Annual Report 2016

mgc pharma
CBD HEALTH

ABN 30 116 800 269
MGC Pharmaceuticals Limited

CORPORATE DIRECTORY

Directors

Brett Mitchell
Executive Chairman

Roby Zomer
appointed 15/02/2016
Executive Director and CTO

Nativ Segev
appointed 15/02/2016
Managing Director

Ross Walker
appointed 15/02/2016
Non-Executive Director

Company Secretary

Rachel Kerr

Registered Office and Principal Place of Business

Level 7, 1008 Hay Street, Perth WA 6000

Tel: +61 8 9389 2000
Fax: +61 8 9389 2099

Solicitors

Steinepreis Paganin

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

Auditors

PKF Mack

Level 4,
35 Havelock Street, West Perth WA 6005

Securities Exchange Listing

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

ASX Code 'MXC' for Ordinary Shares and 'MXCOD' for Listed Options

Share Registrar

Computershare Investor Services Pty Limited

Level 11
172 St Georges Terrace, Perth WA 6000

Website

www.mgcpharma.com.au

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Managing Director's Letter to Shareholders

MXC Board of Directors (from left to right) Dr Ross Walker, Mr Brett Mitchell, Mr Nativ Segev and Mr Roby Zomer

Dear Shareholders,

On behalf of the Board, I would like to take the opportunity to thank you for all your support during the 2016 Financial Year. Ushering in a new and exciting phase for shareholders, the year has been one of substantial transformation for the Company starting with our acquisition of MGC Pharmaceuticals and relisting on the Australian Securities Exchange under the code "MXC". Since the acquisition, our Company has taken significant strides forward in its strategy to become a market leader in the medical cannabis industry.

The medical cannabis market is growing rapidly and in recognition of our ability of become leaders in the field, we received tremendous support from our investors. This has given us a great start to life as a public Company, having raised AUD$7.5 million via a Placement and a Priority Offer to execute our growth objectives during the year. Having such strong support from our investors has allowed us to undertake a number of key initiatives. These include completing the construction of our Slovenian CBD production facilities and the funding of our genetics and research operations.

A key achievement during the year was the rollout of our MGC Derma anti-aging line of 15 cosmetics products. Building on its initial success, we are currently developing our full product line of up to 50 CBD cosmetics items. We also launched our online shop to sell our medical cannabis cosmetics products directly to consumers with our initial product range. These cosmetics products have already received approval from regulatory bodies globally, including in Canada and Europe.

Importantly, we received our first revenues from our online store as well as having received the first revenues from our Californian distribution deal. Early revenue generation is an important milestone and key differentiating factor for our medical cannabis offering compared to many of our competitors.

Another highlight this financial year was the launch of Australia's first ever White Paper on the medicinal cannabis industry, published in conjunction with the University of Sydney Business School. The White Paper positioned MGC Pharmaceuticals as a thought leader in the emerging medical cannabis space domestically, as well as raising interest internationally. The White Paper highlighted the potential of medical cannabis to helps patients suffering from a wide range of medical conditions. In an Australian first, it also estimated that size of the Australian medical cannabis market currently worth over $150 million per annum.

Working on the white paper helped highlight certain actions that we feel will long-term benefit for MGC as a company, and for the burgeoning Medical Cannabis Industry as a whole, such as developing relationships with patient and medical groups. This will allow MGC to a point of engagement for patients and medical professionals alike, giving us unique access to the very demographics we serve. MGC has entered into a MOU with Epilepsy Action Australia which will facilitate these efforts in 2017.

MGC is engaging with Universities, research facilities and various other stakeholders to have clinical trials running in both Australia and Europe in 2017, all with pipelines to commercialisation and revenue, with the intention of having several of our proprietary formulations reaching patients as prescribable medications at the trials completions.

Legislative changes across Australian Federal and State Governments have been very favourable to medical cannabis in recent times. The Federal Government amended the Narcotics Drugs Act 1967 to provide patients suffering from chronic conditions access to medical cannabis. Also of great benefit to the medical cannabis patients, Victoria and New South Wales facilitated the possibility of clinical trials in medical cannabis.

Our medical cannabis growing operations have progressed well throughout the financial year and we planted our first test CBD crops in our growing operations in Slovenia during 2016. This gives us the opportunity to test the best soil and growing conditions for use in future MGC Pharmaceuticals medical cannabis material.

With a year of high activity now behind us, we look forward to another busy year ahead. Our CBD skin care formula is progressing through its testing phases having successfully completed Phase 1 testing. This will allow MGC to release Dermatological Tested products to the market in the near future.

We are looking forward to progressing our strategy to become a leader in the Australian medicinal cannabis market. Key to this will be the progress we are making towards clinical research relating to epilepsy, post chemotherapy nausea, severe pain and palliative care. In time MGC Pharmaceuticals aims to move towards producing pharmaceutical grade products to provide treatment for people suffering from a variety of chronic conditions across the globe.

With legislation and support for medical cannabis changing rapidly across the globe, this is an exciting time to be involved in the medical cannabis industry and once again I thank Shareholders for their continued support.

Yours sincerely,

Nativ Segev

Nativ Segev

Managing Director

Review of Operations

- During the 2015/16 financial year, the acquisition of MGC Pharma (UK) Ltd and the ASX listing was completed, diversifying the Company into the growing medical cannabis market
- Completion of capital raisings in May 2016, raising a total of $7.5 million via a Placement to sophisticated investors and a Priority Offer to existing shareholders, funding the Company's growth initiatives
- MGC Pharmaceuticals planted its first test crop of Cannabis Sativa L at its Slovenian growing farm in June 2016
- Launch of MGC Derma's CBD cosmetics range and initial distribution through newly launched online shop and the first USA and European distribution deals
- Company received first revenues from operations in June 2016, including 10% deposit of €30,000 from first €300,000 order from Californian distribution deal
- Approval from European Commission's Cosmetics Products Notification Portal (CPNP) and compliance with FDA and Canada requirements for products, enabling the Company to sell cosmetics products in those regions
- Binding Heads of Agreement signed for the acquisition of Czech Republic based medical cannabis company PANAX, significantly enhancing genetics and breeding capabilities and allowing MGC Pharmaceuticals to develop new strains of medicinal cannabis - due diligence processes well advanced
- Australian Federal and State legislation changes, favourable towards the establishment of a medicinal cannabis industry in Australia and accelerating the Company's Australian strategy

MGC PHARMACEUTICALS LIMITED 2016 ANNUAL REPORT

REVIEW OF OPERATIONS

CORPORATE

Acquisition of MGC Pharma (UK) Ltd and Listing on ASX

During the financial year, the Company successfully completed its relisting on the Australian Securities Exchange (ASX) following the acquisition of MGC Pharma (UK) Ltd. The Company commenced trading on the ASX in February 2016 under the ticker code MXC.

$7.5m Placement and Priority Offer to MXC shareholders

MGC Pharmaceuticals completed a Placement of 113,636,364 ordinary shares at 4.4c, raising $5 million during May 2016. The Placement was oversubscribed by sophisticated and professional investors. On the same terms, the Company also offered a Priority Offer to existing eligible shareholders that received a very strong response and was closed early, raising the maximum amount of $2.5 million.

The total $7.5m of new funds raised before costs will allow the Company to execute its business plan and growth initiatives, including completing the construction of its Slovenian CBD growing facility, as well as funding its genetics and breeding research operations. It also allows MGC Pharma to complete the roll-out its MGC Derma cosmetics product line of approximately 50 products, including psoriasis and acne skin care products.

Acquisition of PANAX Pharma

The Company entered a Binding Heads of Agreement to acquire PANAX Pharma s.r.o (Panax), a Czech Republic based medical cannabis company during the year. The acquisition strengthens MGC Pharmaceuticals' genetics credentials by providing access to new strains of medicinal cannabis. Under the agreement, MGC Pharmaceuticals will be issued a 25% equity holding in Panax upfront and will be issued a further 55% equity for funding Panax's operational costs next year, up to a maximum of €700,000. MGC Pharmaceuticals holds the rights through an option to acquire the final 20% of Panax for €800,000 in MGC Pharmaceuticals ordinary shares, based on a 20-day volume weighted average price (VWAP) immediately prior to the issue date.

This acquisition is expected to complete in Q4 2016, following the conclusion of the Company's due diligence processes in the Czech Republic, which have been significantly advanced during the June and September quarters.

OPERATIONAL

Growing Operations

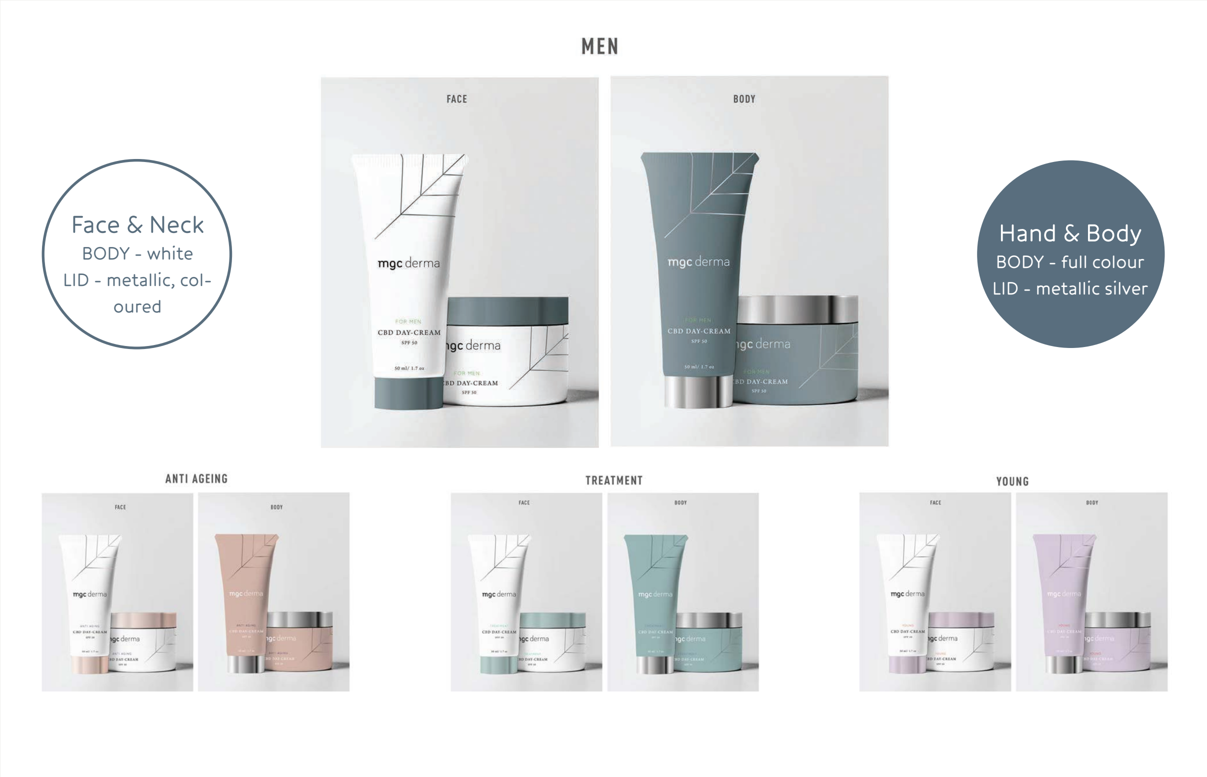
The Company received licenses in 2016 from the Slovenian Government, allowing MGC Pharmaceuticals to grow industrial cannabis in an outdoor farm near Ljubljana, Slovenia. These licenses are issued and renewed on an annual basis.

The Company successfully planted its first test crops in the Company's growing farm operation in Slovenia, during June 2016. The test crop will be used to evaluate the best soil and growing conditions needed for high CBD Cannabis Sativa L cultivation and production, for use by MGC Pharmaceuticals as future cosmetics and medicinal cannabis raw materials.

The Company remains on track to deliver its first full-scale European CBD harvest in 2017, with its first commercial CBD extract production to follow. The Company is now planning to commence the construction of its GMP/GLP CBD extraction facility for production of API in Slovenia in the December quarter.

In addition, the Company's pending acquisition of Czech Republic based Panax will be strategic for its European CBD operations. The acquisition of Panax gives the Company access to breeding licence agreements to conduct research regarding multiple medical cannabis strains, as well as access to world-leading genetics, breeding, growing and research facilities.

REVIEW OF OPERATIONS



New MGC Derma Product Lines

Product Development

Cosmetic Products

The Company is able to sell its cosmetics within the USA, Canada, furthermore the Company has received approval from the European Commission's Cosmetic Products Notification Portal (CPNP) allowing the sale of its MGC Derma cosmetics products Europe.

During the financial year, the Company also launched its MGC Derma cosmetics product range, as well as launching an online shop in mid-April that allows consumers to directly purchase its cosmetics product range from the website. The initial range of 15 cosmetic products, including facial serums and creams, eye serums, soaps and toners is now available on the website, with the development of the full range of approximately 50 CBD based cosmetic products currently underway.

The Company has already received its first revenues from the www.mgcderma.com website and from its European and Californian exclusive distribution deals.

The Company received a 10% deposit of €30,000 from its first €300,000 order under its new Californian distribution deal. The Californian distribution deal's first-year contract is worth approximately €1.2m and the Company expects further revenue uplift in the year ahead.

In October 2015, MGC Pharmaceuticals completed Phase 1 testing of its CBD skin care formula demonstrating excellent results for patients with Psoriasis. The CBD skin care formula proved to be an effective relief for skin suffering from dryness, redness and flaking. The testing has progressed to Phase 2 and Phase 3, the success of these tests will allow MGC to release Dermatological Tested products to the market.

Planting first CBD crop in Slovenia in June 2016

Australian Operations

MGC Pharmaceuticals, together with the University of Sydney Business School, published Australia's first ever White Paper on the medicinal cannabis industry, following changes to legislation by the Australian Government that facilitates the cultivation of cannabis in Australia for medical and scientific purposes. This landmark White Paper highlighted the commercial potential of the Australian medicinal cannabis raw material market, estimated to be worth $100 – $150[1] million per annum currently. Also highlighted was the potential to help tens of thousands of patients suffering from a wide range of medical conditions such as multiple sclerosis, epilepsy, cancer and chronic pain.

With the Australian Federal Government introducing new legislation to allow for the supply and cultivation of medical cannabis by amending the Narcotics Drugs Act 1967 to provide patients suffering from painful and chronic conditions access to the drug, MGC Pharmaceuticals is well positioned to be a first mover and market leader in the Australian market. Additionally, legislative changes in Victoria and New South Wales have facilitated the possibility of clinical trials with medicinal cannabis, which the Company intends to pursue in the coming financial year.

During the financial year, the Company appointed renowned cardiologist and media commentator Dr Ross Walker as Non-Executive Director and head of its Strategic Advisory Board. Dr Walker is leading the evaluation and research into the commercial opportunities for medicinal cannabis in Australia.

In addition to the appointment with Dr Ross Walker, the Company appointed leading Israeli Paediatric Neurology and Paediatric Epilepsy Expert, Professor Uri Kramer, to the Strategic Advisory Board. Professor Kramer will direct the development of clinical trial programs in Australia and Europe.

[1] The White Paper

MGC PHARMACEUTICALS LIMITED 2016 ANNUAL REPORT

Directors' Report

The Directors present their report on MGC Pharmaceuticals Limited ("the Company") and its controlled entities ("group") for the financial year ended 30 June 2016.

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	-
Nativ Segev	Managing Director	15 February 2016	-
Roby Zomer	Executive Director & CTO	15 February 2016	-
Ross Walker	Non-Executive Director	15 February 2016	-
Nick Castleden	Non-Executive Director	12 May 2014	24 June 2016
Nick Poll	Non-Executive Director	4 April 2013	15 February 2016

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.

PRINCIPAL ACTIVITIES

The Company is a European based specialist medical cannabis company with many years of technical and commercial experience in the medical cannabis industry. The Company's founders were key figures in the Israeli medical cannabis industry and the core business strategy is to develop and supply high quality non-psychoactive Cannabidiol (CBD) resin extract to the growing demand in cosmetics and medical markets in Europe, North America and Australasia. The Company is also developing strategic joint ventures in these key value add industries, as demonstrated with MGC Derma CBD cosmetics.

OPERATING RESULTS

The consolidated loss of the group amounted to $6,230,063 (2015: $3,797,791).

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

During the financial year the Company undertook significant corporate and asset restructuring as a result of the agreement to acquire MGC Pharma (UK) Ltd as detailed in the review of operations. Through this transition the Company became a medicinal cannabis company.

AFTER REPORTING DATE EVENTS

On 13 July 2016, the Company announced Professor Uri Kramer, a highly regarded expert in the field of Paediatric Neurology and Paediatric Epilepsy, joined the Company as a key technical medical consultant and also joined the Strategic Advisory Board.

The Company announced on 11 August 2016 that it executed a binding agreement to sell all its interests in, and exploration data relating to the exploration work completed on its Bouroubourou and Lingokoto exploration permits in Senegal. The Company executed this binding agreement with its joint venture project partner Afrigem SL, for total cash consideration of AU$500,000. These funds have now been received by the Company.

On 12 August 2016, the Company announced the issue of 321,849 ordinary shares to Australian consultants Saki Partners in lieu of cash for services provided to the Company.

DIRECTORS' REPORT

CHANGE IN NATURE AND SCALE OF OPERATIONS

Following the completion of the successful acquisition of MGC Pharma (UK) Ltd, the Company became a medicinal cannabis company.

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, qualifications experience, and special responsibilities of current directors and company secretary as at 30 September 2016:

BRETT MITCHELL, BEc	EXECUTIVE CHAIRMAN
Qualifications and Experience	Mr Mitchell is a corporate finance executive with over 25 years of experience primarily in the finance, capital markets and resources industries. He has been involved in the founding, financing and management of early stage resources and technology companies and currently holds executive roles on MGC Pharmaceuticals Ltd (ASX:MXC) and Sky and Space Global Ltd (ASX:SAS). Mr Mitchell holds a Bachelor of Economics from the University of Western Australia and is also a member of the Australian Institute of Company Directors (AICD).
Interest in Shares and Options	Brett and Michelle Mitchell <Mitchell Spring Family A/C> 9,458,889 Ordinary Shares 1,500,000 Unlisted Options exercisable at $0.025 each on or before 30 June 2017 1,500,000 Unlisted Options exercisable at $0.04 each on or before 30 June 2017 800,000 Unlisted Options exercisable at $0.20 each on or before 30 June 2017 Brett and Michelle Mitchell <Lefthanders Super Fund A/C> 1,735,005 Ordinary Shares 1,000,000 Unlisted Options exercisable at $0.025 each on or before 30 June 2017 1,000,000 Unlisted Options exercisable at $0.04 each on or before 30 June 2017
Directorships held in other listed entities within the past three years	Sky and Space Global Ltd (12 May 2016 – current) Acacia Coal Limited (18 December 2015 – 2 August 2016) Digital CC Limited (5 September 2014 – 24 July 2016) Citation Resources Ltd (24 November 2011 – 1 December 2015) Tamaska Oil and Gas Ltd (1 August 2011 – 1 February 2015) Wildhorse Energy Ltd (22 April 2009 – 29 August 2014)

DIRECTORS' REPORT

NATIV SEGEV	MANAGING DIRECTOR
Qualifications and Experience	Mr Segev was previously CEO of Israel's second largest licensed Medical Cannabis company, Cann Pharmaceuticals with vast industry experience. Mr. Segev founded MGC Pharmaceuticals to expand into the huge worldwide market for cannabinoids in the pharmaceuticals and cosmetic industry.
Interest in Shares and Options	40,000,000 Ordinary Shares 20,000,000 Performance Shares
Directorships held in other listed entities within the past three year	Nil

ROBY ZOMER	EXECUTIVE DIRECTOR AND CTO
Qualifications and Experience	Mr. Zomer brings a wealth of BioTech and AgroTech experience to MGC, with over nine years of executive experience in the field of Eco Sustainable Projects. As the Founder and CEO of Green City Urban Recycling Ltd. Mr. Zomer was consultant and representative for the biofuels industry to the government of Israel, giving him experience in dealing with government and business adopting new industries. Additionally, as CTO, Mr. Zomer brings a wealth of scientific knowledge and contacts at the highest levels of academia and production, facilitating MGC's vision of operating at the cutting edge of technology and research.
Interest In Shares and Options	20,000,000 Ordinary Shares 10,000,000 Performance Shares
Directorships held in other listed entities within the past three years	Nil

ROSS WALKER, MBBS (Hons), FRACP, FCSANZ	NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF STRATEGIC ADVISORY BOARD
Qualifications and Experience	Dr Ross Walker is an eminent practicing cardiologist with over 35 years experience as a clinician. For the past 20 years, he has been focusing on preventative cardiology and is one of Australia's leading preventative health experts. Dr Ross is considered one of the world's best keynote speakers and life coaches, he is the author of seven best-selling books, a health presenter in the Australian Media, including regular appearances on the Nine Network's 'Today Show' and 'A Current Affair', and Sky News, Switzer Business. He also has a weekly radio show on Sydney's 2UE/ 4BC &2CC with other regular segments on 2UE, 6PR, 4BC and 3AW.
Interest In Shares and Options	Nil
Directorships held in other listed entities within the past three years	Nil

DIRECTORS' REPORT

NICK CASTLEDEN, BSC (Hons)	NON-EXECUTIVE DIRECTOR *RESIGNED 24 JUNE 2016*
Qualifications and Experience	Mr Castleden is a geologist with over 20 years of experience in the mineral exploration and development industry. He has worked with Australian mining companies including Mt Isa Mines, Perilya Mines, MPI Mines, LionOre and Breakaway Resources in various exploration, geological and management capacities and has had operational experience in Africa, North and South America and across Australia. Mr Castleden has specific experience in the gold, nickel and base metal exploration business and has participated in the discovery and delineation of new gold and nickel sulphide systems that have progressed through feasibility studies to successful mining.

NICK POLL, BSc (Hons), MSc (Geol), MSc (Bus)	NON-EXECUTIVE DIRECTOR *RESIGNED 15 FEBRUARY 2016*
Qualifications and Experience	Mr Poll is a geologist with over 25 years of experience in the geological and business development of mining projects. Mr Poll has a BSc (Hons) from the University of Western Australia, an MSc in geology from the Colorado School of Mines and an MSc in business from the London Business School. He speaks fluent French and Portuguese and is a member of the Australian Institute of Mining and Metallurgy (AIMM) and the Australian Institute of Company Directors (AICD).

RACHEL KERR	COMPANY SECRETARY
Qualifications and Experience	Mrs Kerr has 7 years experience as a Company Secretary on both private and public companies, working on acquisitions, capital raisings, listing of companies on ASX, due diligence reviews and compliance of public companies. Mrs Kerr is also Company Secretary of Sky and Space Global Ltd, and Acacia Coal Limited.

REMUNERATION REPORT (AUDITED)

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

Remuneration Policy

The remuneration policy of MGC Pharmaceuticals Limited 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 Limited 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.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

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.

The key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9.5% (financial year 2015: 9.5%) and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

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

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

Performance-based Remuneration

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

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

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Company Performance, Shareholder Wealth and Director and Executive Remuneration

Key Management Personnel Remuneration Policy

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

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

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

Current Directors

Mr Brett Mitchell, Executive Chairman

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

Mr Nativ Segev, Managing Director

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

Mr Roby Zomer, Executive Director

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

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

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

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

Resigned Directors

Mr Nicholas Castleden, Non-Executive Director

- Agreement commenced 12 May 2014, no termination date;
- Annual Directors' fees of $25,000 per annum
- Consultancy fees of $36,000 per annum, with an additional $2,000 per annum for demanding months.
- There was no termination payment made.

Mr Nicholas Poll, Non-Executive Director

- Agreement commenced 1 January 2014, no termination date;
- Annual Directors' fees of $25,000 per annum
- There was no termination payment made.

Details of Remuneration

Compensation of Key Management Personnel Remuneration

	Short-term Benefits		Post-employment Benefits				
Directors	Cash, Salary and Commissions	Other	Superannuation	Termination Benefits	Equity	Share Based Payment Options	Total
2016							
Brett Mitchell	157,883	40,000	-	-	-	-	197,883
Nativ Segev	158,503	17,731	-	-	-	-	176,234
Roby Zomer	128,199	17,731	-	-	-	-	145,930
Ross Walker	22,500	-	-	-	-	-	22,500
Nick Castleden	22,600	-	-	-	-	-	22,600
Nick Poll	15,625	-	-	-	-	-	15,625
Total	**505,310**	**75,462**	**-**	**-**	**-**	**-**	**580,772**
2015							
Brett Mitchell	25,000	115,000	-	-	-	38,500	178,500
Nick Castleden	24,833	-	-	-	-	53,900	78,733
Nick Poll	25,000	-	-	-	-	15,400	40,400
Total	**74,833**	**115,000**	**-**	**-**	**-**	**107,800**	**297,633**

All Directors have contracts with the Company.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Options Holdings of Key Management Personnel

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

2016 - As at 30 June 2016, no director held Listed Options exercisable at $0.02 expiring 30 June 2015, due to the options expiring.

2015 - Listed Options exercisable at $0.02 expiring 30 June 2015

Directors	Opening Balance 1-Jul-14	Granted/ Purchased	Exercised	Closing Balance 30-Jun-15
Brett Mitchell	3,177,558	-	-	3,177,558
Nick Castleden	280,035	-	-	280,035
Nick Poll	-	-	-	-
Total	3,457,593	-	-	3,457,593

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

Directors	Opening Balance	Granted/ Purchased	Exercised	Closing Balance
2016				
Brett Mitchell	5,800,000	-	-	5,800,000
Nativ Segev	-	-	-	-
Roby Zomer	-	-	-	-
Ross Walker	-	-	-	-
Nick Castleden[1]	7,000,000	-	3,500,000	3,500,000
Nick Poll[1]	2,000,000	-	-	2,000,000
Total	14,800,000		3,500,000	11,300,000
2015				
Brett Mitchell	800,000	5,000,000	-	5,800,000
Nick Castleden	-	7,000,000	-	7,000,000
Nick Poll	-	2,000,000	-	2,000,000
Total	800,000	14,000,000	-	14,800,000

[1] Closing balance is as at resignation date

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Performance Shareholdings of Key Management Personnel

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

Directors	Opening Balance 1-Jul-15	Granted as Compensation	Options Exercised	Net Other Changes	Closing Balance 30-Jun-16
Brett Mitchell	-	-	-	-	-
Nativ Segev	-	-	-	20,000,000 [i]	20,000,000 i
Roby Zomer	-	-	-	10,000,000 [ii]	10,000,000 [ii]
Ross Walker	-	-	-	-	-
Nick Castleden	-	-	-	-	-
Nick Poll	-	-	-	-	-
Total	-	-	-	30,000,000	30,000,000

[i & ii] the Performance Shares were issued as part consideration for the acquisition of MGC Pharma (UK) Ltd

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	Options Exercised	Net Other Changes	Closing Balance
2016					
Brett Mitchell	9,943,894	-	1,250,000	-	11,193,894
Nativ Segev	-	-	-	40,000,000[i]	40,000,000
Roby Zomer	-	-	-	20,000,000[ii]	20,000,000
Ross Walker	-	-	-	-	-
Nick Castleden	1,185,148	-	3,500,000	(1,500,000)[iii]	3,185,148[iv]
Nick Poll	-	-	-	-	-
Total	11,129,042	-	4,750,000	58,500,000	74,379,042
2015					
Brett Mitchell	9,943,894	-	-	-	9,943,894
Nick Castleden	1,185,148	-	-	-	1,185,148
Nick Poll	-	-	-	-	-
Total	11,129,042	-	-	-	11,129,042

[i & ii] the Shares were issued as part consideration for the acquisition of MGC Pharma (UK) Ltd
[iii] on market share sale
[iv] closing balance is as at resignation date

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Share-based Compensation

Value of Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of Directors and other Key Management Personnel in this financial year or future reporting years are as follows:

Directors	Grant Date	Vesting date and exercisable date	Expiry Date	Exercise Price	Fair value per option at grant date
Brett Mitchell	17/09/2014	17/09/2014	30/06/2017	$0.025 $0.04	$0.0082 $0.0072
Nick Castleden	17/09/2014	17/09/2014	30/06/2017	$0.025 $0.04	$0.0082 $0.0072
Nick Poll	17/09/2014	17/09/2014	30/06/2017	$0.025 $0.04	$0.0082 $0.0072

Options granted carry no dividend or voting rights. No other Directors hold options other than those above.

The number of 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 2016 are set out below:

	Number of options granted during the year		Number of options vested during the year	
Directors	2016	2015	2016	2015
Brett Mitchell	-	5,000,000	-	5,000,000
Nick Castleden	-	7,000,000	-	7,000,000
Nick Poll	-	2,000,000	-	2,000,000

Values of options over ordinary shares granted, exercised and lapsed for Directors and other Key Management Personnel as part of compensation are set out below:

Directors	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
2016				
Brett Mitchell	-	-	-	-
Nick Castleden	-	87,500	-	-
Nick Poll	-	-	-	-
2015				
Brett Mitchell	38,500	-	-	21.57
Nick Castleden	53,900	-	-	68.46
Nick Poll	15,400	-	-	38.12

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

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:

			CONSOLIDATED GROUP			
			Transactions		Balances	
Entity	Relationship	Nature of Transactions	Full Year 30-Jun-16 $	Full Year 30-Jun-15 $	Full Year 30-Jun-16 $	Full Year 30-Jun-15 $
Verona Capital Pty Ltd	(i)	(Re-charges to)/ reimbursement from Verona for technical support and corporate administration costs and re-charges	-	(1,500)	31,025	31,025
Verona Capital Pty Ltd	(i)	Repayment of Erin acquisition loan (note 20)	195,000	-	-	-
Sibella Capital Pty Ltd	(ii)	(Re-charges to)/ reimbursement from Sibella for corporate administration costs	(5,036)	(1,067)	6,713	1,173
Sky and Space Global Ltd	(iii)	(Re-charges to)/ reimbursement from SAS for corporate administration costs	(41,506)	-	4,008	-
Brighght HK Ltd	(iv)	(Re-charges to)/ reimbursement from Brighght HK for corporate administration costs	(477)	-	477	-
Citation Resources Ltd	(v)	(Re-charges to)/ reimbursement from CTR for corporate administration costs	-	(6,490)	-	966
Digital X Ltd	(vi)	(Re-charges to)/ reimbursement from DCC for corporate administration costs	(547)	-	427	-

(i) Verona Capital Pty Ltd, a company controlled 20% by Brett Mitchell.
(ii) Sibella Capital Pty Ltd is a company associated with Mr Brett Mitchell.
(iii) Sky and Space Global Ltd (SAS) is a company associated with Mr Brett Mitchell who is currently a Director of SAS.
(iv) Brighght HK Ltd is a company associated with Mr Nativ Segev.
(v) Citation Resources Ltd (CTR) is a company associated with Mr Brett Mitchell up to 1 December 2015, when he resigned as Director.
(vi) Digital X Ltd (DCC) is a company associated with Mr Brett Mitchell; subsequent to year end he resigned as Director on 24 July 2016.

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	3	3
Roby Zomer	3	3
Ross Walker	1	3
Nick Castleden	3	3
Nick Poll	2	2

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

OPTIONS

As at the date 30 September 2016 the unissued ordinary shares of MGC Pharmaceuticals Limited under option are as follows:

Issue Date	Date of Expiry	Exercise Price	Number Under Option
14 September 2012	30 June 2017	$0.20	4,000,000
23 January 2013	23 January 2018	$0.30	1,000,000
23 January 2013	23 January 2018	$0.35	500,000
23 January 2013	23 January 2018	$0.40	500,000
22 July 2014, 17 September 2014	30 June 2017	$0.025	4,000,000
22 July 2014, 17 September 2014	30 June 2017	$0.04	8,750,000
Total			18,750,000

INDEMNIFYING OFFICERS OR AUDITOR

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

The Company has paid premiums to insure all of the Directors of the Company as named above, the Company Secretary and all Executive Officers of the Company against any liability incurred as such by a Director, Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the notice of the liability and the amount of the premium.

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

PROCEEDINGS ON BEHALF OF COMPANY

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

NON-AUDIT SERVICES

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

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

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

CORPORATE GOVERNANCE

The Company's Corporate Governance Statement and ASX Appendix 4G are released to ASX on the same day the Annual Report is released. MGC Pharmaceuticals Limited's Corporate Governance Statement, and the Company's Policies, Charters and Procedures, can be all found on the Company's website at https://mgcpharma.com.au/investors/corporate-governance/

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 22 of the annual report.

This report is made in accordance with a resolution of Directors. These financial statements were authorised for issue by circular resolution dated 26 August 2016 by the Directors of the Company.

Brett Mitchell
Executive Chairman
Dated 29 August 2016

AUDITOR'S INDEPENDENCE DECLARATION

PKF MACK
Accounting, Financial and Business Advisory

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF MGC PHARMACEUTICALS LTD

In relation to our audit of the financial report of MGC Pharmaceuticals Ltd for the year ended 30 June 2016, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PKF Mack

PKF MACK

SIMON FERMANIS
PARTNER

29 AUGUST 2016
WEST PERTH,
WESTERN AUSTRALIA

PKF Mack
ABN 64 591 268 274

Liability limited by a scheme approved under Professional Standards Legislation.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2016

		CONSOLIDATED GROUP	
		30-Jun-16	30-Jun-15
	Note	$	$
Sales revenue	5	2,197	-
Cost of goods sold	6	(15,011)	-
Gross profit		(12,814)	-
Other income	5	46,033	5,886
Corporate costs		(309,573)	(49,199)
Professional and consultancy fees		(785,415)	(99,859)
Directors' fees		(442,888)	(164,833)
Employee benefit expenses	7	(178,463)	(127,318)
Share based payment expense	7	-	(174,747)
Travel expenses		(254,697)	(61,234)
Marketing expenses		(240,261)	(77,129)
Depreciation		(16,579)	-
Due diligence expenditure		(158,534)	(166,075)
Office and administrative expenses		(61,735)	(43,188)
Finance costs		(120,006)	(6,746)
Impairment provision expense	14b)	(1,755,891)	(2,777,367)
Loss on re-measurement of performance shares		(1,780,000)	-
Other expenses		(159,240)	(55,982)
Loss before income tax		(6,230,063)	(3,797,791)
Income tax benefit	8	-	-
Loss after income tax from continuing operations		(6,230,063)	(3,797,791)
Loss after income tax benefit for the year attributable to:			
Members of the parent entity		(6,157,144)	(3,797,791)
Non-controlling interest		(72,919)	-
		(6,230,063)	(3,797,791)
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on the translation of foreign operations		(2,459)	1,410
Other comprehensive income (net of tax) for the year		(2,459)	1,410
Total comprehensive loss for the year		(6,232,522)	(3,796,381)
Total comprehensive loss attributable to:			
Members of the parent entity		(6,155,619)	(3,796,381)
Non-controlling interest		(76,903)	-
		(6,232,522)	(3,796,381)
Earnings per share for loss attributable to the ordinary equity holders of the parent:			
From continuing and discontinued operations			
Basic loss per share (cents)	10	(1.03)	(1.34)
Diluted loss per share (cents)	10	(1.03)	(1.34)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	CONSOLIDATED GROUP 30-Jun-16 $	30-Jun-15 $
CURRENT ASSETS			
Cash and cash equivalents	11	7,895,539	436,985
Inventory	12	157,035	-
Trade and other receivables	13	477,372	83,618
Assets held for sale	14a)	500,000	-
Total Current Assets		9,029,946	520,603
NON-CURRENT ASSETS			
Plant and equipment	15	211,074	-
Intangible asset	16	7,083,665	-
Exploration and evaluation expenditure	14b)	-	2,000,000
Other asset		36,167	-
Total Non-Current Assets		7,330,906	2,000,000
TOTAL ASSETS		16,360,852	2,520,603
CURRENT LIABILITIES			
Trade and other payables	18	456,369	398,791
Contingent consideration	19	3,080,000	-
Borrowings	20	1,075,228	-
Total Current Liabilities		4,611,597	398,791
NON-CURRENT LIABILITIES			
Loans to third parties	20	20,393	195,000
Total Non-Current Liabilities		20,393	195,000
TOTAL LIABILITIES		4,631,990	593,791
NET ASSETS		11,728,862	1,926,812
EQUITY			
Contributed equity	21	32,343,143	16,501,303
Share based payment reserve	22a)	1,079,564	883,083
Foreign currency translation reserve	22b)	26,448	24,923
Retained earnings		(21,639,641)	(15,482,497)
Equity attributable to equity holders of the parent		11,809,514	1,926,812
Non-controlling interest		(80,652)	-
TOTAL EQUITY		11,728,862	1,926,812

The accompanying notes form part of these financial statements

MGC PHARMACEUTICALS LIMITED 2016 ANNUAL REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

CONSOLIDATED GROUP	Contributed Equity $	Share Based Payment Reserve $	Foreign Currency Translation Reserve $	Retained Earnings $	Non-Controlling Interest $	Total $
Balance at 1 July 2014	15,701,181	509,148	23,513	(11,684,706)	-	4,549,136
Total comprehensive loss attributable to members of parent entity	-	-	1,410	(3,797,791)	-	(3,796,381)
Shares issued during the year (net of share issue costs)	800,122	373,935	-	-	-	1,174,057
Balance at 30 June 2015	16,501,303	883,083	24,923	(15,482,497)	-	1,926,812
Balance at 1 July 2015	16,501,303	883,083	24,923	(15,482,497)	-	1,926,812
Other comprehensive income	-	-	1,525	-	(3,984)	(2,459)
Loss after income tax expense	-	-	-	(6,157,144)	(72,919)	(6,230,063)
Total comprehensive loss for the year	-	-	1,525	(6,157,144)	(76,903)	(6,232,522)
Shares issued during the year (net of share issue costs)	15,841,840	-	-	-	-	15,841,840
Share based payment	-	196,481	-	-	-	196,481
Recognition of non-controlling interest	-	-	-	-	(3,749)	(3,749)
Balance at 30 June 2016	32,343,143	1,079,564	26,448	(21,639,641)	(80,652)	11,728,862

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

		CONSOLIDATED GROUP	
		30-Jun-16	30-Jun-15
	Note	$	$
Cash flows from operating activities			
Receipts from customers		3,252	-
Payments to suppliers and employees		(3,096,009)	(500,868)
Interest received		46,090	5,886
Interest paid		(11,776)	-
Due diligence costs		(162,058)	(122,725)
Net cash used in operating activities	30	(3,220,501)	(617,707)
Cash flows from investing activities			
Cash acquired through asset acquisition	26b)	142,571	-
Purchase of plant and equipment		(88,517)	-
Payments for exploration assets		(159,403)	(316,396)
Payments to acquire financial assets		(33,423)	-
Cash advances to MGC Pharma (UK) Group pre-acquisition		(512,171)	-
Net cash used in investing activities		(650,943)	(316,396)
Cash flows from financing activities			
Proceeds from borrowings	20	1,000,000	-
Repayment of borrowings	20	(195,000)	-
Proceeds from issue of shares and options		11,125,283	797,135
Capital raising costs		(597,188)	(20,574)
Net cash provided by financing activities		11,333,095	776,561
Net (increase) / decrease in cash and cash equivalents held		7,461,651	(157,542)
Cash and cash equivalents at beginning of year		436,985	595,088
Foreign exchange movement in cash		(3,097)	(561)
Cash and cash equivalents at end of year	11	7,895,539	436,985

The accompanying notes form part of these financial statements

MGC PHARMACEUTICALS LIMITED 2016 ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial statements of MGC Pharmaceuticals Limited for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of Directors on 26 August 2016. 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 2016 the consolidated group incurred a loss from continuing operations of $6,230,063 (2015: $3,797,791) and net operating cash outflows of $3,220,501 (2015: $617,707) and year-end cash and cash equivalents balance of $7,895,539 (2015: $436,985). Net losses include one-off non-cash adjustments of $3.54m relating to the re-measurement of performance shares issued on completion of the acquisition of MGC UK (note 26b) of $1.78m (2015: nil) and an impairment provision on the exploration and evaluation assets of $1.76m (2015: $2.78m).

The Company's cashflow forecasts for the 12 months ending 30 September 2017 indicate that the Company will be in a position to meet its committed operational and administrative expenditure and thus continue to operate as a going concern.

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

If the Company and 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 2016 ("the Group").

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

d) Business Combinations

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

e) Investments in Associates and Joint Ventures

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

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

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

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

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

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

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

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

f) Intangible Assets

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

Licenses/permit costs

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

g) 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) Income Tax

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

i) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2x)). 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 2x)).

j) Employee Benefits

A provision is made for the Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

k) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

l) 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.

m) 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.

n) Revenue

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

Sale of goods

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

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

Interest income

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

o) 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Rounding of Amounts

The Company is a kind referred to in class order 98/100 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.

q) 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.

r) 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.

s) Trade and Other Payables

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

t) 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.

u) Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accumulated costs in relation to an abandoned area are written off in full against profit/loss in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

v) Plant and Equipment

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

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

Plant and equipment 3-5 years

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

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

w) Inventories

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

x) Investments and Other Financial Assets

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

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

De-recognition

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

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

y) 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.

z) Fair value measurement

The group measures financial instruments and non-financial assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

aa) Earnings per Share

Basic earnings per share

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

Diluted earnings per share

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

bb) Parent entity financial information

The financial information for the parent entity, MGC Pharmaceuticals Limited, disclosed in note 33 has been prepared on the same basis as the consolidated financial statements, except as set out below:

Investments in subsidiaries, associates and joint venture entities

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

a) Estimated Impairment

The group tests annually whether exploration and evaluation expenditure have suffered any impairment, in accordance with the accounting policy stated in note 1u). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions like commodity price and production quantity. Some of these assumptions may be amended in the future and this may lead to the subsequent impairment of the assets concerned.

b) Capitalisation of exploration and evaluation expenditure

The group has capitalised significant exploration and evaluation expenditure on the basis that this is either expected to be recouped through future successful development (or alternatively sale) of the areas of interest concerned, or on the basis that it is not yet possible to assess whether it will be recouped. Management are required to make certain judgements in relation to the assessment of whether the areas of interest are commercially viable; where costs are capitalised and are subsequently considered unsuccessful, the capitalised amounts are written off to the statement of profit or loss.

c) Income Taxes

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

d) Share Based Payments

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

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

e) Contingent liabilities

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

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

4. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

a) Changes in accounting policy, accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

New and amended standards and interpretations

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2015:

- **AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality** - completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn. The application of this amendment does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

4. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

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 2016, are set out below.

Reference	Title	Summary	Application date for reporting periods beginning or after	Application date for Company in financial year end
AASB 9, AASB 2014-7, AASB 2014-8 Amendments arising to Australian Accounting Standards arising from AASB 9	Financial Instruments	The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.	1 January 2018	30 June 2019
AASB 15, AASB 2014-5 Amendments arising from AASB 15, AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15	Revenue from Contracts with Customers	AASB 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 Construction Contracts, AASB 118 Revenue, Interpretation 13 Customer Loyalty Progzzrammes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, and Interpretation 131 Revenue-Barter Transactions Involving Advertising Services. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	1 January 2018	30 June 2019
AASB 1057	Application of Australian Accounting Standards	This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible. The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.	1 January 2016	1 July 2016

NOTES TO THE FINANCIAL STATEMENTS

4. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

Reference	Title	Summary	Application date for reporting periods beginning or after	Application date for Company in financial year end
AASB 2014-4	Clarification of Acceptable Methods of Depreciation & Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 Property Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	1 July 2016
AASB 2014-6	Agriculture: Bearer Plants	Specify biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with AASB 116 Property, Plant, and Equipment, instead of AASB 141 Agriculture.	1 January 2016	30 June 2017
AASB 2014-9	Equity Method in Separate Financial Statements	Amends AASB 127 Separate Financial Statements, to allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements: • at cost; • in accordance with AASB 9 Financial Instruments; or • using the equity method as described in AASB 128 Investments in Associates and Joint Ventures. The accounting policy option must be applied for each category of investment.	1 January 2016	30 June 2017

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NOTES TO THE FINANCIAL STATEMENTS

4. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

The following new or amended standards, applicable for annual reporting periods beginning after 1 January 2016 (unless otherwise stated), are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for acquisitions of interests in joint operations
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of acceptable methods of depreciation and amortisation (Amendments to AASB 116 and AASB 138)
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, AASB 2015-10 Amendments to Australian Accounting Standards – Effective Sate of Amendments to AASB 10 and AASB 128 (applicable 1 January 2018)
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual improvements to Australian Accounting Standards 2012-2014 cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
- AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception
- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (applicable 1 January 2017)
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations (for which Australian equivalent Standards and Interpretations have not yet been issued) were in issue but not yet effective:

- Clarifications to IFRS 15 'Revenue from Contracts with Customers' – effective 1 January 2018, applicable for financial year ending 30 June 2019
- IFRS 2 (Amendments) 'Classification and Measurement of Share-based Payment Transactions – effective 1 January 2018, applicable for the year ending 30 June 2019.

5. REVENUE AND OTHER INCOME

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Interest income	2,197	-
Other income	46,033	5,886
	48,230	5,886

6. COST OF GOODS SOLD

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Interest income	15,011	-
	15,011	-

7. EMPLOYEE BENEFIT EXPENSES

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Wages and salaries	178,431	127,318
Employee share option expense (note 28c)	-	174,747
Other employee costs	32	-
	178,463	302,065

8. INCOME TAX BENEFIT

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
a) The components of income tax expense comprise:	$	$
Current tax		
Deferred tax	(721,021)	(227,472)
DTA not recognised (losses)	821,619	257,469
DTA not recognised (temporary)	(100,598)	(29,997)
	-	-
b) The prima facie tax on Profit/(loss) from continuing operations and discontinued operations before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on (loss)/profit from continuing operations and discontinued operations before income tax at 30%	(1,869,019)	(1,127,239)
Add:		
Tax effect of:		
other non-allowable items	1,147,998	899,767
Other assessable items		
Less:		
Tax effect of:		
Non-assessable items		
Loss of discontinued operations		
DTA not recognised (losses)	821,619	257,469
DTA not recognised (temporary)	(100,598)	(29,997)
Income tax expense/(benefit)	-	-
Deferred Tax Assets Not Brought to Account, the benefits of which will only be realised if the conditions for deductibility set out in Note (1h) occur		
Tax Losses	2,078,497	1,453,042
Temporary Differences	266,734	157,162
Total	2,345,231	1,610,204

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NOTES TO THE FINANCIAL STATEMENTS

9. AUDITOR'S REMUNERATION

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Remuneration of the auditors of the group:		
Audit fees and review of financial reports - PKF Mack	29,200	22,500
Preparation of Investigating Accountants Report – PKF Mack	12,500	-
	41,700	22,500

10. EARNINGS PER SHARE

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Basic loss per share (cents)	(1.03)	(1.34)
Diluted loss per share (cents)	(1.03)	(1.34)
Reconciliation of earnings to profit or loss		
(Loss) used in calculating basic and diluted EPS	(6,230,063)	(3,797,791)
	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	603,562,754	282,809,495

11. CASH AND CASH EQUIVALENTS

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Cash at bank	7,895,539	436,985
	7,895,539	436,985

NOTES TO THE FINANCIAL STATEMENTS

12. INVENTORY

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
At Cost		
Opening balance at 1 July	-	-
Inventory on acquisition of subsidiary (note 26b)	14,536	-
Additions	146,986	-
Foreign currency translation reserve	(4,487)	-
	157,035	-

13. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Current		
Other receivables	131,629	39,071
GST receivable	54,433	18,987
Prepayments	117,170	25,560
Short term loan to third party	174,140	-
	477,372	83,618

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

14. EXPLORATION AND EVALUATION EXPENDITURE – ASSETS HELD FOR SALE

a) Assets classified as held for sale

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Exploration and evaluation asset – carrying value	500,000	-
	500,000	-

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

NOTES TO THE FINANCIAL STATEMENTS

14. EXPLORATION AND EVALUATION EXPENDITURE (CONTINUED)

b) Reconciliation of exploration and evaluation expenditure

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Costs brought forward	2,000,000	4,315,040
Additions during the year	50,902	261,146
Impairment provision expense during the year	(1,755,891)	(2,777,367)
Amortisation of share based payments (note 28c)	196,483	199,188
Transfer to assets held for sale (note 14a)	(500,000)	-
Foreign currency movement	8,506	1,993
	-	2,000,000

30 June 2016

The Directors reviewed the carrying value of the exploration and evaluation assets at year end, and in conclusion recognised an impairment provision to reduce its value to its recoverable amount of $500,000.

As per note 14a the Group has sold two of their permits to their joint venture partner, Afrigem SL for a consideration of $500,000, and has reclassified the exploration asset as held for sale.

30 June 2015

During the year ended 30 June 2015 the Directors reduced the carrying value of exploration expenditure to its recoverable amount being the direct costs capitalised on each area of interest; indirect expenditure that cannot specifically be allocated to an area of interest has been expensed through the profit or loss.

The Wassadou North and South, and Balakonko tenements were relinquished during the year and their carrying values reduced to nil; the group however successfully acquired a new tenement, Youboubou on 20 May 2015.

15. PLANT AND EQUIPMENT

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Plant and equipment		
- at cost	235,483	8,332
- accumulated depreciation	(24,409)	(8,332)
	211,074	-

	$	$
Plant and equipment movement		
Opening balance at 1 July	-	-
Plant and equipment on acquisition of subsidiary (note 26)	28,933	-
Additions	198,218	-
Depreciation	(16,579)	-
Foreign currency translation reserve	502	-
	211,074	-

16. INTANGIBLE ASSETS

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Intangible assets		
- at fair value on acquisition (note 26b)	7,096,990	-
- foreign currency translation reserve	(13,325)	-
	7,083,665	-

17. CONTROLLED ENTITIES

	Country of incorporation	Percentage Owned (%)*	
		30-Jun-16	30-Jun-15
Parent entity:			
MGC Pharmaceuticals Limited	Australia		
Subsidiaries of MGC Pharmaceuticals Limited			
Erin Mineral Resources Limited	Australia	100	100
MGC Pharma (UK) Limited[1]	UK	100	-
MGC Pharma (Aust) Pty Ltd[2]	Australia	100	-
Subsidiaries of Erin Mineral Resources Limited:			
Erin Minerals Pty Limited	Australia	100	100
Erin Senegal S.A.U	Senegal	100	100
Subsidiaries of MGC Pharma (UK) Limited:			
MGC Pharmaceuticals d.o.o	Slovenia	100	-
MGC Derma d.o.o	Slovenia	51	-

* Percentage of voting power in proportion to ownership transactions to report at financial year end.

18. TRADE AND OTHER PAYABLES

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Current		
Trade payables	145,280	368,893
Accruals	262,838	29,898
Other payables	48,251	-
	456,369	398,791

Refer to note 31 for details on management of financial risk.

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19. CONTINGENT CONSIDERATION

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Opening balance at 1 July	-	-
Contingent consideration arising on asset acquisition	1,300,000	-
Unrealised fair value movement recognised in profit or loss	1,780,000	-
	3,080,000	-

The contingent consideration liability arose from the acquisition of MGC Pharma (UK) Limited (note 26b).

The performance shares meet the definition of a financial liability where a variable amount of performance shares convert, contingent upon meeting the milestone (note 26b), into fully paid ordinary shares at a rate of one ordinary share for every performance share that converts or consolidates into one performance share and converts to one ordinary share if no conversion occurs on or before the expiry date (3 years from completion of acquisition).

The determination of the fair value is based on a probability weighted payout approach. The key assumptions take into consideration the probability of meeting the performance targets. As part of accounting for the acquisition of MGC UK, the contingent consideration was initially measured at acquisition with a probability of 50%, at which date the share price was $0.026. Following review by the Board as at 30 June 2016, it was determined that the probability of meeting the targets was highly probable and the weighted outcome had increased to 75%, and as at that date the share price was $0.044. The increase in value of $1,780,000 was taken to the consolidated statement of profit or loss and other comprehensive income. Future developments may require further revisions to the estimate.

20. BORROWINGS

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Current liabilities		
Borrowings	1,075,228	-
	1,075,228	-
Non-current liabilities		
Loan payable to third party	20,393	195,000
	20,393	195,000

Borrowings

In line with the Group's re-compliance and ASX relisting following the acquisition of MGC UK (refer note 26b), the Group entered a facility agreement with a third party for a working capital loan of $1 million on 11 February 2016. The loan is repayable on 10 February 2018 and incurs interest at a rate of 10% per annum.

On 11 July 2016 the loan principal, facilitation fee and all incurred interests were repaid in full.

Loan payable to third party

30 June 2016

The loan payable of $195,000, as described below, was fully repaid prior to the year end.

20. BORROWINGS (CONTINUED)

30 June 2015

The loan payable to Verona Capital Pty Ltd relates to the original acquisition terms of Erin Mineral Resources Pty Ltd and is disclosed as per the prospectus dated 26 July 2012; the amounts are unsecured and interest free, and repaid based on future capital raisings or asset sales.

Refer to note 31 for details on management of financial risk.

21. CONTRIBUTED EQUITY

	CONSOLIDATED GROUP			
	30-Jun-16	30-Jun-15	30-Jun-16	30-Jun-15
	NUMBER	NUMBER	$	$
Ordinary shares on issue, fully paid	905,638,006	359,134,917	32,343,143	16,501,303
VHL shares (note 28a)	13,000,000	13,000,000	-	-
	918,638,006	372,134,917	32,343,143	16,501,303

a) Reconciliation of movement in share capital

	CONSOLIDATED GROUP		
30 June 2016	No. of Shares	Issue Price	Amount
Opening balance at 1 July 2015	372,134,917		16,501,303
Exercise of listed options – 9 July 2015[1]	12,032,711	0.020	240,654
Options raising – 14 July 2015[2]	123,418,924	0.020	2,468,378
Placement – 15 February 2016[3]	140,000,000	0.026	3,640,000
Share issue – 15 February 2016[3]	60,000,000	0.026	1,560,000
Share issue – 15 February 2016[4]	3,346,700	0.026	87,014
Share issue – 15 February 2016[5]	500,000	0.026	13,000
Exercise of unlisted options – 11 May 2016[6]	29,750,000	0.025	743,750
Share issue – 11 May 2016[7]	2,000,000	0.048	96,000
Placement – 11 May 2016[8]	113,636,384	0.044	5,000,000
Priority Offer – 31 May 2016[9]	56,818,370	0.044	2,500,000
Exercise of unlisted options – 23 June 2016	2,500,000	0.025	62,500
Exercise of unlisted options – 23 June 2016	2,500,000	0.040	100,000
Less: costs of issue			(669,456)
Closing balance at 30 June 2016	918,638,006		32,343,143

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NOTES TO THE FINANCIAL STATEMENTS

21. CONTRIBUTED EQUITY (CONTINUED)

30 June 2015	No. of Shares	Issue Price	Amount
Opening balance at 1 July 2014	257,707,934		15,701,181
Capital raising	64,426,983	0.005	322,135
Capital raising	50,000,000	0.010	500,000
Less: costs of issue			(22,013)
Closing balance at 30 June 2015	372,134,917		16,501,303

1 The Company performed a conversion of listed options by option holders; pursuant to its announcement dated 23 June 2015 the Company issued 12,032,711 fully paid ordinary shares at an exercise price of $0.02 totalling $240,654.
2 The Company performed an underwritten options raising, as announced on 30 June 2015; pursuant to the underwriting agreement with Merchant Corporate Finance Pty Ltd and relevant sub-underwriting agreements the Company issued 123,418,924 fully paid ordinary shares at an issue price of $0.02 to raise $2,468,378 before share issue costs.
3 On completion of the acquisition of MGC UK, the Company issued 200m consideration shares as per the Share Sale and Purchase Agreement (refer note 26).
4 Subsequent to the acquisition of MGC UK, 3,346,700 shares were issued to Media and Capital Partners for services provided.
5 Pursuant to the Prospectus dated 18 December 2015, the Company issued 500,000 Prospectus shares.
6 The Company performed a conversion of 29,750,000 unlisted options by option holders, exercisable at $0.025 per option.
7 In lieu of cash, 2,000,000 shares were issued for services performed by Stocks Digital at $0.048 per share.
8 Pursuant to the Prospectus dated 4 May 2016, the Company completed and allotted its Placement shares for $5,000,000.
9 Pursuant to the Prospectus dated 16 May 2016, the Company completed its Priority Offer for $2,500,000.

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

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

b) Capital risk management

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

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

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

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

The group is not subject to any externally imposed capital requirements.

22. RESERVES

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
(a) Share based payment reserve	$	$
Balance at 1 July	883,083	509,148
Share based payment movement during the year	196,481	373,935
	1,079,564	883,083

This comprises the amortised position of the share based payment expense (refer note 28c).

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
(b) Foreign currency translation	$	$
Balance at 1 July	24,923	23,513
Currency translation differences arising during the year	1,525	1,410
	26,448	24,923

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

23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company currently has contingent liabilities of $100,054 that are related to, and dependent upon, material events occurring in relation to its Senegalese gold projects.

24. COMMITMENTS

Following the Company entering into a Collaboration Agreement with SipNose Ltd, an Israeli-based therapeutics company, the Company are obligated to pay a total of USD$50,000 in support of SipNose's work to be performed under the agreement. An initial instalment of USD$25,000 was completed on 8 March 2016.

On the execution of a Heads of Agreement with Natura Laboratories d.o.o ('Natura'), the Company entered into an obligation to provide Natura with a minimum 300kg of CBD resin per annum, in accordance with the demands of the end buyers, at an agreed price of €55,000/Kg of 100% purity CBD resin where price is directly dependent on the purity of the product. Where the Company have to purchase CBD from other producers, the selling price is based on 'cost + 5%'.

25. RELATED PARTY TRANSACTIONS

a) Key Management Personnel Remuneration

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

b) Transactions with Director related entities

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

25. RELATED PARTY TRANSACTIONS (CONTINUED)

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

			CONSOLIDATED GROUP			
			Transactions		Balances	
Entity	Relationship	Nature of Transactions	Full Year 30-Jun-16 $	Full Year 30-Jun-15 $	Full Year 30-Jun-16 $	Full Year 30-Jun-15$
Verona Capital Pty Ltd	(i)	(Re-charges to)/ reimbursement from Verona for technical support and corporate administration costs and re-charges	-	(1,500)	31,025	31,025
Verona Capital Pty Ltd	(i)	Repayment of Erin acquisition loan (note 20)	195,000	-	-	-
Sibella Capital Pty Ltd	(ii)	(Re-charges to)/ reimbursement from Sibella for corporate administration costs	(5,036)	(1,067)	6,713	1,173
Sky and Space Global Ltd	(iii)	(Re-charges to)/ reimbursement from SAS for corporate administration costs	(41,506)	-	4,008	-
Brighght HK Ltd	(iv)	(Re-charges to)/ reimbursement from Brighght HK for corporate administration costs	(477)	-	477	-
Citation Resources Ltd	(v)	(Re-charges to)/ reimbursement from CTR for corporate administration costs	-	(6,490)	-	966
Digital X Ltd	(vi)	(Re-charges to)/ reimbursement from DCC for corporate administration costs	-	(547)	-	427

(i) Verona Capital Pty Ltd, a company controlled 20% by Mr Brett Mitchell.
(ii) Sibella Capital Pty Ltd is a company associated with Mr Brett Mitchell.
(iii) Sky and Space Global Ltd (SAS) is a company associated with Mr Brett Mitchell who is currently a Director of SAS.
(iv) Brighght HK Ltd is a company associated with Mr Nativ Segev.
(v) Citation Resources Ltd (CTR) is a company associated with Mr Brett Mitchell up to 1 December 2015, when he resigned as Director.
(vi) Digital X Ltd (DCC) is a company associated with Mr Brett Mitchell; subsequent to year end he resigned as Director on 24 July 2016.

c) Other related party transactions

There were no other related party transactions.

26. ASSET ACQUISITION

a) Subsidiaries acquired

	Principal activity	Date of acquisition	Proportion of shares acquired %	Total Consideration $
MGC Pharma (UK) Ltd	Opportunities to acquire businesses and companies focused in the medicinal cannabis sector	15-Feb-16	100	6,951,475
Subsidiaries of MGC Pharma (UK) Ltd:				
MGC Pharmaceuticals d.o.o	Licensing for growing and selling of cannabidiol products for use on medicinal cannabis products	15-Feb-16	100	105,358
MGC Derma d.o.o	Sale of medicinal cannabis products	15-Feb-16	51	40,157

b) Acquisition of MGC Pharma (UK) Ltd

Following the Company exercising its right to acquire 100% of the issued capital of the medicinal cosmetic cannabis company, MGC Pharma (UK) Ltd ("MGC UK"), the Company then entered into a Share Sale and Purchase Agreement with MGC UK and subsequently completed its acquisition on 15 February 2016 through the issue of 200,000,000 shares and 100,000,000 performance shares.

MGC UK holds interests in MGC Slovenia d.o.o ("MGC Slovenia") and MGC Derma d.o.o ("MGC Derma") of 100% and 51% respectively.

MGC UK is a privately held entity, that does not consist of inputs, nor processes that generate outputs, and therefore does not meet the definition of a business. Where a transaction does not meet the definition of a business, and therefore not within the scope of IFRS 3 Business Combinations, the transaction is that of an asset acquisition and is therefore a share based payment transaction under AASB 2 Share Based Payments.

This transaction was accounted for as an asset acquisition that principally involved the acquisition of the growing licences held under MGC Slovenia for growing of cannabis for medicinal and cosmetic purposes; MGC Derma being the cosmetics sale entity.

Under asset acquisition accounting the acquirer identifies and recognises the individual assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38) and liabilities assumed; and allocates the cost of the group of assets and liabilities to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

The principal terms of the acquisition are as follows:

	MGC Pharma (UK) Ltd $	MGC Pharmaceuticals d.o.o $	MGC Derma d.o.o $	YTD Foreign currency translation reserve $	Total $
Fair value of consideration equity instruments	6,500,000	-	-	-	6,500,000
Cash acquired on acquisition	-	79,559	63,012	-	142,571
Excess of net liabilities over consideration	6,951,475	25,799	(22,855)	(13,325)	6,941,094
Initial consideration determined at aquisition date	**6,951,475**	**105,358**	**40,157**	**(13,325)**	**7,083,665**

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26. ASSET ACQUISITION (CONTINUED)

The securities issued as consideration for the acquisition are:

(i) 200,000,000 fully paid ordinary shares in MGC; and

(ii) 100,000,000 performance shares.

The Company issued 200,000,000 ordinary shares for 100% interest in the MGC UK Group. The fair value of the shares is calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was $0.026 per share. The fair value on consideration given was therefore $5,200,000.

The 100,000,000 performance shares issued by the Company to the Vendors are convertible to ordinary shares (on a one for one basis) upon the Company securing an off-take agreement to sell CBD oil that contains a minimum purity of 50% CBD and/or MGC products, and achieving revenue of €1 million from the supply of CBD oil and /or other MGC products under that off-take agreement.

The determination of the fair value is based on a probability weighted payout approach. The key assumptions take into consideration the probability of meeting the performance target (as detailed above). As part of accounting for the acquisition of MGC UK, the estimated fair value of the performance shares of $1,300,0000 are recognised on acquisition based on a probability weighting of 50% that the target would be met, at which date the underlying share price was $0.026.

Consideration	Acquisition consideration $
Paid consideration	
Fully paid ordinary shares in the Company	5,200,000
• 200,000,000 shares at $0.026 per share	
Contingent consideration	1,300,000
• 100,000,000 performance shares at $0.026 per share at 50% (refer note 19)	
Total consideration	6,500,000

There were no disposals during the year.

30 June 2015

There were no disposals or acquisitions during the financial year ended 30 June 2015.

27. NON-CONTROLLING INTEREST

	30-Jun-16 $	30-Jun-15 $
Opening balance at 1 July	-	-
Non-Controlling interest arising on the acquisition of MGC Derma d.o.o	(3,749)	-
Share of total comprehensive income for the year	(76,903)	-
	(80,652)	-

28. SHARE BASED PAYMENTS

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

28. SHARE BASED PAYMENTS (CONTINUED)

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

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

a) Valuation of the Voluntary Holding Lock shares

As part of the acquisition of Erin Mineral Resources Limited (EMRL), Voluntary Holding Lock shares were issued to the EMRL shareholders.

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

(i) a change in control of the Company; or

(ii) 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 and there is no change of control event, in relation to MGC, the VHL Shares will be cancelled by way of selective capital reduction or share buyback at a price of $0.000001 per share.

The VHL shares are included in the acquisition fair value of exploration and evaluation expenditure, and amortised over a period of 5 years.

Number of VHL shares issued	13,000,000
Fair value per share[1]	$0.07
Total value of the issue	$906,588
Amortisation expense during the year	$185,091

[1]The shares have been valued based on the probability of the events occurring, using the volatility and the share price on the date of acquisition.

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

Valuation date	17 August-12
Dividend yield (%)	Nil
Expected volatility (%)	71.75%
Share price at grant date ($)	$0.25
Probability (%)	27.8%

b) Valuation of options issued

(i) 4 million unlisted options

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

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

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28. SHARE BASED PAYMENTS (CONTINUED)

Number of options	4,000,000
Fair value per option	$0.01
Total value of the issue	$55,790
Amortisation expense (based on 5 years)	$11,390

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

Valuation date	17 August-12
Dividend yield (%)	Nil
Expected volatility (%)	71.75%
Risk-free interest rate (%)	3.09%
Expected life of option (years)	5
Option exercise price ($)	$0.20
Share price at grant date ($)	$0.25
Expiry date	30 June 2017
Performance conditions	As above
Valuation of option	$0.0051

(ii) 2 million unlisted options

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

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

	Tranche 1	Tranche 2	Tranche 3	Total
Number of options	1,000,000	500,000	500,000	2,000,000
Fair value per option	$0.034	$0.032	$0.030	-
Total value of the issue	$34,000	$16,000	$15,000	$65,000
Amortisation expense (based on 5 years)	-	-	$1,497	$1,497

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

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

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28. SHARE BASED PAYMENTS (CONTINUED)

(iii) 15 million listed options

On 16 May 2014, the Company issued 15 million listed options to external consultants in lieu of cash payment for services provided to the Company. The options are exercisable at $0.02 each on or before 30 June 2015.

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

Valuation date	18 June 2014
Dividend yield (%)	Nil
Expected volatility (%)	125%
Risk-free interest rate (%)	2.68%
Expected life of option (years)	1.1
Option exercise price ($)	$0.02
Share price at grant date ($)	$0.013
Expiry date	30 June 2015
Performance conditions	As above
Valuation of option	$0.0051
Total value of option	$76,500

(iv) 3.5 million unlisted options

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

	Tranche 1	Tranche 2	Total
Number of options	1,750,000	1,750,000	3,500,000
Fair value per option	$0.0082	$0.0072	-
Total value of the issue	$14,350	$12,600	$26,950

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

	Tranche 2	Tranche 3
Valuation date	18 July 2014	18 July 2014
Dividend yield (%)	Nil	Nil
Expected volatility (%)	125%	125%
Risk-free interest rate (%)	2.79%	2.79%
Expected life of option (years)	3	3
Option exercise price ($)	$0.025	$0.04
Share price at grant date ($)	$0.01	$0.01
Expiry date	30 June 2017	30 June 2017

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE BASED PAYMENTS (CONTINUED)

c) Reconciliation of share based payment expense

	Number of VHL Shares / Unlisted Options	Vesting Date	Value	Share Based Payment at 30 June 2016
As at 30 June 2016			$	$
Opening balance:				
VHL shares issued	13,000,000		0.069	535,387
Movement during the year				
Amortisation expense	-			185,091
Total VHL share (note 28a)	13,000,000			720,478
Opening balance:				
Unlisted option issued	43,500,000			347,696
Movement during the year:				
Options expired	(19,750,000)			-
Unlisted options issued @ $0.20 (note 28bi)	-	14/09/13	0.014	11,390
Total unlisted options	23,750,000			359,086
Total share based payment reserve	36,750,000			1,079,564

	Number of VHL Shares / Unlisted Options	Vesting Date	Value	Share Based Payment at 30 June 2015
As at 30 June 2015			$	$
Opening balance:				
VHL shares issued	13,000,000		0.069	347,746
Movement during the year				
Amortisation expense	-			187,641
Total VHL share	13,000,000			535,387
Opening balance:				
Unlisted option issued	21,000,000			161,402
Movement during the year:				
Unlisted options issued @ $0.20 (note 28bi)	-	14/09/13	0.014	11,547
Unlisted options issued @ $0.40 (Tranche 3) (note 28bii)	-	27/08/14	0.030	1,497
Unlisted options issued @ $0.025 (Tranche 1) (note 28biv)	1,750,000	22/07/14	0.008	14,350
Unlisted options issued @ $0.04 (Tranche 2) (note 28biv)	1,750,000	22/07/14	0.007	12,600
Unlisted options issued @ $0.025 (Tranche 1) (note 28bv)	9,500,000	17/09/14	0.008	77,900
Unlisted options issued @ $0.04 (Tranche 2) (note 28bv)	9,500,000	17/09/14	0.007	68,400
Total unlisted options	43,500,000			347,696
Total share based payment reserve	56,500,000			883,083

NOTES TO THE FINANCIAL STATEMENTS

29. SEGMENT REPORTING

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

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

The Slovenia operations relate to MGC Slovenia and MGC Derma which, based on their level of activities for the year ended 30 June 2016, have been aggregated as one reportable operating segment as each company exhibit similar economic characteristics in respect of their inputs, processes, outputs and their regulatory environments, being that of the production and sale of medicinal cannabis for pharmaceutical and cosmetic purposes.

	Slovenia 30-Jun-16	Australia 30-Jun-16	Consolidated Group 30-Jun-16
30 June 2016	$	$	$
Total assets	1,849,526	16,922,928	18,772,454
Total liabilities	2,680,634	4,362,958	7,043,592
Sales revenues	2,197	-	2,197
Loss for the year:			
Members of the parent entity	(1,018,377)	(5,137,242)	(6,155,619)
Non-controlling interest	(76,903)	-	(76,903)
Total comprehensive loss for the year	(1,095,280)	(5,137,242)	(6,232,522)

30. CASH FLOW INFORMATION

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
Reconciliation of Cash Flow from Operations with Loss after Income Tax	$	$
(Loss) after income tax	(6,232,522)	(3,796,381)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in loss		
Depreciation and amortisation	16,579	-
Impairment expense	1,755,891	2,777,367
Exploration, evaluation and development expenditure	-	77,379
Share based payment expense	-	174,747
Loss on re-measurement of financial liability	1,780,000	-
Changes in assets and liabilities, net of the effects of purchase of subsidiaries		
(Increase) in inventory	(157,035)	-
(Increase) in trade and other receivables	(393,754)	(15,316)
Increase in trade payables and accruals	10,340	164,497
Cash flow from operations	(3,220,501)	(617,707)

NOTES TO THE FINANCIAL STATEMENTS

31. 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:

	CONSOLIDATED GROUP					
	Floating Interest Rate	1 Year or Less	Over 1 to 5 Years	Non-interest Bearing	Remaining Contractual Maturities	Weighted Average Interest Rate
30 June 2016	$	$	$	$	$	%
Financial assets						
Cash and cash equivalents	7,890,519	7,890,519	-	5,020	7,895,539	0.58%
Other receivables	-	-	-	174,140	174,140	
	7,890,519	7,890,519	-	179,160	8,069,679	
Financial liabilities						
Sundry accruals	-	-	-	456,369	456,369	
Borrowings	1,075,228	1,075,228	-	-	1,075,228	10.00%
Loans payable	-	-	-	20,393	20,393	
	1,075,228	1,075,228	-	476,762	1,551,990	

	CONSOLIDATED GROUP					
	Floating Interest Rate	1 Year or Less	Over 1 to 5 Years	Non-interest Bearing	Remaining Contractual Maturities	Weighted Average Interest Rate
30 June 2015	$	$	$	$	$	%
Financial assets						
Cash and cash equivalents	427,133	427,133	-	9,852	436,985	1.35%
Other receivables	-	-	-	83,618	83,618	
	427,133	427,133	-	93,470	520,603	
Financial liabilities						
Other payables and sundry accruals	-	-	-	398,792	398,792	
Loans payable	-	-	-	195,000	195,000	
	-	-	-	593,792	593,792	

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 June 2016, 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 $68,153 lower/higher (2015: $4,271).

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 Senegal currency (CFA Franc (XOF)), GBP (£), Euro (€) and United States Dollars (USD).

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:

	CONSOLIDATED GROUP	
	30-Jun-16	30-Jun-15
	$	$
Trade payables in denomination currency		
Trade payables - EUR	18,595	-
Cash and cash equivalents held in denomination currency		
Cash and cash equivalents - EUR	924,634	-
Cash and cash equivalents - XOF	1,606	8,801
Consolidated entity sensitivity		
Exchange rates per AUD as at 30 June		
EUR	0.6701	0.6901
XOF	441.62	453.69

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	30-Jun-16		30-Jun-15	
	$		$	
	Profit/(loss) 10% increase	Profit/(loss) 10% decrease	Profit/(loss) 10% increase	Profit/(loss) 10% decrease
Euro (€)	(92,463)	92,463	-	-
CFA Franc (XOF)	(161)	161	(880)	880
	(92,624)	92,624	(880)	880

32. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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 2016	$	$	$	$
Financial assets				
Available for sale assets				
Exploration and evaluation asset	500,000	-	-	500,000
Closing balance at 30 June 2016	500,000	-	-	500,000
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Contingent consideration				
Fair value on initial recognition	-	-	1,300,000	1,300,000
Fair value movement in the period	-	-	1,780,000	1,780,000
Closing balance at 30 June 2016	-	-	3,080,000	3,080,000

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 14a).

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.

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

32. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

A 10% increase or decrease in the probability applied, or MGC's share price, would result in the following movements:

	30-Jun-16 $'000		30-Jun-15 $'000	
	Profit/(loss) 10% increase	Profit/(loss) 10% decrease	Profit/(loss) 10% increase	Profit/(loss) 10% decrease
Probability	(440)	440	-	-
Share price	(308)	308	-	-

c) 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.

33. PARENT COMPANY DISCLOSURES

a) Summary of financial information

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

	30-Jun-16 $	30-Jun-15 $
Current assets	7,057,774	511,364
Non-current assets	10,771,453	1,415,038
Total Assets	17,829,227	1,926,402
Current liabilities	4,355,818	297,412
Non-current liabilities	-	195,000
Total Liabilities	4,355,818	492,412
Contributed equity	32,343,143	16,501,303
Share based payment reserve	1,079,564	883,083
Accumulated losses	(19,949,298)	(15,950,396)
Total Equity	13,473,409	1,433,990
Loss for the year	(3,998,902)	(3,815,396)
Total comprehensive loss for the year	(3,998,902)	(3,815,396)

b) Commitments and contingent liabilities of the parent

The parent entity did not have any contingent liabilities or commitments, as at 30 June 2016 (30 June 2015: nil).

c) Guarantees entered into the parent entity

There were no guarantees entered into by the parent entity.

34. EVENTS AFTER THE REPORTING DATE

On 13 July 2016, the Company announced Professor Uri Kramer, a highly regarded expert in the field of Paediatric Neurology and Paediatric Epilepsy, joined the Company as a key technical medical consultant and also joined the Strategic Advisory Board.

The Company also announced on 11 August 2016 that it executed a binding agreement to sell all its interests in, and exploration data relating to, the exploration work completed on its Senegal Bouroubourou and Lingokoto exploration permits. The Company executed this binding agreement with its joint venture project partner Afrigem SL, for total cash consideration of $500,000. These funds have now been received by the Company. (refer note 14a).

On 12 August 2016, the Company announced the issue of 321,849 ordinary shares to consultants in lieu of cash for services provided to the Company.

Apart from the above, no other matters or circumstances have arisen since 30 June 2016 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

35. DIVIDENDS

No dividends have been paid or provided during the year.

DIRECTORS' DECLARATION

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

1. The financial statements and notes, as set out in pages 23 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 2016 and their performance for the year ended on that date.
2. The Directors have been given the declaration required by section 295A of the *Corporations Act 2001*.
3. The remuneration disclosures contained in the Remuneration Report comply with s300A of the *Corporations Act 2001*.
4. In the Directors opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Brett Mitchell
Executive Chairman
Dated 29 August 2016

MGC PHARMACEUTICALS LIMITED 2016 ANNUAL REPORT

INDEPENDENT AUDITOR'S REPORT TO MEMBERS

PKF MACK

Accounting, Financial and Business Advisory

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

MGC PHARMACEUTICALS LTD

Report on the Financial Report

We have audited the accompanying financial report of MGC Pharmaceuticals Ltd (the company) and its controlled entities (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2016, 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. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. 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.

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

PKF Mack
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INDEPENDENT AUDITOR'S REPORT TO MEMBERS

PKF MACK
Accounting, Financial and Business Advisory

Independence

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

Opinion

In our opinion:

(a) the financial report of MGC Pharmaceuticals Ltd is in accordance with the Corporations Act 2001, including:

 (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and their performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. 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.

Opinion

In our opinion, the Remuneration Report of MGC Pharmaceuticals Ltd for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

PKF Mack

PKF MACK

S Fermanis

SIMON FERMANIS
PARTNER

29 AUGUST 2016
WEST PERTH,
WESTERN AUSTRALIA

SHAREHOLDER INFORMATION

EXCHANGE LISTING

MGC Pharmaceuticals Ltd shares are listed on the Australian Securities Exchange. The Company's ASX code is MXC for Ordinary Shares and MXCOD for Listed Options.

SUBSTANTIAL SHAREHOLDERS (HOLDING NOT LESS THAN 5%)

As at 30 September 2016 the Company did not have any shareholder holding not less than 5%.

CLASS OF SHARES AND VOTING RIGHTS

At 30 September 2016 there were 5,497 holders of 918,959,855 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).

The number of shareholders holding less than a marketable parcel is 1,029.

UNLISTED OPTIONS AND PERFORMANCE SHARES AS AT 30 SEPTEMBER 2016

Securities	Number of Securities on Issue	Number of Holders	Name of Holders Holding more than 20%	Number Held
Options exercisable at $0.20 on or before 30 June 2017	4,000,000	3	Verona Capital Pty Ltd	4,000,000
Options exercisable at $0.30 on or before 23 January 2018	1,000,000	1	Mr Paul Cranney	1,000,000
Options exercisable at $0.35 on or before 23 January 2018	500,000	1	Mr Paul Cranney	500,000
Options exercisable at $0.40 on or before 23 January 2018	500,000	1	Mr Paul Cranney	500,000
Options exercisable at $0.025 on or before 30 June 2017	4,000,000	3	Mr Brett Mitchell and Mrs Michelle Mitchell	2,500,000
			Mr Nicholas Poll and Mrs Claire Poll	1,000,000
Options exercisable at $0.04 on or before 30 June 2017	8,750,000	6	Mr David Nicholas Castleden	3,500,000
			Mr Brett Mitchell and Mrs Michelle Mitchell	2,500,000
Performance Shares	100,000,000	7	Nativ Segev	20,000,000
			Elad Segev	20,000,000

SHAREHOLDER INFORMATION

ESCROWED SECURITIES

The Company currently has 13,000,000 VHL Ordinary Shares subject to voluntary imposed escrow and the following securities subject to ASX imposed escrow:

63,346,700 Ordinary Shares escrowed until 15 February 2018
140,000,000 Ordinary Shares escrowed until 15 February 2017
30,000,000 Performance Shares escrowed until 15 February 2018
70,000,000 Performance Shares escrowed until 15 February 2017

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 2016

	Holder	Total Securities	Percentage (%)
1	Elad Segev	40,000,000	4.35
2	Nativ Segev	40,000,000	4.35
3	Thor's Hammer Limited <Thor's Hammer NZ A/C>	35,000,000	3.81
4	Mr Brett Clifford Lawrence <Arcadia Investment A/C>	30,000,000	3.26
5	Chitta LU Limited	20,000,000	2.18
6	Lancaster Equity Pty Ltd	20,000,000	2.18
7	Exploration Capital Partners 2009 Limited Partnership	15,050,252	1.64
8	Mr Ross Henry Smith <Mohaka Capital A/C>	15,000,000	1.63
9	Citicorp Nominees Pty Limited	8,078,858	0.88
10	Mr Garry Noel Bungey + Mrs Vivienne Alice Nola Bungey <Bungey Super Fund Account>	7,022,728	0.76
11	Fadco Investments Limited	6,772,613	0.74
12	Mr Gregory Peter Wilson	6,440,910	0.70
13	Mr Garry Arnephy	6,199,967	0.67
14	Mr Archibald Geoffrey Loudon	6,187,391	0.67
15	Helmet Nominees Pty Ltd <Tim Weir Family Fund A/C>	5,500,000	0.60
16	Mr Michael Hoay-Chew Lim + Mrs Catherine Mae Lim	5,500,000	0.60
17	Mr Brett Mitchell + Mrs Michelle Mitchell <Mitchell Spring Family A/C>	5,385,972	0.59
18	Jacob's Ladder Investments Pty Ltd	4,979,546	0.54
19	Exploration Capital Partners 2009 Limited Partnership	4,166,667	0.45
20	Mr Brett Mitchell + Mrs Michelle Mitchell <Mitchell Spring Family A/C>	4,072,917	0.44
	Total	285,357,821	31.05

RANGE OF ORDINARY SHARES

Range	Total Holders	Units	% of Issued Capital
1 - 1,000	342	133,330	0.01
1,001 - 5,000	108	271,003	0.03
5,001 - 10,000	420	3,827,593	0.42
10,001 - 100,000	3,337	140,652,825	15.31
100,001 - 9,999,999,999	1,290	774,075,104	84.23
Total	5,497	918,959,855	100.00

SHAREHOLDER INFORMATION

TOP 20 LISTED OPTIONHOLDERS AS AT 6 OCTOBER 2016

	Holder	Total Securities	Percentage (%)
1	HSBC Custody Nominees (Australia) Limited - A/C 3	4,172,940	7.34
2	The Trust Company (Australia) Limited <MOF A/C>	3,787,879	6.67
3	Westbourne Asset Management Pty Ltd <Milarm Family A/C>	1,384,849	2.44
4	Haydos Corporation Pty Ltd	1,366,667	2.41
5	Hirsch Financial Pty Ltd	1,033,334	1.82
6	TKPJ Pty Ltd	1,000,000	1.76
7	Mr Bin Liu	993,340	1.75
8	Magaurite Pty Ltd <Peter Nelson Super Fund A/C>	984,849	1.73
9	Zero Nominees Pty Ltd	890,000	1.57
10	Demasiado Pty Ltd <Demasiado Family A/C>	762,418	1.34
11	DRM Technologies Pty Ltd	758,334	1.33
12	Mr Garry Noel Bungey & Mrs Vivienne Alice Nola Bungey <Bungey Super Fund Account>	757,576	1.33
13	HC Investment Holdings Pty Ltd <The JC A/C>	742,425	1.31
14	Aviemore Capital Pty Ltd	738,661	1.30
15	Conrul Pty Ltd <Pasakos Family A/C>	621,735	1.09
16	MGL Corp Pty Ltd	454,569	0.80
17	Bluemax Investments Pty Limited <Boris Lapcevic Family A/C>	454,546	0.80
18	BNP Paribas Nominees Pty Ltd <Global Prime Omni DRP>	454,546	0.80
19	Bellaire Capital Pty Ltd <Bellaire Capital Invest A/C>	442,425	0.78
20	Helmet Nominees Pty Ltd <Tim Weir Family Fund A/C>	423,334	0.75
	Total	22,224,427	39.12

RANGE OF LISTED OPTIONS

Range	Total Holders	Units	% of Issued Capital
1 - 1,000	1	7	0.00
1,001 - 5,000	0	0	0.00
5,001 - 10,000	2	16,668	0.03
10,001 - 100,000	272	12,792,119	22.51
100,001 - 9,999,999,999	144	44,009,586	77.46
Total	419	56,818,380	100.00

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