# MGC PHARMACEUTICALS LTD AND CONTROLLED ENTITIES
ABN 30 116 800 269

## APPENDIX 4E-PRELIMINARY FINAL FINANCIAL REPORT

**1. REPORTING PERIOD**
Financial Year end 30 June 2018

**PREVIOUS REPORTING PERIOD**
Financial Year end 30 June 2017

**2. RESULTS FOR ANNOUNCEMENT TO THE MARKET**

| | 30 June 2018 | Change % | 30 June 2017 |
|---|---|---|---|
| Revenue | 296,811 | 146% | 120,242 |
| (Loss) after income tax attributable to members[1] | (8,246,340) | 1.25% | (8,144,361) |
| Net (Loss) for the year attributable to members[1] | (8,246,340) | 1.25% | (8,144,361) |

[1]Includes one-off items relating to the re-measurement of the performance shares issued as part of the consideration for the acquisition of MGC Pharma (UK) Ltd of $1.90million (2017:$1.29 million) and a share based payment expense of $1.07million) (2017: $2.05 million). Refer to notes to financial report for further details.

**Dividends Paid or Recommended**
No dividends have been paid or declared for payment during the financial year.

**3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
Refer 'Consolidated Statement of Comprehensive Income' per the Financial Report.

**4. CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
Refer 'Consolidated Statement of Financial Position' per the Financial Report.

**5. CONSOLIDATED STATEMENT OF CASHFLOWS**
Refer 'Consolidated Statement of Cashflows' per the Financial Report.

**6. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
Refer 'Consolidated Statement of Changes in Equity' per the Financial Report.

**7. DIVIDENDS AND DISTRIBUTIONS**
N/A

**8. DIVIDEND AND DISTRIBUTION PLANS**
N/A

**9. NET TANGIBLE ASSETS PER SHARE**

| | 2018 cents/share | 2017 cents/share |
|---|---|---|
| Net tangible assets per share | 0.50 | 0.90 |

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

On 12 July 2017 the Group completed the disposal of its Erin Mineral Resources Pty Limited ("EMRPL") subsidiary, and the entities EMRPL controls, which hold the remaining Senegal gold assets, to Chesser Resources Ltd.
Refer to note 25 for further details.

## 11. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

N/A

## 12. OTHER SIGNIFICANT INFORMATION

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

## 13. FOREIGN ENTITY REPORTING

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

## 14. COMMENT ON RESULTS

**Review of Operations**

Refer to page 5 of the Financial Report.

**Operating Results**

| | 2018 cents/share | 2017 cents/share |
|---|---|---|
| Earnings per share | (0.73) | (0.84) |
| Net (Loss) for the year attributable to members | (8,246,340) | (8,144,361) |

The net loss after tax for the period includes significant one-off non-cash accounting adjustments relating to the re-measurement of financial liabilities of $1.90 million (2017: $1.29 million) and a share-based payment expense of $1.07 million (2017: $2.05 million). Further details relating to the recognition of these items are disclosed in the notes to the financial statements.

**Segment Analysis**

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

**Discussion of Trends on Performance**

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

## 15. AUDIT STATUS

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

## 16. UNAUDITED FINANCIAL STATEMENTS

N/A

## 17. AUDIT OPINION

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

ABN 30 116 800 269
MGC PHARMACEUTICALS LTD

# FINANCIAL REPORT
# 30 JUNE 2018

## Contents

## Corporate Directory

**Directors**

**Brett Mitchell**

Executive Chairman

**Roby Zomer**

Managing Director

**Nativ Segev**

Executive Director and Head of Business Strategy

**Ross Walker**

Non-Executive Director

**Joint Company Secretaries**

Rachel Kerr & Kate Sainty

**Registered Office and Principal Place of Business**

1202 Hay Street
West Perth WA 6005
Tel: +61 8 6382 3390

**Solicitors**

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000

**Auditors**

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

**Securities Exchange Listing**

MGC Pharmaceuticals Ltd securities are listed on the Australian Securities Exchange (ASX)

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

**Share Registry**

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

**Website**

www.mgcpharma.com.au

## Directors' Report

The Directors present their report on MGC Pharmaceuticals Limited ("the Company") and its controlled entities ("the Group") for the financial year ended 30 June 2018.

**Directors**

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

| Director | Title | Appointment Date | Resignation Date |
|---|---|---|---|
| Brett Mitchell | Executive Chairman | 4 April 2013 | - |
| Roby Zomer | Managing Director | 15 February 2016 | - |
| Nativ Segev | Executive Director & Head of Business Strategy | 15 February 2016 | - |
| Ross Walker | Non-Executive Director | 15 February 2016 | - |

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

**Joint Company Secretaries**

Rachel Kerr held the position of Company Secretary for the full financial year. On 1 January 2018, Kate Sainty was appointed Joint Company Secretary & both retain their role as Joint Company Secretary to the date of this report.

**Principal Activities**

The Company is a European based BioPharma company with many years of technical, clinical and commercial experience in the medical cannabis industry. The Company's founders are key figures in the global medical cannabis industry, and the core business strategy is to develop and supply high quality Cannbinoids based pharmaceutical products for the growing demand in the medical markets in Europe, Australasia and North America.

**Operating Results**

The consolidated loss of the Group from continued operations amounted to $8,990,470 (2017: $8,502,025).

**Dividends Paid or Recommended**

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

## Directors' Report

# Review of Operations

### Corporate

- Roby Zomer appointed Managing Director to implement the Board's strategy across the Pharma, Botanic and Derma divisions. Nativ Segev remains an Executive Director and becomes Head of Business Strategy to drive sales and secure additional distribution pipelines for MXC
- $5m raised via oversubscribed share placement to sophisticated and professional investors and strategic funds, to help establish the Company's Maltese medical cannabis production and cultivation facility and for general working capital

### Pharma division

- Full Good Manufacturing Practice (GMP) Certification and manufacturing licence received for MXC's European production and manufacturing facility in Slovenia, representing a landmark for the Company which now has one of the most advanced facilities in Europe
- First batch of CannEpil™ completed and to undergo one final assessment before commercial sales and distribution can commence
- Malta Enterprise Corporation granted approval and a contract to establish a medical cannabis facility on the 4000m$^2$ of land designated to MXC which demonstrate the agenda of seed-to-pharma operations
- Supply agreements signed with specialist pharmaceutical distributors - HL Pharma in Australia, MW Pharma in New Zealand and Lenis in Europe, paving the way for high revenue generation and expedited distribution of MXC's pharmaceutical products
- Research projects with RMIT advance, with library of cannabinoids established and the research team expanded to explore the properties and uses of medical cannabis in real-life applications

### Botanic division

- Czech Republic's first crop achieves major milestone as cannabidiol is successfully extracted from harvested flowers for use in the production of the Nutraceuticals and Derma ranges, demonstrating the Company's seed-to-sale operations
- The second Czech Republic crop planted in early Q2 2018 and has reached vegetation stage, with harvest expected in Q3 2018
- Genetic research programme at the University of Ljubljana delivers positive results as MXC successfully produces flowers of specific genders and varying levels of CBD and THC content

### Derma division

- Executed binding agreement to supply white-label premium CBD cosmetics to Korean cosmetics manufacturer Varm Cosmo
- Two new research backed and scientifically engineered products launched; the CBD Herbal Replenish Cream and CBD Herbal Repair Cream both targeting oily, itchy, flaky and acne prone skin
- First significant MGC Derma supply agreements signed with leading retailers Cult Beauty and Harvey Nichols to sell MXC's MGC Derma and Derma Plus ranges internationally, strengthening the brands exposure

## Directors' Report

### OPERATIONAL

### MGC Pharma division

A number of major milestones in the MGC Pharma division were delivered in FY18 significantly progressing the Company's seed-to-pharma operations.

**Good Manufacturing Practice (GMP) Certificate and Manufacturing Licence**

During FY18, the MGC Pharma division achieved a major milestone with full GMP certification and manufacturing licence awarded for its European production and manufacturing facility. Receipt of this licence enables the commercial scale production of GMP-grade medical cannabis pharmaceutical products and makes MXC one of the most advanced facilities of its kind within Europe.

The Company's facility in Slovenia was awarded GMP status following the completion of production of its first batch of drug-resistant epilepsy medication – CannEpil™ in March 2018.

**Malta - Awarded First Binding LOI & Designation of Land**

Additionally, MXC was provided a Letter of Intent, granting approval and a contract by Malta Enterprise Corporation to establish a state-of-the-art full medical cannabis production and cultivation facility in Malta and on the 4,000m$^2$ of land designated to MXC by Malta Enterprise in April 2018. MXC was the very first to sign a binding Letter of Intent with the Maltese Authorities for a cultivation operation in March 2018.

This represents a major milestone in the process of obtaining a formal contract to commence construction of the facility, which will house a research hub and once approved a GMP certified production and manufacturing facility. This supports MXC's plan of a fully vertically integrated commercial medical cannabis seed-to-pharma operation.

**Supply & Distribution Agreements**

The Company signed a supply agreement with specialist Australian pharmaceutical distributor HL Pharma and a five year supply and distribution agreement with European pharmaceutical distributor Lenis farmacevtika d.o.o. (Lenis), during the period. Under the terms of the agreements, HL Pharma and Lenis will distribute CannEpil™ and future MGC pharmaceutical products to the European and Australian markets respectively.

The definitive agreements provide a clear pathway for the delivery of the first MXC medical cannabis products to Australian and European epilepsy patients in particular and cements the Company's growth in those markets.

Mabsut sales continue to reach the obligations on the supply agreement, with more products being developed by the MGC R&D team for Mabsut's future product range.

**Research Projects Advanced with RMIT**

MXC's research and development teams received approval from RMIT to construct a state-of-the-art facility on the grounds of the University. Construction of the facility has commenced and will house innovative research teams focussing on breeding and pre-clinical research into melanoma and prostate cancers using medicinal cannabis.

A systematic review of the use of cannabinoids to treat melanoma and prostate cancers is currently underway and early results have been encouraging.

During the financial year, the Company also delivered the world's first library focussed on researching, compiling and analysing information on cannabinoids. Back end and user interface development was completed in late 2017 and the team has now been expanded with the addition of a further two specialist PhD students in FY19 focussing on software development, data retrieval and analytical solutions of the library.

The team are currently working to refine the original prototype database by creating algorithms that can retrieve data from public sources. Once completed, the library will be an internationally recognised must-have tool in research into medicinal cannabis safety, efficacy and the development of personalised medications to drive better patient outcomes.

Further to this, discussions have significantly advanced between MXC, RMIT and a leading university, based in Israel, to establish a Medicinal Cannabis Innovation Hub – a collaborative project focussing on innovative research into the benefits of cannabis as a treatment. Researchers from leading universities worldwide are expected to join to provide the centre with a vibrant and collaborative atmosphere for developing innovative healthcare solutions using medical cannabis.

**MGC Nutraceuticals**

The Pharma division also recently launched its Nutraceuticals range targeted at retail customers. The new product line is available for purchase at http://www.mgcnutraceuticals.com/ and is made up of CBD and hemp-enhanced products. The premium range of vegan and gluten-free products is engineered for daily use containing high-grade phytocannabinoids, proteins and vitamins and is manufactured using CBD from the plants grown in the Czech Republic.

The use of MXC's Hemp proteins and cannabidiol across its other divisions demonstrates the Company's seed-to-sale and seed-to-pharma operations and a fully vertically integrated supply chain.

### MGC Botanic division

The first crop at MXC's Czech Republic facility has reached its first milestone with cannabidiol successfully extracted from the facility's first harvest. The cannabidiol extracted from the flowers of the first crop are being used to produce the Nutraceuticals and Derma ranges - demonstrating MXC's seed-to-sale capabilities.

The seedlings for the first crop were planted in 2017 and harvested following the transfer of the crop into MXC's larger 1,100m$^2$ glasshouse facility.

The second crop at the facility was planted during Q2 2018 and has reached the vegetation stage which is expected to be ready for harvest in late 2018.

Under the Botanic division's partnership with the University of Ljubljana in Slovenia, medicinal cannabis seeds were planted in June 2017 for use in the genetic research program.

The flowers harvested were examined under phase two of the program that focusses on the implementation and optimisation of molecular markers for sex determination and distinction between strains. The research aims to create genetic strains with high levels of CBD and new strains with high tetrahydrocannabinol (THC) levels for the treatment of specific disease symptoms.

Following the phase two examination and using MXC genetics, the mother plants of three selected breeding lines were further analysed and evaluated based on their cannabinoid content and 23 were selected for cross-pollination.

The 23 cross-pollinated flowers were successfully induced to produce female and male plants and the resulting flowers will be further analysed for CBD and THC content. Due to their pharmaceutical grade quality, going forward, plants of adequate quality will be selected for development of a high CBD – low THC seed propagated hemp variety and used to further research into new pharmaceutical products for the treatment of a range of medical conditions.

### MGC Derma division

This year, the MGC Derma division achieved several milestones, signing a number of transformational supply agreements supporting the strategy of creating a global leading cannabidiol (CBD) cosmetic brand and launching two new products into the Derma Plus collection. The MGC Derma division is a 51:49 joint venture with well-credentialed cosmetic manufacturer, Dr. M. Burstein Ltd, of which MGC Pharmaceuticals owns 51% and holds management control.

**Varm Cosmo**

In October 2017, MXC signed a binding supply agreement with Varm Cosmo Inc. for its MGC Derma division to supply five of its CBD cosmetic products in bulk form, to be sold to consumers as part of Varm Cosmo's cosmetics range.

Further to this, the first formal purchase order was received in November 2017, for supply of $8 million of bulk cosmetic products, including an initial $1 million prepayment on this purchase order. This prepayment is yet to

## Directors' Report

be received due to a number of ongoing delays. The MXC Board and management are frustrated by the ongoing delays and have tried to assist Varm Cosmo in completing their delayed product line launch.

**Sales and Distribution Agreements**

MXC signed two additional landmark sales and distribution agreements during the year, the first with leading online beauty retailer Cult Beauty, in February 2018 for the launch of 15 of MGC's cannabidiol cosmetic products and its Derma Plus skin care range via Cult Beauty's platform.

The launch was supported by strong customer interest and sales were driven by a six month exclusive marketing campaign led by Cult Beauty.

Under the second agreement with leading UK retailer Harvey Nichols, 18 premium CBD products from the MGC Derma and Derma Plus collections began sale at Harvey Nichols Knightsbridge flagship store on 29 June 2018. The products are available to consumers in store and online internationally, where legally permitted and the launch was supported by a marketing campaign led by Harvey Nichols.

Agreements with retail partners of this calibre provide MGC Derma an excellent opportunity to immediately increase its revenue and build strategic brand awareness in the high-end retail skincare and cosmetics market.

**Derma Plus Collection**

During the period, MGC Derma launched two new products into the Derma Plus collection; the MGC Derma Plus CBD Herbal Replenish Cream, launched in May 2018 specifically developed for external skin care and relief from inflammatory skin conditions. A study independently assessed the cream on 24 volunteers over a 30 day period and concluded that the following calculated values presented percentage improvement in skin condition on day 301; Dry skin; 71% improvement, flaking skin; 65% improvement, itching skin; 86% improvement. Due to the results, 92% of patients said they would continue using the tested cream[1].

The MGC Derma Plus CBD Herbal Repair Cream launched in January provides daily relief of mild forms of psoriasis. Independent tests to assess the impact on skin irritation, itchiness, flaking and severe dryness concluded that there was a 69% improvement in the skin condition[2]. Psoriasis symptoms were successfully treated through independent tests completed to date include effective reduction of skin irritation (by 69 % after 4 weeks of evaluation), and treatment of skin itchiness, flaking and severe dryness.

**Significant Changes in State of Affairs**

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

**After Reporting Date Events**

| | |
|---|---|
| **13 July 2018** | **GMP Certification and Manufacturing Licence Awarded to MXC's European Facility**<br>The Company's European medicinal cannabis compounding and manufacturing facility is now fully GMP certified, and in addition has also been awarded the manufacturing licence for the production of GMP grade medicinal cannabis based medicines, signifying a major milestone for the Company.<br><br>Receipt of formal licence demonstrates the facility complies with strict European production quality standards during the production process of pharmaceutical grade medicinal cannabis. The immediate production of pharmaceutical grade medicinal cannabis medicines can now commence. |

[1] Independent study sponsored by MGC Pharmaceuticals

[2] Independent study sponsored by MGC Pharmaceuticals

## Directors' Report

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|---|---|
| **31 July 2018** | **Neurology & Epilepsy Expert Joins MXC Medical Advisory Board**<br>Associate Professor Wendyl D'Souza has joined the MXC Medical Advisory Board to lead research and development into medicinal cannabis treatments for Epilepsy and other neurological disorders.<br><br>Associate Professor D'Souza is an Authorised Prescriber of Medicinal cannabis and treats over 3,000 patients with drug-resistant epilepsy from currently available treatments in Australia. |
| **8 August 2018** | **Harvey Nichols Expands MGC Derma Distribution into Two New UK Stores**<br>Harvey Nichols has extended sales of the MGC Derma and Derma Plus collections to an additional two UK stores, tripling the total number of stores and is expected to increase sales accordingly.<br><br>Three MGC Anti-Aging creams have also been short-listed for the Notebook Anti-Aging Beauty Awards providing strong validation of the products' efficacy and booting the products' recognition. |
| **27 August 2018** | **Ethics Approval received for Australian Phase II Clinical Trial into Dementia**<br>In partnership with the Institute for Health Research at the Univertsity of Notre Dame, the Company has received Human Research Ethics Committee approval to conduct a Phase II clinical trial into the benefits of CogniCannTM in Dementia and Alzheimer patients.<br><br>CogniCann™ is one of MXC's medical cannabis pharmaceutical products with a THC:CBD ratio specifically formulated for the treatment of key Dementia symptoms and improving specific cognitive functions . The WA based trial is expected to commence in early 2019. |

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group or the results of those operations of the Group in future financial years.

**Environmental Issues**

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

**Future Developments, Prospects and Business Strategies**

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

**Information on Directors and Secretary**

Names, special responsibilities, qualifications and experience of current directors and company secretaries:

## Directors' Report

| | |
|---|---|
| **Brett Mitchell, BEc** | **Executive Chairman** |
| Qualifications and Experience | Mr Mitchell is a corporate finance executive with over 25 years of experience in the venture capital, capital markets, tech and resources industries.<br><br>He has been involved in the founding, financing and management of both private and publicly-listed companies, including the second listed medical cannabis company on the ASX – MGC Pharmaceuticals Ltd (MXC).<br><br>Brett is also founder and director of Chieftain Securities Pty Ltd, a Perth based Corporate Advisory & Venture Capital firm and founder and shareholder of Graft Polymer (UK) Ltd. |
| Interest in Shares and Options | Brett and Michelle Mitchell <Mitchell Spring Family A/C><br>20,458,889 Ordinary Shares<br><br>Brett and Michelle Mitchell <Lefthanders Super Fund A/C><br>5,735,005 Ordinary Shares |
| Directorships held in other listed entities in the past three years | Sky and Space Global Ltd (12 May 2016 – current)<br>TNT Mines Limited (27 June 2017 – current)<br>Acacia Coal Limited (18 December 2015 – 2 August 2016)<br>Digital CC Limited (5 September 2014 – 24 July 2016) |
| **Roby Zomer** | **Managing Director** |
| Qualifications and Experience | Mr Zomer joined Mr Segev as co-founder of MGC Pharma and then as the Executive Director & CTO, following 10 years of experience in the BioTech and AgroTech sectors, alongside running large scale projects. Mr Zomer brings his extensive list of business contacts and scientific and engineering expertise to ensure MXC is positioned as a leader in research and development, in addition to guaranteeing top performance from global operations.<br><br>Mr Zomer's recent appointment to Managing Director follows successful implementation of MXC's pipelines for pharmaceuticals in Europe and Australia, and indicates MXC's commitment to scientific leadership. |
| Interest in Shares and Options | Chitta Lu Limited<br>10,000,000 Performance Shares<br><br>HSBC Custody Nominees (Australia) Limited<br>30,000,000 Ordinary Shares |
| Directorships held in other listed entities in the past three years | Nil |
| **Nativ Segev** | **Executive Director and Head of Business Strategy** |
| Qualifications and Experience | Mr Segev founded MGC Pharma in 2014 with a goal to expand into international markets and raise the quality of medicinal Phytocannabinoid products, in addition to making them accessible to patients all over the world. Prior to establishing MGC Pharma, Mr. Segev was a leader in the Medical Cannabis industry with a sizeable patient-base.<br><br>He has over 10 years of experience in implementation, legislation and lobbying in the global Medical Cannabis industry, combined with over 15 years of experience in diverse executive roles. |

## Directors' Report

| | |
|---|---|
| Interest in Shares and Options | 20,000,000 Performance Shares<br><br>HSBC Custody Nominees (Australia) Limited<br>52,500,000 Ordinary Shares |
| Directorships held in other listed entities in the past three years | Nil |
| **Ross Walker, MBBS (Hons), FRACP, FCSANZ** | **Non-Executive Director and Chairman of Strategic Advisory Board** |
| Qualifications and Experience | Dr Ross Walker is an eminent practicing cardiologist with over 35 years' experience as a clinician. For the past 20 years, he has been focusing on preventative cardiology and is one of Australia's leading preventative health experts.<br><br>Dr Walker is considered one of the world's best keynote speakers and life coaches, he is the author of seven best-selling books, a health presenter in the Australian Media, including regular appearances on the Nine Network's 'Today Show' and 'A Current Affair', and Sky News, Switzer Business. |
| Interest in Shares and Options | 4,000,000 Ordinary Shares |
| Directorships held in other listed entities in the past three years | Nil |
| **Rachel Kerr** | **Joint Company Secretary** |
| Qualifications and Experience | Mrs Kerr has 9 years' experience as a Company Secretary on both private and public companies, working on acquisitions, capital raisings, listing of companies on ASX, due diligence reviews and compliance of public companies. Mrs Kerr is also Joint Company Secretary of Sky and Space Global. |
| **Kate Sainty** | **Joint Company Secretary** |
| Qualifications and Experience | Mrs Sainty is a Chartered Accountant and Chartered Secretary. Mrs Sainty was appointed to the position of Joint Company Secretary on 1 January 2018 and is an employee of Grange Consulting Group providing a unique range of corporate and financial services to listed and unlisted companies. Mrs Sainty is also Joint Company Secretary of Syntonic Limited. |

## Directors' Report

**Remuneration Report (Audited)**

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

**Remuneration Policy**

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

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

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

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

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

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

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

**Performance-based Remuneration**

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

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

## Directors' Report

**Remuneration Report (continued)**

**Company Performance, Shareholder Wealth and Director and Executive Remuneration**

**Key Management Personnel Remuneration Policy**

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

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

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

**Current Directors**

Mr Brett Mitchell, Executive Chairman

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

Mr Roby Zomer, Managing Director

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

Mr Nativ Segev, Executive Director & Head of Business Strategy

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

## Directors' Report

### Remuneration Report (continued)

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

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

### Details of Remuneration

*Compensation of Key Management Personnel Remuneration*

| Directors | Cash | | | | | Non-Cash | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Short-term Benefits | | | Post-employment benefits | | | | | |
| | Cash and salary | Perfor-mance Bonus | Other | Super-annuation | Termination benefits | Equity | Share based Payments | Total | Perform-ance related % |
| **2018** | | | | | | | | | |
| Brett Mitchell | 320,549 | - | 25,000 | - | - | - | 80,291 | 425,840 | - |
| Nativ Segev | 375,297 | - | 77,483 | - | - | - | 100,364 | 553,144 | - |
| Roby Zomer | 333,805 | - | 84,023 | - | - | - | 80,291 | 498,119 | - |
| Ross Walker | 60,000 | - | 5,000 | - | - | - | 32,360 | 97,360 | - |
| **Total** | **1,089,651** | **-** | **191,506** | **-** | **-** | **-** | **293,306** | **1,574,463** | **-** |
| **2017** | | | | | | | | | |
| Brett Mitchell | 234,403 | 90,000 | 15,000 | - | - | - | 399,709 | 739,112 | 12% |
| Nativ Segev | 277,999 | 105,000 | 63,559 | - | - | - | 499,636 | 946,194 | 11% |
| Roby Zomer | 233,043 | 90,000 | 60,102 | - | - | - | 399,709 | 782,854 | 11% |
| Ross Walker | 60,000 | 5,000 | 17,000 | - | - | - | 131,640 | 213,640 | 2% |
| **Total** | **805,445** | **290,000** | **155,661** | **-** | **-** | **-** | **1,430,694** | **2,681,800** | **36%** |

All Directors have contracts with the Company.

### Option Holdings of Key Management Personnel

**2018**

There were no Unlisted Options held by the Board or Key Management Personnel during the 2018 financial year.

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

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

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

## Directors' Report

### Remuneration Report (continued)

#### Performance Shares held by Key Management Personnel

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

| Directors | Opening Balance | Granted as Compensation | Options Exercised | Net Other Changes | Closing Balance |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Brett Mitchell | - | - | - | - | - |
| Nativ Segev | 20,000,000 | - | - | - | 20,000,000 |
| Roby Zomer | 10,000,000 | - | - | - | 10,000,000 |
| Ross Walker | - | - | - | - | - |
| **Total** | **30,000,000** | **-** | **-** | **-** | **30,000,000** |
| **2017** | | | | | |
| Brett Mitchell | - | - | - | - | - |
| Nativ Segev | 20,000,000 | - | - | - | 20,000,000 |
| Roby Zomer | 10,000,000 | - | - | - | 10,000,000 |
| Ross Walker | - | - | - | - | - |
| **Total** | **30,000,000** | **-** | **-** | **-** | **30,000,000** |

#### Performance Rights held by of Key Management Personnel

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

| Directors | Opening Balance | Granted as Compensation | Performance Rights Exercised | Net Other Changes[1] | Closing Balance |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Brett Mitchell | 10,000,000 | - | - | - | 10,000,000 |
| Nativ Segev | 12,500,000 | - | 12,500,000 | - | - |
| Roby Zomer | 10,000,000 | - | 10,000,000 | - | - |
| Ross Walker | 4,000,000 | - | 4,000,000 | - | - |
| **Total** | **36,500,000** | **-** | **26,500,000** | **-** | **10,000,000** |
| **2017** | | | | | |
| Brett Mitchell | - | - | - | 10,000,000 | 10,000,000 |
| Nativ Segev | - | - | - | 12,500,000 | 12,500,000 |
| Roby Zomer | - | - | - | 10,000,000 | 10,000,000 |
| Ross Walker | - | - | - | 4,000,000 | 4,000,000 |
| **Total** | **-** | **-** | **-** | **36,500,000** | **36,500,000** |

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

#### Shareholdings of Key Management Personnel

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

#### Shareholdings

| Directors | Opening Balance | Granted as Compensation | Performance Rights Exercised | Net Other Changes | Closing Balance |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Brett Mitchell | 16,193,894 | - | - | - | 16,193,894 |
| Nativ Segev | 40,000,000 | - | 12,500,000 | - | 52,500,000 |
| Roby Zomer | 20,000,000 | - | 10,000,000 | - | 30,000,000 |
| Ross Walker | - | - | 4,000,000 | - | 4,000,000 |
| **Total** | **76,193,894** | **-** | **26,500,000** | **-** | **102,693,894** |

## Directors' Report

| | | | | | |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Brett Mitchell | 11,193,894 | - | 5,000,000 | - | 16,193,894 |
| Nativ Segev | 40,000,000 | - | - | - | 40,000,000 |
| Roby Zomer | 20,000,000 | - | - | - | 20,000,000 |
| Ross Walker | - | - | - | - | - |
| **Total** | **71,193,894** | **-** | **5,000,000** | **-** | **76,193,894** |

### Share-based Compensation

**Value of Options**

There were no options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2018.

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel in financial year 2017 as part of compensation are set out below:

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

**End of Remuneration Report**

### Meetings of Directors

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

| | Board Meetings | |
|---|---|---|
| | Number eligible to attend | Number attended |
| Brett Mitchell | 6 | 6 |
| Nativ Segev | 6 | 6 |
| Roby Zomer | 6 | 6 |
| Ross Walker | 6 | 6 |

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

### Corporate Governance

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

### Options

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

| Issue Date | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|
| 6 October 2016, 10 November 2016 | 30 June 2019 | $0.065 | 91,286,089 |
| 2 March 2018 | 31 March 2021 | $0.125 | 20,000,000 |
| 23 March 2018 | 31 March 2021 | $0.125 | 500,000 |
| 17 April 2018 | 30 June 2021 | $0.15 | 10,000,000 |
| **Total** | | | **121,786,089** |

## Directors' Report

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

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

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

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

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

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

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

**Auditor's Independence Declaration**
The lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on page 18 of the financial report.

This report is made in accordance with a resolution of Directors. These financial statements were authorised for issue in accordance with a resolution by the Directors of the Company on 31 August 2018.

Brett Mitchell
Executive Chairman
Dated 31 August 2018

PKF MACK
Accounting, Financial and Business Advisory

# AUDITOR'S INDEPENDENCE DECLARATION

## TO THE DIRECTORS OF MGC PHARMACEUTICALS LTD

In relation to our audit of the financial report of MGC Pharmaceuticals Ltd for the year ended 30 June 2018, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PKF Mack

PKF MACK

SIMON FERMANIS
PARTNER

31 AUGUST 2018
WEST PERTH
WESTERN AUSTRALIA

PKF Mack
ABN 64 591 268 274

Liability limited by a scheme approved under Professional Standards Legislation

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## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

| | | CONSOLIDATED GROUP | |
|---|---|---|---|
| | | 30-Jun-18 | 30-Jun-17 |
| | *Note* | $ | $ |
| Sales revenue | *5a)* | 296,811 | 120,242 |
| Cost of goods sold | *6* | (119,340) | (158,073) |
| **Gross profit** | | **177,471** | **(37,831)** |
| | | | |
| Other income | *5b)* | 191,593 | 127,258 |
| Corporate costs | | (239,437) | (246,203) |
| Professional and consultancy fees | | (851,245) | (1,594,473) |
| Research expense | | (951,323) | - |
| Directors' fees | | (1,258,802) | (1,304,052) |
| Employee benefit expenses | *7* | (812,701) | (767,444) |
| Employee share based payment expense | *7* | (1,072,681) | (2,052,053) |
| Travel expenses | | (291,646) | (276,795) |
| Marketing expenses | | (612,760) | (204,756) |
| Depreciation | | (328,112) | (83,522) |
| Doubtful debt expense | | - | (31,025) |
| Office and administrative expenses | | (216,390) | (143,924) |
| Finance costs | | (99,369) | (19,724) |
| Impairment provision expense | | (207,976) | (237,666) |
| Gain on disposal of subsidiary | | 86,352 | - |
| Loss on disposal of property, plant and equipment | | (27,758) | - |
| Revaluation of investment held | | 19,672 | - |
| Loss on re-measurement of performance shares | *19* | (1,900,000) | (1,290,000) |
| Other expenses | | (595,358) | (339,815) |
| **Loss before income tax** | | **(8,990,470)** | **(8,502,025)** |
| Income tax benefit | *8* | **-** | **-** |
| **Loss after income tax from continuing operations** | | **(8,990,470)** | **(8,502,025)** |
| Loss from discontinued operations | | 1,038 | - |
| **Total loss after income tax** | | **(8,989,432)** | **(8,502,025)** |
| **Loss after income tax benefit for the year attributable to:** | | | |
| Members of the parent entity | | (8,246,340) | (8,144,361) |
| Non-controlling interest | | (743,092) | (357,664) |
| | | **(8,989,432)** | **(8,502,025)** |
| **Other comprehensive income for the year** | | | |
| ***Items that may be reclassified subsequently to profit or loss*** | | | |
| Exchange differences on the translation of foreign operations | | 118,485 | (68,512) |
| **Other comprehensive income (net of tax) for the year** | | **118,485** | **(68,512)** |
| | | | |
| **Total comprehensive loss for the year** | | **(8,870,947)** | **(8,570,537)** |
| **Total comprehensive loss attributable to:** | | | |
| Members of the parent entity | | (8,073,791) | (8,206,658) |
| Non-controlling interest | | (797,156) | (363,879) |
| | | **(8,870,947)** | **(8,570,537)** |
| ***Earnings per share for loss attributable to the ordinary equity holders of the parent:*** | | | |
| ***From continuing and discontinued operations*** | | | |
| Basic loss per share (cents) | *10* | (0.73) | (0.84) |
| Diluted loss per share (cents) | *10* | (0.73) | (0.84) |

The accompanying notes form part of these financial statements

## Consolidated Statement of Financial Position

As at 30 June 2018

| | | CONSOLIDATED GROUP | |
|---|---|---|---|
| | | **30-Jun-18** | **30-Jun-17** |
| | ***Note*** | **$** | **$** |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | *11* | 9,858,977 | 11,363,902 |
| Inventory | *12* | 712,315 | 507,873 |
| Trade and other receivables | *13* | 932,319 | 613,246 |
| **Total Current Assets** | | **11,503,611** | **12,485,021** |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | *15* | 1,334,492 | 1,258,478 |
| Intangible assets | *16* | 7,082,904 | 7,076,166 |
| Other asset | | 72,857 | - |
| **Total Non-Current Assets** | | **8,490,253** | **8,334,644** |
| **TOTAL ASSETS** | | **19,993,864** | **20,819,665** |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *18* | 960,575 | 596,275 |
| Contingent consideration | *19* | 6,270,000 | 4,370,000 |
| **Total Current Liabilities** | | **7,230,575** | **4,966,275** |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Loans to third parties | *20* | 21,556 | 20,311 |
| Deferred revenue | | 47,280 | 44,549 |
| Provisions | | 3,669 | - |
| **Total Non-Current Liabilities** | | **72,505** | **64,860** |
| **TOTAL LIABILITIES** | | **7,303,080** | **5,031,135** |
| **NET ASSETS** | | **12,690,784** | **15,788,530** |
| | | | |
| **EQUITY** | | | |
| Contributed equity | *21* | 48,440,990 | 42,557,404 |
| Share based payment reserve | *22a)* | 3,385,229 | 3,495,614 |
| Foreign currency translation reserve | *22b)* | 136,700 | (35,849) |
| Retained earnings | | (38,030,342) | (29,784,002) |
| **Equity attributable to equity holders of the parent** | | **13,932,577** | **16,233,167** |
| Non-controlling interest | *26* | (1,241,793) | (444,637) |
| **TOTAL EQUITY** | | **12,690,784** | **15,788,530** |

The accompanying notes form part of these financial statements

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

| CONSOLIDATED GROUP | Contributed Equity $ | Share Based Payment Reserve $ | Foreign Currency Translation Reserve $ | Retained Earnings $ | Non-Controlling Interest $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2016** | **32,343,143** | **1,079,564** | **26,448** | **(21,639,641)** | **(80,652)** | **11,728,862** |
| Other comprehensive income | - | - | (62,297) | - | (6,215) | **(68,512)** |
| Loss after income tax expense | - | - | - | (8,144,361) | (357,664) | **(8,502,025)** |
| **Total comprehensive loss for the year** | **-** | **-** | **(62,297)** | **(8,144,361)** | **(363,879)** | **(8,570,537)** |
| Shares issued during the year (net of share issue costs) | 9,803,195 | - | - | - | **-** | **9,803,195** |
| Share based payment | - | 2,827,116 | - | - | **-** | **2,827,116** |
| Transfer to issued capital | 411,066 | (411,066) | - | - | **-** | **-** |
| Recognition of non-controlling interest | - | - | - | - | (106) | **(106)** |
| **Balance at 30 June 2017** | **42,557,404** | **3,495,614** | **(35,849)** | **(29,784,002)** | **(444,637)** | **15,788,530** |
| | | | | | | |
| **Balance at 1 July 2017** | **42,557,404** | **3,495,614** | **(35,849)** | **(29,784,002)** | **(444,637)** | **15,788,530** |
| Other comprehensive income | - | - | 172,549 | - | (54,064) | **118,485** |
| Loss after income tax expense | - | - | - | (8,246,340) | (743,092) | **(8,989,432)** |
| **Total comprehensive loss for the year** | **-** | **-** | **172,549** | **(8,246,340)** | **(797,156)** | **(8,870,947)** |
| Shares issued during the year (net of share issue costs) | 4,310,520 | - | - | - | **-** | **4,310,520** |
| Share based payment | - | 1,462,681 | - | - | **-** | **1,462,681** |
| Transfer to issued capital | 1,573,066 | (1,573,066) | - | - | **-** | **-** |
| Recognition of non-controlling interest | - | - | - | - | - | **-** |
| **Balance at 30 June 2018** | **48,440,990** | **3,385,229** | **136,700** | **(38,030,342)** | **(1,241,793)** | **12,690,784** |

The accompanying notes form part of these financial statements

## Consolidated Statement of Cash Flows

For the year ended 30 June 2018

| | | CONSOLIDATED GROUP | |
|---|---|---|---|
| | | **30-Jun-18** | **30-Jun-17** |
| | ***Note*** | **$** | **$** |
| ***Cash flows from operating activities*** | | | |
| Receipts from customers | | 299,514 | 120,242 |
| Payments to suppliers and employees | | (5,354,718) | (4,871,517) |
| Payments for Research expenses | | (951,323) | - |
| Interest received | | 167,977 | 127,258 |
| Interest paid | | (48,240) | (31,846) |
| **Net cash used in operating activities** | *29* | **(5,886,790)** | **(4,655,863)** |
| ***Cash flows from investing activities*** | | | |
| Proceeds from disposal of exploration assets | | - | 500,000 |
| Cash acquired through asset acquisition | *25* | - | 124 |
| Proceeds from disposal of plant and equipment | | 118,864 | - |
| Purchase of plant and equipment | | (459,443) | (1,131,356) |
| **Net cash used in investing activities** | | **(340,579)** | **(631,232)** |
| ***Cash flows from financing activities*** | | | |
| Repayment of borrowings | | - | (1,000,000) |
| Proceeds from issue of shares and options | | 5,017,365 | 10,533,235 |
| Capital raising costs | | (316,844) | (723,437) |
| **Net cash provided by financing activities** | | **4,700,521** | **8,809,798** |
| **Net (decrease)/ increase in cash and cash equivalents held** | | **(1,526,848)** | **3,522,703** |
| Cash and cash equivalents at beginning of year | | 11,363,902 | 7,895,539 |
| Foreign exchange movement in cash | | 21,923 | (54,340) |
| **Cash and cash equivalents at end of year** | *11* | **9,858,977** | **11,363,902** |

The accompanying notes form part of these financial statements

## Notes to the Financial Statements

### 1. CORPORATE INFORMATION

The financial statements of MGC Pharmaceuticals Limited for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of Directors on 31 August 2018. These consolidated financial statements and notes represent those of MGC Pharmaceuticals Limited (the "Company") and Controlled Entities (the "consolidated group" or "group").

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of Compliance

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

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

#### b) Basis of Preparation

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

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

**Financial report prepared on a going concern basis**

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

During the year ended 30 June 2018 the consolidated group incurred a loss from continuing operations of $8,990,470 (2017: $8,502,025), net operating cash outflows of $5,886,790 (2017: $4,655,863) and year-end cash and cash equivalents balance of $9,858,977 (2017: $11,363,902). Net losses include one-off non-cash adjustments of $1,900,000 (2017: $1,290,000) relating to the re-measurement of performance shares (note 19) and a share based payment expense of $1,072,681 (2017: $2,052,053).

The consolidated group cashflow forecasts for the 12 months ending 31 August 2019 indicate that the consolidated group will be in a position to meet its committed operational and administrative expenditure and thus continue to operate as a going concern.

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

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

#### c) Principles of Consolidation

The consolidated financial statements comprise the financial statements of MGC Pharmaceuticals Ltd and its subsidiaries as at 30 June 2018 ("the Group").

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

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

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

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

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

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

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

**d) Business Combinations**

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

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

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

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

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

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

**e) Investments in Associates and Joint Ventures**

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

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

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

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

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

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

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

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

**f) Intangible Assets**

Intangible assets acquired as part of a business combination or asset acquisition, other than goodwill, are initially measured at their fair value at the date of acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. The gains and losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible

## Notes to the Financial Statements

asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Licenses/permit costs*

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

### g) Plant and Equipment

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

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

Plant and equipment 3-5 years

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

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

### h) Inventories

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

### i) Investments and Other Financial Assets

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

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through the statement of profit or loss. Fair value movements are recognised in the profit or loss.

*Available-for-sale financial assets*

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

*Impairment of financial assets*

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

## Notes to the Financial Statements

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

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

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

### j) Impairment of Non-Financial Assets

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

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

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

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

### k) Cash and Cash Equivalents

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

### l) Trade and Other Receivables

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

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

## Notes to the Financial Statements

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

**m) Trade and Other Payables**

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

**n) Borrowings**

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method.

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

**o) Fair value measurement**

The group measures financial instruments and non-financial assets at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

## Notes to the Financial Statements

**p) Current and Non-Current Classification**

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

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

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

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

The group classifies all other liabilities as non-current.

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

**q) Income Tax**

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

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

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

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

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

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

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

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

*Tax Consolidation*

The Company and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidated legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 21 October

2005. The tax consolidated group has entered a tax funding agreement whereby each company in the group contributes to the income tax payable by the group in proportion to their contributions to the group's taxable income.

**r) Employee Benefits**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the period end in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

**s) Contributed Equity**

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

**t) Foreign Currency Translation**

*Functional and Presentation Currency*

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

*Transactions and Balances*

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

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

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

*Group companies*

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

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

**u) Segment Reporting**

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

## Notes to the Financial Statements

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

### v) Revenue

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

***Sale of goods***

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

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

***Interest income***

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

### w) Government Grants

Government grants are recognised when there is a reasonable assurance that the grant will be received and all attached conditions will be compiled with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

### x) Goods and Services Tax (GST)

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

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

### y) Rounding of Amounts

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

### z) Share Based Payments

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

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

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

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

## Notes to the Financial Statements

**aa) Earnings per Share**

*Basic earnings per share*
Basic earnings per share is calculated by dividing the net profit or loss after income tax attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

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

**bb) Parent entity financial information**

The financial information for the parent entity, MGC Pharmaceuticals Limited, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below:

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

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

**a) Income Taxes**

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

**b) Share Based Payments**

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

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

**c) Contingent Liabilities**

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

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

**d) Estimations and judgements on Intangible Assets**

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

The intangible asset is an integral part of the Slovenian operations becoming the Group's main cash generating unit (CGU), being established as its first fully operational, producing and manufacturing unit, with GMP certification issued to produce API grade products. Accordingly for impairment testing purposes the Slovenian Operation is considered to be the CGU.

The intangible asset was tested for impairment at reporting date using a value in use model and following this assessment it was determined that the recoverable amount of the intangible asset was in excess of its carrying value. In making this assessment significant assumptions, estimates and judgements were made in relation to the growth of the three revenue streams being botanical, cosmetic and medicinal pertaining to the CGU. A conservative discount rate of 10% was applied to net cashflows which is in excess of the Group's current cost of capital.

In addition to the forecast generation of revenues from contracted agreements as reflected in the Group's cashflow forecast, other matters were considered, including the Group's net asset position in comparison to its market capitalization and the ability of the Group to continue to raise capital. The impairment assessment also included a sensitivity analysis.

The Directors believe the forecast net cashflows are achievable from current, contracted distribution agreements in place and the expected market share of medicinal products, in line with announced market data.

## 4. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

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

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

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

### b) Accounting standards issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the group for the annual reporting period ending 30 June 2018, are set out below.

| **Title of standard** | **AASB 9 Financial Instruments** |
|---|---|
| Nature of change | AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. |
| Impact | The group has reviewed its financial assets and liabilities which consist of:<br>- Financial liabilities currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under AASB 9;<br>- The group does not hold any complex financial assets and does not expect the new changes to have any impact on its recognition of financial assets.<br>The new hedge accounting rules also have no impact on the group.<br>The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. |
| Date of adoption by the Group | Must be applied for financial years commencing on or after 1 January 2018. The group will apply the new rules from 1 July 2018, with the practical expedients permitted under the standard. There will be no requirement on restatement of comparatives. |

## Notes to the Financial Statements

| **Title of standard** | **AASB 15 Revenue from Contracts with Customers** |
|---|---|
| Nature of change | The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. |
| Impact | Management has assessed the effects of applying the new standard on the group's financial statements and has identified that revenue is recognised on satisfying performance obligations inhibited in the distribution agreements - being when goods/services are transferred to the customer. This has been applied to all current contracts and agreements in place and revenue recognised on this basis. |
| Date of adoption by the Group | Mandatory for financial years commencing on or after 1 January 2018. The group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. |

| **Title of standard** | **AASB 16 Leases** |
|---|---|
| Nature of change | AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. |
| Impact | Considered to be minimal impact as current leases are in relation to immaterial car leases held by the group. |
| Date of adoption by the Group | Mandatory for financial years commencing on or after 1 January 2018. The group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. |

The group has applied the following standards and amendment for the first time for their annual reporting period commencing 1 January 2018:

- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based payment transactions
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

The adoption of these amendments did not have any impact on the amounts recognised in prior periods and will also not affect the current period or future periods.

### 5. REVENUE AND OTHER INCOME

| | 30-Jun-18 | 30-Jun-17 |
|---|---|---|
| **a) Sales revenue** | **$** | **$** |
| Sales of Cannabinoids | 217,281 | 43,090 |
| Sales of Cosmetics | 79,530 | 77,152 |
| | **296,811** | **120,242** |
| **b) Other income** | | |
| Interest income | 191,593 | 127,258 |
| | **191,593** | **127,258** |

## Notes to the Financial Statements

### 6. COST OF GOODS SOLD

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| Cost of goods sold - Cannabinoids | 79,103 | 72,408 |
| Cost of goods sold - Cosmetics | 40,237 | 85,665 |
| | **119,340** | **158,073** |

### 7. EMPLOYEE EXPENSES

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| Wages and salaries | 804,900 | 767,359 |
| Employee share option expense (note 27d) | 1,072,681 | 2,052,053 |
| Other employee costs | 7,801 | 85 |
| | **1,885,382** | **2,819,497** |

### 8. INCOME TAX BENEFIT

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| **a) The components of income tax expense comprise:** | | |
| current tax | - | - |
| deferred tax | (1,901,865) | (1,216,947) |
| DTA not recognised (losses) | 1,529,144 | 1,349,517 |
| DTA not recognised (temporary) | 372,721 | (132,570) |
| | - | - |
| **b) The prima facie tax on (loss) from continuing operations and discontinued operations before income tax is reconciled to the income tax as follows:** | | |
| Prima facie tax payable on (loss) from continuing operations and discontinued operations before income tax at 27.5% (2017: 27.5%) | (2,472,094) | (2,338,056) |
| *Add: Tax effect of:* | | |
| Other non-allowable items | 318,551 | 980,731 |
| Other assessable items | 251,678 | 140,378 |
| *Less: Tax effect of:* | | |
| Non-assessable items | | |
| DTA not recognised (losses) | 1,529,144 | 1,349,517 |
| DTA not recognised (temporary) | 372,721 | (132,570) |
| **Income tax expense/(benefit)** | **-** | **--** |
| Deferred Tax Assets Not Brought to Account, the benefits of which will only be realised if the conditions for deductibility set out in Note (1q) occur | | |
| Tax Losses | 3,651,169 | 2,880,467 |
| Temporary Differences | 876,588 | 358,115 |
| **Total** | **4,527,758** | **3,238,582** |

### 9. AUDITOR'S REMUNERATION

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| ***Remuneration of the auditors of the group:*** | | |
| Audit fees and review of financial reports - PKF Mack | **39,760** | **42,700** |
| Audit fees and review of financial reports – subsidiaries' auditor | **69,699** | **59,312** |

## Notes to the Financial Statements

### 10. EARNINGS PER SHARE

| | 30-Jun-18 | 30-Jun-17 |
|---|---|---|
| Basic loss per share (cents) | (0.73) | (0.84) |
| Diluted loss per share (cents) | (0.73) | (0.84) |
| | | |
| ***Reconciliation of earnings to profit or loss*** | **$** | **$** |
| (Loss) used in calculating basic and diluted EPS | (8,246,340) | (8,144,361) |
| | | |
| | **Number** | **Number** |
| ***Weighted average number of ordinary shares and potential ordinary shares*** | | |
| Weighted average number of ordinary shares used in calculating basic and diluted EPS | 1,125,542,692 | 966,344,059 |

### 11. CASH AND CASH EQUIVALENTS

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| Cash at bank | 9,858,977 | 11,363,902 |
| | **9,858,977** | **11,363,902** |

### 12. INVENTORY

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| **At Cost** | | |
| Opening balance at 1 July | 507,873 | 157,035 |
| Additions | 172,430 | 360,873 |
| Foreign currency translation reserve | 32,012 | (10,035) |
| | **712,315** | **507,873** |

### 13. TRADE AND OTHER RECEIVABLES

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| **Current** | | |
| Other receivables | 393,432 | 478,651 |
| GST receivable | 68,120 | 122,691 |
| Prepayments | 463,352 | 4,917 |
| Short term loan to third party | 7,415 | 6,987 |
| | **932,319** | **613,246** |

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

### 14. EXPLORATION AND EVALUATION EXPENDITURE – ASSETS HELD FOR SALE

#### a) Assets classified as held for sale

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| Opening balance 1 July 2017 | - | 500,000 |
| Exploration and evaluation asset – carrying value | - | - |
| Sale of exploration and evaluation assets | - | (500,000) |
| | **-** | **-** |

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

## Notes to the Financial Statements

**b) Reconciliation of exploration and evaluation expenditure**

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| Costs brought forward | - | - |
| Additions during the year | - | 10,286 |
| Impairment provision expense during the year | - | (207,849) |
| Amortisation of share based payments (note 27) | - | 197,563 |
| | **-** | **-** |

**15. PLANT AND EQUIPMENT**

| **Plant and equipment** | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| - at cost | 1,701,604 | 1,358,507 |
| - accumulated depreciation | (367,112) | (100,029) |
| | **1,334,492** | **1,258,478** |
| **Plant and equipment movement** | | |
| Opening balance at 1 July | 1,258,478 | 211,074 |
| Additions | 459,022 | 1,146,952 |
| Disposal | (196,293) | - |
| Depreciation | (328,112) | (83,522) |
| Foreign currency translation reserve | 141,397 | (16,026) |
| | **1,334,492** | **1,258,478** |

**16. INTANGIBLE ASSETS**

| **Intangible assets – Licence in Slovenia** | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| Opening balance at 1 July | 7,076,166 | 7,083,665 |
| - at fair value on acquisition (note 25) | - | 425 |
| - foreign currency translation reserve | 6,738 | (7,924) |
| | **7,082,904** | **7,076,166** |

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

**17. CONTROLLED ENTITIES**

The consolidated financial statements of the Group include:

| | Country of | Percentage Owned (%)* | |
|---|---|---|---|
| **Parent Entity:** | **incorporation** | **30-Jun-18** | **30-Jun-17** |
| MGC Pharmaceuticals Limited | Australia | | |
| | | | |
| **Subsidiaries of MGC Pharmaceuticals Limited:** | | | |
| Erin Mineral Resources Limited[2] | Australia | - | 100 |
| MGC Pharma (UK) Limited | UK | 100 | 100 |
| MGC Pharma (Aust) Pty Ltd | Australia | 100 | 100 |
| | | | |
| **Subsidiaries of Erin Mineral Resources Limited:** | | | |
| Erin Minerals Pty Limited[2] | Australia | - | 100 |
| Erin Senegal S.A.U[2] | Senegal | - | 100 |
| | | | |
| **Subsidiaries of MGC Pharma (UK) Limited:** | | | |
| MGC Pharmaceuticals d.o.o | Slovenia | 100 | 100 |
| MGC Derma d.o.o | Slovenia | 51 | 51 |
| Panax Pharma s.r.o[1] | Czech Republic | 80 | 80 |

** Percentage of voting power in proportion to ownership*
*[1]Refer note 25a for further details*
*[2]Refer note 25b for further details*

## Notes to the Financial Statements

### 18. TRADE AND OTHER PAYABLES

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| **Current** | | |
| Trade payables | 808,530 | 464,788 |
| Accruals | 145,400 | 98,972 |
| Other payables | 6,645 | 32,515 |
| | **960,575** | **596,275** |

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

### 19. CONTINGENT CONSIDERATION

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| Opening balance at 1 July | 4,370,000 | 3,080,000 |
| Unrealised fair value movement recognised in profit or loss | 1,900,000 | 1,290,000 |
| | **6,270,000** | **4,370,000** |

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

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

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

**30 June 2018**

As at 30 June 2018 the share price as at that date was $0.066, and the probability of 95% was consistent with prior year; the increase in value of $1,900,000 (2017: $1,290,000) was taken to the consolidated statement of profit or loss and other comprehensive income.

Future developments may require further revisions to the estimate.

### 20. BORROWINGS

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| **Non-current liabilities** | | |
| Loan payable to third party | 21,556 | 20,311 |
| | **21,556** | **20,311** |

### 21. CONTRIBUTED EQUITY

| | 30-Jun-18<br>NUMBER | 30-Jun-17<br>NUMBER | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|---|---|
| Ordinary shares on issue, fully paid | 1,189,830,412 | 1,083,608,703 | 48,440,990 | 42,557,404 |
| VHL shares (note 27) | 13,000,000 | 13,000,000 | - | - |
| | **1,202,830,412** | **1,096,608,703** | **48,440,990** | **42,557,404** |

## Notes to the Financial Statements

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

| **30 June 2018** | **No. Of Shares** | **Issue Price** | **Amount** |
|---|---|---|---|
| Opening balance of 1 July 2017 | **1,096,608,703** | | **42,557,404** |
| | | | |
| Exercise of listed options – 15 December 2017 | 113,637 | 0.065 | 7,386 |
| Conversion of Milestone 1 Performance Rights to Directors – 30 Jan 2018 | 13,500,000 | 0.048 | 648,000 |
| Conversion of Milestone 2 Performance Rights to Directors – 30 Jan 2018 | 9,000,000 | 0.048 | 432,000 |
| Conversion of Milestone 1 Performance Rights to KMP & employees – 30 Jan 2018 | 2,400,000 | 0.041 | 98,400 |
| Conversion of Milestone 2 Performance Rights to KMP & employees – 30 Jan 2018 | 9,626,000 | 0.041 | 394,666 |
| Exercise of listed options – 16 Feb 2018 | 18,940 | 0.065 | 1,231 |
| Exercise of listed options – 23 March 2018 | 37,879 | 0.065 | 2,462 |
| Capital raising placement – 17 April 2018 | 71,428,572 | 0.070 | 5,000,000 |
| Exercise of listed options – 18 May 2018 | 96,681 | 0.065 | 6,284 |
| | | | |
| Less: costs of issue | | | (706,843) |
| **Closing balance at 30 June 2018** | **1,202,830,412** | | **48,440,990** |

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

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

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

**b) Capital risk management**

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

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

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

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. The group is not subject to any externally imposed capital requirements.

## Notes to the Financial Statements

### 22. RESERVES

| | 30-Jun-18 | 30-Jun-17 |
|---|---|---|
| | $ | $ |
| **a) Share based payment reserve** | | |
| Opening balance at 1 July | 3,495,614 | 1,079,564 |
| Share based payment movement during the year | (110,385) | 2,416,050 |
| | **3,385,229** | **3,495,614** |

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

| | 30-Jun-18 | 30-Jun-17 |
|---|---|---|
| | $ | $ |
| **b) Foreign currency translation** | | |
| Opening balance at 1 July | (35,849) | 26,448 |
| Currency translation differences arising during the year | 172,549 | (62,297) |
| | **136,700** | **(35,849)** |

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

### 23. CONTINGENT LIABILITIES AND COMMITMENTS

**COMMITMENTS**

| | 30-Jun-18 | 30-Jun-17 |
|---|---|---|
| | $ | $ |
| No later than one year | 683,889 | 273,540 |
| Later than one year and not later than five years | 847,627 | 240,000 |
| **Total commitments** | **1,531,516** | **513,540** |

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

During the financial year a Letter of Intent was entered into with the Malta Enterprise for the allocation of industrial space to setup a business in Malta for the growing and production of medical cannabis. Contingent on the allocation of a site, the Group are to invest circa €4,300,000 in improvements to site, plant, machinery and equipment, to be implemented within three years from the date of allocation of the site. As at the date of this report the formal allocation of the site is yet to be confirmed.

There were no further commitments nor contingent liabilities other than those disclosed as at 30 June 2018.

### 24. RELATED PARTY TRANSACTIONS

**a) Key Management Personnel Remuneration**

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

**b) Transactions with Director related entities**

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

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

## Notes to the Financial Statements

| Entity | Relationship | Nature of transactions | Transactions Full Year 30-Jun-18 $ | Transactions Full Year 30-Jun-17 $ | Balances Full Year 30-Jun-18 $ | Balances Full Year 30-Jun-17 $ |
|---|---|---|---|---|---|---|
| Mr Brett Mitchell | (i) | Exercise of unlisted options on 30 June 2017 | **-** | **(162,500)** | **-** | **162,500** |
| Brighght HK Ltd (Brighght) | (ii) | (Re-charges to)/reimbursement from Brighght for corporate administration costs | **7,760** | **(1,513)** | **-** | **-** |
| Chieftain Securities Pty Ltd (Chieftain) | (iii) | (Re-charges to) / reimbursement from Chieftain for corporate administration costs | **111,823** | **(170)** | **-** | **62** |
| Chitta Lu Ltd (Chitta Lu) | (iv) | (Re-charges to) / reimbursement from Chitta Lu for corporate administration costs | **4,393** | **3,868** | **-** | **-** |
| Regeneration Pharma Pty Ltd (Regen) | (v) | (Re-charges to) / reimbursement from Regen for corporate administration costs | **(2,930)** | **(141)** | **-** | **155** |
| Sibella Capital Pty Ltd (Sibella) | (vi) | (Re-charges to)/reimbursement from Sibella for corporate administration costs | **(7,402)** | **(9,290)** | **8,105** | **7,740** |
| Sky and Space Global Ltd (SAS) | (vii) | (Re-charges to)/reimbursement from SAS for corporate administration costs | **(15,301)** | **(42,302)** | **2,044** | **2,571** |
| Sputnik Enterprises Ltd (Sputnik) | (viii) | (Re-charges to)/reimbursement from Sputnik for corporate administration costs | **(611)** | **-** | **611** | **-** |
| Graft Polymer (UK) Ltd (Graft Polymer) | (ix) | (Re-charges to)/reimbursement from Graft Polymer for corporate administration costs | **(611)** | **-** | **-** | **-** |
| TNT Mines Ltd (TNT) | (x) | (Re-charges to)/reimbursement from TNT for corporate administration costs | **(5,070)** | **-** | **116** | **-** |

(i) Mr Brett Mitchell is a Director of the Company.
(ii) Brighght HK Ltd is a company associated with Mr Nativ Segev.
(iii) Chieftain Securities Pty Ltd is a company associated with Mr Brett Mitchell.
(iv) Chitta Lu Ltd is a company associated with Mr Roby Zomer.
(v) Regeneration Pharma Pty Ltd is a company associated with Mr Brett Mitchell.
(vi) Sibella Capital Pty Ltd is a company associated with Mr Brett Mitchell.
(vii) Sky and Space Global Ltd (SAS) is a company associated with Mr Brett Mitchel who is currently a Director of SAS.
(viii) Sputnik Enterprises Ltd is a company associated with Mr Brett Mitchell and Mr Roby Zomer, both of whom are Directors.
(ix) Graft Polymer Ltd is a company associated with Mr Roby Zomer who is a Director and Mr Brett Mitchell who is a founder and shareholder.
(x) TNT Mines Limited (TNT) is a company associated with Mr Brett Mitchell who is currently a Director of TNT.

### c) Transactions with related subsidiaries

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

| Entity | Relationship | Amount owed 30-Jun-18 $ | Amount owed 30-Jun-17 $ |
|---|---|---|---|
| *Subsidiaries of MGC Pharmaceuticals Limited:* | | | |
| Erin Minerals Resources Ltd | A wholly owned subsidiary | - | - |
| MGC Pharmaceuticals (Aust) Pty Ltd | A wholly owned subsidiary | 531,560 | 87,436 |
| MGC Pharma (UK) Ltd | A wholly owned subsidiary | 8,614,124 | 5,018,514 |
| *Subsidiaries of Erin Minerals Resources Ltd* | | | |
| Erin Minerals Pty Ltd (refer note 25b) | A wholly owned subsidiary | - | 15,017,264 |
| *Subsidiaries of Erin Minerals Resources Ltd* | | | |
| Erin Senegal S.A.U (refer note 25b) | A wholly owned subsidiary | - | 12,130 |
| *Subsidiaries of MGC Pharma (UK) Ltd* | | | |
| MGC Pharmaceuticals d.o.o | A wholly owned subsidiary | - | 2,328,989 |
| MGC Derma d.o.o | A 51% owned subsidiary | - | 1,436,610 |
| Panax Pharma s.r.o | An 80% owned subsidiary | - | - |

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

## Notes to the Financial Statements

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

**d) Other related party transactions**

There were no other related party transactions.

**25. BUSINESS COMBINATIONS**

**a) Acquisition of Subsidiary**

***30 June 2018***

There were no subsidiaries acquired in the year ended 30 June 2018.

***30 June 2017***

**Acquisition of Panax Pharma s.r.o**

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

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

i) 25% equity in Panax issued;

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

An option (exercisable within 3 years following the end of the 12-month funding period) to acquire the final 20% equity in Panax at the Group's election for €600,000 of the Group's ordinary shares to be issued on a 20-day VWAP at the date of option exercise. As at 30 June 2018 this option has not been exercised.

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

**b) Disposal of Subsidiary**

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

On completion CHZ issued the following as Consideration:

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

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

## Notes to the Financial Statements

| | Sale consideration $ |
|---|---|
| *Fully paid ordinary shares in CHZ* | |
| 1,214,286 shares at $0.042 | 51,000 |
| *Unlisted options in CHZ* | |
| 95,000 unlisted options at $0.013 | 1,235 |
| 95,000 unlisted options at $0.010 | 950 |
| **Total Consideration** | **53,185** |

The Performance Shares are contingent on the completion of certain milestones. The directors currently assess the likelihood of these milestones being achieved at nil and therefore no value is assigned to these performance shares.

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

### 26. NON-CONTROLLING INTEREST

| | 30-Jun-18 $ | 30-Jun-17 $ |
|---|---|---|
| Opening balance at 1 July | (444,637) | (80,652) |
| Non-controlling interest arising on the acquisition of Panax Pharma s.r.o | - | (105) |
| Share of total comprehensive income for the year | (743,092) | (357,664) |
| Foreign currency translation reserve | (54,064) | (6,216) |
| | **(1,241,793)** | **(444,637)** |

### 27. SHARE BASED PAYMENTS

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

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

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

#### a) Valuation of the Voluntary Holding Lock Shares

As part of the acquisition consideration of Erin Mineral Resources Limited (EMRL), Voluntary Holding Lock shares were issued to the EMRL shareholders as performance based consideration relating to the EMRL assets.

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

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

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

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

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

As at 30 June 2017 the shares were fully amortised.

## Notes to the Financial Statements

**b) Valuation of options issued**

***Unlisted options***

***(i) 4 million unlisted options***

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

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

As at 30 June 2017 these options expired.

***(ii) 3.5 million unlisted options***

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

These options expired on 30 June 2017.

***(iii) 2 million unlisted options***

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

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

These options were fully expired as at 30 June 2018.

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

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

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

***(iv) 19 million unlisted options***

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

These options expired on 30 June 2017.

***(v) 20.5 million unlisted options***

Following shareholder approval on 22 November 2017, 20.5m unlisted options were issued to employees subject to the following terms and conditions:

## Notes to the Financial Statements

| | Tranche 1 | Tranche 2 | Tranche 3 | Total |
|---|---|---|---|---|
| Number of options | 8,250,000 | 8,250,000 | 4,000,000 | 20,500,000 |
| Fair value per option | 0.058 | 0.058 | 0.058 | - |
| Total value of the issue | 478,500 | 478,500 | 232,000 | 1,189,000 |

The following milestones are also applied to tranches 1 and 2 above:

| | Milestone | Probability | Weighting | Milestone date |
|---|---|---|---|---|
| 1) | 50% of the unlisted options issues will vest after twelve (12) months of continuous service to 31 January 2019 | 100% | 50% | 31 Jan 2019 |
| 2) | 50% of the unlisted options issued will vest upon the MGC Pharmaceutical Ltd consolidated group achieving sales over AUD$1,000,000 | 100% | 70% | 31 Mar 2021 |

Tranche 3 are not subject to any vesting conditions and vest immediately on issue.

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

| | Tranche 1 | Tranche 2 | Tranche 3 |
|---|---|---|---|
| Valuation date | 22 Nov 2017 | 22 Nov 2017 | 22 Nov 2017 |
| Dividend yield (%) | Nil | Nil | Nil |
| Expected volatility (%) | 103% | 103% | 103% |
| Risk-free interest rate (%) | 1.91% | 1.91% | 1.91% |
| Expected life of option (years) | 3.5 | 3.5 | 3.5 |
| Option exercise price ($) | $0.125 | $0.125 | $0.125 |
| Share price at grant date ($) | $0.094 | $0.094 | $0.094 |
| Expiry date | 31 Mar 2021 | 31 Mar 2021 | 31 Mar 2021 |
| Performance conditions | As above | As above | As above |

***(vi) 10m unlisted options***

10m unlisted options were issued for lead advisory services following the $5m placement completed on 17 April 2018. The options are exercisable at $0.15 on or before 30 June 2021.

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

| | |
|---|---|
| Valuation date | 22 Nov 2017 |
| Dividend yield (%) | Nil |
| Expected volatility (%) | 101% |
| Risk-free interest rate (%) | 2.14% |
| Expected life of option (years) | 3.5 |
| Option exercise price ($) | $0.15 |
| Share price at grant date ($) | $0.075 |
| Expiry date | 30 Jun 2021 |
| Valuation of option | $0.039 |
| Total value of option | 390,000 |

These costs are included in costs of capital for the year ended 30 June 2018.

***Listed options***

***(vii) 56 million listed options***

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

***(viii) 35 million listed options***

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

## Notes to the Financial Statements

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

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

**c) Issue of Performance Rights**

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

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

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

| Number of Performance Rights issued | | Milestone | Probability | Weighting | Milestone date |
|---|---|---|---|---|---|
| 21,900,000 | 3) | Continuous service in their capacity as a Director or Executive of the Company from the date of issue to 31 December 2016 | 100% | 60% | 31 Dec 2016 |
| 14,600,000 | 4) | Continuous service in their capacity as a Director or Executive of the Company from the date of issue to 31 December 2017 | 100% | 40% | 31 Dec 2017 |

***(ii) 22.2 million Performance Rights***

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

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

| Number of Performance Rights issued | | Milestone | Probability | Weighting | Milestone date |
|---|---|---|---|---|---|
| 12,200,000 | 1) | From the date of issue to 31 December 2016 | 100% | 33% | 24 Feb 2017 |
| | 2) | From the date of issue to 31 December 2017 | | 33% | 31 Dec 2017 |
| | 3) | From the date of issue to 31 December 2018 | | 34% | 31 Dec 2018 |
| 10,000,000 | 1) | From the date of issue to 24 February 2017 | 100% | 60% | 24 Feb 2017 |
| | 2) | From the date of issue to 31 December 2017 | | 40% | 31 Dec 2017 |

## Notes to the Financial Statements

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

| As at 30 June 2018 | Note | Number of VHL shares/ unlisted options | Vesting date | Value $ | Share based payment at 30 June $ |
|---|---|---|---|---|---|
| **Opening balance – VHL shares** | | | | | |
| VHL shares issued | | 13,000,000 | | 0.069 | 906,588 |
| **Movement during the year:** | | | | | |
| Amortisation expense | *27a)* | - | | | - |
| **Total VHL share** | | **13,000,000** | | | **906,588** |
| **Opening balance – Unlisted options** | | | | | |
| Unlisted options issued | | 2,000,000 | | | 370,538 |
| **Movement during the year:** | | | | | |
| Unlisted options expired | *27bii)* | (2,000,000) | | | - |
| Unlisted options issued to KMP (milestone 1) | *27bv)* | 8,000,000 | 31/01/19 | 0.058 | 234,667 |
| Unlisted options issued to KMP (milestone 2) | *27bv)* | 8,000,000 | 31/03/21 | 0.058 | 58,331 |
| Unlisted options issued | *27bv)* | 4,000,000 | 02/03/18 | 0.058 | 232,000 |
| Unlisted options issued | *27bv)* | 250,000 | 31/01/19 | 0.058 | 7,333 |
| Unlisted options issued | *27bv)* | 250,000 | 31/03/21 | 0.058 | 1,823 |
| Unlisted options issues to consultant | *27bvi)* | 10,000,000 | 15/05/18 | 0.039 | 390,000 |
| **Total unlisted options** | | **30,500,000** | | | **1,294,692** |
| **Opening balance – Listed options** | | | | | |
| Listed options issued | *27bviii)* | 91,553,226 | | | 577,500 |
| **Movement during the year:** | | | | | |
| Listed options exercised | *21a)* | (267,137) | | | - |
| **Total listed options** | | **91,286,090** | | | **577,500** |
| **Opening balance - Performance rights** | | | | | |
| Performance rights issued | | 48,674,000 | | | 1,640,988 |
| **Movement during the year:** | | | | | |
| Conversion of Performance rights issued (milestone 1) | *21a)* | (13,500,000) | 30/01/18 | 0.048 | (648,000) |
| Conversion of Performance rights issued (milestone 2) | *21a)* | (9,000,000) | 30/01/18 | 0.048 | (432,000) |
| Conversion of Performance rights issued (milestone 1) | *21a)* | (2,400,000) | 30/01/18 | 0.041 | (98,400) |
| Conversion of Performance rights issued (milestone 2) | *21a)* | (1,600,000) | 30/01/18 | 0.041 | (65,600) |
| Conversion of Performance rights issued (milestone 2) | *21a)* | (8,026,000) | 30/01/18 | 0.041 | (329,066) |
| Performance rights issued (milestone 2) | *27c)* | - | 31/12/17 | 0.048 | 260,945 |
| Performance rights issued (milestone 2) | *27c)* | - | 31/12/17 | 0.041 | 82,894 |
| Performance rights issued (milestone 3) | *27c)* | - | 31/12/18 | 0.041 | 162,327 |
| Performance rights issued (milestone 2 | *27c)* | - | 31/12/17 | 0.041 | 32,361 |
| Performance right cancelled (milestone 3) | *27c)* | (510,000) | 18/05/18 | - | - |
| **Total Performance rights** | | **13,638,000** | | | **606,449** |
| **Total share based payment reserve** | | | | | **3,385,229** |

## Notes to the Financial Statements

| **As at 30 June 2017** | ***Note*** | **Number of VHL shares/ unlisted options** | **Vesting date** | **Value $** | **Share based payment at 30 June $** |
|---|---|---|---|---|---|
| **Opening balance – VHL shares** | | | | | |
| VHL shares issued | | 13,000,000 | | 0.069 | 906,588 |
| **Movement during the year:** | | | | | |
| Amortisation expense | | - | | | 186,110 |
| **Total VHL share** | | **13,000,000** | | | **906,588** |
| | | | | | |
| **Opening balance – Unlisted options** | | | | | |
| Unlisted options issued | | 18,750,000 | | | 359,086 |
| **Movement during the year:** | | | | | |
| Unlisted options expense | | - | 14/09/13 | 0.0140 | 11,452 |
| Unlisted options expired | | (4,000,000) | | | - |
| Unlisted options exercised | | (12,750,000) | | | - |
| **Total unlisted options** | | **2,000,000** | | | **370,538** |
| | | | | | |
| **Opening balance – Listed options** | | | | | |
| Listed options issued | | - | | | - |
| **Movement during the year:** | | | | | |
| Listed options issued | | 56,818,380 | 06/10/16 | 0.0165 | - |
| Listed options issued | | 35,000,000 | 10/11/16 | 0.0165 | **577,500** |
| Listed options exercised | | (265,154) | | | - |
| **Total listed options** | | **91,553,226** | | | **577,500** |
| | | | | | |
| **Opening balance - Performance rights** | | | | | |
| Performance rights issued | | - | | | - |
| **Movement during the year:** | | | | | |
| Performance rights issued (milestone 1) | | 19,500,000 | 31/05/17 | 0.048 | 936,000 |
| Performance rights issued (milestone 2) | | 13,000,000 | 31/12/17 | 0.048 | 363,055 |
| Performance rights issued (milestone 1) | | 10,026,000 | 7/03/17 | 0.041 | 411,066 |
| Performance rights issued (milestone 2) | | 8,026,000 | 31/12/17 | 0.041 | 166,739 |
| Performance rights issued (milestone 3) | | 4,148,000 | 31/12/18 | 0.041 | 43,554 |
| Performance rights issued (milestone 1) | | 2,400,000 | 31/05/17 | 0.041 | 98,400 |
| Performance rights issued (milestone 2) | | 1,600,000 | 31/12/17 | 0.041 | 33,240 |
| Conversion of performance rights (milestone 1) | | (10,026,000) | 7/03/17 | 0.041 | (411,066) |
| **Total Performance rights** | | **48,674,000** | | | **1,640,988** |
| **Total share based payment reserve** | | | | | **3,495,614** |

**28. SEGMENT REPORTING**

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

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

## Notes to the Financial Statements

The Europe operations relate to MGC Slovenia, MGC Derma and Panax which, based on their level of activities for the year ended 30 June 2018, have been aggregated as one reportable operating segment as each company exhibit similar economic characteristics in respect of their inputs, processes, outputs and their regulatory environments, being that of the production and sale of medicinal cannabis for pharmaceutical and cosmetic purposes.

| | Europe | Australia | Elimination | Consolidated Group |
|---|---|---|---|---|
| **30 June 2018** | **$** | **$** | **$** | **$** |
| **Total assets** | **3,107,824** | **19,024,766** | **(2,138,726)** | **19,993,864** |
| **Total liabilities** | **8,832,834** | **6,956,590** | **(8,486,344)** | **7,303,080** |
| | | | | |
| **Sales revenues** | **296,811** | **-** | **-** | **296,811** |
| **Loss for the year:** | | | | |
| Members of the parent entity | (2,045,280) | (13,504,433) | 7,475,922 | (8,073,791) |
| Non-controlling interest | (797,156) | - | - | (797,156) |
| **Total comprehensive loss for the year** | **(2,842,436)** | **(13,504,433)** | **7,475,922** | **(8,870,947)** |
| | | | | |
| **30 June 2017** | | | | |
| **Total assets** | **2,550,388** | **24,251,455** | **(5,982,178)** | **20,819,665** |
| **Total liabilities** | **5,141,255** | **4,452,990** | **(4,563,110)** | **5,031,135** |
| | | | | |
| **Sales revenues** | **120,242** | **-** | **-** | **120,242** |
| **Loss for the year:** | | | | |
| Members of the parent entity | (2,976,639) | (5,230,019) | - | (8,206,658) |
| Non-controlling interest | (363,879) | - | - | (363,879) |
| **Total comprehensive loss for the year** | **(3,340,518)** | **(5,230,019)** | **-** | **(8,570,537)** |

### 29. CASH FLOW INFORMATION

| | 30-Jun-18 | 30-Jun-17 |
|---|---|---|
| | $ | $ |
| ***Reconciliation of Cash Flow from Operations with Loss after Income Tax*** | | |
| (Loss) after income tax | (8,989,432) | (8,502,025) |
| Cash flows excluded from loss attributable to operating activities | | |
| Non-cash flows in loss | | |
| Depreciation and amortisation | 328,112 | 83,522 |
| Impairment expense | 207,976 | 227,380 |
| Share based payment expense | 1,072,681 | 2,629,553 |
| Doubtful debt expense | - | 31,025 |
| Loss on re-measurement of financial liability | 1,900,000 | 1,290,000 |
| Gain / (Loss) on disposal of subsidiary | (86,352) | - |
| Revaluation of investment held | (19,672) | - |
| Exchange differences | (140,888) | (68,512) |
| Changes in assets and liabilities, net of the effects of purchase of subsidiaries | | |
| (Increase) in inventory | (204,442) | (350,838) |
| (Increase) in trade and other receivables | (319,073) | (135,874) |
| Increase in trade payables and accruals | 364,300 | 139,906 |
| **Cash flow from operations** | **(5,886,790)** | **(4,655,863)** |

### 30. FINANCIAL RISK MANAGEMENT

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

## Notes to the Financial Statements

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

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

**Market risks**

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

*Interest rate risk*

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

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

| | Floating interest rate | 1 Year or less | Over 1 to 5 years | Non-interest bearing | Remaining contractual maturities | Weighted average interest rate |
|---|---|---|---|---|---|---|
| **30 June 2018** | **$** | **$** | **$** | **$** | **$** | **%** |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 9,857,489 | 9,857,489 | - | 1,488 | 9,858,977 | **1.94** |
| Other receivables | - | - | - | 7,415 | 7,415 | |
| | **9,857,489** | **9,857,489** | **-** | **8,903** | **9,866,392** | |
| **Financial liabilities** | | | | | | |
| Other payables and sundry accruals | - | - | - | 960,575 | 960,575 | |
| Borrowings | - | - | - | - | - | |
| Loans payable and deferred revenue | - | - | - | 68,836 | 68,836 | |
| | **-** | **-** | **-** | **1,029,411** | **1,029,411** | |
| **30 June 2017** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 11,361,882 | 11,361,882 | - | 2,020 | 11,363,902 | **1.12%** |
| Other receivables | - | - | - | 6,987 | 6,987 | |
| | **11,361,882** | **11,361,882** | **-** | **9,007** | **11,370,889** | |
| **Financial liabilities** | | | | | | |
| Other payables and sundry accruals | - | - | - | 596,275 | 596,275 | |
| Borrowings | - | - | - | - | - | **-** |
| Loans payable and deferred revenue | - | - | - | 64,860 | 64,860 | |
| | **-** | **-** | **-** | **661,135** | **661,135** | |

At 30 June 2018, if interest rates had changed by -/+100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been $98,575 lower/higher (2017: $113,619).

*Liquidity risk*

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

## Notes to the Financial Statements

*Credit risk*

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

*Foreign currency risk*

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the GBP (£), Euro (€) and CZK (Kč).

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

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

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

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| ***Trade payables in denomination currency*** | | |
| Trade payables – EUR (€) | 161,827 | 197,074 |
| Trade payables – CZK (Kč) | 14,041 | 215,782 |
| ***Cash and cash equivalents held in denomination currency*** | | |
| Cash and cash equivalents – EUR (€) | 429,540 | 250,626 |
| Cash and cash equivalents – GBP (£) | 40,666 | 27,520 |
| Cash and cash equivalents – CZK (Kč) | 104,237 | 9,905 |
| Cash and cash equivalents – XOF | - | 121 |
| ***Consolidated entity sensitivity*** | | |
| Exchange rates per AUD as at 30 June | | |
| EUR (€) | 0.6336 | 0.6729 |
| GBP (£) | 0.5603 | 0.5911 |
| CZK (Kč) | 16.4663 | 17.6266 |
| XOF | 415.61 | 441.36 |

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

**FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

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

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

| **30 June 2018** | **Level 1<br>$** | **Level 2<br>$** | **Level 3<br>$** | **Total<br>$** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Other Financial assets | 53,185 | - | - | 53,185 |
| Fair value movement in the period | 19,672 | - | - | 19,672 |
| **Closing balance at 30 June 2018** | **72,857** | **-** | **-** | **72,857** |
| **Financial liabilities** | | | | |
| Financial liabilities designated at fair value through profit or loss: | | | | |
| *Contingent consideration* | | | | |
| Opening balance at 1 July | - | - | 4,370,000 | **4,370,000** |
| Fair value movement in the period | - | - | 1,900,000 | **1,900,000** |
| **Closing balance at 30 June 2018** | **-** | **-** | **6,270,000** | **6,270,000** |

## Notes to the Financial Statements

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

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

The fair value of financial instruments recognised under Level 1 are measured based on the active market value, determined in this case by the value a third party is willing to pay for the assets (refer note 14a).

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

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

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

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

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

| | 30-Jun-2018 $'000 | | 30-Jun-2017 $'000 | |
|---|---|---|---|---|
| | **Profit/(loss)** 5% increase | **Profit/(loss)** 5% decrease | **Profit/(loss)** 5% increase | **Profit/(loss)** 5% decrease |
| **Probability** | **(330)** | **330** | **(230)** | **230** |
| **Share price** | **(314)** | **314** | **(219)** | **219** |

**iii) Fair value of other financial instruments**

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

**31. PARENT COMPANY DISCLOSURES**

**i) Summary of financial information**

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

## Notes to the Financial Statements

| | 30-Jun-18<br>$ | 30-Jun-17<br>$ |
|---|---|---|
| Current assets | 9,413,667 | 11,314,902 |
| Non-current assets | 9,694,618 | 13,021,088 |
| **Total Assets** | **19,108,285** | **24,335,990** |
| | | |
| Current liabilities | 6,417,501 | 4,447,518 |
| **Total Liabilities** | **6,417,501** | **4,447,518** |
| | | |
| Contributed equity | 48,440,991 | 42,557,404 |
| Share based payment reserve | 3,385,230 | 3,495,614 |
| Accumulated losses | (39,135,437) | (26,164,546) |
| **Total Equity** | **12,690,784** | **19,888,472** |
| | | |
| **Loss for the year** | **(12,970,891)** | **(6,215,248)** |
| **Total comprehensive loss for the year** | **(12,970,891)** | **(6,215,248)** |

**ii) Commitments and contingent liabilities of the parent**

The parent entity did not have any contingent liabilities or commitments, as at 30 June 2018 (30 June 2017: nil) other than as disclosed at note 23.

**iii) Guarantees entered into the parent entity**

There were no guarantees entered into by the parent entity.

## Notes to the Financial Statements

### 32. EVENTS AFTER THE REPORTING DATE

| | |
|---|---|
| **13 July 2018** | **GMP Certification and Manufacturing Licence Awarded to MXC's European Facility**<br>The Company's European medicinal cannabis compounding and manufacturing facility is now fully GMP certified, and in addition has also been awarded the manufacturing licence for the production of GMP grade medicinal cannabis based medicines, signifying a major milestone for the Company.<br><br>Receipt of formal licence demonstrates the facility complies with strict European production quality standards during the production process of pharmaceutical grade medicinal cannabis. The immediate production of pharmaceutical grade medicinal cannabis medicines can now commence. |
| **31 July 2018** | **Neurology & Epilepsy Expert Joins MXC Medical Advisory Board**<br>Associate Professor Wendyl D'Souza has joined the MXC Medical Advisory Board to lead research and development into medicinal cannabis treatments for Epilepsy and other neurological disorders.<br><br>Associate Professor D'Souza is an Authorised Prescriber of Medicinal cannabis and treats over 3,000 patients with drug-resistant epilepsy from currently available treatments in Australia. |
| **8 August 2018** | **Harvey Nichols Expands MGC Derma Distribution into Two New UK Stores**<br>Harvey Nichols has extended sales of the MGC Derma and Derma Plus collections to an additional two UK stores, tripling the total number of stores and is expected to increase sales accordingly.<br><br>Three MGC Anti-Aging creams have also been short-lifted for the Notebook Anti-Aging Beauty Awards providing strong validation of the products' efficacy and booting the products' recognition. |
| **27 August 2018** | **Ethics Approval received for Australian Phase II Clinical Trial into Dementia**<br>In partnership with the Institute for Health Research at the Univertsity of Notre Dame, the Company has received Human Research Ethics Committee approval to conduct a Phase II clinical trial into the benefits of CogniCannTM in Dementia and Alzheimer patients.<br><br>CogniCann™ is one of MXC's medical cannabis pharmaceutical products with a THC:CBD ratio specifically formulated for the treatment of key Dementia symptoms and improving specific cognitive functions . The WA based trial is expected to commence in early 2019. |

### 33. DIVIDENDS

No dividends have been paid or provided during the year.

## Directors' Declaration

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

1. The financial statements and notes, as set out in pages 19 to 54, are in accordance with the *Corporations Act 2001* and:

    a) comply with Accounting Standards and the Corporations Regulations 2001;
    b) are in accordance with International Financial Reporting Standards, as stated in note 2a to the financial statements; and
    c) give a true and fair view of the Company's and consolidated group's financial position as at 30 June 2018 and their performance for the year ended on that date.

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

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

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

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

Brett Mitchell
Executive Chairman
31 August 2018

PKF Mack

Accounting, Financial and Business Advisory

# INDEPENDENT AUDITOR'S REPORT

# TO THE MEMBERS OF MGC PHARMACEUTICALS LTD

## Report on the Financial Report

## Opinion

We have audited the accompanying financial report of MGC Pharmaceuticals Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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

i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

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

## Basis for Opinion

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

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

## Independence

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

## Key Audit Matters

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

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**Carrying value and impairment of intangible asset**

| Why significant | How our audit addressed the key audit matter |
| --- | --- |
| At reporting date, the consolidated entity has a capitalised intangible asset totalling $7,082,904 as disclosed in Note 16. The intangible asset is a significant component of the Statement of Financial Position as at 30 June 2018 at 35% of total assets.<br><br>The intangible asset relates to a licence to grow industrial cannabis and is determined to have an indefinite useful life. Under Australian Accounting Standards, an entity shall assess an intangible asset with an indefinite useful life for impairment on an annual basis. The intangible asset forms an integral part of the Slovenian operation. Therefore, for the purposes of impairment testing, the Slovenian operation is designated to be the cash generating unit (CGU). Management have assessed the recoverable amount of the CGU by applying a value-in-use approach to model the discounted value of future cash flows. This model incorporates management judgements about key assumptions, such as future growth of revenue streams and the discount rate that may be impacted by future economic conditions.<br><br>As a result of the impairment testing no impairment was recognised at year end on the capitalised intangible asset.<br><br>The consolidated entity's accounting policy in relation to impairment of intangible assets, including key assumptions, judgements and estimates used in the consolidated entity's assessment of impairment of intangible assets, are set out in the financial report in Note 3 (d). | We assessed management's CGU designation and considered the reasonableness of the judgments and estimates used in management's value-in-use model prepared to test for impairment at reporting date.<br><br>Our assessment included gaining an understanding of activities and progress to date including reviewing contractual arrangements entered into. We considered management's future plans and intentions in the context of the value-in-use model.<br><br>We also considered the adequacy of the financial report disclosures concerning the judgemental nature of the consolidated entity's assessment of impairment of this intangible asset. These key assumptions, judgements and estimates are set out in the financial report in Note 3 (d). |

### Valuation of share based payments

| Why significant | How our audit addressed the key audit matter |
|---|---|
| For the year ended 30 June 2018 the value of share based payments issued and recognised in the Financial Report totalled $1,462,681 the current year movement as disclosed in note 27 (d).<br><br>The consolidated entity's accounting judgement and estimates in respect of share based payments is outlined in Note 3(b) and the valuation assumptions for current year share based payment issues is detailed in Note 27(b) (v) & (vi). Significant judgement is required in relation to:<br><br>• The valuation method used in the models; and<br><br>• The assumptions and inputs used within the model. | Our work included, but was not limited to, the following procedures:<br><br>• We assessed the reasonableness of the assumptions used in the valuation of the share based payments expense as well as testing the accuracy of the calculations themselves;<br><br>• We also agreed the terms of the share based payments to market announcements and ensured the terms announced were consistent with those used in the model;<br><br>• We ensured the ongoing vesting expense in relation to share based payments issued in prior periods was accurate; and<br><br>• We assessed the appropriateness of the related disclosures in notes 3(b) and 27. |

## Other Information

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

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

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

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

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

## Directors' Responsibilities for the Financial Report

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

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

## Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

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

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

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

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

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

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

## Opinion

In our opinion, the Remuneration Report of MGC Pharmaceuticals Ltd for the year ended 30 June 2018 complies with section 300A of the Corporations Act 2001.

## Responsibilities

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

PKF Mack

PKF MACK

SIMON FERMANIS
PARTNER

31 AUGUST 2018
WEST PERTH
WESTERN AUSTRALIA