

MGC PHARMA (UK) LIMITED

SPECIAL PURPOSE FINANCIAL STATEMENTS

FOR THE PERIOD 26 AUGUST 2015 TO

30 SEPTEMBER 2015

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The Director is responsible for preparing the Special Purpose Financial Statements ("the Financial Statements") in accordance with applicable law and regulations.

The Director has elected to prepare the Financial Statements in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Director has agreed not to approve the Financial Statements unless he is satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Director is responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. He is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



Roby R Zomer

Director

1 December 2015

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTOR OF MGC PHARMA (UK) LIMITED

We have audited the Financial Statements of MGC Pharma (UK) Limited for the period 26 August 2015 to 30 September 2015 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's Director. Our audit work has been undertaken so that we might state to the Company's Director those matters we are agreed to state to him in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company's Director, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Director's Responsibilities, the Director is responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Directors; and the overall presentation of the financial statements. In addition, we read the Financial Statements to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Company's affairs as at 30 September 2015 and of the Company's loss for the period then ended; and
- the Financial Statements have been properly prepared in accordance with the recognition and measurement criteria of IFRSs as adopted by the European Union.


PKF Littlejohn LLP

PKF Littlejohn LLP
1 Westferry Circus
Canary Wharf
London E14 4HD

1 December 2015

	Note	2015 £
Assets		
<i>Current assets</i>		
Trade and other receivables	4	<u>615</u>
Total assets		<u><u>615</u></u>
Equity and liabilities		
<i>Capital and reserves</i>		
Share capital	5	10
Retained earnings		<u>(80,205)</u>
Total equity attributable to owners of the Company		<u><u>(80,195)</u></u>
<i>Current liabilities</i>		
Trade and other payables	6	<u>80,810</u>
Total liabilities		<u><u>80,810</u></u>
Total equity and liabilities		<u><u>615</u></u>

The Financial Statements were authorised for issue by the Director on 1 December 2015:


Roby R Zomer
Director

The notes on pages 9 to 15 are an integral part of these Financial Statements.

The Statement of Comprehensive Income of the Company from the date of incorporation on 26 August 2015 to 30 September 2015 is set out below:

	Note	2015 £
Continuing operations		
Revenue		-
Administrative expenses	7	(80,205)
Operating loss and loss on ordinary activities before income tax		<u>(80,205)</u>
Income tax	9	-
Loss after taxation		<u>(80,205)</u>
Loss for the period attributable to equity shareholders		<u>(80,205)</u>
Other comprehensive income		-
Total comprehensive income attributable to equity shareholders		<u>(80,205)</u>

The notes on pages 9 to 15 are an integral part of these Financial Statements.

MGC PHARMA (UK) LIMITED**STATEMENT OF CHANGES IN EQUITY**

The statement of changes in equity of the Company from the date of incorporation on 26 August 2015 to 30 September 2015 is set out below:

	Share capital £	Retained earnings £	Total £
On incorporation on 26 August 2015	10	-	10
Total transactions with owners	10	-	10
Loss for the period	-	(80,205)	(80,205)
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	(80,205)	(80,205)
As at 30 September 2015	10	(80,205)	(80,195)

Share capital comprises 1,000 Ordinary Shares issued on incorporation at par value of £0.01 per share.

Retained earnings represent the aggregate profits or losses of the Company since incorporation.

The notes on pages 9 to 15 are an integral part of these Financial Statements.

The cash flow statement of the Company from the date of incorporation on 26 August 2015 to 30 September 2015 is set out below:

	Period ended 30 September 2015 £
Cash flow from operating activities	
Loss for the period before taxation	(80,205)
Operating cash flows before movements in working capital	<u>(80,205)</u>
Increase in trade and other receivables	(605)
Increase in trade and other payables	<u>80,810</u>
Net cash generated from/(used in) operating activities	-
Cash and cash equivalents at beginning of period	<u>-</u>
Cash and cash equivalents at end of period	<u><u>-</u></u>

The Company did not operate a bank account during the period.

The notes on pages 9 to 15 are an integral part of these Financial Statements.

1. GENERAL INFORMATION

The Company is a private limited company incorporated and domiciled in England and Wales, with a registered number 09750155. The Company's registered office is located at 1 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.

The Company seeks to make one or more acquisitions of companies or businesses with a focus on opportunities in the medicinal cannabis sector.

2. SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

The principal accounting policies adopted by the Company in the preparation of the Financial Statements are set out below.

The Financial Statements have been presented in United Kingdom Pounds (£), being the functional currency of the Company.

The Financial Statements have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as adopted by the European Union. The standards have been applied consistently. The Financial Statements have been prepared under the historical cost convention.

Comparative figures

No comparative figures have been presented as the financial information covers the period from incorporation on 26 August 2015 to 30 September 2015.

Standards and interpretations issued but not yet applied

Certain changes to IFRS will be applicable for the Company's Financial Statements in future periods. These new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these Financial Statements, are not expected to have a material effect on the Company's future Financial Statements although the Directors have yet to complete their full assessment in relation to IFRS 9 and IFRS 15.

As at the date of approval of these Financial Statements, the following standards and interpretations were in issue but not yet effective:

		Effective Date
IAS 1	Amendments: Presentation of Financial Statements: Disclosure Initiative	*1 January 2016
IAS 27	Amendments: Equity Method in Separate Financial Statements	*1 January 2016
IAS 28	Amendments: Investments in Associates and Joint Ventures and Investment Entities: Applying the Consolidation exception	*1 January 2016
IFRS 9	Financial Instruments	*1 January 2018
IFRS 10	Amendments: Consolidated Financial Statements and Investment Entities: Applying the Consolidation Exception	*1 January 2016
IFRS 12	Amendments: Investment Entities: Applying the Consolidation Exception	*1 January 2016
IFRS 15	Revenue from Contracts with Customers	*1 January 2018
Annual improvements	2010-2012 Cycle; and 2012-2014 Cycle*	1 February 2015 *1 January 2016

**subject to EU endorsement*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Financial assets**

The Directors determine the classification of the Company's financial assets at initial recognition. The financial assets held comprise trade and other receivables. Trade and other receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Financial liabilities

The Directors determine the classification of the Company's financial liabilities at initial recognition. The financial liabilities held comprise other payables and accrued liabilities and are initially measured at fair value and subsequently re-measured at amortised cost using the effective interest rate method.

Share capital

Ordinary shares are classified as equity.

Shares issued to the subscribers are recorded at nominal value and proceeds received in excess of nominal value of such shares issued, if any, are accounted for as share premium.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Significant accounting judgements, estimates and assumptions

Management has considered the significant accounting judgements, estimates and assumptions and do not consider there to be any which would materially affect the Financial Statements.

Going concern

The Financial Statements have been prepared on the assumption that the Company will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. In assessing whether the going concern assumption is appropriate, the Director takes into account all available information for the foreseeable future, in particular for the twelve months from the date of approval of the Financial Statements. This information includes management prepared cash flows forecasts and available sources of funding.

The Company's ability to continue as a going concern depends upon continued financial support from a related party, Erin Resources Limited, through non-repayment of the related party loan and the provision of additional financial resources in order to enable the Company to meet its liabilities as they fall due.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Going concern (continued)**

As at the date of approval of these Financial Statements, the Director is satisfied that Erin Resources Limited has sufficient financial resources available to provide the Company with adequate resources to continue operational existence for the foreseeable future.

3. BUSINESS SEGMENTS

For the purpose of IFRS 8, the Chief Operating Decision Maker "CODM" takes the form of the Board of Directors. The Directors are of the opinion that the business of the Company comprises a single activity, being the identification and acquisition of target companies or businesses with a focus in the medical cannabis sector. As a result the financial information of the single segment is the same as that set out in the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows.

4. TRADE AND OTHER RECEIVABLES

	2015
	£
Other receivables	605
Called-up share capital not paid	10
	<u>615</u>

Other receivables are all due within one year. The fair value of all receivables is the same as their carrying value. Other receivables are denominated in the following currencies

	2015
	£
UK Pounds	<u>615</u>

5. SHARE CAPITAL

Share Capital

	Number of Shares	Share Capital £	Total £
Shares issued on 26 August 2015	1,000	10	10
At 30 September 2015	<u>1,000</u>	<u>10</u>	<u>10</u>

On 26 August 2015 the Company was incorporated and 1,000 formation shares of £0.01 per share were issued.

6. TRADE AND OTHER PAYABLES

	2015 £
Trade payables	3,189
Loans due to related parties	74,621
Accrued expenses	3,000
	<u>80,810</u>

As at 30 September 2015, the Company had £3,189 of trade payables. A maturity analysis of these payables due in less than one year is as follows:

	As at 30 September 2015 £
0 to 3 months	<u>3,189</u>
Total	<u><u>3,189</u></u>

The carrying values are considered to be an approximation of the fair values and are considered by the Director as payable within one year.

Loans due to related party

As at 30 September 2015, the Company received loans totaling £74,621 from a related party on a short term basis for working capital purposes. The loan is interest free with no fixed repayment terms although it can be recalled at any time.

7. EXPENSES BY NATURE

	2015 £
Professional and legal costs	2,584
Auditor's remuneration	3,000
Head office costs	67,690
Travel and subsistence costs	6,931
	<u>80,205</u>

8. DIRECTOR'S EMOLUMENTS

No emoluments were paid to the Director during the period under review. The Director is the key management personnel.

9. INCOME TAX

The major components of income tax for the period are:

	2015 £
Current tax	-
Deferred tax	-
Income tax	<u>-</u>

The reconciliation of income taxes reflected in the statement of comprehensive income and the amount of income taxes determined by the application of the United Kingdom standard tax rate to pre-tax loss is as follows:

	2015 £
Loss before tax	<u>(80,205)</u>
Loss on ordinary activities before tax multiplied by standard rate of UK corporation tax of 20%	(16,041)
Unrelieved tax losses carried forward	<u>16,041</u>
Current tax charge	<u>-</u>

The Company did not recognise a deferred income tax credit of approximately £16,000 due to uncertainty concerning the timescale as to its recoverability.

10. COMMITMENTS

The Company had not entered into any material capital commitments as at 30 September 2015.

11. CAPITAL RISK MANAGEMENT

The Director's objective is to manage its overall capital so as to ensure that it continues to operate as a going concern.

It is also the aim of the Director to manage the capital structure in order to reduce the overall cost of capital. The capital comprises the shareholders' equity and going forward it is also expected to include cash and cash equivalent, and borrowings.

The capital structure is managed by making adjustments to its component parts in light of the economic conditions and opportunities available. Measures may include the decision to return capital to shareholders or retain profits for future projects; raise funding through the issue of new shares or seek to obtain bank or other borrowings. The Company's capital structure is reviewed on an ongoing basis.

There are currently no restrictions on the capital of the Company.

12. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Company is exposed through its operations to credit risk and liquidity risk. In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout this financial information.

Financial instruments

The financial instruments used by the Company, from which financial instrument risk arises, are trade and other payables of £80,810.

The risk associated with trade and other payables is that the Company will not have sufficient funds to settle the liability when it falls due. The Director seeks to maintain their loan funding from a related party (note 6) to meet expected requirements and meet debts as they fall due.

General objectives, policies and processes

The Director has overall responsibility for the determination of the Company's risk management objectives and policies. Further details regarding these policies are set out below:

Credit risk

No cash balances with banks held, and therefore no exposure to credit risk arises.

Liquidity risk

Liquidity risk arises from the Director's management of working capital. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The Director's policy is to ensure that the Company will always have sufficient financial support to allow it to meet its liabilities when they become due. To achieve this aim, the Director seeks to maintain their loan with a related party (note 6) to meet its liabilities as they fall due.

13. RELATED PARTY TRANSACTIONS

The Company received loans amounting to £74,621 from Erin Resources Limited (a company incorporated in Australia) for working capital purposes who settled amounts on the Company's behalf whilst the Company itself was in the process of setting up its own bank account. Erin Resources Limited is a related party as a result of its significant influence over the Company.

14. SUBSEQUENT EVENTS

On 1 October 2015, the Company entered into a joint venture agreement with Dr. M. Burstein Limited (a company incorporated in Israel), for the research, development and subsequent production of certain products in the medicinal cannabis sector.

15. ULTIMATE CONTROLLING PARTIES

Roby Reuven Zomer is considered to be the ultimate controlling party by virtue of his 100% ownership of the issued share capital.

16. NATURE OF FINANCIAL INFORMATION

The Financial Statements presented above does not constitute statutory financial statements for the period under review.