



2020

ANNUAL REPORT

CORPORATE DIRECTORY

Directors

Brett Mitchell

Executive Chairman

Nativ Segev

Non-Executive Director

Stephen Parker

Non-Executive Director and
Chairman of the Corporate Governance Committees

Roby Zomer

Managing Director and CEO

Ross Walker

Non-Executive Director

Evan Hayes

Non-Executive Director

Company Secretary

Rachel Kerr

Registered Office and Principal Place of Business

1202 Hay Street
West Perth WA 6005
Tel: +61 8 6382 3390

Solicitors

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

Auditors

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

Securities Exchange Listing

MGC Pharmaceuticals Ltd securities are listed on the Australian Securities Exchange (ASX) and the OTC Pink Market
ASX Code: MXC, OTC: MGCLF

Share Registry

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

Website

www.mgcpharma.com.au

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MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS

Dear shareholders,

I would firstly like to thank you for your unwavering support this year amidst what has been an unprecedented year of challenges and uncertainty for the global economy. The outbreak of COVID-19 and subsequent challenges meant that we had to act quickly, review our operations and respond with the appropriate strategies to ensure there was minimal impact on our operations and commercial progress. These strategies included the implementation of Board and Management salary reductions in March 2020. I am delighted to report the changes implemented have been successful and MGC Pharma remains in a strong position to continue on its commercial growth trajectory.

The 2020 financial year has been one of great achievements for the Company as it focused on executing a pure biopharma strategy of commercialising its proprietary phytocannabinoid derived medicines to patients globally. This agenda has been achieved by a combined focus on clinical trials, R&D and effective commercialization of new product lines that take advantage of immediate market openings.

Notably, we delivered a material increase in product sales which was supported by the launch of a new product line – Mercury Pharma – in Australia and New Zealand. Mercury Pharma is the Company's affordable prescription only product range which now includes seven individual products. The launch of Mercury Pharma products has considerably strengthened the Company's market penetration globally and it has achieved significant and fast-growing market share in Australia. We anticipate market entry into additional major new markets for the Mercury Pharma line in the coming six months.

At the end of FY2020, we prescribed 3,590 units to 1,428 patients representing a 65% increase in the six months to 30 June 2020. This is an excellent achievement and clearly demonstrates the quality of MGC Pharma's products and the rapidly increasing demand for affordable phytocannabinoid derived medicines. As a result, the Company delivered revenues of \$2,079,169 for the financial year, an increase of 216% on the 2019 financial year.

The Company has recently received consecutive record week on week sales and revenue growth through September and October. This is a key operational milestone with MGC Pharma surpassing over 7,000 units sold across key global markets, led by Australia delivering a substantial increase in sales since 30 June 2020.

Our research and development program has also delivered material progress and significant achievements. These successes demonstrate our focus on the biopharma agenda we have adopted, in addition to how effective the company has become at implementing this experience and positioning under difficult conditions. During this year, in the midst of COVID-19 limitation and lockdowns, we commenced a Phase II, placebo controlled clinical trial for the natural anti-inflammatory (non-cannabinoid) plant-based formulation ArtemiC™ on COVID-19 patients. This trial is taking place at multiple medical sites across Israel and India.

Encouraging results from the trial on the first 10 patients were received and show all primary end points were met, and we also received promising results from ArtemiC™'s safety and toxicity pre-clinical study which delivered no adverse results in standard toxicity measures from the full panel of haematology and chemistry blood tests. This followed in-vitro pre-clinical study results which showed effective immunological activity for the use of ArtemiC™ as an immune-modulatory agent for the treatment of COVID-19.

The trial remains on track to complete in October 2020 and has the potential to offer major commercial opportunities for the Company should the full results remain in line with initial results and expectations. The ArtemiC™ trials are a demonstration of a full "Nature to Medicine" agenda embraced by the company, meaning our accrued experience with phytocannabinoid allows us to look at all natural ingredients in a new light, an exciting development for the industry as a whole.

MGC PHARMA HAS RECENTLY SURPASSED 7,000 UNITS SOLD ACROSS KEY GLOBAL MARKETS, A SUBSTANTIAL INCREASE IN SALES SINCE 30 JUNE 2020.

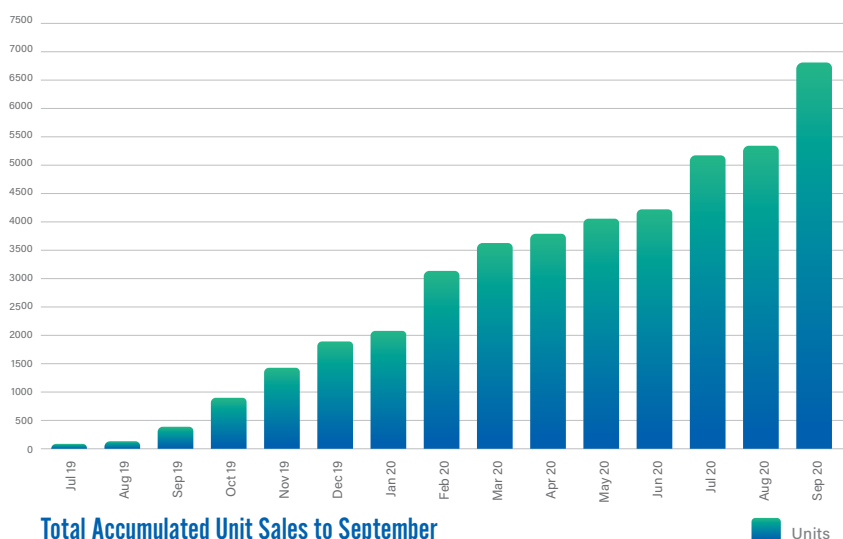


Additionally, excellent progress has been delivered at our ongoing pre-clinical in-vitro research program focused on cannabinoid formulations in the development of treatment for glioblastoma multiforme which is being conducted in collaboration with the National Institute of Biology ('NIB') and the Neurosurgery Department at the University Medical Centre in Ljubljana, Slovenia. Results to date have shown brain tissue samples from a total of 24 patients confirm that the cannabinoid preparations can successfully inhibit tumour cell viability and cause a significant percentage of glioblastoma cells to undergo "programmed cell death". Data from NIB conducted on 14 of the glioblastoma tumour tissue samples, support the direct novel cannabinoid formulations in the treatment of glioblastoma.

This is a great achievement and also demonstrates how versatile and effective our phytocannabinoids are in treating a range of medical conditions. Further, it demonstrates how the company's long term focus on our "Nature to Medicine" strategy will position us to take advantage of this research and development in the future. Glioblastoma is currently viewed as an untreatable cancer, and this research positions MGC Pharma in line with biopharma companies who have spent tens if not hundreds of millions on this indication. Investing in these kinds of activities solidify MGC Pharma's product pipeline for the coming decades, not years.

Some other notable achievements from the year are;

- Multiple strategic distribution agreements were signed across new and existing regions to expand our international and commercial footprint. These include countries such as Brazil, Russia, Israel, the CIS and Balkan counties and support our strategy to expedite commercialisation of products globally.
- Ethics approval received in Israel for a Phase IIb clinical trial to evaluate the safety and efficacy of CannEpi®



- We also received a three-year EU GMP licence granted to MXC cannabinoid medicine production facility in Slovenia following successful regulatory audit, demonstrating high levels of confidence in our standards and reputation with the licensing agency.

With these achievements having been delivered, the Company is now fast approaching its goal of prescribing 5,000 units per month in CYH1 2021 which will achieve cash-flow break even status and take the Company forward into its next phase of growth.

I would like to say that considering the global situation, the various logistical difficulties that took place as a result, the personal toll that COVID-19 took on the MGC Pharma family, spread out as we are all over the world – that I am even more proud of the achievements the hard working and dedicated employees have reached in this most challenging of times. We have ensured a seamless delivery of medications to our patients all over the globe, we have increased our ability to produce and made our systems more efficient, and have prepared ourselves for the impending scale-up ahead, all while remembering to consider the difficulties that many of us are experiencing.

On behalf of the Board and Management of MGC Pharmaceuticals, I would like to thank all of our shareholders for their support this year, especially in light of the global challenges we have faced. The achievements we have delivered this year are extremely encouraging for our commercial development next year and I look forward to updating shareholders on our progress as we continue to grow operationally and commercially.

Yours Sincerely,

R. Zomer

Roby Zomer
Managing Director



FY 20

HIGHLIGHTS

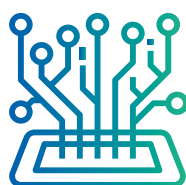
AS AT 30 JUNE 2020

3,590 PRESCRIBED PRODUCTS

1,428 PATIENTS



Three-year EU GMP licence granted to MXC's cannabinoid medicine production facility following successful regulatory audit, confirming MXC's current and future production capacity



Key distribution agreements signed to expand MXC's international footprint and expedite commercialisation of products through next 6-12 months towards 5,000 units/per month for cashflow breakeven status



Launch of a new product line – Mercury Pharma. Mercury Pharma is MGC Pharma's affordable prescription only product range which has considerably strengthened the Company's market penetration globally



Commencement of Phase II placebo controlled clinical trial to evaluate the safety and efficacy of a natural anti-inflammatory based formulation ArtemiC™ on COVID-19 patients, with results from the first 10 patients meeting all primary endpoints

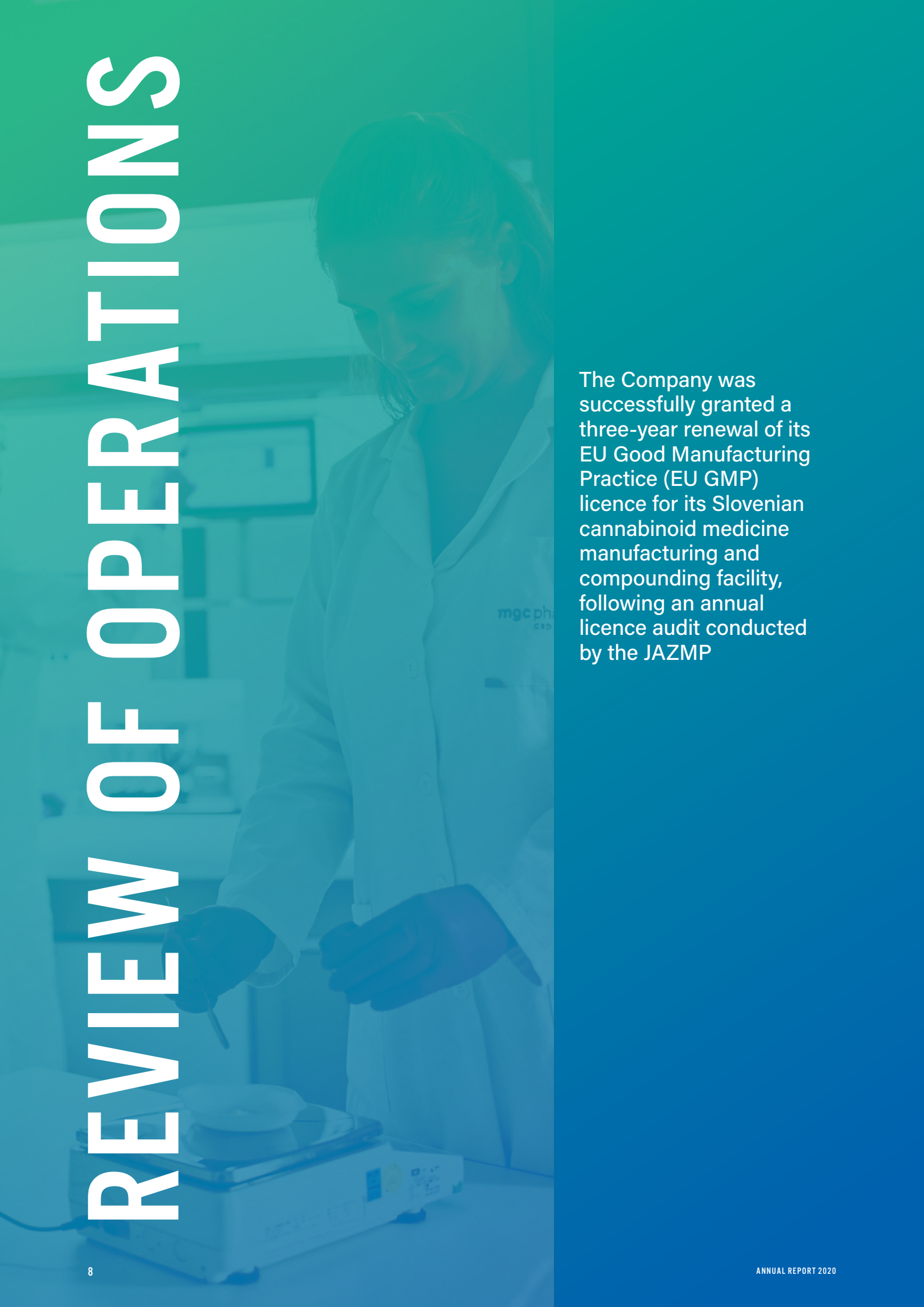


Ethics Committee approval received for a Phase IIb clinical trial to evaluate the safety and efficacy of CannEpil® in Israel



Successful research results of MXC cannabinoid formulation on glioblastoma brain cancer, from ongoing pre-clinical in-vitro research program in Europe

REVIEW OF OPERATIONS



The Company was successfully granted a three-year renewal of its EU Good Manufacturing Practice (EU GMP) licence for its Slovenian cannabinoid medicine manufacturing and compounding facility, following an annual licence audit conducted by the JAZMP



HIGHLIGHTS

Research & development

- Commencement of Phase II placebo-controlled double-blind clinical trial in Israel to evaluate the safety and efficacy of a natural anti-inflammatory based formulation ArtemiC™ on COVID-19 patients, with results post financial year end from the first 10 patients meeting all primary endpoints
- Successful research results continued from the ongoing pre-clinical research program that supports and directs novel cannabinoid formulations in the development of treatment for glioblastoma multiforme
- Ethics committee approval from Schneider Children's Medical Centre of Israel to commence a Phase IIb clinical trial at the Schneider Hospital for MGC Pharma's proprietary epilepsy treatment, CannEpiil®

Pharma operations

- MGC Pharma prescribed 3,590 units to 1,428 patients by the end of June 2020, a 65% increase since January 2020. MXC is now focused on entering new, high growth markets such as Brazil to achieve its target of 5,000 prescribed units per month by CYH1 2021
- Early in 2020 the Company launched Mercury Pharma, a new proprietary affordable prescription medicine line, specifically for the Australian and New Zealand markets and sales to date have been strong with the Company expanding the line to include additional products
- Sales in Australia have started to increase further on the back of the Company's own Import License and controlling its own stock and logistics to market

Licences, approvals and distributions agreements

- The Company has successfully granted a three-year renewal of its EU Good Manufacturing Practice (EU GMP) licence for its Slovenian cannabinoid medicine manufacturing and compounding facility, following an annual licence audit conducted by the JAZMP
- MXC was awarded an Import Licence and a cannabis cultivation research permit from the Australian Office of Drug Control, progressing MXC's Australian operations and supporting its fully vertically integrated nature to medicine business model
- MGC Pharma executed a binding amendment to the supply and distribution agreement with ONIX Empreendimentos e Participações, which established a minimum order volume of 20,000 units for year one and a down payment of ~\$107,000 (€65,000) was received Binding term sheet signed with KS Kim, a wholly owned division of SK-Pharma Group, for the sales and distribution of ArtemiC™ in Russia, Israel, the CIS and Balkan countries



- Binding Term Sheet signed with IM Cannabis Corp. (IMC) for exclusive importation, sale and distribution of CannEpil® in Israel for a period of five years
- Distribution agreement executed with Anden Bio Naturals S.A for the exclusive distribution and commercialisation of its medicines in Peru and Bolivia for five years

Corporate

- In response to the COVID-19 outbreak, the Board implemented salary reductions for directors (up to 60%) and senior management team (up to 30%), combined with material reduction of operational costs including partial cash salary offsets with MXC equity for staff
- Acquisition agreement signed for MXC to spin out 100% of MGC Nutraceuticals to leading US CBD & Hemp Wellness company for US\$6m worth of shares in Onassis, to settle in 2020 (OTC:ONSS)

Subsequent to the financial year end

- MGC Pharma signed a binding term sheet to acquire 100% of Cannvalate's Australian operating doctor to patient clinic-based assets, data and intellectual property of its wholly owned subsidiary Medicinal Cannabis Clinic, a leading Australian medicinal cannabis clinic with a large and existing doctor and patient network
- Distribution agreement signed with leading UK medicinal cannabis provider LYPHE Group Limited and first purchase order received for MXC's Mercury Pharma line products
- Binding term sheet signed to register ArtemiC™ and other MXC formulations in the Russian and CIS markets with Dr. Svetlana Kopachevskaja, a leading Russian doctor and medical researcher through the establishment of a joint venture company
- Evan Hayes appointed as an independent Non-Executive Director to the Board, bringing 20+ years of commercial healthcare and biotechnology experience, including senior executive roles within Blackmores Limited
- Material equity financing agreement signed with Mercer Street to provide up to \$15m in working capital to the Company, with the first tranche of \$2.25m drawn down in September 2020
- Financial Conduct Authority (FCA) in the UK publishes new policy guidance note for assessing applications from cannabis-related companies for listing on the London Stock Exchange (LSE). In full compliance with this new FCA guidance policy MGC Pharma now plans to be one of the first cannabis-related companies listed on the LSE

RESEARCH AND DEVELOPMENT AND CLINICAL TRIALS

The Company reached multiple significant landmarks in its commercial development during the financial year and has delivered on its pharma strategy of working with top-tier research departments, healthcare institutions and doctors to remain a pioneer in the pharma industry. As part of this, MGC Pharma commenced clinical trials and continued an investigative research project. More details of these are below.

ArtemiC™ clinical trial and pre-clinical studies for COVID-19 infected patients

MXC commenced a Phase II double-blind, randomized, placebo controlled clinical trial in Israel to evaluate the safety and efficacy of a natural anti-inflammatory based formulation ArtemiC™ on patients diagnosed with COVID-19. This followed receipt of Ethics Committee approval on the 17th April 2020 for approval of the trial at Nazareth Hospital EMMS in Israel and on 28th of April 2020 at Hillel Yaffe Hospital in Israel.

First patients were recruited in early May and the trial commenced shortly thereafter. In July, the trial received ethics committee approval to be expanded to the Mahatma Gandhi Mission's Medical College & Hospital in India, which has commenced in September. Patient recruitment also commenced at the leading Rambam Academic Hospital in Israel following Ethics Committee approval, with 3 patients enrolled for the Trial in September 2020.

MXC was also selected by the World Health Organisation to participate in a COVID-19 taskforce by reporting on the ArtemiC™ trial.

Subsequent to the financial year end, the Board was pleased to receive the interim results of the trial showing ArtemiC™ met all its primary end points for the safety and efficacy of the treatment on the first 10 patients. The statistically proven results show two important clinical outcomes. Firstly, a significant improvement in clinical parameters of patients in the treatment group and secondly, that no adverse events (AE) occurred, demonstrating the preliminary safety of the treatment based on the initial 10 patients.

Also subsequent to the financial year end, the Company was encouraged by the results from the two pre-clinical study's which included an in-vivo safety and toxicity study on mice and an in-vitro laboratory study. The safety and toxicity pre-clinical study results showed ArtemiC™ delivering no adverse results in standard toxicity measures from the full panel of hematology and chemistry blood tests.

A final report of results from pre-clinical in-vitro laboratory testing clearly supported the claim that ArtemiC™ can modify the function of human immune cells in response to inflammatory stimuli. These findings support the clinical study hypothesis that ArtemiC™ can have a beneficial impact on the malignant "Cytokine Storm" which plays an important role in the clinical deterioration of those severely affected by infection with the COVID-19 virus.



Successful research results for cannabinoid formulation on Glioblastoma – brain cancer

MGC Pharma's ongoing pre-clinical in-vitro research program focused on cannabinoid formulations in the development of treatment for glioblastoma multiforme ('GBM'), the most aggressive and, so far, therapeutically resistant, primary brain tumour has yielded successful results.

The research is being conducted in collaboration with the National Institute of Biology ('NIB') and the Neurosurgery Department at the University Medical Centre in Ljubljana, Slovenia.

Results to date are as follows.

- Brain tissue samples from a total of 24 patients (including the 10 patients reported on in July 2019) confirm that the cannabinoid preparations can successfully inhibit tumour cell viability and cause a significant percentage of glioblastoma cells to undergo "programmed cell death"
- Recent data from NIB, conducted on 14 additional GBM tumour tissue samples, support the direct novel cannabinoid formulations in the treatment of glioblastoma

- Multi compound cannabinoid formulations are more effective than single cannabinoid preparations and importantly are the intellectual property of MGC Pharma

In light of these positive results, the pre-clinical studies will continue in-vitro and this will guide the company in determining the content of cannabinoids and their ratios in its pursuit of the most efficient formula purposed to inhibit the viability of patients-derived glioblastoma cells and/or their stem cells.

Phase IIb Epilepsy trial in Israel

In late May MGC Pharma received ethics committee approval from Schneider Children's Medical Centre of Israel to commence a phase IIb clinical trial at the Schneider Hospital for MXC's proprietary epilepsy treatment, CannEpi[®].

The clinical trial will be a randomised, double blind, placebo controlled, parallel design Phase IIb study to evaluate the safety and efficacy of CannEpi[®] as an add on treatment in children and adolescents with drug resistant epilepsies.

The clinical trial will recruit 103 patients between the ages of one and eighteen years old and will be led by Principal Investigator Dr. Dror Kraus at the Schneider Hospital in Israel. The trial will last for 12 weeks per patient. Recruitment of patients will commence immediately following receipt of the final Israel Ministry of Health approval.



PHARMA OPERATIONS

3,590 prescriptions issued to 1,428 patients

At the end of 30 June 2020, the Company had issued a total of 3,590 prescribed units of its standardised affordable cannabinoid medicines across the UK, Australia, NZ and Brazil, passing its 3,250 milestone in May 2020. This brought the total number of patients prescribed MXC products to 1,428, a 65% increase since the beginning of January 2020.

This represents a significant achievement for MGC Pharma and the Company is ramping up its sales strategy to focus its future sales growth on high volume markets, such as Brazil, to meet its prescriptions targets and issue 5,000 prescriptions per month in CYH1 2021 and become cashflow break-even.

Launch of Mercury Pharma phytocannabinoid products

In January 2020, the Company launched a new proprietary affordable prescription medicine line, specifically aimed at the Australian and New Zealand markets, branded as Mercury Pharma. The first product in this product line was 'Mercury Pharma 100' ('MP100'). MP100, a 100mg/mL CBD solution, which is currently being prescribed by health care professionals in Australia and New Zealand.

Sales of Mercury Pharma product line have been strong to date and the Company is confident in its ability to meet its goal of issuing prescriptions for 5,000 units per month in CYH1 2021.



LICENCES AND DISTRIBUTION AGREEMENTS

Three-year EU GMP licence granted

MXC was successfully granted a three-year renewal of its EU GMP license for its Slovenian manufacturing and compounding facility, following an annual audit conducted by the JAZMP, the government agency of medicinal products and medical devices of the Republic of Slovenia.

The EU GMP licence is the most highly credentialled in the world for compliance and is essential for the production and manufacturing of pharma grade medicinal products.

This provides certainty for the ability of MGC Pharma to continue to research, development and, manufacture its suite of proprietary cannabinoid IMP products from its Slovenian EU GMP production facility for the next 3 years until its next EU GMP audit.

Import licence and cannabis cultivation research permit received

MGC Pharma was awarded a standalone Import Licence and a cannabis cultivation research permit from the Australian Office of Drug Control, progressing MXC's Australian operations and supporting its fully vertically integrated nature to medicine business model.

The receipt of an Import Licence marks a significant step forward for the Company's commercialisation strategy as it allows the importation of any MGC Pharma Schedule 4 and Schedule 8 medicinal cannabis products into Australia directly by the Company, which was previously facilitated by third parties.

This also now allows MXC to bulk import its products directly resulting in significant cost savings to the Company including logistics and handling costs.

The cannabis cultivation research permit enables MXC to proceed with its botanical research projects in collaboration with Royal Melbourne Institute of Technology which includes cultivating and breeding strains in order to test against cancer cells. The botanical research projects are initially focusing on melanoma and prostate cancers.

This approval also allows MXC to register its genetics and research findings in Australia which can be used and leveraged to meet future needs and collaborate with other establishments across Australia to create new genetics and improve the genetics available within the Australian market.

Binding term sheet signed for sales & distribution of ArtemiC™ in Russia, Israel and the CIS & Balkan countries

A binding term sheet was signed with KS Kim, a wholly owned division of SK-Pharma Group, for the sales and distribution of ArtemiC™ in Russia, Israel, the CIS and Balkan countries (the "Territories") once conditions have been met in the clinical trial currently underway, noted in the ASX release 13 May 2020. SK-Pharma operates in more than 19 countries worldwide and is one of the largest distributors of medicines across the Territories.

Extensive market research has commenced through SK-Pharma's network of more than 120 partners, which has already confirmed strong interest for the Product through their established distribution channels. Such sales channels will be activated once the current Phase II clinical trial is completed, and the results are deemed positive by independent analysis.



New ONIX Supply Agreement and Receipt of Down Payment

At the beginning of March 2020, MGC Pharma executed a binding amendment to the supply and distribution agreement with ONIX Empreendimentos e Participações, which established a minimum order volume of 20,000 units for year one. A down payment of ~\$107,000 (€65,000) was received as part payment for the first purchase order of 4,000 units, which has a total value of ~\$330,000. The minimum order volume will increase to 50,000 units per annum from year two onwards, carrying an estimated value of at least \$4.1 million (€2.5 million) per annum. The agreement has a minimum seven-year term, which may be renewed for an additional five-year term by mutual agreement.

ONIX will purchase a bulk order of a combination of MGC Pharma's pharmaceutical grade products including CannEpil®, CogniCann® and products including MP100 from Mercury Pharma line, which is now to be produced under EU GMP guidelines, to enable distribution in key European and South American markets.

Other Mercury Pharma products to be provided under the agreement will include MP1:30, MP1:1, MP7:1, MP15:1 ratios and Mercury Pharma Wide Spectrum line dedicated for the Brazilian market.

Expansion into Peru and Bolivia

MGC Pharma signed a distribution agreement with Anden Bio Naturals S.A ('Anden') for the exclusive distribution and commercialisation of its medicines in Peru and Bolivia for five years.

Relevant in-country approvals to commence import of MGC Products under the Agreement were obtained in March 2020. Under the agreement MGC Pharma will also produce a white label nutraceutical product for Anden to exclusively commercialise in Peru and Bolivia, provided it will not compete with MGC Pharma brands.

This Agreement helps to solidify MGC Pharma's footprint in Latin America.

Term Sheet executed for CannEpil® into Israel

MGC Pharma signed a binding term sheet with IM Cannabis Corp. ('IMC'), one of the leading cannabis companies in Israel with operations in Europe, for the exclusive wholesale import, sales and distribution of CannEpil® in Israel. IMC will also import CannEpil® for the phase IIb clinical trial due to commence in Q4 2020 following Ministry of Health final approvals.

CORPORATE

Response to COVID-19

The Company took prompt action in early March to protect the health and welfare of its staff in light of the COVID-19 outbreak, whilst managing the significant challenge to continue production of phytocannabinoid medicines at its Slovenian EU GMP manufacturing facility. The Company's actions ensured that the production and supply of its cannabinoid-based medicines continued despite disruptions encountered to the supply of raw materials, export permit approvals and delivery of product caused by border and operating restrictions imposed in Europe with the COVID-19 lockdowns.

Further to the corporate cost saving measures implemented earlier in the year due to the COVID-19 outbreak, the Board agreed from 1 March 2020 to implement remuneration reductions, with minimum 50% salary cuts for all Directors. Effective 1 July 2020, the Company formally revised remuneration agreements with its directors and signed new director agreements which include a salary decrease of up to 60% for the 2021 financial year, with senior management remuneration has also decreased by up to 30%. Additionally, there is no longer a termination payment due to directors Brett Mitchell, Roby Zomer and Nativ Segev as detailed in their original service agreements, as was referenced in the ASX announcement of 15 April 2020.

Sale of MGC Nutraceuticals to US CBD and Hemp Wellness company

MXC signed a binding acquisition agreement to sell 100% of its MGC Nutraceuticals subsidiary to US listed Onassis Holdings Corp (OTC:ONSS) along with an exclusive CBD and raw materials supply agreement.

Under the terms of the agreement, MXC will receive shares equating to a value of US\$6 million in Onassis Holdings Corp as consideration for the 100% sale of the MGC Nutraceutical business.

As part of the sale, the Company secures an exclusive supply agreement for the provision of MXC's CBD, raw materials and proprietary production intellectual property (IP) to Onassis for the future manufacturing and production of nutraceuticals products. Settlement of the transaction is expected by CYQ4 2020, to occur upon the completion of a successful US\$8m capital raising by Onassis on the OTC market in the USA.



POST FINANCIAL YEAR END

Binding term sheet for the acquisition of Medicinal Cannabis Clinics

MGC Pharma also signed a binding term sheet with Cannvalate Pty Ltd to acquire 100% of the operating clinic-based assets, data and intellectual property of its wholly owned subsidiary Medicinal Cannabis Clinic (MCC). MCC is a leading Australian medicinal cannabis clinic with a large and existing doctor and patient network. MXC's acquisition of MCC's assets, along with its import and distribution capability will reduce supply chain costs which will in turn lead to increasingly more affordable, high-quality cannabinoid medications for an expanding patient base across Australia. Settlement of the acquisition is expected during October 2020.

Distribution agreement signed with leading UK medicinal cannabis provider

MGC Pharma also signed a distribution agreement for its EU GMP cannabinoid medicines with leading United Kingdom medical cannabis provider, LYPHE Group Limited which provides MGC Pharma direct access to LYPHE's established distribution channels into the growing UK market for medical cannabis products.

Under the terms of the agreement, LYPHE will prescribe and dispense Mercury Pharma medicinal cannabis products under LYPHE labels, to patients at its clinics, while reporting real-world anonymised data investigating efficacy, safety, quality of life, and patient-reported outcomes to MGC Pharma.

Joint venture for registration of ArtemiC™ and generic oncology medicines in Russia

MXC signed a term sheet to partner with Dr Svetlana Kopachevskaja, and key associated investment partners to establish a joint venture company to register ArtemiC™ as a medicine in Russia and register 15 MGC Pharma formulations and generic oncology medicines for the Russian market.

The joint venture company will be 70% owned by MGC Pharma and 30% owned by Dr Svetlana Kopachevskaja, and key associated investment partners.

Russia represents a key market of strategic growth for MGC Pharma and ArtemiC™ as it has recorded over 960,000 cases of COVID-19 to date, the fourth highest country globally, and is still recording significantly high COVID-19 infection rates.

Strategic biopharma industry appointments to strengthen Board and senior management team

To ensure the Company meets its pharma objectives over the coming financial year it strengthened its Board and leadership team with biopharma industry expertise with the appointment of Evan Hayes as an Independent Non-Executive Director and Strategic Advisor.

Evan Hayes is a highly experienced Board member and brings over 20+ commercial and leadership experience within the healthcare and biotechnology sectors. Mr Hayes is currently the Asia Pacific Managing Director of Factors Group, Canada's largest natural health company. Prior to this Mr Hayes was the Director of Sourcing and Product Development at Australia's largest natural health company, Blackmores, leading the Procurement, Technical, New product development, and Strategic sourcing divisions and managed a budget of \$250m.



Sabina Suljaković was appointed as Qualified Person and Head of the Quality Assurance in Slovenia. Sabina previously managed the product quality division at PharmaSwiss and Amir Polak was appointed as Chief Technology Officer and Head of Pharmaceutical Production, Amir was previously head of chemical production at Nano-Dimension, and project co-ordinator for Teva Pharmaceuticals.

Agreement for equity funding of up to \$15m signed with US based strategic investor

MGC Pharma entered into a material equity financing agreement with Mercer Street Global Opportunity Fund LLC, a United States based investment group, to provide the Company with funding of up to a total of \$15m. The first tranche of \$2.25 million has been provided to the Company and under the financing facility, the Company may request additional drawdowns of up to a further \$12.75 million over the next 12 months (refer ASX release 10 September 2020).

FCA Policy Guidance on Listing of Cannabis-related businesses in the UK

On 18 September 2020, the Financial Conduct Authority (FCA) in the United Kingdom (UK) published a policy guidance note for assessing applications from cannabis-related companies for listing on the London Stock Exchange (LSE). MGC Pharma's LSE listing status has been pending approval following lodgement of the Company's prospectus, legal opinions and listing documents in December 2019, this new guidance has now paved the way for MGC's LSE listing application to proceed. The Company has already commenced updating lodgement documents for submission and the Company's UK advisors are confident MGC Pharma meets the requirements for LSE listing.



A woman with glasses and a white lab coat is working in a laboratory. She is holding a small, dark-colored container or vial. The background is a blurred laboratory setting. The entire image is overlaid with a blue gradient.

DIRECTORS' REPORT

DIRECTORS'

REPORT

The Directors present their report on MGC Pharmaceuticals Limited ("the Company" or "the Parent") and its controlled entities (collectively, "the Group" or "MGC Pharma") for the financial year ended 30 June 2020.

Directors

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

Director	Title	Appointment Date	Resignation Date
Brett Mitchell	Executive Chairman	4 April 2013	-
Roby Zomer	Managing Director & CEO	15 February 2016	-
Nativ Segev	Non-Executive Director	15 February 2016	-
Ross Walker	Non-Executive Director	15 February 2016	-
Stephen Parker	Non-Executive Director	13 March 2019	-
Evan Hayes	Non-Executive Director	1 September 2020	-

Directors were in office for the entire year and up to the date of this report unless otherwise indicated.

Company Secretary

Rachel Kerr held the position of Company Secretary for the full financial year.

Principal Activities

MGC Pharmaceuticals Ltd (ASX: MXC) is a European based bio-pharma company developing and supplying affordable standardised phytocannabinoid derived medicines to patients globally. The Company's founders were key figures in the global medical cannabis industry and the core business strategy is to develop and supply high quality phytocannabinoid derived medicines for the growing demand in the medical markets globally. MGC Pharma has a robust product offering targeting two widespread medical conditions – epilepsy and dementia – and has further products in the development pipeline.

Employing its 'Nature to Medicine' strategy, MGC Pharma has partnered with renowned institutions and academia to optimise cultivation and the development of targeted phytocannabinoid derived medicines products prior to production in the Company's EU-GMP Certified manufacturing facility.

MGC Pharma has a number of research collaborations with world renowned academic institutions, and including recent research highlighting the positive impact of using specific phytocannabinoid formulations developed by MGC Pharma in the treatment of glioblastoma, the most aggressive and, so far, therapeutically resistant primary brain tumour. MGC Pharma has a growing patient base in Australia, the UK, Brazil and Ireland and has a global distribution footprint via an extensive network of commercial partners meaning that it is poised to supply the global market.

Operating Results

The consolidated loss of the Group from continued operations amounted to \$18,769,799 (2019 (Restated): \$11,053,913).

Dividends Paid or Recommended

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

Significant Changes in State of Affairs

In the opinion of the directors, there have been no significant changes to the state of affairs of the Group during the year other than those disclosed elsewhere in the financial report or the notes thereto.

After Reporting Date Events (other than noted in the Review of Operations)

Date	Event
14 July 2020	MXC Cannabis Research Permit Granted for RMIT Programs The Permit enables MXC to proceed with its botanical research projects in collaboration with Royal Melbourne Institute of Technology (RMIT University) including cultivation and genetics
25 August 2020	JV to be Established for Registration of ArtemiC™ In Russia Term sheet signed to partner with Dr Svetlana Kopachevskaja, and key associated investment partners to establish a JV company to facilitate registration of ArtemiC™ as a medicine in Russia, and register 15 MGC Pharma formulations and generic oncology medicines for the Russian market.
14 September 2020	MXC Well Positioned for TGA Down-Schedule of CBD Products TGA has recently confirmed its intention to down-schedule certain low-dose medicinal cannabidiol (CBD) products from Schedule 4 to Schedule 3 status. MGC Pharma is uniquely positioned to benefit from the proposed changes through its existing EU production facilities, increasing market penetration, and clinical programs.

Environmental Regulations and Performance

The Group's operations are subject to various environmental laws and regulations under the relevant Governments' legislation. Full compliance with these laws and regulations is regarded as a minimum standard for all operations to achieve. There have been no significant known breaches by the Group during the financial year.

Future Developments, Prospects and Business Strategies

The Company will continue to pursue its policy of enhancing the prospect of greater returns to its investors through further strategic investments during the next financial year. Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report, because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Information on Directors and Secretary

Names, special responsibilities, qualifications and experience of current directors and company secretaries:

Brett Mitchell, B.Ec - Executive Chairman

Mr Mitchell is a corporate finance executive with over 25 years of experience in the venture capital, capital markets, tech and resources industries. He has been involved in the founding, financing and management of both private and publicly-listed companies, including the second listed medical cannabis company on the ASX – MGC Pharmaceuticals Ltd (MXC).

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

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

Mr Brett Mitchell and Mrs Michelle Mitchell <Mitchell Spring Family A/C> (jointly controlled)

22,264,444 Ordinary Shares

3,750,000 Performance Rights

277,777 Listed Options exercisable at \$0.045 expiring 31 August 2021

Mr Brett and Mrs Michelle Mitchell <Lefthanders Super Fund A/C> (jointly controlled)

8,140,560 Ordinary Shares

3,750,000 Performance Rights

277,777 Listed Options exercisable at \$0.045 expiring 31 August 2021

Chieftain Securities Pty Ltd (Mr Mitchell is a Director and holds a 33% shareholding)

5,000,000 unlisted options exercisable at \$0.15 each expiring 30 June 2021

1,500,000 unlisted options exercisable at \$0.05 expiring 31 August 2023

1,500,000 unlisted options exercisable at \$0.06 expiring 31 August 2023

1,500,000 unlisted options exercisable at \$0.07 expiring 31 August 2023

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

TNT Mines Limited (27 June 2017 – current)

Sky and Space Global Ltd (12 May 2016 – 31 October 2018)

Roby Zomer – Managing Director and CEO

Mr. Zomer was recruited into MGC by its founders at the inception of the company, and has since served in multiple roles in the company, culminating with his current role as MD and CEO. With ten years of experience in large scale projects in the Biotech and Agrotech sectors, Mr. Zomer has been crucial in moving MGC from a cannabis concept to a fully functioning biopharma company with global activities. This was part of the vision that has allowed MGC to launch, and divest itself of, both a Cannabis Cosmetic company (MGC Derma) and a Lifestyle Company (MGC Nutra), which were both crucial building blocks to centralizing the company's pharma vision and activities.

Over the past year, Mr Zomer has been crucial to solidifying the company's standing as a leading provider of phytomedicines in several regions globally, has successfully launched a product, ArtemiC™, which is from initial results proving an effective treatment against symptoms of COVID-19, backed by ongoing clinical trials. Additionally, he has put his engineering and medical background into play, and has put a significant emphasis on the company's research and development activities, leading to possibilities of distribution and collaboration in several compelling markets around the globe.

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

Chitta Lu Limited (an entity controlled by Mr Zomer)

3,000,001 Ordinary Shares

7,500,000 Performance Rights

HSBC Custody Nominees (Australia) Limited (shares held via custodial account)

30,000,000 Ordinary Shares

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

Nil.

Nativ Segev – Non-Executive Director

Mr Segev founded MGC Pharma in 2014 with a goal to expand into international markets and raise the quality of medicinal phytocannabinoid products, in addition to making them accessible to patients all over the world. Prior to establishing MGC Pharma, Mr. Segev was a leader in the Medical Cannabis industry with a sizeable patient-base.

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

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

Nativ Segev

1 Ordinary Share

Bright Global Limited (an entity controlled by Mr Segev)

500,000 Ordinary Shares

HSBC Custody Nominees (Australia) Limited (shares held via custodial account)

52,500,000 Ordinary Shares

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

Nil.

Dr Ross Walker, MBBS (Hons), FRACP, FCSANZ - Non-Executive Director and Chairman of Strategic Advisory Board

Dr Ross Walker is an eminent practicing cardiologist with over 35 years' experience as a clinician. For the past 20 years, he has been focusing on preventative cardiology and is one of Australia's leading preventative health experts.

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

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

4,370,370 Ordinary Shares

185,185 Listed Options exercisable at \$0.045 expiring 31 August 2021

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

Nil.

Dr Stephen Parker, D.Phil, MBA – Non-Executive Director and Chairman of the Corporate Governance Committees

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

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

Nil.

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

Nil.

Evan Hayes, MSC Biotech, BSC BioChem, NICM Adjunct Fellow, GAICD, MASM – Non-Executive Director

Evan Hayes is a highly experienced Board member and brings over 20+ commercial and leadership experience within the healthcare and biotechnology sectors. Mr Hayes graduated with a Master of Science 1st Class Honours (Biotechnology) from the National University of Ireland, Galway and prior to this he finished first in his class from the National University of Ireland, Cork with a Bachelor of Science degree (Honours). Mr Hayes' has also won the Daniel O'Carroll Award for Scientific Research.

Mr Hayes is currently the Asia Pacific Managing Director of Factors Group, Canada's largest natural health company. Prior to this Mr Hayes was the Director of Sourcing and Product development at Australia's largest natural health company, Blackmores, leading the Procurement, Technical, New product development, and Strategic sourcing divisions and managed a budget of \$250m. Evan has served on multiple boards, worked in Europe the USA and in Australia evidenced by his strong knowledge of both the FDA and the TGA. Mr Hayes is an author of multiple patents including one world patent.

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

Nil.

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

Nil.

Rachel Kerr – Company Secretary

Mrs Kerr has over 10 years' experience as a Company Secretary on both private and public companies, managing a number of acquisitions, capital raisings, IPO's, due diligence reviews and the compliance of public companies.

REMUNERATION REPORT (AUDITED)

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

Remuneration Policy

The remuneration policy of MGC Pharmaceuticals Ltd has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board of MGC Pharmaceuticals Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

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

- The remuneration policy, setting the terms and conditions for the key management personnel, was developed and approved by the Board.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The Board reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel are also entitled to participate in the employee share and option arrangements.

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

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

Performance-based Remuneration

As part of each member of the key management personnel's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between key management personnel with that of the business and shareholders. The KPIs are set, 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, where relevant, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

Company Performance, Shareholder Wealth and Director and Executive Remuneration

Overview of Company Performance

The table below sets out information about MGC Pharmaceuticals Ltd's earnings and movements in shareholder wealth for the past five years up to and including the current financial year.

	30 June 2020	30 June 2019 (restated)	30 June 2018 (restated)*	30 June 2017 (restated)*	30 June 2016 (restated)*
Net loss after tax (\$)	(19,370,226)	(8,623,856)	(7,089,432)	(7,212,025)	(4,450,063)
Share price at year end (\$)	0.02	0.052	0.066	0.046	0.044
Basic loss per share (cents)	(1.40)	(0.71)	(0.56)	(0.71)	(0.74)
Dividends paid	-	-	-	-	-

*The net loss after tax and basic loss per share presented for each period prior to 30 June 2020 have been restated as a result of the correction of the prior period error disclosed in Note 4 to the financial statements.

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. Subsequent to year end, these agreements have been replaced effective 1 July 2020 (the terms of the new agreements are summarised from page 27).

Material terms of agreements in place during the financial year:

Brett Mitchell, Executive Chairman

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

Addendum to Services Agreement with Sibella Capital Pty Ltd, an entity controlled by Mr Mitchell valid from 1 January 2019 to 30 June 2020

- MGC Pharmaceuticals Ltd executive services agreement. This agreement continues for 3 years unless terminated prior and will thereafter automatically renew every 12 months;
 - Fees reduced to \$20,000 per month. From 1 March -30 June 2020 fees were decreased by 50% to \$10,000 per month; An additional benefit of \$60,000 in cash plus 2,500,000 performance rights (subject to shareholder approval) per achievement, based on share performance and operational milestones are as follows:
 - GMP approval for Malta facility
 - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2019
 - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2020 and achieving share value of minimum of 8c for a minimum of 10 consecutive trading days
 - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2021 and achieving share value of minimum of 10c for a minimum of 10 consecutive trading days
- A termination fee is payable and is dependent upon the Company terminating the services contract at its election, unless terminated by a just cause, and the payment would be €800,000

Roby Zomer, CEO & Managing Director

- MGC Pharma (UK) Ltd Non-Executive Director agreement commenced 30 June 2016; no termination date or payment on termination;
 - Fees of £910 per month
- MGC Pharmaceuticals d.o.o director agreement commenced 1 July 2018; no termination date or payment on termination;
 - Fees of €1,000 per month

Addendum to Services Agreement with Chitta Lu Limited, an entity controlled by Mr Zomer, valid from 1 January 2019 to 30 June 2020

- MGC Pharmaceuticals Ltd executive services agreement. This agreement continues for 3 years unless terminated prior and will thereafter automatically renew every 12 months;
 - Fees of \$25,000 per month. From 1 March - 30 June 2020 fees were decreased by 50% to \$12,500 per month; An additional benefit of \$60,000 in cash plus 2,500,000 performance rights (subject to shareholder approval) per achievement, based on share performance and operational milestones are as follows:
 - GMP approval for Malta facility
 - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2019
 - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2020 and achieving share value of minimum of 8c for a minimum of 10 consecutive trading days
 - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2021 and achieving share value of minimum of 10c for a minimum of 10 consecutive trading days
 - A termination fee is payable and is dependent upon the Company terminating the services contract at its election, unless terminated by a just cause, and the payment would be €800,000

Nativ Segev, Non-Executive Director

- MGC Pharma (UK) Ltd Non-Executive Director agreement commenced 30 June 2016; no termination date or payment on termination;
 - Fees of £910 per month
- MGC Pharmaceuticals d.o.o Director agreement commenced 1 July 2016; no termination date or payment on termination;
 - Fees of €1,000 per month

Addendum to Services Agreement with Bright Global Limited, an entity controlled by Mr Segev, valid from 1 January 2019 to 30 June 2020

- MGC Pharmaceuticals Ltd executive services agreement. This agreement continues for 3 years unless terminated prior and will thereafter automatically renew every 12 months;
 - Fees reduced to \$20,000 per month. From 1 March - 30 June 2020 fees were decreased by 50% to \$10,000 per month; An additional benefit of \$60,000 in cash plus 2,500,000 performance rights (subject to shareholder approval) per achievement, based on share performance and operational milestones are as follows:
 - GMP approval for Malta facility
 - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2019
 - Construction of Malta facility Completed
 - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2020 and achieving share value of minimum of 8c for a minimum of 10 consecutive trading days
 - Holding a Director position on the Board of MGC Pharmaceuticals Ltd by 31 December 2021 and achieving share value of minimum of 10c for a minimum of 10 consecutive trading days
 - A termination fee is payable and is dependent upon the Company terminating the services contract at its election, unless terminated by a just cause, and the payment would be €800,000

Dr Ross Walker, Non-Executive Director valid from 20 October 2015 to 30 June 2020

- MGC Pharmaceuticals Ltd Director Letter of Appointment was implemented on 20 October 2015, no termination date and no payment upon termination;
 - Non-Executive Director fees of \$3,000 per month and fees for Chairman of Strategic Advisory Board of \$2,000 per month. From 1 March - 30 June 2020 fees were decreased to a total of \$3,000 per month.

Dr Stephen Parker, Non-Executive Director valid from 13 March 2019 to 30 June 2020

- MGC Pharmaceuticals Ltd Director Letter of Appointment was implemented on 13 March 2019, no termination date and no payment upon termination;
 - Non-Executive Director fees of \$5,000 per month. From 1 March - 30 June 2020 fees were decreased to a total of \$3,000 per month.

Material terms of current agreements in place with Directors effective from 1 July 2020:

Mr Brett Mitchell, Executive Chairman - Current Director Agreement

- Director Agreement dated 1 July 2020, no termination date or payment on termination;
 - Standard director fee of \$4,000 per month
- MGC Pharma (UK) Ltd Non-Executive Director agreement commenced 30 June 2016; no termination date or payment on termination;
 - Fees of £910 per month

Service Agreement with Sibella Capital Pty Ltd, an entity controlled by Mr Mitchell, valid from 1 July 2020 to current

- MGC Pharmaceuticals Ltd executive services agreement this automatically renews every 12 months unless terminated;
 - Fees reduced to \$12,000 per month with no termination fee payable

Mr Roby Zomer, CEO & Managing Director - Current Director Agreement

- Director Agreement dated 1 July 2020, no termination date or payment on termination;
 - Standard director fee of \$4,000 per month
- MGC Pharmaceuticals d.o.o director agreement commenced 1 July 2018; no termination date or payment on termination;
 - Fees of €1,000 per month
- MGC Pharma (UK) Ltd Non-Executive Director agreement commenced 30 June 2016; no termination date or payment on termination;
 - Fees of £910 per month

Services Agreement with Chitta Lu Limited, an entity controlled by Mr Zomer, valid from 1 July 2020 to current

- MGC Pharmaceuticals Ltd executive services agreement this automatically renews every 12 months unless terminated;
 - Fees reduced to \$12,500 per month with no termination fee payable

Mr Nativ Segev, Non-Executive Director - Current Director Agreement

- Director Agreement dated 1 July 2020, no termination date or payment on termination;
 - Standard director fee of \$4,000 per month

Services Agreement with Bright Global Limited, an entity controlled by Mr Segev, valid from 1 July 2020 to current

- MGC Pharmaceuticals Ltd services agreement this automatically renews every 12 months unless terminated;
 - Fees reduced to \$5,000 per month
 - No termination fee payable

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

- Director Agreement dated 1 July 2020, no termination date or payment on termination;
 - Non-Executive Director fees of \$4,000 per month

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

- Director Agreement dated 1 July 2020, no termination date or payment on termination;
 - Non-Executive Director fees of \$4,000 per month plus \$1,000 per annum as Chairman of the Corporate Governance Committees

Dr Evan Hayes, Non-Executive Director

- Director Agreement dated 1 September 2020, no termination date or payment on termination;
 - Non-Executive Director fees of \$4,000 per month

DETAILS OF REMUNERATION

Key Management Personnel Remuneration

Directors	Cash					Non-Cash			Performance related %
	Short-term Benefits			Post-employment benefits		Equity	Share based Payments	Total	
	Cash and salary	Performance Bonus	Other	Super-annuation	Termination benefits				
2020									
Brett Mitchell	230,532	30,000 ⁱ	-	-	-	-	91,456 ⁱ	351,988	22.43%
Roby Zomer	290,319	30,000 ⁱ	28,211 ⁱⁱ	-	-	-	91,456 ⁱ	439,986	17.95%
Nativ Segev	240,319	30,000 ⁱ	53,722 ⁱⁱ	-	-	-	(58,521) ⁱ	265,520	5.26%
Ross Walker	52,000	-	-	-	-	-	-	52,000	-
Stephen Parker	60,608	-	-	-	-	-	-	60,608	-
Total	873,778	90,000	81,933	-	-	-	124,391	1,170,102	
2019									
Brett Mitchell	289,765	30,000*	-	-	-	-	58,521*	378,286	19.17%
Roby Zomer	329,838	30,000*	76,571	-	-	-	58,521*	494,930	14.65%
Nativ Segev	321,181	30,000*	72,360	-	-	-	58,521*	482,062	15.04%
Ross Walker	60,000	-	-	-	-	-	-	60,000	-
Stephen Parker	18,213	-	1,845	-	-	-	-	20,058	-
Total	1,018,997	90,000*	150,776	-	-	-	175,563*	1,435,336	

All Directors have contracts with the Company.

ⁱ Refer to Share-based and other performance based compensation section below for detail.

ⁱⁱ "Other" includes expat expenses in Malta and Slovenia.

* Restated, due to the omission of accrued expenses for the performance bonuses and share-based payments in the prior period, for which the service period commenced 1 January 2019.

Option Holdings of Key Management Personnel

Directors	Granted as Compensation	Opening Balance	Options Exercised	Net Other Changes	Closing Balance (vested and exercisable)
2020					
Brett Mitchell	5,000,000	-	-	4,500,000	9,500,000 ⁱ
Roby Zomer	-	-	-	-	-
Nativ Segev	-	-	-	-	-
Ross Walker	-	-	-	-	-
Stephen Parker	-	-	-	-	-
Total	5,000,000	-	-	4,500,000	9,500,000
2019					
Brett Mitchell	5,000,000	-	-	-	5,000,000 ⁱ
Roby Zomer	-	-	-	-	-
Nativ Segev	-	-	-	-	-
Ross Walker	-	-	-	-	-
Stephen Parker	-	-	-	-	-
Total	5,000,000	-	-	-	5,000,000

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

Performance Shares held by Key Management Personnel

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

Directors	Opening Balance	Granted as Compensation	Performance Shares Exercised	Net Other Changes	Closing Balance
2020					
Brett Mitchell	-	-	-	-	-
Roby Zomer	-	-	-	-	-
Nativ Segev	-	-	-	-	-
Ross Walker	-	-	-	-	-
Stephen Parker	-	-	-	-	-
Total	-	-	-	-	-
2019					
Brett Mitchell	-	-	-	-	-
Roby Zomer	10,000,000	-	-	(10,000,000)	-
Nativ Segev	20,000,000	-	-	(20,000,000)	-
Ross Walker	-	-	-	-	-
Stephen Parker	-	-	-	-	-
Total	30,000,000	-	-	(30,000,000)ⁱ	-

ⁱ Performance Shares granted on 27 September 2016 expired due to not meeting the performance milestone

Performance Rights held by Key Management Personnel

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

Directors	Opening Balance	Granted as Compensation	Performance Rights Exercised	Net Other Changes	Closing Balance
2020					
Brett Mitchell	-	10,000,000 ⁱ	-	-	10,000,000 ⁱⁱ
Roby Zomer	-	10,000,000 ⁱ	-	-	10,000,000 ⁱⁱ
Nativ Segev	-	-	-	-	-
Ross Walker	-	-	-	-	-
Stephen Parker	-	-	-	-	-
Total	-	20,000,000	-	-	20,000,000
2019					
Brett Mitchell	10,000,000	-	10,000,000	-	-
Roby Zomer	-	-	-	-	-
Nativ Segev	-	-	-	-	-
Ross Walker	-	-	-	-	-
Stephen Parker	-	-	-	-	-
Total	10,000,000	-	10,000,000	-	-

ⁱ Refer to "Share-based and other performance-based compensation" section below for details of rights granted and vested during the period.

ⁱⁱ 2,500,000 vested and exercisable; 7,500,000 unvested at balance date per director.

Shareholdings of Key Management Personnel

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by KMP and their parties are as follows:

Shareholdings

Directors	Opening Balance	Granted as Compensation	Performance Rights Exercised	Net Other Changes ¹	Closing Balance
2020					
Brett Mitchell	26,793,894	-	-	1,111,110	27,905,004
Roby Zomer	30,500,001	-	-	-	30,500,001
Nativ Segev	53,000,001	-	-	-	53,000,001
Ross Walker	4,000,000	-	-	370,370	4,370,370
Stephen Parker	-	-	-	-	-
Total	114,293,896	-	-	1,481,480	115,775,376
2019					
Brett Mitchell	16,193,894	-	10,000,000	600,000	26,793,894
Roby Zomer	30,000,000	-	-	500,001	30,500,001
Nativ Segev	52,500,000	-	-	500,001	53,000,001
Ross Walker	4,000,000	-	-	-	4,000,000
Stephen Parker	-	-	-	-	-
Total	102,693,894	-	10,000,000	1,600,002	114,293,896

¹ Net other changes are as a result of rights allotted as part of the Share Purchase Plan issue and other movement due to changes in directors and directors' related entities.

Share-based and other performance-based compensation

Performance rights

On 23 December 2019, the Company issued performance rights to two Directors, Brett Mitchell (10m) and Roby Zomer (10m), following approval at its AGM on 29 November 2019 (the grant date), with the following key terms and conditions:

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

The performance conditions were chosen to best align with the Company's strategic goals and objectives to enhance shareholder value. There was no performance condition associated with Milestone 2. The grant of the performance rights, including those without performance conditions, is considered by the Company to be a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to the Related Parties.

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

	Milestone 3	Milestone 4
Valuation date	29 Nov 19	29 Nov 19
Share price	\$0.0340	\$0.0340
Exercise price	Nil	Nil
Vesting date	N/A	N/A
Expiry date	31 Dec 20	31 Dec 21
Expected future volatility	70%	70%
Risk free rate	0.68%	0.68%
Vesting hurdle	\$0.08	\$0.10
Dividend yield	nil	nil
Value per right	\$0.00848	\$0.01213

A total of 5,000,000 performance rights (25%) vested during the period (2,500,000 each for Brett Mitchell and Roby Zomer, respectively) upon achievement of Milestone 2. The remaining 15,000,000 total performance rights remained on issue but unvested at 30 June 2020. The vesting expense in relation to the rights was recognised from the commencement of the service period (1 January 2019), which was prior to the grant date. The maximum potential amount to be recognised in future periods in relation to the unvested rights is \$143,095 in total.

The performance rights proposed to be issued to Nativ Segev under the terms of his contract were not issued as the issue was not approved by shareholders at the Company's AGM. The estimated vesting expense recognised from the commencement of the service period (1 January 2019) to 30 June 2019 was therefore reversed in full in the current period.

Performance bonuses

Upon achievement of Milestone 2 during the period, cash bonuses of \$60,000 each vested and were paid to Brett Mitchell, Roby Zomer and Nativ Segev under the terms of their contracts. The vesting expense for these bonuses was recognised over the service period from 1 January 2019 to the vesting date on 31 December 2019. Under the revised director agreements effective 1 July 2020 (described above) there is no further entitlement to performance bonuses under the remaining milestones.

Options

There were no options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019 or 30 June 2020.

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 non-remuneration related transactions including amounts receivable and payable at the end of the year are as follows:

Related Party	Relationship	Nature of transactions	Transactions		Balances (owing to)/ owed by	
			Full Year 30-Jun-20	Full Year 30-Jun-19	Full Year 30-Jun-20	Full Year 30-Jun-19
			\$	\$	\$	\$
Brighgt Global Ltd (Brighgt)	(i)	Reimbursement from Brighgt for corporate administration costs	-	5,702	-	-
Chieftain Securities Pty Ltd (Chieftain)	(ii)	Charges from Chieftain for corporate advisory fees	60,000	61,748	(5,500)	-
Chieftain Securities Pty Ltd (Chieftain)	(ii)	Charges from Chieftain for capital raising costs	116,594	-	-	-
Chitta Lu Ltd (Chitta Lu)	(iii)	Reimbursement from Chitta Lu for corporate administration costs	-	1,010	-	-
Sibella Capital Pty Ltd (Sibella)	(iv)	Reimbursement from Sibella for corporate administration costs	388	14	-	-
Graft Polymer d.o.o (GPO)	(v)	Services charges from / (recharges to) GPO for development for MGC proprietary drug delivery technology	510,859	(27,114)	40,000	33,079
TNT Mines Ltd (TNT)	(vi)	(Re-charges) to TNT for corporate administration costs	-	(5,320)	-	-

- i. Brighgt Global Ltd is an entity controlled by Mr Nativ Segev.
- ii. Mr Brett Mitchell Mitchell is a Director and holds a 33% shareholding in Chieftain Securities Pty Ltd.
- iii. Chitta Lu Ltd is an entity controlled by Mr Roby Zomer.
- iv. Sibella Capital Pty Ltd is an entity controlled by Mr Brett Mitchell.
- v. Mr Roby Zomer is Executive Chairman of Graft Polymer d.o.o, who are developing the proprietary nano-emulsion and nano-particle drug delivery platform for MGC Pharma medicines.
- vi. Mr Brett Mitchell is an Executive Director of TNT Mines Limited.

End of Remuneration Report

Meetings of Directors

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

	Board Meetings	
	Held	Attended
Brett Mitchell	7	7
Nativ Segev	7	7
Roby Zomer	7	7
Ross Walker	7	7
Stephen Parker	7	7

The Company has remuneration, nomination and audit and risk committees in place. The attendances of the Committee Members for the meetings held during the year were:

	Remuneration Committee		Nomination Committee		Audit and Risk Committee	
	Held	Attended	Held	Attended	Held	Attended
Brett Mitchell	2	2	1	1	3	3
Ross Walker	2	2	1	1	3	3
Stephen Parker	2	2	1	1	3	3

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of MGC Pharmaceuticals Ltd support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that the Company is in compliance with many of those guidelines which are of importance to the commercial operation of the Company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. The Company's Corporate Governance Policy is available for review on the Company's website www.mgcpharma.com.au

Options

At the date of this report the options on issue for MGC Pharmaceuticals Ltd are as follows:

Issue Date	Date of Expiry	Exercise Price	Number under Option
2 March 2018, 23 March 2018	31 March 2021	\$0.125	19,900,000
17 April 2018	30 June 2021	\$0.15	10,000,000
12 April 2019	31 March 2021	\$0.065	16,000,000
16 September 2019, 23 December 2019	31 August 2023	\$0.05	17,500,000
16 September 2019, 23 December 2019	31 August 2023	\$0.06	17,500,000
23 December 2019	31 August 2023	\$0.07	17,500,000
12 May 2020	31 August 2021	\$0.045	85,934,538
Total			184,334,538

Convertible Notes

At the date of this report the convertible notes on issue for MGC Pharmaceuticals Ltd are as follows:

Issue Date	Price per Security	Face Value per security	Maturity Date	Number
15 September 2020	\$0.90909	\$1.00	14 September 2021	2,475,000

Indemnifying Officers or Auditor

The Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The Company has paid premiums to insure all of the Directors of the Company as named above, the company secretary and all executive officers of the Company against any liability incurred as such by a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the notice of the liability and the amount of the premium.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young Australia during or since the financial year.

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

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

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2020 has been received and can be found on page 35 of the financial report.

This report is made in accordance with a resolution of Directors. These financial statements were authorised for issue in accordance with a resolution by the Directors of the Company on 30 September 2020.



Roby Zomer

Managing Director

Dated 30 September 2020

Auditor's Independence Declaration



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

As lead auditor for the audit of the financial report of MGC Pharmaceuticals Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Ernst & Young', is positioned above the printed name.

Ernst & Young

A handwritten signature in black ink, appearing to read 'T G Dachs', is positioned above the printed name.

T G Dachs
Partner
30 September 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Note	30-Jun-20 \$	30-Jun-19 Restated \$
Continuing operations			
Revenue from contracts with customers	6a)	2,079,169	656,237
Cost of sales	7a)	(1,904,504)	(356,642)
Gross profit		174,665	299,595
Other operating income	6c)	518,851	327,565
Administrative expenses	7b)	(6,609,147)	(5,635,303)
Other operating expenses	7c)	(5,520,556)	(3,711,003)
Fair value movement on financial instruments	21	(2,098,064)	(501,027)
Write-off/impairment expense	7d)	(5,117,767)	(2,011,542)
Operating loss		(18,652,018)	(11,231,715)
Finance costs	7e)	(135,582)	(444)
Finance income	6b)	12,336	201,850
Other income		5,465	3,711
Loss before income tax from continuing operations		(18,769,799)	(11,026,598)
Income tax expense	9	-	(27,315)
Loss for the year from continuing operations		(18,769,799)	(11,053,913)
Discontinued operations			
(Loss) / gain after tax for the year from discontinued operations	5	(600,427)	2,430,057
Loss for the year		(19,370,226)	(8,623,856)
Attributable to:			
Members of the parent entity		(19,363,089)	(8,579,331)
Non-controlling interest		(7,137)	(44,525)
		(19,370,226)	(8,623,856)
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on the translation of foreign operations		51,356	(127,067)
Derecognition of foreign currency reserve		-	24,295
Other comprehensive income (net of tax) for the year		51,356	(102,772)
Total comprehensive loss for the year		(19,318,870)	(8,726,628)
Total comprehensive loss attributable to:			
Members of the parent entity		(19,311,733)	(8,682,103)
Non-controlling interest		(7,137)	(44,525)
		(19,318,870)	(8,726,628)
Earnings per share			
Basic, loss for the year attributable to ordinary equity holders of the parent	19	(1.40)	(0.71)
Diluted, loss for the year attributable to ordinary equity holders of the parent	19	(1.40)	(0.71)
Earnings per share for continuing operations			
Basic, loss for the year attributable to ordinary equity holders of the parent	19	(1.36)	(0.91)
Diluted, loss for the year attributable to ordinary equity holders of the parent	19	(1.36)	(0.91)

The accompanying notes form part of these financial statements

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	30-Jun-20 \$	30-Jun-19 Restated \$	1-Jul-18 Restated \$
CURRENT ASSETS				
Cash and cash equivalents	10	1,873,373	2,354,086	9,858,977
Inventory	11	402,237	138,800	712,315
Trade and other receivables	12	521,684	1,139,952	468,967
Prepayment		71,032	87,333	463,352
Non-current assets classified as held for sale	5	362,657	-	-
Total Current Assets		3,230,983	3,720,171	11,503,611
NON-CURRENT ASSETS				
Plant and equipment	13	2,192,974	1,470,479	1,334,492
Intangible assets	14	-	5,034,309	7,082,904
Financial assets	21	673,740	2,771,804	72,857
Right-of-use assets	16	1,831,377	-	-
Total Non-Current Assets		4,698,091	9,276,592	8,490,253
TOTAL ASSETS		7,929,074	12,996,763	19,993,864
CURRENT LIABILITIES				
Trade and other payables	15a)	2,705,818	1,593,707	960,575
Deferred revenue	15b)	100,440	587,688	-
Liabilities directly associated with non-current assets classified as held for sale	5	109,254	-	-
Lease liabilities - current	16	53,924	-	-
Total Current Liabilities		2,969,436	2,181,395	960,575
NON-CURRENT LIABILITIES				
Loans from third parties		-	-	21,556
Deferred revenue		-	-	47,280
Provisions		19,982	17,195	3,669
Lease liabilities - non-current	16	1,845,300	-	-
Total Non-Current Liabilities		1,865,282	17,195	72,505
TOTAL LIABILITIES		4,834,718	2,198,590	1,033,080
NET ASSETS		3,094,356	10,798,173	18,960,784
EQUITY				
Contributed equity	17a)	60,149,457	49,133,819	48,440,990
Share based payment reserve	17bi)	5,380,904	4,556,418	4,685,229
Foreign currency translation reserve	17bii)	85,284	33,928	136,700
Consolidation reserve		(382,404)	-	-
Accumulated losses		(62,127,918)	(42,764,829)	(33,060,342)
Equity attributable to equity holders of the parent		3,105,323	10,959,336	20,202,577
Non-controlling interest		(10,967)	(161,163)	(1,241,793)
TOTAL EQUITY		3,094,356	10,798,173	18,960,784

The accompanying notes form part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Contribut- ed Equity \$	Share Based Payment Reserve \$	Foreign Currency Translation Reserve \$	Conso- lidation Reserve \$	Retained Earnings \$	Non- Controlling Interest \$	Total \$
Balance at 1 July 2018 – as previously stated	48,440,990	3,385,229	136,700	-	(38,030,342)	(1,241,793)	12,690,784
Deferred consideration restatement (note 4)	-	1,300,000	-	-	4,970,000	-	6,270,000
Balance at 1 July 2018 - restated	48,440,990	4,685,229	136,700	-	(33,060,342)	(1,241,793)	18,960,784
Other comprehensive income	-	-	(102,772)	-	-	-	(102,772)
Loss after income tax expense - restated	-	-	-	-	(8,579,332)	(44,525)	(8,623,857)
Total comprehensive loss for the year	-	-	(102,772)	-	(8,579,332)	(44,525)	(8,726,629)
Shares issued during the year (net of share issue costs)	692,829	-	-	-	-	-	692,829
Share based payment	-	(128,811)	-	-	-	-	(128,811)
Acquisition of non-controlling interest	-	-	-	-	(1,125,155)	1,125,155	-
Balance at 30 June 2019 (Restated)	49,133,819	4,556,418	33,928	-	(42,764,829)	(161,163)	10,798,173
Balance at 1 July 2019 - restated	49,133,819	4,556,418	33,928	-	(42,764,829)	(161,163)	10,798,173
Other comprehensive income	-	-	51,356	-	-	-	51,356
Loss after income tax expense	-	-	-	-	(19,363,089)	(7,137)	(19,370,226)
Total comprehensive loss for the year	-	-	51,356	-	(19,363,089)	(7,137)	(19,318,870)
Shares issued during the year (net of share issue costs)	9,911,672	-	-	-	-	-	9,911,672
Transfer to issued capital	869,931	(869,931)	-	-	-	-	-
Share based payment	-	1,694,417	-	-	-	-	1,694,417
Acquisition of non-controlling interest	234,035	-	-	(382,404)	-	157,333	8,964
Balance at 30 June 2020	60,149,457	5,380,904	85,284	(382,404)	(62,127,918)	(10,967)	3,094,356

The accompanying notes form part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Note	30-Jun-20 \$	30-Jun-19 \$
Cash flows from operating activities			
Receipts from customers		2,072,246	985,195
Payments to suppliers and employees		(8,452,920)	(4,905,359)
Payments for research expenses		(3,973,805)	(2,892,045)
Research and development rebate	6c	429,401	327,565
Government grant received		89,551	-
Interest received		14,242	158,193
Interest paid		(135,582)	(444)
Income tax paid		-	(27,315)
Net cash used in operating activities	25	(9,956,867)	(6,354,210)
Cash flows from investing activities			
Subsidiary disposed; net of cash disposed of		(13,252)	(569,992)
Proceeds from sales of plant and equipment		5,465	(14,893)
Purchase of plant and equipment / assets under construction		(962,097)	(362,150)
Net cash used in investing activities		(969,884)	(947,035)
Cash flows from financing activities			
Proceeds from issue of shares and options		11,433,193	35,962
Payment of lease liabilities		(183,611)	-
Transaction costs on issue of shares		(787,677)	(8,948)
Net cash provided by financing activities		10,461,905	27,014
Net (decrease) in cash and cash equivalents held		(464,846)	(7,274,231)
Cash and cash equivalents at beginning of year		2,354,086	9,858,977
Foreign exchange movement in cash		(15,867)	(230,660)
Cash and cash equivalents at end of year	10	1,873,373	2,354,086

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

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1. CORPORATE INFORMATION

The financial statements of MGC Pharmaceuticals Limited for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of Directors on 30 September 2020. These consolidated financial statements and notes represent those of MGC Pharmaceuticals Limited (the "Company") and Controlled Entities (the "consolidated group" or "Group"). MGC Pharmaceuticals Limited is a for-profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The nature of the operations and principal activities of the Group are described in Note 23. The registered office of the Company is 1202 Hay Street, West Perth WA 6005.

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 financial assets.

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.

The consolidated financial statements provide comparative information in respect of the previous period. The consolidated financial statements present reclassified comparative information where required for consistency with the current year's presentation. The gain on disposal of subsidiary of \$2,880,242 in the prior period has been reclassified into discontinued operations in the comparative information presented in this report, to more accurately reflect the nature of the gain as relating to the discontinued operation.

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 2020 the consolidated group incurred a loss from continuing operations of \$18,769,799 (2019 (Restated): \$11,053,913) and net operating cash outflows of \$9,956,867 (2019: \$6,354,210). Net losses for the period included impairment expenses of \$5,117,767 (2019: \$2,011,542). At 30 June 2020, the consolidated group had net current assets of \$261,547 (2019: \$1,538,776), including a cash and cash equivalents balance of \$1,873,373 (2019: \$2,354,086).

The consolidated group cashflow forecasts for the 12 months ending 30 September 2021 indicate that the ability of the group to conduct its planned activities and continue as a going concern is dependent on having access to additional funding. The Directors are satisfied that the going concern basis of preparation is appropriate due to the availability of funding under the convertible securities financing agreement signed with Mercer Street Global Opportunity Fund, LLC ("the investor") ("the agreement") and announced subsequent to year end. The first tranche of funding under the agreement of \$2,250,000 was received on 14 September 2020, as detailed at note 31, *Events After the Reporting Date*. At the discretion of both the Company and the investor, up to a further \$12,750,000 can be drawn down under the agreement via the issue of further convertible notes, subject to certain operational milestones being achieved and the Company having sufficient capacity under Chapter 7 of the ASX Listing Rules to issue the convertible notes, or shareholder approval being obtained. In addition, the group has a history of successfully raising capital to fund its operations.

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, however further funding under the agreement is at the discretion of the investor, which is not entirely within the control of the Company.

The consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal

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

c) Principles of Consolidation

The consolidated financial statements comprise the financial statements of MGC Pharmaceuticals Ltd and its subsidiaries as at 30 June 2020 ("the Group").

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

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

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

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

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

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

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

d) Trade Receivables and other Debtors

Trade receivables and other debtors are all classified as financial assets held at amortised cost on the basis they are held with the objective of collecting contractual cash flows and the cash flows relate to payments of principal and interest on the principal amount outstanding.

The Group applies the simplified approach in measuring expected credit losses (ECLs) for trade receivables and other short-term debtors, whereby an allowance for impairment is considered across all trade receivables and other short-term debtors, regardless of whether a credit event has occurred, based on the expected losses over the lifetime of the receivable. Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group's exposure to bad debts is not significant and default rates have historically been very low. Trade receivables are written off when there is no reasonable expectation of recovery, which may be indicated by the debtor failing to engage in a payment plan or the debtor failing to make timely contractual payments.

e) Other Financial Assets

Financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value

depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

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

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

f) Impairment of Non-Financial Assets

Non-financial assets are tested for impairment when there is an indication that the asset may be impaired (which is assessed at least each reporting date). Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal calculations are based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. Value in use calculations are based on a discounted cash flow ("DCF") model, where relevant. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested.

g) Current and Non-Current Classification

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

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

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

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

The Group classifies all other liabilities as non-current.

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

h) Government Grants

Government grants are recognised when there is a reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset, or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the consolidated statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

j) Rounding of Amounts

The Company is a kind referred to in Legislative Instrument 2016/191 issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that class order to the nearest dollar.

New and amended Accounting Standards and Interpretations adopted by the Group

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

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

The Group has not early adopted any new or amended Accounting Standards or Interpretations issued but not yet effective. Refer to note 30 for details.

Impact of adopting AASB 16

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

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

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

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

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

Group as Lessee

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

Right-of-use assets

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

Lease liabilities

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

the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Judgements and estimates which are material to the financial report are found at the following notes:

- 1) Share Based Payments** (refer note 29).
- 2) Impairment Assessments for Non-current Assets** (refer note 14).
- 3) Leases** (refer note 16)
- 4) Research and Development Rebate** (refer note 6)

COVID-19

In applying critical accounting estimates and judgements for the period, the Group has taken into account the impacts of the ongoing COVID-19 pandemic, in particular in assessment of expected credit losses and impairment.

4. RESTATEMENT FOR PRIOR PERIOD ERROR

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

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

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

Impact of restatements

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

	30-Jun-19		30-Jun-19
	Restated	Adjustment	As previously disclosed
	\$	\$	\$
Share based payment reserve	(4,556,418)	(1,300,000)	(3,256,418)
Accumulated losses	42,764,829	1,300,000	41,464,829
Total equity	10,798,173	-	10,798,173

	1-Jul-18		1-Jul-18
	Restated	Adjustment	As previously disclosed
	\$	\$	\$
Share based payment reserve	(4,685,229)	(1,300,000)	(3,385,229)
Accumulated losses	33,060,342	(4,970,000)	38,030,342
Current liabilities	(960,575)	6,270,000	(7,230,575)
Total equity	12,690,784	-	12,690,784

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

	30 June 2019		30-Jun-19
	Restated	Adjustment	As previously disclosed
	\$	\$	\$
Gain on re-measurement of performance shares	-	(6,270,000)	(6,270,000)
Net loss for the period from continuing activities	8,173,671	6,270,000	1,903,671

As a result of the above adjustment, loss per share has been restated to (0.71) cents per share for the twelve months ended 30 June 2019 (previously disclosed: earnings per share of (0.19) cents per share).

5. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Towards the end of the financial year MGC Pharma signed an acquisition agreement to sell 100% interest in subsidiary MGC Nutraceuticals to US OTC publicly traded company, Onassis Holdings Corp. (OTC: "ONSS"). The sale is expected to complete in Q4 of 2020 following a capital raising by Onassis Holdings Corp.

During the financial year MGC Nutraceuticals has been classified as a disposal group held for sale and as a discontinued operation.

The result of MGC Nutraceuticals for the period was as follows (MGC Nutraceuticals did not have operations in the prior period):

	30 June 2020
Revenue	148,544
Expenses	(748,971)
Pre-tax loss	(600,427)
Income tax expense/benefit	-

Assets and liabilities of MGC Nutraceuticals d.o.o classified as held for sale:

	30-Jun-20
	\$
Non-current assets classified as held for sale	
Cash and cash equivalents	13,252
Trade and other debtors	155,640
Inventory	193,765
	362,657
Liabilities directly associated with non-current assets classified held for sale	
Trade and other payables	43,841
Deferred revenue	65,413
	109,254
Net assets of disposal group	253,403

In the prior reporting period, the discontinued operation presented related to the Group's disposal of its subsidiary MGC Derma d.o.o.

6. REVENUE AND OTHER INCOME

Revenue from contracts with customers

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

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

Revenue from sale of pharma products

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

Revenue from sale of non-pharma products

Revenue from the sales of cosmetics is recorded when the products have been delivered to the consumer, signifying transfer of ownership and the point the customer obtains control of the goods.

Interest revenue

Interest revenue is recognized using the effective interest rate method.

	30-Jun-20	30-Jun-19
	\$	\$
a) Revenue from contracts with customers		
Pharma sales	1,197,130	36,273
Non-pharma sales	882,039	619,964
	2,079,169	656,237
b) Finance income		
Interest income calculated using the effective interest rate method	12,336	201,850
	12,336	201,850
c) Other operating income		
Refund on research and development claim ¹	429,401	327,565
Government grants received	89,450	-
	518,851	327,565

¹During the year ended 30 June 2020, the Group received a research and development rebate following lodgement of a claim for its financial year ended 30 June 2019.

Research and development rebate

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

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

7. COST OF SALES AND EXPENSES

	30-Jun-20 \$	30-Jun-19 \$
a) Cost of sales		
Cost of goods sold - Pharma	1,242,311	65,034
Cost of goods sold - Non-pharma	662,193	291,608
	1,904,504	356,642
b) Administrative expenses		
Corporate costs	303,681	235,527
Professional and consultancy fees	1,819,532	1,025,476
Directors' fees	1,178,114	1,194,852
Employee benefit expenses	485,412	537,906
Employee share based payment expense	854,915	537,004
Travel expenses	399,934	511,689
Marketing expenses	562,125	574,983
Depreciation	481,130	259,744
Office and administrative expenses	524,304	758,122
	6,609,147	5,635,303
c) Other operating expenses		
Unrealised foreign exchange	69,896	2,486
Realised foreign exchange	80,506	5,070
Laboratory operation expenses	3,285,946	2,040,128
Research expense	2,084,208	1,663,319
	5,520,556	3,711,003
d) Impairment expense		
Write off/impairment of intangible assets (note 14)	5,117,767	2,011,542
	5,117,767	2,011,542
e) Finance cost		
Finance costs	135,582	444
	135,582	444

8. EMPLOYEE EXPENSES

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the period end in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

	30-Jun-20 \$	30-Jun-19 \$
Wages and salaries	485,412	537,906
Employee share-based payment expense (note 29)	854,915	537,004
	1,340,327	1,074,910

9. INCOME TAX

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income.

Deferred income tax is provided on all temporary differences at the statement of financial position date, arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, and are recognised for all taxable temporary differences,

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future extent that it is probable that the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of profit or loss and other comprehensive income.

Tax Consolidation

The Company and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidated legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. The Group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 21 October 2005. The tax consolidated group has entered a tax funding agreement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contributions to the Group's taxable income.

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

	30-Jun-20 \$	30-Jun-19 \$
a) Major components of income tax expense for the periods presented:		
Current tax	-	-
Deferred tax	-	-
Income tax expense reported in the Statement of Comprehensive Income	-	-
b) The prima facie tax on (loss) from continuing operations and discontinued operations before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on (loss) from continuing operations and discontinued operations before income tax at 27.5% (2019: 27.5%)	(5,326,812)	(515,998)
Adjustments due to permanent differences	483,339	(1,488,334)
Deferred tax assets not brought to account	2,732,232	2,031,647
Under/over provision of prior year	-	27,315
Income tax expense/(benefit)	-	27,315
Deferred Tax Assets Not Brought to Account, the benefits of which will only be realised if the conditions for deductibility set out in note above		
Tax Losses	6,164,503	4,747,381
Temporary Differences	428,686	312,579
Total	6,593,189	5,059,960

10. 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.

	30-Jun-20 \$	30-Jun-19 \$
Cash at bank	1,873,373	2,354,086
	1,873,373	2,354,086

11. INVENTORY

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

	30-Jun-20 \$	30-Jun-19 \$
At net realisable value		
Finished goods	92,511	21,050
Work in progress	18,786	-
At cost		
Raw materials	290,940	117,750
	402,237	138,800

12. TRADE AND OTHER RECEIVABLES

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.

	30-Jun-20 \$	30-Jun-19 \$
Current		
Trade receivables	-	271,022
Other receivables	214,209	710,298
GST/VAT receivable	254,297	158,632
Short term loan to third party	53,178	-
	521,684	1,139,952

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

13. PLANT AND EQUIPMENT

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

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

Plant and equipment 3-5 years

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

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

	30-Jun-20 \$	30-Jun-19 \$
Plant and equipment*		
• gross carrying amount at cost	1,964,672	1,814,706
• accumulated depreciation	(905,455)	(576,987)
	1,059,217	1,237,719
Construction in progress		
• gross carrying amount at cost	1,133,757	232,760
• accumulated depreciation	-	-
	1,133,757	232,760
Total property, plant and equipment	2,192,974	1,470,479

*Plant and equipment primarily comprises laboratory fixtures and fittings and equipment.

	30-Jun-20 \$	30-Jun-19 \$
Property, plant and equipment movement		
Opening balance at 1 July	1,470,479	1,334,492
Additions	1,120,963	343,566
Disposal	(28,830)	(21,365)
Disposal on derecognition of subsidiary	-	(44,219)
Depreciation	(320,943)	(259,744)
Foreign currency translation	(48,695)	117,749
	2,192,974	1,470,479

Impairment testing

Slovenia

The Group did not identify any indicators of impairment in relation to the Slovenia CGU.

Malta

The Group's plant and equipment balance in Malta consisted of construction in progress, relating to design and engineering work for its planned Malta operations. The temporary delay in the project as disclosed in note 16 was identified as an impairment trigger during the period. The Group determined based on its internally developed feasibility estimates for the project that no impairment existed at 30 June 2020.

14. INTANGIBLE ASSETS

Intangible assets acquired as part of a business combination, 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 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

The intangible asset of the Group related to a license to grow industrial cannabis in Slovenia, which was subject to an annual renewal process. As the license expired during the current period and was not renewed on the basis that it is not required for the Group's current operations in Slovenia, the intangible asset value was written off in full. A write-off expense of \$5,038,064 was taken to the statement of profit or loss.

	30-Jun-20 \$	30-Jun-19 \$
Intangible assets – Licence in Slovenia		
Opening balance at 1 July	5,034,309	7,082,904
• write-off/provision for impairment	(5,038,064)	(2,011,542)
• other	-	(38,942)
• foreign currency translation	3,755	1,889
	-	5,034,309

15. PAYABLES AND DEFERRED REVENUE

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 measured at amortised cost, using the effective interest rate method.

	30-Jun-20 \$	30-Jun-19 \$
a) Current trade and other payables		
Trade payables	2,003,677	1,164,819
Accruals	556,205	333,036
Other payables	145,936	95,852
	2,705,818	1,593,707
b) Deferred revenue		
Deferred revenues - current	100,440	587,688
	100,440	587,688

Deferred revenue represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration at 30 June 2020. Revenue recognised in the current period relating to opening deferred revenue totalled \$535,656.

Refer to note 20 for details on management of financial risk.

16. LEASES

During the period the Group entered into a long-term lease for a period of 65 years for the use of the land for the construction of the Malta facility. The Group also has leases for office and lab rental. The average incremental borrowing rate applied, determined based on market comparative inputs, adjusted for the Group's circumstances was 7.4%.

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

	30-Jun-20 \$
Right-of-use assets	
Opening balance at 1 July on adoption of AASB 16	185,908
Additions of right-of-use assets in period	1,805,656
Depreciation of right-of-use assets	(160,187)
As at 30 June 2020	1,831,377

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

	30-Jun-20 \$
Lease liabilities	
Opening balance at 1 July on adoption of AASB 16	185,908
Additions to lease liabilities	1,805,656
Interest on lease liabilities	130,637
Lease payments	(222,977)
As at 30 June 2020	1,899,224
Current	53,924
Non-current	1,845,300
Total lease liability	1,899,224

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

	30-Jun-20 \$
Depreciation on right-of-use asset	160,187
Interest expense on lease liabilities	130,637
Expense related to short-term leases	183,611
Total amounts recognised in profit or loss	474,435

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

	30-Jun-20 \$
Total cash outflows for leases	314,248

The following is a reconciliation of the Group's operating lease commitments under AASB 117 at 30 June 2020 to the lease liability recognized at 1 July 2020 on transition to AASB 116.

	\$
Operating lease commitments at 30 June 2019	268,468
Less: Short-term leases	(70,939)
Less: Impact of discounting	(11,621)
Lease liabilities recognised at 1 July 2019	185,908

Malta long-term lease agreement

As disclosed in note 24, the Malta lease agreement included the following obligations:

- The Group was to commence construction of buildings on the site to the value of not less than EUR 2.7 million within three months of receiving the necessary permits, and complete their construction within 18 months.
- Over a period of 3 years from the date of the deed (8 August 2019), the Group is to invest the total sum of EUR 6 million in improvements on the site, plant, machinery and equipment.

To the extent that these or other conditions under the lease agreement are not met, the lessor may issue a notice of breach, 30 days after which it may elect to begin imposing a penalty of EUR 12,000 per day that the breach persists, or may at its discretion terminate the lease agreement. Due to circumstances outside of the Group's control, including the impacts of the COVID-19 pandemic and associated travel restrictions, construction on the site was not able to commence within 3 months of the permits being granted. At 30 June 2020, and to the date of this report, the Group has not received a notice of breach from the lessor.

17. CONTRIBUTED EQUITY AND RESERVES

a) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

	30-Jun-20 NUMBER	30-Jun-19 NUMBER	30-Jun-20 \$	30-Jun-19 \$
Ordinary shares on issue, fully paid	1,575,612,348	1,203,048,174	60,149,457	49,133,819
VHL shares	-	10,335,511	-	-
	1,575,612,348	1,213,383,685	60,149,457	49,133,819

Reconciliation of movement in share capital

30 June 2020	No. Of Shares	Issue Price	Amount
Opening balance of 1 July 2019	1,213,383,685		49,133,819
Exercise of listed options – 5 Jul 2019	87,426	0.065	5,683
Issue of capital raising placement shares – 29 Aug 2019	118,750,000	0.04	4,750,000
Conversion of M3 performance rights – 9 Sep 2019	3,638,000	0.041	149,158
Issue of shares to vendor of Panax s.r.o – 9 Sep 2019	5,850,875	0.04	234,035
Issue of priority offer placement shares – 16 Sep 2019 ¹	25,001,000	0.04	1,000,040
Release of VHL Shares – 12 November 2019	-	0.06974	720,773
Issue of Shares as part consideration for services – 29 Nov 2019 ²	4,411,765	0.034	150,000
Issue of capital raising placement shares – 26 Feb 2020	31,250,000	0.032	1,000,000
Issue of share purchase plan – 18 Mar 2020	42,313,301	0.027	1,142,459
Issue of capital raising placement shares – 4 May 2020	129,630,000	0.027	3,500,010
Issue of shares in lieu of cash payment – 4 May 2020	1,296,296	0.027	35,000
Less: costs of issue			(1,671,520)
Closing balance at 30 June 2020	1,575,612,348		60,149,457

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

¹ In line with agreement held with the minority shareholder of the Group's subsidiary, Panax s.r.o, 5,850,875 shares were issued following the exercise of an option and a further 6.67% interest in the subsidiary was acquired, resulting in a total holding of 86.67% (2019: 80%).

² Pursuant to agreement with Cannvalate Pty Ltd, it was agreed that 50% of their services would be paid as ordinary shares, valued using a 30-day VWAP. During the period 4,411,765 shares were issued at \$0.0343/share for services rendered during the year.

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

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

Capital risk management

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

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

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

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The Group is not subject to any externally imposed capital requirements.

b) Reserves

i. Share based payment reserve

	30-Jun-20 \$	30-Jun-19 \$
Opening balance at 1 July – as previously stated	4,556,418	3,385,229
Deferred consideration restatement	-	1,300,000
Balance at 1 July – restated	4,556,418	4,685,229
Conversion of performance rights (note 29)	(149,158)	(480,000)
Release of VHL shares (note 17)	(720,773)	(185,815)
Share based payment vesting expense (note 29)	1,694,417	537,004
	5,380,904	4,556,418

ii. Foreign currency translation

Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit and loss and other comprehensive income, except when they are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Transaction differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

	30-Jun-20 \$	30-Jun-19 \$
Opening balance at 1 July	33,928	136,700
Currency translation differences arising during the year	51,356	(127,067)
Derecognition upon disposal of subsidiary	-	24,295
	85,284	33,928

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

18. DIVIDENDS

No dividends have been paid or provided during the year.

19. EARNINGS PER SHARE

Basic earnings per share

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

Diluted earnings per share

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

	30-Jun-20	30-Jun-19 restated
Earning per share		
Basic loss per share (cents)	(1.40)	(0.71)
Diluted loss per share (cents)	(1.40)	(0.71)
Reconciliation of earnings to profit or loss	\$	\$
(Loss) used in calculating basic and diluted EPS	(19,370,226)	(8,623,856)
Earnings per share for continuing operations		
Basic loss per share (cents)	(1.36)	(0.71)
Diluted loss per share (cents)	(1.36)	(0.71)
Reconciliation of earnings to profit or loss	\$	\$
(Loss) used in calculating basic and diluted EPS	(18,769,799)	(11,053,913)
	Number	Number
Weighted average number of ordinary shares and potential ordinary shares		
Weighted average number of ordinary shares used in calculating basic and diluted EPS	1,382,194,646	1,209,142,408

At 30 June 2020, the Company had on issue 20,000,000 performance rights (2019: Nil) and 184,334,538 options (2019: 45,900,000). Given the Group made a loss during the current financial year, these potential shares are considered non-dilutive and therefore not included in the diluted EPS calculation.

Refer to note 31 for details of post-balance date events, including the issue of 2,475,000 convertible notes with a face value of \$1 each on 10 September 2020.

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

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

	Floating interest rate		Over 1 to 5 years	Non-interest bearing	Remaining contractual maturities	Weighted average interest rate
	1 Year or less					
30 June 2020	\$	\$	\$	\$	\$	%
Financial assets						
Cash and cash equivalents	1,873,373	1,873,373	-	-	1,873,373	0.65%
Trade and other receivables	-	-	-	468,506	468,506	
	1,873,373	1,873,373	-	468,506	2,341,879	
Financial liabilities						
Other payables and sundry accruals	-	-	-	2,705,818	2,705,818	
Lease liabilities	1,899,224	53,924	1,845,300	-	1,899,224	
	1,899,224	53,924	1,845,300	2,705,818	4,605,042	
30 June 2019						
Financial assets						
Cash and cash equivalents	2,354,086	2,354,086	-	-	2,354,086	5.83%
Trade and other receivables	-	-	-	1,139,952	1,139,952	
	2,354,086	2,354,086	-	1,139,952	3,494,038	
Financial liabilities						
Other payables and sundry accruals	-	-	-	1,593,707	1,593,707	
	-	-	-	1,593,707	1,593,707	

At 30 June 2020, a reasonably possible change in interest rates would not have resulted in a material change to the Group's post-tax loss or net assets for the year.

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 deposits with banks and other receivables. Management monitors its exposure to ensure recovery and repayment of outstanding amounts. Cash deposits are only made with reputable banking institutions.

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the GBP (£), Euro (€) and CZK (Kč).

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting.

The consolidated entity has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency. The board manages the purchase of foreign currency to meet operational requirements.

The consolidated entity's exposure to foreign currency risk at the reporting date was not material. A reasonably possible change in the value of the Australian dollar against the above currencies at 30 June would not have had a material effect on the Group's post-tax loss or net assets.

21. 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, 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.

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 2020				
Financial assets				
Other financial assets (equity investments) – opening balance	53,429	-	2,718,375	2,771,804
Fair value movement in the period	60,714	-	(2,158,778)	(2,098,064)
Closing balance at 30 June 2020	114,143	-	559,597	673,740
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
30 June 2019				
Financial assets				
Financial assets at fair value through profit or loss	72,858	-	3,199,973	3,272,831
Fair value movement in the period	(19,429)	-	(481,598)	(501,027)
Closing balance at 30 June 2019	53,429	-	2,718,375	2,771,804

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 21).

b) Valuation techniques used to derive Level 3 fair values

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. A significant unobservable input to the valuation of the Group's investment in an unlisted entity classified within level 3 of the fair value hierarchy was information obtained from the investee in relation to the value per share of the most recent capital raising announced by the entity, which was CAD 0.21/share (\$0.22/share). A 10% increase or decrease in the value per share of the unlisted entity would have a corresponding fair value movement on the carrying value of the Group's investment. The classification of the investment has been amended from level 2 to level 3 in the current period and the comparative has been reclassified to conform to the current period presentation.

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.

22. CONTROLLED ENTITIES

The consolidated financial statements of the Group include:

	Country of incorporation	Percentage Owned (%)*	
		30-Jun-20	30-Jun-19
Parent Entity:			
MGC Pharmaceuticals Limited	Australia		
Subsidiaries of MGC Pharmaceuticals Limited:			
MGC Pharma (UK) Limited	UK	100	100
MGC Research (Aus) Pty Ltd	Australia	100	100
Subsidiaries of MGC Pharma (UK) Limited:			
MGC Pharmaceuticals d.o.o	Slovenia	100	100
Panax Pharma s.r.o ¹	Czech Republic	87	80
MGC Nutraceuticals d.o.o ²	Slovenia	100	100
MGC Pharma (Malta) Holdings Limited	Malta	100	100
MGC Pharma (Malta) R&D Limited	Malta	100	-
Subsidiaries of MGC Pharma (Malta) Holdings Limited			
MGC Pharma (Malta) Property Limited ¹	Malta	100	100
MGC Pharma (Malta) Operations Limited ¹	Malta	100	100

* *Percentage of voting power in proportion to ownership*

¹ During the year shares were issued following the exercise of an option and a further 6.67% interest in the subsidiary was acquired (refer note 17)

² Refer note 5 for further details

23. SEGMENT REPORTING

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

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

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

During the current period, the Group has reassessed its operating segments and has determined that the Group's operations comprise one segment, being production and supply of medicinal cannabis products, on the basis that the Group's CODM reviews financial information in relation to operating results at the whole of Group level.

Geographic information on the Group's revenue by location of operations for the period and non-current assets at 30 June 2020 is as follows:

	Malta \$	Slovenia \$	Australia \$
30 June 2020			
Sales revenues	-	1,938,4281	140,741
Total non-current assets	2,957,260	1,009,824	-
30 June 2019			
Sales revenues	-	652,5951	3,642
Total non-current assets	232,760	1,148,808	-

¹ Two external customers individually contributed greater than 10 per cent of Group revenue (\$1,056,390 and \$573,772 respectively) (30 June 2019: one external customers, \$437,203)

24. CONTINGENCIES AND COMMITMENTS

a) Commitments

	30-Jun-20 \$	30-Jun-19 \$
No later than one year	779,070	1,143,460
Later than one year and not later than five years	536,023	202,214
Total commitments	1,315,093	1,345,674

Commitment mainly related to management recharges, as well as Research and Development Agreements held with Royal Melbourne Institute of Technology, for both the Breeding and Pre-clinical Research and the Library of Cannabinoids Project, in addition to the University of Notre Dame CogniCann® Clinical Trial.

Malta long-term lease – construction commitments

Further to the approval of the Company's planned project in Malta, following its initial Letter of Intent with Malta Enterprise in the prior financial year, the Company agreed to invest a minimum of €6,000,000 in improvements to site, plant, machinery and equipment within 3 years from the date of allocation of the site.

On allocation of a site, the Company also entered into a long-term lease with Malta Industrial Parks (refer note 9 for further details). The Emphyteutical lease requires that the allocated site is used solely for industrial purposes and that the erection of proper, solid buildings costing no less than €2,700,000, net of value added tax, is to commence within 3 months, but be completed no later than eighteen months from the date all permits by law are issued.

25. CASH FLOW INFORMATION

	30-Jun-20 \$	30-Jun-19 Restated \$
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
(Loss) after income tax	(19,370,226)	(8,623,856)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in loss		
Depreciation and amortisation	481,130	259,744
Impairment expense	5,117,767	2,011,542
Share based payment expense	854,916	537,004
(Gain)/loss revaluation of investment held	2,098,064	501,027
Discontinued operations	600,427	(2,430,057)
Lease liability	(183,611)	-
Exchange differences	(82,205)	478,706
Changes in assets and liabilities, net of the effects of purchase of subsidiaries		
Decrease / (Increase) in inventory	(263,437)	573,515
(Increase) in trade and other receivables	271,912	(294,966)
Increase in trade payables and accruals	518,396	633,131
Cash flow from operations	(9,956,867)	(6,354,210)

26. AUDITOR'S REMUNERATION

	30-Jun-20 \$	30-Jun-19 \$
Fees to Ernst & Young (Australia):		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	163,350	-
Total fees to Ernst & Young (Australia)	163,350	-
Fees to PKF (Australia):		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	8,548	51,150
Fees for other services		
• Tax compliance	-	-
• Others	1,900	-
Total fees to PKF (Australia)	10,448	51,150
Fees to other overseas member firms of PKF (Australia):		
Fees for auditing the financial report of any controlled entities	1,771	66,055
Total fees to overseas member firms of PKF (Australia)	1,771	66,055
Total auditor's remuneration	175,569	117,205

27. PARENT COMPANY DISCLOSURES

The financial information for the parent entity, MGC Pharmaceuticals Limited, disclosed in note 22 has been prepared on the same basis as the consolidated financial statements, except as set out below:

i) Summary of financial information

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

	30-Jun-20 \$	30-Jun-19 \$
Current assets	1,723,652	1,947,520
Non-current assets	2,400,695	9,335,256
Total Assets	4,124,347	11,282,776
Current liabilities	1,029,991	484,603
Total Liabilities	1,029,991	484,603
Contributed equity	60,149,458	49,133,820
Share based payment reserve	4,080,904	3,256,419
Accumulated losses	(61,136,006)	(41,592,066)
Total Equity	3,094,356	10,798,173
Loss for the year	(19,543,940)	(2,456,629)
Total comprehensive loss for the year	(19,543,940)	(2,456,629)

ii) Commitments and contingent liabilities of the parent

The parent entity did not have any contingent liabilities or commitments, as at 30 June 2020 (30 June 2019: nil) other than as disclosed at note 24.

iii) Guarantees entered into the parent entity

There were no guarantees entered into by the parent entity.

28. RELATED PARTY TRANSACTIONS

a) Key Management Personnel Remuneration

Compensation

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

	30-Jun-20 \$	30-Jun-19 \$
Short-term employee benefits	1,045,709	1,259,773
Post-employment benefits	-	-
Long-term benefits	-	-
Share-based payments	124,391	175,563
	1,170,100	1,435,336

b) Transactions with Director related entities

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

Details of non-remuneration related transactions including amounts receivable and payable at the end of the year are as follows:

Related Party	Relationship	Nature of transactions	Transactions		Balances (owing to)/ owed by	
			Full Year 30-Jun-20 \$	Full Year 30-Jun-19 \$	Full Year 30-Jun-20 \$	Full Year 30-Jun-19 \$
Brighgt Global Ltd (Brighgt)	(i)	Reimbursement from Brighgt for corporate administration costs	-	5,702	-	-
Chieftain Securities Pty Ltd (Chieftain)	(ii)	Charges from Chieftain for corporate advisory fees	60,000	61,748	(5,500)	-
Chieftain Securities Pty Ltd (Chieftain)	(ii)	Charges from Chieftain for capital raising costs	116,594	-	-	-
Chitta Lu Ltd (Chitta Lu)	(iii)	Reimbursement from Chitta Lu for corporate administration costs	-	1,010	-	-
Sibella Capital Pty Ltd (Sibella)	(iv)	Reimbursement from Sibella for corporate administration costs	388	14	-	-
Graft Polymer d.o.o (GPO)	(v)	Services charges from / (recharges to) GPO development for MGC proprietary drug delivery technology	510,859	(27,114)	40,000	33,079
TNT Mines Ltd (TNT)	(vi)	(Re-charges) to TNT for corporate administration costs	-	(5,320)	-	-

(i) Brighgt Global Ltd is an entity controlled by Mr Nativ Segev .

(ii) Mr Mitchell is a Director and holds a 33% shareholdings in Chieftain Securities Pty Ltd.

(iii) Chitta Lu Ltd is an entity controlled by Mr Roby Zomer.

(iv) Sibella Capital Pty Ltd is an entity controlled by Mr Brett Mitchell.

(v) Mr Roby Zomer is Executive Chairman of Graft Polymer d.o.o, who are developing the proprietary nano-emulsion and nano-particle drug delivery platform for MGC Pharma medicines.

(vi) Mr Brett Mitchell is an Executive Director of TNT Mines Limited.

Other related party transactions

There were no other related party transactions.

29. SHARE BASED PAYMENTS

Share based compensation relating to share options are recognised at fair value.

The fair value of the options is recognised as an employee benefit expense in the statement of profit or loss and other comprehensive income, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

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

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

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

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

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

a) Voluntary Holding Lock Shares

As part of the acquisition consideration of Erin Mineral Resources Limited (EMRL), Voluntary Holding Lock shares were issued to the EMRL shareholders as performance-based consideration relating to the EMRL assets. These shares were released from their holding lock during the current period and have therefore been transferred into issued capital as ordinary shares.

b) Performance Rights

Directors

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

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

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

Valuation date	Milestone 3 29 Nov 19	Milestone 4 29 Nov 19
Share price	\$0.0340	\$0.0340
Exercise price	Nil	Nil
Vesting date	N/A	N/A
Expiry date	31 Dec 20	31 Dec 21
Expected future volatility	70%	70%
Risk free rate	0.68%	0.68%
Vesting hurdle	\$0.08	\$0.10
Dividend yield	nil	nil
Value per right	\$0.00848	\$0.01213

Milestone 2 was met during the period and the associated performance rights vested. The remaining rights remain on issue but unvested at 30 June 2020.

Employees

The Group also issued 8m performance rights to certain key employees following shareholder approval on 29 November 2019, with both of the following key conditions to be met (upon conversion, these shares are restricted until 30 June 2020):

Conditions

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

The fair value of the performance rights was determined to be \$0.031/right based on the Company's share price on the grant date. These rights vested on 31 January 2020.

c) Options

Equity Capital Markets Advisor

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

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

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

Joint Leading Managers

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

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

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

Prior period - 16m unlisted options

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

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

Valuation date	12 April 2019
Dividend yield (%)	Nil
Expected volatility (%)	87%
Risk-free interest rate (%)	1.50%
Expected life of option (years)	2
Option exercise price (\$)	\$0.065
Share price at grant date (\$)	\$0.035
Expiry date	31 Mar 2021
Valuation of option	\$0.058
Total value of option	\$928,000

These options vested in full in the current period upon completion of the relevant vesting conditions.

Share-based payment expense

For the year ended 30 June 2020, the Group has recognised \$854,915 of share-based payment expenses in the statement of profit or loss (30 June 2019: \$537,004) relating to share-based payments to directors and employees. The Group has also recognised \$839,500 (30 June 2019: nil) of share-based payment expense in relation to capital raising costs (refer to note 17).

30. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

a) New or revised standards and interpretations that are first effective in the current reporting period

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

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

The Group has not early adopted any new or amended Accounting Standards or Interpretations issued but not yet effective, as follows:

Reference	Description
AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Material	The application of this Standard is effective from 1 January 2020 and will be adopted by the Group on 1 July 2020. This Standard makes amendments to the definition of 'material' to reference the effect of obscuring information to be similar to omitting or misstating information and states that an entity assesses materiality in the context of the financial statements as a whole.
Conceptual Framework for Financial Reporting	The application of this Standard is effective from 1 January 2020 and will be adopted by the Group on 1 July 2020. The revised Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance, in particular, the definitions of an asset and a liability and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.
AASB 2019-1 Amendments to Australian Accounting Standards - References to the Conceptual Framework	The application of this Standard is effective from 1 January 2020 and will be adopted by the Group on 1 July 2020. The Standard makes amendments to a number of Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the Conceptual Framework for Financial Reporting (Conceptual Framework).
AASB 2018-6 Amendments to Australian Accounting Standards - Definition of a Business	The application of this Standard is effective from 1 January 2020 and will be adopted by the Group on 1 July 2020. This Standard amends the definition of a business in AASB 3 Business Combinations .
AASB 2019-5 Amendments to Australian Accounting Standards - Disclosures of the Effect of New IFRS Standards Not Yet Issued in Australia	The application of this amendment is effective from 1 January 2020 and will be adopted by the Group on 1 July 2020. This Standard amends AASB 1054 Australian Additional Disclosures by adding a requirement for entities complying with IFRS Standards to disclose the potential effect of an IFRS Standard that has not yet been issued by the AASB so that an entity complying with Australian Accounting Standards can assert compliance with IFRS standards.
AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current	The application of this amendment is effective from 1 January 2022 and will be adopted by the Group on 1 July 2022. This amendment to AASB 101 Presentation of Financial Statements clarifies the requirements for classifying liabilities as current or non-current.
AASB 2020-3 Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments	The application of this amendment is effective from 1 January 2022 and will be adopted by the Group on 1 July 2022. This standard makes amendments to AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 and AASB 141.

31. EVENTS AFTER THE REPORTING DATE

Date	Event
2 July 2020	COVID-19 Clinical Trial Site Expansion into India The Company announced the site expansion of the Phase II Clinical Trial of ArtemiC™ on COVID-19 infected patients to India, this will provide the wider statistical data which will be required for registration of ArtemiC™
8 July 2020	MGC Pharma awarded Import Licence by Office of Drug Control The import licence provides MXC with the ability to directly import Schedule 4 - and Schedule 8, medicinal cannabis products into Australia, a process that was previously facilitated by Cannvalate and Health House International.
14 July 2020	MXC Cannabis Research Permit Granted for RMIT Programs The Permit enables MXC to proceed with its botanical research projects in collaboration with Royal Melbourne Institute of Technology (RMIT University) including cultivation and genetics
20 July 2020	MGC Pharma to acquire 100% of Medicinal Cannabis Clinic MGC Pharma signed a Term Sheet to acquire 100% of the operating business, data and proprietary assets of Medicinal Cannabis Clinic Pty Ltd, one of Australia's leading medicinal cannabis clinics.
27 July 2020	Results from ArtemiC™ Safety and Toxicity Pre-clinical Study Safety and toxicity pre-clinical study results received by MXC for ArtemiC™ following in vivo testing on mice in Israel, with ArtemiC™ delivering no adverse results in standard toxicity measures.
7 August 2020	Study Confirms Effectiveness of ArtemiC™ On Human Immune Cell A final report of results from preclinical in-vitro laboratory testing clearly support the claim that ArtemiC™ can modify the function of human immune cells in response to inflammatory stimuli
14 August 2020	UK Distribution Agreement Signed for MGC Pharma Medicines Distribution agreement signed for MGC Pharma's EU GMP cannabinoid medicines with leading UK medical cannabis provider, LYPHE Group Limited. The Agreement provides MGC Pharma direct access to LYPHE's established distribution channels into the growing UK market for medical cannabis products.
20 August 2020	COVID-19 Interim Trial Results Meet All Primary Objectives Interim results of the Phase II double-blind, placebo-controlled clinical trial for anti-inflammatory treatment ArtemiC™ on persons diagnosed with COVID-19, met all its primary end points for the safety and efficacy of the treatment on the first 10 patients.
25 August 2020	JV to be Established for Registration of ArtemiC™ In Russia Term sheet signed to partner with Dr Svetlana Kopachevskaja, and key associated investment partners to establish a JV company to facilitate registration of ArtemiC™ as a medicine in Russia, and register 15 MGC Pharma formulations and generic oncology medicines for the Russian market.
1 September 2020	Biopharma Appointments Strengthen Board and Leadership Team MXC strengthened its Board and leadership team with biopharma industry expertise following the appointment of Evan Hayes as an Independent Non-Executive Director and Strategic Advisor, Sabina Suljaković as Qualified Person and Head of the Quality Assurance in Slovenia and Amir Polak as CTO and Head of Pharmaceutical Production.
10 September 2020	\$15m Finance Facility to Fund Revenue Growth for Key Markets Convertible securities financing agreement signed Mercer Street Global Opportunity Fund, LLC, to provide the Company with funding of up to a total of \$15m. The first tranche of \$2.25 million has been provided to the Company through the issue of 2,475,000 convertible notes with a face value of \$1 each to Mercer Street.
14 September 2020	MXC Well Positioned for TGA Down-Schedule of CBD Products TGA has recently confirmed its intention to down-schedule certain low-dose medicinal cannabidiol (CBD) products from Schedule 4 to Schedule 3 status. MGC Pharma is uniquely positioned to benefit from the proposed changes through its existing EU production facilities, increasing market penetration, and clinical programs.
21 September 2020	MXC Welcomes New FCA Guidance for Cannabis Sector in the UK MGC welcomed the FCA's guidance note on its approach to assessing applications from cannabis-related companies for listing in the UK and is accelerating its plans to be one of the first cannabis-related companies listed on the LSE.
28 September 2020	Update on ArtemiC™ Phase II Trial on Covid-19 Patients Patient recruitment already commenced for Phase II Clinical Trial on COVID-19 Patients at the leading Rambam Academic Hospital in Israel, with 3 patients already enrolled for the Trial. Patient recruitment also commenced at Mahatma Gandhi Mission's Medical College & Hospital (MGM Hospital) in India.

Directors' Declaration

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

1. The financial statements and notes, as set out in pages 36 to 68, 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 consolidated group's financial position as at 30 June 2020 and its 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, subject to the matters set out in note 2(b) to the financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Roby Zomer

Managing Director

30 September 2020

Independent Auditor's Report to Members



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

Report on the audit of the financial report

Opinion

We have audited the financial report of MGC Pharmaceuticals Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material uncertainty related to going concern

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



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. In addition to the matter described in the *Material uncertainty related to going concern* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Impairment assessment for non-current assets

Why significant	How our audit addressed the key audit matter
The quantum of the Group's non-current assets is material to the Group's financial statements and the assessment of whether impairment existed at 30 June 2020 in relation to these assets required significant management judgement. <i>Intangible asset</i> As disclosed in Note 14 to the financial statements, during the year ended 30 June 2020, the Group wrote off the balance of the intangible asset amounting to \$5.03 million, upon expiry of the associated license to cultivate industrial cannabis in Slovenia. <i>Malta</i> As disclosed in Notes 13 and 16 to the financial statements, the Group held total non-current assets in Malta amounting to \$2.9 million, primarily comprising construction in progress and the right-of-use asset associated with the long-term lease of land.	Our audit procedures included the following: ▶ We obtained and reviewed the Group's assessment of impairment triggers for its non-current assets ▶ We confirmed the expiry of the licence to cultivate industrial cannabis ▶ As a consequence of the global COVID-19 pandemic, the Group was unable to meet the conditions set out in the Malta long-term lease agreement. Through enquiry and review we determined that the lease agreement remains active and that no penalties have been imposed by the lessor ▶ We considered the Group's assessment of impairment in relation to the construction in progress and right-of-use asset at 30 June 2020 ▶ We considered the adequacy of the financial report disclosures.



As disclosed in Note 16, the Group has not been able to comply with all conditions under the long-term lease agreement, including the requirement to commence construction of the facility within three months of the lease agreement being signed. At 30 June and to the date of this report, no breach notice had been received from the lessor in this regard.

The Group assessed the construction in progress and right-of-use assets for impairment at 30 June 2020 and concluded that they were not impaired.

2. Revenue recognition

Why significant

As disclosed in note 6 to the financial statements, the Group earned revenue from contracts with customers of \$2.08 million during the year ended 30 June 2020, which was material to the Group's performance.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We selected a sample of revenue transactions recorded for the period and tested whether appropriate documentation existed supporting the recognition and measurement of the transactions in accordance with the Group's accounting policy
- ▶ We inspected the terms of supply arrangements to test management's assessment of the composition of performance obligations and their determination of when the performance obligations in relation to the sale of goods were fulfilled
- ▶ On a sample basis, we inspected customer invoices and proof of deliveries made near 30 June 2020 to confirm whether revenue was recognised in the correct accounting period
- ▶ We searched for evidence of material post balance date credit notes to test whether revenue recognised was subsequently reversed
- ▶ Through enquiry and review, we searched for evidence of material customer rebates
- ▶ We considered the adequacy of the financial report disclosures.

3. AASB 16 Leases

Why significant

The new accounting standard AASB 16 *Leases* ("AASB 16") was effective for the Group from 1 July 2019 and is applicable to lease agreements existing on that date and any new leases entered into thereafter.

The adoption of the new standard has had a significant impact on the Group's financial position and performance, as disclosed in note 16 to the financial statements.

Adopting AASB 16 involved a number of key judgements and estimates, including:

- ▶ The application of available practical expedients
- ▶ The incremental borrowing rates applied.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We assessed the Group's processes for implementing the standard and for the ongoing accounting for leases under AASB 16
- ▶ We evaluated the Group's key judgements and estimates applied in adopting the standard and assessed whether the Group's accounting principles comply with AASB 16, including application of available practical expedients
- ▶ We tested the Group's lease contracts to assess whether the associated balances had been calculated in accordance with contract terms and the requirements of AASB 16, including the identification of fixed and variable components of lease consideration
- ▶ We assessed the completeness of the Group's identified lease arrangements
- ▶ We involved our capital and debt advisory specialists to evaluate the appropriateness of the Group's methodology and calculations used to determine the incremental borrowing rates applied
- ▶ We considered the adequacy of the financial report disclosures.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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



Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of MGC Pharmaceuticals Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.



Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in dark ink, appearing to read 'Ernst & Young'.

Ernst & Young

A handwritten signature in dark ink, appearing to be 'T G Dachs'.

T G Dachs
Partner
Perth
30 September 2020

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Additional ASX Information

EXCHANGE LISTING

MGC Pharmaceuticals Ltd shares and options are listed on the Australian Securities Exchange under ASX code MXC for Ordinary Shares and MXCOE for Listed Options. The Company also is listed on the OTC Market under OTC Code MXCLF.

SUBSTANTIAL SHAREHOLDERS (HOLDING NOT LESS THAN 5%)

As at 1 September 2020, the Company did not have any substantial shareholders.

CLASS OF SHARES AND VOTING RIGHTS

At 1 September 2020, there were 9,470 holders of 1,631,416,907 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:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- 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
- 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 1,137.

ESCROWED SECURITIES

There are currently no securities subject to escrow.

CASH USAGE

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

UNLISTED SECURITIES AS AT 1 SEPTEMBER 2020

Securities	Number of Securities on issue	Number of Holders	Name of Holders holding more than 20%	Number Held
Options exercisable at \$0.125 expiring 31/03/2021	19,900,000	18	N/A	N/A
Options exercisable at \$0.065 expiring 31/03/2021	16,000,000	18	N/A	N/A
Options exercisable at \$0.15 expiring 31/06/2021	10,000,000	3	CHIEFTAIN SECURITIES PTY LTD	5,000,000
			BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	3,000,000
Options exercisable at \$0.05 expiring 31/08/2023	17,500,000	4	CG NOMINEES (AUSTRALIA) PTY LTD	14,500,000
Options exercisable at \$0.06 expiring 31/08/2023	17,500,000	4	CG NOMINEES (AUSTRALIA) PTY LTD	14,500,000
Options exercisable at \$0.07 expiring 31/08/2023	17,500,000	4	CG NOMINEES (AUSTRALIA) PTY LTD	14,500,000
Convertible Notes	2,475,000	1	MERCER STREET GLOBAL OPPORTUNITY FUND LLC	2,475,000
Performance Rights	15,000,000	3	CHITTA LU LIMITED	7,500,000
			MR BRETT MITCHELL + MRS MICHELLE MITCHELL <MITCHELL SPRING FAMILY A/C>	3,750,000
			MR BRETT MITCHELL + MRS MICHELLE MITCHELL <LEFTHANDERS SUPER FUND A/C>	3,750,000

TOP 20 SHAREHOLDERS AS AT 1 SEPTEMBER 2020

Rank	Name	Number of Shares	% of Shares
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	120,080,182	7.36
2	MGC PHARMACEUTICALS LTD	45,993,000	2.82
3	MR GEORGE BISHAY	36,822,890	2.26
4	CITICORP NOMINEES PTY LIMITED	30,000,091	1.84
5	MR BRETT MITCHELL + MRS MICHELLE MITCHELL <MITCHELL SPRING FAMILY A/C>	22,264,444	1.36
6	C Y T INVESTMENT PTY LTD	14,000,000	0.86
7	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	10,167,392	0.62
8	MR SHADY ESKANDER	8,311,111	0.51
9	MR BRETT MITCHELL + MRS MICHELLE MITCHELL <LEFTHANDERS SUPER FUND A/C>	8,140,560	0.50
10	MR DAVID CLEMENT HOBBY	8,000,000	0.49
11	MR BENJAMIN THOMAS LANGLEY	7,388,430	0.45
12	FADCO INVESTMENTS LIMITED	6,772,613	0.42
13	MR MICHAEL SEAN NEWTON	6,500,000	0.40
14	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	6,042,727	0.37
15	CARDAZE PTY LIMITED <BOYLE FAMILY SUPER FUND A/C>	5,764,059	0.35
16	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	5,616,522	0.34
17	J & D PEOS SUPER PTY LTD <J & D PEOS SUPER FUND A/C>	5,585,262	0.34
18	BNP PARIBAS NOMS PTY LTD <DRP>	5,210,062	0.32
19	CANNVALATE PTY LTD	5,139,037	0.32
20	MS AUTUMN BLOOM	5,000,000	0.31
Total		362,798,382	22.24

RANGE OF ORDINARY SHARES AS AT 1 SEPTEMBER 2020

Range	Total Holders	Shares	%
1 - 1,000	108	8,590	0.00
1,001 - 5,000	113	492,524	0.03
5,001 - 10,000	397	3,319,722	0.20
10,001 - 100,000	6,286	291,785,211	17.86
100,001 and Over	2,566	1,335,810,860	81.90
Total	9,470	1,631,416,907	100.00

TOP 20 MXCOE HOLDERS AS AT 1 SEPTEMBER 2020

Listed Options exercisable at \$0.045 expiring 31 August 2021

Rank	Name	Number of Listed Options	% of Listed Options
1	CAPRICORN INVESTMENT PARTNERS (NOMINEES) PTY LTD <MERCHANT LEADERS FUND>	24,074,450	28.01
2	FIRST INVESTMENT PARTNERS PTY LTD	8,493,264	9.88
3	MR JOHAN SOESANDY SETIAWAN	3,857,142	4.49
4	MR SAMUEL GERSHON JACOBS + MRS SARITA DEVI JACOBS + MISS MANEKHA BRIDGETTE JACOBS <THE PHOENIX SUPERFUND A/C>	2,805,000	3.26
5	MR ELAD SEGEV	2,776,852	3.23
6	AJAVA HOLDINGS PTY LTD	1,851,850	2.15
7	MERCHANT FUNDS MANAGEMENT PTY LTD	1,851,850	2.15
8	COSSACK HOLDINGS (AUS) PTY LTD <LOXTON SUPER FUND A/C>	1,756,852	2.04
9	MAX ASSET HOLDINGS PTY LTD	1,566,666	1.82
10	MERRIWEE PTY LTD <MERRIWEE SUPER FUND A/C>	1,487,500	1.73
11	MR JASON JOHN STEPHENS	1,375,000	1.60
12	MISS MONTANA PATTERSON	1,240,655	1.44
13	JACOB'S LADDER INVESTMENTS PTY LTD	1,036,210	1.21
14	AUTO MANAGEMENT PTY LTD <THE BRANCHI FAMILY A/C>	925,925	1.08
15	EMAC INVESTMENTS HOLDINGS PTY LTD <THE EMAC SUPERFUND A/C>	925,925	1.08
16	MUTUAL TRUST PTY LTD	745,000	0.87
17	AGRICO PTY LTD <PALM SUPER FUND A/C>	555,555	0.65
18	ANDORYKA HOLDINGS PTY LTD <WAREING SUPERANNUATION A/C>	555,555	0.65
19	MR SHADY ESKANDER	555,555	0.65
20	MR PETER HOWELLS	555,555	0.65
Total		58,992,361	68.64

RANGE OF LISTED OPTIONS AS AT 1 SEPTEMBER 2020

Range	Total Holders	Shares	%
1 - 1,000	0	0	0
1,001 - 5,000	0	0	0
5,001 - 10,000	0	0	0
10,001 - 100,000	215	8,831,773	10.28
100,001 and Over	84	77,102,765	89.72
Total	299	85,934,538	100



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