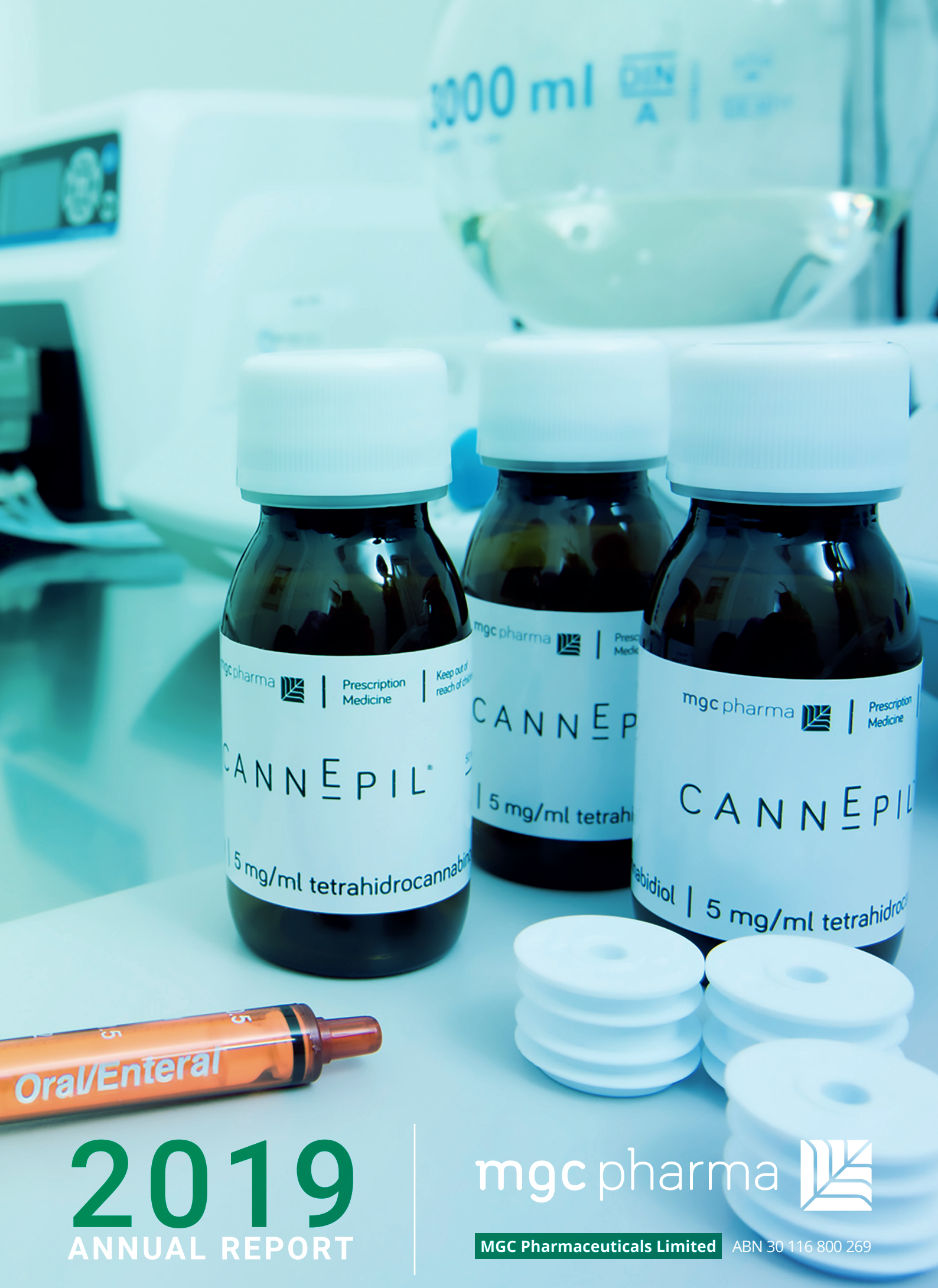

2019 ANNUAL REPORT

mgc pharma

MGC Pharmaceuticals Limited ABN 30 116 800 269

CannEpil® is an Investigational Medicinal Product.

CORPORATE DIRECTORY

DIRECTORS

Brett Mitchell
Executive Chairman

Nativ Segev
Non-Executive Director and Head of Business Strategy

Stephen Parker
Non-Executive Director

Roby Zomer
Managing Director and CEO

Ross Walker
Non-Executive Director and
Head of Medical Advisory Board

COMPANY SECRETARY

Rachel Kerr

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 Perth
Level 4, 35 Havelock Street
West Perth WA 6005

SECURITIES EXCHANGE LISTING

MGC Pharmaceuticals Ltd securities are listed on the Australian Securities Exchange (ASX) and the OTCQB® Venture market in the United States

ASX Code MXC, OTCQB® code MGCLF

SHARE REGISTRY

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

WEBSITE

www.mgcpharma.com.au

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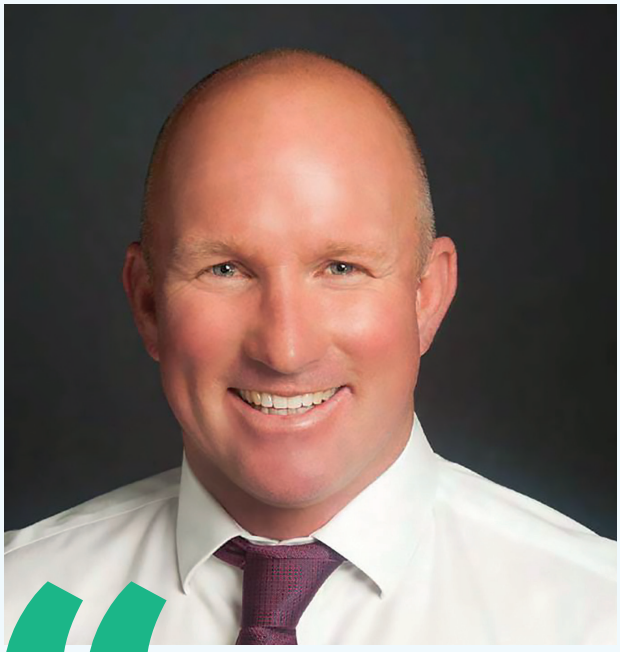


EXECUTIVE CHAIRMAN'S LETTER TO SHAREHOLDERS

The 2019 financial year delivered real operational progress for the Company and achievement of key milestones on our 'Seed to Pharmacy' strategy of building an international bio-pharma company dealing with production and development of phytocannabinoid derived medicines.

Dear Shareholders,

The 2019 financial year delivered real operational progress for the Company and achievement of key milestones on our 'Seed to Pharmacy' strategy of building an international bio-pharma company dealing with production and development of phytocannabinoid derived medicines. As such, the Board is delighted to report our results for the year including an operational review detailing the key operational successes for the period.

The Company is now solely focussed on growing its proprietary bio-pharma business and supplying MGC Pharma phytocannabinoid derived medicines to patients globally. Notable achievements during the year have included the advancing of our Research and Development through strategic collaborative partners, receiving a GMP Certification and a Manufacturing Licence, and entering into key global distribution agreements. Together with our corporate and industry experienced Board of Directors, we have a clear focus on the execution of the Board's strategy. It was a significant endorsement for Dr Stephen Parker to join the Board this year, with his pharmaceutical industry knowledge and expertise a valuable asset in helping guide the Company's future strategy.

Receipt of a full Good Manufacturing Practice (GMP) Certification and a Manufacturing Licence at our European medical cannabis compounding and manufacturing facility in Slovenia was a major achievement. Our GMP facility is the only one of its class in Europe with this level of certification for the manufacture of phytocannabinoid derived medicines and was integral to the first commercialisation of MGC's pharmaceutical products during the year. Our core product portfolio targets the symptoms of widespread and debilitating conditions including Epilepsy, Dementia and Alzheimer's. In the period we increased our international reach considerably through the signing of new strategic agreements with distribution partners in the UK, MENA region, Germany, Austria, Switzerland, Brazil and Australia.

This year we had the first MGC Pharma product purchase orders received from the UK, following the grant of a UK Controlled Drug Import Licence, and in Australia under the Authorised Prescriber Scheme. It has been highly encouraging that, post period end, these initial purchase orders have been followed up with material new orders and repeat prescriptions, which have recently exceeded 600 prescriptions within a matter of months. As detailed in recent releases, we are reaching significant patient milestones in Australia and the UK which is a testament to the quality of MGC Pharma's products, the dedicated work of the MGC Pharma team and the strategic value of our established agreements.

Our Research and Development program continues to be a core pillar of the business as we seek to create new targeted phytocannabinoid based formulations to be commercialised and position MGC Pharma at the forefront of innovation in the industry. To achieve this, we have established key relationships with leading international institutions globally including Royal Melbourne Institute of Technology, the Hebrew University in Jerusalem, the National Institute of Biology & University Medical Centre and the Notre Dame University in Perth, that enable us to access state of the art research facilities and a depth of specialism and expertise. The value of these relationships cannot be understated. A clear example of this, is the recent announcement of the ground-breaking results of the research into the efficacy of phytocannabinoid based formulations in the treatment of brain cancers.

Excitingly, we achieved a major milestone post period end, with the signing of a long-term agreement for the construction of our state of the art GMP production and manufacturing facility in Malta which, upon issue of GMP certification, will be one of the first GMP grade production and research facilities in the EU within the medical cannabis sector. The facility will enable us to materially upscale our existing production capacity and increase future revenue generation as a facility with pharmaceutical industry production capacity.

On behalf of the MGC Pharmaceuticals' Board, I would like to take this opportunity to thank all of our loyal shareholders for their continued support throughout the year and I look forward to sharing the future success of the Company with all shareholders, based on the strong operational and research foundations that we have established in 2019, as we advance our 'Seed to Pharmacy' strategy of becoming a leading international producer of phytocannabinoid derived medicines, and updating you on our progress.

Yours sincerely,

Brett Mitchell
Executive Chairman

REVIEW OF OPERATIONS

HIGHLIGHTS

RESEARCH & DEVELOPMENT AND CLINICAL TRIALS

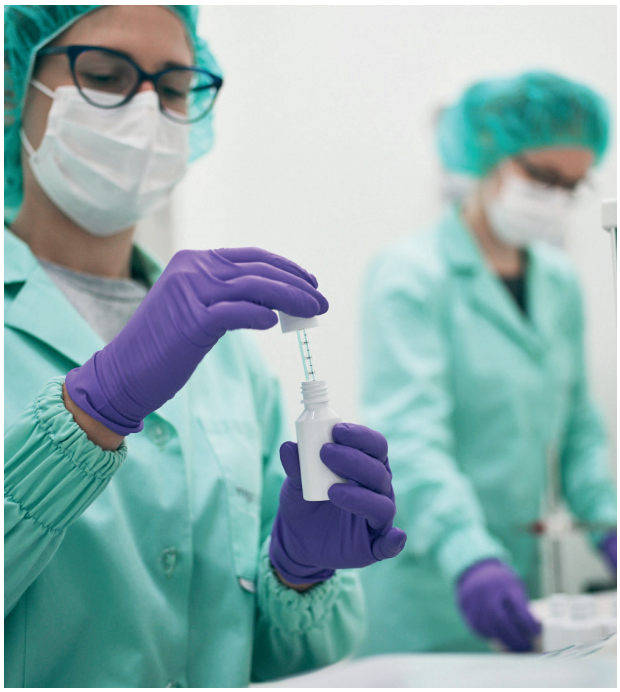
- Strategic collaborative partnership agreements signed with leading European, Australian and Israeli research institutions that facilitate industry leading research on the impact of cannabinoids on diseases such as epilepsy, cancer, dementia and Alzheimer's, in conjunction with:
  - Epilepsy Action Australia, Royal Melbourne Institute of Technology (RMIT), The Hebrew University of Jerusalem (HUJ), University of Notre Dame (UNDA) in Western Australia and the National Institute of Biology & University Medical Centre, Ljubljana Slovenia
  - Initial publication of research results on the effectiveness of cannabinoids on glioblastoma, highlighting, amongst other conclusions, that cannabinoids, especially at increasing THC concentrations, reduce the viability of glioblastoma cells
- Cannabis Breeding and Cultivation Research with:
  - The Biotechnical faculty Ljubljana, Slovenia developing new heights of THC and CBD strains
  - RMIT a leading Australian University, licence granted to MGC Pharma by the Office of Drug Control (ODC), part of the Australian Department of Health

GMP CERTIFICATION AND PHARMACEUTICAL MANUFACTURING

- MGC Pharma's European medicinal cannabis compounding and manufacturing facility in Ljubljana, Slovenia received both Good Manufacturing Practice (GMP) Certification and a Manufacturing Licence:
  - Demonstrating compliance with strict European production quality standards for the production of pharmaceutical grade phytocannabinoid derived medicines
  - GMP approval allowed the Company to commence production and distribution of MGC Pharma's initial pharmaceutical grade medicines to Australia and the United Kingdom

IMPORT APPROVALS AND DISTRIBUTION AGREEMENTS

- Import approval received for CannEpil® making it available for supply in Australia under the Special Access Scheme, with first purchase orders later received and our first Australian patient receiving CannEpil®
- UK Controlled Drug Import Licence received for the importation of CannEpil® into the United Kingdom, with first purchase orders received and our first UK patient receiving CannEpil®



MGC Pharma IMP Production Technologists, Nastja Smolnikar and Klavdija Mirtič

- Distribution agreements signed covering key international markets including the UK, Germany, Australia, Brazil, Austria, Switzerland and MENA region, adding to the Company's existing distribution agreements and giving MGC Pharma global coverage and worldwide reach

CORPORATE

- Successful sale of MGC Pharma's Derma division to strategic partner, CannaGlobal Canada enabling MGC Pharma to become exclusively focused on developing its GMP-grade pharmaceutical product pipeline as it enacts its strategy of becoming a leading international phytocannabinoid focused pharmaceutical business
- Post period end, the Company signed a long-term lease with Malta Industrial Parks for the construction of a large scale state-of-the-art GMP production and research facility, one of the first commercial EU-GMP grade production and research facilities in the country within the cannabis sector for medicinal use. This will enable MGC Pharma to materially scale up its existing production capacity and future revenue generation potential
- The Company has secured Canaccord Genuity in Australia to act as the Company's equity capital markets advisor, and in the UK to lead the Company's planned dual-listing on the London Stock Exchange (LSE). During 2019 MGC Pharma has materially advanced its dual-listing strategy with Canaccord and is actively progressing towards a listing on the LSE in 2HCY2019.

OVERVIEW

RESEARCH & DEVELOPMENT AND CLINICAL TRIALS

MGC Pharma has maintained its strategy of collaborating and partnering with leading research and academic institutions globally to ensure it remains at the forefront of developments within the industry. Partnerships, and work undertaken during the period, include:

Ethics Approval received for Australian Phase IIb Clinical Trial into Dementia and Alzheimer's disease

The Company announced it was granted full Ethics Committee approval to conduct a Phase IIb clinical trial into the effects of CogniCann®, a GMP certified, phytocannabinoids based Investigational Medicinal Product (IMP) compounded formulation, on patients with mild Dementia and Alzheimer's disease.

Approval follows the successful completion of a full ethical review undertaken by the Human Research Ethics Committee (HREC) at the University of Notre Dame (UNDA) in Western Australia, in accordance with the National Statement on Ethical Conduct in Human Research.

GMP certified phytocannabinoid derived medicine, CogniCann® scientifically formulated by MGC Pharma, will be tested on a total of 50 participants aged 65 years and older. This will be performed alongside a series of pre and post treatment surveys and focus groups that will be used to assess residential staff and family member's knowledge and perceptions towards the use of the treatment.

Agreement signed with renowned research universities RMIT and HUJ to build CannaHub

During the financial year, MGC Pharma received a Cannabis Cultivation Research Licence granted by the ODC, part of the Australian Department of Health, authorising the cultivation of cannabis for research purposes at RMIT's state-of-the-art facility in Melbourne, Australia.

Furthermore, the Company announced it had signed a binding partnership agreement with the Royal Melbourne Institute of Technology (RMIT) and The Hebrew University of Jerusalem (HUJ) to form a joint international medical research hub for medicinal cannabis innovation and technologies.

As an extension to MGC Pharma's existing collaboration with RMIT, the new research hub, to be known as 'CannaHub', is a collaborative centre between MGC Pharma, RMIT and HUJ and will be an international shared library of research, data and analytics on cannabis for medicinal uses including future medical applications and treatments.

Research Publication on the Effectiveness of Cannabinoids on Glioblastoma

The Company announced a research publication on the effectiveness of Cannabinoids on Glioblastoma in May 2019, conducted by the National Institute of Biology (NIB) and University Medical Centre Ljubljana, with MGC Pharma's R&D Division. The general aim of the research was to develop formulations to define the protocols for the treatment of high-grade brain tumours, i.e. glioblastoma with cannabinoids. The publication highlighted amongst other conclusions, that cannabinoids, (especially at increasing THC concentrations), reduce the viability of glioblastoma cells.

Subsequent to the year end, the Company announced further significant results on the pre-clinical research; these results, amongst other conclusions, confirmed that cannabinoid preparations can successfully inhibit tumour viability and also cause a significant fraction of glioblastoma cells to die i.e. apoptosis, after a short time following their application. Following this study, pre-clinical studies will continue in-vitro to find the most efficient cannabinoid preparation by using a four-dimensional matrix that will be constructed to correlate these parameters.

This will define the selected cannabinoids' preparations/ combinations as the most efficient to inhibit viability of patients-derived glioblastoma cell and/or their stem cell, and will allow the Company to create a cannabinoids compounded formula.

Independent Validation of MGC Pharma High-Grade Cannabis Genetics

It was announced on 26 February 2019 that the University of Ljubljana Biotechnical Faculty and PharmaHemp Lab in Slovenia, independently confirmed the recent test results of the Company's new cannabis genetics strains. The independent report verified that all compliant procedures and protocols were followed during MGC Pharma's cannabinoids extraction process from its 2018 Slovenian breeding program during the vegetative growth and flowering stages.

The flowers were harvested, dried and the cannabinoids have been extracted at The University of Ljubljana Biotechnical Faculty, with results being independently verified by Prof Dr Borut Bohanec, Head of the Chair of Genetics, Biotechnology, Statistics and Plant Breeding at the University. High percentages of THC and CBD have been extracted and verified from MXC's proprietary strains: genotypes MXC-THC-10/3 (high THC), MXC-THC-81/5 (high CBD), MXC-THC-40/3 (high THC) and MXCTHC-40/2 (equal THC CBD).

GMP CERTIFICATION AND PHARMACEUTICAL MANUFACTURING

MGC Pharma was granted Good Manufacturing Practice (GMP) Certification and a Manufacturing Licence for its European compounding and manufacturing facility in Ljubljana, Slovenia. This represented a major operational milestone for the Company as it enabled the immediate production of Phytocannabinoid based IMP's. Award of the certification and licence demonstrated that MGC Pharma's facility fully complied with strict European production standards and can now be considered one of the most advanced in Europe for the compounding of pharmaceutical grade phytocannabinoid derived medicines.

The GMP approval allowed the Company to immediately commence full scale manufacturing of CannEpil®, the Company's proprietary cannabinoid based medicinal formulation targeting the treatment of symptoms of epilepsy. CannEpil® became available for prescription in Australia under the Authorised Prescriber Scheme following authorisation from the Therapeutic Goods Administration (TGA). The Company also received a UK Controlled Drug Import Licence enabling the importation of CannEpil® into the UK. Following these approvals initial purchase agreements were received and the product has been prescribed to patients in both countries, representing key milestones in the commercialisation of MGC Pharma's products.

IMPORT APPROVALS AND DISTRIBUTION AGREEMENTS

CannEpil® available for Australian supply under Authorised Prescriber Scheme – Initial Purchase Orders received

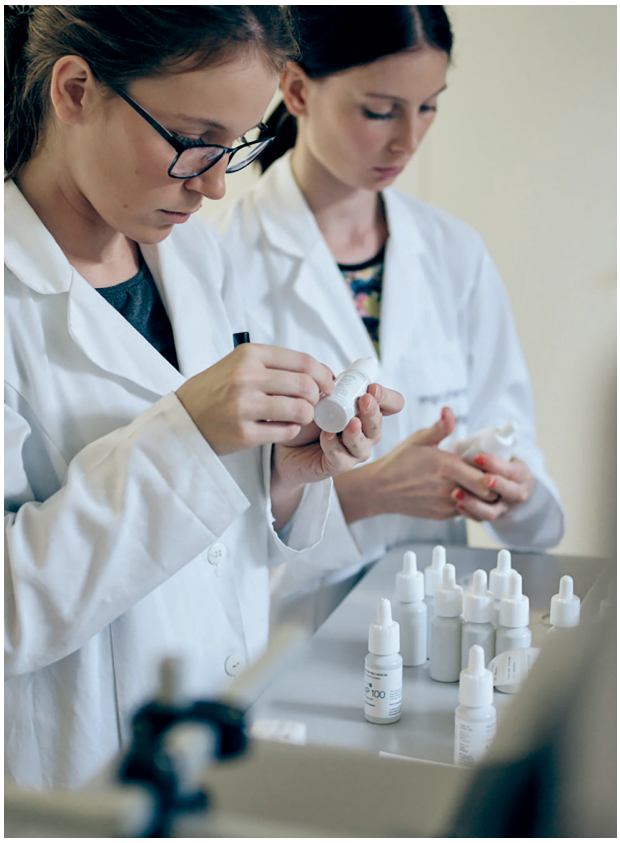
The Company confirmed receipt of formal authorisation for the availability of its product CannEpil® for supply in Australia through specialist prescribers under the Authorised Prescriber Scheme.

This was a major milestone which represents the Company's progress towards becoming a world-leading biopharma company, with more than 10 years' clinical experience and a leading Scientific Advisory Board in place. It also signalled the immediate commencement of commercial-scale production of CannEpil® at MGC Pharma's EU GMP certified facility in Slovenia. Initial purchase orders and revenues followed soon after with signed distribution agreements.

Import Permit received for CannEpil® for United Kingdom - Initial Purchase Orders received

MGC Pharma advised it had received a United Kingdom Controlled Drug Import Licence permit (Permit) for the importation of CannEpil® into the United Kingdom. In addition, the Company also received its first formal purchase orders for CannEpil® through licensed distribution partners in the United Kingdom with first patients receiving the product.

MGC Pharma Biochemist, Karmen Smajila



MGC Pharma IMP Production Technologists, Klavdija Mirtič and Tjaša Pavlin

Receipt of the Permit provided the opportunity to immediately expand the Company's distribution of CannEpil® into the United Kingdom medicinal cannabis products market, which will be managed in the region by MGC Pharma's distribution partners.

DISTRIBUTION

MGC Pharma's international distribution network increased significantly over the period increasing the Company's exposure to emerging markets with its products now readily available to a greater number of patients internationally. This was achieved through the signing of several key distribution agreements, including:

- A.M. Mangion – a Maltese based distributor of pharmaceutical products to the European, Middle Eastern and North African markets
- Grow Biotech PLC and IPS Specials – providing direct access into the UK market with a combined network of 5,500 pharmacies across the UK
- Health House International and Cannvalate – leading Australian medicinal cannabis distribution and logistics specialists focused on the Australasian market; significant increases in orders of MGC Pharma Products already being witnessed
- ONIX Empreendimentos e Participações – providing access to the Brazilian market utilising an innovative digital platform CANTERA that enables MGC Pharma to ship products direct to patients
- Mexacare GmbH – distribution of pharmaceutical products in Germany, Austria and Switzerland via Mexacare's established distribution network

CORPORATE

During the financial year the Company completed the successful sale of 100% of the MGC Pharma Derma division to CannaGlobal Canada for a consideration of a 10% shareholding in CannaGlobal and a five-year CBD and cosmetic material supply agreement with CannaGlobal. Crucially, the MGC Derma transaction enabled the Company to focus exclusively on divisions – Research & Development, and Manufacturing and Distribution – in order to advance its strategy of becoming a leading international phytocannabinoid focused pharmaceutical business.

In the June quarter, MGC Pharma saw the benefit of this transaction through the receipt of $469k revenues from its bulk cosmetics supply agreement with CannaGlobal. Additionally in the June quarter, through the MGC Pharma's supply agreement with Mabsut, the Company received revenues of $182k which resulted in increased sales for its CBD based vaporizer PhenoPen.

On 17 April 2019, a Marketing and Distribution agreement was signed with Chinese e-commerce import platform YuShop Global (YuShop), to sell the Company's CBD and hemp-enhanced Nutraceuticals product range in China. Targeting Chinese consumers via YuShop's online platform and network of 1,500 retail channel partners, including a luxury spa chain, YuShop are providing a complete "turn-key" solution to MGC Pharma, being responsible for all sales, marketing, logistics and customer service within China.

POST FINANCIAL YEAR END

On 8 August 2019, the Company signed a long-term lease agreement on the 6,000m^2 site for the construction of its Maltese state-of-the-art GMP production and research facility. This was a major event for the Maltese cannabis industry as this will be one of the first commercial EU-GMP grade production and research facilities in the country. The facility will enable development of expertise for phytocannabinoid derived medicines and research in Malta with subsequent products to be delivered into the European Union and global markets.

The large scale, eco-friendly commercial facility is proposed to be a 15,720m^2 multi-story building for the operation of the Company's fully GMP compliant bio-pharma business, with a production capacity of over 8,000 units per hour of each product, which is a material production volume for the pharmaceutical industry. Construction and planning approvals have already been received, with preliminary site works now started and construction commencing. The Malta facility will enable MGC Pharma to materially scale up its existing production capacity and future revenue generation potential, which is currently centred on its research and manufacturing facility in Ljubljana, Slovenia.

During August 2019, MGC Pharma completed a raising of $4.75 million by way of a share placement to sophisticated and professional investors at an issue price of $0.04 per share. The Company also completed an offer of shares to eligible existing shareholders under a Priority Offer and raised an additional $1.0 million at $0.04 per share.

The Company has engaged the services of Canaccord Genuity in Australia to act as the Company's equity capital markets advisor, and in the UK to lead the Company's planned dual-listing on the London Stock Exchange (LSE). During 2019 MGC Pharma has materially advanced its dual-listing strategy with Canaccord, and is actively progressing towards a listing on the LSE in 2HCY2019. Following the introduction of medicinal cannabis legislation in November 2018 in the UK, MGC Pharma is positioned to be one of the first medicinal cannabis companies to be listing on the LSE or any major exchange in the United Kingdom.

MGC Pharma product MXP100 – an Investigational Medicinal Product

COMPANY MILESTONES

Q1 2017

Collection of clinical data and initial design of protocols with the aim of bringing the first product to market.

Q2 2018

Granted LOI with Malta Government for the construction and establishment of EU-GMP grade production and research facility in Malta that will allow the cultivation, production and commercialisation of medicinal cannabis and pharmaceutical grade medicines in Malta.

Q3 2018

Good Manufacturing Practice (GMP) and manufacturing licence approval received for the Slovenian facilities which is one of the first such EU facilities to be authorised for the development and production of phytocannabinoid derived Investigational Medicinal Products (IMP's).

Q4 2018

Authorised Prescribers initiated in Australia allowing approved medical practitioners to be able to prescribe MGC Pharma's products.

Q1 2019

Granted SME qualification by the European Medicines Agency (EMA) for all of its phytomedicines. The EMA is the equivalent to the TGA in Australia and the FDA in the USA. Receipt of this status provides MGC Pharma with access to EMA's user guide, designed to help companies navigate regulatory requirements to successfully obtain marketing and registration authorisation.

Q2 2019

Import permit received for the UK along with key pharma distribution agreements signed with five new partners providing access to major new patient markets globally: United Kingdom, Germany, Austria, Switzerland, Brazil and Australia.

Q3 2019

Following the LOI granted Q2 2018, the Company signed a long-term lease agreement on the site of 6,000m^2 of land in Malta, with formal approval from Malta Enterprise. This allows the Company to develop a fully integrated, Good Manufacturing Practice (GMP) compliant 'Seed to Pharmacy' medical cannabis production facility in Malta.

Q3 2019

Pursuit of a dual listing on the London Stock Exchange (LSE) in the United Kingdom to become one of the first medicinal cannabis companies to list on the LSE.

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 2019.

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 & CEO	15 February 2016	-
Nativ Segev	Non-Executive Director & Head of Business Strategy	15 February 2016	-
Ross Walker	Non-Executive Director & Head of Medical Advisory Board	15 February 2016	-
Stephen Parker	Non-Executive Director	13 March 2019	-

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

COMPANY SECRETARY

Rachel Kerr held the position of Company Secretary for the full financial year. Kate Sainty was appointed Joint Company Secretary on 1 January 2018 and subsequently resigned on 28 February 2019.

PRINCIPAL ACTIVITIES

The Company is an EU-based biopharma company with many years of technical clinical and commercial experience in the medicinal cannabis industry. The Company's founders were key figures in the global medical cannabis industry and the core business strategy is to develop and supply high quality phytocannabinoid derived medicines for the growing demand in the medical markets in Europe, North America and Australasia.

OPERATING RESULTS

The consolidated loss of the Group from continued operations amounted to $1,903,672 (2018: $8,990,470).

DIVIDENDS PAID OR RECOMMENDED

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

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

27 AUGUST 2019

Approval Granted for Large-Scale Research Project with IHPS

The Company announced that it had partnered with the Slovenian Institute of Hop Research and Brewing ('IHPS'), a government organisation in Slovenia, to undertake a first of its kind large-scale research project on cannabis for medical purposes. The project is to be divided into two focal points; cultivation optimisation and standardising the production process of active pharmaceutical ingredients (API) derived from phytocannabinoids.

23 AUGUST 2019

Trial on the Effect of CannEpil® on Driver Competency

HREC approval received to conduct a controlled trial on the effect of CannEpil®, MGC Pharma's proprietary pharmaceutical product targeting the treatment of refractory epilepsy, on driving performance.

21 AUGUST 2019

Canaccord to Lead LSE Listing and $4.75m Placement Closed

The Company received commitments to raise $4.75 million (before costs), via a placement of shares at an issue price of $0.04 per share and also plans to undertake a Priority Offer to Shareholders on the same terms. Canaccord Genuity Limited and other key advisers in the UK are working with the Company to actively progress a dual listing on the LSE, targeted for 2HCY2019.

13 AUGUST 2019

MXC 100 Patient Milestone in Aus, Onboards Tetra Health

The Company announced 100 patients in Australia already prescribed or being processed ahead of receiving a prescription for MGC Pharma's pharmaceutical products, CannEpil® or MXP100 (100mg/mL cannabidiol) as a material achievement.

8 AUGUST 2019

MGC Signs Agreement for Construction of GMP Pharma Facility

The Company signed a long-term lease agreement on the 6,000m^2 site in Malta, which was previously identified and designated to MGC Pharma by Malta Industrial Parks, following formal approval from Malta Enterprise. Construction and planning approvals already received.

7 AUGUST 2019

YuShop Completes Chinese Market Test, Sales to Commence

The Company confirmed that YuShop completed its Beta test phase for the distribution of MGC Pharma's nutraceutical products across China, with positive results received. Full marketing and sales campaign will commence immediately through YuShop.

29 JULY 2019

Additional Information on Ground-breaking Research

The Company provided additional information on the announcement dated 24 July 2019. The pre-clinical research was using a glioblastoma subgroup - classified stem cells model and advanced organoid model. This model would address the effect of cannabinoids on microenvironment, which is a new type of research in this field.

24 JULY 2019

Ground-breaking MGC Pharma Research Highlights Effectiveness of Cannabinoids on Brain Cancers

The Company announced new facts on the pre-clinical research which highlighted the positive impact of using specific cannabinoid formulations in the treatment of glioblastoma, the most aggressive and so far therapeutically resistant primary brain tumour. This report confirms that cannabinoid preparations can successfully inhibit tumour viability and also cause the significant fraction of glioblastoma cells to die i.e. apoptosis after a short time after their application.

5 JULY 2019

Exercise of 6.5c Listed Options Tranche 2 - Appendix 3B

Conversion of 87,426 Listed Options into Ordinary Shares, the remainder 90,645,397 Listed Options expired on 3 June 2019 as per the terms and conditions

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:

Brett Mitchell, *B.Ec* - Executive Chairman
Mr Mitchell is a corporate finance executive with over 25 years of experience in the venture capital, capital markets, tech and resources industries. 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).

Mr Mitchell is a founder and director of Chieftain Securities Pty Ltd, a Perth based Corporate Advisory and Venture Capital firm and founder and shareholder of Graft Polymer (UK) Ltd. Mr Mitchell is also currently Executive Chairman of ASX Listed company TNT Mines Ltd (TIN).

Interest in shares and options held as at date of this report
Mr Brett Mitchell and Mrs Michelle Mitchell <Mitchell Spring Family A/C>
20,458,889 Ordinary Shares

Mr Brett and Michelle Mitchell <Lefthanders Super Fund A/C>
6,335,005 Ordinary Shares

Chieftain Securities Pty Ltd (Mr Mitchell is a Director and holds a 33% shareholding)
5,000,000 unlisted options exercisable at $0.15 each expiring 30 June 2021

Directorships held in other ASX listed entities in the past three years
TNT Mines Limited (27 June 2017 – current)
Sky and Space Global Ltd (12 May 2016 – 31 October 2018)

Roby Zomer – Managing Director and CEO
Pioneering for 10 years in the BioTech and AgroTech sectors, Mr. Zomer was head hunted to join Mr Segev as co-founder of MGC Pharma. Using his skills in running large scale projects, Mr. Zomer was then promoted to Executive Director and naturally encompassed CTO position simultaneously.

Using 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 high level performance from global operations. Mr Zomer's appointment to Managing Director & CEO follows successful implementation of MXC's pipelines to fully Integrate MXC as a biopharma company in Europe and Australia, and indicates exemplary scientific standards and leadership.

Interest in shares and options held as at date of this report
Chitta Lu Limited
500,001 Ordinary Shares

HSBC Custody Nominees (Australia) Limited
30,000,000 Ordinary Shares

Directorships held in other ASX listed entities in the past three years
Nil.

Nativ Segev – Non-Executive Director and Head of Business Strategy
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.

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

Interest in shares and options held as at date of this report
Nativ Segev
1 Ordinary Share
Brighght Global Limited
500,000 Ordinary Shares
HSBC Custody Nominees (Australia) Limited
52,500,000 Ordinary Shares

Directorships held in other ASX listed entities in the past three years
Nil.

Dr Ross Walker, *MBBS (Hons), FRACP, FCSANZ* - Non-Executive Director and Chairman of Strategic Advisory Board
Dr Ross Walker is an eminent practicing cardiologist with over 35 years' experience as a clinician. For the past 20 years, he has been focusing on preventative cardiology and is one of Australia's leading preventative health experts.

Dr Walker is considered one of the world's best keynote speakers and life coaches, he is the author of seven best-selling books and a health presenter in the Australian Media

Interest in shares and options held as at date of this report
Ross GT Walker Pty Ltd, Walker Family Super Fund A/C>
4,000,000 Ordinary Shares

Directorships held in other ASX listed entities in the past three years
Nil.

Dr Stephen Parker, *D.Phil, MBA* – Non-Executive Director
Dr Stephen Parker is a seasoned executive with over thirty years' experience in the pharmaceuticals and biotechnology sectors, as a senior executive in the sector, a strategic consultant, a venture capitalist and a senior corporate financier with Baring's, Warburg's and Apax Partners. Dr Parker is currently Chairman of Sareum Holdings plc and a non-Executive Director of Eternans Limited. Stephen has a D.Phil. from Oxford University and an MBA from City University Business School.

Interest in shares and options held as at date of this report
Nil.

Directorships held in other ASX listed entities in the past three years
Nil.

Rachel Kerr – Company Secretary
Mrs Kerr has 10 years' experience as a Company Secretary on both private and public companies, working on acquisitions, capital raisings, IPO's on ASX, due diligence reviews and compliance of public companies. Mrs Kerr is also Company Secretary of Sky and Space Global Ltd.

REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each key management person of MGC Pharmaceuticals 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.

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 for 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:

Mr Brett Mitchell, Executive Chairman
Current Director Agreements

- Director Letter of Appointment dated 20 February 2016, no termination date or payment on termination;
- MGC Pharma (UK) Ltd Non-Executive Director agreement commenced 30 June 2016; no termination date or payment on termination;
    - Fees of £910 per month

Addendum to Services Agreement valid from 1 January 2019 to current

- MGC Pharmaceuticals Ltd executive services agreement continues for 3 years unless terminated prior and will thereafter automatically renew every 12 months;
    - Fees reduced to A$20,000 per month;
      An additional benefit of A$60,000 in cash plus A$100,000 in Ordinary Shares (valued at the closing price of the milestone achievement date) per achievement, based on share performance and operational milestones are as follows:
        - GMP approval for Malta facility
        - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2019
        - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2020 and achieving share value of minimum of 8c for a minimum of 10 consecutive trading days
        - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2021 and achieving share value of minimum of 10c for a minimum of 10 consecutive trading days
    - 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 be €800,000

Mr Roby Zomer, Managing Director
Current Director Agreement

- MGC Pharma (UK) Ltd Non-Executive Director agreement commenced 30 June 2016; no termination date or payment on termination;
    - Fees of £910 per month

Addendum to Services Agreement valid from 1 January 2019 to current

- MGC Pharmaceuticals Ltd executive services agreement continues for 3 years unless terminated prior and will thereafter automatically renew every 12 months;
    - Fees of A$25,000 per month;
      An additional benefit of A$60,000 in cash plus A$100,000 in Ordinary Shares (valued at the closing price of the milestone achievement date) per achievement, based on share performance and operational milestones are as follows:
        - GMP approval for Malta facility
        - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2019
        - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2020 and achieving share value of minimum of 8c for a minimum of 10 consecutive trading days
        - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2021 and achieving share value of minimum of 10c for a minimum of 10 consecutive trading days
    - 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 be €800,000

Mr Nativ Segev, Non-Executive Director and Head of Business Strategy
Current Director Agreement

- MGC Pharma (UK) Ltd Non-Executive Director agreement commenced 30 June 2016; no termination date or payment on termination;
  - Fees of £910 per month

Addendum to Services Agreement valid from 1 January 2019 to current

- MGC Pharmaceuticals Ltd executive services agreement continues for 3 years unless terminated prior and will thereafter automatically renew every 12 months;
  - Fees reduced to A$20,000 per month;
  - An additional benefit of A$60,000 in cash plus A$100,000 in Ordinary Shares (valued at the closing price of the milestone achievement date) per achievement, based on share performance and operational milestones are as follows:
    - GMP approval for Malta facility
    - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2019
    - Construction of Malta facility Completed
    - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2020 and achieving share value of minimum of 8c for a minimum of 10 consecutive trading days
    - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2021 and achieving share value of minimum of 10c for a minimum of 10 consecutive trading days
  - 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 be €800,000

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

- 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 A$3,000 per month and fees for Chairman of Strategic Advisory Board of A$2,000 per month

Dr Stephen Parker, Non-Executive Director
Current Director Agreement

- MGC Pharmaceuticals Ltd Director Letter of Appointment was implemented on 13 March 2019, no termination date and no payment upon termination;
  - Non-Executive Director fees of A$5,000 per month

Previous Director Agreements in place at the beginning of the period:

Mr Brett Mitchell, Executive Chairman
Services Agreement valid from 20 February 2016 to 1 January 2019

- MGC Pharmaceuticals Ltd executive services agreement
  - 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

Mr Roby Zomer, Managing Director
Services Agreement valid from 20 February 2016 to 1 January 2019

- MGC Pharmaceuticals Ltd executive services agreement
  - 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

Mr Nativ Segev, Non-Executive Director & Head of Business Strategy
Services Agreement valid from 20 February 2016 to 1 January 2019

- MGC Pharmaceuticals Ltd executive services agreement
  - 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.

DETAILS OF REMUNERATION

COMPENSATION OF KEY MANAGEMENT PERSONNEL REMUNERATION

	Cash Short-term Benefits			Non-Cash Post-employment benefits					
Directors	*Cash and salary*	*Perfor-mance Bonus*	*Other*	*Super-annuation*	*Termination benefits*	*Equity*	*Share based Payments*	*Total*	*Perform-ance related %*
2019									
Brett Mitchell	289,765	-	-	-	-	-	-	289,765	-
Roby Zomer	329,838	-	76,571	-	-	-	-	406,409	-
Nativ Segev	321,181	-	72,360	-	-	-	-	393,541	-
Ross Walker	60,000	-	-	-	-	-	-	60,000	-
Stephen Parker	18,213	-	1,845	-	-	-	-	20,058	-
Total	**1,018,997**	**-**	**150,776**	**-**	**-**	**-**	**-**	**1,169,773**	**-**
2018									
Brett Mitchell	320,549	-	25,000	-	-	-	80,291	425,840	-
Roby Zomer	333,805	-	84,023	-	-	-	80,291	498,119	-
Nativ Segev	375,297	-	77,483	-	-	-	100,364	553,144	-
Ross Walker	60,000	-	5,000	-	-	-	32,360	97,360	-
Total	**1,089,651**	**-**	**191,506**	**-**	**-**	**-**	**293,306**	**1,574,463**	**-**

All Directors have contracts with the Company.

OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL

Directors	*Opening Balance*	*Granted as Compensation*	*Options Exercised*	*Net Other Changes*	*Closing Balance*
2019					
Brett Mitchell	5,000,000[1]	-	-	-	5,000,000
Roby Zomer	-	-	-	-	-
Nativ Segev	-	-	-	-	-
Ross Walker	-	-	-	-	-
Stephen Parker	-	-	-	-	-
Total	**5,000,000**	**-**	**-**	**-**	**5,000,000**
2018					
Brett Mitchell	-	5,000,000[1]	-	-	5,000,000
Roby Zomer	-	-	-	-	-
Nativ Segev	-	-	-	-	-
Ross Walker	-	-	-	-	-
Total	**-**	**5,000,000**	**-**	**-**	**5,000,000**

[1] Chieftain Securities Pty Ltd holds these options of which Mr Mitchell is a director and 33.33% shareholder

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*	*Performance Shares Exercised*	*Net Other Changes*	*Closing Balance*
2019					
Brett Mitchell	-		-	-	-
Roby Zomer	10,000,000	-	-	10,000,000	-
Nativ Segev	20,000,000	-	-	20,000,000	-
Ross Walker	-	-	-	-	-
Stephen Parker	-	-	-	-	-
Total	**30,000,000**	**-**	**-**	**30,000,000**[1]	**-**
2018					
Brett Mitchell	-	-	-	-	-
Roby Zomer	10,000,000	-	-	-	10,000,000
Nativ Segev	20,000,000	-	-	-	20,000,000
Ross Walker	-	-	-	-	-
Total	**30,000,000**	**-**	**-**	**-**	**30,000,000**

[1] Performance Shares expired due to not meeting the performance milestone

PERFORMANCE RIGHTS HELD BY 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*	*Closing Balance*
2019					
Brett Mitchell	10,000,000	-	10,000,000	-	-
Roby Zomer	-	-	-	-	-
Nativ Segev	-	-	-	-	-
Ross Walker	-	-	-	-	-
Stephen Parker	-	-	-	-	-
Total	**10,000,000**	**-**	**10,000,000**	**-**	**-**
2018					
Brett Mitchell	10,000,000	-	-	-	10,000,000
Roby Zomer	10,000,000	-	10,000,000	-	-
Nativ Segev	12,500,000	-	12,500,000	-	-
Ross Walker	4,000,000	-	4,000,000	-	-
Total	**36,500,000**	**-**	**26,500,000**	**-**	**10,000,000**

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*[1]	*Closing Balance*
2019					
Brett Mitchell	16,193,894	-	10,000,000	600,000	26,793,894
Roby Zomer	30,000,000	-	-	500,001	30,500,001
Nativ Segev	52,500,000	-	-	500,001	53,000,001
Ross Walker	4,000,000	-	-	-	4,000,000
Stephen Parker	-	-	-	-	-
Total	**102,693,894**	**-**	**10,000,000**	**1,600,002**	**114,293,896**
2018					
Brett Mitchell	16,193,894	-	-	-	16,193,894
Roby Zomer	20,000,000	-	10,000,000	-	30,000,000
Nativ Segev	40,000,000	-	12,500,000	-	52,500,000
Ross Walker	-	-	4,000,000	-	4,000,000
Total	**76,193,894**	**-**	**26,500,000**	**-**	**102,693,894**

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

Share-based Compensation

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 or 30 June 2019.

End of Remuneration Report

MEETINGS OF DIRECTORS

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

	Board Meetings	
	Number eligible to attend	***Number attended***
Brett Mitchell	5	5
Nativ Segev	5	5
Roby Zomer	5	5
Ross Walker	5	5
Stephen Parker	2	2

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 signing 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***
2 March 2018, 23 March 2018	31 March 2021	$0.125	19,900,000
17 April 2018	30 June 2021	$0.15	10,000,000
12 April 2019	31 March 2021	$0.065	16,000,000
Total			**45,900,000**

INDEMNIFYING OFFICERS OR AUDITOR

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 Perth and its related practices.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2019 has been received and can be found on page 27 of the annual 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 28 August 2019.

Roby Zomer
Managing Director
Dated 28 August 2019

AUDITOR'S INDEPENDENCE DECLARATION

PKF Perth

Advisory • Audit
Business Solutions

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 2019, 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 PERTH

SHANE CROSS
PARTNER

28TH AUGUST 2019
WEST PERTH
WESTERN AUSTRALIA

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

Revenue from continuing operations	*Note*	*30-Jun-19 $*	*30-Jun-18 $*
Sales revenue	4a)	656,237	296,811
Cost of goods sold	5	(356,642)	(119,340)
Gross profit		**299,595**	**177,471**
Other income	4b)	201,850	191,593
Research and development rebate	4c)	327,565	-
Expenses			
Operational expenditure		(456,852)	-
Corporate costs		(235,527)	(239,437)
Professional and consultancy fees		(1,405,943)	(851,245)
Research expense		(2,866,119)	(951,323)
Directors' fees		(1,194,852)	(1,258,802)
Employee benefit expenses	6	(537,906)	(812,701)
Employee share based payment expense	6	(537,004)	(1,072,681)
Travel expenses		(511,689)	(291,646)
Marketing expenses		(574,983)	(612,760)
Depreciation		(259,744)	(328,112)
Office and administrative expenses		(342,351)	(216,390)
Finance costs		(8,000)	(99,369)
Impairment provision expense	12, 21bi)	(2,493,140)	(207,976)
Gain on deconsolidation	21bi)	2,880,242	-
Gain on disposal of subsidiary		-	86,352
Gain / (Loss) on disposal of property, plant and equipment		3,711	(27,758)
Revaluation of investment held		(19,429)	19,672
Gain / (Loss) on re-measurement of performance shares	24a)	6,270,000	(1,900,000)
Other expenses		(415,781)	(595,358)
Loss before income tax		**(1,876,357)**	**(8,990,470)**
Income tax expense	7	(27,315)	-
Loss after income tax from continuing operations		**(1,903,672)**	**(8,990,470)**
Loss from discontinued operations	21bi)	(450,185)	1,038
Total loss after income tax		**(2,353,857)**	**(8,989,432)**
Loss after income tax benefit for the year attributable to:			
Members of the parent entity		(2,309,332)	(8,246,340)
Non-controlling interest		(44,525)	(743,092)
		(2,353,857)	**(8,989,432)**
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on the translation of foreign operations		(127,067)	118,485
Derecognition of foreign currency reserve		24,295	-
Other comprehensive income (net of tax) for the year		**(102,772)**	**118,485**
Total comprehensive loss for the year		**(2,456,629)**	**(8,870,947)**
Total comprehensive loss attributable to:			
Members of the parent entity		(2,412,104)	(8,073,791)
Non-controlling interest		(44,525)	(797,156)
		(2,456,629)	**(8,870,947)**
Earnings per share for loss attributable to the ordinary equity holders of the parent:			
From continuing and discontinued operations			
Basic loss per share (cents)	17	(0.19)	(0.73)
Diluted loss per share (cents)	17	(0.19)	(0.73)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	30-Jun-19 $	30-Jun-18 $
CURRENT ASSETS			
Cash and cash equivalents	8	2,354,086	9,858,977
Inventory	9	138,800	712,315
Trade and other receivables	10	1,227,285	932,319
Total Current Assets		**3,720,171**	**11,503,611**
NON-CURRENT ASSETS			
Plant and equipment	11	1,470,479	1,334,492
Intangible assets	12	5,034,309	7,082,904
Financial assets	21bii)	2,771,804	72,857
Total Non-Current Assets		**9,276,592**	**8,490,253**
TOTAL ASSETS		**12,996,763**	**19,993,864**
CURRENT LIABILITIES			
Trade and other payables	13a)	1,593,707	960,575
Deferred revenue	13b)	587,688	-
Contingent consideration	24a)	-	6,270,000
Total Current Liabilities		**2,181,395**	**7,230,575**
NON-CURRENT LIABILITIES			
Loans to third parties	14	-	21,556
Deferred revenue	13b)	-	47,280
Provisions		17,195	3,669
Total Non-Current Liabilities		**17,195**	**72,505**
TOTAL LIABILITIES		**2,198,590**	**7,303,080**
NET ASSETS		**10,798,173**	**12,690,784**
EQUITY			
Contributed equity	15a)	49,133,819	48,440,990
Share based payment reserve	15bi)	3,256,418	3,385,229
Foreign currency translation reserve	15bii)	33,928	136,700
Retained earnings		(41,464,829)	(38,030,342)
Equity attributable to equity holders of the parent		**10,959,336**	**13,932,577**
Non-controlling interest	22	(161,163)	(1,241,793)
TOTAL EQUITY		**10,798,173**	**12,690,784**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Contributed Equity $	*Share Based Payment Reserve* $	*Foreign Currency Translation Reserve* $	*Retained Earnings* $	*Non-Controlling Interest* $	*Total* $
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**
BALANCE AT 1 JULY 2018	**48,440,990**	**3,385,229**	**136,700**	**(38,030,342)**	**(1,241,793)**	**12,690,784**
Other comprehensive income	-	-	(102,772)	-	-	(102,772)
Loss after income tax expense	-	-	-	(2,309,332)	(44,525)	(2,353,857)
Total comprehensive loss for the year	**-**	**-**	**(102,772)**	**(2,309,332)**	**(44,525)**	**(2,456,629)**
Shares issued during the year (net of share issue costs)	692,829	-	-	-	-	692,829
Share based payment	-	(128,811)	-	-	-	(128,811)
Disposal of subsidiary				(1,125,155)	1,125,155	-
Balance at 30 June 2019	**49,133,819**	**3,256,418**	**33,928**	**(41,464,829)**	**(161,163)**	**10,798,173**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Note	30-Jun-19 $	30-Jun-18 $
Cash flows from operating activities			
Receipts from customers		985,195	299,514
Payments to suppliers and employees		(4,905,359)	(5,354,718)
Payments for research expenses		(2,892,045)	(951,323)
Research and development rebate	4c	327,565	-
Interest received		158,193	167,977
Interest paid		(444)	(48,240)
Income tax paid		(27,315)	-
Net cash used in operating activities	26	**(6,354,210)**	**(5,886,790)**
Cash flows from investing activities			
Subsidiary held for sale, net of cash disposed of	21bi)	(569,992)	-
Proceeds from disposal of plant and equipment		(14,893)	118,864
Purchase of plant and equipment		(362,150)	(459,443)
Net cash used in investing activities		**(947,035)**	**(340,579)**
Cash flows from financing activities			
Repayment of borrowings		-	-
Proceeds from issue of shares and options		35,962	5,017,365
Capital raising costs		(8,948)	(316,844)
Net cash provided by financing activities		**27,014**	**4,700,521**
Net (decrease) in cash and cash equivalents held		**(7,274,231)**	**(1,526,848)**
Cash and cash equivalents at beginning of year		9,858,977	11,363,902
Foreign exchange movement in cash		(230,660)	21,923
Cash and cash equivalents at end of year	8	**2,354,086**	**9,858,977**

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial statements of MGC Pharmaceuticals Limited for the year ended 30 June 2019 were authorised for issue in accordance with a resolution of Directors on 28 August 2019. 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 2019 the consolidated group incurred a loss from continuing operations of $1,903,672 (2018: $8,990,470), net operating cash outflows of $6,354,210 (2018: $5,886,790) and year-end cash and cash equivalents balance of $2,354,086 (2018: $9,858,977). Net losses include one-off non-cash adjustments for, an impairment provision of $2,493,140 (2018: $207,976), netted off against a gain on deconsolidation of a subsidiary of $2,880,242 (2018: nil) and a gain on the re-measurement of performance shares of $6,270,000 (2018: loss of $1,900,000) (refer notes 21b and 24a respectively).

Based on the consolidated group cashflow forecasts for the 12 months ending 31 August 2020, the Directors are satisfied that the going concern basis of preparation is appropriate based upon the future planned capital raisings, including the recent announcement on the firm commitments received to raise funds of $4.75m (before costs) via a placement of shares as detailed at note 25, *Events After the Reporting Date*. As at the date of this report the funds are being held in trust.

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 2019 ("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) 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 does not have 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.

e) 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 both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity had transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part, or all, of a financial asset, it's carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be 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 a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity instruments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial asset which are either measured at amortised costs or fair value through other comprehensive income. The measurement of the loss allowance depends on the Group's assessment at the end of the reporting period as to whether the financial instrument's risk has increased significantly since the initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since the initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

f) 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 2e)). 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 2e).

g) Current and Non-Current Classification

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

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

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

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

The Group classifies all other liabilities as non-current.

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

h) 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.

i) 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.

j) 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.

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. Judgements and estimates which are material to the financial report are found at the following notes:

a) Income Taxes (refer note 7).

b) Share Based Payments (refer note 30).

c) Contingent Liabilities (refer note 24).

d) Estimations and judgements on Intangible Assets (refer note 12).

4. REVENUE AND OTHER INCOME

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Revenue from sale of pharma products

Revenue from the sale of cannabinoids is recognised when the goods have been delivered, at which point the customer obtains control of the goods.

Revenue from sale of non-pharma products

Revenue from the sales of cosmetics is recorded when the products have been delivered to the consumer, signifying transfer of ownership.

Interest revenue

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

	30-Jun-19 *$*	*30-Jun-18* *$*
a) Sales revenue		
Pharma sales	36,273	217,281
Non-pharma sales	619,964	79,530
	656,237	**296,811**
b) Other income		
Interest income	201,850	191,593
	201,850	**191,593**
c) Research and development rebate		
Refund on research and development claim	327,565	-
	327,565	**-**

During the year the Group received a research and development rebate following lodgement of a claim for its financial year ended 30 June 2018.

5. COST OF GOODS SOLD

	30-Jun-19	*30-Jun-18*
	$	*$*
Cost of goods sold – Pharma	65,034	79,103
Cost of goods sold – Non-pharma	291,608	40,237
	356,642	**119,340**

6. EMPLOYEE EXPENSES

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.

	30-Jun-19	*30-Jun-18*
	$	*$*
Wages and salaries	537,906	804,900
Employee share option expense (note 30c)	537,004	1,072,681
Other employee costs	-	7,801
	1,074,910	**1,885,382**

7. INCOME TAX BENEFIT

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.

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.

		30-Jun-19 *$*	*30-Jun-18* *$*
a)	**The components of income tax expense comprise:**		
	current tax	-	-
	deferred tax	(1,929,112)	(1,901,865)
	DTA not recognised (losses)	2,031,647	1,529,144
	DTA not recognised (temporary)	(102,535)	372,721
	Under/over provision of prior year	27,315	-
		27,315	**-**

		30-Jun-19 *$*	*30-Jun-18* *$*
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% (2018: 27.5%)	(515,998)	(2,472,094)
	Add: Tax effect of:		
	Other non-allowable items	(1,771,964)	318,551
	Other assessable items	358,850	251,678
	Less: Tax effect of:		
	Non-assessable items		
	DTA not recognised (losses)	2,031,647	1,529,144
	DTA not recognised (temporary)	(102,535)	372,721
	Under/over provision of prior year	27,315	
	Income tax expense/(benefit)	**27,315**	**-**
	Deferred Tax Assets Not Brought to Account, the benefits of which will only be realised if the conditions for deductibility set out in note above		
	Tax Losses	4,747,381	3,651,169
	Temporary Differences	312,579	876,588
	Total	**5,059,960**	**4,527,758**

8. 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.

	30-Jun-19 *$*	*30-Jun-18* *$*
Cash at bank	2,354,086	9,858,977
	2,354,086	**9,858,977**

9. INVENTORY

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.

	30-Jun-19 *$*	*30-Jun-18* *$*
At Cost		
Inventories	20,932	8,853
Raw materials – work in progress	107,271	671,450
Foreign currency translation reserve	10,597	32,012
	138,800	**712,315**

10. 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.

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.

	30-Jun-19 *$*	*30-Jun-18* *$*
Current		
Trade receivables	271,022	70,466
Other receivables	710,298	322,966
GST receivable	158,632	68,120
Prepayments	87,333	463,352
Short term loan to third party	-	7,415
	1,227,285	**932,319**

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

11. PLANT AND EQUIPMENT

Plant and equipment are 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.

	30-Jun-19 *$*	*30-Jun-18* *$*
Plant and equipment		
• at cost	1,790,821	1,621,236
• accumulated depreciation	(572,013)	(354,950)
• foreign currency translation reserve	18,911	68,206
	1,237,719	**1,334,492**
Construction in progress		
• at cost	232,984	-
• accumulated depreciation	-	-
• foreign currency translation reserve	(224)	-
	232,760	-
Total Plant and equipment	**1,470,479**	**1,334,492**
Plant and equipment movement		
Opening balance at 1 July	1,334,492	1,258,478
Additions	343,566	459,022
Disposal	(21,365)	(196,293)
Disposal on derecognition of subsidiary (refer note 21b)	(44,219)	-
Depreciation	(259,744)	(328,112)
Foreign currency translation reserve	117,749	141,397
	1,470,479	**1,334,492**

12. INTANGIBLE ASSETS

Intangible assets acquired as part of a business combination or asset acquisition, other than goodwill, are initially measured at their fair value at the date of acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. The gains and losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Licenses/permit costs

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

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. The assessment takes into consideration a number of significant assumptions, estimates and judgements in relation to the growth of the revenue streams, being pharma and botanic, pertaining to the CGU over a 5-year forecast period. 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 available market data, and considered a prudent approach by applying a probability factor to future revenues in later years relating to its current developed products, CannEpil® and CogniCann®, having a significant growth in revenue upon the completion of the Phase III trials. A conservative discount rate of 20% was applied to net cashflows and a probability of 22.5% to estimated profitability in the latter years of the forecast model. A resulting provision for impairment of $2,011,542 was recognized during the year and taken to the statement of profit and loss and other comprehensive income.

Should the above estimates and judgments not occur, the resulting provision for impairment may increase and the intangible asset carrying amount further decrease. The sensitivities are as follows:

- If the probability applied was reduced to 20%, the resulting additional impairment would be $1,319,680 with all other assumptions remaining constant
- If the discount rate was to increase by 1%, the additional impairment would be $445,596, with all other variables held constant.

	30-Jun-19 *$*	*30-Jun-18* *$*
Intangible assets – Licence in Slovenia		
Opening balance at 1 July	7,082,904	7,076,166
• provision for impairment	(2,011,542)	-
• derecognition of initial interest in subsidiary	(38,942)	-
• foreign currency translation reserve	1,889	6,738
	5,034,309	**7,082,904**

13. 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 fairvalue on initial recognition and subsequently at amortised cost, using the effective interest rate method.

		30-Jun-19 *$*	*30-Jun-18* *$*
a)	**Current trade and other payables**		
	Trade payables	1,164,819	808,530
	Accruals	333,036	145,400
	Other payables	95,852	6,645
		1,593,707	**960,575**
b)	**Deferred revenue**		
	Deferred revenues - current	587,688	-
	Deferred revenues – non-current	-	47,280
		587,688	**47,280**

Deferred revenues represent revenues collected but not yet earned as at the year ended 30 June 2019.

Refer to note 18 for details on management of financial risk.

14. 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.

	30-Jun-19 *$*	*30-Jun-18* *$*
Non-current liabilities		
Loan payable to third party	-	21,556
	-	**21,556**

15. CONTRIBUTED EQUITY AND RESERVES

a) 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.

	30-Jun-19 NUMBER	30-Jun-18 NUMBER	30-Jun-19 $	30-Jun-18 $
Ordinary shares on issue, fully paid	1,203,048,174	1,189,830,412	49,133,819	48,440,990
VHL shares (note 30c)	10,335,511	13,000,000	-	-
	1,213,383,685	**1,202,830,412**	**49,133,819**	**48,440,990**

Reconciliation of movement in share capital

	No. Of Shares	Issue Price	Amount
30 JUNE 2019			
Opening balance of 1 July 2018	**1,202,830,412**		**48,440,990**
Conversion of Milestone 1 Performance Rights – 18 Jul 2018	6,000,000	0.048	288,000
Conversion of Milestone 2 Performance Rights – 18 Jul 2018	4,000,000	0.048	192,000
Release of VHL shares – 18 Jul 2018	-	0.069	24,237
Release of VHL shares – 5 Dec 2018	-	0.069	161,578
Conversion of Performance Shares – 19 Feb 2019	7	0.040	-
Exercise of listed options – 21 June 2019	553,266	0.065	35,962
Less: costs of issue			(8,948)
Closing balance at 30 June 2019	**1,213,383,685**		**49,133,819**

	No. Of Shares	Issue Price	Amount
30 JUNE 2018			
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			(706,844)
Closing balance at 30 June 2018	**1,202,830,412**		**48,440,990**

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.

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.

b) Reserves

i) Share based payment reserve

	30-Jun-19 *$*	*30-Jun-18* *$*
Opening balance at 1 July	3,385,229	3,495,614
Conversion of performance rights (note 30c)	(480,000)	(1,573,066)
Release of VHL shares (note 30c)	(185,815)	-
Share based payment vesting expense (note 30c)	537,004	1,462,681
	3,256,418	**3,385,229**

This comprises the amortised position of the share-based payment expense (refer note 30c).

ii) 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.

	30-Jun-19 *$*	*30-Jun-18* *$*
Opening balance at 1 July	136,700	(35,849)
Currency translation differences arising during the year	(127,067)	172,549
Derecognition upon disposal of subsidiary	24,295	-
	33,928	**136,700**

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

16. DIVIDENDS

No dividends have been paid or provided during the year.

17. 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.

	30-Jun-19	***30-Jun-18***
Basic loss per share (cents)	(0.19)	(0.73)
Diluted loss per share (cents)	(0.19)	(0.73)
	$	***$***
Reconciliation of earnings to profit or loss		
(Loss) used in calculating basic and diluted EPS	(2,309,332)	(8,246,340)
	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	1,209,142,408	1,125,542,692

18. FINANCIAL RISK MANAGEMENT

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

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

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

Market risks

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

Interest rate risk

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

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

	Floating interest rate $	*1 Year or less* $	*Over 1 to 5 years* $	*Non-interest bearing* $	*Remaining contractual maturities* $	*Weighted average interest rate* %
30 JUNE 2019						
Financial assets						
Cash and cash equivalents	2,354,086	2,354,086	-	-	2,354,086	**5.83%**
Financial assets at fair value through profit and loss	-	-	-	2,771,804	2,771,804	
Trade and other receivables	-	-	-	1,139,952	1,139,952	
	2,354,086	**2,354,086**	**-**	**3,911,756**	**6,265,842**	
Financial liabilities						
Other payables and sundry accruals	-	-	-	1,593,707	1,593,707	
Deferred revenue	-	-	-	587,688	587,688	
	-	-	-	2,181,395	2,181,395	
30 JUNE 2018						
Financial assets						
Cash and cash equivalents	9,857,489	9,857,489	-	1,488	9,858,977	**1.94%**
Financial assets at fair value through profit or loss	-	-	-	-	-	
Trade and 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	
Loans payable and deferred revenue	-	-	-	68,836	68,836	
	-	**-**	**-**	**1,029,411**	**1,029,411**	

At 30 June 2019, 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 $23,540 lower/higher (2018: $98,575).

Liquidity risk

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

Credit risk

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

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the 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-19 *$*	*30-Jun-18* *$*
Trade payables in denomination currency		
Trade payables – EUR (€)	526,948	161,827
Trade payables – GBP (£)	-	1,077
Trade payables – CZK (Kč)	8,871	14,041
Cash and cash equivalents held in denomination currency		
Cash and cash equivalents – EUR (€)	392,203	429,540
Cash and cash equivalents – GBP (£)	102,478	40,666
Cash and cash equivalents – CZK (Kč)	17,431	104,237
Consolidated entity sensitivity		
Exchange rates per AUD as at 30 June		
EUR (€)	0.6176	0.6336
GBP (£)	0.5530	0.5603
CZK (Kč)	15.7048	16.4663

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

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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.

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

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

	Level 1 $	*Level 2* $	*Level 3* $	*Total* $
30 JUNE 2019				
Financial assets				
Financial assets at fair value through profit or loss	72,858	3,199,973	-	**3,272,831**
Fair value movement in the period	(19,429)	(481,598)	-	**(501,027)**
Closing balance at 30 June 2019	**53,429**	**2,718,375**	**-**	**2,771,804**
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Contingent consideration				
Opening balance at 1 July	-	-	6,270,000	**6,270,000**
Fair value movement in the period	-	-	(6,270,000)	**(6,270,000)**
Closing balance at 30 June 2019	**-**	**-**	**-**	**-**

	Level 1 $	*Level 2* $	*Level 3* $	*Total* $
30 JUNE 2018				
Financial assets				
Financial assets at fair value through profit or loss	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**

a) Valuation techniques used to derive Level 1 fair values

The fair value of financial instruments recognised under Level 1 are measured based on the active market value, determined in this case by the value a third party is willing to pay for the assets (refer note 21bii).

b) Valuation techniques used to derive Level 2 fair values

The fair value of financial instruments recognised under Level 2 are measured based on observable, underlying data obtained on the fair value of shares issued (refer note 21bii).

c) 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 24a 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-19 $'000		*30-Jun-18 $'000*	
	Profit/(loss) 5% increase	*Profit/(loss)* 5% decrease	*Profit/(loss)* 5% increase	*Profit/(loss)* 5% decrease
Probability	-	-	**(330)**	**330**
Share price	-	-	**(314)**	**314**

d) 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.

20. CONTROLLED ENTITIES

The consolidated financial statements of the Group include:

	Country of incorporation	*Percentage Owned (%)**	
		30-Jun-19	*30-Jun-18*
Parent Entity:			
MGC Pharmaceuticals Limited	Australia		
Subsidiaries of MGC Pharmaceuticals Limited:			
MGC Pharma (UK) Limited	UK	100	100
MGC Research (Aus) Pty Ltd	Australia	100	100
Subsidiaries of MGC Pharma (UK) Limited:			
MGC Pharmaceuticals d.o.o	Slovenia	100	100
MGC Derma d.o.o[2]	Slovenia	-	51
Panax Pharma s.r.o	Czech Republic	80	80
MGC Nutraceuticals d.o.o[1]	Slovenia	100	-
MGC Pharma (Malta) Holdings Limited	Malta	100	-
Subsidiaries of MGC Pharma (Malta) Holdings Limited			
MGC Pharma (Malta) Property Limited[1]	Malta	100	-
MGC Pharma (Malta) Operations Limited[1]	Malta	100	-

*Percentage of voting power in proportion to ownership
[1] Refer note 21a for further details
[2] Refer note 21b for further details

21. 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. Refer to note 24 for further details on contingent consideration recognised on acquisition.

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.

a) Incorporation of new subsidiaries

30 June 2019

During the year the Group, through its subsidiary MGC Pharma (UK) Limited, incorporated three new entities in Malta, primarily setup for the activities of its Maltese operations, and one new entity in Slovenia for its Nutraceuticals operations.

These newly incorporated entities are: MGC Pharma (Malta) Holdings Limited, MGC Pharma (Malta) Property Limited, MGC Pharma (Malta) Operations Limited and MGC Nutraceuticals d.o.o.

As at the date of this report the transactions in relation to these entities have been consolidated.

30 June 2018

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

b) Disposal of Subsidiary

i) Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

30 June 2019

During the financial year the Group entered into a binding sale agreement, and subsequently a share purchase agreement on 7 November 2018, for the sale of its cosmetics subsidiary, MGC Derma d.o.o ("MGC Derma") with CannaGlobal Canada Co Inc ("CannaGlobal"), in exchange for consideration of shares in the private Canadian cannabis investment company.

On execution and completion, the following is effective:

- Purchase of remaining non-controlling interest of MGC Derma by the Company
- Transfer of CAD$0.5 million to MGC Derma for the first order of CBD materials as per the 5-year exclusivity supply agreement executed between the two parties
- 100% ownership of MGC Derma transferred to CannaGlobal
- 10% equity holding by the Group in CannaGlobal

In September 2018 the remaining 49% of MGC Derma was acquired by the Company and thereafter the agreed CAD$0.5m transfer was completed in November 2018.

On 29 January 2019 all conditions precedent for completion of the acquisition by CannaGlobal were executed and 2.5m shares in CannaGlobal were issued to the Group as consideration. A deemed disposal date of 31 January 2019 has been used for accounting purposes. The initial value of these shares received were $3,199,973.

It was determined that the 10% equity holding, based on underlying information provided by CannaGlobal, that the fair value of the 2.5m shares held as at 30 June 2019 was $2,718,375. The company has recognised an impairment expense of $481,598 in the statement of profit or loss.

A gain on deconsolidation as at date of disposal of $2,880,242 was recognised and taken to the statement of profit and loss.

Gain on deconsolidation of MGC Derma d.o.o

	31-Jan-19 *$*
Consideration received	
2,500,000 Cannaglobal shares	3,199,975
Carrying amount of net assets sold	(295,438)
	2,904,537
Reclassification of foreign currency translation reserve	(24,295)
Gain on deconsolidation	**2,880,242**

Financial Performance for MGC Derma d.o.o

	31-Jan-19 *$*	*30-Jun-18* *$*
Revenues	106,229	79,530
Cost of goods sold	(150,665)	(40,237)
Gross (loss)/profit	**(44,436)**	**39,293**
Other income	18,790	6,238
Operational expenditure	(237,218)	(39,253)
Corporate costs	(480)	-
Professional and consultancy fees	(54,216)	(83,473)
Travel and marketing expenses	-	(179,492)
Depreciation	(25,167)	(25,001)
Office and administrative expenses	-	(25,681)
Finance costs	(88,466)	-
Impairment provision expense	(16,132)	(207,976)
Other expenses	(2,860)	(121,055)
Loss before income tax	**(450,185)**	**(636,401)**
Income tax benefit	-	-
Loss after income tax expense from discontinued operations	**(450,185)**	**(636,401)**

Cash flow information for MGC Derma d.o.o

	$	*$*
Cash flows from operating activities		
Receipts from customers	621,278	81,180
Payments to suppliers and employees	(284,582)	(634,282)
Interest received	18,790	6,238
Net cash used in operating activities	**355,486**	**(546,864)**
Cash flows from investing activities		
Purchase of plant and equipment	(2,733)	(12,015)
Net cash used in investing activities	**(2,733)**	**(12,015)**
Cash flows from financing activities		
Proceeds of borrowing from parent entity	-	982,324
Net cash provided by financing activities	**-**	**982,324**
Net increase in cash and cash equivalents	**352,753**	**423,445**
Cash and cash equivalents at the beginning of the year	289,142	54,311
Foreign exchange movement in cash	(71,903)	(188,614)
Cash and cash equivalents	**569,992**	**289,142**

Assets and liabilities of MGC Derma d.o.o at disposal date

	30-Jun-19 *$*	*30-Jun-18* *$*
Assets		
Cash and cash equivalents	569,992	289,144
Trade and other debtors	79,176	112,119
Inventory	232,173	351,458
Property, plant and equipment	44,219	68,098
	925,560	**820,817**
Liabilities		
Trade and other payables	53,777	50,544
Deferred revenue	576,345	47,280
	630,122	**97,824**
Net assets held for sale at disposal date	**295,438**	**722,993**

ii) Financial assets through profit or loss

Investment in CannaGlobal	2,718,375	-
Investment in Chesser	53,429	72,857
	2,771,804	**72,857**

30 June 2018

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
- 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.

	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 and are therefore not required to be recognised until it is virtually certain that economic benefits will flow.

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.

22. NON-CONTROLLING INTEREST

	30-Jun-19 $	30-Jun-18 $
Opening balance at 1 July	(1,241,793)	(444,637)
De-recognition of non-controlling interest during the year	1,125,155	-
Share of total comprehensive income for the year	(44,525)	(743,092)
Foreign currency translation reserve	-	(54,064)
	(161,163)	**(1,241,793)**

23. SEGMENT REPORTING

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

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

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

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

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

The Slovenia operations relate to MGC Slovenia and MGC Derma (up to disposal date, refer note 21b) which, based on their level of activities for the year ended 30 June 2019, 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 pharma and non-pharma purposes.

	Europe $	Australia $	Elimination $	Consolidated Group $
30 JUNE 2019				
Total assets	**6,013,547**	**9,489,878**	**(2,506,662)**	**12,996,763**
Total liabilities	**13,744,172**	**881,802**	**(12,427,384)**	**2,198,590**
Sales revenues	**652,595**	**3,642**	**-**	**656,237**
Loss for the year:				
Members of the parent entity	(1,877,272)	(4,024,118)	3,489,286	(2,412,104)
Non-controlling interest	(44,525)	-	-	(44,525)
Total comprehensive loss for the year	**(1,921,797)**	**(4,024,118)**	**3,489,286**	**(2,456,629)**
30 JUNE 2018				
Total assets	**3,107,824**	**19,024,765**	**(2,138,725)**	**19,993,864**
Total liabilities	**8,832,835**	**6,956,588**	**(8,486,343)**	**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)**

24. CONTINGENCIES AND COMMITMENTS

a) Contingencies

A contingent consideration liability arose from the acquisition of MGC Pharma (UK) Limited during the financial year ended 30 June 2016, 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.

	30-Jun-19	*30-Jun-18*
	$	*$*
Opening balance at 1 July	6,270,000	4,370,000
Unrealised fair value movement recognised in profit or loss	(6,270,000)	1,900,000
	-	**6,270,000**

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 key assumptions in determining the fair value 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 2019

On 21 February 2019 the performance shares expired as it was determined that the milestone for conversion had not been achieved. In accordance with the terms and conditions pertaining to the performance shares, each share held consolidated into one performance share and automatically converted into one ordinary share in the Company, resulting in 7 ordinary shares being issued at a market value of $0.04.

b) Commitments

	30-Jun-19	*30-Jun-18*
	$	*$*
No later than one year	1,143,460	683,889
Later than one year and not later than five years	202,214	847,627
Total commitments	**1,345,674**	**1,531,516**

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 to 30 June 2018 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.

There were no further commitments nor contingent liabilities other than those disclosed as at 30 June 2019.

25. EVENTS AFTER THE REPORTING DATE

27 AUGUST 2019

Approval Granted for Large-Scale Research Project with IHPS

The Company announced that it had partnered with the Slovenian Institute of Hop Research and Brewing ('IHPS'), a government organisation in Slovenia, to undertake a first of its kind large-scale research project on cannabis for medical purposes. The project is to be divided into two focal points; cultivation optimisation and standardising the production process of active pharmaceutical ingredients (API) derived from phytocannabinoids.

23 AUGUST 2019

Trial on the Effect of CannEpil® on Driver Competency

HREC approval received to conduct a controlled trial on the effect of CannEpil®, MGC Pharma's proprietary pharmaceutical product targeting the treatment of refractory epilepsy.

21 AUGUST 2019

Canaccord to Lead LSE Listing and $4.75m Placement Closed

The Company received commitments to raise $4.75 million (before costs), via a placement of shares at an issue price of $0.04 per share and also plans to undertake a Priority Offer to Shareholders on the same terms. Canaccord Genuity Limited and other key advisers in the UK are working with the Company to actively progress a dual listing on the LSE, targeted for 2HCY2019.

13 AUGUST 2019

MXC 100 Patient Milestone in Aus, Onboards Tetra Health

The Company announced 100 patients in Australia already prescribed or being processed ahead of receiving a prescription for MGC Pharma's pharmaceutical products, CannEpil® or MXP100 (100mg/mL cannabidiol) as a material achievement.

8 AUGUST 2019

MGC Signs Agreement for Construction of GMP Pharma Facility

The Company signed a long-term lease agreement on the 6,000m^2 site in Malta, which was previously identified and designated to MGC Pharma by Malta Industrial Parks, following formal approval from Malta Enterprise. Construction and planning approvals already received.

7 AUGUST 2019

YuShop Completes Chinese Market Test, Sales to Commence

The Company confirmed that YuShop completed its Beta test phase for the distribution of MGC Pharma's nutraceutical products across China, with positive results received. Full marketing and sales campaign will commence immediately through YuShop.

29 JULY 2019

Additional Information on Ground-breaking Research

The Company provided additional information on the announcement dated 24 July 2019. The pre-clinical research was using a glioblastoma subgroup - classified stem cells model and advanced organoid model. This model would address the effect of cannabinoids on microenvironment, which is a new type of research in this field.

24 JULY 2019

Ground-breaking MGC Pharma Research Highlights Effectiveness of Cannabinoids on Brain Cancers

The Company announced new facts on the pre-clinical research which highlighted the positive impact of using specific cannabinoid formulations in the treatment of glioblastoma, the most aggressive and so far therapeutically resistant primary brain tumour. This report confirms that cannabinoid preparations can successfully inhibit tumour viability and also cause the significant fraction of glioblastoma cells to die i.e. apoptosis after a short time after their application.

5 JULY 2019

Exercise of 6.5c Listed Options Tranche 2 - Appendix 3B

Conversion of 87,426 Listed Options into Ordinary Shares, the remainder 90,645,397 Listed Options expired on 3 June 2019 as per the terms and conditions

26. CASH FLOW INFORMATION

	30-Jun-19 $	30-Jun-18 $
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
(Loss) after income tax	(2,353,857)	(8,989,432)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in loss		
Depreciation and amortisation	259,744	328,112
Impairment expense	2,493,140	207,976
Share based payment expense	537,004	1,072,681
(Loss)/Gain on re-measurement of financial liability	(6,270,000)	1,900,000
Gain on disposal of subsidiary	-	(86,352)
Gain on deconsolidation	(2,880,242)	-
Loss/(Gain) revaluation of investment held	19,429	(19,672)
Discontinued operations	450,185	-
Exchange differences	478,706	(140,888)
Changes in assets and liabilities, net of the effects of purchase of subsidiaries		
Decrease / (Increase) in inventory	573,515	(204,442)
(Increase) in trade and other receivables	(294,966)	(319,073)
Increase in trade payables and accruals	633,132	364,300
Cash flow from operations	**(6,354,210)**	**(5,886,790)**

27. AUDITOR'S REMUNERATION

	30-Jun-19 $	30-Jun-18 $
Remuneration of the auditors of the Group:		
Audit fees and review of financial reports - PKF Perth	51,150	39,760
Audit fees and review of financial reports – subsidiaries' auditor	66,055	69,699

28. PARENT COMPANY DISCLOSURES

The financial information for the parent entity, MGC Pharmaceuticals Limited, disclosed in note 28 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.

i) Summary of financial information

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

	30-Jun-19 $	30-Jun-18 $
Current assets	1,947,520	9,413,667
Non-current assets	9,335,256	9,694,618
Total Assets	**11,282,776**	**19,108,285**
Current liabilities	484,603	6,417,501
Total Liabilities	**484,603**	**6,417,501**
Contributed equity	49,133,820	48,440,991
Share based payment reserve	3,256,419	3,385,230
Accumulated losses	(41,592,066)	(39,135,437)
Total Equity	**10,798,173**	**12,690,784**
Loss for the year	**(2,456,629)**	**(12,970,891)**
Total comprehensive loss for the year	**(2,456,629)**	**(12,970,891)**

ii) Commitments and contingent liabilities of the parent

The parent entity did not have any contingent liabilities or commitments, as at 30 June 2019 (30 June 2018: nil) other than as disclosed at note 24.

iii) Guarantees entered into the parent entity

There were no guarantees entered into by the parent entity.

29. RELATED PARTY TRANSACTIONS

a) Key Management Personnel Remuneration

Compensation

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

	30-Jun-19 *$*	*30-Jun-18* *$*
Short-term employee benefits	1,169,773	1,281,157
Post-employment benefits	-	-
Long-term benefits	-	-
Share-based payments	-	293,306
	1,169,773	**1,574,463**

b) Transactions with Director related entities

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

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

			Transactions		*Balances*	
ENTITY	RELATIONSHIP	NATURE OF TRANSACTIONS	*Full Year 30-Jun-19 $*	*Full Year 30-Jun-18 $*	*Full Year 30-Jun-19 $*	*Full Year 30-Jun-18 $*
Brighght HK Ltd (Brighght)	(i)	(Re-charges to)/reimbursement from Brighght for corporate administration costs	5,702	7,760	-	-
Chieftain Securities Pty Ltd (Chieftain)	(ii)	(Re-charges to) / reimbursement from Chieftain for corporate administration costs	61,748	111,823	-	-
Chitta Lu Ltd (Chitta Lu)	(iii)	(Re-charges to) / reimbursement from Chitta Lu for corporate administration costs	1,010	4,393	-	-
Australian Cannabis Ventures Pty Ltd (ACV)	(iv)	(Re-charges to) / reimbursement from ACV for corporate administration costs	(5,912)	(2,930)	-	-
Sibella Capital Pty Ltd (Sibella)	(v)	(Re-charges to)/reimbursement from Sibella for corporate administration costs	14	(7,402)	-	8,105
Sky and Space Global Ltd (SAS)	(vi)	(Re-charges to)/reimbursement from SAS for corporate administration costs	(2,569)	(15,301)	-	2,044
Sputnik Enterprises Ltd (Sputnik)	(vii)	(Re-charges to)/reimbursement from Sputnik for corporate administration costs	-	(611)	-	611
Graft Polymer (UK) Ltd (GP UK)	(viii)	(Re-charges to)/reimbursement from GP UK for corporate administration costs	-	(611)	-	-
Graft Polymer d.o.o (GP Slovenia)	(ix)	(Re-charges to)/reimbursement from GP Slovenia for corporate administration costs	(27,114)	-	33,079	-
TNT Mines Ltd (TNT)	(x)	(Re-charges to)/reimbursement from TNT for corporate administration costs	(5,320)	(5,070)	-	116
MGC Derma d.o.o (Derma)	(xi)	(Re-charges to)/reimbursement from Derma for corporate administration costs	(64,559)	-	9,340	-

(i) Brighght HK Ltd is a company associated with Mr Nativ Segev.

(ii) Chieftain Securities Pty Ltd is a company associated with Mr Brett Mitchell.

(iii) Chitta Lu Ltd is a company associated with Mr Roby Zomer.

(iv) Australian Cannabis Ventures Pty Ltd (formerly known as Regeneration Pharma Ltd) is a company associated with Mr Brett Mitchell.

(v) Sibella Capital Pty Ltd is a company associated with Mr Brett Mitchell.

(vi) Sky and Space Global Ltd is a company associated with Mr Brett Mitchell who was a Director up until 31 October

2018.

(vii) Sputnik Enterprises Ltd is a company associated with Mr Brett Mitchell and Mr Roby Zomer, both of whom are Directors.

(viii) 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.

(ix) Graft Polymer d.o.o is company associated with Mr Roby Zomer.

(x) TNT Mines Limited is a company associated with Mr Brett Mitchell.

(xi) MGC Derma d.o.o, following disposal from the Group on 31 January 2019, is a company associated with Nativ Segev who became a Director of Derma.

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-19 $*	*Amount owed 30-Jun-18 $*
Subsidiaries of MGC Pharmaceuticals Limited:			
MGC Research (Aus) Pty Ltd	A wholly owned subsidiary	1,835,230	531,560
MGC Pharma (UK) Ltd	A wholly owned subsidiary	12,471,348	8,614,124

Details of interests in wholly owned controlled entities are set out in note 20.

Loans between entities in the wholly owned group are denominated in AUD ($) and Euro (€), they are non-interest bearing, unsecured and are repayable upon reasonable notice having regard to the financial stability of the Company. The interest-bearing loan with MGC Derma d.o.o was extinguished as part of the share purchase agreement with CannaGlobal Canada Co Inc (refer note 21bi).

d) Other related party transactions

There were no other related party transactions.

30. 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.

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.

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.

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 change in control of the Company; or
- 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.

b) Valuation of options issued

Unlisted options

i) 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:

	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 N ov 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

ii) 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.

iii) 16m unlisted options

On 12 April 2019 the company issued 16m unlisted options as approved by shareholders at the AGM held on 22 November 2017, exercisable at $0.065 each with an expiry date of 31 March 2021.

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

Valuation date	12 April 2019
Dividend yield (%)	Nil
Expected volatility (%)	87%
Risk-free interest rate (%)	1.50%
Expected life of option (years)	2
Option exercise price ($)	$0.065
Share price at grant date ($)	$0.035
Expiry date	31 Mar 2021
Valuation of option	$0.0106
Total value of option	$169,600

Listed options

i. 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.

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

Performance Rights

i. 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

c) Reconciliation of share-based payment expense

	Number of VHL shares/ unlisted options	*Vesting date*	*Value $*	*Share based payment at 30 June $*
AS AT 30 JUNE 2019				
Opening balance – VHL shares				
VHL shares issued	13,000,000		0.069	906,588
Movement during the year:				
Release of VHL shares - 18 July 2018	(347,542)		-	(24,237)
Release of VHL shares - 5 December 2018	(2,316,947)		-	(161,578)
Total VHL share	**10,335,511**			**720,773**
Opening balance – Unlisted options				
Unlisted options issued	30,500,000			1,294,692
Movement during the year:				
Unlisted options issued to KMP (milestone 1)	-	31/01/19	0.058	225,653
Unlisted options issued to KMP (milestone 2)	-	31/03/21	0.058	94,371
Unlisted options issued (milestone 1)	-	31/01/19	0.058	7,167
Unlisted options issued (milestone 2)	-	31/03/21	0.058	3,024
Unlisted options issued to KMP cancelled (milestone 1)	(300,000)	01/11/18	-	-
Unlisted options issued to KMP cancelled (milestone 2)	(300,000)	01/11/18	-	-
Unlisted options issued to KMP	16,000,000	12/04/19	0.0106	169,600
Total unlisted options	**45,900,000**			**1,794,507**
Opening balance – Listed options				
Listed options issued	91,286,089			577,500
Movement during the year:				
Listed options exercised - 21 June 2019	(553,266)		-	-
Listed options expired - 30 June 2019	(90,645,397)		-	-
Total listed options	**87,426**			**577,500**
Opening balance - Performance Rights				
Performance Rights issued	13,638,000			606,449
Movement during the year:				
Conversion of Performance Rights (milestone 1)	(6,000,000)	18/07/18	0.048	(288,000)
Conversion of Performance Rights (milestone 2)	(4,000,000)	18/07/18	0.048	(192,000)
Performance Rights issued (milestone 3)	-	31/12/18	0.041	37,189
Total Performance rights	**3,638,000**			**163,638**
Total share-based payment reserve				**3,256,418**

	Number of VHL shares/ unlisted options	*Vesting date*	*Value $*	*Share based payment at 30 June $*
AS AT 30 JUNE 2018				
Opening balance – VHL shares				
VHL shares issued	13,000,000		0.069	906,588
Movement during the year:				
Amortisation expense	-			-
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	(2,000,000)			-
Unlisted options issued to KMP (milestone 1)	8,000,000	31/01/19	0.058	234,667
Unlisted options issued to KMP (milestone 2)	8,000,000	31/03/21	0.058	58,331
Unlisted options issued	4,000,000	02/03/18	0.058	232,000
Unlisted options issued	250,000	31/01/19	0.058	7,333
Unlisted options issued	250,000	31/03/21	0.058	1,823
Unlisted options issues to consultant	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	91,553,226			577,500
Movement during the year:				
Listed options exercised	(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)	(13,500,000)	30/01/18	0.048	(648,000)
Conversion of Performance Rights issued (milestone 2)	(9,000,000)	30/01/18	0.048	(432,000)
Conversion of Performance Rights issued (milestone 1)	(2,400,000)	30/01/18	0.041	(98,400)
Conversion of Performance Rights issued (milestone 2)	(1,600,000)	30/01/18	0.041	(65,600)
Conversion of Performance Rights issued (milestone 2)	(8,026,000)	30/01/18	0.041	(329,066)
Performance Rights issued (milestone 2)	-	31/12/17	0.048	260,945
Performance Rights issued (milestone 2)	-	31/12/17	0.041	82,894
Performance Rights issued (milestone 3)	-	31/12/18	0.041	162,327
Performance Rights issued (milestone 2	-	31/12/17	0.041	32,361
Performance Rights cancelled (milestone 3)	(510,000)	18/05/18	-	-
Total Performance Rights	**13,638,000**			**606,449**
Total share-based payment reserve				**3,385,229**

31. 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.

TITLE OF STANDARD	AASB 9 FINANCIAL INSTRUMENTS
Nature of changew	The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value, All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments(that are not held for trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, and accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard required the portion of change in fair value that relates to the entities own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'Expected credit loss' ('ECL') to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the life time ECL method is adopted. For receivables a simple approach to measuring expected credit losses using a lifetime expected loss allowance is available.
Impact	The Group has reviewed its financial assets and liabilities which consist of: • 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; • 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. The new hedge accounting rules also have no impact on the Group . 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 have applied the new rules from 1 July 2018, with the practical expedients permitted under the standard. There will be no requirement on restatement of comparatives.

TITLE OF STANDARD	AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS
Nature of change	The standard provides a single comprehensive model for revenue recognition. The core principal of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies above. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entities statement of the financial position as a contract liability, a contract asset, or a receivable depending on the relationship between the entity's performance and the customers payment. Customer acquisition cost and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contact period. The impact on the financial performance and position of the Group from the adoption of these accounting standards were considered immaterial for the financial year ended 30 June 2019.
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 has adopted 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. There were no material adjustments required.

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 2019, are set out below.

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 office rental held by the Group.
Date of adoption by the Group	The Group will adopt this standard from 1 July 2019 and its impact on adoption is considered to be immaterial at this stage.

DIRECTORS' DECLARATION

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

1. The financial statements and notes, as set out in pages 28 to 63, 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 2019 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.

Roby Zomer
Managing Director

28 August 2019

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MGC PHARMACEUTICALS LIMITED

Report on the Financial Report

Opinion

We have audited the accompanying financial report of MGC Pharmaceuticals Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2019, 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 Limited 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 2019, 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.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(b) in the financial report, which indicates that the consolidated entity incurred a loss of $1,903,672 (2018: loss $8,990,470) during the year ended 30 June 2019. This condition, along with other matters as set out in note 2(b), indicate the existence of a material uncertainty that may cast significant doubt about the company and consolidated entity's ability to continue as a going concern and therefore, the company and consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report of the consolidated entity and the company does not include any adjustments in relation to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and/or the consolidated entity not continue as going concerns.

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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 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.

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 $5,034,309 as disclosed in Note 12. The intangible asset is a significant component of the Statement of Financial Position as at 30 June 2019 at 39% of total assets. 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. As a result of the impairment testing, an impairment of $2,011,542 was recognised during the period on the capitalised intangible asset. 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 2 (f).	Our work has included, but not been limited to, the following procedures:- • Assessing 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. • Gaining an understanding of activities and progress to date including reviewing contractual arrangements entered into. • Considered management's future plans and intentions in the context of the value-in-use model. • 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 12.

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Disposal and deconsolidation of subsidiary

Why significant	How our audit addressed the key audit matter
On 7 November 2018, the consolidated entity entered into a binding sale agreement with CannaGlobal Canada Co Inc., (Cannaglobal) for the sale of its cosmetics subsidiary, MGC Derma d.o.o. (Derma), in exchange for consideration of shares in the private Canadian cannabis investment company. After completion of all conditions precedent, the deemed date of disposal was 31 January 2019. This included the consolidated entity acquiring the remaining non-controlling interest in Derma. The consideration for this sale only comprised of shares in Cannaglobal. This transaction was considered material to the financial statements with a gain on sale of $2,880,242 being reported. Additionally, under AASB 5 Held for Sale Assets and Discontinued Operations, the disposal of the above business constitutes a discontinued operation, which must be disclosed separately in the Statement of Profit or Loss and Other Comprehensive Income in the current and prior year. Refer to Note 21(b) for disclosure on the discontinued operations. Based on the sale of the business being a significant transaction to the consolidated entity we have considered this to be a key audit matter.	Our work has included, but not been limited to, the following procedures: • Obtaining and reviewing key documentation surrounding the sale of business to Cannaglobal, including, the share purchase agreement; • Analysing and re-performing management's calculation attributing to the gain on sale, to ensure this was correctly stated. • Agreeing the fair value attributed to the Cannaglobal shares to recent underlying transactions. • Reviewing the calculations regarding the financial effect of the discontinued operations on the face of the Statement of Profit or Loss and Other Comprehensive Income and Note 21(b); • Ensuring that the disclosures in the financial statements complied with AASB 5 Held for Sale Assets and Discontinued Operations;

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.

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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.

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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 2019.

Opinion

In our opinion, the Remuneration Report of MGC Pharmaceuticals Limited for the year ended 30 June 2019 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 Perth

PKF PERTH

SHANE CROSS
PARTNER

28TH AUGUST 2019
WEST PERTH
WESTERN AUSTRALIA

ASX ADDITIONAL INFORMATION

EXCHANGE LISTING

MGC Pharmaceuticals Ltd shares are listed on the Australian Securities Exchange. The Company's ASX code is MXC for ordinary shares.

SUBSTANTIAL SHAREHOLDERS (HOLDING NOT LESS THAN 5%)

As at 30 September 2019 the Company did not have any substantial shareholders.

CLASS OF SHARES AND VOTING RIGHTS

At 30 September 2019 there were 13,786 holders of 1,366,710,986 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

a. each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;

b. on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a shareholder has one vote; and

c. on a poll, every person present who is a shareholder or a proxy, attorney or Representative of a shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited).

At 30 September 2019, the number of shareholders holding less than a marketable parcel is 4,972.

UNLISTED SECURITIES AS AT 30 SEPTEMBER 2019

Securities	*Number of Securities on issue*	*Number of Holders*	*Name of Holders holding more than 20%*	*Number Held*
Options exercisable at $0.125 on or before 31 March 2021	19,900,000	18	-	-
Options exercisable at $0.065 on or before 31 March 2021	16,000,000	18	-	-
Options exercisable at $0.150 on or before 30 June 2021	10,000,000	3	Merchant Funds Management Pty Ltd	2,000,000
			Chieftain Securities Pty Ltd	5,000,000
			Bell Potter Nominees Ltd	3,000,000
Options exercisable at $0.05 on or before 31 August 2023	14,500,000	1	CG Nominees (Australia) Pty Ltd	14,500,000
Options exercisable at $0.06 on or before 31 August 2023	14,500,000	1	CG Nominees (Australia) Pty Ltd	14,500,000

ESCROWED SECURITIES

The Company currently has 10,335,511 VHL Ordinary Shares subject to voluntary imposed escrow.

CASH USAGE

Since the time of listing on ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.

TOP 20 SHAREHOLDERS AS AT 30 SEPTEMBER 2019

Rank	*Name*	*Shares*	*% Shares*
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	125,111,893	9.15
2	MR GEORGE BISHAY	36,822,890	2.69
3	CITICORP NOMINEES PTY LIMITED	36,525,249	2.67
4	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	28,399,202	2.08
5	MR BRETT MITCHELL + MRS MICHELLE MITCHELL <MITCHELL SPRING FAMILY A/C>	20,458,889	1.50
6	MR DAVID CLEMENT HOBBY	8,000,000	0.59
7	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	6,974,889	0.51
8	FADCO INVESTMENTS LIMITED	6,772,613	0.50
9	MR BRETT MITCHELL + MRS MICHELLE MITCHELL <LEFTHANDERS SUPER FUND A/C>	6,335,005	0.46
10	BNP PARIBAS NOMS PTY LTD <DRP>	6,049,780	0.44
11	MR GRAEME O'SULLIVAN	5,970,130	0.44
12	MR TOMAS KUBALEK	5,850,875	0.43
13	ALBA CAPITAL PTY LTD	5,000,000	0.37
14	EL'RAGHY KRIEWALDT PTY LTD	5,000,000	0.37
15	CARDAZE PTY LIMITED <BOYLE FAMILY SUPER FUND A/C>	4,964,059	0.36
16	RCKC NOMINEES PTY LTD	4,500,000	0.33
17	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	4,136,202	0.30
18	MR RON CHAI LIPSKY	4,000,000	0.29
19	ROSS G T WALKER PTY LTD <WALKER FAMILY SUPER FUND A/C>	4,000,000	0.29
20	MS AUTUMN BLOOM	3,500,000	0.26
	Total	**328,371,676**	**24.03**

RANGE OF ORDINARY SHARES AS AT 30 SEPTEMBER 2019

Range	*Total holders*	*Shares*	*% Shares*
1 - 1,000	539	163,422	0.01
1,001 - 5,000	803	3,472,967	0.25
5,001 - 10,000	2,727	22,513,505	1.65
10,001 - 100,000	7,629	286,536,903	20.97
100,001 Over	2,088	1,054,024,189	77.12
Total	**13,746**	**1,332,221,111**	**100.00**

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