,465,116)</b>	<b>17,942,137</b>
Current liabilities	154,770	8,549,928	-	8,704,698
Non-current liabilities	6,754,460	-	(6,682,502)	71,958
<b>Total Liabilities</b>	<b>6,909,230</b>	<b>8,549,928</b>	<b>(6,682,502)</b>	<b>8,776,656</b>
Contributed equity	20	42,567,613	(120)	42,567,513
Share based payment reserve	-	3,993,649	-	3,993,649
Other reserve	297,191	-	(239,527)	57,664
Accumulated losses	(3,518,264)	(33,716,733)	457,033	(36,777,964)
<b>Equity attributable to equity holders of the parent</b>	<b>(3,221,053)</b>	<b>12,844,529</b>	<b>217,386</b>	<b>9,840,862</b>
Non-controlling interest	(675,381)	-	-	(675,381)
<b>Total equity</b>	<b>(3,896,434)</b>	<b>12,844,529</b>	<b>217,386</b>	<b>9,165,481</b>
<b>Sales revenues</b>	<b>29,681</b>	<b>-</b>	<b>-</b>	<b>29,681</b>
<b>(Loss) for the period</b>				
Member of the parent entity	(3,518,264)	(3,382,185)	-	(6,900,449)
Non-controlling interest	(230,744)	-	-	(230,744)
<b>Total comprehensive (loss) for the period</b>	<b>(3,749,008)</b>	<b>(3,382,185)</b>	<b>-</b>	<b>(7,131,193)</b>
<b>30 June 2017</b>				
<b>Total assets</b>	<b>2,550,388</b>	<b>24,251,455</b>	<b>(5,982,178)</b>	<b>20,819,665</b>
<b>Total liabilities</b>	<b>5,141,255</b>	<b>4,452,990</b>	<b>(4,563,110)</b>	<b>5,031,135</b>
<b>Sales revenues</b>	<b>120,242</b>	<b>-</b>	<b>-</b>	<b>120,242</b>
<b>Loss for the period:</b>				
Members of the parent entity	(2,976,639)	(5,230,019)	-	(8,206,658)
Non-controlling interest	(363,879)	-	-	(363,879)
<b>Total comprehensive loss for the period</b>	<b>(3,340,518)</b>	<b>(5,230,019)</b>	<b>-</b>	<b>(8,570,537)</b>

**NOTE 9. FAIR VALUE HIERARCHY**

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

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

**MGC PHARMACEUTICALS LTD**

**Condensed Consolidated Interim Financial Report 31 December 2017**

**Notes to the Condensed Consolidated Financial Statements**

For the half year ended 31 December 2017

<b>31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Financial liabilities</b>				
Financial liabilities designated at fair value through profit or loss:				
<i>Contingent consideration</i>				
Opening balance 1 July 2017	-	-	4,370,000	4,370,000
Fair value movement in the period	-	-	4,085,000	4,085,000
<b>Closing balance at 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>8,455,000</b>	<b>8,455,000</b>

<b>30 June 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Financial assets</b>				
<i>Available for sale assets</i>				
Opening balance 1 July 2016	500,000			500,000
Sale of Exploration and Evaluation asset	(500,000)	-	-	(500,000)
<b>Closing balance at 30 June 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>Financial liabilities</b>				
Financial liabilities designated at fair value through profit or loss:				
<i>Contingent consideration</i>				
Fair value on initial recognition	-	-	3,080,000	3,080,000
Fair value movement in the year	-	-	1,290,000	1,290,000
<b>Closing balance at 30 June 2017</b>	<b>-</b>	<b>-</b>	<b>4,370,000</b>	<b>4,370,000</b>

**a) Valuation techniques used to derive Level 1 fair values**

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

**b) Valuation techniques used to derive Level 3 fair values**

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

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

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

## Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2017

## NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES

<b>Commitments as at 31 December 2017</b>	<b>\$</b>
< 1 year	649,596
1 - 5 years	1,302,144
> 5 years	-
<b>Total commitments</b>	<b>1,951,740</b>

Commitments mainly relate to Research and Development Agreements held with Royal Melbourne Institute of Technology, for both the Breeding and Pre-Clinical Research and the Library of Cannabinoids Projects, as well as the Biotechnical Faculty of the University of Ljubljana.

There were no additional contingent liabilities other than those disclosed in the Financial Report for the year ended 30 June 2017.

## NOTE 11. EVENTS SUBSEQUENT TO REPORTING DATE

<b>4 January 2018</b>	<b>MGC Derma Launches CBD Herbal Psoriasis Cream</b> MGC Pharmaceuticals Derma division officially launched its first Derma Plus product, a CBD Herbal Repair Cream, specifically developed for the relieve of psoriasis. The Derma plus range, comprising three products underwent successful clinical trials at a leading dermatological clinic in 2017.
<b>5 January 2018</b>	<b>MXC Welcomes Federal Export Legislation</b> The Company welcomed announcement by the Australian Federal Government to allow for the export of medicinal cannabis products. The announcement ensures the Company can strengthen its focus on a development plan for future Australian operations with a clear federal legislative and regulatory framework.
<b>22 January 2018</b>	<b>MXC Signs Exclusive Distribution Agreement with Cult Beauty</b> MGC Pharmaceuticals Derma division signed a strategic distribution agreement with world renowned online beauty store, Cult Beauty. The deal will see 15 of MGC Derma's cosmetics products sold on the Cult Beauty site including a six-month exclusive sales campaign on the MGC Derma products
<b>25 January 2018</b>	<b>Initial GMP Certification for European Production Facility</b> The Company was formally granted interim GMP Certification for its European Medicinal Cannabis manufacturing facility. The interim licence is one of the final steps for full GMP certification which, once achieved, will make MXC's facility one of the most advances in Europe for pharmaceutical grade medial cannabis production.
<b>30 January 2018</b>	<b>Conversion of Performance Rights – Appendix 3B</b> The Company confirmed Milestone 1 and 2 of the 36,500,00 Performance Rights held by Directors was met on 31 December 2016 and 31 December 2017. Additionally, Milestone 2 of the 8,026,000 Performance Rights held by employees was also met on 31 December 2017.
<b>14 February 2018</b>	<b>MXC Derma Products Officially Launched on Cult Beauty Online</b> The Company confirmed the official sales launch of MGC Derma and Derma Plus cosmetic ranges on leading global online cosmetics store, Cult Beauty. The launch is supported by a 6-month exclusive sales campaign on MGC Derma products and additional promotional activities, with feature articles already secured in leading industry publications.



**Directors' Declaration**

The Directors of the Company declare that:

1. the interim financial statements and notes, are in accordance with the *Corporations Act 2001* and:
  - a) comply with Australian Accounting Standard AASB134 Interim financial reporting and the Corporations Regulations 2001; and
  - b) give a true and fair view of the Consolidated entity's financial position as at 31 December 2017 and its performance for the half year ended on that date; and
  
2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Brett Mitchell

Executive Chairman

Dated 23 February 2018

## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF MGC PHARMACEUTICALS LTD

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the accompanying half-year financial report of MGC Pharmaceuticals Ltd (the company) and controlled entities (consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2017, or during the half year.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017, and of its financial performance for the half-year ended on that date; and
- (b) complying with the Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

#### Independence

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

#### Directors' Responsibility for the Half-Year Financial Report

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

#### Auditor's Responsibility

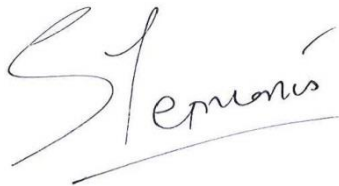
Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half year ended on that date, and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of MGC Pharmaceuticals Ltd and the entities it controlled during the half year,

ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



PKF MACK



SIMON FERMANIS  
PARTNER

23 FEBRUARY 2018  
WEST PERTH,  
WESTERN AUSTRALIA