

# Targeting Premium DSO Bauxite



Queensland Bauxite Limited

24 Birriga Road Bellevue Hill

New South Wales 2023

T +612 9291 9000

F +612 9291 9099

[www.queenslandbauxite.com](http://www.queenslandbauxite.com)

## COMPANY TRANSFORMATION ANNOUNCEMENT

### PART ONE - QBL ACQUIRES 100% OF MEDCAN AUSTRALIA PTY LTD



### PART TWO - QBL ACQUIRES 100% OF MEDICAL CANNABIS LIMITED



20 JUNE 2018

# Targeting Premium DSO Bauxite

בס"ד

## Company Transformation Announcement

# PART ONE

## QBL ACQUIRES 100% OF MEDCAN AUSTRALIA



# Targeting Premium DSO Bauxite

20 June 2018

בס"ד

## Significant Company Transformation Announcement

### PART ONE – THE ACQUISITION OF 100% OF MEDCAN AUSTRALIA PTY LTD BY QBL

The Board of Queensland Bauxite Limited (ASX: QBL, the “Company”) is excited to announce that the Company and its subsidiary, Medical Cannabis Limited (“MCL”) have entered into a legally binding heads of agreement to acquire a 100% interest in Medcan Australia Pty Ltd (“Medcan”) (“Medcan HOA”). Medcan is the holder of an Office of Drug Control (“ODC”) Medical Cannabis Production License (Australian Cultivation & Production Licence) with an experienced management and production team with a contract to supply already in place, which enables the MCL group to legally grow and cultivate high THC and CBD medicinal cannabis products in Australia to supply the new Australian and the burgeoning global markets.

#### HIGHLIGHTS

- QBL has entered into a legally binding heads of agreement to acquire a 100% stake in medical Cannabis company ‘Medcan Australia Pty Ltd’
- Medcan has an ODC Medical Cannabis Production License to legally cultivate and produce high THC / CBD chemovars and cultivars to make medicinal Cannabis products in Australia
- MCL now has access to an ODC medicinal cannabis production license which will enable value maximisation of MCL’s established seed bank, unique cannabis genetics and medical cannabis distribution divisions
- MCL is now able to complete its second locally vertically integrated business from ‘seed to consumer’ in **medicinal cannabis**. MCL is the only Medicinal Cannabis company in Australia with two complete fully vertically integrated businesses: **Nutritional Hemp and Medicinal Cannabis**
- Medcan’s ODC license assists to realise MCL’s vision to be able to be a supplier of the highest Australian quality, GMP standard, high THC/CBD medical cannabis and other formulations of medicinal cannabis
- Medcan’s ODC license assists MCL to realize and fulfil its aim to cultivate medical Cannabis in Australia and manufacture its own GMP pharmaceuticals, nutraceuticals and therapeutics for distribution and sale to the Australian market and international export market, with the potential to return significant revenues for MCL
- Medcan has achieved a DA approval for a detailed planned ‘state of the art’ Cannabis cultivation and production facility. QBL will invest the funds required to complete to maximum capacity, the pharmaceutical grade centre, fully staffed for cultivation and production of high THC/CBD medicinal Cannabis products.

## **Material Milestone**

The Directors of Queensland Bauxite Ltd view this acquisition as significant for the Company as it marks a material milestone for MCL and completes the journey of fully integrating MCL's medical division, confirming MCL firmly as a leader in the Australian and Global Cannabis industry.

Medcan identified the prospect of securing an ODC licence pursuant to the Narcotics Drugs Act 1967 to enable it to legally cultivate and produce medicinal Cannabis products and in November 2017 was granted an Australian Cultivation & Production Licence. Medcan was one of the first medical Cannabis companies to receive an ODC MC license pursuant to the recent legislation changes.

The Directors of MCL are very excited to have Medcan's directors join MCL's medical cannabis team, as they will add their extensive technical expertise to the MCL team.

## **Medicinal Cannabis 'State of the Art' production facility**

Medcan, after working extensively with local council, have secured a DA approved facility to allow the GMP production of medicinal cannabis products. This highly secure facility will have the ability to produce medicinal Cannabis dried flower, full extract oil, tinctures, capsules and the CannTab XR pill, amongst other products.

The Medcan facility, will utilise the latest 'state of the art' automated cultivation techniques allowing complete control of the growing environment. Through climate control systems monitoring temperature, humidity, CO2 levels and ATP, and advanced nutrient delivery systems reducing the error rate of manual watering, the facility will provide controlled, reproducible conditions optimising the ability to provide the highest level of Medicinal Cannabis product for both the Australian and International market. The facility is intended to begin operations by year end.

## **Medcan's professional management team retained by QBL**

Medcan was founded by its directors Craig Cochran and Gareth Ball. Craig and Gareth are well respected experts in the Medicinal Cannabis industry. They have worked in both Australia and Canada and have broad and extensive knowledge of the Cannabis plant and will be continuing as executive directors of Medcan to drive the company forward.

Craig Cochran is an early mover in the Australian and International Medicinal Cannabis industry, Craig has an in-depth knowledge and understanding of current Australian and global legislation, licensing and regulation. With a focus on patient access, Craig has dedicated years to understanding the needs of individual patients. With a network of contacts through Australia, Canada, Europe and the USA, Craig has an ear to the ground understanding of both local and international Medicinal Cannabis market trends, business models and access pathways.

Gareth Ball is an enthusiastic cannabis advocate and is passionate about bringing much-needed medicine to the people who need it so they can improve their quality of life. Gareth is highly skilled in contract negotiations, inventory management, yield maximization, business operations, business to business sales and commercial management. He will use his 20 years of sales and marketing experience to drive the business forward.

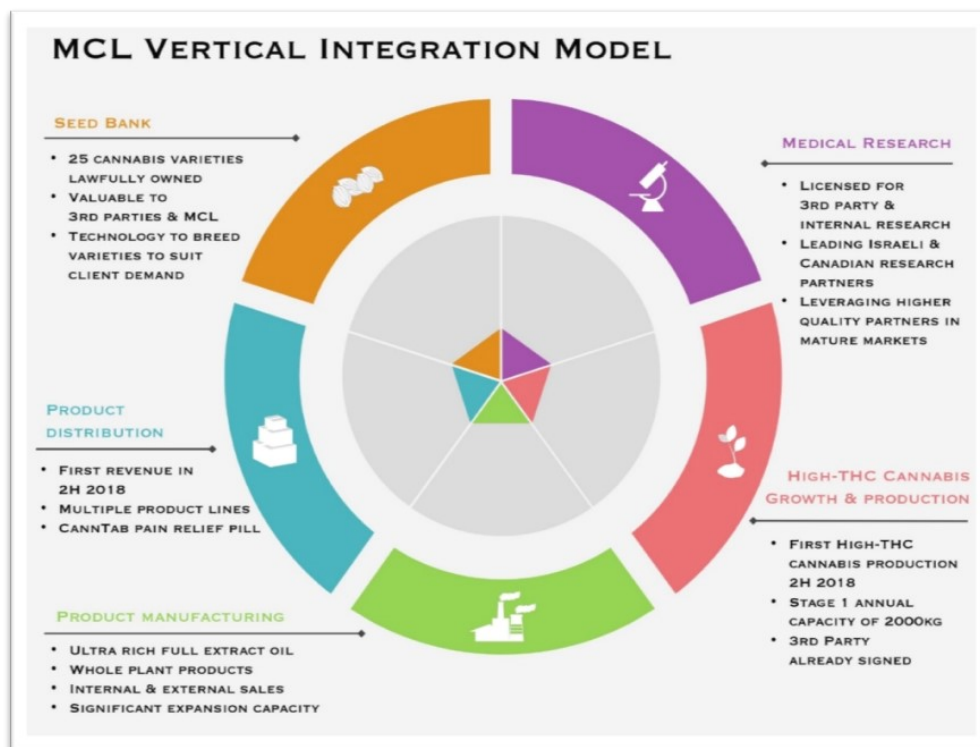
**Vertically integrated strategy**

MCL management believe this vertically integrated model is a major competitive advantage for MCL in the Australian market. It allows the best value to be obtained from our own lawful recognised seed bank of over 25 varieties of unique cultivars, chemovars and genetics legally developed over two decades. This acquisition also allows the ability to produce cannabinoids, refined concentrates and isolates for the scientific and research communities, both locally in Australia and overseas. MCL already has exclusivity to produce and distribute the GMP, pharmaceutical grade, CannTab extended release pain relief pill in Australia and Asia.

Medcan is currently in negotiations to manufacture a number of other products for Licensed Producers (LP's) of Medical Cannabis.

MCL has also been approached by overseas manufacturers to be their supplier of choice.

This acquisition would enable the supply of Australian produced medicinal cannabis products in world markets.



**Material terms of Medcan acquisition**

As noted above, the Company and MCL have entered into a legally binding heads of agreement with all other shareholders of Medcan, being Craig Cochran and Gareth Ball (“Medcan Shareholders”), to acquire, subject to conditions, 100% of the shares in Medcan held by them, as well as 100% of the issued units in the Medcan Australia Unit Trust (“Trust”), currently held by Cochran Industries Pty Ltd as trustee for the Innacovenant Family Trust, an entity controlled by Craig Cochran, and Gareth Ball (“Unitholders”) (together with the Shareholders, the “Vendors”). Medcan is currently the trustee of the Trust.

The acquisition of Medcan is subject to the following material terms and conditions:

- **Conditions:** The acquisition of Medcan is subject to obtaining all necessary shareholder, regulatory and third-party approvals pursuant to the ASX listing rules and the Corporations Act 2001 (Cth) to allow the Company to lawfully complete the acquisition, and ASX providing a letter of approval for QBL shares to be re-instated to trading on ASX, on conditions acceptable to QBL (**Conditions**). If the Conditions are not satisfied or waived by 31 August 2018, the parties may terminate the Medcan HOA by written notice to each other.
- **Consideration:** The consideration payable to the Vendors for the acquisition of their Medcan shares and units in the Trust will be satisfied through the issue of 250 million QBL shares, in proportion to their share and unit holdings. Upon completion of the acquisition, and the Company's proposed acquisition of MCL, this will represent an approximate 8% shareholding in the final merged entity (see part two of this announcement for further detail).
- **Management contracts:** The parties have agreed to negotiate arm's length management contracts for Craig Cochran and Gareth Ball for the first two years following settlement. The remuneration for the management contracts will, subject to QBL seeking the appropriate ASX waivers, include quarterly issues of QBL shares (1.25 million for Craig Cochran and 1 million for Gareth Ball) for the first two years following settlement, but with the inclusion of CPI in year 2. Medcan will also agree to pay a performance bonus to these parties (divided pro-rata) of 10% of Medcan's net profit, less the remuneration already received as salary. QBL has agreed to guarantee these obligations of Medcan for the first two years post settlement.
- **Settlement:** Settlement of the acquisition is expected to occur within 5 business days following satisfaction of the Conditions. MCL has been nominated by the Company (as purchaser) to hold the shares and units acquired from the Vendors. On completion of the acquisition, Medcan will be 100% owned by MCL and become its wholly owned subsidiary.

The board believes this deal represents significant material value for QBL shareholders, with the company able to implement cost and revenue synergies on multiple fronts. MCL was able to achieve favourable terms given the clear and executable revenue and cost synergies that both parties will benefit from.

This acquisition of Medcan, and associated acquisition of MCL (see part two of this announcement), is subject to QBL shareholder approval due to, among other things, the proposed change to the nature of the Company's activities. Approval will be sought at a general meeting of QBL shareholders, expected to be called next month.

The directors of QBL have spoken to the largest shareholders of QBL and are confident that these vital acquisitions have the support of QBL's largest shareholders. All the directors of QBL and MCL unanimously approve and recommend these acquisitions for the benefit of all QBL and MCL shareholders.

## A huge milestone achieved for MCL

Andrew Kavasilas, Founding Director of MCL stated, *“With Medcan integrated into the broader MCL group, we intend to produce high CBD and other THC rich variations of Medicinal Cannabis, as well as other cannabinoid variations to be used in research to manufacture patient specific products in accordance with the existing legislative framework. This is another step forward for patient access in Australia and globally, with patients to have direct access to legally produced Australian GMP Manufactured products of the highest standard and quality control.”*

Pnina Feldman, Executive Chairperson of QBL concludes, *“The value of MCL and Medcan combined is greater than the sum of the individual businesses. Both parties achieve value uplift with clear and deliverable synergies – MCL has access to an ODC license and a DA approval for a state of the art cannabis cultivation and production facility, and the Medcan staff having the ability to improve and fast track its market reach and its grow of Cannabis, given access to MCL’s genetics and its unique lawful Australian seed bank, MCL’s knowledge, contacts, expertise and international reach, and together with QBL, ready access to the capital markets. Medcan’s experienced management, their expertise, motivation and dedication, will enhance the broader success of MCL. MCL, with this acquisition, is now able to fulfil its vision to become a fully vertically integrated Cannabis company with the ability to develop its own products and to produce for patients much needed product to the highest standard. This should ensure the generation of further significant short term revenues for the Company as we continue to implement our business plan.”*

# Targeting Premium DSO Bauxite

בס"ד

## Company Transformation Announcement

# PART TWO

## QBL ACQUIRES 100% OF MEDICAL CANNABIS LIMITED





## **PART TWO - QBL ACQUIRES 100% OF MEDICAL CANNABIS LIMITED**

### **THE MERGER OF MCL AND QBL**

#### IMPORTANT NOTIFICATION TO SHAREHOLDERS

##### **Acquisition of MCL**

With due consideration given to the QBL (mining) and MCL (Cannabis/hemp) investors, and as a direct result of the MedCAN transaction, the Board of QBL has elected not to float MCL but to obtain approval from QBL's shareholders at a general meeting (pursuant to Listing Rule 11.1.2) to purchase the remaining 45% of MCL and completely incorporate MCL into QBL for the benefit of all QBL shareholders.

The Directors of QBL are confident after discussion with major shareholders, that this significant merger will be approved by shareholders. By purchasing 100% of MCL and merging MCL into QBL, all QBL shareholders will have the value of not only existing QBL current projects, but will also have full value of MCL and all its burgeoning activities and potential profits, as the hemp and medicinal cannabis industries develop from infancy to fruition worldwide.

It has been determined by the Directors of QBL that it is preferable for all current QBL shareholders to have the benefit of QBL owning 100% of MCL, rather than MCL floating separately and QBL potentially losing the bulk of the value of MCL.

##### **Material terms of MCL acquisition**

The Company has entered into a binding heads of agreement with MCL and MCL's major shareholders ("MCL Shareholders") to make offers to acquire, subject to conditions, the balance of 45% of MCL ("MCL Shares").

The acquisition of MCL is subject to the following material terms and conditions:

**Conditions:** The acquisition of MCL is subject to the following conditions:

- ◇ QBL receiving acceptances under the Offer (which as above has already been agreed by the major shareholders of MCL to provide) that give it a relevant interest in at least 90% of all of the MCL shares on issue on a fully diluted basis to enable it to achieve 100% by compulsory acquisition;
- ◇ QBL obtaining all necessary shareholder, regulatory and third-party approvals pursuant to the ASX listing rules and the Corporations Act 2001 (Cth) to allow the Company to lawfully complete the acquisition;
- ◇ QBL entering into a binding agreement to acquire 100% of Medcan (which as above has already been entered into); and
- ◇ ASX providing a letter of approval for QBL shares to be re-instated to trading on ASX, on conditions acceptable to QBL, (together the "MCL Conditions"). If the MCL Conditions are not satisfied or waived within 6 months of the MCL HOA being executed, the parties may terminate the MCL HOA by written notice to each other.

- **Consideration:** The consideration payable to MCL Shareholders for their MCL shares is a total of 1,195,000,000 QBL shares. The value of the consideration payable has been determined by the parties to the MCL HOA with reference to the value attributed to MCL through QBL's trading price.
- **Acceptance of Offer:** The Major Shareholders, who together hold 38% of the total MCL shares on issue, have covenanted in favour of QBL that they will accept the offer made by QBL to acquire their MCL shares and sign all documentation, including restriction agreements as required by ASX, to complete the acquisition of their MCL Shares.

Pursuant to the ASX listing rules, nearly all of the new QBL shares issued to MCL Shareholders, will be subject to a 24-month escrow period.

### **Change to nature of activities and QBL shareholder approval**

As a result of these significant transactions causing a change in scale and nature of QBL's activities, the Company pursuant to listing rule 11.1.3 will re-comply with Chapters 1 and 2 of the Listing Rules.

The issue of QBL shares in consideration for the acquisition of MCL shares will also require QBL shareholder approval. As noted above, the Directors of QBL anticipate after discussion with the major QBL shareholders that this approval will be forthcoming.

### **Capital raising**

To assist the Company to re-comply with Chapters 1 and 2 of the Listing Rules and support the Medcan and MCL acquisition costs, the Company plans, subject to the approval of the Company's shareholders, to conduct a capital raising under a prospectus to raise up to \$5 million, at a price of 8 cents per share.

The directors of QBL have determined that QBL shareholders will have the exclusive right to participate in this raising by way of a priority offer. The capital raising will further enable the merged entity to implement its growth objectives.

Currently no fees have been agreed to be paid by QBL to any person for finding, arranging or facilitating the proposed acquisitions of MCL and Medcan. It is expected that fees may be payable to third parties as part of the capital raising on ordinary commercial terms.

⇒ THERE IS NO REQUIREMENT FOR A CONSOLIDATION OF THE COMPANIES SECURITIES.

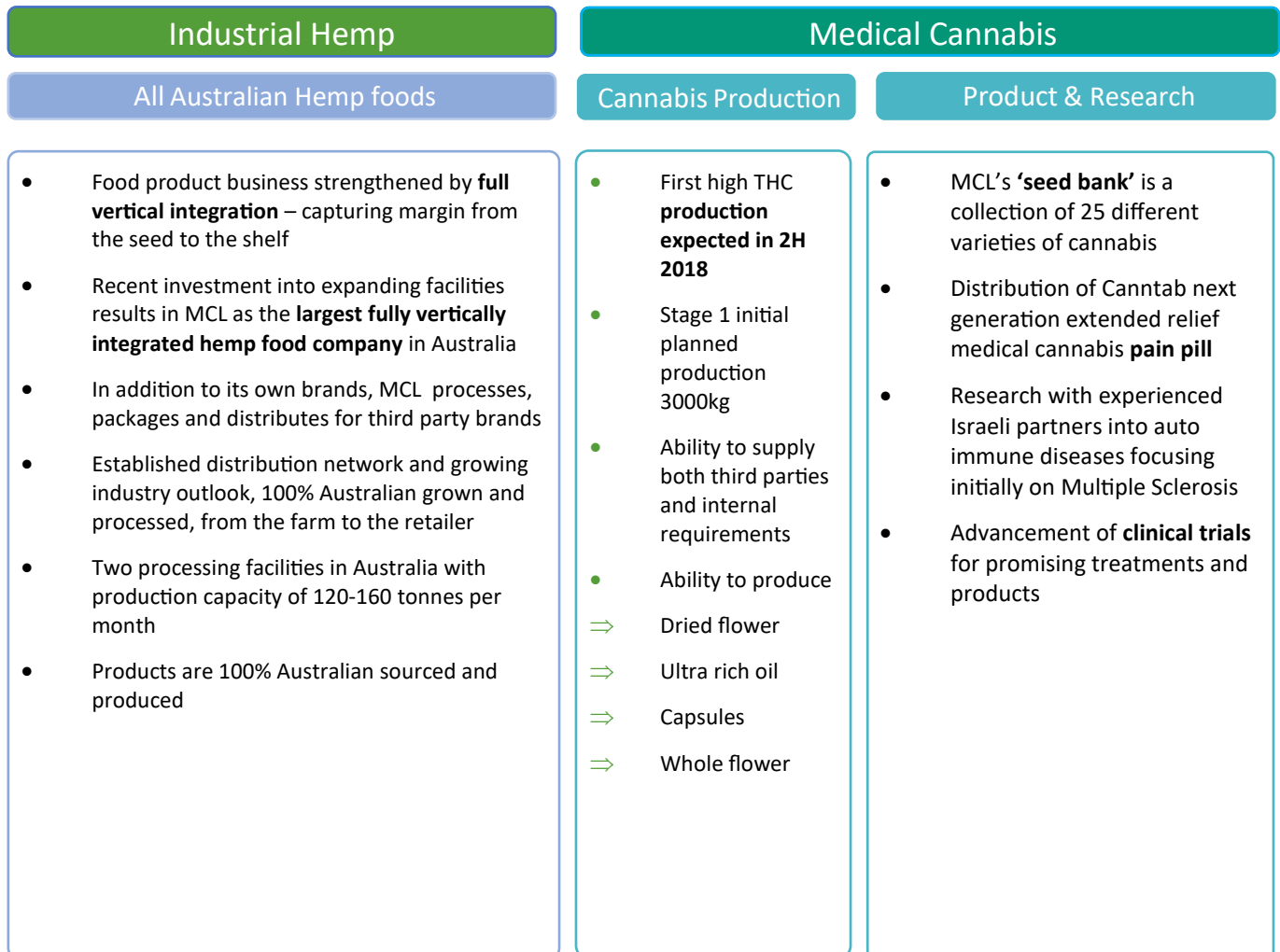
⇒ The directors have no current intention to request a consolidation of QBL's securities.

### **Company Overview and Business Model, including MCL and Medcan**

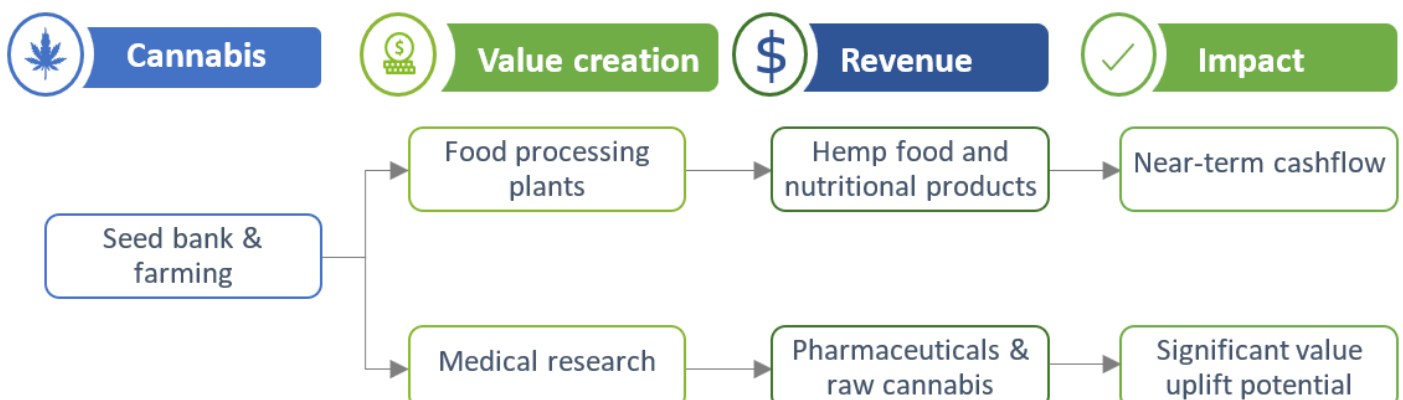
Following the integration of Medcan and MCL into QBL, QBL will be comprised of two separate operating divisions, **Mining and Cannabis**.

## Cannabis

MCL has a clearly defined focus in the industrial hemp and medical cannabis industries.



The inclusion of Medcan into MCL will see the creation of local Australian Cannabis Production facilities. Further, the production facilities are expected to generate income near term, in 2H 2018. This completes the vertical integration for both the nutritional hemp and medical cannabis divisions.



# Targeting Premium DSO Bauxite

בס"ד

# QUEENSLAND BAUXITE'S CANNABIS DIVISION



## CANNABIS DIVISION

### MCL Company History

Medical Cannabis Limited (“MCL”) is an unlisted public company incorporated on 16 March 2015 for the purpose of capitalising on the industrial hemp seed industry and the medical cannabis market in Australia.

MCL is backed by an intellectual property portfolio, initially developed by Mr. Andrew Kavasalis over more than a decade and continuing to be developed by Mr. Kavasilas and the MCL team. Mr. Kavasilas has a track record of breeding various strains of cannabis to targeted cannabinoid profiles since 2001. This has now resulted in the Company developing a seed bank, containing numerous varieties of cannabis to match demand for different cannabinoid profiles. MCL has over 25 varieties in its seed bank, suitable for both nutritional hemp and medicinal purposes, including dual purpose varieties.

MCL’s strategy is to leverage the intellectual property and management expertise it has in the cannabis sector to become a leader in the distribution of medical cannabis products and solidify its position as Australia’s premier hemp food company.

### Current Activities of MCL

MCL operates in the industrial hemp and medicinal cannabis industries. The Company has three key divisions that leverage the Company’s seed bank; namely, growing and cultivating, retail products and medical applications. Below is an outline of important MCL subsidiaries:

- Vitaseeds Pty Ltd (growing and cultivating):** The Company’s growing and cultivating division gathers seed from existing production locations in both New South Wales (NSW) and Victoria (VIC). The majority of the biomass collected is for nutritional hemp food products, while the Company does have a small growing facility in NSW for growing cannabis for genetic breeding purposes. The acquisition of Medcan will significantly increase growing capacity for medical cannabis.
- Hemp Hulling Co (retail products – processing):** MCL owns a majority stake in Hemp Hulling Co Pty Ltd, a manufacturer of hemp foods based in Queensland (QLD), Australia. Hemp Hulling Co converts hemp seed into hemp food products for distribution via the Company’s Vitahemp brand, as well as other third-party brands.
- Vitahemp Pty Ltd (retail products – marketing):** The retail division largely encompasses nutritional hemp, where the Company has rights to package and distribute low THC hemp food products, such as protein powder, edible seeds and hemp oil.
- Vitacann Pty Ltd (medical research):** MCL’s medical division seeks to take advantage of the Company’s seed bank and management regulatory experience to develop and progress medical applications of cannabis.

## CANNABIS DIVISION

### MCL's Competitive Positioning

#### ⇒ **MCL's Business Model**

MCL plans to utilise its management experience in the cannabis industry and the intellectual property it has developed in its seed bank to take advantage of opportunities relating to the emerging medical cannabis and nutritional hemp industries.

Through its existing investment in seed growing and food processing infrastructure, the Company intends to generate revenue from hemp food and nutritional products. Marketing and branding strategies are aimed at both growing market share and increasing the size of the fledgling industry. The Company's vertically integrated structure is aimed at maximising margins across the value chain.

MCL's medical cannabis strategy is to leverage the value of the cannabis genetics it has developed over the last decade. Partnerships on auto immune and MS cannabis research with the world leading Israeli Professors and Cannabis research laboratory facilities at the Technion in Haifa, and the exporting of genetics to Canntab for use in medical cannabis products are examples. MCL also intends to distribute medical cannabis products in Australia, initially pain relief products via the Canntab JV, and now to grow and manufacture its own medical Cannabis products for the local and global markets through its acquisition of Medcan.

MCL believes there is significant value in its intellectual property and the implementation of its strategy to generate potential revenues in the medical cannabis and nutritional hemp industries.

#### ⇒ **Seed bank & management knowledge**

MCL's management team and in particular Andrew Kavasilas, has a track record of breeding various strains of cannabis to targeted cannabinoid profiles since 2001. MCL has over 25 varieties in its seed bank, suitable for both medicinal purposes and food products, including dual purpose varieties. The value of the seed bank can be for internal purposes, such as developing varieties that match the demand profile for downstream pharmaceuticals for medical applications or for improved farming for food product varieties. The seed bank also has significant potential value to third parties, for example, ASX listed Algae Tec (ASX:AEB) has agreed to give MCL up to 19.9% of its company equity for access to MCL's seed bank for the development of veterinary products. MCL is currently a 15% shareholder in AEB.

MCL is well placed to commercially exploit its intellectual property. The Company's strategy is to develop and improve the commercial opportunities from its existing operations as well as to collaborate with leading research centres where it may be mutually beneficial.

#### ⇒ **Strong leadership team**

MCL's key management has experience in the cannabis sector and the Board has over 40 years combined ASX board experience.

#### ⇒ **Leveraging strategic relationships**

MCL collaborates with third parties in the medical cannabis industry, including:

## CANNABIS DIVISION



### MCL's Competitive Positioning

- **Canntab:** for the distribution of pharmaceutical medical cannabis products, with an intention to supply cannabis genetics in time, contingent on licence approvals.
- **Algae Tec:** an ASX listed company that aims to utilise the asset base of MCL, via MCL's seed bank, to research veterinary applications of medical cannabis. MCL is exposed to potential research discoveries via equity ownership in Algae Tec and royalty arrangements. MCL is currently a 15% shareholder in AEB.
- **Various research groups:** MCL collaborates with various research groups and parties involved in clinical evaluations in the medical cannabis industry in the effort to discover the benefits of medical cannabis, substantiate proposed medical claims and, subject to the regulatory approval of proposed products, produce products for the broader population. A leading partner with MCL is professor David (Dedi) Meiri, the Head of the cannabis department of the Haifa Technion in Israel, in researching ways of strengthening the human body's autoimmune system to enable it to fight the numerous autoimmune diseases effecting multi-millions of people worldwide.

#### ⇒ **Medical Cannabis Market Drivers**

The demand and growth in the medicinal cannabis market is thought to be driven by a number of factors. These include, but are not limited to:

- **Regulatory reform:** Legal access to medical cannabis products is the key driver of market growth. Australia has seen significant reform in the past two years and is now currently on the public spotlight due to the increasing amount of positive research surrounding the benefits of medical cannabis
- **Clinical trials:** A significant increase in the number of clinical trials that are currently underway globally are expected to increase rapidly. This should result in high-quality data to guide medical professionals in the varying applications of medical marijuana to human consumption.
- **Safety profile:** A further understanding of the reduced side effects, well documented increased quality of life and the remote likelihood of a potential overdose will provide medical cannabis with a strong safety profile that will make it an appropriate addition to the options available to patients, that look to treat various medical issues
- **Rising social acceptability:** Shifting societal perception of marijuana from its traditional broader public and social stigma has led to an increased acceptance and legitimacy as an alternative treatment via medical cannabis products
- **Ageing population:** Chronic illnesses are becoming more prevalent as first-world populations continue to age. In turn, this will drive demand for effective medications

#### ⇒ **Nutritional Hemp division**

Hemp is classified as a superfood due to its nutritional benefits:

- **Good source of omega:** hemp is a good source of essential fatty acids with an ideal ratio of 3:1 for Omega-6 to Omega-3.
- **Source of protein & amino acids:** Hemp contains all 10 essential amino acids.
- **Gluten free:** hemp seeds are gluten free.
- **Good for the gut:** Hemp does not contain enzyme inhibitors unlike other vegetables and the body can easily digest the nutrients contained in a serving.

## CANNABIS DIVISION

### MCL's Competitive Positioning

Many major geographies have legalised the retail of hemp food products, including Australia. Nutritional hemp was legalised in Australia in November 2017, with MCL well placed to take advantage of this growing industry with its existing farming network and production infrastructure.

The wider Australian food market is seeing growth in higher-value, healthier and free-from alternatives to traditional groceries. Organic retail sales grew at CAGR 12.4% over period 2011-2016, with market value in 2016 at A\$ 701.3m and demand expected to continue outstripping supply. [1]

The nutritional hemp industry in Australia is in an early stage, given hemp food only became legal domestically in Nov 2017. MCL is well positioned given it has a vertically integrated food business from the seed to the shelf and existing management experience in distributing organic and health orientated food products. MCL is unaware of a hemp food producer with larger processing capacity with competitors small, fragmented and not integrated along the value chain.

### Overview of products

#### ⇒ Hulled Hemp Seeds



Raw Hemp seeds possess an optimal ratio of Omega 3, 6 & 9 for long term healthy human nutrition, are naturally low in carbohydrates and high in BCAA's. Hemp Seeds naturally contain all 10 Essential Amino Acids, an range of vitamins and minerals including Calcium, Folate, Iron, high in Protein and more. Vitahemp suggests customers try in smoothies, add to yoghurts, salads, also in baking. The hulled seeds when mixed in a high speed blender produce a delicious fresh vegan milk.

[1] USDA Foreign Agricultural Service Retail Food Sector Report 2017





## CANNABIS DIVISION

### MCL's Competitive Positioning

#### ⇒ Hemp Protein



VitaHemp Hemp Seed protein powder is high in digestible protein (52%) and possesses 20 amino acids, including the 10 essential amino acids that the human body is unable to produce on its own. Hemp seed protein powder is a natural source of vitamins A, C and E and beta- carotene and is rich in protein, carbohydrates, minerals and fibre. Used in protein shakes, baking, smoothies and as a breakfast topping.

#### ⇒ Hemp Oil



With its familiar nutty flavour, this high quality versatile oil can be added to smoothies, applied to salads, dressings, sauces, pasta dishes, drizzled over cooked fish and meat, incorporated in low heat baked recipes such as cakes, cookies and desserts and in many other instances where high quality nut oils are used. Excellent for Vegetarians and Vegans.

#### ⇒ Hemp Oil Capsules



Hemp seed oil is also a fish oil replacement, a great source of antioxidants (Vitamin E), minerals and Vitamin D, which is vital for calcium absorption, along with generous amounts of iron and zinc. A rich source of Essential Fatty Acids (EFAs) and Gamma Linolenic Acid (GLA), Hemp seed oil includes the EFAs Omega 6 & Omega 3 in a naturally occurring 3:1 ratio, considered an essential part of a balanced diet.

## CANNABIS DIVISION

### MCL's Competitive Positioning



#### ⇒ Hemp Flour



VitaHemp Hemp Seed Flour is a very versatile baked goods ingredient, naturally gluten-free, it is a nutritious and flavoursome alternative or enhancer to wheat-flour. It is a great substitute for those with gluten intolerance, especially for our changing diets where highly processed ingredients and foods are being avoided. The product is wheat, nut and grain free, rich in fibre and protein and a supplementary source of amino acids.

#### ⇒ Nutritional Hemp Market Drivers

The demand and growth in the nutritional hemp market is thought to be driven by a number of factors. These include, but are not limited to:

- **Regulatory reform:** Legal access to hemp food products is the key driver behind market growth. Retail in Australia was legalised in November 2017 and thus the market is in its infancy and growing off a low base.
- **Food allergies:** A rise in food allergies, including gluten and lactose intolerances, is driving a need for free-from alternatives that are easy to digest.
- **Changing diets:** Demand for meat-free protein sources and alternative healthy oils is rising due to changing dietary habits globally as consumers focus on wellness and sustainability
- **Health consciousness:** Growing levels of health consciousness encourage consumers to seek out healthier alternatives to traditional snacks



## Board of Directors of MCL



The proposed Board of MCL after completion of the Medcan transaction will be as follows:

### **Pnina Feldman – Executive Chairperson**



Executive chairperson and CEO of ASX listed companies over the last 20 years. Pnina Feldman was the first woman in Australia to publicly list a mining company, be the chairperson, CEO and the largest shareholder. She has been instrumental in establishing, financing and developing numerous publicly listed, publicly unlisted and private companies. Pnina was the first to receive the Wentworth Community Award from the Federal Member for Wentworth The Hon Malcolm Turnbull MP, (currently the Prime Minister), for Outstanding Community Service.

### **Sholom D Feldman – Managing Director**



Experience as a managing director and company secretary for a number of publicly listed companies and private companies since 1999. Responsible for financing and managing multiple mining projects across various commodities. Sholom studied at the International MBA programme at Bar Ilan University Israel and is Managing Director and Company Secretary of Queensland Bauxite Limited (ASX:QBL).

### **Andrew Kavasilas – Executive Founding Director**

Andrew is the founder and a director of Medical Cannabis Limited and its subsidiary Vitahemp Pty Ltd. He is also secretary of the Australian HEMP Party. Andrew has had a long and in-depth association with hemp growing and the research of the therapeutic properties of cannabis.



In 2001/02, Andrew was the only grower in Australia/NSW permitted to cultivate high THC cannabis for trials. The trials led Andrew to publish his research in 2004, Medical Uses of Cannabis - Information for Medical Practitioners. This research project also allowed Andrew to become familiar with Australian TGA requirements, as well as International Drug Conventions in respect of medical use of cannabis and opium. He is a regular participant at numerous Parliamentary Inquiries on medical and other cannabis related law reform issues. He has been and remains an avid medical cannabis lobbyist during which time he has met and communicates with various Members of Parliaments, senior Ministerial staff and bureaucrats, many leading scientific researchers and medical practitioners.

### **John Easterling – Non-Executive Director – Independent Director**



John Easterling has experience in developing therapeutical products from plants, including many years of experience in cannabis cultivation and products. He founded the Amazon Herb Company in 1990 with his product formulations generating over \$100m in revenue worldwide. John has bred a dozen new genetics from the cannabis plant and his focus is on formulating a broad range of cannabinoid and terpene profiles for therapeutic benefits. He married Olivia Newton-John in 2008 and shares her passion in supporting the continuing growth of the Olivia Newton-John Cancer Wellness and Research Centre in Melbourne. John is an advocate for legislation reform in Australia to allow for wider access for medical cannabis.

# Targeting Premium DSO Bauxite

ת"סב

## QUEENSLAND BAUXITE'S MINING DIVISION

1. EXPLORATION & EXTRACTION OF BAUXITE TO PROFIT FROM  
THE ALUMINA BUSINESS
2. SOURCING NEW VALUE-ADD MINING PROJECTS



## MINING DIVISION

QBL will continue to progress its bauxite assets towards commercialisation.

QBL's strategy is to:

- Define significant bauxite resources close to port and near established infrastructure
- Short list potential joint venture partners
- Gain requisite approvals
- Establish mining operations
- Export bauxite ore to Asian alumina refineries
- Use initial DSO cash flow to fund further exploration and DSO production expansion
- Acquire or joint venture other mining projects of value to the Company

### ⇒ **Summary of South Johnstone Project**

The Company has been granted a mining development licence (“MDL”) from the Queensland Department of Natural Resources and Mines at the Company’s South Johnstone Bauxite project in Northern Queensland.

The MDL grant is an important milestone for the Company. It is part of its overall strategy to develop an export operation in a staged development of South Johnstone that allows for long term mining and export, prospect by prospect at low cost. Conclusion of offtake or partnership arrangements and the initial pilot programme should prove the viability of this approach for the long term.

Concurrently, QBL will look to increase the JORC Indicated Resource from ongoing regional work programs while commencing production on the first prospects.

The main objective of the Company in developing this project is to generate positive net cash flows as quickly as possible.

Following on from the grant of the MDL by the Queensland Department of Mining in respect of the South Johnstone Bauxite Project and the sending of bulk samples to potential customer refineries to secure offtake, members of the Company’s management team, as announced on 26 April 2018, have recently visited several Chinese bauxite refineries and aluminum smelters whose executives have expressed interest in partnering in the development of the South Johnstone Bauxite Project. The team has also met with Hong Kong based metals marketing platforms who have expressed an interest to assist in the commodity trading with QBL. This remains an ongoing process.

### ⇒ **Location**

The South Johnstone Project is particularly well situated geographically as it is located only 15-24 kilometres to the Port of Mourilyan where there is a currently available export allocation to QBL and capacity for direct shipping to export markets.

## MINING DIVISION

### ⇒ **Off take**

The Company is continuing its discussions with a number of groups including end users for off take of bauxite from South Johnstone.

Progress is being made in discussions with offtake partners and the current strategy of enabling the project to be ready for production in a staged manner will assist these efforts, by giving the end users clarity of timing for buying of the product.

### ⇒ **High Demand**

Forward demand continues to be strong for bauxite given the favourable demand and supply metrics.

The global market requires a constant supply of bauxite to meet the growing demand and South Johnstone is well positioned to capitalize on demand.

Bauxite at South Johnstone is predominantly gibbsite which is the preferred form of bauxite as it is easier to process at low temperature than non-gibbsitic bauxite.

### ⇒ **Port**

Profit margins in bauxite mines in general are strongly affected by transportation costs, and producers often need to even build the railroads and regular roads to transport the material many kilometres to a deep water port, and then in addition pay the cost of shipping from that port to a large importer of bauxite like China.

North Queensland is one of the nearest ports to China. It is closer than nearly all the major bauxite export provinces around the world.

The Company's South Johnstone Bauxite Project in North Queensland is situated near a deep water port suitable for exports and stands to have a significant competitive advantage in terms of transport and shipping costs.

### ⇒ Geological Summary of Material Information

QBL has an Indicated JORC Resource of 1.9 million tonnes at Camp Creek.

QBL's JORC Code Indicated Resource within EPM 18463 is based on a coverage of holes on a 200m x 200m grid over most of Camp Creek (51 auger holes and 1 aircore hole drilled into a sound geological model with bauxite recovered in most of those holes). Based on this understanding, a select portion of the bauxite mineralisation at Camp Creek (1.9Mt at 29.7% Av Al<sub>2</sub>O<sub>3</sub> 3.2% Rx SiO<sub>2</sub>) has been classified as a JORC Code Indicated Resource (Refer tables below).

Camp Creek is one of the areas of bauxite mineralisation discovered by the Company through its regional drilling programs within exploration permit EPM 18463. EPM18463 was applied for by the Company to cover a bauxite exploration target (basaltic lava flows within the palaeo-Johnstone valley) based on the geologic model.

### ⇒ Geology and Geological Interpretation

Bauxite mineralisation occurs at surface in a weathering profile that is known from the drilling to extend from surface to a depth of about 5m. It is found as a continuous blanket overlying flat-lying basalt flows of the Atherton Province within EPM18463. The deposit formed by weathering of the basalt surfaces with resultant leaching of silica downwards and concentration of alumina towards the surface of the profile. In most of the drilling carried out to date, a gradual decline in alumina and increase in silica with depth is noted in the first few metres indicating an in-situ weathering profile over basalt.

Confidence in the geological interpretation of the mineral deposit at Camp Creek, and specifically within the MDL area, is high because of its simple geometry and topographic conformity - a flat-lying visible weathering horizon at surface related to a paleo-surface. Drilling to date indicates there is little to no overburden.

Drilling on a 50m x 50m grid provides confidence that the geology and mineralisation can be interpolated between boreholes containing bauxite across un-dissected terrain at the same general elevation. Mineralisation at Camp Creek was only previously inferred from hole SJAC052 with the topography/ geomorphology guiding the initial Inferred Resource estimation with topographic features such as plateaus, ridge tops etc, interpreted to be part of the original flat lava surface. Results from the September 2014 200m x 200m auger drilling program and the May/ June 2015 50m x 50m air core/ auger drilling program at Camp Creek have proved the geological model to be accurate, giving higher confidence to the other resource areas inferred by the Company elsewhere in EPM18463.

Continuity of the mineral deposit was not assumed where the terrain is dissected by younger drainages (i.e. around the plateau edges). Drilling at Camp Creek has also shown this assumption to be correct - i.e. that the surrounding bauxite has been eroded away beyond the current plateau edges.

### ⇒ Mineral Resources and Ore Reserves Statement

#### Table of Results

The Company's independently reviewed JORC Code Indicated mineral resources for the reporting year 2014-2015 and the previous year are listed in the following table:

## MINING DIVISION

Queensland Bauxite Annual Review of JORC Indicated Mineral Resources						
Year	Commodity	Tonnage (t)	Grade Avail Al <sub>2</sub> O <sub>3</sub>	Grade Rx SiO <sub>2</sub>	Category	Location
2013-2014	Bauxite	nil	-	-	-	EPM18463
2014-2015	Bauxite	1,900,000	29.7%	3.2%	Indicated Resource	EPM18463

The material changes in the Company's listed JORC Indicated mineral resources are based on exploration drilling and analytical work carried out during the reporting period.

The Company's JORC Inferred mineral resources for the reporting year 2014-2015 and previous year are listed in the following table:

Queensland Bauxite Annual Review of JORC Inferred Mineral Resources						
Year	Commodity	Tonnage (t)	Grade Avail Al <sub>2</sub> O <sub>3</sub>	Grade Rx SiO <sub>2</sub>	Category	Location
2013-2014	Bauxite	30,000,000	25.2%	6.9%	Inferred Resource	EPM18463
2014-2015	Bauxite	unreported	unreported	unreported	-	EPM18463

The material changes in the Company's listed JORC Inferred mineral resources are a result of the fact that the Company has decided to base all future mine scoping studies on independently-reviewed JORC Indicated results, or better, and will no longer be reporting results at the Inferred level.

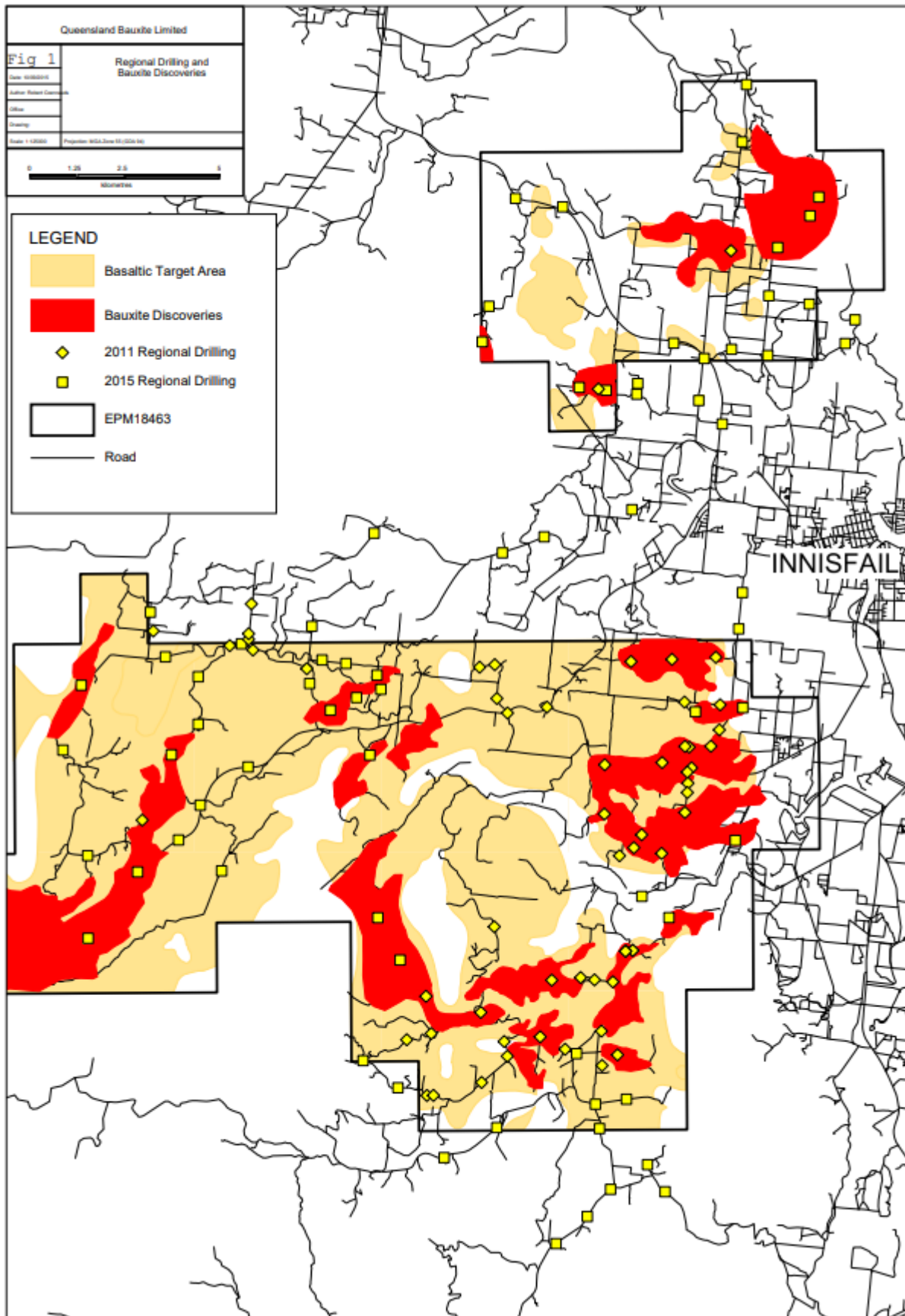
The Company has not announced any JORC Measured Resources or Ore Reserves at the present time.

### Competent Person Statement

*The information in this announcement that relates to exploration results, Exploration Targets or Mineral Resources is based on, and fairly represents, information compiled by Dr Robert Coenraads BA Hons MSc PhD. Dr Robert Coenraads is a Fellow of the Australasian Institute of Mining and Metallurgy. Dr Coenraads contracts services to Queensland Bauxite Limited. Dr Coenraads has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the JORC Code. Dr Coenraads has given his consent to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.*







# MINING DIVISION

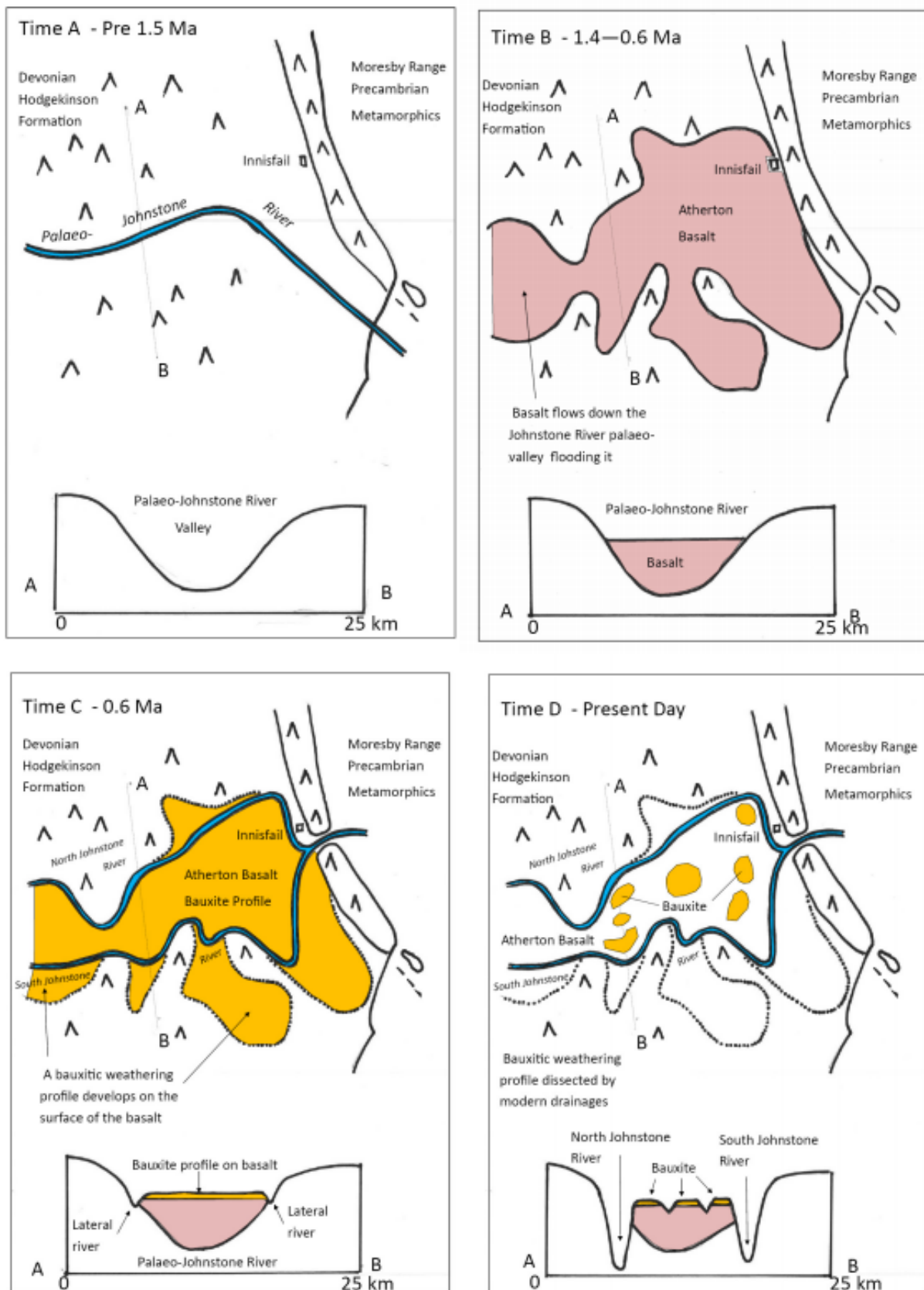
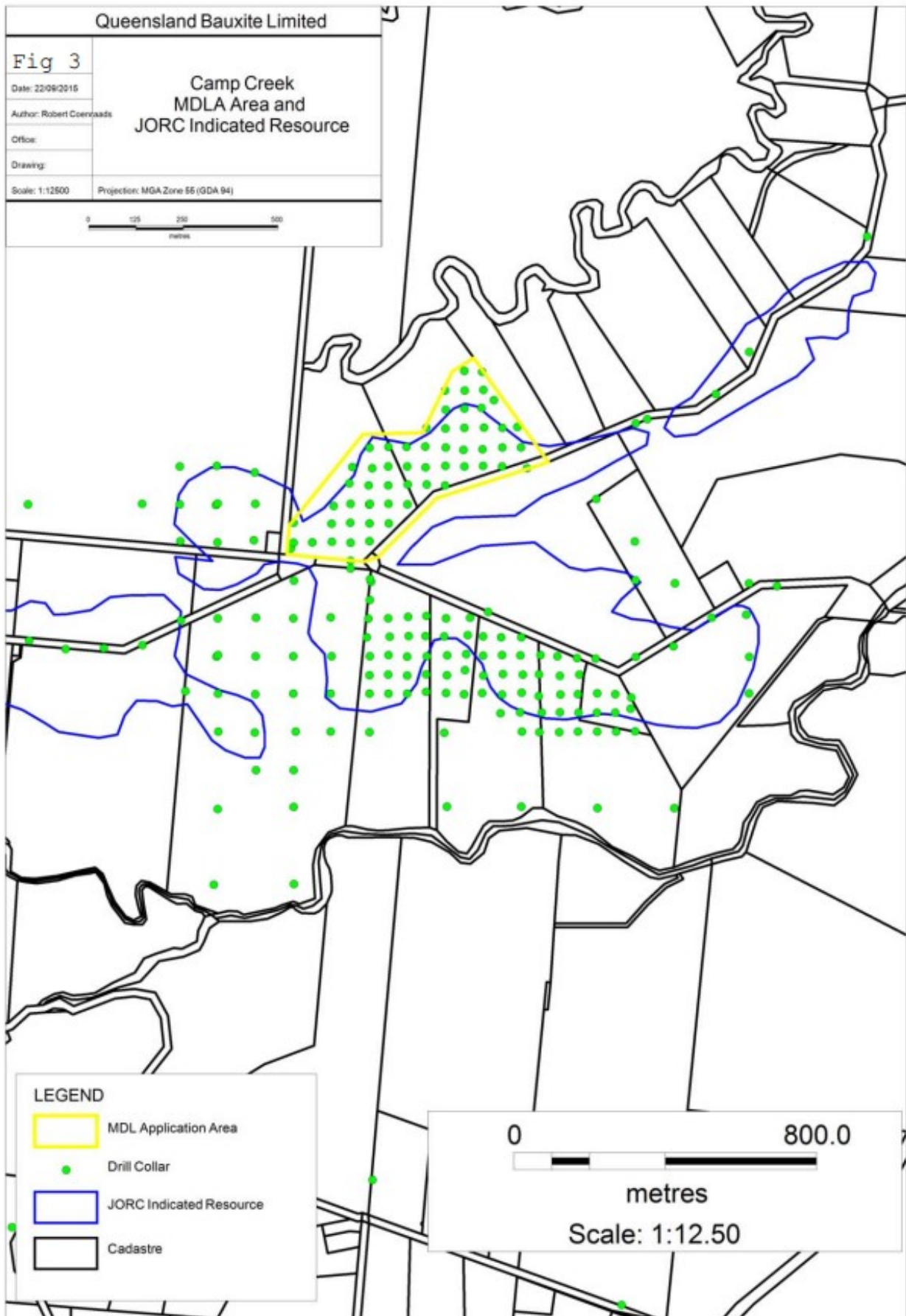


Figure 2. Geologic Model for the formation of bauxite at South Johnstone





# Targeting Premium DSO Bauxite

בס"ד

## QBL's CURRENT ACTIVITIES & BUSINESS MODEL IN RELATION TO THE MERGER/RECOMPLIANCE

## QBL's Current Activities and Business Model in relation to the Merger/Re-compliance

### ⇒ **Overview**

QBL is an Australian company that has a primary aim to commercialise the prospective terrain it holds in eastern Australia for bauxite production.

The Company is of the view that the East Australian Bauxite Province (stretching across Queensland and New South Wales) has been considerably under-explored and has the potential to become a world-class bauxite province.

### ⇒ **Revenue Model**

The Company's focus centres on defining significant bauxite resources with a view to developing a bauxite mining and export operation that may include Direct Shipping Ore (DSO).

The Company offers exposure to the bauxite industry and is targeting long-life operations and is positioning itself to participate in the growth of the sector.

Following the completion of a comprehensive study, mapping and review process, the company has discovered, acquired and are developing projects that offer significant prospects for the attainment of high quality gibbsitic bauxite with a low reactive silica content close to key road, rail and port infrastructure.

### ⇒ **Strategic Investment**

QBL is also focused on finding strategic investment opportunities that can deliver above average shareholder returns. In line with this strategy, QBL acquired a 55% interest in MCL, a market leader in the emerging Australian Cannabis industry. MCL has been a key value driver for QBL and has delivered material shareholder returns since QBL's initial investment in 2017.

This investment has now grown to a point where the Medical Cannabis business is a significant business in its own right, suggesting a change in activities for the broader business from an ASX perspective.

.

### ⇒ **Current Board of QBL**

The current Board of QBL comprises:

- **Pnina Feldman – Executive Chairperson/Director of Business Development**

Executive chairperson and CEO of ASX listed companies over the last 20 years. Pnina Feldman was the first woman in Australia to publicly list a mining company, be the chairperson, CEO and the largest shareholder. She has been instrumental in establishing, financing and developing numerous publicly listed, publicly unlisted and private companies. Pnina was the first to receive the Wentworth Community Award from the Federal Member for Wentworth The Hon Malcolm Turnbull MP, (currently the Prime Minister), for Outstanding Community Service.

- **Sholom D Feldman – Managing Director**

Experience as a managing director and company secretary for a number of publicly listed companies and private companies since 1999. Responsible for financing and managing multiple mining projects across various commodities. Sholom studied at the International MBA programme at Bar Ilan University Israel and is Managing Director and Company Secretary of Queensland Bauxite Limited (ASX:QBL).

## QBL's Current Activities and Business Model in relation to the Merger/Re-compliance

- **Meyer Gutnick Non-Executive Director**

Mr. Meyer Gutnick has been Non-Executive Director at Queensland Bauxite Limited since March 4, 2014. Mr. Gutnick has many years' experience in the investing and finance industry. He has built his reputation in building significant investor portfolios in the banking, insurance and real estate sectors in New York. He is also a seasoned investor in the public markets including many years controlling investments in the mineral exploration industry including companies on the ASX and the public markets in North America. He is also a well-known philanthropist who has supported many charities internationally and has been instrumental in the establishment of a number of charities particularly focused on higher education and advanced learning.

⇒ **Control Issues**

Assuming completion of the Medcan / MCL acquisitions, no person will have a voting power of 20% or more in the Company.

### **QBL's Board and Management**

There will be no changes to the QBL board of directors or senior management as a result of the Medcan / MCL acquisitions.

### **Indicative Timetable**

<b>ACTIVITY</b>	<b>DATE</b>
Dispatch of notice of meeting seeking QBL shareholder approval	2 July 2018
Lodgment of Prospectus by QBL	20 July 2018
QBL shareholder meeting	1 August 2018
Closing date of Prospectus offer	8 August 2018
Completion of Medcan/MCL acquisitions	15 August 2018
Expected date for reinstatement to official quotation of QBL on ASX	22 August 2018
End date to satisfy conditions precedent to the Medcan acquisitions	31 August 2018
End date to satisfy conditions precedent to the MCL acquisitions	1 December 2018

The above table is an indication only and is subject to change. Shareholders should also note that the Company's securities will be suspended from the date of the general meeting of shareholders until such time as the Company has satisfied Chapters 1 and 2 of the ASX Listing Rules. This is usually a process that can take on average approximately 4 weeks to complete.

## QBL's Current Activities and Business Model in relation to the Merger/Re-compliance

### Pro Forma Capital Structure

Set out below is the indicative capital structure of the Company following completion of the Medcan and MCL acquisitions and associated capital raising. The anticipated capital structure of the Company is only an estimate and is subject to variation.

	<u>SHARES</u>	<u>OPTIONS</u>	<u>PERFORMANCE SHARES</u>
Securities currently on issue	1,593,852,092 <sup>4</sup>	2,846,046 <sup>2</sup>	50,000,000 <sup>3</sup>
Capital raising pursuant to the Prospectus	62,500,000 <sup>7</sup>		
Issue of QBL shares to MCL shareholders to acquire 100% of MCL <sup>6</sup>	1,195,000,000		
Issue to Medcan shareholders to acquire 100% of Medcan <sup>6</sup>	250,000,000		
Issue to HHC shareholders to complete 55% purchase <sup>5</sup>	30,612,245		
<b>TOTAL<sup>1</sup></b>	<b>3,131,964,337</b>	<b>2,846,046</b>	<b>50,000,000</b>

### Notes:

- Assuming no options are exercised, and no performance shares milestones are achieved resulting in their conversion to shares (see below).
- Unlisted options exercisable at \$0.06 and expiring on 30 August 2018.
- Converting into fully paid ordinary shares upon the achievement of the Australian Government granting a permit to MCL to grow cannabis varieties for medical cannabis research for the purposes of product development between the date of issue of the performance shares and 5 years after that date. These performance shares were issued on 28 September 2017 as part of the consideration payable for QBL's acquisition of its 55% interest in MCL and approved by shareholders on 17 September 2017. These performance shares are subject to a 12-month escrow period.
- In the last 6 months, the Company has issued 78,459,163 shares at a deemed issue price of \$0.045 each in repayment of debt (accordingly no cash was raised through this issue).
- Pursuant to a heads of agreement between MCL and Hemp Hulling Co Pty Ltd (**HHC**) and HHC's major shareholder, MCL agreed to acquire a 55% shareholding in HHC. In consideration for this acquisition, MCL paid a \$300,000 cash payment, together with the issue of a 5% shareholding interest in MCL's Vitahemp brand for an initial 25% interest, and intends, subject to the successful listing of MCL on ASX, to acquire a further 30% interest in Hemp Hulling Co in consideration for \$1.5 million of shares in MCL. The parties intend to satisfy this payment through this issue of 30,612,245 QBL shares at a deemed issue price of \$0.049 per share.
- Nearly all of these additional shares to be issued by QBL to MCL shareholders and to Medcan shareholders, will be subject to a 24-month Escrow period.
- Based on a price per share of \$0.08 each to raise up to \$5,000,000. The raising under the prospectus is expected to be an exclusive priority offer to QBL shareholders.



## QBL's Current Activities and Business Model in relation to the Merger/Re-compliance

In the preceding 6 months before the date of this announcement, neither MCL nor Medcan have issued any securities.

Neither MCL nor Medcan currently propose to issue any securities prior to the expected date of QBL's re-admission to trading following QBL's proposed acquisition of MCL / Medcan.

### Indicative use of funds table

It is proposed that the funds raised plus the Company's existing cash will be applied in the next 12 months as follows:

<u>ITEM</u>	<u>AMOUNT\$</u>	<u>PERCENTAGE</u>
Existing cash reserves of the Company	8,924,918	64%
Funds raised under the Public Offer	5,000,000	36%
<b>TOTAL</b>	<b>13,924,918</b>	<b>100%</b>
<b><u>Use of Funds:</u></b>		
Outfitting of an indoor growing and manufacturing cannabis facility	2,600,000	18%
Estimated general costs of the Medcan acquisition	20,000	0%
Costs associated with the re-compliance with Chapters 1 & 2 of the ASX Listing rules	250,000	2%
Capital raising fees	100,000	2%
Medical research and product development	1,500,000	11%
Hemp business development and marketing	1,500,000	11%
Exploration and expenditure associated with the bauxite project and development	2,500,000	18%
Corporate and administration costs	1,000,000	7%
Balance for working capital and Year 2 expenditure	4,404,918	32%
<b>TOTAL</b>	<b>13,924,918</b>	<b>100%</b>

The above table is a statement of current intentions as at the date of this announcement. Intervening events may alter the way funds are ultimately applied by the Company.

### Effect of the Medcan / MCL acquisitions on the Company's Consolidated total assets and total equity interests

The principal effects of the Medcan / MCL acquisitions on the Company's consolidated statement of financial position are reflected in the proforma balance sheets below.

### Effect of the Medcan / MCL acquisitions on the Company's revenue, expenses and profit before tax

There will be no significant effect on the Company's consolidated statement of financial performance for the financial year ended 31 December 2017 as the Medcan / MCL acquisitions will be completed after 31 December 2017.

## QBL's Current Activities and Business Model in relation to the Merger/Re-compliance



### Pro forma balance sheet

The unaudited pro-forma statements of financial position as at 31 December 2017 shown below have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position.

The pro-forma balance sheet has been prepared to reflect a capital raising and the consideration payable for the Medcan, MCL and HHC acquisitions.

The pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

	Queensland Bauxite Ltd 31 Dec 2017 (Reviewed) <sup>1</sup> \$	Unaudited post acquisition Pro-forma Queensland Bauxite Ltd 31 Dec 2017 <sup>2</sup> \$
<b>CURRENT ASSETS</b>		
Cash	8,924,918	13,698,413
Trade and other receivables	166,657	188,681
Inventory	358,508	358,508
<b>TOTAL CURRENT ASSETS</b>	<b>9,450,083</b>	<b>14,245,602</b>
<b>NON-CURRENT ASSETS</b>		
Plant and equipment	45,555	261,791
Investments	145,250	0
Intangible assets	1,956,261	15,697,452
Exploration and evaluation assets	1,682,308	1,682,308
<b>TOTAL NON-CURRENT ASSETS</b>	<b>3,829,374</b>	<b>17,641,551</b>
<b>TOTAL ASSETS</b>	<b>13,279,457</b>	<b>31,887,153</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	941,500	1,078,515
Other liabilities	2,207,757	2,207,757
Income tax liability	0	681
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,149,257</b>	<b>3,286,953</b>
<b>TOTAL LIABILITIES</b>	<b>3,149,257</b>	<b>3,286,953</b>
<b>NET ASSETS</b>	<b>10,130,200</b>	<b>28,600,200</b>
<b>EQUITY</b>		
Share capital	27,125,842	104,400,842
Reserves	5,010,879	(53,514,522)
Non-controlling interest	29,599	0
Accumulated losses	(22,036,120)	(22,286,120)
<b>TOTAL EQUITY</b>	<b>10,130,200</b>	<b>28,600,200</b>

## QBL's Current Activities and Business Model in relation to the Merger/Re-compliance

### Notes:

1. The above QBL 31 December 2017 Statement of Financial Position is based on the QBL Half-Yearly Report for the half year ended 31 December 2017.
2. The above unaudited post-acquisitions QBL 31 December 2017 pro-forma is based on the QBL 31 December 2017 Statement of Financial Position adjusted for:
  - a. the issue of 62,500,000 QBL shares at an issue price of \$0.08 per share to raise up to \$5,000,000 under a public offer made pursuant to a prospectus;
  - b. QBL's costs for re-compliance with Chapters 1 and 2 of the ASX listing rules of \$250,000;
  - c. the issue of 250,000,000 shares in consideration for the Medcan acquisition at a proposed issue value of \$0.049, the price at last close of trading, resulting in a material increase to intangible assets and share capital;
  - d. the issue of 1,195,000,000 shares in consideration for the MCL acquisition, at a proposed issue value of \$0.049, the price at last close of trading, resulting in material changes to the share capital and reserve accounts; and
  - e. the issue of 30,612,245 shares to HHC to complete the acquisition of MCL's 55% interest in HHC, at a proposed issue value of \$0.049, the price at last close of trading, resulting in a material increase to plant and equipment, intangible assets and share capital accounts.

# Targeting Premium DSO Bauxite

בס"ד

## KEY RISKS & DEPENDENCIES OF QBL

## Key Risks and Dependencies of QBL

The key general risks to the activities of the Company are set out below.

The securities of QBL should be considered highly speculative because of the nature of the Company's business. The future profitability of the Company will be dependent on the successful commercial exploitation of its business and operations.

An investment in the Company is not risk free and the Directors strongly recommend potential investors to consider the risk factors described below.

There are specific risks which relate directly to the Company's business. In addition, there are other general risks, many of which are largely beyond the control of the Company and the Directors.

The list of risk factors in this section and in the announcement generally should not be taken as exhaustive of the risks faced by the Company or by investors in the Company. The risk factors, and others not specifically referred to, may in the future materially affect the financial performance of the Company and the value of its shares.

### ⇒ **Key Risks**

The business assets and operations of the Company are subject to certain risk factors that have the potential to influence the operating and financial performance of the Company in the future. These risks can impact on the value of an investment in the securities of the Company.

The Board aims to manage these risks by carefully planning its activities and implementing risk control measures. Some of the risks are, however, highly unpredictable and the extent to which it can effectively manage them is limited.

### ⇒ **Re-quotations of shares on ASX**

As part of the Company's change in nature and scale of activities, ASX will require the Company to re-comply with Chapters 1 and 2 of the ASX listing rules. It is anticipated that the Company's securities will be suspended from the date of the general meeting convened to seek Shareholder approval for the Medcan and MCL acquisitions until completion of those transactions, the \$5 million public offer, re-compliance by the Company with Chapters 1 and 2 of the ASX listing rules and compliance with any further conditions ASX imposes on such reinstatement.

There is a risk that the Company will not be able to satisfy one or more of those requirements and that its securities will consequently remain suspended from official quotation. The Company however, following the recent detailed discussions with the ASX surrounding these acquisitions and QBL's re-compliance obligations, at the moment sees no reason why the Company should not be able to re-comply according with these conditions within a few weeks of the upcoming intended shareholder meeting.

### ⇒ **Uncertainty of future profitability**

The Company has incurred losses in the past and it is therefore not possible to evaluate the Company's future prospects based on past performance. The Company expects that it may continue to make losses in the immediate future. Factors that will determine the Company's future profitability are its ability to manage its costs and its development and growth strategies, the success of its activities in a competitive market, the actions of competitors and regulatory developments. As a result, the extent of future profits, if any, and the time required to achieve sustainable profitability, is uncertain. In addition, the level of any such future profitability (or loss) cannot be predicted and may vary significantly from period to period.

## Key Risks and Dependencies of QBL

### ⇒ **Regulatory**

The Company has incurred losses in the past and it is therefore not possible to evaluate the Company's future prospects based on past performance. The Company expects that it may continue to make losses in the immediate future. Factors that will determine the Company's future profitability are its ability to manage its costs and its development and growth strategies, the success of its activities in a competitive market, the actions of competitors and regulatory developments. As a result, the extent of future profits, if any, and the time required to achieve sustainable profitability, is uncertain. In addition, the level of any such future profitability (or loss) cannot be predicted and may vary significantly from period to period.

### ⇒ **Government licences and approvals**

Failure to comply strictly with applicable laws, regulations and local practices could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company.

### ⇒ **General Economic and Political Risks**

Changes may occur in the general economic and political climate in the jurisdictions in which the Company operates and on a global basis that could have an impact on economic growth, interest rates, the rate of inflation, taxation, tariff laws and domestic security which may affect the value and viability of any activity that may be conducted by the Company.

### ⇒ **Additional Requirements for Capital**

The Directors expect that the Company will have sufficient capital resources to enable the Company to achieve its initial business objectives upon settlement of the Proposed Transactions. However, the Directors can give no assurances that such objectives will in fact be met without future borrowings or capital raisings.

The Company's capital requirements depend on numerous factors. The Company may require further financing in the future. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations.

### ⇒ **Economic Risks**

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's activities, as well as on its ability to fund those activities.

### ⇒ **Market Conditions**

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- general economic outlook;
- interest rates and inflation rates;
- currency fluctuations;
- changes in investor sentiment toward particular market sectors;
- the demand for, and supply of, capital; and
- terrorism or other hostilities.

## Key Risks and Dependencies of QBL



The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and energy stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

### ⇒ **Share Market Risk**

The market price of the Company's Shares could fluctuate significantly. The market price of the Company's Shares may fluctuate based on a number of factors including the Company's operating performance and the performance of competitors and other similar companies, the public's reaction to the Company's press releases, other public announcements and the Company's filings with securities regulatory authorities, changes in earnings estimates or recommendations by research analysts who track the Company's Shares or the shares of other companies in the sector, changes in general economic conditions, the number of the Company's Shares publicly traded and the arrival or departure of key personnel, acquisitions, strategic alliances or joint ventures involving the Company or its competitors.

In addition, the market price of the Company's Shares is affected by many variables not directly related to the Company's success and are therefore not within the Company's control, including other developments that affect the market for all shares in the Company's market sector, the breadth of the public market for the Company's Shares, and the attractiveness of alternative investments.

### ⇒ **Potential Acquisitions**

As part of its business strategy, the Company may make acquisitions of, or significant investments in, complementary companies or prospects and additional assets. Any such acquisitions will be accompanied by risks commonly encountered and listed in this section.

### ⇒ **Reliance on Key Personnel**

The Company is substantially reliant on the expertise and abilities of its key personnel in overseeing the day-to-day operations of its projects. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees or contractors cease their relationship with the Company.

### ⇒ **Claims, liability and litigation**

The risk of litigation is a general risk of the Company's business. There is always the risk that litigation may occur as a result of differing interpretations of obligations or outcomes.

## Regulatory Statements

The Company notes that:

- the Medcan and MCL Acquisition Transactions requires Shareholder approval under the Listing Rules and therefore may not proceed if that approval is not forthcoming;
- ASX has absolute discretion in deciding whether or not to re-admit the Company to the Official List and to quote its securities following the acquisition of Medcan and MCL and associated re-compliance with Chapters 1 and 2 of the ASX listing rules, and therefore the transactions may not proceed if ASX exercises that discretion. The directors of QBL and its legal team have been engaging in discussions with ASX and have no reason to believe that ASX will exercise its discretion against the Company, or that the Company will not fulfill the requirements of Chapters 1 and 2 of the ASX listing rules for the merger to take place; and
- investors should take account of these uncertainties in deciding whether or not to buy or sell the Company's securities.

## Key Risks and Dependencies of QBL



Furthermore, the Company:

- notes that ASX takes no responsibility for the contents of this announcement; and
- confirms that it is in compliance with its continuous disclosure obligations under Listing Rule 3.1.

### Specific Risks of Medcan and MCL

The business, assets and operations of Medcan and MCL are subject to certain risk factors that have the potential to influence the operating and financial performance of the Company in the future. These risks can impact on the value of an investment in the securities of our Company.

The Board aims to manage these risks by carefully planning its activities and implementing risk control measures. Some of the risks are, however, highly unpredictable and the extent to which they can effectively manage them is limited.

- **Mainstream acceptance of cannabis:** The success of the Australian cannabis industry will depend on the extent of political support for cannabis production as a medical remedy. Support from politicians and the Australian population has been positive over the last few years and while the company expects this momentum to continue, should sentiment turn the company's operating environment could be at risk.
- **Changing regulations:** The Company must meet all relevant criteria for any additional licences that may be required to operate in the highly regulated environment. If there are adverse changes in the current laws or if the Company is not able to meet licensing criteria to procure any additional licenses that may be required, the business operations of the Company will be at risk.
- **Agricultural factors:** The growing of cannabis is subject to agricultural risks that could impact yield. While the indoor production facility proposed by Medcan will seek to limit outside influences, natural factors could result in production risks.
- **Competition risk:** There are many new entrants and players in this sector, including other growers and multi-national pharmaceutical companies. Some of these parties may have greater financial, technological, managerial and research and development resources and experience than the Company. If the Company is unable to compete successfully, it may be unable to generate, grow and sustain its revenues and earnings.
- **Key management risk:** The Company is highly dependent on its management and key personnel, who are responsible for its day-to-day operations and strategic management. If one or more of these personnel cease his/her involvement with the Company, it could have a materially detrimental impact on its future financial performance. The ability to attract and retain highly qualified staff is crucial to the future success of the Company. There can be no assurance that the Company will be able to so attract and retain such staff.
- **Protection of intellectual property:** The Company relies on a combination of trade secret protection (i.e. know-how), and confidentiality agreements to protect its intellectual property and without infringing on the proprietary rights of others. Failure to adequately protect its intellectual property rights may have a material adverse impact on the Company's business.



## Key Risks and Dependencies of QBL



### ⇒ ASX Waivers and Confirmations

In addition to the in-principle approval seeking confirmation of the consideration payable under the Acquisition, the Company intends to seek a waiver from the requirements of ASX Listing Rule 2.1 (Conditions 2 and 12) to enable it to issue Shares at an issue price less than \$0.20 per Share and to enable it to have Options on issue with an exercise price below \$0.20. The Company will also be seeking a waiver from ASX in relation to the payment of remuneration to management of Medcan (in particular, the quarterly issue of QBL shares).

### ⇒ Conclusion

The Company has undertaken appropriate enquiries into the assets and liabilities, financial position and performance, profits and losses, and prospects of MCL and Medcan. All the Directors of QBL and MCL are satisfied that it is in the best interests of all shareholders that there is 100% ownership of MCL and Medcan by Queensland Bauxite Ltd. The consideration of the Directors at all times is to develop the company and its business initiatives in order to increase QBL shareholder wealth.

Pnina Feldman  
Executive Chairperson,  
Director of Business Development,  
Queensland Bauxite Limited

### **For further information, please contact:**

Queensland Bauxite Ltd Tel:

+61 (0)2 9291 9000

For further information or any investor queries please contact the Company at:

[www.queenslandbauxite.com](http://www.queenslandbauxite.com) or [sfeldman@queenslandbauxite.com.au](mailto:sfeldman@queenslandbauxite.com.au)

For all Media enquiries please email the Company at:

[media@queenslandbauxite.com](mailto:media@queenslandbauxite.com)

 [www.twitter.com/QLDBauxite](https://www.twitter.com/QLDBauxite)

## About Queensland Bauxite

Queensland Bauxite Ltd is an Australian listed company focused on the exploration and development of its bauxite tenements in Queensland and New South Wales. The Company's lead project is the South Johnstone Bauxite Deposit in northern Queensland which has rail running through the project area and is approximately 15-24 kilometers from the nearest deep water port. The Company intends to become a bauxite producer with a focus on commencing production at South Johnstone as early as possible. The Company also pursues additional investment opportunities, and currently has a 55% shareholding in Medical Cannabis Limited, an Australian leader in the hemp and Cannabis industries.

**Annexure A**  
**Audited Financial Statements**

MEDICAL CANNABIS LTD

ABN 53 604 732 612

FINANCIAL REPORT

30 JUNE 2016

# CONTENTS

	Page
Directors' Report	1
Auditor's Independence Declaration	5
Statement of Profit or Loss and other Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the financial statements	10
Directors' Declaration	22
Independent Auditor's Report	23

## **DIRECTORS' REPORT**

The Directors of Medical Cannabis Ltd (the Company) present their report together with the financial statements for the financial year ended 30 June 2016.

Medical Cannabis Ltd was incorporated on 16 March 2015. This report represents the results from 1 July 2015 to 30 June 2016.

### **Directors**

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

#### **Terry Cuthbertson (Chair)**

##### **B.Bus FCA**

Director appointed 16 March 2015

Terry holds a Bachelor of Business and is a member of the Chartered Accountants Australia & New Zealand. He is a former partner of the Audit and Corporate Finance Divisions of KPMG and former NSW Partner in charge of Mergers and Acquisitions. He is currently Chairman of several Australian listed companies.

#### **David Evans**

##### **B.Sc (Geology and Environmental Science)**

Director appointed 16 March 2015

David holds a Bachelor of Science (Geology and Environmental Science) and has successfully taken two companies through IPO in the past 7 years. David has a strong track record for assembling mining and exploration assets across a range of mineral commodities in Australia and internationally and successfully funding and listing those assets on the Hang Seng and the ASX.

#### **Gary Mares**

##### **B.Com FCA**

Director appointed 16 March 2015

Fellow of the Chartered Accountants Australia & New Zealand, Bachelor of Commerce.

Gary has extensive public accounting, corporate governance and corporate services experience. Mr Mares is currently a Non-executive Director of Australian Whisky Holdings Limited.

#### **Andrew Kavalilas**

Director appointed 16 March 2015

Andrew is the founder of Vitahemp, is a licensed NSW hemp grower and has been involved in permitted cannabis research since 1999.

In 2001/2002, Andrew took part in and funded a project, the only such research known in Australia involving the cultivation of high THC cannabis plants under a permit issued by NSW Health.

Bulk raw cannabis was supplied to the Australian Centre of Photochemistry at the Southern Cross University of Lismore NSW for processing and analysis.

The project sought to establish testing capabilities, benchmarks and protocols for additional research into the productions of refined cannabinoids leading to further clinical development.

Findings from this project were supplied to NSW Health in an unsuccessful application to continue the project.

Importantly, the second application virtually mimics what would be required in this EOI, especially the replication models for cultivation, standardisation, and determination of cannabinoid variations, purification and refinement for pre clinical investigation. Viathemp continues to grow low THC

**Medical Cannabis Ltd**

**ABN 53 604 732 612**

**DIRECTORS' REPORT**

cannabis and leads the way in breeding and development of sub tropical varieties suited to seed production rather than fiber.

**Gary Stewart**

Company Secretary appointed 16 March 2015

Gary has been Director and Company Secretary of public listed companies both in Australia and the United States of America. Gary is also a solicitor of the Supreme Court of New South Wales and practices as a Corporate Lawyer with Gary Stewart & Co, Lawyers in Sydney, where he advises and works for a number of public listed companies in Australia.

**Principal Activities**

During the year, the principal activities of the Company were cannabis and cannabinoid research and cultivation.

There have been no significant changes in the nature of these activities occurred during the year.

**Review of Operations**

The Company incurred an operating loss of \$153,037 (2015 45,761 loss). The loss reflects the Company's commencement and establishment costs in cannabinoid research. No operational revenues were generated during the financial year.

**Significant Changes in the State of Affairs**

No significant changes in the company's state of affairs occurred during the financial year.

**Events Subsequent to the End of the Reporting Year**

Except for a strategic alliance with ASX listed Queensland Bauxite Limited (ASX: BQL), no matters or circumstances have arisen since the end of the financial year that significantly affect or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

**Likely Developments and Expected Results of Operations**

Likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Company.

**Dividends**

No dividends were paid or declared during the financial year.

**Environmental Regulation**

The Company operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

# Medical Cannabis Ltd

ABN 53 604 732 612

## DIRECTORS' REPORT

### Unissued shares under option

Unissued ordinary shares of Medical Cannabis Ltd under option at the date of this report are:

Date options granted	Expiry date	Exercise price of shares (\$)	Number under option
02/02/2015	30/06/2018	0.20	500,000
16/03/2015	30/06/2018	0.20	14,200,000
02/04/2015	30/06/2018	0.20	2,000,000
03/11/2015	30/06/2018	0.20	500,000
Total			<b>17,200,000</b>

The options were issued as a cost effective means of consideration and to incentivise directors, managers and consultants in performing their role with the company. Options do not expire if employee leaves the employment of Medical Cannabis Ltd.

No shares were issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests.

### 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.

### Directors' Meetings

During the financial year, 1 meeting of directors (including committees of directors) was held. Attendances by each director during the year were as follows:

Directors	Board Meetings	
	Eligible to Attend	Attended
Terry Cuthbertson (Chair)	1	1
David Evans	1	1
Gary Mares	1	1
Andrew Kavasilas	1	1
Gary Stewart	1	1

**Medical Cannabis Ltd**

**ABN 53 604 732 612**

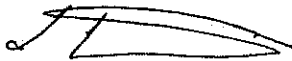
**DIRECTORS' REPORT**

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 5.

No officer of the Company is or has been a partner/director of any auditor of the Company.

This directors' report is signed in accordance with a resolution of the Board of Directors:



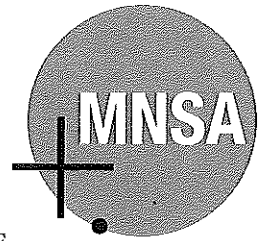
Terry Cuthbertson

Dated this on 25<sup>th</sup> August 2017



**Medical Cannabis Ltd**

**ABN 53 604 732 612**



**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE  
CORPORATIONS ACT 2001  
TO THE DIRECTORS OF MEDICAL CANNABIS LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017 there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

*MNSA Pty Ltd*

MNSA Pty Ltd

Mark Schiliro

Sydney, 25 August 2017

Medical Cannabis Ltd

ABN 53 604 732 612

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2016

	2016	16.03.2015 - 30.06.2016
	\$	\$
Revenue	-	-
Amortisation	(192)	(91)
Accounting	(4,500)	-
Audit Fees	(4,500)	-
Bank Charges	(120)	(40)
Depreciation	(1,000)	-
Directors fees	(24,000)	-
Consultants Fees	(89,433)	(45,000)
Filing Fees	(1,500)	(45)
Interest expense	(197)	-
Legal costs	-	(400)
Licences, Registrations, Permits	-	(185)
Travel Expenses	(19,756)	-
Other expenses	(7,839)	-
<b>Loss before income tax</b>	<b>(153,037)</b>	<b>(45,761)</b>
Income tax expense	-	-
<b>Loss for the year</b>	<b>(153,037)</b>	<b>(45,761)</b>
Other comprehensive income	-	-
<b>Total comprehensive loss for the year</b>	<b>(153,037)</b>	<b>(45,761)</b>

The accompanying notes form part of these financial statements.

**Medical Cannabis Ltd**

**ABN 53 604 732 612**

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016**

	Note	2016	2015
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	2	908	9,818
Trade and other receivables	3	15,361	11,015
Inventories		4,673	4,990
<b>TOTAL CURRENT ASSETS</b>		<b>20,942</b>	<b>25,823</b>
<b>Non-current</b>			
Intangible assets	4	248,590	237,166
Property, plant & equipment	5	19,000	20,000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>267,590</b>	<b>257,166</b>
<b>TOTAL ASSETS</b>		<b>288,532</b>	<b>282,989</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Creditors and accruals		24,644	-
Loans payable		22,436	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>47,080</b>	<b>-</b>
<b>Non-current</b>			
Accrued liabilities	6	69,000	-
Trade and other payables	7	220,000	220,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>289,000</b>	<b>220,000</b>
<b>TOTAL LIABILITIES</b>		<b>336,080</b>	<b>220,000</b>
<b>NET ASSETS</b>		<b>(47,548)</b>	<b>62,989</b>
<b>EQUITY</b>			
Share capital	8	151,250	108,750
Accumulated losses		(198,798)	(45,761)
<b>TOTAL EQUITY</b>		<b>(47,548)</b>	<b>62,989</b>

The accompanying notes form part of these financial statements.

**Medical Cannabis Ltd**

**ABN 53 604 732 612**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2016**

	<b>Share Capital</b>	<b>Accumulated Losses</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at 16 March 2015</b>	-	-	-
<b>Comprehensive income</b>	-	-	-
Issue of share capital, net of transaction costs	108,750	-	108,750
Loss for the period	-	(45,761)	(45,761)
<b>Balance at 30 June 2015</b>	<u>108,750</u>	<u>(45,761)</u>	<u>62,989</u>
<b>Balance at 30 June 2015</b>	108,750	(45,761)	62,989
<b>Comprehensive income</b>	-	-	-
Issue of share capital, net of transaction costs	42,500	-	42,500
Loss for the year	-	(153,037)	(153,037)
<b>Balance at 30 June 2016</b>	<u>151,250</u>	<u>(198,798)</u>	<u>(47,548)</u>

The accompanying notes form part of these financial statements.

**Medical Cannabis Ltd**  
**ABN 53 604 732 612**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016	2015
			\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(39,794)	(51,675)
Net cash (used in) operating activities		(39,794)	(51,675)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		-	(20,000)
Purchase of intangible assets		(11,616)	(17,257)
Loan to related parties		-	(10,000)
Net cash (used in) investing activities		(11,616)	(47,257)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		42,500	108,750
Net cash provided by financing activities		42,500	108,750
Net (decrease)/ increase in cash and cash equivalents		(8,910)	9,818
Cash and cash equivalents at beginning of year		9,818	-
Cash and cash equivalents at end of year	2	908	9,818

The accompanying notes form part of these financial statements.

## Medical Cannabis Ltd

ABN 53 604 732 612

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

The financial statements and notes represent those of Medical Cannabis Ltd (Company). The Company was incorporated and domiciled in Australia.

The financial statements were authorised for issue on 25 August 2017 by the board of directors.

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of Preparation**

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board. The Company is a for-profit Company for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board 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). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for cash flow information, 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.

##### **a. Income Tax**

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable Company or different taxable entities, where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future years in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

## Medical Cannabis Ltd

ABN 53 604 732 612

### b. Fair Value of Assets and Liabilities

The Company measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Company would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the Company at the end of the reporting year (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the Company's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

### c. Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities assumed is recognised.

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting year to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

### d. Intangibles

## Medical Cannabis Ltd

ABN 53 604 732 612

### Goodwill

The amount of goodwill recognised on acquisition of each subsidiary in which the Company holds a less than 100% interest will depend on the method adopted in measuring the non-controlling interest. The Company can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value ("full goodwill method") or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ("proportionate interest method"). In such circumstances, the Company determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interest is recognised in the consolidated financial statements.

Goodwill is tested for impairment annually and is allocated to the Company's cash-generating units, which represents the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

### Intellectual Property

Intellectual property is recognised at cost of acquisition. They have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Intellectual property are amortised over their useful lives.

#### e. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value, as indicated, less, where applicable, any accumulated depreciation and impairment losses.

#### Plant and equipment

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss in the financial year in which they are incurred.

#### Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the Company commencing from the time the asset is held ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised in profit or loss when the item is derecognised. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.



## Medical Cannabis Ltd

ABN 53 604 732 612

### f. Financial Instruments

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions to the financial instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss” in which case transaction costs are recognised as expenses in profit or loss immediately.

#### Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less repayments made and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

The *effective interest method* is used to allocate interest income or interest expense over the relevant year and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

#### Impairment

At the end of each reporting year, the Company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a “loss event”) having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if the directors establish that the carrying amount cannot be recovered by any means, at that point the anticipated loss is charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss event that has occurred is duly considered.

## Medical Cannabis Ltd

ABN 53 604 732 612

### Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as financial liabilities at fair value on initial recognition.

The fair value of financial guarantee contracts is assessed using the probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting year;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: *Revenue*. Where the Company gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

### Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount 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.

#### g. Impairment of Non-financial Assets

At the end of each reporting year, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: *Property, Plant and Equipment*). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

#### h. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at-call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

#### i. Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting year are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

## Medical Cannabis Ltd

ABN 53 604 732 612

### j. Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the company that remain unpaid at the end of the reporting year. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

### k. 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 Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from financing and investing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

### l. Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements 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 Company.

#### Key estimates

##### *Impairment*

The Company assesses impairment at the end of each reporting year by evaluation of conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations, which incorporate various key assumptions.

### m. New Accounting Standards for Application in Future Years

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Company, together with an assessment of the potential impact of such pronouncements on the Company when adopted in future years, are discussed below:

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable for annual reporting years commencing on or after 1 January 2018).

These Standards will be applicable retrospectively (subject to the comment on hedge accounting below) and include revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes made to the Standard that may affect the Company on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the Company elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Company's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 15: *Revenue from Contracts with Customers* (applicable for annual reporting years commencing on or after 1 January 2017).

## Medical Cannabis Ltd

ABN 53 604 732 612

This Standard, when effective, will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principle of AASB 15 is that an Company will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step model:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the performance obligation is satisfied.

AASB 15 also requires enhanced disclosures regarding revenues.

This Standard will require retrospective restatement and is available for early adoption.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Company's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impacts.

### Note 2: CASH AND CASH EQUIVALENTS

	Note	2016	2015
		\$	\$
Cash at bank and on hand		908	9,818

### NOTE 3: TRADE AND OTHER RECEIVABLES

		2016	2015
		\$	\$
CURRENT			
Other receivables	10	10,000	10,000
GST receivables		5,361	1,015
Total current receivables		15,361	11,015

**Medical Cannabis Ltd**

**ABN 53 604 732 612**

**NOTE 4: INTANGIBLE**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Formation cost		
Formation at cost	965	457
Accumulated amortisation	(283)	(91)
	<u>682</u>	<u>366</u>
Intellectual property		
Seed back & plant genetics	230,000	230,000
Other intellectual property	17,908	6,800
	<u>247,908</u>	<u>236,800</u>
Balance at the end of the reporting year	<u>248,590</u>	<u>237,166</u>

**NOTE 5: PROPERTY, PLANT AND EQUIPMENT**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Plant and equipment		
Plant and equipment at cost	20,000	-
Additions	-	20,000
Accumulated amortisation	(1,000)	-
	<u>19,000</u>	<u>20,000</u>

**NOTE 6: ACCRUED LIABILITIES**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Payables to related parties	69,000	-
	<u>69,000</u>	<u>-</u>

**NOTE 7: TRADE AND OTHER PAYABLES**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
NON-CURRENT		
Other payables	220,000	220,000
	<u>220,000</u>	<u>220,000</u>

Other payables represents residual amount on acquisition of the business assets of Vitahemp Pty Ltd.

## Medical Cannabis Ltd

ABN 53 604 732 612

### NOTE 8: EQUITY

#### Share Capital

The share capital of Medical Cannabis Ltd consists of ordinary shares; the shares do not have a par value. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Medical Cannabis Ltd.

	2016	2015	2016	2015
	Shares	Shares	\$	\$
Issued and fully paid shares	21,266,667	20,500,000	151,250	108,750
	<u>21,266,667</u>	<u>20,500,000</u>	<u>151,250</u>	<u>108,750</u>

### NOTE 9: CASH FLOW INFORMATION

	2016	2015
	\$	\$
<b>Reconciliation of cash flow from operations with profit/loss</b>		
Loss (after income tax) for the year:	(153,037)	(45,761)
Non-cash items included in profit or loss:		
Depreciation and amortisation expense	1,192	91
Net changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	112,051	(6,005)
<b>Net cash used in operating activities</b>	<u>(39,794)</u>	<u>(51,675)</u>

## Medical Cannabis Ltd

ABN 53 604 732 612

### NOTE 10: RELATED PARTY TRANSACTIONS

#### Key management personnel of the Company

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors of the Company, is considered key management personnel.

#### Other related parties of the Company

Other related parties include close family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively with their close family members.

#### Transactions with management personnel

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties (ie at arm's length) unless the terms and conditions disclosed state otherwise.

	Note	2016	2015
Directors fees:		\$	\$
Andrew Kavasilas		6,000	-
David Evans		6,000	-
La Herencia Pty Limited (Gary D Mares)		6,000	-
Kore management Services Pty Limited		6,000	-
Total Directors Fees		24,000	-
Consulting fees:			
Andrew Kavasilas		16,500	5,000
David Evans		16,500	30,000
La Herencia Pty Limited (Gary D Mares)		6,000	10,000
Ellsar Pty Limited (Gary Stewart)		6,000	-
Total consulting fees		45,000	45,000
Total Directors fees and consulting fees paid to management personnel		69,000	45,000
		<b>2016</b>	<b>2015</b>
		\$	\$
Loan to related parties			
David Evans		5,000	5,000
Ellsar Investments Pty Ltd		1,500	1,500
Kore Management Services		3,500	3,500
Total loan to related parties	3	10,000	10,000

## Medical Cannabis Ltd

ABN 53 604 732 612

### NOTE 11: FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist mainly of cash; accounts receivable; and loans made to related parties.

The totals for each category of financial instruments, measured in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* as detailed in the accounting policies, are as follows:

	2016	2015
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	908	9,818
Trade and other receivables	14,711	11,015
<b>Total financial assets</b>	<u>15,619</u>	<u>20,833</u>
<b>Financial liabilities</b>		
Trade and other payables	24,644	-
<b>Total financial liabilities</b>	<u>24,644</u>	<u>-</u>

### Financial Risk Management Policies

The Board's overall risk management strategy seeks to assist the company in meeting its financial targets, while minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Board on a regular basis. These include the credit risk policies and future cash flow requirements.

Senior executives meet on a regular basis to analyse financial risk exposure in the context of the most recent economic conditions and forecasts. The overall risk management strategy seeks to assist the Company in meeting its financial targets, while minimising potential adverse effects on financial performance.

### NOTE 12: EVENTS AFTER THE REPORTING YEAR

On 1 March 2017 the Company formed a strategic alliance with Queensland Bauxite Limited (QBL). Queensland Bauxite Limited (BQL) acquired 55% of Medical Cannabis Limited. It is the Company's intention to work with Queensland Bauxite Limited (QBL) towards the issue of a Prospectus associated with an Initial Public Offering (IPO) and application for listing on the Australian Stock Exchange in the late part of 2017.



## **Medical Cannabis Ltd**

**ABN 53 604 732 612**

### **NOTE 13: GOING CONCERN**

Notwithstanding the loss before tax for the year of \$153,037 (2015 loss of \$45,761) and negative cash flows from operating activities of \$39,794 (\$51,675 for 2015) the financial report has been prepared on a going concern basis due to the fact the board is confident that the Company will be able to meet forecast targets to provide sufficient funds in order to meet the working capital needs of the business.

The Company's ability to continue as a going concern is contingent upon successfully raising additional working capital as required. If additional funds are not raised the going concern basis may not be appropriate with the result that the company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business, with amounts being realised being different from those disclosed in the financial report. No allowance for such circumstance has been made in the financial report.

### **NOTE 14: COMPANY DETAILS**

The registered office and principal place of business is:

Level 10  
2 -10 Loftus Street  
Sydney NSW 2000

**Medical Cannabis Ltd**

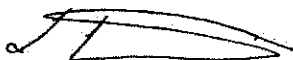
**ABN 53 604 732 612**

**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of Medical Cannabis Ltd, the directors of the Company declare that:

1. The financial statements and notes, as set out on pages 6 to 21, are in accordance with the *Corporations Act 2001* and:
  - a. comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRSs); and
  - b. give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the Company.
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.

The declaration is made in accordance with a resolution of the Board of Directors.

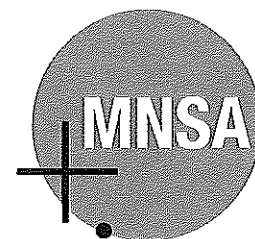


Terry Cuthbertson

Dated this 25<sup>th</sup> August 2017

**Medical Cannabis Ltd**

ABN 53 604 732 612

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
MEDICAL CANNABIS LIMITED**Report on the Financial Report**

We have audited the accompanying financial report of Medical Cannabis Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and comprehensive income, the statement of changes in equity and the 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 at the year's end or from time to time during the financial year.

*Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards (IFRS).

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. 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 whether the financial report is free from material misstatement.

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 judgment, including the 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 and fair presentation of the financial report 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. 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.

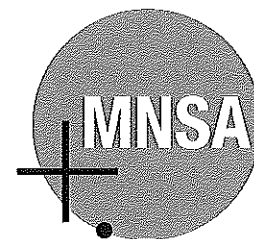
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**Medical Cannabis Ltd**

**ABN 53 604 732 612**



*Material uncertainty regarding Going Concern*

Without qualifying our opinion, we draw attention to the financial report which indicates that the company incurred a net loss of \$153,037 (\$45,761 for 2015) during the year ended 30 June 2016 and, as of that date, the company had negative cash flows from operating activities of \$39,794 (\$51,675 for 2015). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

*Auditor's Opinion*

In our opinion:

- a) the financial report of Medical Cannabis Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b.) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*MNSA Pty Ltd*

MNSA Pty Ltd

**Mark Schiliro**

Sydney, 25 August 2017

MEDICAL CANNABIS LTD

ABN 53 604 732 612

FINANCIAL REPORT

30 JUNE 2017

# CONTENTS

	Page
Directors' Report	1
Auditor's Independence Declaration	5
Statement of Profit or Loss and other Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the financial statements	10
Directors' Declaration	22
Independent Auditor's Report	23

## **DIRECTORS' REPORT**

The Directors of Medical Cannabis Ltd (the Company) present their report together with the financial statements for the financial year ended 30 June 2017.

Medical Cannabis Ltd was incorporated on 16 March 2015. This report represents the results from 1 July 2016 to 30 June 2017.

### **Directors**

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

#### **Terry Cuthbertson (Chair)**

##### **B.Bus FCA**

Director appointed 16 March 2015

Terry holds a Bachelor of Business and is a member of the Chartered Accountants Australia & New Zealand. He is a former partner of the Audit and Corporate Finance Divisions of KPMG and former NSW Partner in charge of Mergers and Acquisitions. He is currently Chairman of several Australian listed companies.

#### **David Evans**

##### **B.Sc (Geology and Environmental Science)**

Director appointed 16 March 2015

David holds a Bachelor of Science (Geology and Environmental Science) and has successfully taken two companies through IPO in the past 7 years. David has a strong track record for assembling mining and exploration assets across a range of mineral commodities in Australia and internationally and successfully funding and listing those assets on the Hang Seng and the ASX.

#### **Gary Mares**

##### **B.Com FCA**

Director appointed 16 March 2015

Fellow of the Chartered Accountants Australia & New Zealand, Bachelor of Commerce.

Gary has extensive public accounting, corporate governance and corporate services experience. Mr Mares is currently a Non-executive Director of Australian Whisky Holdings Limited and Joint Managing Director of Rio Dorado Limited.

#### **Andrew Kavalilas**

Director appointed 16 March 2015

Andrew is the founder of Vitahemp, is a licensed NSW hemp grower and has been involved in permitted cannabis research since 1999.

In 2001/2002, Andrew took part in and funded a project, the only such research known in Australia involving the cultivation of high THC cannabis plants under a permit issued by NSW Health.

Bulk raw cannabis was supplied to the Australian Centre of Photochemistry at the Southern Cross University of Lismore NSW for processing and analysis.

The project sought to establish testing capabilities, benchmarks and protocols for additional research into the productions of refined cannabinoids leading to further clinical development.

Findings from this project were supplied to NSW Health in an unsuccessful application to continue the project.

Importantly, the second application virtually mimics what would be required in this EOI, especially the replication models for cultivation, standardisation, and determination of cannabinoid variations,

## **Medical Cannabis Ltd**

**ABN 53 604 732 612**

### **DIRECTORS' REPORT**

purification and refinement for pre clinical investigation. Viathemp continues to grow low THC cannabis and leads the way in breeding and development of sub tropical varieties suited to seed production rather than fiber.

#### **Gary Stewart**

Company Secretary appointed 16 March 2015

Gary has been Director and Company Secretary of public listed companies both in Australia and the United States of America. Gary is also a solicitor of the Supreme Court of New South Wales and practices as a Corporate Lawyer with Gary Stewart & Co, Lawyers in Sydney, where he advises and works for a number of public listed companies in Australia.

#### **Principal Activities**

During the year, the principal activities of the Company were cannabis and cannabinoid research and cultivation.

There have been no significant changes in the nature of these activities occurred during the year.

#### **Review of Operations**

The Company incurred an operating loss of \$363,211 (2016 153,037 loss). The loss reflects the Company's commencement and establishment costs in cannabinoid research. No operational revenues were generated during the financial year.

#### **Significant Changes in the State of Affairs**

No significant changes in the company's state of affairs occurred during the financial year.

#### **Events Subsequent to the End of the Reporting Year**

Except for a strategic alliance with ASX listed Queensland Bauxite Limited (ASX: BQL), no matters or circumstances have arisen since the end of the financial year that significantly affect or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

#### **Likely Developments and Expected Results of Operations**

Likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Company.

#### **Dividends**

No dividends were paid or declared during the financial year.

#### **Environmental Regulation**

The Company operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.



**Medical Cannabis Ltd**

**ABN 53 604 732 612**

**DIRECTORS' REPORT**

**Unissued shares under option**

Unissued ordinary shares of Medical Cannabis Ltd under option at the date of this report are:

<b>Date options granted</b>	<b>Expiry date</b>	<b>Exercise price of shares (\$)</b>	<b>Number under option</b>
02/02/2015	30/06/2018	0.20	500,000
16/03/2015	30/06/2018	0.20	14,200,000
02/04/2015	30/06/2018	0.20	2,000,000
03/11/2015	30/06/2018	0.20	500,000
<b>Total</b>			<b>17,200,000</b>

The options were issued as a cost effective means of consideration and to incentivise directors, managers and consultants in performing their role with the company. Options do not expire if employee leaves the employment of Medical Cannabis Ltd.

No shares were issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests.

**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.

**Directors' Meetings**

During the financial year, 1 meeting of directors (including committees of directors) was held. Attendances by each director during the year were as follows:

<b>Directors</b>	<b>Board Meetings</b>	
	<b>Eligible to Attend</b>	<b>Attended</b>
Terry Cuthbertson (Chair)	1	1
David Evans	1	1
Gary Mares	1	1
Andrew Kavasilas	1	1
Gary Stewart	1	1

**Medical Cannabis Ltd**

**ABN 53 604 732 612**

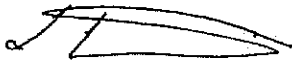
**DIRECTORS' REPORT**

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 5.

No officer of the Company is or has been a partner/director of any auditor of the Company.

This directors' report is signed in accordance with a resolution of the Board of Directors:

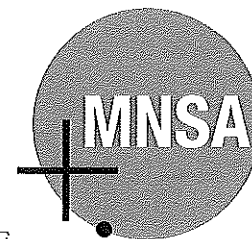


Terry Cuthbertson

Dated this on 25 August 2017

**Medical Cannabis Ltd**

**ABN 53 604 732 612**



**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE  
CORPORATIONS ACT 2001  
TO THE DIRECTORS OF MEDICAL CANNABIS LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

*MNSA Pty Ltd*

MNSA Pty Ltd

**Mark Schiliro**

Sydney, 25 August 2017

Medical Cannabis Ltd

ABN 53 604 732 612

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	\$	\$
Revenue	3,355	-
Cost of sales	(1,869)	-
<b>Gross Profit</b>	<b>1,486</b>	<b>-</b>
<b>Expenses</b>		
Amortisation	(192)	(192)
Accounting	(2,000)	(4,500)
Audit Fees	(2,000)	(4,500)
Bank Charges	(120)	(120)
Depreciation	(1,000)	(1,000)
Directors fees	(72,000)	(24,000)
Consultants Fees	(253,999)	(89,433)
Filing Fees	(1,790)	(1,500)
Interest expense	-	(197)
Legal costs	(8,374)	-
Travel Expenses	(14,444)	(19,756)
Other expenses	(8,778)	(7,839)
<b>Loss before income tax</b>	<b>(363,211)</b>	<b>(153,037)</b>
Income tax expense	-	-
<b>Loss for the year</b>	<b>(363,211)</b>	<b>(153,037)</b>
Other comprehensive income	-	-
<b>Total comprehensive loss for the year</b>	<b>(363,211)</b>	<b>(153,037)</b>

The accompanying notes form part of these financial statements.

**Medical Cannabis Ltd**

ABN 53 604 732 612

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017**

	Note	2017	2016
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	2	788	908
Trade and other receivables	3	18,443	15,361
Inventories		21,926	4,673
<b>TOTAL CURRENT ASSETS</b>		<b>41,157</b>	<b>20,942</b>
<b>Non-current</b>			
Intangible assets	4	248,398	248,590
Property, plant & equipment	5	18,000	19,000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>266,398</b>	<b>267,590</b>
<b>TOTAL ASSETS</b>		<b>307,555</b>	<b>288,532</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Creditors and accruals		34,905	24,644
Loans payable		3,700	22,436
<b>TOTAL CURRENT LIABILITIES</b>		<b>38,605</b>	<b>47,080</b>
<b>Non-current</b>			
Accrued liabilities	6	335,000	69,000
Trade and other payables	7	344,209	220,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>679,209</b>	<b>289,000</b>
<b>TOTAL LIABILITIES</b>		<b>717,814</b>	<b>336,080</b>
<b>NET ASSETS</b>		<b>(410,259)</b>	<b>(47,548)</b>
<b>EQUITY</b>			
Share capital	8	151,750	151,250
Accumulated losses		(562,009)	(198,798)
<b>TOTAL EQUITY</b>		<b>(410,259)</b>	<b>(47,548)</b>

The accompanying notes form part of these financial statements.

**Medical Cannabis Ltd**

**ABN 53 604 732 612**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2017**

	<b>Share Capital</b>	<b>Accumulated Losses</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at 30 June 2015</b>	108,750	(45,761)	62,989
<b>Comprehensive income</b>	-	-	-
Issue of share capital, net of transaction costs	42,500	-	42,500
Loss for the period	-	(153,037)	(153,037)
<b>Balance at 30 June 2016</b>	<u>151,250</u>	<u>(198,798)</u>	<u>(47,548)</u>
<b>Balance at 30 June 2016</b>	151,250	(198,798)	(47,548)
<b>Comprehensive income</b>	-	-	-
Issue of share capital, net of transaction costs	500	-	500
Loss for the year	-	(363,211)	(363,211)
<b>Balance at 30 June 2017</b>	<u>151,750</u>	<u>(562,009)</u>	<u>(410,259)</u>

The accompanying notes form part of these financial statements.

**Medical Cannabis Ltd**  
**ABN 53 604 732 612**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

	Note	2017	2016
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and related parties		399,606	-
Payments to suppliers and employees		(399,726)	(39,794)
Net cash (used in) operating activities	9	(120)	(39,794)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of intangible assets		-	(11,616)
Net cash (used in) investing activities		-	(11,616)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		-	42,500
Net cash provided by financing activities		-	42,500
Net (decrease) in cash and cash equivalents		(120)	(8,910)
Cash and cash equivalents at beginning of year		908	9,818
Cash and cash equivalents at end of year	2	788	908

The accompanying notes form part of these financial statements.

## Medical Cannabis Ltd

ABN 53 604 732 612

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

The financial statements and notes represent those of Medical Cannabis Ltd (Company). The Company was incorporated and domiciled in Australia.

The financial statements were authorised for issue on 25 August 2017 by the board of directors.

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of Preparation**

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board. The Company is a for-profit Company for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board 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). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for cash flow information, 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.

##### **a. Income Tax**

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable Company or different taxable entities, where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future years in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.



## Medical Cannabis Ltd

ABN 53 604 732 612

### b. Fair Value of Assets and Liabilities

The Company measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Company would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the Company at the end of the reporting year (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the Company's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

### c. Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities assumed is recognised.

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting year to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

## Medical Cannabis Ltd

ABN 53 604 732 612

### d. Intangibles

#### Goodwill

The amount of goodwill recognised on acquisition of each subsidiary in which the Company holds a less than 100% interest will depend on the method adopted in measuring the non-controlling interest. The Company can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value ("full goodwill method") or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ("proportionate interest method"). In such circumstances, the Company determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interest is recognised in the consolidated financial statements.

Goodwill is tested for impairment annually and is allocated to the Company's cash-generating units, which represents the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

#### Intellectual Property

Intellectual property is recognised at cost of acquisition. They have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Intellectual property are amortised over their useful lives.

### e. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value, as indicated, less, where applicable, any accumulated depreciation and impairment losses.

#### Plant and equipment

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss in the financial year in which they are incurred.

#### Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the Company commencing from the time the asset is held ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised in profit or loss when the item is derecognised. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

## Medical Cannabis Ltd

ABN 53 604 732 612

### f. Financial Instruments

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions to the financial instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss” in which case transaction costs are recognised as expenses in profit or loss immediately.

#### Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less repayments made and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

The *effective interest method* is used to allocate interest income or interest expense over the relevant year and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

#### Impairment

At the end of each reporting year, the Company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a “loss event”) having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if the directors establish that the carrying amount cannot be recovered by any means, at that point the anticipated loss is charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss event that has occurred is duly considered.

## Medical Cannabis Ltd

ABN 53 604 732 612

### Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as financial liabilities at fair value on initial recognition.

The fair value of financial guarantee contracts is assessed using the probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting year;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: *Revenue*. Where the Company gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

### Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount 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.

#### g. Impairment of Non-financial Assets

At the end of each reporting year, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: *Property, Plant and Equipment*). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

#### h. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at-call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

#### i. Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting year are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

## Medical Cannabis Ltd

ABN 53 604 732 612

### j. Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the company that remain unpaid at the end of the reporting year. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

### k. 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 Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from financing and investing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

### l. Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements 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 Company.

#### Key estimates

##### *Impairment*

The Company assesses impairment at the end of each reporting year by evaluation of conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations, which incorporate various key assumptions.

### m. New Accounting Standards for Application in Future Years

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Company, together with an assessment of the potential impact of such pronouncements on the Company when adopted in future years, are discussed below:

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable for annual reporting years commencing on or after 1 January 2018).

These Standards will be applicable retrospectively (subject to the comment on hedge accounting below) and include revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes made to the Standard that may affect the Company on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the Company elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Company's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 15: *Revenue from Contracts with Customers* (applicable for annual reporting years commencing on or after 1 January 2017).

## Medical Cannabis Ltd

ABN 53 604 732 612

This Standard, when effective, will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principle of AASB 15 is that an Company will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step model:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the performance obligation is satisfied.

AASB 15 also requires enhanced disclosures regarding revenues.

This Standard will require retrospective restatement and is available for early adoption.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Company's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impacts.

### Note 2: CASH AND CASH EQUIVALENTS

	Note	2017	2016
		\$	\$
Cash at bank and on hand		788	908

### NOTE 3: TRADE AND OTHER RECEIVABLES

	2017	2016
	\$	\$
CURRENT		
Other receivables	-	10,000
GST receivables	8,443	5,361
Deferred capital raising costs	10,000	-
Total current receivables	18,443	15,361

**Medical Cannabis Ltd**

ABN 53 604 732 612

## NOTE 4: INTANGIBLE

	2017	2016
	\$	\$
Formation cost		
Formation at cost	965	965
Accumulated amortisation	(475)	(283)
	<u>490</u>	<u>682</u>
Intellectual property		
Seed back & plant genetics	230,000	230,000
Other intellectual property	17,908	17,908
	<u>247,908</u>	<u>247,908</u>
Balance at the end of the reporting year	<u>248,398</u>	<u>248,590</u>

## NOTE 5: PROPERTY, PLANT AND EQUIPMENT

	2017	2016
	\$	\$
Plant and equipment		
Plant and equipment at cost	20,000	20,000
Additions	-	-
Accumulated amortisation	(2,000)	(1,000)
	<u>18,000</u>	<u>19,000</u>

## NOTE 6: ACCRUED LIABILITIES

	2017	2016
	\$	\$
Payables to related parties	335,000	69,000
	<u>335,000</u>	<u>69,000</u>

## NOTE 7: TRADE AND OTHER PAYABLES

	2017	2016
	\$	\$
NON-CURRENT		
Trade payable	4,723	-
Loan payable – QBL	68,225	-
Loan payable – Andrew Kavasilas	51,261	-
Other payables	220,000	220,000
	<u>344,209</u>	<u>220,000</u>

Other payables represents residual amount on acquisition of business assets of Vitahemp Pty Ltd.

**Medical Cannabis Ltd**

**ABN 53 604 732 612**

NOTE 8: EQUITY

**Share Capital**

The share capital of Medical Cannabis Ltd consists of ordinary shares; the shares do not have a par value. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Medical Cannabis Ltd.

	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$</b>	<b>\$</b>
Issued and fully paid shares	21,766,667	21,266,667	151,750	151,250
	<u>21,766,667</u>	<u>21,266,667</u>	<u>151,750</u>	<u>151,250</u>

NOTE 9: CASH FLOW INFORMATION

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Reconciliation of cash flow from operations with profit/loss</b>		
Loss (after income tax) for the year:	(363,211)	(153,037)
Non-cash items included in profit or loss:		
Depreciation and amortisation expense	1,192	1,192
Net changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	361,899	112,051
<b>Net cash used in operating activities</b>	<u>(120)</u>	<u>(39,794)</u>



## Medical Cannabis Ltd

ABN 53 604 732 612

### NOTE 10: RELATED PARTY TRANSACTIONS

#### Key management personnel of the Company

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors of the Company, is considered key management personnel.

#### Other related parties of the Company

Other related parties include close family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively with their close family members.

#### Transactions with management personnel

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties (ie at arm's length) unless the terms and conditions disclosed state otherwise.

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Directors fees		\$	\$
Andrew Kavasilas		18,000	6,000
David Evans		18,000	6,000
La Herencia Pty Limited (Gary D Mares)		18,000	6,000
Kore management Services Pty Limited		18,000	6,000
Total Directors fees		72,000	24,000
Consulting fees:			
Andrew Kavasilas		89,500	16,500
David Evans		84,500	16,500
La Herencia Limited (Gary D Mares)		57,000	6,000
Ellsar Pty Limited (Gary Stewart)		22,500	6,000
Total consulting fees		253,500	45,000
Total Directors fees and consulting fees paid to management personnel		325,500	69,000
		<b>2017</b>	<b>2016</b>
		<b>\$</b>	<b>\$</b>
Loan to/(from) related parties			
David Evans		-	5,000
Ellsar Investments Pty Ltd		-	1,500
Kore Management Services		(3,700)	3,500
Total loan to related parties		(3,700)	10,000

## Medical Cannabis Ltd

ABN 53 604 732 612

### NOTE 11: FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist mainly of cash; accounts receivable; and loans made to related parties.

The totals for each category of financial instruments, measured in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* as detailed in the accounting policies, are as follows:

	2017	2016
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	788	908
Trade and other receivables	14,943	14,711
<b>Total financial assets</b>	<u>15,731</u>	<u>15,619</u>
<b>Financial liabilities</b>		
Trade and other payables	<u>34,905</u>	<u>24,644</u>
<b>Total financial liabilities</b>	<u>34,905</u>	<u>24,644</u>

### Financial Risk Management Policies

The Board's overall risk management strategy seeks to assist the company in meeting its financial targets, while minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Board on a regular basis. These include the credit risk policies and future cash flow requirements.

Senior executives meet on a regular basis to analyse financial risk exposure in the context of the most recent economic conditions and forecasts. The overall risk management strategy seeks to assist the Company in meeting its financial targets, while minimising potential adverse effects on financial performance.

### NOTE 12: EVENTS AFTER THE REPORTING YEAR

On 1 March 2017 the Company formed a strategic alliance with Queensland Bauxite Limited (QBL). Queensland Bauxite Limited (BQL) acquired 55% of Medical Cannabis Limited. It is the Company's intention to work with Queensland Bauxite Limited (QBL) towards the issue of a Prospectus associated with an Initial Public Offering (IPO) and application for listing on the Australian Stock Exchange in the late part of 2017.

## Medical Cannabis Ltd

ABN 53 604 732 612

### NOTE 13: GOING CONCERN

Notwithstanding the loss before tax for the year of \$363,211 (2016 loss of \$153,037) and negative cash flows from operating activities of \$120 (\$39,794 for 2016) the financial report has been prepared on a going concern *basis* due to the fact the board is confident that the Company will be able to meet forecast targets to provide sufficient funds in order to meet the working capital needs of the business.

The Company's ability to continue as a going concern is contingent upon successfully raising additional working capital as required. If additional funds are not raised the going concern basis may not be appropriate with the result that the company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business, with amounts being realised being different from those disclosed in the financial report. No allowance for such circumstance has been made in the financial report.

### NOTE 14: COMPANY DETAILS

The registered office and principal place of business is:

Level 10  
2 -10 Loftus Street  
Sydney NSW 2000

**Medical Cannabis Ltd**

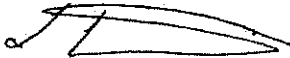
**ABN 53 604 732 612**

**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of Medical Cannabis Ltd, the directors of the Company declare that:

1. The financial statements and notes, as set out on pages 6 to 21, are in accordance with the *Corporations Act 2001* and:
  - a. comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRSs); and
  - b. give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the Company.
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.

The declaration is made in accordance with a resolution of the Board of Directors.

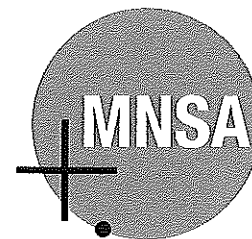


Terry Cuthbertson

Dated this on 25 August 2017

**Medical Cannabis Ltd**

ABN 53 604 732 612

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
MEDICAL CANNABIS LIMITED**Report on the Financial Report**

We have audited the accompanying financial report of Medical Cannabis Limited, which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and comprehensive income, the statement of changes in equity and the 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 at the year's end or from time to time during the financial year.

*Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards (IFRS).

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. 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 whether the financial report is free from material misstatement.

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 judgment, including the 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 and fair presentation of the financial report 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. 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.

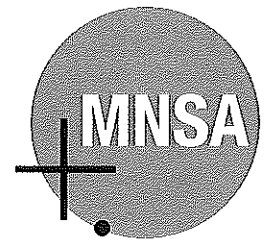
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**Medical Cannabis Ltd**

**ABN 53 604 732 612**



*Material uncertainty regarding Going Concern*

Without qualifying our opinion, we draw attention to the financial report which indicates that the company incurred a net loss of \$363,211 (\$153,037 for 2016) during the year ended 30 June 2017 and, as of that date, the company had negative cash flows from operating activities of \$120 (\$39,794 for 2016). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

*Auditor's Opinion*

In our opinion:

- a) the financial report of Medical Cannabis Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the company'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*; and
- b.) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*MNSA Pty Ltd*

MNSA Pty Ltd

**Mark Schiliro**

Sydney, 25 August 2017



Medical Cannabis Ltd  
ABN 53 604 732 612  
and Controlled Entities

# Half-Year Report

For the half-year ended 31 December 2017

## Contents

---

Directors' report .....	3
Auditor's independence declaration .....	3
Financial statements.....	5
Condensed consolidated statement of profit or loss and other comprehensive income .....	5
Condensed consolidated statement of financial position .....	6
Condensed consolidated statement of changes in equity.....	7
Condensed consolidated statement of cash flows .....	8
Notes to the consolidated financial statements for the half-year ended 31 December 2017 .....	9
Directors' Declaration.....	13
Independent auditors' review report .....	14



# Directors' report

---

The Directors present their report on Medical Cannabis Ltd, consisting of Medical Cannabis Ltd ("the Company") and the entities it controlled at the end of or during the half-year ended 31 December 2017 ("the Group").

## Directors

The names of the Directors of the Company at any time during or since the end of the half-year are:

**Pnina Feldman - Chairman (Appointed 15/11/2017)**

**Sholom Feldman – Director (Appointed 15/11/2017)**

**Andrew Kavasilas - Director (Appointed 16/03/2015)**

**Gary Mares – Director (Appointed 16/03/2015, Resigned 13/11/2017)**

**David Evans – Director (Appointed 16/03/2015, Resigned 13/11/2017)**

**Terry Cuthbertson – Director (Appointed 16/03/2015, Resigned 13/11/2017)**

## Principal Activities

The principal activities of the Group during the half-year ended 31 December 2017 were cultivation of low-THC Cannabis sativa for breeding, cannabinoid profiling, medical research and hemp seed food retail. The Company also has a 95% controlling interest in Vitahemp Pty Ltd.

## Review of Operations and Outlook

The consolidated loss for the half- year ended 31 December 2017 was \$879,718 (2016 loss \$140,008).

Auditor's independence declaration

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4 and forms part of the directors' report for the half-year ended 31 December 2017.

Signed in accordance with a resolution of the Board of Directors:

**Pnina Feldman**

Chairperson



**Sydney**

7 June 2018

The Board of Directors  
Medical Cannabis Ltd  
24 Birriga Road  
BELLEVUE HILL NSW 2023

To the Board of Directors of Medical Cannabis Ltd

**Auditor's Independence Declaration under section 307C of the *Corporations Act 2001***

As lead audit partner for the review of the financial statements of Medical Cannabis Ltd for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review;  
and
- (b) any applicable code of professional conduct in relation to the review.

Yours sincerely



**Nexia Sydney Audit Pty Ltd**



**Joseph Santangelo**  
Director

Sydney  
7 June 2018

**Nexia Sydney Audit Pty Ltd**

Level 16, 1 Market Street  
Sydney NSW 2000  
PO Box H195

Australia Square NSW 1215

**p** +61 2 9251 4600

**f** +61 2 9251 7138

**e** info@nexiasydney.com.au

**w** nexia.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Nexia Sydney Audit Pty Ltd (ABN 77 606 785 399) is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

The trademarks NEXIA INTERNATIONAL, NEXIA and the NEXIA logo are owned by Nexia International Limited and used under licence.

# Financial statements

## Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2017

Continuing Operations	Consolidated Entity	
	31 Dec 2017 \$	31 Dec 2016 \$
<b>INCOME</b>		
Sales	498	3,355
Cost of sales	-	(1,869)
<b>TOTAL INCOME</b>	<b>498</b>	<b>1,486</b>
<b>EXPENSES</b>		
Management and secretarial	(30,000)	-
Executive and corporate services	(120,000)	-
Depreciation	(500)	(500)
Finance costs	(49,200)	-
Consultants fees	(52,727)	(9,000)
Legal expenses	(9,500)	-
Directors fees	(174,500)	(129,000)
Rent	(31,200)	-
Research cost	(121,871)	-
Other expenses	(56,533)	(2,994)
Marketing	(60,000)	-
Travelling expenses	(174,185)	-
Loss before income tax	(879,718)	(140,008)
Income tax expense	-	-
Loss after tax from continuing operations	(879,718)	(140,008)
Total comprehensive loss for the year	(879,718)	(140,008)
Loss attributable to members of Medical Cannabis Ltd	(878,975)	(140,008)
Total comprehensive income attributable to members of Medical Cannabis Ltd	(878,975)	(140,008)
Loss attributable to non-controlling interest	(743)	-
Total comprehensive income attributable to non-controlling interest	(743)	-

The accompanying notes form part of these financial statements.

# Condensed consolidated statement of financial position

as at 31 December 2017

	Consolidated Entity	
	31 Dec 2017 \$	30 June 2017 \$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	944,127	788
Trade and other receivables	57,373	18,443
Inventory	Note 5 358,508	21,926
<b>TOTAL CURRENT ASSETS</b>	<b>1,360,008</b>	<b>41,157</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	21,845	18,000
Intangible asset – seedbank and plant genetics	230,000	248,398
Investment in Hemp Hulling Co	Note 6 145,250	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>397,095</b>	<b>266,398</b>
<b>TOTAL ASSETS</b>	<b>1,757,103</b>	<b>307,555</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	320,524	34,905
Other financial liabilities	Note 7 1,354,200	3,700
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,674,724</b>	<b>38,605</b>
Accrued liabilities	-	335,000
Trade and other payables	-	344,209
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>-</b>	<b>679,209</b>
<b>TOTAL LIABILITIES</b>	<b>1,674,724</b>	<b>717,814</b>
<b>NET ASSETS</b>	<b>82,379</b>	<b>410,259</b>
<b>EQUITY</b>		
Issued capital	Note 8 1,524,106	151,750
Accumulated losses	(1,440,984)	(562,009)
<b>TOTAL</b>	<b>83,122</b>	<b>(410,259)</b>
Non-controlling interest	(743)	-
<b>TOTAL EQUITY</b>	<b>82,379</b>	<b>(410,259)</b>

The accompanying notes form part of these financial statements.

# Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2017

	Consolidated Entity			
	Issued Capital	Accumulated Losses	Non-controlling interest	Total Equity
	\$	\$	\$	\$
<b>Balance at 1 July 2016</b>	151,250	(198,798)	-	(47,548)
Loss for the half-year	-	(140,008)	-	(140,008)
Shares issued during the half year	500	-	-	500
<b>Balance at 31 December 2016</b>	151,750	(338,806)	-	(187,056)
<b>Balance at 1 July 2017</b>	151,750	(562,009)	-	(410,259)
Loss for the half-year	-	(878,975)	(743)	(879,718)
Shares issued during the half year	1,372,356	-	-	1,372,356
<b>Balance at 31 December 2017</b>	1,524,106	(1,440,984)	(743)	82,379

The accompanying notes form part of these financial statements.

# Condensed consolidated statement of cash flows

for the half-year ended 31 December 2017

	Consolidated Entity	
	31 Dec 2017 \$	31 December 2016 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	498	(60)
Payments to suppliers and employees	(1,512,229)	-
Net cash outflow from operating activities	(1,511,731)	(60)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payment of security deposit	(5,133)	-
Payment for plant and equipment	(4,345)	-
Payment for investments	(145,250)	-
Net cash outflow from investing activities	(154,728)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of loan provided by QBL	(67,558)	-
Proceeds from seed capital	1,305,000	-
Proceeds from share issue	1,372,356	-
Net cash inflow from financing activities	2,609,798	-
Net increase in cash held	943,339	(60)
Cash and cash equivalents at the beginning of the half - year	788	908
Cash and cash equivalents at the end of the half – year	944,127	848

The accompanying notes form part of these financial statements.

# Notes to the consolidated financial statements for the half-year ended 31 December 2017

## **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This general purpose financial report for the interim half year reporting period ended 31 December 2017 has been prepared in accordance with applicable Accounting Standards including Accounting Standard AASB 134 *Interim Financial Reporting*, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The Group has adopted all of the new and revised Accounting Standards and Accounting Interpretations issued by the AASB that are relevant to their operations and effective for the current half-year.

## **NOTE 2: GOING CONCERN BASIS OF ACCOUNTING**

The Company has no revenue streams. It is fully reliant on the financial support of its shareholders. The major shareholder, Queensland Bauxite Limited has provided a declaration that it will continue to financially support the Company in order for it to meet its liabilities and continue as a going concern. The going concern basis has taken into account the company's ability to repay its liabilities when they become payable.

The directors are confident that the company can continue as a going concern and as a result the financial statements have been prepared on a going concern basis, which contemplates the continuation of normal business activities and the realization of assets and liabilities in the ordinary course of business.

## **NOTE 3: USE OF ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The only area involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, is in relation to share and option based payments and convertible notes/bonds.

## **NOTE 4: SEGMENT INFORMATION**

The Group operates in one segment, being the cultivation and processing of low THC cannabis.

**NOTE 5: INVENTORY**

	31.12.2017 \$	30.06.2017 \$
At the beginning of reporting period	21,926	4,673
Purchase of seed inventory for increase in production	336,582	17,253
At reporting date	358,508	21,926

**NOTE 6: INVESTMENT IN HEMP HULLING CO**

At the beginning of reporting period	-	-
Initial instalment to take up 25% interest in Hemp Hulling Co (QLD) Pty Ltd	145,250	-
At reporting date	145,250	-

**NOTE 7: OTHER FINANCIAL LIABILITIES**

	31.12.2017 \$	30.06.2017 \$
At the beginning of reporting period	3,700	22,436
Repayment of loans from former director's related entities	(3,700)	(18,736)
Proceeds from seed capital	1,305,000	-
Finance interest on seed capital	49,200	-
At reporting date	1,354,200	3,700

**NOTE 8: ISSUED CAPITAL**

	31.12.2017 No.	31.12.2017 \$.	30.06.2017 No.	30.06.2017 \$.
<b>Ordinary shares</b>				
At the beginning of reporting period	21,766,667	151,750	21,266,667	151,250
Share issue	46,165,222	1,372,356	500,000	500
At reporting date	67,931,889	1,524,106	21,766,667	151,750



## Terms and Conditions of Issued Capital

### Ordinary Shares

Ordinary shares have the right to receive dividends as declared by the board and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle the holder to one vote either in person or by proxy at a meeting of the Company.

### NOTE 9: RELATED PARTY TRANSACTIONS

#### Identity of related parties

The Group has related party relationships with its subsidiaries, its key management personnel and companies related due to common directorships, Pnina Feldman being a Director of both Medical Cannabis Limited and the director of related company, Australian Gemstone Mining Pty Ltd (AGMPL).

#### Related party transactions with Australian Gemstone Mining Pty Limited.

AGMPL is a company owned and controlled by Pnina Feldman.

AGMPL provided the following services to the Group:

	Half-year ended 31.12.2017 \$	Half-year ended 31.12.2016 \$	
Office space – (Rent)	31,200	-	-
Management and secretarial	30,000	-	-
Marketing services	60,000	-	-
Executive and corporate services	120,000	-	-
TOTAL	241,200	-	-

#### Other transactions with related parties

The Company paid directors' fees of \$60,000(2016: \$47,500) for the executive director, Andrew Kavasilas, during the half-year ended 31 December 2017.

The Company paid directors' fees to the former directors as follows:

	Half-year ended 31.12.2017 \$	Half-year ended 31.12.2016 \$	
Gary Mares	75,000	25,000	
David Evans	35,000	47,500	
Terry Cuthbertson	4,500	9,000	

## Loans to/from related parties

	Half-year ended 31.12.2017 \$	Half-year ended 30.06.2017 \$
Andrew Kavasilas	296,321	394,261
Queensland Bauxite Limited	(667)	68,225
AGMPL	16,000	-

The above loans are unsecured, interest free and there is no fixed repayment date.

### NOTE 10: EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the half year, the following events took place:

On 31 January 2018, Medical Cannabis Ltd was issued Ordinary Shares equal to 25% interest in Hemp Hulling Co (QLD) Pty Ltd. The consideration for this interest was \$300,000.

On 02 May 2018, Medical Cannabis Ltd received a further 30% interest in Hemp Hulling Co (QLD) Pty Ltd in return for further funding of HHC of an additional \$120,000 and the undertaking to issue a further \$1,500,000 of ASX listed shares in MCL following the public listing of MCL.

On 16 February 2018 the Company through its subsidiary Medical Cannabis Research Group Pty Ltd entered into a research sponsorship deal for auto immune research with the Technion in Haifa Israel and advanced \$300,000 USD as the first payment under that deal.

There have been no further material subsequent events affecting the accounts of MCL since the balance date. Corporate activity since the balance date has been reported by QBL on the ASX announcement platform.

# Directors' Declaration

---

In the Directors' opinion:

- (a) the financial statements and accompanying notes set out on pages 5 to 12 are in accordance with the *Corporations Act 2001*, and:
  - (i) comply with Accounting Standards and the *Corporations Regulations 2001*; and
  - (ii) give a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors:



**Pnina Feldman**  
Chairperson

**Sydney**  
7 June 2018

## INDEPENDENT AUDITORS' REVIEW REPORT TO THE MEMBERS OF MEDICAL CANNABIS LTD

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Medical Cannabis Ltd, which comprises the condensed consolidated statement of financial position as at 31 December 2017, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors declaration of the Company and the consolidated entity (the Group), comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

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

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

### Auditors' 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 Group'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 Medical Cannabis Ltd, 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.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

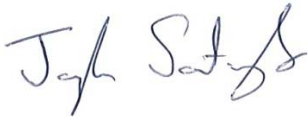
## Conclusion

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

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



**Nexia Sydney Audit Pty Ltd**



**Joseph Santangelo**  
Director

Sydney  
7 June 2018

**MEDCAN AUSTRALIA TRUST**  
***ABN 47 984 429 508***

**FINANCIAL REPORT**  
**FOR THE PERIOD 7 NOVEMBER 2016 TO**  
**30 JUNE 2017**

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**CONTENTS**

Trustees' Declaration	2
Independent Auditors' Report	3
<b>Financial Report</b>	
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Unitholders Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**TRUSTEES' DECLARATION**

In the Directors' of the Trustee Company's opinion:

1. the financial statements and accompanying notes set out on pages 5 to 11 are in accordance with the provisions of the Trust Deed dated 7 November 2016 and:
  - (a) comply with Australian Accounting Standard; and
  - (b) give a true and fair view of the trust's financial position as at 30 June 2017 and of its performance for the period ended on that date;
2. the financial statements and notes also comply with International Financial Reporting Standards, as disclosed in Note 2(a) to the financial statements; and
3. there are reasonable grounds to believe that the trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of the Trustee Company.

On behalf of the directors:



**Craig Cochran**  
**Director**

**Brisbane**  
**Dated:** 16 May 2018



## **Independent Auditor's Report to the Members of Medcan Australia Trust**

### **Report on the Audit of the Financial Report**

#### **Opinion**

We have audited the financial report of Medcan Australia Trust (the Trust), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors of the Trustee Company's declaration.

In our opinion, the accompanying financial report of the Trust is in accordance with the Trust Deed, including:

- i) giving a true and fair view of the Trust's financial position as at 30 June 2017 and of its financial performance for the period then ended; and
- ii) complying with Australian Accounting Standards.

#### **Basis for opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the entity in accordance with 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.

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

#### **Directors of the Trustee Company' responsibility for the financial report**

The Directors of the Trustee Company of the Trust are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the and for such internal control as the Directors of the Trustee Company 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 preparing the financial report, the Directors of the Trustee Company are responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors of the Trustee Company either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

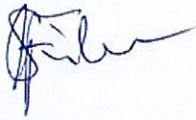
#### **Auditor's responsibility for the audit of the financial report**

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 the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our auditor's report.

We also provide the Directors of the Trustee Company 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.

**Nexia Sydney Audit Pty Ltd**

A handwritten signature in blue ink, appearing to read 'S Fisher', with a stylized flourish extending to the right.

**Stephen Fisher**  
Director

Sydney  
16 May 2018



**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE PERIOD ENDED 30 JUNE 2017**

	Note	07.11.2016 to 30.06.2017 \$
<b>Revenue</b>		
Revenue		-
Total revenue		-
<b>Expenses</b>		
Expenses		-
Total expenses		-
<b>LOSS BEFORE INCOME TAX</b>		-
Income tax expense		-
<b>LOSS FOR THE PERIOD</b>		-
<b>Other comprehensive income</b>		-
<b>Other comprehensive income for the period, net of tax</b>		-
<b>TOTAL COMPREHENSIVE INCOME</b>		-

The above statement of comprehensive income should be read  
in conjunction with the accompanying notes.

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2017**

	Note	2017 \$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	4	<u>10,000</u>
<b>TOTAL CURRENT ASSETS</b>		<u>10,000</u>
<b>TOTAL ASSETS</b>		<u>10,000</u>
<b>NET ASSETS</b>		<u>10,000</u>
<b>EQUITY</b>		
Settled funds	5	10,000
Retained earnings		<u>-</u>
<b>TOTAL EQUITY</b>		<u>10,000</u>

**The above statement of financial position should be read  
in conjunction with the accompanying notes.**

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**STATEMENT OF CHANGES IN UNITHOLDERS' EQUITY**  
**FOR THE PERIOD ENDED 30 JUNE 2017**

	Settled Funds	Retained Profits	Total
	\$	\$	\$
<b>Balance at 7 November 2016</b>	-	-	-
Profit for the period	-	-	-
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	-	-
Settled funds during the period	5 10,000	-	10,000
<b>Balance at 30 June 2017</b>	10,000	-	10,000

**The above statement of changes in equity should be read  
in conjunction with the accompanying notes.**

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD ENDED 30 JUNE 2017**

	Note	07.11.2016 to 30.06.2017 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers		-
Cash paid to suppliers		-
<b>Net Cash from Operating Activities</b>	6b	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of units		<u>10,000</u>
<b>Net Cash from Financing Activities</b>		<u>10,000</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
		-
Cash and Cash Equivalents at the Beginning of the Financial Period		<u>10,000</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>	6a	<u><u>10,000</u></u>

The above statement of cash flows should be read  
in conjunction with the accompanying notes.

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 30 JUNE 2017**

**1 REPORTING ENTITY**

Medcan Australia Trust (the 'trust') is a trust domiciled in Australia. The Trustee of the trust is Medcan Australia Pty Ltd ACN 615 734 220. The address of the Trustee's registered office is 27 Lacey Street, CAMIRA QLD 4300. The trust holds a medical cannabis license.

**2 BASIS OF PREPARATION**

**a Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB'). The financial report of the trust complies with International Financial Reporting Standards ('IFRSs') and interpretations adopted by the International Accounting Standards Board ('IASB').

The financial statements were approved by the Trustee on 16 May 2018.

**b Basis of measurement**

The financial statements have been prepared on the historical cost basis.

**c Functional and presentation currency**

These financial statements are presented in Australian dollars, which is the trust's functional currency.

**d Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the trust.

**a Basis of preparation**

The financial report of the trust has been drawn up in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Trust Deed. It has been prepared based on historical costs and does not take into account changing money values or current valuations of non-current assets. The accounting policies have been consistently applied.

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 30 JUNE 2017**

	<b>2017</b> <b>\$</b>
<b>4 CASH AND CASH EQUIVALENTS</b>	
<b>Current</b>	
Cash on hand	10,000
	10,000

<b>5 SETTLED FUNDS</b>	
10,000 units at \$1 per unit	10,000
Balance at beginning of the period	-
Units issued during the period	10,000
Balance at end of the period	10,000

**6 NOTES TO THE STATEMENT OF CASH FLOWS**

- a** For the purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand.

Cash and cash equivalents at the end of the financial period as shown in the statement of cash flows is reconciled to the related item in the statement of financial position as follows:

	<b>2017</b> <b>\$</b>
Cash on hand	10,000
	10,000
<b>b Reconciliation of Cash flows from Operating Activities</b>	
Profit for the period	-
	-
<b>Net Cash from Operating Activities</b>	-



**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 30 JUNE 2017**

**7 EVENTS SUBSEQUENT TO THE BALANCE DATE**

On 4 May 2018, Medical Cannabis Ltd acquired a 55% interest in the trust.

There were no other significant changes in the state of affairs of the trust subsequent to 30 June 2017.

**8 SEGMENT INFORMATION                      EVENTS SUBSEQUENT TO THE BALANCE DATE**

The company operates in one segment, the medical cannabis industry.

**9 COMMITMENTS AND CONTINGENCIES**

There are no commitments or contingent liabilities in existence at balance date.

**MEDCAN AUSTRALIA TRUST**  
***ABN 47 984 429 508***

**FINANCIAL REPORT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**CONTENTS**

Trustees' Declaration	2
Independent Review Report	3
<b>Financial Report</b>	
Condensed Statement of Comprehensive Income	5
Condensed Statement of Financial Position	6
Condensed Statement of Changes in Unitholders Equity	7
Condensed Statement of Cash Flows	8
Notes to the Financial Statements	9

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**TRUSTEES' DECLARATION**

In the Directors' of the Trustee Company's opinion:

1. the financial statements and accompanying notes set out on pages 5 to 9 are in accordance with the provisions of the Trust Deed dated 7 November 2016 and:
  - (a) comply with Australian Accounting Standard; and
  - (b) give a true and fair view of the trust's financial position as at 31 December 2017 and of its performance for the period ended on that date; and
2. there are reasonable grounds to believe that the trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of the Trustee Company.

On behalf of the directors:



**Craig Cochran**  
Director

**Brisbane**  
**Dated:** 16 May 2018

## **INDEPENDENT AUDITORS' REVIEW REPORT TO THE DIRECTORS OF THE TRUSTEE COMPANY OF MEDCAN AUSTRALIA TRUST**

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Medcan Australia Trust, which comprises the condensed consolidated statement of financial position as at 31 December 2017, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors declaration of the Trustee.

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

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

### **Auditors' 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 Trust deed including: giving a true and fair view of the Trust'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*. As the auditor of Medcan Australia Trust, 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.

### **Independence**

In conducting our review, we have complied with the independence requirements of the *Code of Ethics for Professional Accountants*.

#### **Nexia Sydney Audit Pty Ltd**

Level 16, 1 Market Street

Sydney NSW 2000

PO Box H195

Australia Square NSW 1215

**p** +61 2 9251 4600

**f** +61 2 9251 7138

**e** [info@nexiasydney.com.au](mailto:info@nexiasydney.com.au)

**w** [nexia.com.au](http://nexia.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

Nexia Sydney Audit Pty Ltd (ABN 77 606 785 399) is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

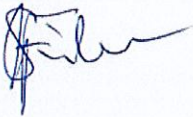
The trademarks NEXIA INTERNATIONAL, NEXIA and the NEXIA logo are owned by Nexia International Limited and used under licence.

## **Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Medcan Australia Trust is not in accordance with the *Trust Deed*, including:

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

## **Nexia Sydney Audit Pty Ltd**



**Stephen Fisher**  
Director

Sydney  
16 May 2018



**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	Note	01.07.2017 to 31.12.2017 \$	07.11.2016 to 31.12.2016 \$
<b>Revenue</b>			
Revenue		-	-
Total revenue		-	-
<b>Expenses</b>			
Expenses		(32,793)	-
Total expenses		(32,793)	-
<b>LOSS BEFORE INCOME TAX</b>		(32,793)	-
Income tax expense		-	-
<b>LOSS FOR THE PERIOD</b>		(32,793)	-
<b>Other comprehensive loss</b>		(32,793)	-
<b>Other comprehensive loss for the period, net of tax</b>		-	-
<b>TOTAL COMPREHENSIVE LOSS</b>		(32,793)	-

**The above condensed statement of comprehensive income should be read  
in conjunction with the accompanying notes.**

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**CONDENSED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

	<b>Note</b>	<b>31.12.2017</b>	<b>30.06.2017</b>
		<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		1,277	10,000
Receivables		629	-
		<u>1,906</u>	<u>-</u>
<b>TOTAL CURRENT ASSETS</b>		<u>1,906</u>	<u>10,000</u>
<b>TOTAL ASSETS</b>		<u>1,906</u>	<u>10,000</u>
<b>CURRENT LIABILITIES</b>			
Loan from related party	6	24,699	-
<b>TOTAL CURRENT LIABILITIES</b>		<u>24,699</u>	<u>-</u>
<b>NET LIABILITIES</b>		<u>(22,793)</u>	<u>10,000</u>
<b>EQUITY</b>			
Settled funds		10,000	10,000
Accumulated losses		(32,793)	-
<b>TOTAL EQUITY</b>		<u>(22,793)</u>	<u>10,000</u>

The above condensed statement of financial position should be read  
in conjunction with the accompanying notes.



**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**CONDENSED STATEMENT OF CHANGES IN UNITHOLDERS' EQUITY**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

	Settled Funds \$	Accumulated Losses \$	Total \$
<b>Balance at 7 November 2016</b>	-	-	-
Profit for the period	-	-	-
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	-	-
Settled funds during the period	10,000	-	10,000
<b>Balance at 30 June 2017</b>	10,000	-	10,000
<b>Balance at 1 July 2017</b>	10,000	-	10,000
Loss for the period	-	(32,793)	(32,793)
Other comprehensive loss for the period	-	-	-
Total comprehensive loss for the period	-	-	-
Settled funds during the period	-	-	(32,793)
<b>Balance at 31 December 2017</b>	10,000	(32,793)	(22,793)

**The above condensed statement of changes in equity should be read  
in conjunction with the accompanying notes.**

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**CONDENSED STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	Note	01.07.2017 to 31.12.2017 \$	07.11.2016 to 31.12.2016 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers		-	-
Cash paid to suppliers		(33,422)	-
<b>Net Cash from Operating Activities</b>		<u>(33,422)</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of units		-	10,000
Loan from Director of Trustee company		24,699	-
<b>Net Cash from Financing Activities</b>		<u>24,699</u>	<u>10,000</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		(8,723)	10,000
Cash and Cash Equivalents at the Beginning of the Financial Period		<u>10,000</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>		<u>1,277</u>	<u>10,000</u>

The above condensed statement of cash flows should be read  
in conjunction with the accompanying notes.

**MEDCAN AUSTRALIA TRUST**  
**ABN 47 984 429 508**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This general purpose financial report for the interim half year reporting period ended 31 December 2017 has been prepared in accordance with applicable Accounting Standards including Accounting Standard AASB 134 *Interim Financial Reporting*, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Trust Deed.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the financial report for the period ended 30 June 2017.

The accounting policies adopted are consistent with those of the previous financial period and corresponding interim reporting period.

The trust has adopted all of the new and revised Accounting Standards and Accounting Interpretations issued by the AASB that are relevant to their operations and effective for the current half-year.

**2 USE OF ESTIMATES AND JUDGEMENTS**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

**3 EVENTS SUBSEQUENT TO THE BALANCE DATE**

On 4 May 2018, Medical Cannabis Ltd acquired a 55% interest in the trust.

There were no other significant changes in the state of affairs of the trust subsequent to 31 December 2017.

**4 SEGMENT INFORMATION**

The Company operates in one segment, the medical cannabis industry.

**5 COMMITMENTS AND CONTINGENCIES**

There are no commitments or contingent liabilities in existence at balance date.

**6 RELATED PARTY TRANSACTIONS**

A Director of the Trustee Company, Craig Cochran, provided a loan to Medcan Australia Trust. The balance of this loan payable as at 31 December 2017 was \$24,699. This loan is interest free, unsecured and there is no fixed date for repayment.