

MGC PHARMACEUTICALS LTD
AND CONTROLLED ENTITIES
ABN 30 116 800 269

APPENDIX 4D

REPORTING PERIOD

Interim financial period to 31 December 2020

PREVIOUS REPORTING PERIOD

Interim financial period to 31 December 2019

Half year information given to ASX under listing rule 4.2A.3

This information contained in this report should be read in conjunction with the most recent annual report.

RESULTS FOR ANNOUNCEMENT TO MARKET

	31-Dec-20	Change %	31-Dec-19
	\$		\$
Revenue from ordinary activities*	741,911	↓ 58%	1,777,510
(Loss) / Profit after income tax from ordinary activities	(5,926,816)	↓ 50%	(11,813,157)
Net (loss) / profit for the period	(5,926,816)	↓ 50%	(11,813,157)
Dividend per share	n/a	-	n/a
Record date for determining entitlement to dividends			
No dividends have been paid or declared during the year	n/a	-	n/a

* Revenue from pharma sales increased from \$134,536 in the prior period to \$741,911 in the current period.

	31-Dec-20	30-Jun-20
NET TANGIBLE ASSETS PER ORDINARY SHARE (cents)	(0.02)	0.20

DETAILS OF SUBSIDIARIES

During the interim period there was a new subsidiary created to hold the acquired assets of Medical Cannabis Clinics, as announced to the ASX on 23 November 2020.

DIVIDENDS

n/a n/a

DIVIDENDS REINVESTMENT PLAN

n/a n/a

ASSOCIATED AND JOINT VENTURE ENTITIES

n/a n/a

FOREIGN ENTITIES ACCOUNTING STANDARD

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

AUDIT DISPUTE OR QUALIFICATION

Not applicable.

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mgc pharma



**ABN 30 116 800 269
MGC PHARMACEUTICALS LTD**

INTERIM FINANCIAL REPORT

31 DECEMBER 2020

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Corporate Directory

Directors

Brett Mitchell	Executive Chairman
Roby Zomer	Managing Director and CEO
Nativ Segev	Non-Executive Director
Ross Walker	Non-Executive Director
Stephen Parker	Non-Executive Director
Evan Hayes	Non-Executive Director

Company Secretary

Rachel Kerr
Narelle Warren

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 London Stock Exchange (LSE).

ASX Code: MXC

LSE Code: MXC

Share Registry

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

Website

www.mgcpharma.com.au

Directors' Report

The directors submit the consolidated interim financial report for MGC Pharmaceuticals and its controlled entities (the "Group" or "MGC Pharma") for the half-year ended 31 December 2020.

Directors

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

Director	Title	Appointment Date
Brett Mitchell	Executive Chairman	4 April 2013
Roby Zomer	Managing Director & CEO	15 February 2016
Nativ Segev	Non-Executive Director	15 February 2016
Ross Walker	Non-Executive Director & Head of Medical Advisory Board	15 February 2016
Stephen Parker	Non-Executive Director & Chairman of the Corporate Governance Committees	13 March 2019
Evan Hayes	Non-Executive Director & Strategic Advisor	1 September 2020

Operating Results

The consolidated losses for the Group after providing for income tax from continuing operations amounted to \$5,926,816 (31 Dec 2019: \$11,813,157).

Dividends Paid or Recommended

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

Review of Operations

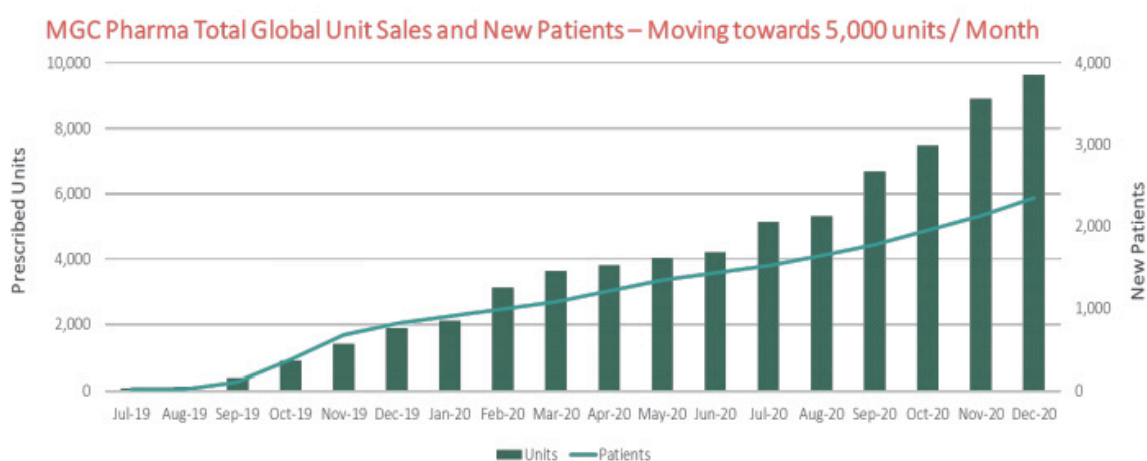
The 2021 half-year represented a strategically important period for the Group and thus far MGC Pharma has delivered significant progress on an upward growth trajectory as it delivers on its growth strategy.

This growth was driven strongly by sales of the Group's proprietary cannabinoid products, and the achievement of a number of strategically important milestones. These have ensured the Group expands its global reach and remains a global pioneer of medicinal cannabis production and distribution.

Subsequent to the half-year period, MGC Pharmaceuticals successfully listed on the main market of the London Stock Exchange in February 2021 following a strongly supported £6.5 million (~A\$11.7 million) share placement led by leading UK institutional fund managers and supported by UK family office and professional high net worth investors.

Pharma operations

The Group delivered total sales for the half year of \$741,911 in pharma revenue (2019: \$134,536).



Completion of 100% acquisition of Medicinal Cannabis Clinics

MGC Pharma completed the 100% acquisition of the operating telehealth clinic-based assets, data and intellectual property of Medicinal Cannabis Clinics (MCC), a wholly owned subsidiary of Cannvalate Pty Ltd, with over 300 patient consults conducted since completion on the 23rd of November. This follows the signing of a binding term sheet in July 2020.

Consideration of \$1 million MGC Pharma Ordinary Shares (2/3 subject to trading restrictions) and \$400,000 in cash was paid as consideration for the acquisition.

Alongside the revenue that will be generated from consults, this acquisition provides MGC Pharma with an operating platform with both import and export capacity that will significantly expand market access and provide control of the supply chain from manufacturing through to patients. The acquisition also allows the Group to continue providing its high-quality Good Manufacturing Practice (GMP) certified medications to patients in Australia and further improves profit margins while keeping its products at the current competitive prices.

First shipment of MP Line products directly to patients in Brazil

MGC Pharma's first batch of MP Line products were shipped directly to patients in Brazil in October 2020, through its binding supply and distribution agreement with Brazil-based ONIX Empreendimentos e Participações ('ONIX').

MGC Pharma is the first company globally to ship high THC formulations directly to a patient's door in Brazil, without the need to visit a pharmacy. The shipment was completed under Brazil's *Compassionate Use Program* following the receipt of patients' prescriptions provided by an ONIX referring doctor.

\$5 million cash grant to establish ArtemiC™ production in Malta

MGC Pharma has qualified for the support for a non-dilutive cash grant and has started to receive the ~\$5 million (€3.07 million) from Malta Enterprise to renovate and extend the Group's existing Clinical Research Organisation (CRO) facility in Malta to include a fully functioning GMP certified manufacturing facility for liquid dose form and its COVID-19 anti-inflammatory product, ArtemiC™.

Construction of new facility commenced during the December quarter and will be completed in mid-2021. Upon completion of the facility, the Group will be in a strong position to immediately increase ArtemiC™ production volumes and reduce logistics costs via the Malta facility due to its optimal geographic location and shipping access.

Launch of CannEpil® App

As part of its ongoing work with the Royal Melbourne Institute of Technology (RMIT), MGC Pharma launched the CannEpil® App, and is providing medical access to the International Library of Cannabinoids (ILC).

The App is a cross platform application available to download from both the Apple App Store and Google Play Store and is designed to be used by patients (or the patient's guardian) taking CannEpil® as a prescription treatment.

The App will record patient responses to medical questionnaires as part of their treatment plan and the treating practitioner will be able to view the responses in real-time.

The ILC is a world first centralised platform compiling the diverse range of existing data on the therapeutic benefits of cannabinoids. The ILC database has been designed to collect comprehensive information about clinical trials, including details of diseases and follow up treatments. It will also include information on product identifiers including genetics, growth conditions and chemical profile to provide doctors with an encyclopaedia of exhaustive information on the best treatment for patients using cannabinoids.

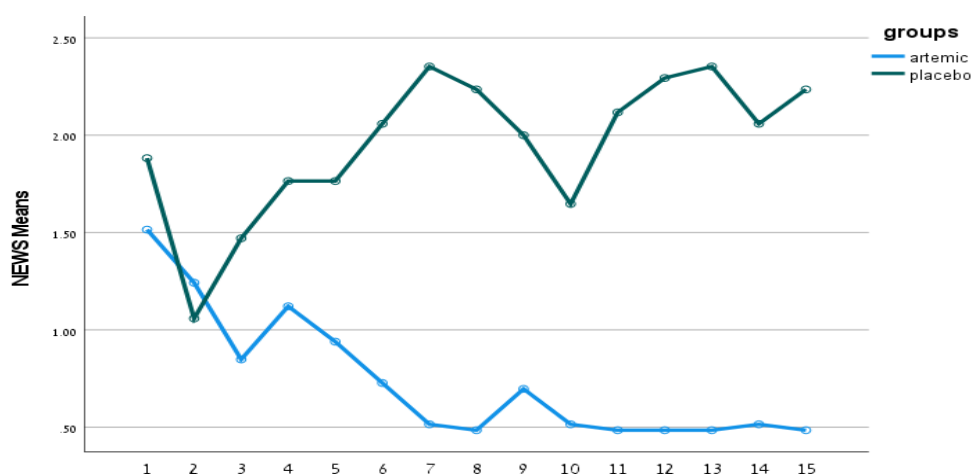
Research and development

Completion of Phase II clinical trial on COVID-19 patients

MGC Pharma's Phase II double-blind, placebo-controlled clinical trial to evaluate the safety and efficacy of anti-inflammatory treatment, ArtemiC™, on 50 patients diagnosed with COVID-19 completed. The trial included 50 patients of which 33 were in the treatment group and 17 in the placebo group and took place across three independent hospital sites across Israel and India.

The full results have demonstrated to improve the health status of COVID-19 patients by delivering a National Early Warning Score (NEWS) score of less than or equal to 2. None of the patients in the treatment group required additional oxygen, mechanical ventilation or admission to intensive care where all of these events were reported in the placebo group.

The average NEWS score of patients in the placebo group was 2.25 statistically significantly higher ($p < 0.04$) than in the treatment group – 0.5.



The trial met all the FDA requirements for a COVID-19 study including population diversity (age, medical history, and genetic diversity) and demonstrated a full safety profile with no drug related adverse events. This resulted due to ArtemiC™ and the trial being focused on the immunomodulation specific for the prevention of cytokines storm, as opposed to other immunomodulators.

Further successful results from pre-clinical glioblastoma research

Results from the ongoing pre-clinical research program focused on evaluating cannabinoid formulations in the development of a treatment of the most aggressive and therapeutically resistant brain tumour, glioblastoma, have shown further successful results.

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

The results from 18 patient tumour samples show that the Group's proprietary formulation, CBG, exerts a superior effect in impairing the major hallmarks of glioblastoma progression, i.e. fast proliferation and invasion, and particularly enhancing glioblastoma cell death. Moreover, CBG can destroy therapy-resistant glioblastoma stem cells, which are the root of cancer development and extremely resistant to various treatments.

Subsequent to the half-year, the research program has been expanded to include testing the effect of both cannabidiol ('CBD') and cannabigerol ('CBG') on tumour cells when delivered via a nanoparticle delivery system. Nanoparticles are believed to improve the bioavailability and the blood to brain barrier issues, which are being optimised using SNEDD (Self Nano-Emulsifying Drug Delivery).

If successful, this would potentially lead to a significant breakthrough in the treatment of brain cancer through oral administration (rather than invasive treatments).

Binding term sheet signed for the import and sales of CannEpi[®] in Israel

MGC Pharma executed 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 CannEpi[®] in Israel. IMC is an international medical cannabis company with a well-known suite of medical cannabis products in Israel. IMC was recently listed on the Canadian Securities Exchange (CSE:IMCC). In Europe, IMC has established a medical cannabis operation first with its distribution subsidiary in Germany and augmented by strategic agreements with EU-GMP standard certified suppliers. Under the terms of the agreement, IMC will be appointed as the exclusive wholesale importer of CannEpi[®] in Israel for a period of five years provided it meets minimum annual sales level and each purchase order is to be a minimum €50,000. IMC will also be responsible for the promotional activity and distribution of CannEpi[®].

Corporate

Strategic biopharma industry appointments to strengthen Board and leadership

The Group strengthened its Board and leadership team with the recruitment of; biopharma industry expert Evan Hayes as an Independent Non-Executive Director, Strategic Advisor, Sabina Suljaković as Qualified Person and Head of the Quality Assurance in Slovenia, and Amir Polak as Chief Technology Officer and Head of Pharmaceutical Production.

Evan Hayes is a highly experienced Board member bringing 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 and has previously held senior positions at Blackmores and BioCeuticals.

Subsequent to the period, the Group also appointed highly experienced global sales manager, Nicole Godresse as its Global Chief Sales Officer.

Nicole has over 20 years' experience in the pharmaceutical/healthcare industry, holding senior commercial roles with major multi-national companies including Eli Lilly, Johnson & Johnson, Schering-Plough, Merck Sharp & Dohme and most recently Tilray. Nicole also made significant inroads into Asia including negotiating the supply of CBD product imports into the region. Through these roles, Nicole has developed not only exceptional market knowledge and expertise, but also built a strong network of government, industry, and customer stakeholders globally.

\$15M Finance Facility

In September 2020, a convertible securities financing agreement was signed with Mercer Street Global Opportunity Fund, LLC ("Mercer"), to provide the Group with funding of up to a total of \$15 million. At 31 December 2020 the Group had drawn-down an amount of \$5,750,000 and issued convertible notes to the value of \$6,325,000 of which \$1,750,000 was converted to shares during the period. The Group has access to a further \$9,250,000 from the facility at the date of this report, at the discretion of Mercer.

Outlook

Following the London Stock Exchange listing and associated share placement, the Group is in a strong financial position to pursue identified growth initiatives. MGC Pharma's GMP certified production facility in Slovenia combined with its Malta facility currently under construction, provides the Group with significant production capacity to meet the growing global demand for products.

The Group is focused on and dedicated to delivering on its growth ambitions by progressing its key clinical research programs, continuing to expand its manufacturing capabilities, broadening its product range and expanding into new and existing key markets.

With the successful results of the phase II clinical trials on Artemic™, a phase III trial is planned to commence in the June quarter. The trial is anticipated to be a multicentre study with up to 250 patients and expand its research to encompass a wide range of inflammatory indications for the use of Artemic™ as a treatment.

Events Subsequent to Reporting Date

On 9 February 2020, the Group was officially admitted to the standard segment of the London Stock Exchange. The admission to trading followed the successful capital raise by the Group of £6,500,000 (~\$11.7 million) before costs via the issue of 440,677,967 shares.

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 9 for the half-year ended 31 December 2020.

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



Roby Zomer

Managing Director

Dated 25 February 2021

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**Building a better
working world**

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

As lead auditor for the review of the half-year financial report of MGC Pharmaceuticals Limited for the half-year ended 31 December 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 review; and
- b. No contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

T G Dachs
Partner
25 February 2021

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2020

	31-Dec-20	31-Dec-19
	\$	\$
Continuing operations		
Revenue from contracts with customers	741,911	1,777,510
Cost of sales	(490,217)	(1,612,133)
Gross profit	251,694	165,377
Other operating income	95,069	456,901
Administrative expenses	(2,812,892)	(4,117,853)
Other operating expenses	(3,128,714)	(3,219,228)
Fair value movement on financial instruments	(29,986)	-
Write-off/impairment expense	-	(5,036,029)
Operating loss	(5,624,829)	(11,750,823)
Finance costs	(305,337)	(71,484)
Finance income	3,350	9,159
Other income	-	-
Loss before income tax from continuing operations	(5,926,816)	(11,813,157)
Income tax expense	-	-
Loss for the half-year from continuing operations	(5,926,816)	(11,813,157)
Discontinued operations		
(Loss) / gain after tax for the half-year from discontinued operations	(274,551)	-
Loss for the half-year	(6,201,367)	(11,813,157)
Attributable to:		
Members of the parent entity	(6,199,712)	(11,808,156)
Non-controlling interest	(1,655)	(5,001)
	(6,201,367)	(11,813,157)
Other comprehensive income for the half-year		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on the translation of foreign operations	157,983	42,159
Other comprehensive income (net of tax) for the half-year	157,983	42,159
Total comprehensive loss for the half-year	(6,043,384)	(11,770,998)
Total comprehensive loss attributable to:		
Members of the parent entity	(6,041,729)	(11,765,997)
Non-controlling interest	(1,655)	(5,001)
	(6,043,384)	(11,770,998)
Earnings per share		
Basic, loss for the half-year attributable to ordinary equity holders of the parent	(0.38)	(0.90)
Diluted, loss for the half-year attributable to ordinary equity holders of the parent	(0.38)	(0.90)
Earnings per share for continuing operations		
Basic, loss for the half-year attributable to ordinary equity holders of the parent	(0.36)	(0.90)
Diluted, loss for the half-year attributable to ordinary equity holders of the parent	(0.36)	(0.90)

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

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	31-Dec-20 \$	30-Jun-20 \$
CURRENT ASSETS			
Cash and cash equivalents		1,536,546	1,873,373
Inventory		784,470	402,237
Trade and other receivables		1,331,893	521,684
Prepayment		191,389	71,032
Non-current assets classified as held for sale		231,570	362,657
Total Current Assets		4,075,868	3,230,983
NON-CURRENT ASSETS			
Plant and equipment	4	3,675,499	2,192,974
Intangible assets	5	1,400,000	-
Financial assets	10	534,525	673,740
Right-of-use assets	11	1,944,484	1,831,377
Total Non-Current Assets		7,554,508	4,698,091
TOTAL ASSETS		11,630,376	7,929,074
CURRENT LIABILITIES			
Trade and other payables		2,598,065	2,705,818
Deferred income		-	100,440
Liabilities directly associated with non-current assets classified as held for sale		105,112	109,254
Lease liabilities - current	11	219,951	53,924
Borrowings		72,495	-
Financial liabilities at fair value through profit or loss	6	4,359,091	-
Total Current Liabilities		7,354,714	2,969,436
NON-CURRENT LIABILITIES			
Deferred income	7	1,421,337	-
Provisions		-	19,982
Lease liabilities	11	1,814,855	1,845,300
Total Non-Current Liabilities		3,236,192	1,865,282
TOTAL LIABILITIES		10,590,906	4,834,718
NET ASSETS		1,039,470	3,094,356
EQUITY			
Contributed equity	8	64,535,077	60,149,457
Share based payment reserve		4,983,782	5,380,904
Foreign currency translation reserve		239,453	85,284
Consolidation reserve		(382,404)	(382,404)
Accumulated losses		(68,327,630)	(62,127,918)
Equity attributable to equity holders of the parent		1,048,278	3,105,323
Non-controlling interest		(8,808)	(10,967)
TOTAL EQUITY		1,039,470	3,094,356

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

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2019

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

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2020

	Contributed Equity \$	Share Based Payment Reserve \$	Foreign Currency Translation Reserve \$	Consolidation Reserve \$	Accumulated losses \$	Non- controlling interest \$	Total \$
Balance at 1 July 2020	60,149,457	5,380,904	85,284	(382,404)	(62,127,918)	(10,967)	3,094,356
Other comprehensive income	-	-	154,169	-	-	3,814	157,983
Loss after income tax expense	-	-	-	-	(6,199,712)	(1,655)	(6,201,367)
Total comprehensive loss for the period	-	-	154,169	-	(6,199,712)	2,159	(6,043,384)
Shares issued during the period (net of share issue costs)	(47,550)	-	-	-	-	-	(47,550)
Transfer to issued capital	418,000	(418,000)	-	-	-	-	-
Acquisition of business (MCC)	1,000,000	-	-	-	-	-	1,000,000
Share based payment	453,114	20,878	-	-	-	-	473,992
Equity issued to extinguish financial liabilities	971,148	-	-	-	-	-	971,148
Conversion of convertible notes	1,590,908	-	-	-	-	-	1,590,908
Balance at 31 December 2020	64,535,077	4,983,782	239,453	(382,404)	(68,327,630)	(8,808)	1,039,470

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

Consolidated Statement of Cash Flows

For the half year ended 31 December 2020

	<i>Note</i>	31-Dec-20 \$	31-Dec-19 \$
<i>Cash flows from operating activities</i>			
Receipts from customers		651,928	783,363
Payments to suppliers and employees		(3,987,591)	(5,069,615)
Payments for research expenses		(2,514,071)	(2,076,782)
Research and development rebate		-	456,901
Interest received		3,566	10,958
Interest paid		(4,786)	(161)
Net cash used in operating activities		(5,850,954)	(5,895,336)
<i>Cash flows from investing activities</i>			
Subsidiary disposed, net of cash disposed of		(2,989)	-
Acquisition of a business, net of cash acquired	5	(200,000)	-
Proceeds from sale of investments		302,823	-
Government grants received		1,443,835	-
Purchase of plant and equipment		(1,701,278)	(332,211)
Net cash used in investing activities		(157,609)	(332,211)
<i>Cash flows from financing activities</i>			
Proceeds from issue of shares		2,667	5,755,723
Proceeds from issue of convertible notes		5,750,000	-
Payment of lease liabilities		(61,951)	(288,243)
Payment of capital raising costs		(15,283)	(376,364)
Net cash provided by financing activities		5,675,433	5,091,116
Net decrease in cash and cash equivalents held		(333,130)	(1,136,431)
Cash and cash equivalents at beginning of period		1,873,373	2,354,086
Foreign exchange movement of cash		(3,697)	(187,068)
Cash and cash equivalents at end of period		1,536,546	1,030,587

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

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Notes to the Consolidated Interim Financial Statements

NOTE 1. CORPORATE INFORMATION

The consolidated interim financial report of MGC Pharmaceuticals Ltd ('MGC Pharma' or the 'Company') and its controlled entities (the "Group") for the half-year ended 31 December 2020 was authorized for issue in accordance with a resolution of the directors dated 24 February 2021.

MGC Pharmaceuticals Ltd is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (primary market) and the London Stock Exchange (secondary market).

NOTE 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Statement of Compliance

The consolidated interim financial report is a condensed general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2020 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Basis of Preparation

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

The accounting policies and methods of computation adopted in the preparation of the consolidated interim financial report for the half-year ended 31 December 2020 are consistent with those adopted and disclosed in the Group's 2020 annual financial report for the financial year ended 30 June 2020.

Going Concern

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 half-year ended 31 December 2020 the Group incurred a loss from continuing operations of \$5,926,816 (2019: \$11,813,157) and net operating cash outflows of \$5,850,954 (2019: \$5,895,336). At 31 December 2020, the consolidated group had net current liabilities of \$3,278,846 (30 June 2020: net current assets of \$261,547), including a cash and cash equivalents balance of \$1,536,546 (30 June 2020: \$1,873,373). Included in current liabilities is the financial liability at fair value through profit or loss relating to the convertible notes on issue with conversion prices from \$0.02 to \$0.035.

Subsequent to the period end, the group completed its dual listing on the London Stock Exchange on 9 February 2021, including a capital raising of £6,500,000 (\$11.7 million).

The Group's cashflow forecasts for the 12 months ending 28 February 2022 indicates that the Group has sufficient cash to meet its non-discretionary expenditure requirements. Further to the recent listing and oversubscribed capital raising on the London Stock Exchange, the Directors are satisfied that additional capital can be raised as and when required to conduct further discretionary activities, also noting that the Group has not drawn down \$9,250,000 of the existing convertible securities finance agreement ("the agreement") with Mercer Street Global Opportunity Fund, LLC ("the investor"). Any further drawdown is at the investor's discretion, and the Company having sufficient capacity under Chapter 7 of the ASX Listing Rules to issue the convertible notes, or shareholder approval being obtained.

Based on the matters detailed above, the Directors are satisfied that the going concern basis of preparation is appropriate and that the Group will be able to realise its assets and settle its obligations in the ordinary course of business over the next 12 months.

Notes to the Condensed Consolidated Financial Statements

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

The Group has adopted all 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 2020.

The adoption of these new and amended Accounting Standards and Interpretations did not result in any significant changes to the Group's accounting policies.

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

b) Significant Accounting Judgments, Estimates and Assumptions

In preparing these consolidated interim financial statements, significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements as at and for the year ended 30 June 2020, other than as noted below.

NOTE 3. REVENUE

	31-Dec-20	31-Dec-19
	\$	\$
Revenue from contracts with customers		
Pharma sales	741,911	134,536
Non-pharma sales	-	1,642,974
	741,911	1,777,510

NOTE 4. PLANT AND EQUIPMENT

During the period, the Group signed a contract with BioPharmax to complete construction on a fully functioning GMP certified manufacturing facility in Malta for liquid dose form product and the anti-inflammatory product, ArtemiC™. Construction of the facility, in progress at 31 December 2020, is 80% funded by way of grant from Malta Enterprises (refer to note 7).

	31-Dec-20	30-Jun-20
	\$	\$
Plant and equipment*		
- gross carrying amount at cost	1,958,695	1,964,672
- accumulated depreciation	(1,050,271)	(905,455)
	908,424	1,059,217
Construction in progress		
- gross carrying amount at cost	2,767,075	1,133,757
- accumulated depreciation	-	-
	2,767,075	1,133,757
Total plant and equipment	3,675,499	2,192,974
Plant and equipment movement		
Opening balance at 1 July	2,192,974	1,334,492
Additions	1,704,895	343,566
Disposal	-	(21,365)
Disposal on derecognition of subsidiary	-	(44,219)
Depreciation	(171,683)	(259,744)
Foreign currency translation	(50,687)	117,749
	3,675,499	1,470,479

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Notes to the Condensed Consolidated Financial Statements**NOTE 5. BUSINESS COMBINATION**

On 23 November 2020 MGC Pharma completed the acquisition of the assets of an operating telehealth clinic, Medical Cannabis Clinics (MCC). Alongside revenue generated from consults, this acquisition provides MGC Pharma with an operating platform with direct access to patients, along with a distribution agreement with Cannvalate, the current operator of the clinic. The acquisition also allows the Group to continue providing its high-quality GMP certified medications to patients in Australia and further improves profit margins while keeping its products at the current competitive prices. A new wholly owned subsidiary, Medicinal Cannabis Clinics Pty Ltd, has been incorporated to acquire the MCC assets.

The total purchase consideration for the business was \$1,400,000, comprising \$400,000 in cash and \$1,000,000 in ordinary shares (45,454,545 shares issued at a fair value of \$0.022 per share on the date of issue). \$200,000 of the total cash consideration was paid post balance date.

The assets recognised as a result of the acquisition are as follows:

	Fair value \$
Goodwill	1,400,000
Net identifiable assets acquired	<u>1,400,000</u>

The fair value of the acquired Goodwill is provisional as the Group has not yet obtained valuations for any separately identifiable intangibles acquired.

NOTE 6. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

In September 2020, the Company entered into a convertible note financing facility with Mercer Street Global Opportunity Fund, under which up to \$15,000,000 can be drawn down in exchange for the issue of a number of convertible notes with a face value of \$1.00 each equal to 110% of the amount of funding received. The notes are repayable at face value 12 months from the date of the respective draw down, if not converted or repurchased prior to maturity. Following the initial tranche of \$2,250,000 funding received (Tranche 1 as described below), further drawdowns under the agreement are subject to the discretion of both the Company and Mercer. Upon commencement of the facility, ordinary shares to the value of \$225,000 were issued to Mercer as transaction costs.

The notes are convertible at the discretion of Mercer at any time prior to maturity, with a conversion price as follows:

- Tranche 1 (\$2,250,000) - any conversion within two months of the issue of the Tranche 1 Notes will have a conversion price of \$0.024. After this, the conversion price will be the lower of \$0.02 or 92% of the lowest daily VWAP of the Company's shares selected by Mercer over the 10 trading days on which the Company's shares are traded on the ASX immediately prior to the issue of the conversion notice, subject to the Tranche 1 Conversion Price not being less than \$0.018.
- Subsequent tranches (up to \$12,750,000) – the conversion price will be the lower of \$0.035 or 92% of the lowest daily VWAP of the Company's shares selected by Mercer over the 10 trading days on which the Company's shares are traded on the ASX immediately prior to the issue of the conversion notice, subject to the conversion price being no less than \$0.018.

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Notes to the Condensed Consolidated Financial Statements

During the period, draw downs on the facility were as follows:

- Tranche 1 - \$2,250,000 drawn down in exchange for convertible notes with a face value of \$2,475,000. Tranche 1 notes with a face value of \$1,750,000 were converted to ordinary shares during the period, with \$725,000 remaining on issue at 31 December 2020, maturing on 15 September 2021.
- Tranche 2 - \$3,500,000 drawn down in exchange for convertible notes with a face value of \$3,850,000, maturing on 20 November 2021.

The entire hybrid contract has been designated as at fair value through profit or loss.

	31-Dec-20
Financial liabilities at fair value through profit or loss	\$
<i>Convertible notes</i>	
Opening balance – at 1 July	-
Issue of convertible notes	5,750,000
Converted to ordinary shares	(1,590,909)
Loss on remeasurement of financial liability	200,000
Closing balance – at 31 December – at fair value	4,359,091

The fair value (Level 3) of the hybrid contract was determined using valuation techniques (including Monte Carlo simulation) with the following significant inputs to the valuation at 31 December 2020:

	Tranche 1	Tranche 2
Valuation date	31 Dec 2020	31 Dec 2020
Share price	\$0.025	\$0.025
Exercise price	\$0.018 to \$0.02	\$0.018 to \$0.035
Expiry date	15 Sep 2021	20 Nov 2021
Expected future volatility	75%	75%
Risk free rate	0.06%	0.06%
Dividend yield	0%	0%

NOTE 7. DEFERRED INCOME

During the half-year, the Group received approval for a grant from Malta Enterprises to cover 80% of the construction costs of a production facility, to the value of €3,073,000 (\$4,925,000). As at 31 December, an amount of \$1,421,337 had been received from Malta Enterprise. In accordance with AASB 120, the grant will be recognised as income on a systematic basis over the useful life of the building once completed. Under the conditions of the grant, the Group is to complete construction of the facility within 6 months of 10 December 2020 and, should the Group cease operations in Malta within five years from the start of operations, Malta Enterprises retains the right to take possession of assets funded through the grant.

NOTE 8. CONTRIBUTED EQUITY

	31-Dec-20	30-Jun-20	31-Dec-20	30-Jun-20
	NUMBER	NUMBER	\$	\$
Ordinary Shares on issue, fully paid	1,788,130,339	1,575,612,348	64,535,077	60,149,457

Notes to the Condensed Consolidated Financial Statements

Reconciliation of movement in share capital

	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
Conversion of performance rights – 10 Jul 2020	8,000,000	0.031	248,000
Exercise of MXCOE options – 30 Jul 2020	37,036	0.045	1,667
Shares to consultants in lieu of cash – 12 Aug 2020	42,717,523	0.022	939,786
Issue via cleansing prospectus – 12 Aug 2020	50,000	0.020	1,000
Conversion of performance rights – 12 Aug 2020	5,000,000	0.034	170,000
Commencement shares Mercer facility ¹ – 15 Sept 2020	9,375,000	0.024	225,000
Conversion of Convertible Notes ¹ – 13 Nov 2020	12,817,884	0.018	227,273
Shares to consultants in lieu of cash – 23 Nov 2020	12,010,756	0.022	259,475
Acquisition of MCC ² – 23 Nov 2020	45,454,545	0.022	1,000,000
Conversion of Convertible Notes ¹ – 10 Dec 2020	25,773,196	0.018	454,545
Conversion of Convertible Notes ¹ – 21 Dec 2020	51,282,051	0.018	909,091
Less: costs of issue			(50,217)
Closing balance at 31 December 2020	1,788,130,339		64,535,077

¹ Refer to note 5 for further information

² Refer to note 6 for further information

NOTE 9. SHARE BASED PAYMENTS

a) Performance rights

There were no performance rights issued during the period. A summary of those on issue as at 31 December 2020 are summarised below.

Directors

On 23 December 2019, the Group issued performance rights to two Directors following approval at its AGM on 29 November 2019. During the half-year 5,000,000 performance rights lapsed as the performance milestone was not met. The following performance rights were on issue at 31 December 2020:

#	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 2021 and achieving share value of minimum 10c for a minimum 10 consecutive days	5,000,000	31 Dec 21
		10,000,000	

Notes to the Condensed Consolidated Financial Statements

The fair value of the performance rights for milestones 1 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 2, with the following inputs and assumptions:

	Milestone 2
Valuation date	29 Nov 19
Share price	\$0.0340
Exercise price	Nil
Vesting date	N/A
Expiry date	31 Dec 21
Expected future volatility	70%
Risk free rate	0.68%
Vesting hurdle	\$0.10
Dividend yield	nil
Value per right	\$0.01213

b) Options

Expiry date	Exercise price	Balance at start of period	Granted during the period	Exercised during the period	Expired/lapsed during the period	Balance unvested at period end	Balance vested and exercisable
31/03/2021	\$0.125	19,900,000	-	-	-	-	19,900,000
31/03/2021	\$0.065	16,000,000	-	-	-	-	16,000,000
30/06/2021	\$0.150	10,000,000	-	-	-	-	10,000,000
31/08/2021*	\$0.045	85,934,538	-	-	-	-	85,934,538
31/08/2023	\$0.050	17,500,000	-	-	-	-	17,500,000
31/08/2023	\$0.060	17,500,000	-	-	-	-	17,500,000
31/08/2023	\$0.070	17,500,000	-	-	-	-	17,500,000
		184,334,538	-	-	-	-	184,334,538

* Listed and tradable (ASX: MXCOE)

Share-based payment expense

For the six months ended 31 December 2020, the Group has recognised \$248,992 of share-based payment expenses in the statement of profit or loss (31 December 2019: \$637,136) relating to share-based payments to directors and employees and \$225,000 relating to share-based transaction costs on the issue on the incorporation of the convertible note facility. In the prior period an amount of \$839,500 was recognised as a share-based payment in relation to capital raising costs directly in equity.

NOTE 10. FAIR VALUE HIERARCHY

The fair values of the Group's financial assets and liabilities approximated their carrying values at 31 December 2020. The following table presents the fair value measurement hierarchy of the Group's financial assets measured at fair value at 31 December 2020.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
31 December 2020				
Financial assets				
Other financial assets (as equity investments) – opening balance	-	-	559,597	559,597
Fair value movement in the period	-	-	(25,072)	(25,072)
Closing balance at 31 December 2020	-	-	534,525	534,525

Notes to the Condensed Consolidated Financial Statements**a) 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 (\$0.214/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.

Refer to note 6 for details of the Group's financial liabilities measured at fair value at 31 December 2020.

NOTE 11. LEASES

During the half-year, there were two new leases brought to account;

- 5yr lease for the construction of a smaller Malta facility, with a 5yr option to extend, and
- Additional space added to the office in Slovenia .

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

	31-Dec-20
Right-of-use assets	\$
Opening balance at 1 July	1,831,377
Additions of right-of-use assets in period	190,060
Depreciation of right-of-use assets	(76,953)
As at 31 December 2020	1,944,484

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

	31-Dec-20
Lease liabilities	\$
Opening balance at 1 July	1,899,225
Additions to lease liabilities	190,060
Interest on lease liabilities	75,551
Lease payments completed	(130,030)
As at 31 December 2020	2,034,806
Current	219,951
Non-current	1,814,855
Total lease liability	2,034,806

NOTE 12. COMMITMENTS AND CONTINGENT LIABILITIES

There have been no significant changes to commitments and contingent liabilities since 30 June 2020, with exception to the below:

- An agreement has been signed with Cannvalate to complete the clinical research studies on CannEpi[®] for a cost of \$1,000,000. As at 31 December 2020 no works had commenced and therefore no liability has been recognised in the financial statements.
- A second lease has been signed with Malta Enterprise, which includes a commitment to invest €3,841,200 by way of improvements on the premises within three years. The Group has received a grant to cover 80% of these costs up to €3,073,000 (~\$4,925,000) (refer to Note 7) and construction on the facility to produce Artemic is underway with a construction contract signed with BioPharmax with completion expected in September 2021 (refer to Note 4). As at 31 December an amount of €1,044,718 (~\$1,674,500) had been incurred towards this commitment.

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Notes to the Condensed Consolidated Financial Statements**NOTE 13. RELATED PARTY TRANSACTIONS**

There have been no material changes to related parties since 30 June 2020.

NOTE 14. EVENTS SUBSEQUENT TO REPORTING DATE

On 9 February 2020, the Group was officially admitted to the standard segment of the London Stock Exchange. The admission to trading followed the successful capital raise by the Group of £6,500,000 (\$11.7M) before costs via the issue of 440,677,967 shares.

With exceptions to those noted above, there have been no other matters or circumstances that have arisen since 31 December 2020 that have significantly affected, or may significantly affect:

- (i) The Group's operations in future financial years, or
- (ii) The results of those operations in future financial years, or
- (iii) The Group's state of affairs in future financial years.

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Directors' Declaration

The Directors of the Company declare that:

1. the interim financial statements and notes, are in accordance with the *Corporations Act 2001* and:
 - a) comply with Australian Accounting Standard AASB134 Interim financial reporting and the Corporations Regulations 2001; and
 - b) give a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half year ended on that date; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Roby Zomer

Managing Director

Dated 25 February 2021

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

Report on the half-year financial report

Conclusion

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

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
25 February 2021

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