

MGC PHARMACEUTICALS LTD
AND CONTROLLED ENTITIES
ABN 30 116 800 269

APPENDIX 4D

REPORTING PERIOD

Interim financial period to 31 December 2021

PREVIOUS REPORTING PERIOD

Interim financial period to 31 December 2020

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-21 \$ | Change % | 31-Dec-20 \$ |
|-----------------------------------------------------------|-----------------|----------|-----------------|
| Revenue from ordinary activities* | 2,566,111 | ↑ 246% | 741,911 |
| (Loss) / Profit after income tax from ordinary activities | (7,604,868) | ↑ 28% | (5,926,816) |
| Net (loss) / profit for the period | (8,051,227) | ↑ 30% | (6,201,367) |
| 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 \$2,308,299 in the current period, with the balance of revenue relating to consulting services from the Group's clinical research organisation.

| | 31-Dec-21 | 30-Jun-21 |
|-------------------------------------------------------|-----------|-----------|
| NET TANGIBLE ASSETS PER ORDINARY SHARE (cents) | 0.42 | 0.74 |

DETAILS OF SUBSIDIARIES

During the period, the Group acquired a 54% interest in MGC Pharmaceutical sro (Czech Republic), which in turn held a 100% interest in MGC Pharmaceuticals Ltd (Russia). The acquisition occurred via a share transfer with nil consideration.

DIVIDENDS

DIVIDENDS REINVESTMENT PLAN

ASSOCIATED AND JOINT VENTURE ENTITIES

| | |
|-----|-----|
| n/a | n/a |
| n/a | n/a |
| n/a | n/a |

FOREIGN ENTITIES ACCOUNTING STANDARD

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

AUDIT DISPUTE OR QUALIFICATION

The independent auditor's review report includes an unqualified conclusion, with an emphasis of matter on going concern, referring to the fact that the entity will require additional funds to continue with its pipeline of works over the coming 12 months.

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mgc pharma



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

INTERIM FINANCIAL REPORT

31 DECEMBER 2021

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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

David Lim
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 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 2021.

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 \$7,604,868 (31 Dec 2020: \$5,926,816).

Dividends Paid or Recommended

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

Review of Operations

Key Highlights:

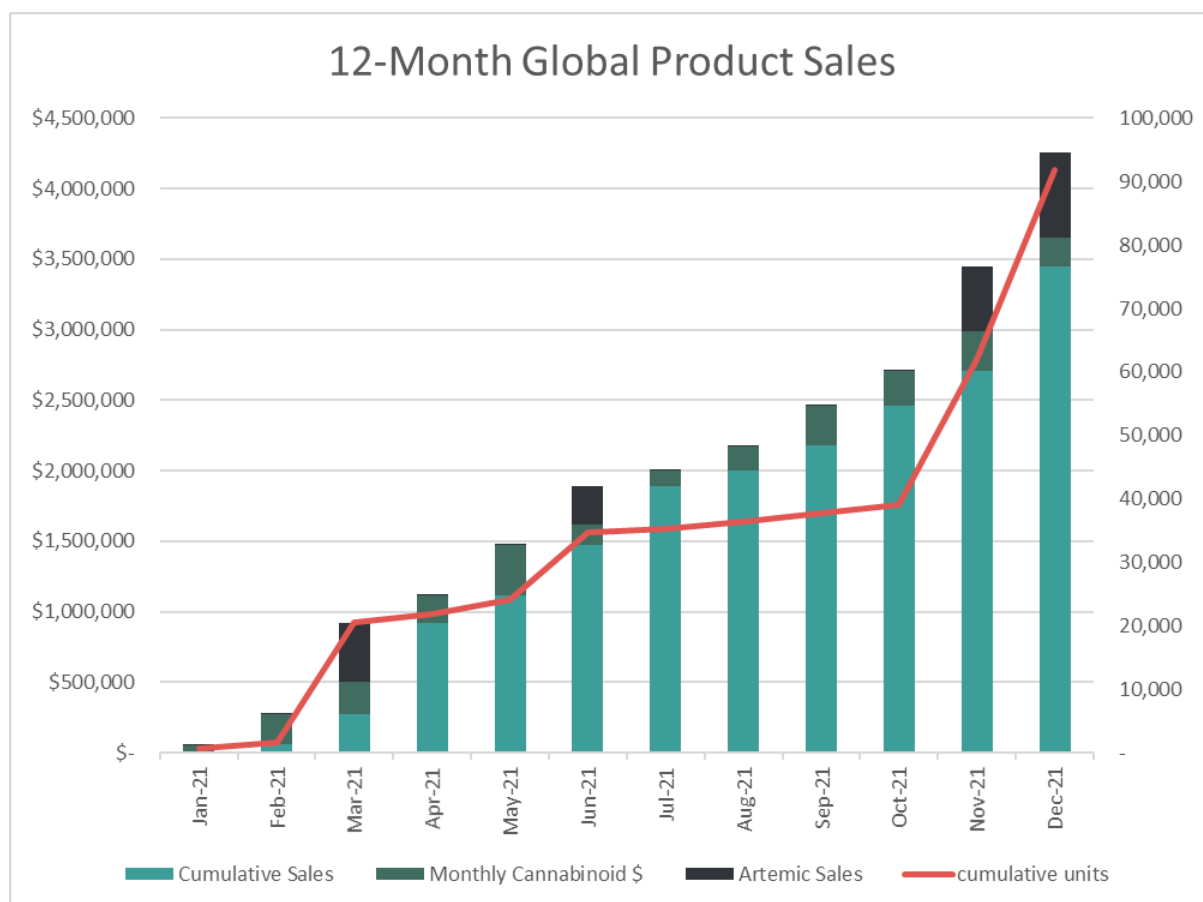
- **Strong sales of \$2.56 million for the half-year**
- **£5.5 (\$10.4) million capital raise completed in December 2021**
- **US\$24 (\$33) million supply and distribution agreement signed with US-based company, AMC Holdings**
- **Certificate of Free Trade in Europe approved for ArtemiC**
- **Submission of Cannabinoid Drug Delivery System Patent to the Slovenian Intellectual Property Office**
- **Completion of Malta Production Facility on schedule and within budget**

Roby Zomer, Co-founder and Managing Director of MGC Pharma, commented:

"The second half of 2021 saw the completion of a number of projects which have occupied the Company's focus for some time and has proved our dedicated commitment to achieving our goals. The Malta production facility has been finished and is due to be commissioned imminently, MGC Pharma has been granted a certificate of Free Trade in Europe for the company's ArtemiC™ supplement, and the UK has now approved CannEpi+ for import. Further to this we have made material strides in advancing Emergency Use Authorisation in multiple jurisdictions including the USA and India, as well as progressing stage II and III trials across the world.

As a company and management team, we are focused on gaining regulatory approval for our pharmaceutical products. Whilst this process is not always smooth, I remain confident in our products and our ability to achieve just this, which will result in better outcomes for patients globally."

The period saw the Company achieve its strongest half-year result to date, with sales of ~\$2.56 million. This figure excludes the US\$750,000 (\$1.06 million) deposit received from AMC Holdings Inc (AMC) during the period, which will be recognised as revenue when the products are dispatched. The increase in sales revenue was largely influenced by the strong sales of ArtemiC™, the Company's COVID-19 supplement, with sales of ArtemiC™ during the period totalling ~\$1.06 million, representing ~45% of product sales for the period (the balance of sales amounting to consulting services). MGC Pharma also achieved ~\$1.25 million of cannabinoid products sales. The balance of revenue outside of the abovementioned product sales relates to consultancy services provided to third parties from its wholly owned Clinical Research Organisation, MedicaNL.



Review of Operations

AMC Holdings Agreement

On August 26, the Company announced the execution of a landmark supply and distribution agreement with US based company AMC Holdings Inc. (AMC), the terms of which include a minimum order of US\$24 (\$33) million over 3 years, an initial 1st year order commitment of US\$3 (\$4.2) million, and a US\$750,000 (\$1.06 million) deposit which was received during the half-year. The Agreement also stipulates that AMC will provide a National Clinical Trial Number to allow for MGC Pharma products to be imported into the US and used in clinical trials.

An initial order of 1,000 units of CimetrA™ was received during the period under the Agreement with AMC, with the units to be used by research teams as the products undergo Internal Review Board (IRB) examination at a number of institutions, including the University of South Florida, and the Holy Cross Hospital in Fort Lauderdale, Florida. Acceptance by the IRBs is the first step to obtaining a National Clinical Trial Number. This Agreement is a crucial achievement in the expansion of MGC Pharma into the US market and in the Company's overall growth strategy. Further to this, AMC has engaged Morgan Lewis & Bockius, a leading US pharmaceutical sector law firm, to seek FDA approval for CimetrA™.

CimetrA™ approved for import for Emergency Use Authorisation in India

MGC Pharma has been granted approval to import samples of CimetrA™ into India by the Indian Central Drugs Standard Organisation in order to facilitate final product testing required for the grant of Emergency Use Authorisation for the treatment of patients with COVID-19. If the final testing phase is successful, the temporary import approval will be converted to a permanent approval once CimetrA™ has been registered as a medicine in India under the Emergency Use Authorisation Protocols. This process for Emergency Use Authorisation is still ongoing, and we remain committed to achieving this.

MGC Pharma also conducted an open label controlled observational trial for CimetrA™ at the Mahatma Gandhi Mission's Medical College and Hospital as part of the registration process for CimetrA™ in India for Emergency Use Authorisation. The Trial was conducted on 20 hospitalised patients, including ten patients who were in need

of an oxygen supply, and ten who were on mechanical ventilation. In order to meet the physiological limitation of patients with severe cases of COVID-19, the study used a Nasal Formulation, produced in a food grade GMP facility, and released as ArtemiC™ to the study. The results demonstrated for the first time the efficacy of CimetrA™ in the treatment of patients with severe COVID-19.

UK Import Permit granted for CannEpiL+™

In September, the Medicines and Healthcare Products Regulatory Agency (MHRA) approved CannEpiL+™ for import into the UK through MGC Pharma's clinical access partner Elite PharmaCo. This was the first time a cannabis-based treatment for Epilepsy, currently in Clinical Trial phase, has been approved for import by UK authorities. The treatment will be made available to ten patients on compassionate grounds for six months with treatment data collected in an App provided by Alta Flora.

Certificate of Free Trade in Europe for ArtemiC™

MGC Pharma was granted a Certificate of Free Trade in Germany and the European Union for the Company's proprietary nutraceutical food supplement, ArtemiC™ following the successful completion of a Phase II, multi-centre Clinical Trial, demonstrating the enhanced recovery of patients with COVID-19 over the placebo control group. The German Certificate will accelerate entry of ArtemiC™ into both the EU and to other markets.

Delivery of \$1m order to SwissPharmaCann AG

In November, the company announced the completed delivery of the ~\$1,000,000 ArtemiC™ order from Swiss PharmaCan A (SPC).

Research and Development

Dose finding Study

In November, the Rambam Medical Centre's Ethics Committee in Israel approved CimetrA™ for a dose finding study to determine the most effective concentrations of active ingredients for dosage, as well as validating the anti-inflammatory and immune-modulatory effects of CimetrA™. The company will recruit 240 patients into the study in sites in Israel, South Africa, Russia, and the USA.

Clinical Study on ArtemiC™ Support on Long COVID Patients

A Clinical Study is underway with MGC Pharma partners Swiss PharmaCan AG and Glow LifeTech Ltd, to determine the influence of ArtemiC Support® in patients with Long COVID syndrome. The Company received Ethics Committee approval from Spanish research foundation, IDIAP Jordi Gol, in December 2021, and the study will enrol a total of 150 patients suffering from post-acute COVID syndrome (Long COVID syndrome). Patients will take ArtemiC Support® for 6 weeks under supervision of their doctor, with their progress measured against a Post-COVID Functional Scale (PCFS), and a 10-point Likert scale, one, two, three and six weeks after treatment commences.

Malta Facility

Construction of MGC Pharma's state-of-the-art production and manufacturing facility in Malta was completed on schedule in October, and within the parameters of the €3.1 (\$4.8) million cash grant from the Maltese Government. The production facility will have the capacity to produce over 20,000 units in liquid dose form per day, which is double that originally planned, making it an important part of MGC's manufacturing pipeline, and to meet CimetrA™'s near term demand. The facility is currently going through the commissioning stage, whilst also completing the approval process to obtain a GMP licence.



Submission of Cannabinoid Drug Delivery System Patent

On July 15, MGC Pharma announced that it had submitted a Patent Application for a proprietary Cannabinoid Drug Delivery System to the Slovenian Intellectual Property Office. This is a formulation developed in partnership with Graft Polymer which enables higher concentrations of CBD to pass across biological membranes such as the Blood Brain Barrier, and thereby more effectively treating neurological conditions such as Epilepsy and Dementia. The Application was accepted in Slovenia and the Company anticipates the patent will be issued in the next 10 months.

Financial and Corporate

£5.5m Capital Raising Completed

In November, MGC Pharma completed a £5.5 (\$10.4) million share placement, with strong support from UK institutional investors and a US based fund. The net proceeds of the raise will be used to: advance CimetrA™ Emergency Use Authorisation applications and testing procedures in five key countries in Central/Eastern Europe and Central Asia; cover costs of additional CimetrA™ dosing trials in USA and Russia to comply with FDA prerequisites for approval, and CannEpil® clinical trials in the US with US Distribution partner AMC Holdings Inc.; in addition to general working capital.

Outlook

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.

Events Subsequent to Reporting Date

Refer to note 13 of the consolidated interim financial report for details of events that occurring after the reporting period.

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 2021.

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



Brett Mitchell

Executive Chairman

Dated 28 February 2022



**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 Ltd for the half-year ended 31 December 2021, 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;
- b. No contraventions of any applicable code of professional conduct in relation to the review; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

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

Ernst & Young

T G Dachs
Partner
28 February 2022

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2021

| | | 31-Dec-21 | 31-Dec-20 |
|--------------------------------------------------------------------------------------|---|--------------------|--------------------|
| | | \$ | \$ |
| Continuing operations | | | |
| Revenue from contracts with customers | 3 | 2,566,111 | 741,911 |
| Cost of sales | | (1,952,190) | (490,217) |
| Gross profit | | 613,921 | 251,694 |
| Other operating income | | 12,314 | 95,069 |
| Administrative expenses | | (4,629,854) | (2,812,892) |
| Other operating expenses | | (2,613,803) | (3,128,714) |
| Fair value movement on financial instruments | 6 | (608,516) | (29,986) |
| Write-off/impairment expense | | (266,903) | - |
| Operating loss | | (7,492,841) | (5,624,829) |
| Finance costs | | (112,408) | (305,337) |
| Finance income | | 381 | 3,350 |
| Other income | | - | - |
| Loss before income tax from continuing operations | | (7,604,868) | (5,926,816) |
| Income tax expense | | - | - |
| Loss for the half-year from continuing operations | | (7,604,868) | (5,926,816) |
| Discontinued operations | | | |
| (Loss) / gain after tax for the half-year from discontinued operations | | (446,359) | (274,551) |
| Loss for the half-year | | (8,051,227) | (6,201,367) |
| Attributable to: | | | |
| Members of the parent entity | | (7,885,117) | (6,199,712) |
| Non-controlling interest | | (166,110) | (1,655) |
| | | (8,051,227) | (6,201,367) |
| Other comprehensive (loss)/income for the half-year | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Exchange differences on the translation of foreign operations | | (190,488) | 157,983 |
| Other comprehensive income (net of tax) for the half-year | | (190,488) | 157,983 |
| Total comprehensive loss for the half-year | | (8,241,715) | (6,043,384) |
| Total comprehensive loss attributable to: | | | |
| Members of the parent entity | | (8,043,661) | (6,041,729) |
| Non-controlling interest | | (198,054) | (1,655) |
| | | (8,241,715) | (6,043,384) |
| Earnings per share | | | |
| Basic loss for the half-year attributable to ordinary equity holders of the parent | | (0.33) | (0.38) |
| Diluted loss for the half-year attributable to ordinary equity holders of the parent | | (0.33) | (0.38) |
| Earnings per share for continuing operations | | | |
| Basic loss for the half-year attributable to ordinary equity holders of the parent | | (0.31) | (0.36) |
| Diluted loss for the half-year attributable to ordinary equity holders of the parent | | (0.31) | (0.36) |

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

Consolidated Statement of Financial Position

As at 31 December 2021

| | Note | 31-Dec-21 \$ | 30-Jun-21 \$ |
|------------------------------------------------------------|------|-------------------|-------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 8,064,812 | 5,433,241 |
| Inventory | | 984,559 | 872,444 |
| Trade and other receivables | | 1,941,384 | 2,348,634 |
| Prepayments | | 1,346,937 | 546,576 |
| Disposal group classified as held for sale | | 174,617 | 280,475 |
| Total Current Assets | | 12,512,309 | 9,481,370 |
| NON-CURRENT ASSETS | | | |
| Plant and equipment | 4 | 7,772,077 | 5,272,202 |
| Intangible assets and goodwill | 5 | 7,082,775 | 7,048,880 |
| Financial assets | | 725,411 | 564,186 |
| Right-of-use assets | 10 | 1,939,360 | 1,869,006 |
| Total Non-Current Assets | | 17,519,623 | 14,754,274 |
| TOTAL ASSETS | | 30,031,932 | 24,235,644 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 3,125,746 | 1,796,235 |
| Deferred revenue | 7 | 1,061,022 | - |
| Liabilities directly associated with disposal group | | 34,157 | 89,659 |
| Financial liabilities at fair value through profit or loss | 6 | 2,318,036 | 4,034,763 |
| Lease liabilities - current | | 151,124 | 209,433 |
| Total Current Liabilities | | 6,690,085 | 6,130,090 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income | 7 | 3,062,189 | 2,506,281 |
| Lease liabilities – non-current | 10 | 1,913,904 | 1,773,374 |
| Total Non-Current Liabilities | | 4,976,093 | 4,279,655 |
| TOTAL LIABILITIES | | 11,666,178 | 10,409,745 |
| NET ASSETS | | 18,365,754 | 13,825,899 |
| EQUITY | | | |
| Contributed equity | 8 | 97,119,860 | 84,511,983 |
| Share based payment reserve | | 7,773,553 | 7,490,483 |
| Foreign currency translation reserve | | 53,837 | 212,381 |
| Consolidation reserve | | (382,404) | (382,404) |
| Accumulated losses | | (85,883,013) | (77,997,896) |
| Equity attributable to equity holders of the parent | | 18,681,833 | 13,834,547 |
| Non-controlling interest | | (316,079) | (8,648) |
| TOTAL EQUITY | | 18,365,754 | 13,825,899 |

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

Consolidated Statement of Changes in Equity

| For the half year ended 31 December 2021 | 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/(loss) | - | - | 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 |
| Balance at 1 July 2021 | 84,511,983 | 7,490,483 | 212,381 | (382,404) | (77,997,896) | (8,648) | 13,825,899 |
| Other comprehensive income | - | - | (158,544) | - | - | (31,944) | (190,488) |
| Loss after income tax expense | - | - | - | - | (7,885,117) | (166,110) | (8,051,227) |
| Total comprehensive loss for the period | - | - | (158,544) | - | (7,885,117) | (198,054) | (8,241,715) |
| Shares issued during the period (net of share issue costs) | 9,255,943 | - | - | - | - | - | 9,255,943 |
| Exercise of options | 509,082 | - | - | - | - | - | 509,082 |
| Share based payments | 31,500 | 603,720 | - | - | - | - | 635,220 |
| Exercise of performance rights | 320,650 | (320,650) | - | - | - | - | - |
| Acquisition of new entities | - | - | - | - | - | (109,377) | (109,377) |
| Conversion of convertible notes | 2,490,702 | - | - | - | - | - | 2,490,702 |
| Balance at 31 December 2021 | 97,119,860 | 7,773,553 | 53,837 | (382,404) | (85,883,013) | (316,079) | 18,365,754 |

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

Consolidated Statement of Cash Flows

For the half year ended 31 December 2021

| <i>Note</i> | 31-Dec-21 | 31-Dec-20 |
|------------------------------------------------------------------|--------------------|--------------------|
| | \$ | \$ |
| <i>Cash flows from operating activities</i> | | |
| Receipts from customers | 3,315,304 | 651,928 |
| Payments to suppliers and employees | (7,333,069) | (3,987,591) |
| Payments for research expenses | (1,383,217) | (2,514,071) |
| Grants received | 12,314 | - |
| Interest received | 526 | 3,566 |
| Interest paid | (5,014) | (4,786) |
| Net cash used in operating activities | (5,393,156) | (5,850,954) |
| <i>Cash flows from investing activities</i> | | |
| Subsidiary disposed, net of cash disposed of | - | (2,989) |
| Acquisition of a business, net of cash acquired | 151,426 | (200,000) |
| Proceeds from sale of investments | - | 302,823 |
| Payments for investments | (155,971) | - |
| Government grants received | 573,933 | 1,443,835 |
| Purchase of plant and equipment | (2,371,752) | (1,701,278) |
| Net cash used in investing activities | (1,802,364) | (157,609) |
| <i>Cash flows from financing activities</i> | | |
| Proceeds from issue of shares | 10,703,451 | 2,667 |
| Proceeds from issue of convertible notes | - | 5,750,000 |
| Payment of lease liabilities | (139,589) | (61,951) |
| Payment of capital raising costs | (751,236) | (15,283) |
| Net cash provided by financing activities | 9,812,626 | 5,675,433 |
| Net increase/(decrease) in cash and cash equivalents held | 2,617,106 | (333,130) |
| Cash and cash equivalents at beginning of period | 5,433,241 | 1,873,373 |
| Foreign exchange movement of cash | 14,465 | (3,697) |
| Cash and cash equivalents at end of period | 8,064,812 | 1,536,546 |

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 2021 was authorised for issue in accordance with a resolution of the directors dated 28 February 2022.

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 2021 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 and liabilities. 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 2021 are consistent with those adopted and disclosed in the Group's 2021 annual financial report for the financial year ended 30 June 2021.

Going Concern

During the half-year ended 31 December 2021 the Group incurred a loss from continuing operations of \$7,604,868 (2020: \$5,926,816) and net operating cash outflows of \$5,393,156 (2020: \$5,850,954). At 31 December 2021, the consolidated group had a working capital surplus of \$5,822,224 (30 June 2021: \$3,351,280), including a cash and cash equivalents balance of \$8,064,812 (30 June 2021: \$5,433,241). Within the current liabilities are convertible notes with a face value of \$2,100,000 due 24 November 2022, which at the date of this report are favourable for the holder to elect to convert to equity.

The Group's cashflow forecasts for the 12 months ending 28 February 2023 indicate that the Group will require additional capital to meet its expenditure requirements and carry out its planned activities. Further to the recent listing and capital raising of \$10.4 million on the London Stock Exchange in November 2021, the Directors are satisfied that additional capital can be raised as and when required to meet its current commitments and further planned activities.

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.

The consolidated interim financial report has 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, there is significant uncertainty as to whether the Group will be able to meet its debts as and when they fall due and thus continue as a going concern. The consolidated interim financial report does not include any adjustments relating to the recoverability and classification of the recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Notes to the Condensed Consolidated Financial Statements

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 2021.

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 2021.

NOTE 3. REVENUE

| | 31-Dec-21 | 31-Dec-20 |
|---------------------------------------------------------------------------|------------------|----------------|
| | \$ | \$ |
| Revenue from contracts with customers | | |
| Pharma sales | 2,308,299 | 741,911 |
| Consulting services (<i>clinical research fees and clinic consults</i>) | 257,812 | - |
| | 2,566,111 | 741,911 |

NOTE 4. PLANT AND EQUIPMENT

During the period, the Group completed construction on a manufacturing facility in Malta for liquid dose form product and the anti-inflammatory product, ArtemiC™. Although construction has completed, at 31 December 2021 the plant is under commissioning with submissions for a GMP licence to follow. The facility is 80% funded by way of grant from Malta Enterprises (refer to note 7).

| | 31-Dec-21 | 30-Jun-21 |
|-------------------------------------|------------------|------------------|
| | \$ | \$ |
| Plant and equipment | | |
| - gross carrying amount at cost | 983,762 | 1,938,890 |
| - accumulated depreciation | (164,902) | (1,105,797) |
| | 818,860 | 833,093 |
| Construction in progress | | |
| - gross carrying amount at cost | 6,953,217 | 4,439,109 |
| - accumulated depreciation | - | - |
| | 6,953,217 | 4,439,109 |
| Total plant and equipment | 7,772,077 | 5,272,202 |
| Plant and equipment movement | | |
| Opening balance at 1 July | 5,272,202 | 2,192,974 |
| Additions | 2,702,710 | 3,538,808 |
| Disposal | - | (68,417) |
| Depreciation | (164,902) | (340,024) |
| Foreign currency translation | (37,933) | (51,139) |
| | 7,772,077 | 5,272,202 |

Notes to the Condensed Consolidated Financial Statements

NOTE 5. INTANGIBLE ASSETS AND GOODWILL

Medicinal Cannabis Clinics (MCC)

On 23 November 2020 MGC Pharma completed the acquisition of the business of an operating telehealth clinic, Medicinal 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 cannabinoid products 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 business.

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).

The acquisition accounting which had previously been provisionally determined was finalised during the period and 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 carrying value of the Group's goodwill at 31 December 2021 was as follows:

| | 31-Dec-21 \$ | 30-Jun-21 \$ |
|---------------------------------------------------------|------------------|------------------|
| Opening balance at 1 July | 7,048,880 | - |
| - Goodwill on acquisition of Medicinal Cannabis Clinics | - | 1,400,000 |
| - Goodwill on acquisition of MedicaNL | - | 5,648,880 |
| - Foreign currency translation | 33,895 | - |
| Total Goodwill | 7,082,775 | 7,048,880 |

*The provisional goodwill arising from the MedicaNL acquisition is not yet at a stage to be reliably determined or allocated to cash generating units. The Group assessed that there were no impairment triggers in relation to the unallocated provisional goodwill at 31 December 2021.

Acquisition of subsidiary – asset acquisition

During the period, the Group acquired a 54% interest in MGC Pharmaceutical sro (Czech Republic), which in turn held a 100% interest in MGC Pharmaceuticals Ltd (Russia). The acquisition occurred via a share transfer with nil consideration. The acquiree did not meet the definition of a business and therefore the acquisition was accounted for as an asset acquisition. In the previous financial year, loan funds of \$546,995 had been advanced to MGC Pharmaceutical sro. The loan was classified as a financial asset at fair value through profit or loss due to the equity risk associated with the loan, with a fair value determined to be nil at 30 June 2021. During the half-year, a fair value gain of \$418,595 was recognised on the loan on the basis of the fair value of the net assets of MGC Pharmaceutical sro acquired.

A non-controlling interest of \$109,377 was recognised at the acquisition date. The non-controlling interest's share of loss for the period was \$166,110 and the non-controlling interest's share of other comprehensive income for the period was \$31,944.

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Notes to the Condensed Consolidated Financial Statements

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

Convertible notes

In September 2020, the Company entered into a convertible note financing facility with Mercer Street Global Opportunity Fund (Mercer), 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 facility expires on 8 March 2022. 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.

During November 2021, the Company executed an extension to the \$2,100,000 convertible notes on issue allowing Mercer an additional 12 months to convert the notes into ordinary shares.

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

- 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.

The company made no requests for additional draw downs on the facility during the period. The entire hybrid contract has been designated as at fair value through profit or loss.

| | 31-Dec-21 \$ | 30-Jun-21 \$ |
|-------------------------------------------------------------------|------------------|------------------|
| Financial liabilities at fair value through profit or loss | | |
| <i>Convertible notes</i> | | |
| Opening balance – at 1 July | 4,034,763 | - |
| Issue of convertible notes | - | 5,750,000 |
| Converted to ordinary shares | (2,490,702) | (4,810,641) |
| Loss on remeasurement of financial liability | 773,975 | 3,095,404 |
| Closing balance – fair value | 2,318,036 | 4,034,763 |

The fair value (Level 3) of the hybrid contract was determined using valuation techniques including use of a Black-Scholes option pricing model, with estimates of projected conversion prices and the following significant inputs to the valuation at 31 December 2021 and 30 June 2021:

| | Tranche 2 | Tranche 2 |
|----------------------------|---------------------------------|---------------------------------|
| Valuation date | 31 December 2021 | 30 June 2021 |
| Share price | \$0.037 | \$0.037 |
| Exercise price | \$0.018 to \$0.035 ² | \$0.018 to \$0.035 ¹ |
| Expiry date | 20 Nov 2022 | 20 Nov 2021 |
| Expected future volatility | 70% | 70% |
| Risk free rate | 0.05% | 0.05% |
| Dividend yield | 0% | 0% |

¹ calculated using a weighted average of \$0.031

² calculated using a weighted average of \$0.033

Loan receivable

Refer to Note 5 for details of the loan advanced to MGC Pharmaceutical sro and classified as fair value through profit or loss, including the fair value gain recognised during the period. Subsequent to the acquisition of MGC Pharmaceutical sro, the loan eliminates on consolidation. As part of the acquisition, the group acquired a loan to a third party, which was accounted for to a fair value of nil resulting in an additional loss of \$253,136.

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Notes to the Condensed Consolidated Financial Statements

NOTE 7. DEFERRED INCOME AND REVENUE

Current

a) Deferred Revenue

| | 31-Dec-21 | 30-Jun-21 |
|--------------------------------------------|------------------|------------------|
| | \$ | \$ |
| Deferred income - Malta grant ¹ | 38,762 | 2,506,281 |
| AMC Holdings deposit ² | 1,022,260 | |
| Closing balance | 1,061,022 | 2,506,281 |

Non-Current

b) Deferred Revenue

| | | |
|--------------------------------------------|------------------|----------|
| Deferred income - Malta grant ¹ | 3,062,189 | - |
| Closing balance | 3,062,189 | - |

¹ The Group has 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 \$3,100,951 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. The Company expects to receive additional grant funds post balance date, following review and approval by Malta Enterprise of its final grant submission.

² During the period, MGC Pharma signed a distribution agreement with US Based AMC Holdings Inc. Under the terms of the agreement, AMC were to pay US\$750,000 as an advance payment prior to receiving their first order of CimetrA. The approval process for this order remains underway, and is anticipated to be completed in the coming months.

NOTE 8. CONTRIBUTED EQUITY

| | 31-Dec-21 | 30-Jun-21 | 31-Dec-21 | 30-Jun-21 |
|--------------------------------------|----------------------|----------------------|-------------------|-------------------|
| | NUMBER | NUMBER | \$ | \$ |
| Ordinary Shares on issue, fully paid | 2,698,569,008 | 2,319,502,595 | 95,319,860 | 80,311,983 |
| Unissued shares | - | - | 1,800,000 | 4,200,000 |
| | 2,698,569,008 | 2,319,502,595 | 97,119,860 | 84,511,983 |

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Notes to the Condensed Consolidated Financial Statements

Reconciliation of movement in share capital

| | No. Of Shares | Issue Price | Amount |
|----------------------------------------------------------------------|----------------------|-------------|-------------------|
| Opening balance of 1 July 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 – 15 Sept 2020 | 9,375,000 | 0.024 | 225,000 |
| Conversion of Convertible Notes – 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 – 23 Nov 2020 | 45,454,545 | 0.022 | 1,000,000 |
| Conversion of Convertible Notes – 10 Dec 2020 | 25,773,196 | 0.018 | 454,545 |
| Conversion of Convertible Notes – 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 |
| Opening balance of 1 July 2021 | 2,319,502,595 | | 84,511,983 |
| Options exercised – 8 Jul 2021 & 9 Sept 2021 | 11,312,923 | 0.045 | 509,082 |
| Exercise of employee performance rights | 4,450,000 | 0.061 | 271,450 |
| Exercise of Director performance rights | 1,200,000 | 0.045 | 49,200 |
| Conversion of Convertible Notes – 8 Jul 2021 ¹ | 14,792,899 | 0.038 | 562,130 |
| Conversion of Convertible Notes – 3 Sept 2021 ¹ | 35,714,285 | 0.054 | 1,928,571 |
| Placement – 6 Dec 2021 | 275,000,000 | 0.037 | 10,194,370 |
| Issued to extend convertible note maturity – 8 Dec 2021 ¹ | 750,000 | 0.037 | 31,500 |
| Conversion of unissued shares (MedicaNL acquisition) | 35,846,306 | - | - |
| Less: costs of issue | | | (938,426) |
| Closing balance at 31 December 2021 | 2,698,569,008 | | 97,119,860 |

¹ Refer to note 6 for further information

NOTE 9. SHARE BASED PAYMENTS

a) Performance rights

There were no performance rights granted during the period. A summary of those on issue as at 31 December 2021 are summarised below.

Director Rights

| Description | Opening Balance | Granted | Exercised / Lapsed | Outstanding at 31 December 2021 |
|---------------------------|-----------------|---------|--------------------|---------------------------------|
| Class A (unvested) | 17,100,000 | - | - | 17,100,000 |
| Class B (unvested) | 39,900,000 | - | - | 39,900,000 |
| Class C (vested) | 7,200,000 | - | (1,200,000) | 6,000,000 |

Employee Rights

| Description | Opening Balance | Granted | Exercised / Lapsed | Outstanding at 31 December 2021 |
|---------------------------|-----------------|---------|--------------------|---------------------------------|
| Class A (unvested) | 3,725,000 | - | - | 3,725,000 |
| Class B (unvested) | 9,275,000 | - | - | 9,275,000 |
| Class C (vested) | 14,550,000 | - | (4,450,000) | 10,100,000 |

Notes to the Condensed Consolidated Financial Statements

b) Options

| Description | Opening Balance | Granted | Exercised | Lapsed | Outstanding at 31 Dec 2021 |
|---------------------------------------------------------------|------------------------|---------|-----------|--------|----------------------------|
| Unlisted options exercisable at £0.01475 expiring 31 Mar 2023 | 26,440,678 | - | - | - | 26,440,678 |
| Unlisted options exercisable at \$0.026 expiring 31 Mar 2023 | 7,692,308 ¹ | - | - | - | 7,692,308 ¹ |
| Unlisted options exercisable at \$0.05 expiring 31 Aug 2023 | 16,300,000 | - | - | - | 16,300,000 |
| Unlisted options exercisable at \$0.06 expiring 31 Aug 2023 | 17,500,000 | - | - | - | 17,500,000 |
| Unlisted options exercisable at \$0.07 expiring 31 Aug 2023 | 17,500,000 | - | - | - | 17,500,000 |
| TOTAL | 85,432,986 | - | - | - | 85,432,986 |

^{1.} *Unvested at 31 December 2021*

Share-based payment expense

For the six months ended 31 December 2021, the Group has recognised \$416,529 of share-based payment expenses in the statement of profit or loss (31 December 2020: \$248,992) relating to share-based payments to directors and employees.

As part of the capital raising in December 2021, the Company agreed to issue 9,000,000 options to the broker, Turner Pope Investments.

Inputs to the valuation of the abovementioned options are identified in the table below.

| Broker options | |
|----------------------------|-------------|
| Number options issued | 9,000,000 |
| Grant date | 01 Dec 21 |
| Spot price | \$0.042 |
| Exercise price | £0.02 |
| Expiry date | 01 Dec 2024 |
| Expected future volatility | 70% |
| Risk free rate | 0.093% |
| Dividend yield | Nil |
| Value per option | \$0.021 |

The broker options have been valued based on the fair value of the equity instruments issued, as the Company was unable to reliably determine the fair value of the services provided. Total amount included within share issue costs equated to \$187,191.

Notes to the Condensed Consolidated Financial Statements

NOTE 10. LEASES

At reporting date the Group has two long-term leases for the use of the land for the construction of facilities in Malta – a 65 year lease for a larger production facility and a 5 year lease entered into the ArtemiC production facility now constructed. The Group also has leases for office and lab rental.

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

| | 31-Dec-21 | 30-Jun-21 |
|--------------------------------------------|------------------|------------------|
| | \$ | \$ |
| Right-of-use assets | | |
| Opening balance at 1 July | 1,869,006 | 1,831,377 |
| Additions of right-of-use assets in period | 145,964 | 189,013 |
| Depreciation of right-of-use assets | (75,610) | (151,384) |
| Closing balance | 1,939,360 | 1,869,006 |

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

| | 31-Dec-21 | 30-Jun-21 |
|--------------------------------|------------------|------------------|
| | \$ | \$ |
| Lease liabilities | | |
| Opening balance at 1 July | 1,982,807 | 1,899,224 |
| Additions to lease liabilities | 145,964 | 189,013 |
| Interest on lease liabilities | 75,847 | 150,563 |
| Lease payments completed | (139,590) | (255,993) |
| Closing balance | 2,065,028 | 1,982,807 |
| Current | 151,124 | 209,433 |
| Non-current | 1,913,904 | 1,773,374 |
| Total lease liability | 2,065,028 | 1,982,807 |

NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES

There have been no significant changes to commitments and contingent liabilities since 30 June 2021.

NOTE 12. RELATED PARTY TRANSACTIONS

There have been no material changes to related parties since 30 June 2021, with exception to the following;

1. During the period, a payment of £80,000 (\$149k) was made to Sputnik Enterprises Ltd, an entity controlled by Mr Roby Zomer and Mr Brett Mitchell, for advisory services in relation to the capital raising in December.
2. A Royalty agreement was signed with Graft Polymer Limited (GPO), an entity to which Mr Roby Zomer is a Director of, whereby €1 is payable to GPO on all sales of Cimetra. During the period there were no sales of Cimetra, however €34,500 (\$54k) was paid to GPO as an advance payment of future sales to AMC Holdings.

NOTE 13. EVENTS SUBSEQUENT TO REPORTING DATE

There have been no other matters or circumstances that have arisen since 31 December 2021 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.

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 2021 and its performance for the half year ended on that date; and
2. Subject to the matters set out in note 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.



Brett Mitchell
Executive Chairman
Dated 28 February 2022

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**Building a better
working world**

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

Conclusion

We have reviewed the accompanying half-year financial report of MGC Pharmaceuticals Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2021, 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 statement of 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 2021 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 2 of the half-year 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 conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

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

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Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us 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 financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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.



Ernst & Young



T G Dachs
Partner
Perth
28 February 2022

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