Medical Cannabis Ltd

ABN 53 604 732 612

and Controlled Entities

Annual Report

For the year ended 30 June 2018

Contents

Directors' report

The Directors present their report on Medical Cannabis Ltd together with relevant financial statements, consisting of Medical Cannabis Ltd ("MCL" or the "Company") and the entities it controlled at the end of or during the year ended 30 June 2018 ("the Group").

Directors

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

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

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

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

Sholom joined MCL in March 2017 following QBL's investment in the business. He has accelerated the growth of MCL since appointment, including the development of strategic partnerships and joint ventures for medical cannabis along with the vertical integration of the nutritional hemp division. Sholom has nearly 20 years of experience as a managing director for both ASX-listed and private companies.

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

Andrew is a founding director of MCL from March 2015. He has a long, in-depth association with hemp production and research into the therapeutic properties of cannabis. Andrew was the responsible coordinator working under permit to cultivate and research Australia's only high-THC cannabis for trials in 2001. He is a published author of cannabis research, including Medical Uses of Cannabis – Information for Medical Practitioners and has extensive experience in cannabis regulation and a regular participant in Parliamentary Inquiries on cannabis-related law reform issues.

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

Gary is a Fellow of Chartered Accountants Australia and New Zealand and holds a Bachelor of Commerce. Gary has accounting, corporate governance and corporate services experience.

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

David holds a Bachelor of Science (Geology and Environmental Science) and has successfully taken two companies through IPO in the last 10 years. David has a track record of progressing mining projects through to development.

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

Terry holds a Bachelor of Business and is a member of the Chartered Accountants Australia and New Zealand. He is a former partner of KPMG and is on the board of various listed companies.

Principal activities

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

- **VitaSeeds Pty Ltd (growing and cultivating):** MCL's growing and cultivating division gathers seed from existing production locations in both New South Wales and Victoria. The majority of the biomass collected is for nutritional hemp food products, while MCL does have a small growing facility in NSW for growing cannabis for genetic breeding purposes.
- **VitaHemp Pty Ltd (retail products – marketing):** The retail division largely encompasses nutritional hemp, where MCL has rights to package and distribute low THC hemp food products, such as protein powder, edible seeds and hemp oil.
- **Medical Cannabis Research Group Pty Ltd (medical research):** MCL's medical division seeks to take advantage of the company's seed bank and management regulatory experience to develop and progress medical applications of cannabis, including in association and collaboration with the world's leading cannabis researchers, including with world leading researchers at the Haifa Technion in Israel.

Review of operations

The consolidated profit for the year ended 30 June 2018 was $432,227 (2017 loss $363,211).

Significant changes in the state of affairs

The company is currently in the process of an additional 45% being acquired by ASX Listed Queensland Bauxite Limited (QBL) which is expected to conclude in January 2019. Following this, MCL will be a wholly owned subsidiary of QBL. QBL is in the process of changing its name to Cann Global Limited, ASX code CGB.

Events subsequent to the balance date

On 14 September 2018, the shareholders of ASX listed Queensland Bauxite Limited (ASX:QBL) approved the acquisition of a further 45% interest in MCL by the issue of 1,216,664,121 QBL shares. No other matters or circumstances have arisen since the end of the financial year that significantly affect or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Likely developments and expected results of operations

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

Dividends

No dividends were paid or declared during the financial year.

Environmental regulations

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

Unissued shares under option

There were no unissued ordinary shares of Medical Cannabis Ltd under option at the date of this report.

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 proceeding to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year

Directors' meetings

During the financial year, 4 meetings of directors (including committees of directors) was held. Attendance by each director during the year was as follows:

	Board Meetings	
	Eligible	**Attended**
Pnina Feldman (Chair)	4	4
Sholom Feldman	4	4
Andrew Kavasilas	4	4
Terry Cuthbertson	0	0
David Evans	0	0
Gary Mares	0	0

Auditor's independence declaration

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6 and forms part of the directors' report for the year ended 30 June 2018.

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

Pnina Feldman

Chairperson

Pnina Feldman

Sydney

23 January 2019

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

To the Board of Directors of Medical Cannabis Ltd

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

As lead audit director for the audit of the financial statements of Medical Cannabis Ltd for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(b) any applicable code of professional conduct in relation to the review.

Yours sincerely

Nexia Sydney Audit Pty Ltd

Stephen Fisher
Director

Sydney
23 January 2019

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Financial statements

Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June 2018

	Note	2018 $	2017 $
INCOME			
Sales		144,770	3,355
Licence fee revenue		3,577,308	-
TOTAL INCOME		3,722,078	3,355
EXPENSES			
Administrative and corporate expenses		(498,411)	(6,409)
Advertising and marketing		(170,275)	-
Cost of goods sold		(202,851)	(1,869)
Depreciation and amortisation		(27,286)	(1,192)
Legal expenses		(76,798)	(8,374)
Directors fees		(234,500)	(325,500)
Finance expenses		(262,055)	-
Foreign currency exchange loss		(7,940)	-
Occupancy expenses		(87,044)	-
Impairment of intangibles		(18,398)	-
Impairment of receivables		(10,000)	-
Financial assets at FVTPL – net change in value		(674,455)	-
Travel		(186,465)	(14,444)
Other expenses		(28,710)	(8,778)
Research costs		(500,282)	-
Share of loss in equity-accounted investees – net of tax		(11,715)	-
TOTAL EXPENSES		(2,997,185)	(366,566)
Operating profit/(loss) before income tax		724,893	(363,211)
Income tax expense		(292,666)	-
Profit/(Loss) after tax from continuing operations		432,227	(363,211)
Other comprehensive income, net of tax		-	-
Total comprehensive profit/(loss) for the year		432,227	(363,211)
Profit/(loss) attributable to members of Medical Cannabis Ltd		437,560	(363,211)
Total comprehensive income attributable to members of Medical Cannabis Ltd		437,560	(363,211)
Profit/(loss) attributable to non-controlling interest		(5,333)	-
Total comprehensive income attributable to non-controlling interest		(5,333)	-

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2018

	Note	2018 $	2017 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	145,302	788
Trade and other receivables	11	387,597	18,443
Inventory	12	563,995	21,926
TOTAL CURRENT ASSETS		1,096,894	41,157
NON-CURRENT ASSETS			
Property, plant and equipment	14	70,233	18,000
Intangible assets	15	207,000	248,398
Investments	16	2,902,853	-
Equity-accounted investees	17	286,285	-
TOTAL NON-CURRENT ASSETS		3,466,371	266,398
TOTAL ASSETS		4,563,265	307,555
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	18	284,989	37,905
Current tax liability		292,666	-
Other financial liabilities	19	2,455,566	3,700
TOTAL CURRENT LIABILITIES		3,033,221	41,605
Other financial liabilities	19	-	676,209
TOTAL NON CURRENT LIABILITIES			676,209
TOTAL LIABILITIES		3,033,221	717,814
NET ASSETS		1,530,044	(410,259)
EQUITY			
Issued capital	20	1,524,106	151,750
Share based payment reserve	21	135,720	-
Accumulated losses	22	(124,449)	(562,009)
TOTAL		1,535,377	(410,259)
Non-controlling interest	23	(5,333)	-
TOTAL EQUITY		1,530,044	(410,259)

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2018

	Consolidated Entity				
	Issued Capital	Accumulated Losses	Share based payment reserve	Non-controlling interest	Total Equity
	$	$		$	$
Balance at 1 July 2016	151,250	(198,798)	-	-	(47,548)
Loss for the year		(363,211)	-	-	(363,211)
Shares issued during the year	500	-	-	-	500
Balance at 30 June 2017	151,750	(562,009)	-	-	(410,259)
Balance at 1 July 2017	151,750	(562,009)	-	-	(410,259)
Profit/(loss) for the year	-	437,560		(5,333)	432,227
Shares issued during the year	1,372,356	-		-	1,372,356
Share based payment reserve	-	-	135,720		135,720
Balance at 30 June 2018	1,524,106	(124,449)	135,720	(5,333)	1,530,044

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 June 2018

	Note	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		70,161	399,606
Payments to suppliers and employees		(2,425,112)	(399,726)
Net cash used in operating activities	25	(2,354,951)	(120)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in equity accounted entity		(298,000)	-
Payment for plant and equipment		(56,519)	-
Net cash used in investing activities		(354,519)	-
CASH FLOWS FROM FINANCING ACTIVITIES			-
Repayment of loan provided by QBL		(74,330)	-
Proceeds from seed capital		1,005,000	-
Proceeds from share issue		1,372,356	-
Proceeds from convertible securities		600,000	-
Loan provided to other entity - Medcan Australia Trust Pty Ltd		(73,560)	-
Loan provided to associate entity - Hemp Hulling Co (QLD) Pty Ltd		(77,168)	-
Loan provided to related entity - VitaCann Pty Ltd		(15,584)	-
Loans provided by current directors (and their related entities)		329,970	-
Repayment of loans provided by former directors (and their related entities)		(212,700)	-
Net cash inflow from financing activities		2,853,984	-
Net increase/(decrease) in cash held		144,514	(120)
Cash and cash equivalents at the beginning of the		788	908
Cash and cash equivalents at the end of the year	10	145,302	788

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements for the year ended 30 June 2018

Note 1: Reporting entity

Medical Cannabis Limited (the 'Company') is a company domiciled in Australia. The address of the company's registered office is 24 Birriga Road, Bellevue Hill NSW 2023. The consolidated financial statements of the Company as at and for the year ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

The Group is a for-profit entity and is primarily involved in the the legal growing and cultivation of hemp and medicinal cannabis products in Australia.

Note 2: Basis of preparation

a Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards ('IFRSs') adopted by the International Accounting Standards Board ('IASB').

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the 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 Group.

The consolidated financial statements were authorised for issue by the Board of Directors on 18 January 2019. The Board of Directors have the power to amend and reissue the financial statements.

b Going concern basis of accounting

Notwithstanding the negative cash flow from operations of $2,354,951 for the year and net current liabilities at balance date of $1,936,327, the financial report has been prepared on a going concern basis. This assessment is based on the commitment by the parent company to provide continuing financial support for the period until at least 12 months after the signing date of this financial report.

c Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

i Investments

The methods used to measure fair values are discussed further in note 5.

ii Other non-derivative financial liabilities

The methods used to measure fair values are discussed further in note 5.

d Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the Group.

e Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

f Key estimates and judgements

Impairment

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

Business combinations

Management uses valuation techniques in determining the fair values of the various elements of a business combination. (Refer Note 3a).

Note 3: Significant accounting policies

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

a Basis of consolidation

i Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair value of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises as identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of: (a) fair value of consideration transferred (b) the recognised amount of any non-controlling interest in the acquiree; and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net assets.

ii Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has a right to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

iii Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

iv Interests in equity-accounted investees

The Group's interest in equity-accounted investees comprise interests in associates. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases.

v Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency exchange are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign-currency differences are generally recognised in profit or loss.

c Financial instruments

i Non-derivative financial assets

The Group initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group has the following non-derivative financial assets: loans and receivables and financial assets at FVTPL.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost, less any impairment losses.

Financial assets at FVTPL

A financial asset is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition to avoid an accounting mismatch. Directly attributed transaction costs are recognised in profit and loss as incurred. Financial assets at FVTPL are measured at fair value and changes therein, including any interest or dividend income are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

ii Non-derivative financial liabilities

The Group initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group classifies the non-derivative financial liabilities into trade and other payables and other financial liabilities categories. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

Other financial liabilities comprise trade and other payables, loans and convertible notes.

d Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

e Property, plant and equipment

i Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

ii Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

iii Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit and loss over the estimated useful lives of each component. Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

. plant and equipment 10 years

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

f Other intangible assets

Acquired intangible assets

Seedbank and plant genetics acquired in a business combination that qualify for separate recognition are recognised as intangible assets at their fair values (refer Note 3a).

Subsequent measurement

All intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in Note 3g.

Amortisation of seedbank and plant genetics is calculated to write-off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in the profit and loss.

The following useful lives are applied:

- Seedbank and plant genetics 10 years

g Impairment

i Non-derivative financial assets

A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor.

The Group considers evidence of impairment for financial assets at a specific asset level.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against loans and receivables.

ii Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

Impairment losses are recognized in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

h Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first in first out principle. In the case of manufactured inventories, cost includes an appropriate share production overhead based on normal operating capacity

i Revenue

Revenue is recognized at the fair value of consideration received or receivable. Revenue is recognised at the point in time that sales or service performance has been completed.

Sale of goods

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

License fee revenue

License fee revenue is recognised when the right to receive payment is established.

Interest

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

j Research and development

Expenditure on research activities is recognised in profit and loss as incurred.

k Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense and other costs of borrowings. All finance costs are recognised in profit or loss using the effective interest method.

l Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

m Income tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Medical Cannabis Ltd.

n Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

o Share-based payments

Equity-settled share-based payments are provided to certain vendors and suppliers in exchange for the acquisition of businesses or rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date of the businesses acquired or services received if reasonably measurable. Otherwise, fair value is measured at the quoted market price of the Company's ordinary shares on grant date, adjusted where applicable to take into account the terms and conditions upon which the shares were granted.

p Going concern basis of accounting

Notwithstanding the negative cash flow from operations and historical financial performance, the financial report has been prepared on a going concern basis. This assessment is based on a cash at bank balance at balance date, and the directors' understanding of expected cash outflows in the coming financial year.

Note 4: New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2018, and have not been applied in preparing these consolidated financial statements of the Group. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

Note 5: Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investments

Investments are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the market value of the ASX publicly listed share price.

Other non-derivative financial liabilities

Other non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date. In respect of the liability component of convertible notes, the market rate of interest is determined with reference to similar liabilities that do not have a conversion option.

Note 6: Financial risk management

Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

liquidity risk and market risk.

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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 liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

Market risk

Market risk is the risk that changes in market prices will affect the Group, for example changes in interest rates and changes in share price for investments at FVTPL.

Note 7: Income tax

	2018 $	2017 $
Major components of income tax expense		
a. Income tax expense		
Profit / (loss) before income tax	724,893	(363,211)
Prima facie tax expense on the profit/(loss) from ordinary activities before income tax at 27.5% (2017: 30%) differs from the income tax provided in the financial statements as follows:	199,346	(108,963)
Tax benefit at 27.5%		
Add/(Less) tax effect		
- Non-assessable income	(56,384)	-
- Non-deductible expenses	304,256	-
- Tax loss recouped	(154,552)	-
- Deferred tax asset not brought to account	-	108,963
Income tax expense attributable to operating loss	292,666	-
b. Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following item:		
Add/(Less) tax effect		
- Tax losses – income at 27.5%	-	154,552

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Note 8: Key management personnel disclosures

Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Key management person	Position
Pnina Feldman	Executive Chairperson
Sholom Feldman	Managing Director
Andrew Kavasilas	Non-Executive Director

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	2018	2017
	$	**$**
Short-term employee benefits	360,000	107,500
Post-employment benefits	-	-
Long-term benefits	-	-
Share-based payments	-	-
	360,000	107,500

Short term employee benefits

These amounts include fees and benefits paid to non-executive directors as well as salary, paid leave benefits, fringe benefits and cash bonuses awarded to the executive Chairman, executive directors and other KMP.

Post-employment benefits

These amounts are the current-year's costs of providing for superannuation contributions under the Australian Government's superannuation guarantee scheme.

Other long-term benefits

These amounts represent long service leave benefits accruing during the year, long-term disability benefits and deferred bonus payments.

Share based payment expense

These amounts represent the expense related to the participation of specified executives in equity-settled benefit schemes as measured by the fair value of the shares granted on grant date.

Note 9: Auditors' remuneration

	2018 $	2017 $
Remuneration of the auditor (Nexia Sydney Audit Pty Ltd) of the parent entity for:		
An audit or review of the financial report of the Company		

-	Current auditors – Nexia	8,000	-
-	Previous auditors – MNSA	-	2,000
-	Other services		
-	Corporate Advisory services – Nexia	40,000	-
-	Accounting services - MNSA	-	2,000

Note 10: Cash and cash equivalents

	2018 $	2017 $
CURRENT		
Cash at bank	145,302	788
Cash and cash equivalents in the statement of cash flows	145,302	788

Note 11: Trade and other receivables

	2018 $	2017 $
CURRENT		
Trade receivables	100,782	-
Other receivables	112,785	18,443
Loans to related parties – refer to note 26	94,134	-
Loan to other party – Medcan Australia Pty Ltd	73,560	-
Prepayments	6,336	-
	387,597	18,443

Note 12: Inventory

	2018 **$**	**2017** **$**
Seeds and crops in progress – at cost	106,532	21,926
Finished goods – at cost	457,463	-
	563,995	21,926

Note 13: Controlled entities

	Country of incorporation	Percentage owned (%)	
		2018	2017
Controlled entities consolidated			
Medical Cannabis Research Group Pty Ltd	Australia	100%	0%
Vitahemp Pty Ltd	Australia	100%	0%
Vitaseeds Pty Ltd	Australia	100%	0%

* Percentage of voting power is in proportion to ownership.

Note 14: Property, plant and equipment

	2018 $	2017 $
Plant and Equipment	76,519	20,000
At cost	(6,286)	(2,000)
Accumulated depreciation	70,233	18,000
Total written down amount	70,233	18,000

Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

2018	Plant and Equipment $	Total $
Carrying amount year ended 30 June 2017	18,000	18,000
Additions	56,519	56,519
Disposals	-	-
Depreciation expense	(4,286)	(4,286)
Impairment loss		
Carrying amount year ended 30 June 2018	70,233	70,233

2017	Plant and equipment $	Total $
Carrying amount year ended 30 June 2016	19,000	19,000
Additions	-	-
Disposals	-	-
Depreciation expense	(1,000)	(1,000)
Impairment loss	-	-
Carrying amount year ended 30 June 2017	18,000	18,000

Note 15: Intangible assets

	2018 $	2017 $
Seedbank and plant genetics	230,000	230,000
Accumulated amortisation	(23,000)	-
Other	-	18,938
Total intangible assets	207,000	248,398

2018	Seedbank and plant genetics	Other	Total
	$	$	$
Carrying amount year ended 30 June 2017	230,000	18,398	248,398
Accumulated amortisation	(23,000)	-	(23,000)
Impairment of intangibles	-	(18,398)	(18,398)
Carrying amount year ended 30 June 2018	207,000	-	207,000

2017	Seedbank and plant genetics	Other	Total
	$	$	$
Carrying amount year ended 30 June 2016	230,000	18,590	248,590
Accumulated amortisation	-	(192)	(192)
Impairment of intangibles	-	-	-
Carrying amount year ended 30 June 2017	230,000	18,398	248,398

Note 16: Investments

	2018 $	2017 $
Listed ordinary shares – designated as at FVTPL	2,902,853	-

The equity securities were acquired as non-cash consideration received for the licensing of certain cannabis intellectual property of the company to an unrelated company.

Equity securities have been designated as at fair value through profit and loss (FVTPL) to avoid an accounting mismatch arising from the recognition of the licensing income in profit and loss if the fair value movements of the equity securities were being recognised in other comprehensive income.

Movement in fair value for FVTPL

Reconciliation of the written down value at the beginning and end of the current and previous financial year are set out below:

	Total $
Balance at 1 July 2016	-
Changes	-
Balance at 30 June 2017	-
Recognition of license fee revenue	3,577,308
Write-down to fair value	(674,455)
Balance at 30 June 2018	2,902,853

Note 17: Equity-accounted investees

On 31 January 2018, the Company acquired a 25% equity interest in the associate Hemp Hulling Co. (QLD) Pty Ltd (HHC). HHC is involved in the processing of hemp seeds.

	2018 $	2017 $
Percentage ownership owned	25%	-
Current assets	30,022	-
Non-current assets	1,256,941	-
Current liabilities	(141,823)	-
Non-current liabilities	-	-
Net assets (100%)	1,145,140	-
Group's share of net assets (25%)	286,285	-
Carrying amount of interest in investee	286,285	-
Revenue	33,190	-
Loss from continuing operations (100%)	(46,861)	-
Other comprehensive income (100%)	-	-
Total comprehensive income (100%)	(46,861)	-
Total comprehensive income (25%)	(11,715)	-
Group's share of total comprehensive income	(11,715)	-

Note 18: Trade and other payables

CURRENT		
Unsecured liabilities		
Trade payables	284,989	37,905

Note 19: Other financial liabilities

	Note	2018 $	2017 $
CURRENT			
Unsecured			
Loan from former director or their related company	26	-	3,700
Loans from Andrew Kavasilas	26	474,522	-
Loans from related entities	26	249,709	-
Seed capital		1,206,000	-
Convertible securities – L1 Capital pursuant to the financing agreement		525,335	-
		2,455,566	3,700
NON-CURRENT			
Unsecured			
Loans from Andrew Kavasilas	26	-	394,261
Loans from related entities	26	-	72,948
Loans from former directors or their related entities	26	-	185,000
Other loan		-	24,000
		-	676,209

Note 20: Issued Capital

Share capital on issue	2018 No.	2018 $.	2017 No.	2017 $.
Ordinary shares				
At the beginning of reporting period	21,766,667	151,750	21,266,667	151,250
Share issue	46,165,222	1,372,356	500,000	500
At reporting date	67,931,889	1,524,106	21,766,667	151,750

Terms and Conditions of Issued Capital

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

Note 21: Share based payments reserve

The share-based payments reserve records items recognised as expenses on share-based payments.

	2018 $	2017 $
Equity settled share based payment – options issued in respect of the issue of convertible securities	135,720	-
Balance as at 30 June	135,720	-

Options on issue

The following reconciles the outstanding share options at the beginning and year end of the financial year:

	2018 Number of options	2018 Weighted Average Exercise price	2017 Number of options	2017 Weighted average exercise price
Outstanding at the beginning of the year	-	-	-	-
Granted	5,850,000	0.035	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	5,850,000	0.035	-	-
Exercisable at year-end	5,850,000	0.035	-	-

The options were issued as consideration for the variation of the original terms of the L1 Capital convertible securities. There are no vesting conditions.

The options outstanding at 30 June 2018 have an exercise price of $0.035 (2017: Nil) and a weighted average contractual life of 3 years (2017: Nil). The fair value of the options at grant date was $0.0232 each, using the Black-Scholes option pricing model.

There were no options exercised during the year ended 30 June 2018 (2017: Nil) in respect of share-based payment arrangements.

The 5,850,000 options outstanding and exercisable at 30 June 2018 were cancelled on 21 December 2018.

Note 22: Accumulated losses

	2018 $	2017 $
Balance as at 1 July	(562,009)	(198,798)
Profit/(loss) for the year	432,227	(363,211)
Non-controlling interest in operating loss	5,333	-
Balance as at 30 June	(124,449)	(562,009)

Note 23: Non-controlling Interests

	2018 $	2017 $
Non-controlling interest in equity – Balance as at 1 July	-	-
Loss attributable to non-controlling interest	(5,333)	-
Balance as at 30 June	(5,333)	-

Note 24: Operating leases

	2018 $	2017 $
The Group leases a factory facility under operating lease. The lease runs for a period of 2 years, with no option to renew:		
– not later than 1 year	28,000	-
– later than 1 year but no later than 5 years	14,000	-
	42,000	-

Note 25: Cash flow information

	2018	2017
a. Reconciliation of cash flows from operating activities		
Profit/(loss) for the year	432,227	(363,211)
Non-cash flows in loss		
Licence fee income	(3,577,308)	-
Share of loss of equity-accounted investee - net of tax	11,715	-
Depreciation and amortisation	27,286	1,192
Impairment of intangibles	18,398	-
Impairment of receivables	10,000	-
Loss on financial assets at FVTPL	674,455	-
Finance cost	262,055	-

Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries

Increase in other receivables	(20,133)	-
Increase in trade debtors	(100,782)	-
Increase in prepayments	(6,336)	-
Increase in GST receivable	(84,209)	-
Increase in inventory	(542,069)	-
Increase in trade payables and other creditors	247,084	361,899
Increase in current tax liability	292,666	-
Net cash used in operating activities	(2,354,951)	(120)

b. Changes in liabilities arising from financing activities

	Seed capital $	L1 Capital $	Total $
Balance at 1 July 2017	-	-	-
Net cash provided by financing activities:			
Seed capital loans advanced	1,005,000	-	1,005,000
Convertible securities issued	-	600,000	600,000
Other changes:			
Increase in face value to $1.05	-	30,000	30,000
Finance cost to be amortised to June 2019	-	(165,720)	(165,720)
Finance cost recognised	201,000	61,055	262,055
Balance at 30 June 2018	1,206,000	525,335	1,731,335

Note 26: Related Parties Disclosures

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

Related party transactions with Australian Gemstone Mining Pty Limited.
AGMPL is a company owned and controlled by Pnina Feldman.
AGMPL provided the following services to the Group:

	2018 **$**	**2017** **$**
Office space – (Rent)	36,000	-
Administration fees	240,000	-
Marketing services	120,000	-
TOTAL	396,000	-

Other transactions with related parties
The Company paid directors' fees of $120,000 (2017: $107,500) for the executive director, Andrew Kavasilas, during the year ended 30 June 2018.

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

	2018 $	2017 $
La Herencia Pty Ltd (Gary Mares)	75,000	75,000
David Evans	35,000	102,500
Kore Management Services Pty Ltd (Terry Cuthbertson)	4,500	18,000

Other transactions with related parties

Loans advanced to related parties:		
Queensland Bauxite Limited (QBL) (parent)	1,382	-
Vitacann Pty Ltd (subsidiary of QBL)	15,584	
Loans provided by related parties:		
Director - Andrew Kavasilas	474,522	394,261
Queensland Bauxite Limited (QBL) (parent)	-	72,948
AGMPL	249,709	-
Loans provided by former directors (or their related companies):		
La Herencia Pty Ltd (Gary Mares)	-	67,000
David Evans	-	94,000
Kore Management Services Pty Ltd (Terry Cuthbertson)	-	27,700

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

	2018 $	2017 $
Loan advanced to associate entity:		
Hemp Hulling Co (QLD) Pty Ltd	77,168	-

The above loan is unsecured and interest free.

Trade creditor balance with associate company -		
Hemp Hulling Co (QLD) Pty Ltd	13,015	-
Purchases from associate company –		
Hemp Hulling Co (QLD) Pty Ltd	11,832	-

(Purchases are made on normal terms and conditions.)

Note 27: Financial instruments

a. Financial risk management

The Group's financial instruments consist mainly of deposits with banks, trade and other receivables and trade and other payables.

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency fluctuation risk and liquidity risk.

Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result in changes in market interest rates, arises mainly from bank deposits accounts. The effective weighted average interest rates on the financial assets and financial liabilities and interest rate sensitivity analysis are set out at Note 27(b).

Foreign currency risk

The Group was marginally exposed to fluctuations in foreign currencies during the reporting period.

Credit risk

Neither the Group or the Company have any material credit or other risk exposure to any single receivable or group of receivables or payables under financial instruments entered into by the Group.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash reserves or unutilised borrowings are maintained.

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments:

30 June 2018		Contractual cash flows				
	Carrying amount $	Total $	Less than 12 months $	1-2 Years $	2 to 5 years $	More than 5 years $
Non derivative financial liabilities						
L1 Capital Global	525,335	630,000	630,000	-	-	-
Seed capital loan	1,206,000	1,206,000	1,206,000	-	-	-
Loan – A Kavasilas	474,522	474,522	474,522	-	-	-
Loan from related companies	249,709	249,709	249,709	-	-	-

30 June 2017

	Carrying amount $	Total $	Less than12 months $	1-2 Years $	2 to 5 years $	More than 5 years $
Non derivative financial liabilities						
Loan from former directors or their related entities	188,700	188,700	3,700	185,000	-	-
Loan – A Kavasilas	394,261	394,261	-	394,261	-	-
Other loan	24,000	24,000	-	24,000	-	-
Loan from related entities	72,948	72,948	-	72,948	-	-

<u>Price risk</u>

Neither the Group nor the Company have any material price risk.

b. Financial Instrument interest rate risk

The tables below disclose the contractual interest rates applicable for financial statements and a sensitivity analysis of movements in variable interest rates.

	Weighted average effective interest rate		Floating interest rate		Non-interest bearing		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Consolidated Entity	%	%	$	$	$	$	$	$
Financial assets:								
Cash and cash equivalents	1.0%	1.0%	145,302	788	-	-	145,302	788
Trade and other receivables	-	-	-	-	387,597	18,443	387,597	18,443
Investments at FVTPL	-	-	-	-	2,902,853	-	2,902,853	-
Financial liabilities:								
Trade and other payables	-	-	-	-	284,989	37,905	284,989	37,905
Current tax liability	-	-	-	-	292,666	-	292,666	-
Other financial liabilities	-	-	-	-	2,455,566	679,909	2,455,566	679,909

c. Fair values vs carrying amounts

The fair values of financial assets and liabilities, together with carrying amounts shown on the statement of financial position, are as follows:

	2018 Total Carrying Amount $	2018 Fair Value $	2017 Total Carrying Amount $	2017 Fair Value $
Financial Assets				
Cash and cash equivalents	145,302	145,302	788	788
Trade and other receivables	387,597	387,597	18,443	18,443
Investment at FVTPL	2,902,853	2,902,853	-	-
Financial Liabilities				
Trade and other payables	284,989	284,989	37,905	37,905
Current tax liability	292,666	292,666	-	-
Other financial liabilities	2,455,566	2,455,566	679,909	679,909

Note 28: Parent entity disclosures

As at and throughout the financial year ending 30 June 2018 the parent entity of the Group was Medical Cannabis Ltd.

Financial Position of parent entity at year end	2018 $	2017 $
Assets		
Current assets	397,919	41,157
Non-current assets	4,383,517	266,398
Total assets	4,781,436	307,555
Liabilities		
Current liabilities	2,690,276	41,605
Non-current liabilities	-	676,209
Total liabilities	2,690,276	717,814
Total equity of the parent entity comprising of		
Issued capital	1,524,106	151,750
Share based payment reserve	135,720	-
Retained Profits / (accumulated losses)	431,334	(562,009)
Total equity	2,091,160	(410,259)
Financial performance		
Profit / (loss) for the year	993,343	(363,211)
Other comprehensive income	-	-
Total comprehensive profit/ (loss) for the year	993,343	(363,211)

Note 29: Company details

The registered office of the Company and principal place of business is:

Medical Cannabis Limited
24 Birriga Road
Bellevue Hill, NSW 2023

Note 30: Segment information

The group operates in one segment, being the cultivation, processing and distribution of nutritional hemp and medical grade cannabis.

Note 31: Capital management policies and procedures

The group's capital management objectives are to ensure the group's ability to continue as a going concern. The group monitors capital on the basis of the carrying amount of equity. In order to maintain or adjust the capital, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The amounts managed as capital by the group for the reporting periods under review are summarised as follows:

	2018 $	**2017 $**
Total equity	1,530,044	(410,259)
Capital	1,530,044	(410,259)

Note 32: Events Subsequent to the balance date

Subsequent to the balance date, the following events occurred:

On 14 September 2018 the shareholders of ASX listed Queensland Bauxite Limited (ASX:QBL) approved the acquisition of a further 45% interest in MCL by the issue of 1,216,664,121 QBL shares.

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

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and accompanying notes set out on pages 7 to 32 are in accordance with the *Corporations Act 2001*, and:

  (i) comply with Accounting Standards and the *Corporations Regulations 2001*; and

  (ii) give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a) to the financial statements; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors:

Pnina Feldman
Chairperson

Sydney
23 January 2019

Nexia Australia

Independent Auditor's Report to the Members of Medical Cannabis Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Medical Cannabis Ltd (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; 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. Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the Group 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.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the Directors of the Company, would be in the same terms if given to the Directors as at the time of this auditor's report.

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

Other information

The Directors are responsible for the other information. The other information comprises the information in Medical Cannabis Ltd's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

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Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_files/ar4.pdf. This description forms part of our auditor's report.

Nexia Sydney Audit Pty Ltd

Stephen Fisher
Director

Dated: 23 January 2019
Sydney