MGC PHARMACEUTICALS LTD
AND CONTROLLED ENTITIES
ABN 30 116 800 269

APPENDIX 4D

REPORTING PERIOD
Interim financial period to 31 December 2019

PREVIOUS REPORTING PERIOD
Interim financial period to 31 December 2018

Half year information given to ASX under listing rule 4.2A.3
This information contained in this report should be read in conjunction with the most recent annual report.

RESULTS FOR ANNOUNCEMENT TO MARKET

	31-Dec-19 $	Change %	31-Dec-18 (restated) $	31-Dec-18 $
Revenue from ordinary activities	1,777,510	520%	286,224	286,224
(Loss) / Profit after income tax from ordinary activities	(11,813,157)	122%	(5,317,654)	952,346
Net (loss) / profit for the period	(11,813,157)	109%	(5,658,984)	611,016
Dividend per share	n/a	-	n/a	n/a
Record date for determining entitlement to dividends				
No dividends have been paid or declared during the year	n/a	-	n/a	n/a

Significant items
The results presented for the period to 31 December 2019 and the comparative period ended 31 December 2018 were affected by the following significant items:

- *Restatement of comparatives following the reassessment of the Group's accounting treatment for the prior year gain on remeasurement of performance shares of $6,270,000, relating to the asset acquisition of MGC Pharma (UK) Ltd in the 2016 financial year, which was reassessed as an equity-settled share based payment (refer to note 4 of the interim financial report for full details).*
- *Write-off expense on the intangible asset of $5,036,029 upon expiry of the related license (2018: $2,031,133) (refer to note 2b of the interim financial report for further details);*
- *Significant operating and manufacturing costs associated with ramp up to commercial production on multiple product lines during the period;*
- *Share-based payments expense of $637,136 (2018: $286,853);*
- *Accrued estimate for potential future bonuses to Directors of $401,589 (2018: nil), based on achieving certain milestones attached to performance rights as approved by shareholders, set out in note 6a of the interim financial report.*

	31-Dec-19	30-Jun-19 (restated)	30-Jun-19
NET TANGIBLE ASSETS PER ORDINARY SHARE (cents)	0.24	0.48	0.48

DETAILS OF SUBSIDIARIES
During the interim period there were no newly incorporated, nor newly acquired, entities; however, there was an increase in the percentage holding of Panax Pharma s.r.o from 80% to 86.67%. There were no other changes relating to subsidiary holdings from the prior year ended 30 June 2019.

DIVIDENDS	n/a	n/a	n/a
DIVIDENDS REINVESTMENT PLAN	n/a	n/a	n/a
ASSOCIATED AND JOINT VENTURE ENTITIES	n/a	n/a	n/a

FOREIGN ENTITIES ACCOUNTING STANDARD
Subsidiaries are incorporated in the United Kingdom, Slovenia, Czech Republic and Malta, where International Financial Reporting Standards are applied.

AUDIT DISPUTE OR QUALIFICATION
Not subject to a modified opinion, however an emphasis of matter paragraph has been included in the Independent auditor's review report in relation to the Group's going concern assessment (refer note 2 of the interim financial report).

ABN 30 116 800 269
MGC PHARMACEUTICALS LTD

INTERIM FINANCIAL REPORT

31 DECEMBER 2019

Contents

Corporate Directory

Directors

Brett Mitchell
Executive Chairman

Roby Zomer
Managing Director and CEO

Nativ Segev
Non-Executive Director

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

Stephen Parker
Non-Executive Director and Chairman of the Corporate Governance Committees

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

Ernst & Young
EY Building
11 Mounts Bay Road
Perth WA 6000

Securities Exchange Listing

MGC Pharmaceuticals Ltd securities are listed on the Australian Securities Exchange (ASX) and OTCQB® Venture market in the United States
ASX Code: MXC, OTCQB® code: MGCLF

Share Registry

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

Website

www.mgcpharma.com.au

Directors' Report

The directors submit the consolidated interim financial report for MGC Pharmaceuticals and its controlled entities (the "Company" or "MGC Pharma") for the half-year ended 31 December 2019.

Directors

The names of directors who held office during or since the end of the half-year, all still currently hold office:

Director	Title	Appointment Date
Brett Mitchell	Executive Chairman	4 April 2013
Roby Zomer	Managing Director & CEO	15 February 2016
Nativ Segev	Non-Executive Director	15 February 2016
Ross Walker	Non-Executive Director & Head of Medical Advisory Board	15 February 2016
Stephen Parker	Non-Executive Director & Chairman of the Corporate Governance Committees	13 March 2019

Operating Results

The consolidated losses for the Group after providing for income tax from continuing operations amounted to $11,813,157 (restated 31 Dec 2018: $5,317,654), which includes significant non-cash items such as: impairment expense on the intangible asset of $5,036,029 (31 Dec 2018: $2,031,133), share-based payments to Directors and employees of $637,136 (31 Dec 2018: $286,853) and accrued estimate for potential future performance bonuses to Directors of $401,589 (31 Dec 2018: $nil). The prior period consolidated interim financial report, as originally presented, included a gain on the remeasurement of performance shares of $6,270,000 relating to the contingent consideration originally recognised on the asset acquisition of MGC Pharma (UK) Ltd during the financial year ended 30 June 2016. During the period the Group reassessed this accounting treatment and it was determined that the contingent consideration should have been originally accounted for as an equity-settled share-based payment recognised directly in equity. The Group has therefore restated the relevant comparatives in the interim consolidated statement of profit or loss and other comprehensive income, interim consolidated statement of financial position and interim consolidated statement of changes in equity. Refer to note 4 of the interim financial report for further details.

Dividends Paid or Recommended

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

Review of Operations

During the half year period ended 31 December 2019, MGC Pharma delivered significant operational and commercial milestones on its aim to become a leading bio-pharma company supplying phytocannabinoid derived medicines to patients globally from its unique EU-GMP medicine manufacturing facility in Slovenia.

Manufacturing & Distribution

Substantial increase in MGC Pharma Prescriptions

During the period, the Company delivered material increases for new prescriptions in Australia, Ireland, the UK and Brazil, demonstrating the immediate and future revenue generating potential of the Company. Since announcing the 100 prescriptions milestone mid-July 2019, the Company was delighted to see numbers rise significantly over the 6 months, with 1,890 prescriptions at the end of the half year. With ~700 new patients added in the December quarter alone, MGC Pharma had an increase of +600% patients prescribed MGC products. Furthermore, 33% of MXP100 and 43% of CannEpil® during the December quarter were repeat prescriptions, these numbers are expected to increase as MGC Pharma further establishes a market presence, and knowledge of Company's products increases amongst healthcare professionals.

MGC Pharma's expansion into additional key territories for future sales pipelines:

- ***Latin America – Brazil opened as new key market for MGC Pharma***
  At the end of November, the Company signed a binding term sheet with established Brazilian business services company, BRASILINVEST Global Business and Development ('BrasilInvest') to establish a Joint Venture Company ('JV Co') for the dedicated retail sales and marketing of MGC Pharma products into key Brazil and Latin American markets. BrasilInvest's established network will be utilised to promote products to medical professionals and potential distribution partners across key markets in the region. Brazil has a population of more than 210m people[1].

  The JV Co established is 50% (BrasilInvest)/50% (MGC Pharma), which will provide an import and retail platform for MGC Pharma. Importantly, this will provide potential new major revenue stream to MGC Pharma by capturing the retail profit margin for sales in Latin America, not just wholesale. First shipment of MGC's products to Brazil was dispatched in December. Distribution in Brazil is through MGC Pharma's existing agreement with ONIX Empreendimentos e Participações ("Onix"), a Brazilian based company that assists companies in conducting business within the region.
- ***Ireland***
  In December the Company received formal approval for the sale of CannEpil® in Ireland following the recommendation by the Health Products Regulatory Authority ('HPRA'). This enabled the immediate prescriptions of CannEpil®, one of MGC Pharma's Investigational Medicinal Product's (IMP) to treat drug resistant epilepsy, in the country. These approvals were officially granted by the Irish Ministry of Health, to be one of the first cannabinoid-based medicines approved for prescription and sale under the Irish Government's Medical Cannabis Access Programme. The Company views Ireland as a key European Union ('EU') member state to grant approval for the prescription and sale of MGC Pharma's phytocannabinoid derived products, with a view to expand to additional EU countries in 2020.
- ***Peru***
  Post period end, in late January 2020, the Company announced that it signed a distribution agreement with Anden Bio Naturals S.A ('Anden'), a leading Peruvian medical products distributor, for the exclusive distribution and commercialisation of MGC Pharma phytocannabinoid-derived medicines in Peru and Bolivia for a term of five years (the 'Agreement'), thereby giving MGC Pharma access to their extensive network of 7,500 pharmacies, private medical clinics and an oncological private insurance system.
- ***Poland***
  Post period end, in late February 2020, the Company confirmed it entered into an exclusive commercial wholesale supply agreement ('Agreement') with Polish NGO Cannabis House Association (Stowarzyszenie Cannabis House) and the Forensic Laboratory of the Faculty of Law and Administration of the University of Łódź in Poland, a key EU market. The Agreement sets out the terms under which MGC Pharma will supply its cannabinoid medicine products, and scientific support, to support a large-scale commercial research study aimed at collecting data on medicinal cannabis users and products in Poland (the 'Project').

  MGC will distribute its products into Poland for the first time and is responsible for providing all products to the Project, which will be based on CannEpil®, CogniCann®, and the Mercury Pharma line. The Project will immediately rollout to 15 pharmacies and authorised dispensaries to provide the registered products and will scale to 50 within the first nine months. Full rollout is planned for 250 locations within two years.

Long-term lease signed with Malta Industrial Parks for construction of large-scale Pharma Production Facility

A major milestone for MGC Pharma and the Maltese medical cannabis industry was delivered to enable the construction of its Maltese state-of-the-art GMP production and research 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. The facility, once constructed, will be one of the first commercial EU-GMP grade production and research facilities in the country within the medical cannabis sector. The facility will facilitate development of expertise for cannabinoid derived medicines and research in Malta with subsequent products to be delivered into the European Union and global markets.

[1] Source: The LATAM Cannabis Report, Prohibition Partners

The large scale, commercial facility is designed to be a 15,000m^2 multi-story building for the operation of the Company's fully GMP 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. The Company will initiate the civil works and construction works once it completes the listing in the UK, which is the targeted source of funding for the facility construction and fit out.

Research & Development

MGC Pharma Research Demonstrates Effectiveness of Cannabinoids on Brain Cancers

In July, MGC Pharma highlighted new facts on the pre-clinical research which demonstrated 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 research, the first of its kind to test the effects of cannabinoid compound formulations on cancerous cells using tissues taken directly from a patient, conducted in collaboration with the National Institute of Biology and University Medical Centre Ljubljana, is a major scientific breakthrough for the Company in successfully applying cannabinoid compounds on cancerous cells.

Australian Clinical Trial on the effect of CannEpil® on Driver Competency and Performance

In August the Company received approval from the Human Research Ethics Committee to conduct a controlled trial to assess the effect of CannEpil® on driving performance, while additionally providing safety data required for the European Medicines Agency and the Therapeutic Goods Administration product registration. The trial will compare the driving performance of healthy patients treated with CannEpil® with the driving performance of a placebo group, while collecting safety data. This will be one of the first trials globally to assess the impact of cannabis based medical products and driving competency with the intention of providing sufficient evidence to impact legislation in favour of permitting patients taking CannEpil® and other similar products to drive. Patient recruitment is expected to commence in April 2020.

Head-to-head Epilepsy clinical study comparing CannEpil® to 100% CBD receives Ethics Committee Approval

MGC Pharma received Human Research Ethics Committee approval to conduct a head-to-head clinical study on severe intractable epilepsy in collaboration with Cannabis Access Clinics and Epilepsy Action Australia. This is one of the first studies in the world to conduct a direct comparison assessing the efficacy of low-THC to 100% CBD products when treating severe intractable epilepsy. The study consists of 100 epilepsy patients treated with either CannEpil® or MXP100, with difference in efficacy analysed. With recruitment underway, treatment is expected to begin in March 2020.

Approval granted for large-scale research project with Slovenian Institute of Hop Research and Brewing

The Company partnered with the Slovenian Institute of Hop Research and Brewing, a government organisation in Slovenia, to undertake a first of its kind large-scale research project on cannabis for medical purposes. The objective of the research project is twofold – the optimisation of cultivation techniques and the isolation of an active pharmaceutical ingredient from the cannabis plant that can be utilised in the future development of medical products by the Company at our EU GMP certified facility.

MGC Pharma receives first Australian Government Grant for CogniCann®, supporting the Company's Phase IIb clinical trial

In November MGC Pharma received its first payment of AU$25,000 out of the AU$50,000 Innovation Connections Grant ('the Grant') from the Australian Commonwealth Government, which is a notable demonstration of Federal Government support for the Company's clinical programs. The Grant supports the CogniCann® Phase IIb clinical trial being conducted in collaboration with the University of Notre Dame Western Australia ('UNDA'). The Phase IIb double-blind placebo controlled clinical trial is assessing symptoms associated with dementia and Alzheimer's disease. The trial will include 50 patients, with recruitment underway and treatment is expected to begin in the coming month.

Corporate

A$5.75m Placement & Priority Offer Completed, Canaccord Genuity appointed Equity Capital Markets Advisor

In August, the Company completed a raising of $4.75 million by way of a share placement to sophisticated and professional investors and a $1 million Priority Offer to shareholders at an issue price of $0.04 per share. Along with the placing, the Company 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 strategy to dual-list on the London Stock Exchange (LSE). During 2019 the Company materially advanced its dual-listing strategy with Canaccord and is actively progressing towards a listing on the LSE. The Company had been planning to complete its listing in London by the end of 2019 and remains confident that it will be able to do so in 2020, once final approvals from the UK regulatory authorities has been received.

Events Subsequent to Reporting Date

7/01/2020	**Launch of New Product Line in Australia & NZ - Mercury Pharma** The launch of a new proprietary affordable prescription medicine line to be branded as Mercury Pharma, specifically for the Australian and New Zealand markets was announced. The first product being "Mercury Pharma 100" ('MP100'), a 100mg/mL CBD solution that will be prescribed by health care professionals in Australia and New Zealand, initially distributed by Australian medicinal cannabis distribution and logistics specialist Cannvalate Pty Ltd and Health House International Pty Ltd.
9/01/2020	**MGC Pharma Crosses 2,000 Prescription Milestone** The Company was pleased to announce that it had passed 2,000 prescribed units threshold of its standardised, affordable cannabinoid medicines. This increase has been achieved from patients in Australia, the United Kingdom and with the recent additions of new patient special access approved markets of Brazil and Ireland following the recent approval for the sale of MGC Pharma products in these countries.
20/01/2020	**Supply Agreement with THC Global for Canndeo Products** MGC Pharma announced the signing of a supply agreement with THC Global Group Limited (ASX:THC) ('THC Global') to produce and supply white label pharmaceutical grade Canndeo branded phytocannabinoid products to Australia and New Zealand for THC Global, adding a new revenue stream to the Company.
28/01/2020	**Agreement Signed with Leading Peruvian Distributor** Distribution agreement was signed with Anden Bio Naturals S.A ('Anden'), a leading Peruvian medical products distributor, for the exclusive distribution and commercialisation of MGC Pharma phytocannabinoid-derived medicines in Peru and Bolivia for a term of five years (the 'Agreement').
17/02/2020	**MGC Pharma announces $1m Strategic Placement and $3m SPP** The Company announced a $1m placement to a strategic investor and a $3m SPP to existing eligible shareholders. The Placement was completed on 25 February 2020 and the SPP is ongoing with an indicative closing date of 4 March 2020.
21/02/2020	**85% Increase in Order Volume of New Prescription Products** An 85% increase to its January purchase order volume over the past week, from 2,000 to 3,700 units for the immediate production and delivery of its Mercury Pharma line of proprietary prescription medicinal products. The increased 3,700 unit order will deliver over A$430,000 in revenue to the Company.
25/02/2020	**Completion of $1m Placement - Appendix 2A** The Company announced completion of the $1m placement to a strategic investor as announced 17 February 2020.
26/02/2020	**Commercial Supply Deal Signed for First Products into Poland** The Agreement sets out the terms under which MGC Pharma will supply its cannabinoid medicine products, and scientific support, to support a large-scale commercial research study aimed at collecting data on medicinal cannabis users and products in Poland. MGC will be responsible for providing products to 15 pharmacies and authorised dispensaries to provide the registered products and will scale to 50 within the first nine months. Full rollout is planned for 250 locations within two years.

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 9 for the half-year ended 31 December 2019.

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

Roby Zomer
Managing Director
Dated 28 February 2020

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Building a better working world

Auditor's independence declaration to the Directors of MGC Pharmaceuticals Limited

As lead auditor for the review of the half-year financial report of MGC Pharmaceuticals Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of MGC Pharmaceuticals Limited and the entities it controlled during the financial period.

Ernst & Young

T G Dachs
Partner
28 February 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2019

	Note	31-Dec-19 $	31-Dec-18 Restated $
Revenue from contracts with customers		1,777,510	286,224
Cost of goods sold		(1,612,133)	(119,048)
Gross profit		**165,377**	**167,176**
Other income		9,159	98,116
Research and development rebate		456,901	116,710
Operational expenditure		(605,822)	(241,557)
Corporate and administrative expenses		(1,121,813)	(706,908)
Professional and consultancy fees*		(1,163,582)	(416,996)
Research expenses		(2,226,782)	(914,690)
Directors' fees		(577,108)	(631,966)
Directors' future bonus scheme		(401,589)	-
Employee benefit expenses		(220,624)	(182,744)
Employee share based payments expense	*6*	(637,136)	(286,853)
Depreciation		(264,241)	(81,153)
Finance costs		(55,755)	42,540
Write off/Impairment of intangible asset	*2b)*	(5,036,029)	(2,031,133)
Other expenses		(134,113)	(248,196)
Profit/(Loss) before income tax		**(11,813,157)**	**(5,317,654)**
Income tax benefit		-	-
Profit/(Loss) after income tax from continuing operations		**(11,813,157)**	**(5,317,654)**
(Loss) / Profit from discontinued operations		-	(341,330)
Total profit/(loss) after income tax		**(11,813,157)**	**(5,658,984)**
Profit/(Loss) after income tax for the half year attributable to:			
Member of the parent entity		(11,808,156)	(5,617,519)
Non-controlling interest		(5,001)	(41,465)
		(11,813,157)	**(5,658,984)**
Other comprehensive (loss)/income for the half year			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on the translation of foreign operations		42,159	(45,341)
Other comprehensive (loss)/income (net of tax) for the half year		**42,159**	**(45,341)**
Total comprehensive income/(loss) for the half year		**(11,770,998)**	**(5,704,325)**
Total comprehensive income/(loss) attributable to:			
Members of the parent entity		(11,765,997)	(5,720,539)
Non-controlling interest		(5,001)	16,214
		(11,770,998)	**(5,704,325)**
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the parent			
From continuing and discontinued operations:			
Basic and diluted (loss) per share (cents)		(0.90)	(0.47)

*Includes initial costs in relation to the planned dual listing.

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

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	31-Dec-19 $	30-Jun-19 Restated $
CURRENT ASSETS			
Cash and cash equivalents		1,030,587	2,354,086
Inventory		722,887	138,800
Trade and other receivables		1,568,203	1,227,285
Total Current Assets		**3,321,677**	**3,720,171**
NON-CURRENT ASSETS			
Plant and equipment		2,083,121	1,470,479
Intangible assets	*2b)*	-	5,034,309
Financial assets		2,911,492	2,771,804
Right-of-use assets	*9*	1,869,273	-
Total Non-Current Assets		**6,863,886**	**9,276,592**
TOTAL ASSETS		**10,185,563**	**12,996,763**
CURRENT LIABILITIES			
Trade and other payables		3,101,198	1,593,707
Deferred revenue		-	587,688
Lease liabilities - current	*9*	94,658	-
Total Current Liabilities		**3,195,856**	**2,181,395**
NON-CURRENT LIABILITIES			
Lease liabilities – non-current	*9*	1,791,070	-
Provisions		15,638	17,195
Total Non-Current Liabilities		**1,806,708**	**17,195**
TOTAL LIABILITIES		**5,002,564**	**2,198,590**
NET ASSETS		**5,182,999**	**10,798,173**
EQUITY			
Contributed equity	*5*	54,815,674	49,133,819
Share based payment reserve		5,275,093	4,556,418
Foreign currency translation reserve		76,087	33,928
Consolidation reserve		(401,232)	-
Accumulated losses		(54,572,985)	(42,764,829)
Equity attributable to equity holders of the parent		**5,192,637**	**10,959,336**
Non-controlling interest		(9,638)	(161,163)
TOTAL EQUITY		**5,182,999**	**10,798,173**

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

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2019

	Contributed Equity $	Share Based Payment Reserve $	Foreign Currency Translation Reserve $	Consolidation Reserve $	Accumulated losses $	Non-controlling interest $	Total $
Balance at 1 July 2018 – as previously stated	**48,440,990**	**3,385,229**	**136,700**	**-**	**(38,030,342)**	**(1,241,793)**	**12,690,784**
Deferred consideration restatement (note 4)	-	1,300,000	-	-	4,970,000	-	6,270,000
Balance at 1 July 2018 - restated	**48,440,990**	**4,685,229**	**136,700**	**-**	**(33,060,342)**	**(1,241,793)**	**18,960,784**
Other comprehensive income	-	-	(103,020)	-	-	57,679	(45,341)
Loss after income tax expense - restated	-	-	-	-	(5,617,519)	(41,465)	(5,658,984)
Total comprehensive loss for the period	**-**	**-**	**(103,020)**	**-**	**(5,617,519)**	**16,214**	**(5,704,325)**
Shares issued during the period (net of share issue costs)	(4,917)	-	-	-	-	-	(4,917)
Share based payment	-	286,853	-	-	-	-	286,853
Transfer to issued capital	665,815	(665,815)	-	-	-	-	-
Acquisition of remaining non-controlling interest	-	-	-	-	(1,067,185)	1,067,185	-
Balance at 31 December 2018 (Restated)	**49,101,888**	**4,306,267**	**33,680**	**-**	**(39,745,046)**	**(158,394)**	**13,538,395**

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2019

	Contributed Equity $	Share Based Payment Reserve $	Foreign Currency Translation Reserve $	Consolidation Reserve $	Accumulated losses $	Non-controlling interest $	Total $
Balance at 1 July 2019 - restated	**49,133,819**	**4,556,418**	**33,928**	**-**	**(42,764,829)**	**(161,163)**	**10,798,173**
Other comprehensive income	-	-	42,159	-	-	-	42,159
Loss after income tax expense	-	-	-	-	(11,808,156)	(5,001)	(11,813,157)
Total comprehensive loss for the period	**-**	**-**	**42,159**	**-**	**(11,808,156)**	**(5,001)**	**(11,770,998)**
Shares issued during the period (net of share issue costs)	4,689,859	-	-	-	-	-	4,689,859
Transfer to issued capital	757,961	(757,961)	-	-	-	-	-
Share based payment	-	1,476,636	-	-	-	-	1,476,636
Acquisition of remaining non-controlling interest	234,035	-	-	(401,232)	-	156,526	(10,671)
Balance at 31 December 2019	**54,815,674**	**5,275,093**	**76,087**	**(401,232)**	**(54,572,985)**	**(9,638)**	**5,182,999**

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

Consolidated Statement of Cash Flows

For the half year ended 31 December 2019

	31-Dec-19 $	31-Dec-18 $
Cash flows from operating activities		
Receipts from customers	783,363	882,136
Payments to suppliers and employees	(5,069,615)	(3,054,012)
Payments for research expenses	(2,076,782)	(738,677)
Research and development rebate	456,901	116,710
Interest received	10,958	109,818
Interest paid	(161)	(540)
Net cash used in operating activities	**(5,895,336)**	**(2,684,565)**
Cash flows from investing activities		
Subsidiary disposed, net of cash disposed of	-	(672,946)
Purchase of plant and equipment	(332,211)	(175,434)
Net cash provided (used in) investing activities	**(332,211)**	**(848,380)**
Cash flows from financing activities		
Proceeds from issue of shares	5,755,723	-
Payment of lease liabilities	(288,243)	-
Payment of capital raising costs	(376,364)	(4,917)
Net cash provided by/(used in) financing activities	**5,091,116**	**(4,917)**
Net (decrease) in cash and cash equivalents held	**(1,136,431)**	**(3,537,862)**
Cash and cash equivalents at beginning of period	2,354,086	9,858,977
Foreign exchange movement of cash	(187,068)	(43,255)
Cash and cash equivalents at end of period	**1,030,587**	**6,277,860**

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

Notes to the Consolidated Interim Financial Statements

For the half year ended 31 December 2019

NOTE 1. CORPORATE INFORMATION

The consolidated interim financial report of MGC Pharmaceuticals Ltd ('MGC' or the 'Company') and its controlled entities (the "Group" or "Consolidated Entity") for the half-year ended 31 December 2019 was authorized for issue in accordance with a resolution of the directors dated 28 February 2020.

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

NOTE 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Statement of Compliance

The consolidated interim financial report is a condensed general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Basis of Preparation

The consolidated interim financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the consolidated interim financial report for the half-year ended 31 December 2019 are consistent with those adopted and disclosed in the Group's 2019 annual financial report for the financial year ended 30 June 2019, except for the impact of new and amended Standards and Interpretations adopted on 1 July 2019 as described below.

Going Concern

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

During the half year ended 31 December 2019 the consolidated entity incurred a loss from continuing operations of $11,813,157 (restated 31 Dec 2018: $5,317,654) and had a cash and cash equivalents balance of $1,030,587 (30 June 2019: $2,354,086) as at the half year end.

The consolidated group cashflow forecasts for the 12 months ending 28 February 2021 indicate that the ability of the Group to be able to continue as a going concern is dependent upon the Group being able to secure additional working capital. The Directors are satisfied that the going concern basis of preparation is appropriate based on the Group's future planned capital raisings, including but not limited to those announced subsequent to period end (refer note 12).

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

The consolidated interim financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business. In the event that the Group is unable to raise additional working capital, when required, there is significant uncertainty as to whether the Group will be able to meet its debts as and when they fall due and thus continue as a going concern. The consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of the recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2019

a) New and amended Accounting Standards and Interpretations adopted by the Group

The Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective from 1 July 2019.

The adoption of these new and amended Accounting Standards and Interpretations did not result in any significant changes to the Group's accounting policies, with the exception of the adoption of AASB 16 Leases ("AASB 16") (see below).

The Group has not early adopted any new or amended Accounting Standards or Interpretations issued but not yet effective.

Impact of adopting AASB 16

AASB 16 supersedes AASB 117 Leases, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases-Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at inception as either a finance lease or an operating lease. For operating leases, the leased item was not capitalised and the lease payments were recognised in the profit or loss on a straight-line basis.

The Group adopted AASB 16 from 1 July 2019 using the modified retrospective method of adoption. The Group has applied recognition exemptions or practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and Interpretation 4 at the date of initial application. The Group also elected to apply practical expedients in relation to lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'), and the practical expedient to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

During the period to 31 December 2019, the Group entered into a long-term site lease agreement with Malta Industrial Parks, through its subsidiary MGC Pharma (Malta) Property Limited. Further to this the Group also incurs rental on its Slovenian office and lab, both of which are recognized as leases under AASB 16. Refer to note 9 for full details, including the impact on adoption.

On adoption of AASB 16 Leases, set out below are the new accounting policies of the Group applied from 1 July 2019:

Group as Lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Notes to the Condensed Consolidated Financial Statements
For the half year ended 31 December 2019

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office rental (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

b) Significant Accounting Judgments, Estimates and Assumptions

In preparing these consolidated interim financial statements, significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements as at and for the year ended 30 June 2019, other than as noted below.

Intangible Assets

The intangible asset of the Group relates to a license to grow industrial cannabis in Slovenia, which was subject to an annual renewal process. As the license expired during the current period and was not renewed on the basis that it is not required for the Group's current operations in Slovenia, the intangible asset value was written off in full. A write-off expense of $5,036,029 was taken to the statement of profit or loss.

Leases

For estimations and judgements on leases refer to note 2a).

Research and development rebate

Research and development rebates are recognised as income when there is reasonable assurance that the rebate will be received. Management judgement is required to assess that the rebate meets the recognition criteria and in determining the measurement of the rebate including the assessment of the eligibility and appropriateness of the apportionment of eligible expenses based on research and development activities undertaken by the consolidated entity and taking into consideration relevant legislative requirements.

Further, the Research and Development Tax Incentive Offset program in Australia is a self-assessment regime and there is a four-year period from the date of lodgement where the claim may be subject to a review by the Australian Taxation Office or AusIndustry, with any amounts over-claimed being potentially subject to full repayment with interest and penalties.

NOTE 3. DIVIDENDS

There are no dividends paid or declared during the period (2018: nil).

Notes to the Condensed Consolidated Financial Statements
For the half year ended 31 December 2019

NOTE 4. RESTATEMENT FOR PRIOR PERIOD ERROR

During the period, the Company re-assessed its accounting treatment of the initial asset acquisition of MGC UK and, following careful consideration, determined that the performance shares issued as consideration payable for the net assets acquired should have been accounted for as an equity-settled share-based payment under the requirements of AASB 2 Share Based Payments ("AASB 2"). As an equity-settled share-based payment transaction the fair value of the consideration payable should have been recognised directly in equity without subsequent remeasurement. In prior periods, the Group had incorrectly recognised the performance shares as a financial liability which was subsequently carried at fair value through profit and loss.

The Company has therefore restated the relevant comparatives in the interim consolidated statements of financial position, statements of comprehensive loss and statements of changes in equity, as detailed below. As a share-based payment, the transaction should have originally been recognised and measured with reference to the fair value of the equity instruments granted at the date control of the asset was obtained, estimated to be $1,300,000 as the Company determined that it could not reliably measure the fair value of the asset obtained. Non-vesting conditions attached to the equity instruments have been incorporated into the fair value at acquisition date.

During the prior financial year end these performance shares expired as it was determined that the milestone was not achieved. In line with the terms and conditions pertaining to these performance shares, the performance shares were consolidated and converted into one ordinary share.

Impact of restatements

Interim Consolidated Statements of Financial Position at 30 June 2019 and beginning of comparative period

	30-Jun-19 Restated $	Adjustment $	30-Jun-19 As previously disclosed $
Share based payment reserve	(4,556,418)	(1,300,000)	(3,256,418)
Accumulated losses	42,764,829	1,300,000	41,464,829
Total equity	10,798,173	-	10,798,173
	1-Jul-18 Restated $	**Adjustment $**	**1-Jul-18 As previously disclosed $**
Share based payment reserve	(4,685,229)	(1,300,000)	(3,385,229)
Accumulated losses	33,060,342	(4,970,000)	38,030,342
Current liabilities	(960,575)	6,270,000	(7,230,575)
Total equity	12,690,784	-	12,690,784

Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income for the comparative period

	31-Dec-18 Restated $	Adjustment $	31-Dec-18 As previously disclosed $
Gain on re-measurement of performance shares	-	(6,270,000)	6,270,000
Net loss for the period from continuing activities	(5,317,654)	6,270,000	952,346

As a result of the above adjustment, loss per share has been restated to (0.47) cents per share for the six months ended 31 December 2018 (previously disclosed: earnings per share of 0.05 cents per share).

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2019

NOTE 5. CONTRIBUTED EQUITY

	31-Dec-19 NUMBER	30-Jun-19 NUMBER	31-Dec-19 $	30-Jun-19 $
Ordinary shares on issue, fully paid	1,371,122,751	1,203,048,174	**54,815,674**	49,133,819
Voluntary Holding Lock shares	-	10,335,511	-	-
	1,371,122,751	**1,213,383,685**	**54,815,674**	**49,133,819**

Reconciliation of movement in share capital

31 December 2019	No. Of Shares	Amount
Opening balance at 1 July 2019	**1,213,383,685**	**49,133,819**
Exercise of listed options – 5 July 2019	87,426	5,683
Placement – 29 August 2019[1]	118,750,000	4,750,000
Conversion of milestone 3 performance rights – 9 September 2019[2]	3,638,000	37,188
Ordinary shares issued to Panax s.r.o – 9 September 2019[3]	5,850,875	234,035
Priority Offer – 16 September 2019[1]	25,001,000	1,000,040
Release of VHL shares – 12 November 2019	-	720,773
Shares issued to consultant[4]	4,411,765	150,000
Less: costs of issue	-	(1,215,864)
Closing balance at 31 December 2019	**1,371,122,751**	**54,815,674**

1. As announced on 21 August 2019, the Group received binding commitments for $4.75m from sophisticated and professional investors via a placement of 118.75m shares at an issue price of $0.04/share; further to this, the Group completed a priority offer of 25m shares to raise $1m at an issue price of $0.04/share to eligible shareholders.
2. Existing Employee Performance rights, issued during the prior financial year, were converted to ordinary shares on 9 September 2019.
3. In line with agreement held with the minority shareholder of the Group's subsidiary, Panax s.r.o, 5,850,875 shares were issued following the exercise of an option and a further 6.67% interest in the subsidiary was acquired, resulting in a total holding of 86.67% (2019: 80%).
4. Pursuant to agreement with Cannvalate Pty Ltd, it was agreed that 50% of their services would be paid as ordinary shares, valued using a 30-day VWAP. During the period 4,411,765 shares were issued at $0.0343/share for services rendered during the half-year.

30 June 2019	No. Of Shares	Amount
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	288,000
Conversion of Milestone 2 Performance Rights – 18 Jul 2018	4,000,000	192,000
Release of VHL shares – 18 Jul 2018	-	24,237
Release of VHL shares – 5 Dec 2018	-	161,578
Conversion of Performance Shares – 19 Feb 2019	7	-
Exercise of listed options – 21 June 2019	553,266	35,962
Less: costs of issue	-	(8,948)
Closing balance at 30 June 2019	**1,213,383,685**	**49,133,819**

Notes to the Condensed Consolidated Financial Statements
For the half year ended 31 December 2019

NOTE 6. SHARE BASED PAYMENTS

a) Performance rights

Directors

During the period, on 23 December 2019, the Company issued performance rights to two Directors following approval at its AGM on 29 November 2019, with the following key terms and conditions:

#	Milestone	Performance rights	Milestone date
1	GMP approval for Malta facility	5,000,000	31 Dec 21
2	Holding of Director position on the Board of the Company by 31 December 2019	5,000,000	31 Dec 19
3	Holding of Director position on the Board of the Company by 31 December 2020 and achieving share value of minimum 8c for a minimum 10 consecutive days	5,000,000	31 Dec 20
4	Holding of Director position on the Board of the Company by 31 December 2021 and achieving share value of minimum 10c for a minimum 10 consecutive days	5,000,000	31 Dec 21
		20,000,000	

The fair value of the performance rights for milestones 1 and 2 was determined to be $0.034/right, based on the Company's share price on the grant date. A Monte Carlo valuation was applied to milestones 3 and 4, with the following inputs and assumptions:

	Milestone 3	Milestone 4
Valuation date	29 Nov 19	29 Nov 19
Share price	$0.0330	$0.0330
Exercise price	Nil	Nil
Vesting date	N/A	N/A
Expiry date	31 Dec 20	31 Dec 21
Expected future volatility	70%	70%
Risk free rate	0.68%	0.68%
Vesting hurdle	$0.08	$0.10
Dividend yield	nil	nil
Value per right	$0.00848	$0.01213

Employees

The Group also issued 8m performance rights to certain key employees following shareholder approval, with both of the following key conditions to be met (upon conversion, these shares are restricted until 30 June 2020):

#	Conditions
1	Continuous service of the holder in their capacity as an eligible participant, or in a role otherwise agreed by the Board by 31 Jan 2020
2	The Company achieves more than 2,000 prescribed products of its phytocannabinoid-derived medicines

The fair value of the performance rights was determined to be $0.031/right based on the Company's share price on the grant date.

b) Options

Equity Capital Markets Advisor

Pursuant to agreement with the Group's Equity Capital Markets Advisor, the Company agreed to issue 43.5m options over 3 tranches, with the first two tranches issued on 16 September 2019, and the final tranche following shareholder approval.

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2019

The following table highlights the terms, conditions and inputs used for the valuation of the options using the Hoadley EOS2 valuation model; a valuation model was applied as the Company were unable to define a suitable fair value on the services being provided:

	Tranche 1	Tranche 2	Tranche 3
Number options issued	14,500,000	14,500,000	14,500,000
Issue date	16 Sept 19	16 Sept 19	23 Dec 19
Valuation date	16 Sept 19	16 Sept 19	18 Oct 19
Spot price	$0.040	$0.040	$0.035
Exercise price	$0.05	$0.06	$0.07
Expiry date	31 Aug 23	31 Aug 23	31 Aug 23
Expected future volatility	85%	85%	85%
Risk free rate	0.91%	0.91%	0.75%
Dividend yield	nil	nil	Nil
Value per right	$0.00182	$0.0173	$0.0135

Joint Leading Managers

Pursuant to agreement with two of the Group's leading managers, the Company agreed to issue 9m options over 3 tranches, issued following shareholder approval at the AGM on 29 November 2019.

The following table highlights the terms, conditions and inputs used for the valuation of the options using the Hoadley EOS2 valuation model; a valuation model was applied as the Company were unable to define a suitable fair value on the services being provided:

	Tranche 1	Tranche 2	Tranche 3
Number options issued	3,000,000	3,000,000	3,000,000
Issue date	23 Dec 19	23 Dec 19	23 Dec 19
Valuation date	18 Oct 19	18 Oct 19	18 Oct 19
Spot price	$0.035	$0.035	$0.035
Exercise price	$0.05	$0.06	$0.07
Expiry date	31 Aug 23	31 Aug 23	31 Aug 23
Expected future volatility	85%	85%	85%
Risk free rate	0.91%	0.91%	0.75%
Dividend yield	nil	nil	Nil
Value per right	$0.0152	$0.0143	$0.0135

Share-based payment expense

For the six months ended 31 December 2019, the Group has recognised $637,136 of share-based payment expenses in the statement of profit or loss (31 December 2018: $286,853) relating to share-based payments to directors and employees. The Group has also recognised $839,500 (31 December 2018: nil) of share-based payment in relation to capital raising costs directly in equity (refer to note 5).

NOTE 7. SEGMENT REPORTING

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segments and to assess their performance.

In prior periods, the Group reported two operating segments based on its geographical locations which were determined to be:

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

Notes to the Condensed Consolidated Financial Statements
For the half year ended 31 December 2019

During the current period, the Group has reassessed its operating segments and has determined that the Group's operations comprise one segment, being production and supply of medicinal cannabis products, on the basis that the Group's administrative and corporate activities in Australia do not constitute an operating segment. The results of the segment are the same as those of the Group.

NOTE 8. FAIR VALUE HIERARCHY

The fair values of the Group's financial assets and liabilities approximated their carrying values at 31 December 2019. The following table presents the fair value measurement hierarchy of the Group's financial assets at 31 December 2019.

31 December 2019	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Other financial assets (as equity investments) – opening balance	53,429	-	2,718,375	2,771,804
Fair value movement in the period	32,785	-	-	32,7853
Foreign currency translation	-	-	106,903	106,903
Closing balance at 31 December 2019	**86,214**	**-**	**2,825,278**	**2,911,492**

a) Valuation techniques used to derive Level 1 fair values

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

b) Valuation techniques used to derive Level 3 fair values

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. A significant unobservable input to the valuation of the Group's investment in an unlisted entity classified within level 3 of the fair value hierarchy was information obtained from the entity in relation to the value per share of the most recent share issue conducted by the entity.

NOTE 9. LEASES

During the period the Group entered into a long-term lease for the use of the land for the construction of the Malta facility. The Group also has leases for office and lab rental. The average incremental borrowing rate applied, determined based on market comparative inputs, was 7.4%.

Below are the carrying amounts of right-of-use assets recognised for the period:

	31-Dec-19 $
Right-of-use assets	
Opening balance at 1 July on adoption of AASB 16	182,433
Additions of right-of-use assets in period	1,794,451
Depreciation of right-of-use assets	(107,611)
As at 31 December 2019	**1,869,273**

Below are the carrying amounts of lease liabilities for the period:

	31-Dec-19 $
Lease liabilities	
Opening balance at 1 July on adoption of AASB 16	182,433
Additions to lease liabilities	1,794,452
Interest on lease liabilities	71,323
Lease payments completed	(162,480)
As at 31 December 2019	**1,885,728**

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2019

Current	94,658
Non-current	1,791,070
Total lease liability	**1,885,728**

The following amounts were recognised in the consolidated interim statement of profit or loss and comprehensive income for the period:

	31-Dec-19 $
Depreciation on right-of-use asset	107,611
Interest expense on lease liabilities	71,323
Expense related to short-term leases	125,764
Total amounts recognised in profit or loss	**304,698**

The following are amounts recognised in the consolidated statement of cash flows:

	31-Dec-19 $
Total cash outflows for leases	**288,243**

The following is a reconciliation of the Group's operating lease commitments under AASB 117 at 30 June 2019 to the lease liability recognized at 1 July 2019 on transition to AASB 116.

	$
Operating lease commitments at 30 June 2019	264,356
Less: Short-term leases	(70,519)
Less: Impact of discounting	(11,404)
Lease liabilities recognised at 1 July 2019	**182,433**

NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES

Further to the approval of the Company's planned project in Malta, following its initial Letter of Intent with Malta Enterprise in the prior financial year, the Company agreed to invest a minimum of ~€6m in improvements to site, plant, machinery and equipment within 3 years from the date of allocation of the site.

On allocation of a site, the Company also entered into a long-term lease with Malta Industrial Parks (refer note 9 for further details). This binding Emphyteuta requires that the allocated site is used solely for industrial purposes and that the erection of proper, solid buildings costing no less than €2.7m net of value added tax, is to commence within 3 months, but be completed no later than eighteen months from the date all permits by law are issued.

NOTE 11. RELATED PARTY TRANSACTIONS

New or significant related party transactions for the half-year that were not substantially the same nature or terms as those disclosed at 30 June 2019 were as follows:

Director related entity	**Transactions during the period/year**	
	31-Dec-19	**30-Jun-19**
Chieftain Securities Pty Ltd[1]	206,094	61,748
Graft Polymer d.o.o.[2]	159,822	27,114

[1] Chieftain Securities Pty Ltd is a company associated with Mr Brett Mitchell; of this amount $65,400 related to a share-based payment in connection with the Company's capital raisings.

[2] Graft Polymer d.o.o is a Company associated with Mr Roby Zomer; transactions are in relation to a research and development agreement.

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2019

NOTE 12. EVENTS SUBSEQUENT TO REPORTING DATE

7/01/2020	**Launch of New Product Line in Australia & NZ - Mercury Pharma** The launch of a new proprietary affordable prescription medicine line to be branded as Mercury Pharma, specifically for the Australian and New Zealand markets was announced. The first product being "Mercury Pharma 100" ('MP100'), a 100mg/mL CBD solution that will be prescribed by health care professionals in Australia and New Zealand, initially distributed by Australian medicinal cannabis distribution and logistics specialist Cannvalate Pty Ltd and Health House International Pty Ltd.
9/01/2020	**MGC Pharma Crosses 2,000 Prescription Milestone** The Company was pleased to announce that it had passed 2,000 prescribed units threshold of its standardised, affordable cannabinoid medicines. This increase has been achieved from patients in Australia, the United Kingdom and with the recent additions of new patient special access approved markets of Brazil and Ireland following the recent approval for the sale of MGC Pharma products in these countries.
20/01/2020	**Supply Agreement with THC Global for Canndeo Products** MGC Pharma announced the signing of a supply agreement with THC Global Group Limited (ASX:THC) ('THC Global') to produce and supply white label pharmaceutical grade Canndeo branded phytocannabinoid products to Australia and New Zealand for THC Global, adding a new revenue stream to the Company.
28/01/2020	**Agreement Signed with Leading Peruvian Distributor** Distribution agreement was signed with Anden Bio Naturals S.A ('Anden'), a leading Peruvian medical products distributor, for the exclusive distribution and commercialisation of MGC Pharma phytocannabinoid-derived medicines in Peru and Bolivia for a term of five years (the 'Agreement').
17/02/2020	**MGC Pharma announces $1m Strategic Placement and $3m SPP** The Company announced a $1m placement to a strategic investor and a $3m SPP to existing eligible shareholders. The Placement was completed on 25 February 2020 and the SPP is ongoing with an indicative closing date of 4 March 2020.
21/02/2020	**85% Increase in Order Volume of New Prescription Products** An 85% increase to its January purchase order volume over the past week, from 2,000 to 3,700 units for the immediate production and delivery of its Mercury Pharma line of proprietary prescription medicinal products. The increased 3,700 unit order will deliver over A$430,000 in revenue to the Company.
25/02/2020	**Completion of $1m Placement - Appendix 2A** The Company announced completion of the $1m placement to a strategic investor as announced 17 February 2020.
26/02/2020	**Commercial Supply Deal Signed for First Products into Poland** The Agreement sets out the terms under which MGC Pharma will supply its cannabinoid medicine products, and scientific support, to support a large-scale commercial research study aimed at collecting data on medicinal cannabis users and products in Poland. MGC will be responsible for providing products to 15 pharmacies and authorised dispensaries to provide the registered products and will scale to 50 within the first nine months. Full rollout is planned for 250 locations within two years.

Directors' Declaration

The Directors of the Company declare that:

1. the interim financial statements and notes, are in accordance with the *Corporations Act 2001* and:

    a) comply with Australian Accounting Standard AASB134 Interim financial reporting and the Corporations Regulations 2001; and
    b) give a true and fair view of the Consolidated entity's financial position as at 31 December 2019 and its performance for the half year ended on that date; and

2. Subject to the achievement of the matters set out in note 2, in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

R. Zomer

Roby Zomer
Managing Director
Dated 28 February 2020

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Building a better working world

Independent auditor's review report to the members of MGC Pharmaceuticals Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of MGC Pharmaceuticals Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty related to going concern

We draw attention to Note 2 in the half-year financial report which describes the principal conditions that raised doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Other matters

The half-year financial report of MGC Pharmaceuticals Limited for the half-year ended 31 December 2018 was reviewed by another auditor who expressed an unmodified conclusion on that half-year financial report on 28 February 2019.

Directors' responsibility for the half-year financial report

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

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Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ernst & Young

T G Dachs
Partner
Perth
28 February 2020