

This document comprises a prospectus (the “**Document**”) relating to MGC Pharmaceuticals Limited (the “**Company**”) prepared in accordance with the Prospectus Regulation Rules of the Financial Conduct Authority (“**FCA**”) made under section 73A of the Financial Services and Markets Act 2000, as amended (“**FSMA**”). This Document has been filed with and approved by the FCA and has been made available to the public in accordance with Rule 3.2 of the Prospectus Regulation Rules.

This Document has been approved by the FCA, as competent authority under Regulation (EU) 2017/1129, as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 and as amended. The FCA only approves this Document as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129, as amended; such approval should not be considered as an endorsement of the Company, or the quality of the securities that are the subject of this Document. Investors should make their own assessment as to the suitability of investing in the securities.

Application will be made to the FCA in its capacity as competent authority under the FSMA (the “**UK Listing Authority**”) for all of the ordinary shares of no par value of the Company (the “**Ordinary Shares**”) to be admitted to the standard segment of the Official List of the FCA (the “**Official List**”) and to trading on the main market for listed securities of London Stock Exchange plc (“**Admission**”). Admission to trading on London Stock Exchange’s main market for listed securities constitutes admission to trading on a regulated market. The Existing Ordinary Shares are listed on the Australian Securities Exchange, where they will continue to be listed following Admission, they are also traded OTC. The Company is allotting and issuing 440,677,967 new Ordinary Shares pursuant to the Placing (the “**Placing Shares**”). It is expected that Admission will become effective, and that unconditional dealings in the Existing Ordinary Shares and the Placing Shares on the London Stock Exchange, will commence at 8.00 a.m. on 9 February 2021. Dealings in Ordinary Shares on the London Stock Exchange before Admission will only be settled if Admission takes place.

The Company has established arrangements to enable investors to settle interests in the Ordinary Shares through the CREST system. Securities issued by non-UK companies, such as the Company, cannot be held or transferred electronically in the CREST system. However, Depositary Interests allow such securities to be dematerialised and settled electronically through CREST. The Depositary Interests will be independent securities constituted under English law which may be held and transferred through the CREST system. Investors should note that it is the Depositary Interests which will be settled through CREST and not Ordinary Shares.

The directors of the Company, whose names appear on page 30 of this Document (the “**Directors**”), and the Company accept responsibility for the information contained in this Document. To the best of the knowledge of the Company and the Directors, the information contained in this Document is in accordance with the facts and this Document makes no omission likely to affect its import.

**This Document should be read in its entirety. See Part 2 of this Document – “Risk Factors”, for a discussion of certain risks and other factors which could have a material adverse effect on the Company and its subsidiaries (the “Group”), and its business, financial condition, cash flow and results of operations. Prospective investors should be aware that an investment in the Company involves a degree of risk and that, if certain of the risks described in this Document occur, investors may find their investment materially and adversely affected. Accordingly, an investment in the Ordinary Shares is only suitable for investors who are particularly knowledgeable in investment matters and who are able to bear the loss of the whole or part of their investment.**



## **MGC Pharmaceuticals Limited**

*(incorporated and registered in Australia with Australian Company Number 116 800 269)*

**Placing of 440,677,967 new Ordinary Shares at 1.475 pence each and admission to the Official List (by way of a Standard Listing under Chapter 14 of the Listing Rules) and to trading on the London Stock Exchange’s Main Market for listed securities**

### **TURNER POPE INVESTMENTS LIMITED**

**Broker**



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Turner Pope Investments Limited (“**Turner Pope**”) is authorised and regulated in the UK by the FCA. Turner Pope is acting exclusively for the Company as broker (and not as sponsor) and for no other person in connection with the Placing and will not regard any other person as its client in relation to the Placing and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in relation to the Placing. Turner Pope has not been engaged by the Company as sponsor in connection with Admission and will not be responsible to anyone (including the Company) for providing the protections afforded to its clients for providing advice as sponsor in relation to Admission or any other transaction or arrangement referred to in this Document.

Turner Pope and/or any of its respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for the Company, for which they would have received customary fees. Turner Pope and/or any of its respective affiliates may provide such services to the Company and any of its respective affiliates in the future.

Apart from responsibilities and liabilities which may be imposed on Turner Pope by FSMA or the regulatory regime established thereunder, or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, Turner Pope accepts no responsibility, and makes no representation or warranty, for the contents of this Document, including its accuracy or completeness, or for any other statement made or purported to be made by it, or on behalf of it, the Company or any other person in connection with the Company or the Ordinary Shares. Accordingly, nothing contained in this Document may be relied upon as any form of promise or representation in this respect. Turner Pope accordingly disclaims any responsibility or liability (save as referred to above) which it may otherwise have in respect of this Document or any such statement.

The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) (“**US Securities Act**”), or under the securities laws, or with any securities regulatory authority of, any state or other jurisdiction of the United States or of any province or territory of Canada or Japan. Securities may not be offered or sold in the United States absent: (i) registration under the US Securities Act; or (ii) an available exemption from registration under the US Securities Act. The Ordinary Shares have not been and will not be offered or sold in the United States, Canada or Japan or to or for the account or benefit of any person resident in the United States, Canada or Japan and this Document does not constitute an offer to sell or a solicitation of an offer to purchase or subscribe for Ordinary Shares in such jurisdictions or in any jurisdiction in which such offer or solicitation is unlawful or would impose any unfulfilled registration, publication or approval requirements on the Company.

The distribution of this Document in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company or the Directors, to permit a public offer or sale of Ordinary Shares or possession or distribution of this Document (or any other offering or publicity material or application form relating to the Ordinary Shares) in any jurisdiction, other than in the UK. Persons into whose possession this Document comes are required by the Company and the Directors to inform themselves about and to observe any such restrictions. This Document does not constitute or form part of an offer to sell, or the solicitation of an offer to buy, Ordinary Shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful.

Application has been made for the Ordinary Shares to be admitted to the standard segment of the Official List. A Standard Listing affords investors in the Company a lower level of regulatory protection than that afforded to investors in companies whose securities are admitted to the premium segment of the Official List, which are subject to additional obligations under the Listing Rules. For further details please see Part 4 of this Document, “Consequences of a Standard Listing”. It should be noted that the FCA will not have the authority to (and will not) monitor the Company’s compliance with any of the Listing Rules or the Disclosure Guidance and Transparency Rules, nor to impose sanctions in respect of any failure by the Company to so comply.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA or Rule 3.4 of the Prospectus Regulation Rules, the publication of this Document does not create any implication that there has been no change in the affairs of the Group since, or that the information contained herein is correct, at any time subsequent to, the date of this Document.

#### **Information to distributors**

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/ EU on markets in financial instruments, as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 and as amended (“**MiFID II**”); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593, as amended supplementing MiFID II; and (c) local implementing measures (together, the “**MiFID II Product Governance Requirements**”), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any “manufacturer” (for the purposes of the Product Governance Requirements) may otherwise have with respect thereto, the Ordinary Shares have been subject to a product approval process, which has determined that the Ordinary Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the “**Target Market Assessment**”). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Ordinary Shares may decline and investors could lose all or part of their investment; the Ordinary Shares offer no guaranteed income and no capital protection; and an investment in the Ordinary Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Placing. Furthermore, it is noted that, notwithstanding the Target Market Assessment, Turner Pope will only procure investors who meet the criteria of professional clients and eligible counterparties.

For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Ordinary Shares.

Each distributor is responsible for undertaking its own target market assessment in respect of the Ordinary Shares and determining appropriate distribution channels.

#### **Forward looking and cautionary statements**

This Document contains “forward-looking information” that is based on the Company’s expectations, estimates and projections as of the date on which the statements were made. This forward-looking information includes, among other things, statements with respect to changes in the markets for and pricing of the Group’s products along with various input costs, currency exchange rate fluctuations, increasing costs and declining productivity, challenges in complying with obligations under local legislation and regulations, the capital-intensive nature of the business and the Company’s ability to fund further acquisitions and new business plans, including clinical trials, adverse changes in social, legal, economic or political conditions in the relevant countries that the Company operates or neighbouring countries or the effect of governmental efforts to address present or future economic or social problems, competition in the medicinal cannabis industries for workers and for senior management, employee health and safety issues, the Company’s ability to realise and maximise the “Nature to Medicine” strategy, research and development activities, partnerships and acquisition opportunities and criminal acts, bribery, theft, fraud and corruption. Generally, this forward looking information can be identified by the use of forward-looking terminology such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe”, “expect” or similar expressions. Persons reading this Document are cautioned that such statements are only predictions, and that the Group’s actual future results or performance may be materially different. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the Company’s actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information.

#### **Company’s website**

Information contained on the Company’s website or the contents of any website accessible from hyperlinks on the Company’s website are not incorporated into and do not form any part of this Document.

#### **Interpretation**

Certain terms used in this Document are defined in Part 17 of this Document- “Definitions”.

References to the singular in this Document shall include the plural and vice versa, where the context so requires. References to paragraphs or Parts are to paragraphs or Parts of this Document. All references to time in this Document are to London time unless otherwise stated.

**Dated 4 February 2021**

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## PART 1

### SUMMARY INFORMATION

#### A. INTRODUCTION AND WARNINGS

##### A.1 *Name and international securities identifier number (ISIN) of the securities*

Ordinary shares; ISIN code AU000000MXC6.

##### A.2 *Identity and contact details of the issuer, including its Legal Entity Identifier (LEI)*

The issuer is MGC Pharmaceutical Limited. The contact details for the Company are as follows:

Address: 1202 Hay Street, West Perth, WA 6005, Australia

Telephone: +61 (8) 6382 3390

Website: <https://mgcpharma.com.au>

The LEI number for the Company is 213800HRE3FQJ6RK4H10.

##### A.3 *Identity and contact details of the competent authority approving the prospectus*

Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN with telephone number: +44 20 7066 1000, in accordance with the Prospectus Regulation.

##### A.4 *Date of approval of the prospectus*

This Document was approved on 4 February 2021.

##### A.5 *Warning*

This summary should be read as an introduction to the Document. Any decision to invest in the Ordinary Shares should be based on consideration of this Document as a whole by the investor. The investor could lose all or part or of the invested capital. Where a claim relating to the information contained in this Document is brought before a court, the plaintiff investor might, under the national law, have to bear the costs of translating this Document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only where the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Document, or where it does not provide, when read together with the other parts of this Document, key information in order to aid investors when considering whether to invest in the Ordinary Shares.

#### B. KEY INFORMATION ON THE ISSUER

##### B.1 *Who is the issuer of the securities?*

###### B.1.1 *Domicile, legal form, LEI, jurisdiction of incorporation and country of operation*

The Company is a public company limited by shares, incorporated and registered in Australia with Australian Company Number ACN 116 800 269 on 27 October 2005. Its LEI is 213800HRE3FQJ6RK4H10. The Company is domiciled in Western Australia with the registered office of the Company, and business address for all of the Directors and Senior Managers, as at the date of this Document, being 1202 Hay Street, West Perth, WA 6005, Australia. The principal legislation under which the Company operates with is the Corporations Act.

###### B.1.2 *Principal activities*

The Company is a bio-pharma company with a “Nature to Medicine” strategy within the international phytocannabinoid-derived and plant-derived medicines industry. With operations through its subsidiaries in Australia and the European Union, the Company is developing phytocannabinoid-derived medicines and unique plant-derived formulations, both proprietary and for third parties, all to GMP standard.

The Company's "Nature to Medicine" strategy comprises the entire supply chain, from botanical research, to develop new strains of *Cannabis sativa* (undertaken by the Group and research partners), preclinical and clinical research (undertaken by the Group itself and in collaboration with international research institutions, hospitals and universities), product manufacturing, at the Group's facility in Slovenia and by a third party OEM, distribution (carried out by pharma distributors selected by the Group), as well as the development of unique drug delivery systems designed to facilitate the Group's mission.

The Company's mission is to produce "standardised, affordable, phytocannabinoid and plant-derived medicines" to improve the lives of patients. This mission is cemented by the Group having established a GMP certified facility in Slovenia, which develops and manufactures GMP compliant phytocannabinoid-derived and plant-derived medications following EU pharmacopeia standards, as required for the production of IMP in the EU. This market access has been enhanced with the onboarding of a GMP-certified OEM, increasing the Group's manufacturing capacity, product lines, and ability to enter various markets.

From its research and development work, the Group has developed and is producing two flagship phytocannabinoid-derived medicinal products, CannEpil® and CogniCann™, both of which are in clinical development for central nervous system disorders and are the most progressed products in the Group's pipeline. Further products of the Group, InCann (Crohn's disease and colitis), Tetrinol (cachexia) and TopiCann™ (anti-inflammation) are in early-stage development.

The Group has also completed a Phase II double-blind, randomised, placebo controlled clinical trial in Israel and India, to evaluate the safety and efficacy of a natural anti-inflammatory based formulation ArtemiC™ on patients diagnosed with COVID-19, with results announced by the Company on 15 December 2020.

#### B.1.3 *Major shareholders*

As at the Last Practicable Date, the Company is not aware of any person who, directly or indirectly, is interested in 5% or more of the Company's capital or voting rights.

The Company is not aware of any person who, directly or indirectly, owns or controls the Company. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

#### B.1.4 *Key managing directors*

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Appointment</b>
Roby Zomer	40	Managing Director and CEO	15 February 2016
Brett Mitchell	49	Executive Chairman	4 April 2013

#### B.1.5 *Identity of the statutory auditors*

The auditors of the Group for the financial year ended on 30 June 2020 have been Ernst and Young, having been appointed at the 2019 annual general meeting of the Company held on 29 November 2019, whose registered address is at 11 Mounts Bay Road, Perth, WA 6000, Australia. Ernst and Young replaced PKF Mack, who were the auditors for the financial years ended 30 June 2019 and 30 June 2018 and whose registered address is at Level 4, 35 Havelock Street, West Perth, WA 6005, Australia.

#### B.2 *What is the key financial information regarding the issuer?*

Since 30 June 2020 (being the last financial period for which financial information has been published and for which financial information contained in the Appendix has been prepared) and the period covered by the Historical Financial Information, there has been no significant change in the financial position and performance of the Group, save that the Company entered into an up to AUD\$15 million secured convertible securities agreement with US-based Mercer Street Global Opportunity Fund LLC, of which A\$2.25 million has been received by the Company.

The selected financial information set out below has been extracted without material adjustment from the audited Historical Financial Information as of and for the financial years ended on 30 June 2020, 30 June 2019 and 30 June 2018<sup>1</sup>:

<sup>1</sup> The selected financial information set out below is rounded to the nearest AUD1,000.

#### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	30-Jun-20 AUD '000	30-Jun-19 AUD '000	30-Jun-18 AUD '000
Sales revenue	2,079	657	297
Cost of sales	(1,904)	(357)	(119)
<b>Gross Profit</b>	<b>175</b>	<b>300</b>	<b>178</b>
Other operating income	519	327	–
Administrative expenses	(6,609)	(5,635)	(5,936)
Other operating expenses	(5,521)	(3,711)	(1,258)
Fair value movement on financial instruments	(2,098)	(501)	19
Write-off/impairment expense	(5,118)	(2,012)	(208)
<b>Operating Loss</b>	<b>(18,652)</b>	<b>(11,232)</b>	<b>(7,205)</b>
Finance costs	(135)	(1)	(48)
Finance income	12	202	192
Other income	5	4	(28)
<b>Loss before income tax</b>	<b>(18,770)</b>	<b>(11,027)</b>	<b>(7,089)</b>
Income tax benefit	–	(27)	–
<b>Loss after income tax from continuing operations</b>	<b>(18,770)</b>	<b>(11,054)</b>	<b>(7,089)</b>
(Loss)/gain after tax from discontinued operations	(600)	2,430	1
<b>Total loss after income tax</b>	<b>(19,370)</b>	<b>(8,624)</b>	<b>(7,088)</b>
Loss after income tax benefit for the year attributable to:			
Members of the parent entity	(19,363)	(8,579)	(6,345)
Non-controlling interest	(7)	(45)	(743)
	(19,370)	(8,624)	(7,088)
Other comprehensive income/loss for the year			
Exchange differences on the translation of foreign operations	51	(127)	118
Derecognition of foreign currency reserve	–	24	–
<b>Total comprehensive loss for the year</b>	<b>(19,319)</b>	<b>(8,727)</b>	<b>(6,970)</b>
Total comprehensive loss attributable to:			
Members of the parent entity	(19,312)	(8,682)	(6,173)
Non-controlling interest	(7)	(45)	(797)
	<b>(19,319)</b>	<b>(8,727)</b>	<b>(6,970)</b>
<i>Earnings per share for loss attributable to equity holders of parent:</i>			
Basic loss per share (cents)	(1.40)	(0.71)	(0.56)
Diluted loss per share (cents)	(1.36)	(0.91)	(0.56)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30-Jun-20 AUD '000	30-Jun-19 AUD '000	30-Jun-18 AUD '000
Total Current Assets	3,231	3,720	11,504
Total Non-Current Assets	4,698	9,277	8,490
<b>TOTAL ASSETS</b>	<b>7,929</b>	<b>12,997</b>	<b>19,994</b>
Total Current Liabilities	2,969	2,182	961
Total Non-Current Liabilities	1,865	17	72
<b>TOTAL LIABILITIES</b>	<b>4,834</b>	<b>2,199</b>	<b>1,033</b>
<b>NET ASSETS</b>	<b>3,094</b>	<b>10,798</b>	<b>18,961</b>
Equity attributable to holders of the parent	3,105	10,959	20,203
Non-controlling interest	(11)	(161)	(1,242)
<b>TOTAL EQUITY</b>	<b>3,094</b>	<b>10,798</b>	<b>18,961</b>

## CONSOLIDATED STATEMENT OF CASHFLOW

	30-Jun-20 AUD '000	30-Jun-19 AUD '000	30-Jun-18 AUD '000
<b>Net cash used in operating activities</b>	<b>(9,957)</b>	<b>(6,354)</b>	<b>(5,887)</b>
Subsidiary disposed:, net of cash disposed of	(13)	(570)	–
Proceeds from sale of plant and equipment	5	(15)	119
Purchase of plant and equipment/assets under construction	(962)	(362)	(459)
<b>Net cash used in investing activities</b>	<b>(970)</b>	<b>(947)</b>	<b>(340)</b>
<b>Cash flows from financing activities</b>			
Payment of lease liability	(183)	–	–
Proceeds from issue of shares and options	11,433	36	5,017
Capital raising costs	(788)	(9)	(317)
<b>Net cash provided by financing activities</b>	<b>10,462</b>	<b>27</b>	<b>4,700</b>
<b>Net increase in cash and cash equivalents held</b>	<b>(465)</b>	<b>(7,274)</b>	<b>(1,527)</b>
Cash and cash equivalents at beginning of year	2,354	9,859	11,364
Foreign exchange movement in cash	(16)	(231)	22
<b>Cash and cash equivalents at end of year</b>	<b>1,873</b>	<b>2,354</b>	<b>9,859</b>

### B.3 *What are the key risks that are specific to the issuer?*

- The Group's product portfolio is subject to further development and clinical trials which may not be completed or be successful.
- The operations of the members of the Group are subject to each meeting the legal and regulatory requirements specific to each jurisdiction in which they conduct business, which may be new and evolving, or subject to change.
- The pricing strategy adopted for the Group's products may prove to be inaccurate.
- The Group may not be successful in obtaining CMA for CannEpil®, or any of its products.
- The Group's products may not ever be covered by insurance or reimbursement schemes.
- The Group does not have its own distribution operations and is reliant on contractual arrangements with third parties.
- The Group is reliant on a small number of key employees and consultants.
- The Group's intellectual property protection may be limited.



**C. KEY INFORMATION ON THE SECURITIES**

**C.1 What are the main features of the securities?**

**C.1.1 Type, class and ISIN**

When admitted to trading, the Ordinary Shares will be registered with ISIN number AU000000MXC6 and SEDOL number BK70NQ9.

**C.1.2 Currency, denomination, par value, number of securities issued and duration**

On Admission, the issued share capital of the Company will comprise 2,228,808,306 Ordinary Shares of no par value, all of which will be fully paid, or credited as fully paid.

**C.1.3 Rights attached to the Ordinary Shares**

The Ordinary Shares rank equally for voting purposes. On a show of hands, each Shareholder present has one vote and on a poll each Shareholder has one vote per Ordinary Share held. The Ordinary Shares rank equally for dividends declared and for any distributions on a winding-up. The Ordinary Shares rank equally in the right to receive a relative proportion of the Company's assets upon dissolution.

**C.1.4 Rank of securities in the issuer's capital structure in the event of insolvency**

The Ordinary Shares rank equally for dividends declared and for any distributions on a winding-up.

**C.1.5 Restrictions on the free transferability of the securities**

The Ordinary Shares are freely transferable and there are no restrictions on transfer; however, dual listing of the Ordinary Shares will result in differences in liquidity, settlement and clearing systems, trading currencies, prices and transaction costs between the exchanges where the Ordinary Shares will be quoted. These and other factors may hinder the transferability of the Ordinary Shares between the two exchanges.

On Admission, Shareholders will be able to hold and transfer interests in Ordinary Shares in CREST, pursuant to the Depositary Agreement. The Ordinary Shares will not themselves be admitted to CREST; rather the Depositary will issue the Depositary Interests in respect of underlying Ordinary Shares.

**C.1.6 Dividend or payout policy**

The amount, timing and frequency of future distributions will be at the sole discretion of the Board and will be declared based upon various factors, including but not limited to, return on capital of available organic and inorganic investment opportunities, the Group's financial condition and operating cash flows, undertakings to creditors and loan covenants.

**C.2 Where will the securities be traded?**

Application will be made to the FCA for all the Ordinary Shares, issued and to be issued, to be admitted to the standard segment of the Official List and to the London Stock Exchange for such Ordinary Shares to be admitted to trading on the London Stock Exchange's Main Market for listed securities. The Ordinary Shares are also listed on the Australian Securities Exchange and are traded Over-the-Counter under MGCLF.

**C.3 What are the key risks that are specific to the securities?**

- There is currently no UK market for the Ordinary Shares. An active UK trading market may not develop or be sustained in the future, which would adversely affect the liquidity and price of the Ordinary Shares.
- Substantial future sales of Ordinary Shares, or the perception that such sales might occur, or additional offerings of Ordinary Shares could depress the market price of Ordinary Shares.
- Volatility or falls in its share price may materially and adversely affect the operations of the Group.
- The Company does not currently intend to pay dividends and its ability to pay dividends in the future may be limited.
- The Company is applying for a Standard Listing and, accordingly, the Company will not be required to comply with those protections applicable to a Premium Listing.

**D. KEY INFORMATION ON THE ADMISSION TO TRADING ON A REGULATED MARKET**

**D.1 *Under which conditions and timetable can I invest in this security?***

It is expected that admission of the Ordinary Shares to the Official List and trading on the London Stock Exchange will become effective and that unconditional dealings will commence at 8.00 a.m. (UK time) on 9 February 2021.

The Placing comprises 440,677,967 Ordinary Shares, participation in the Placing is not open to the public. Existing Shareholders will experience a 19.7% dilution as a result of the issue of the Placing Shares (that is, its, his or her proportionate interest in the Company will decrease by 19.7%). The Company will bear approximately £500,000 of fees and expenses in relation to the Placing and Admission.

**D.2 *Why is this prospectus being produced?***

This Document has been prepared in connection with the application to adding the Ordinary Shares to the standard segment of the Official List and to trade the Ordinary Shares on the London Stock Exchange's Main Market for listed securities. Following consultation with its advisers, the Directors have chosen a Standard Listing as they believe that a listing on the Main Market, in addition to the Company's ASX listing, will enable the Company to enhance its awareness among, and allow it to reach, institutional investors in the UK, Europe, Africa and the Middle East, provide the potential to access capital to fund the strategic growth of the Company, increase share trading liquidity and further raise the profile of the Group.

The Company will receive net proceeds (after deducting estimated commissions and other fees and expenses (including VAT)) from the Placing of approximately £6.0 million. The Company intends to use the net proceeds of the Placing to:

- meet the costs associated with the phase 3 clinical trial of ArtemiC™ planned for H1 2021 – £2.5m;
- meet the costs associated with phase 2b clinical trial in respect of CannEpil® – £1.25m
- increase distribution of the Group's product range and expansion into new markets, including Brazil and EU countries – £0.25m;
- meet the registration costs for ArtemiC™ in new markets, including Russia, Middle East and Europe – £0.25m; and
- general working capital, including to complete construction of the Group's proposed manufacturing facilities in Malta – £1.75m.

## PART 2

### RISK FACTORS

The risk factors described below are not an exhaustive list or explanation of all risks relating to the Group or the Ordinary Shares and should be used as guidance only. Additional risks and uncertainties relating to the Group and the Ordinary Shares that are not currently known to the Company, or which the Company currently deems immaterial, may individually or cumulatively also have a material adverse effect on Group's business, results of operations, financial condition or prospects.

#### RISKS RELATING TO THE GROUP AND ITS BUSINESS

***The Group's product portfolio is subject to further development and clinical trials which may not be completed or be successful***

While the Group's phytocannabinoid-derived<sup>2</sup> products CannEpi<sup>®</sup> and CogniCann<sup>™</sup> are in production and are currently only available for prescription in Australia as medicinal cannabis products, supplied in accordance with the Australian federal access scheme for unapproved therapeutic goods, known as the Special Access Scheme, SAS<sup>3</sup> and in the case of CannEpi<sup>®</sup>, is being prescribed in the United Kingdom as a "special" (an unlicensed medicine)<sup>4</sup>, these and the other products in the Group's portfolio remain subject to further development, observational research and preclinical or clinical trials before they can be classified as licenced medicines.

The Group's lead product CannEpi<sup>®</sup> has been the subject of observational research, preclinical studies and clinical research over the last five years. In Australia, two clinical trials (including a Phase I trial) have recently been granted Human Research Ethics Committee ("HREC") approval and in Slovenia, The Institution for Children's Neurology Paediatric Clinic, together with Prof. David Neubauer, a member of the Clinical Advisory Team, is in the process of submitting a protocol for approval by the Slovenian Ministry of Health, to commence a Phase IIb double blind placebo-controlled crossover clinical trial on 103 patients. The study has also been approved and is soon to be recruiting in Israel, at the Schneider Children's Medical Center of Israel. The trial will include pharmacokinetic analysis and endpoints to be achieved are safety and efficacy, measured by seizures number, duration, and type. The study is expected to take 6 months. Following completion of the Phase IIb clinical trial with the Ljubljana Medical Centre at its Clinic of Paediatrics-University Children's Hospital, and assuming its success, the Group will initiate a Phase III clinical trial during 2021; development of the protocol for this trial is underway.

In addition, CogniCann<sup>™</sup>, developed for the management of the symptoms of dementia/Alzheimer's disease, is engaged in a Phase II clinical trial in Dementia at the University of Notre Dame Australia, 50 patients will be recruited to the study. With endpoints of safety and efficacy, measured by validated questionnaires and neurological evaluation. Study duration will be 18 weeks per patient.

In respect of ArtemiC<sup>™</sup>, the Phase II clinical trial has now been completed in Israel and India, with results announced by the Company in its ASX release dated 15 December 2020. Primary endpoints of the Phase II clinical trial included time to clinical improvement, defined as a national Early Warning Score 2 (NEWS2) of  $\leq 2$  maintained for 24 hours in comparison to routine treatment and percentage of participants with definite or probable drug related adverse events. The trial included dose finding and pharmacokinetics with endpoints including safety and efficacy, measured by prevention of mechanical ventilation, intensive care unit admission and clinical health status. Study duration per patient was 2 weeks. The Group is now planning a Phase III clinical trial for ArtemiC<sup>™</sup>.

Although the Group is seeking to further develop its portfolio of products and progress each through the phases of clinical trial testing to improve or confirm safety and efficacy, there can be no assurance that any of the Group's products will complete any or all of the clinical trials successfully. Clinical trials have a high risk of failure and negative advanced clinical trial results can occur even after promising results in earlier trials. Further, post-clinical marketing studies for the Group's products may be required and there can be no guarantee that such studies will corroborate the results of earlier trials.

Further, while the Group has now completed the ArtemiC<sup>™</sup> Phase II clinical trial, the Group has not undertaken clinical trials on any pharmaceutical products or phytocannabinoid-derived or plant-derived medicines before and as such does not have

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2 Phytocannabinoids are molecules that form naturally in plants, including *Cannabis spp.* such as *Cannabis sativa*. These molecules, the most prevalent of which are cannabidiol (CBD) and  $\Delta$ -9-tetrahydrocannabinol (THC), interact with the body's endocannabinoid system through two receptors (CB<sub>1</sub> and CB<sub>2</sub>). The Group's products are classified as Investigational Medicinal Products ("IMP") which are produced to GMP pharmaceutical grade.

3 SAS refers to arrangements that provide for the import and/or supply and prescription of unapproved therapeutic goods for a single patient on a case-by-case basis, pursuant to the Therapeutic Goods Act 1989.

4 Since 1 November 2018, cannabis-based products for medical use in humans have been re-scheduled to Schedule 2 of the 2001 Regulations by The Misuse of Drugs (Amendments) (Cannabis and Licence Fees) (England, Wales and Scotland) Regulations 2018), meaning senior clinicians, on the General Medical Council specialist register, are able to prescribe cannabis-based medicines to patients.

an established record of developing and producing these pharmaceutical products and bringing them to market. However, the current Clinical Advisory Team have experience in clinical studies, and in bringing products to registration under FDA. In addition, use of products in the market may show different safety and efficacy profiles to those demonstrated in the clinical trials on which approval was based. Such circumstances could lead to the withdrawal or suspension of some or all of the Group's products. Further, research and development and clinical trials are expensive, time consuming and difficult to design and implement. Even if the results of the Group's research and development activities and clinical trials are favourable, some product development activities may be expected to continue for several years and may take significantly longer to complete. In addition, regulatory authorities may suspend, delay or terminate research and development activities or clinical trials at any time. Any of the foregoing could have a material adverse effect on the Group's business, results of operations and financial condition.

***The operations of the members of the Group are subject to each meeting the legal and regulatory requirements specific to each jurisdiction in which they conduct business, which may be new and evolving, or subject to change***

The Group's ability to research, develop and commercialise its products is dependent upon its ability (and certain third-party service providers such as distributors and research organisations) to comply with local laws and regulations in each jurisdiction in which it operates, and to obtain and maintain licenses and permits in respect of each relevant activity. Controlled substance legislation differs between countries and legislation in certain countries remains new and evolving and could restrict or limit the Group's ability to develop and sell its products over time.

The global framework, as it relates to drugs, is derived from the Narcotics Conventions. Most countries, including Australia, Slovenia, Malta and the United Kingdom, are parties to the Narcotic Conventions, which govern international trade and domestic control of narcotic substances, including cannabis extracts; however countries may interpret and implement their treaty obligations in a way that creates legal or regulatory obstacles to operations, or which result in the Group being required to meet the requirements of conflicting laws or regulations across the different jurisdictions in which the members of the group conduct business.

The medicinal cannabis industry legal and regulatory framework is still developing in many jurisdictions, including those in which the Group conducts business. It is likely that the European Union and governments worldwide will continue to explore the benefits and the risks of companies involved in medicinal cannabis and along with that may change the legal and regulatory framework as the industry itself develops. Significant or rapid changes to laws and regulations or the licensing and permitting regimes under which the Group conducts business as a result of changes in governments, government policy or regulator attitudes to medicinal cannabis, may result in its operations being suspended for a period of time or terminated. While the Group will comply with any applicable future regulatory requirements in relevant jurisdictions, should a material or sudden change in the legal and regulatory environment occur, the Group may be required to spend significant management time and money in obtaining legal and regulatory advice and in updating systems or procedures, or in redeveloping or withdrawing products from the market, any or all of these events occurring could have a material adverse effect on the financial condition, operations or prospects of the Group.

***The pricing strategy adopted for the Group's products may prove to be inaccurate***

The Directors' believe that the pricing strategy adopted for the sale of CannEpi<sup>®</sup> and CogniCann<sup>™</sup> reflects the current potential market for each product, by reference to other products or therapies currently available on the market; however, such strategy and pricing, may prove to be inaccurate or may require amendment. Negative clinical trial results, changes in the market perception of the effect of phytocannabinoid-derived medicines, accelerated development of products by competitors, or changes to law or regulation, may result in the anticipated market for the Group's products decreasing or being materially diluted, which would result in the Directors' current pricing strategy being inaccurate and require products to be priced at a much lower level than is currently anticipated. Equally, the price at which phytocannabinoid-derived medicines are made available either in the future by national healthcare agencies (if phytocannabinoid-derived medicines are made more widely available as licensed medicines) or by specialist clinicians may be so high as to prohibit them from being widely used. Any significant changes to the proposed pricing of the Group's products either now, or throughout the product development process, may adversely affect the financial condition or profitability of the Group.

***The Group may not be successful in obtaining CMA for CannEpi<sup>®</sup>, or any of its products***

One of the key objectives of the Group is to obtain Central Marketing Authorisation ("CMA") for its most developed phytocannabinoid-derived medicine, CannEpi<sup>®</sup>. The process for obtaining CMA is set out in Regulation No 726/2004. CMA is valid throughout the EU and confers the same rights and obligations in each of the Member States as a Marketing Authorisation granted by that Member State. Once comprehensive data on the product have been obtained, CMA may be converted into a standard Marketing Authorisation (not subject to specific obligations). Initially, this is valid for five years, but can be renewed for unlimited validity.

In order to obtain CMA, an application must be filed with EMA, containing particulars and documentation referred to in Directive 2001/83/EC, taking into account the unique manufacturing, results of preclinical and clinical trials, applicant's pharmacovigilance system, risk management plan, relevant production authorisations, etc. This allows the EMA to assess the product's risk-benefit balance, its efficacy and quality required for the authorisation. The EMA then obtains an opinion of the Committee for Medicinal Products for Human Use. Further details of the regulatory process for a product to obtain CMA are set out in the section on Slovenia in Part 7 of this Document - "Legal and Regulatory Framework". By obtaining CMA status a product is recognised as a medicine and may be marketed and made available to patients and healthcare professionals throughout the EU under a single authorisation.

CannEpi<sup>®</sup> has been the subject of observational research, preclinical studies and clinical research over the last four years. In Australia, two clinical trials (including a Phase I trial) have recently been granted Human Research Ethics Committee ("HREC") approval and in Slovenia, The Institution for Children's Neurology Paediatric Clinic, together with Prof. David Neubauer, a member of the Clinical Advisory Team, is in the process of submitting a protocol for approval by the Slovenian Ministry of Health, to commence a Phase IIb double blind placebo-controlled crossover clinical trial on 102 patients. Following completion of the Phase IIb clinical trial with the Ljubljana Medical Centre at its Clinic of Paediatrics-University Children's Hospital, and assuming its success, the Group will initiate a Phase III clinical trial during 2021, development of the protocol for this trial is underway.

There can be no guarantee that the results of the CannEpi<sup>®</sup> Phase IIb clinical trial or the Phase III clinical trial, will be successful, meet EU standards, or that the subsequent application to the EMA, or the opinion of the Committee for Medicinal Products for Human Use will result in CMA being obtained, in the timeframe anticipated by the Directors, or at all. The EMA's review of the CannEpi<sup>®</sup> application, or the opinion of the EU Committee for Medicinal Products for Human Use, may result in changes being required to the Group's manufacturing process, the pharmacovigilance system, risk management plan, or other aspects of the development and preparation of CannEpi<sup>®</sup>, which would require additional resources, including cash, which could have a material adverse effect on the financial condition, operations or prospects of the Group.

***The Group's products may not ever be covered by insurance or reimbursement schemes***

Government authorities and third-party payers, such as private health insurers, decide which pharmaceutical products they will cover and the amount of reimbursement. Reimbursement may depend upon a number of factors, including the payer's determination that use of a product is safe, effective and medically necessary, appropriate for the specific patient and cost-effective. Obtaining coverage and reimbursement approval for a product from a Government, or other third-party payer, is a time-consuming and costly process that could require the Group to provide supporting scientific, clinical and cost-effectiveness data for the use of its products.

The Company may not be able to provide data sufficient to gain acceptance with respect to coverage and reimbursement in respect of its products, or to demonstrate commercial value compared to other comparable products or treatments. If reimbursement of the Group's products is unavailable or limited in scope or amount, the Company may be unable to achieve or sustain profitability. The Company intends to seek approval to market its products in the EU. In the EU, the pricing of prescription pharmaceuticals is subject to national Governmental control and pricing negotiations with Governmental authorities that could take several years after obtaining marketing approval for a product. In addition, market acceptance and sales of the Group's products will depend significantly on the availability of adequate coverage and reimbursement from third-party payers and may be affected by existing and future healthcare reform measures. The continuing efforts of Governments, insurance companies, managed care organisations and other payers of healthcare services to contain or reduce costs of healthcare and/or impose price controls may adversely affect the Group's ability to set prices for its products, generate revenues and achieve or maintain profitability which may adversely affect the future business and results of the Group.

***The Group does not have its own distribution operations and is reliant on contractual arrangements with third parties***

The Group does not have its own export, import or distribution capability and at present, relies on partnerships with pharmaceutical distributors and logistics providers in key territories to facilitate the export and import of its products. For example, in respect of distribution into the United Kingdom, MGC Slovenia has appointed Lenis farmacevtika as its product exporter from the Slovenian facility, and Marken as the logistics partner from the OEM. Lyphe Group, a UK based importer and distributor is the Group's appointed UK product importer and distributor. At present the only product of the Group imported into the United Kingdom is CannEpi<sup>®</sup> and several products in the 'Mercury Pharma' range both under the Group's branding and white label. These products are imported into the United Kingdom by Lyphe pursuant to its Home Office controlled drug import licence and are then distributed as an unlicensed medicine or "specials", in accordance with the requirements of the MHRA<sup>5</sup>. In each jurisdiction, the Group's products are imported by appointed distributors who hold the required controlled substance licences and distribution capability.

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<sup>5</sup> Since 1 November 2018, cannabis-based products for medical use in humans have been re-scheduled to Schedule 2 of the 2001 Regulations by The Misuse of Drugs (Amendments) (Cannabis and Licence Fees) (England, Wales and Scotland) Regulations 2018), meaning senior clinicians, on the General Medical Council specialist register are able to prescribe cannabis based medicines to patients.

In the event that contractual arrangements with the Group's local logistics and distribution partners are terminated, or subject to renewal on less favourable terms, the ability of the Group to distribute its products may be severely and adversely affected, delayed or unable to continue at all. Delays in the distribution of the Group's products may arise due to operational issues or delays affecting or arising from the distribution partners, which are outside the control of the Group, such as any of them losing or failing to maintain requisite licences and approvals. Distribution partners may also be acquired by market competitors, become subject to solvency or going concern issues, which may in the short or longer term prevent the distribution of the Group's products to operate as is the case at present. In addition, at present, the Group obtains the Active Pharmaceutical Ingredient ("API") for its products from a single provider. The nascent nature of the phytocannabinoid-derived medicines industry may restrict the ability of the Group to change distribution partners or the provider of API quickly and/or on terms that are acceptable or commercially viable. Should any or all of these events occur the financial condition, operations or prospects of the Group may be materially and adversely affected.

***The Group is reliant on a small number of key employees and consultants***

The inception and progress of the Group to date has been in large part due to the experience of its founders, directors and clinical team. As at 30 June 2020, the Group had a total of 16 employees and has retained the services of 12 consultants (which includes those who operate the Group's accounting and finance function). There is no assurance that employment agreements, service contracts or consulting agreements will not be terminated, or that they will be renewed. The employment of certain key executives of the Group, such as Brett Mitchell, Roby Zomer and Nativ Segev may be terminated by 30 days' notice in writing, or such shorter period as the parties may agree. The business and operations of the Group, including implementation of the "Nature to Medicine" strategy, are substantially dependent on the continued service of its key personnel such as Roby Zomer and the existing Clinical Advisory Team for the development of its products and the wider business of the Group. There is no assurance that the Group will be able to retain the services of these persons. Consultants to or employees of the Group may be able to cease working on behalf of the Group, either due to such arrangements being terminated or not renewed, at short notice, which could be during periods that are critical to the operation of the business or the development of products. If such contracts are terminated or breached, or if these individuals no longer continue in their current roles, new personnel will need to be employed, possibly at short notice and this may adversely affect the operation of the business, development of products or materially delay or prevent the implementation of the "Nature to Medicine" strategy.

***The Group's intellectual property protection may be limited***

The Company is actively trademarking both its brands and ingredients of the Group's product suites and has filed for trademarks in both the EU and Australia, for CannEpi<sup>®</sup>, CogniCann<sup>™</sup>, TopiCann<sup>™</sup>, CannEki<sup>™</sup> and CannaHub<sup>™</sup> (the Group's collaboration with RMIT and HUJI). The Group has also filed for trademarks on ArtemiC<sup>™</sup>. The Group is in the process of registering four strains of *Cannabis spp* with the Community Plant Variety Office. Two of the leading strains are MXC-THC-10/3 for THC and strain MXC-CBD-81/5 for CBD, which have >35% THC and >20% CBD, respectively. The Group does not currently have any patent protection of its products, or other intellectual property and it is not yet known whether it will be possible to obtain any patent protection of any of the Group's products, or other intellectual property. In particular, the Group does not have any intellectual property protection for the seed strains that it holds. In the event that the Group is unable to secure patent protection for its strains it may be unable to prevent third parties from using these to develop the same, or substantially the same products. This could result in increased competition for the Group, which may materially reduce revenues, or increase costs. Should either, or both of these, occur the financial position and prospects of the Group could be materially and adversely affected.

***The Group may not be able to prevent disclosure of its trade secrets, know-how or other proprietary information***

The Group relies on trade secret protection to protect its interests in proprietary know-how and in processes for which patents are difficult to obtain or enforce. The Group's employees, consultants, contract personnel or third-party partners, either accidentally or through wilful misconduct, may cause serious damage to its development programmes or clinical trials and/or its strategy by disclosing confidential information to third parties. It is also possible that confidential information could be obtained by third parties as a result of breaches of the Group's physical or electronic security systems. Any disclosure of confidential information into the public domain, or to third parties, could allow the third parties to access confidential information and use it in competition with the Group. In addition, others may independently discover the confidential information of the Group. Should these events arise, the financial position or prospects of the Group may be materially and adversely affected.



***Claims alleging infringement of a third party's intellectual property could result in significant losses and expenses to the Group and the loss of rights***

The value of any intellectual property owned by the Group depends, in part, on how successfully it can defend against claims that the Group is infringing the intellectual property rights of third parties. The Group could potentially receive notice that it is infringing the intellectual property of a third party. In addition, the validity of intellectual property rights (such as patents) may become subject to claims and/or challenges by third parties. Litigation proceedings in relation to intellectual property rights is a risk in many pharmaceutical businesses and, from time to time, competitors and other third parties may seek to assert the right to restrict the use of patent, copyright, trade mark or other intellectual property rights relating to products. Intellectual property litigation can be expensive, complex and lengthy and its outcome is frequently difficult to predict. If the Group were to receive an infringement claim, the claim could consume significant time, financial and other resources of the Group, irrespective of its merits, and this might result in key technical and management personnel diverting attention and focus away from their normal duties and operations. If the Group were unsuccessful in defending an intellectual property infringement claim, it may have to pay substantial damages and/or legal costs to the successful third party and/or may have to cease the development, manufacture, use or sale of infringing technologies, products or processes, and/or expend significant resources to develop or acquire the right to use non-infringing technology (including by way of a licence). This may materially affect the ability of the Group to exploit its intellectual property and may result in a loss of value of the Group. Any such events could have a material and adverse effect on the business, financial condition and/or prospects of the Group.

***Foreign exchange risks***

The Company and its Australian operating subsidiary, MGC Research, are incorporated and registered in Australia, the other members of the Group operate in numerous jurisdictions, including Slovenia and Malta. Consequently, the Group may generate revenue and incurs costs and expenses in more than one currency, predominately the Euro. Accordingly, the depreciation and/or the appreciation of the Euro, for example, relative to the Australian Dollar would result in a foreign currency loss/gain. Any depreciation of the Euro, relative to the Australian Dollar may result in lower than anticipated revenue, profit and earnings of the Company.

***The execution of the "Nature to Medicine" strategy may require additional capital beyond that currently available, or from the net proceeds of the Placing and this may not be available on terms acceptable to the Company or at all***

The implementation of the Group's "Nature to Medicine" strategy will require substantial expenditure. There can be no guarantee that, beyond the Working Capital Period, with net proceeds of the Placing, that the Group's revenues will be sufficient to maintain the operations of the business as currently described, anticipated, projected, or required, to successfully achieve the "Nature to Medicine" strategy.

Notwithstanding the net proceeds of the Placing, further funding may be required outside the Working Capital Period to support the ongoing activities and operations of the Group, or to implement the wider strategy, including the need to conduct or fund further research and development, operate its manufacturing facilities, carry out clinical trials or bring products to market. In such circumstances, the Company may need to engage in equity or debt financing to secure additional funds. If, beyond the Working Capital Period, the Company is unable to secure such debt or equity to fund the operations of the Group or expansion after utilising existing working capital, there can be no assurance that the Company will have sufficient capital resources for that purpose, or other purposes, or that it will be able to obtain additional resources on terms acceptable to the Company or at all.

Any additional equity financing by the Company may be dilutive to existing Shareholders and any debt financing, if available, may involve restrictive covenants, which limit the Group's operations and business strategy. If the Company is unable to raise capital if and when needed, this could delay or suspend the operations of the Group and/or the successful implementation of the "Nature to Medicine" strategy, which could have a material and adverse effect on the financial condition, operations or prospects of the Group.

***The Group's facilities in Malta may not become fully operational in the anticipated timeframes, or at all***

In March 2018, the Group obtained a letter of intent from Malta Enterprise, which granted permission under the Production of Cannabis Law, for the Group to establish a facility and operations in Malta for the production and manufacturing of medicinal cannabis products, subject to complying with the conditions set out in the letter, relating to the conduct and operations of the business, engagement of employees and capital expenditure. On 8 August 2019, an emphyteutic concession deed, for the allocation of industrial land measuring approximately 6,000m<sup>2</sup> located at Hal Far Industrial Estate, was executed for the benefit of MGC Pharma (Malta) Property, for the purpose of constructing a manufacturing facility. Further details of the emphyteutic concession deed are set out in Part 16 of this Document - "Additional Information".

Subsequently on 10 September 2020, the Group received a second letter of intent from Malta Enterprise, addressed to MGC UK, confirming that it has approved the allocation of industrial space for the setting up and operation of a facility in Malta for the provision of standard laboratory services to the medical industry in Malta, including process validation, GMP product release, contract research, quality assurance and in-vitro research and the setting up and operation of a production line for the manufacture of ArtemiC™. On 6 October 2020, a deed of lease, for the allocation of this industrial space located at Hal Far Industrial Estate, was executed for the benefit of MGC Pharma (Malta) R&D Limited. Further details of the emphyteutic concession deed are set out in Part 16 of this Document - "Additional Information".

As a result, the Company has decided to delay the building of the larger facility, and instead build an alternate facility to serve as a manufacturing facility for ArtemiC™, as well as to undertake clinical research and analytics, and also as an alternative manufacturing facility (with faster lead time) for the Group's phytocannabinoid products. Construction of this smaller, 480 m<sup>2</sup> facility commenced in Q4 2020 and following its completion, the Company will focus its resources on the construction of the larger facility, which is expected to be operational in mid-2024. The Group's proposed larger manufacturing facility in Malta has been approved for commencement of construction and the Directors' expectation is that it will be operational in mid-2024. Once complete, the facility will be the primary hub for the Group's manufacturing operations, and it is expected to be one the largest GMP phytocannabinoid focused manufacturing facilities in the world. While construction of the facility has now been approved for commencement, there is no guarantee that it will continue as scheduled, or that it will be operational, or fully operational, in the time frame anticipated by the Directors. It is expected that the facility in Malta will cost approximately £10 million (A\$19m) to complete and, as at the date of this Document, beyond the Working Capital Period, the Group may need to raise further funds to meet the costs required to have the facility fully constructed, licensed and operational.

Once construction of the Malta facilities is complete, they and the operations of the Group will be subject to permitting and licencing by the Medicines Authority of Malta under the Production of Cannabis for Medicinal and Research Purposes Act 2018 before manufacturing can commence. The Group has engaged a specialist provider to undertake the development and licensing of the premises. In the event that the construction of the facilities is delayed, forced to be abandoned, or if the Group is unable to raise further funds outside of the Working Capital Period, or obtain the relevant permissions from Malta Enterprise either at all, or not to the extent anticipated, the Group's expansion plans and increased production of its products may be delayed, or further costs and expenses may be incurred to meet permitting requirements. In the event any or all of these events occur, the future financial prospects of the Group may be materially and adversely affected.

***The Group's research and development programme is heavily reliant on collaborations with third parties***

The Group has an ambitious research and development agenda. Research and development projects include preclinical, clinical, botanical and product development, focused at the intersection of phytocannabinoid-derived medicines and the pharmaceutical industry.

While the Group has its own Clinical Advisory Team, which carries out product specific research and development at the Group's facility in Slovenia, the majority of its research and development activities are undertaken through research collaborations with third parties, research institutes or universities.

In Slovenia, the Group has partnered with the Institute of Hops Research and Brewing and previously the Biotechnical Faculty at the University of Ljubljana, to conduct a comprehensive, large scale research project on the cultivation of cannabis for medical purposes, and the standardisation of post-cultivation production processes, from genetics through to API. This research enables the Group to create standardisations for cultivation, extraction and production of APIs of various phytocannabinoids. The research with the Biotechnical Faculty at the University of Ljubljana is currently on hold, pending renewed authorisations being granted to the University.

In Australia, MGC Research (a wholly owned subsidiary of the Company) has entered into a collaboration and relationship agreement with the Royal Melbourne Institute of Technology ("RMIT"), which allows it access to RMIT's facilities and researchers, dedicated to cannabinoid research, with the Group having first rights to any cannabinoid products developed.

In addition, the Group, along with RMIT and the Hebrew University of Jerusalem, have established a research hub to facilitate research in the medicinal cannabis sector, CannaHub™. The collaboration grants the Group with the first right to review and commercialise any innovative developments generated from the hub.

In Malta, the Group has entered into a research agreement with Malta Enterprise, to open a joint research centre for cannabis and cannabinoids, which will work in collaboration with RMIT's Australian activities.



Further, the Group has completed a Phase II double-blind, randomized, placebo controlled clinical trials in Israel and India with leading research hospitals, such as Nazareth Hospital EMMS, the Hillel Yaffe Hospital, Rambam Hospital and Mahatma Gandhi Mission's Medical College & Hospital, to evaluate the safety and efficacy ArtemiCTM on patients diagnosed with COVID-19, in Israel and India.

These research and development collaborations allow the Group to take advantage of the local skills, expertise, facilities and access to clinical results/data in the phytocannabinoid industry, access to various patient populations, as well as increasing the profile of the Group, allowing it early access to innovation and developments in the industry.

In the event that any or all of these collaborative arrangements were suspended or terminated, either by any or all of the third parties, or the Group, the Group may have its access to research information or facilities delayed or withdrawn which could result in product research and development or clinical trials being delayed or suspended indefinitely, possibly at critical phases. Further, while these collaborative arrangements allow the Group first rights to the commercialisation of intellectual property or allow it to be developed jointly, in the event that these rights are disputed the ability of the Group to further advance its current products or develop new products may be delayed, come to an end, or may require additional resources. Any or all of these events occurring could have a material adverse effect on the financial condition, operations or prospects of the Group.

***There is a limited pool of individuals with developed skills in the medicinal cannabis industry***

The development and production of phytocannabinoid-derived medicines is a new and evolving industry. The Group is one of only a few companies globally manufacturing phytocannabinoid-derived medicines to GMP certified pharmaceutical grade. There is a limited number of individuals with an understanding of the industry, the regulatory framework or products and their development. The Group may face significant delays or competition in recruiting or locating individuals with the necessary skills or attributes to successfully integrate into the business in a way which promotes its future development and implementation of the strategy. As the Group expands its operations it may need to recruit personnel either from other medicinal cannabis companies, or other industry sectors, which may take time, either to source acceptable candidates, or to have them commencing working in the business. Given the limited number of individuals who may be available to the Group at any given time, there may be significant delays in recruitment, which could have a material effect on continuing or expanding operations of the business which could in turn have a material and adverse effect on the financial condition or operation of the Group.

***The Company and its subsidiaries have a limited operational history in a new competitive and evolving sector***

The Company has only been operating its current business since 2016. While its founders, Directors and the Clinical Advisory Team have significant experience in the industry, the Company and the Group as a whole has a limited operational history and it has not, as yet, completed clinical trials on phytocannabinoid-derived medicines, or taken a pharmaceutical product through to CMA. Given this limited operational history, there is inherent uncertainty in relation to the Group's business. There can be no guarantee that the Group's business model or research and development initiatives will be successful, or even if they are successful, able to generate the revenue which is anticipated.

The medicinal cannabis industry is undergoing rapid growth and substantial change, which is resulting in increasing consolidation and formation of strategic relationships. The Company expects this consolidation and strategic collaborating to continue. Acquisitions or other consolidating transactions could harm the Group by it losing strategic relationships, if third parties with whom it has arrangements (such as distribution or research and development) are acquired by or enter into relationships with a competitor (which could cause the Group to lose access to distribution, content, technology and other resources), or the Group's current competitors could become stronger, or competitors could merge or amalgamate, forming much larger and experienced organisations. Any of these events could put the Group at a competitive disadvantage, which could cause it to lose research and development facilities or access to technology. Consolidation within the medicinal cannabis market could also force the Group to expend greater resources to meet new or additional competitive threats. In the event that any of all of these circumstances arise the financial condition, operations or prospects of the Group would be materially and adversely affected.

***The Ordinary Shares are listed on the ASX. Volatility or falls in its share price may materially and adversely affect the operations of the Group***

The Company was requoted on the ASX in 2016. As a company with its securities admitted to trading on a public securities exchange, the price at which its shares are trading may be subject to volatility or a material decrease in value, either as a result of the performance of the Group, rumor or speculation in the market, or due to general or specific factors affecting the performance of capital markets or the Australian or global economy generally. Some of these factors may be outside the control of the Company. Volatility or a material decrease in the price or trading volume of the Company's shares may make it more difficult for the Company to attract future capital or result in suppliers, partners or customers losing confidence in the operations or future of the Group, if this were to continue for a period of time the business, operations or financial condition of the Group could be materially and adversely affected.

### ***Transfer pricing***

There is a risk that amounts paid or received under the Group's intra-group arrangements in the past and/or in the future could be deemed for tax purposes to be lower or higher, as the case may be, or be disregarded for the purposes of calculating tax, which may increase the Group's taxable income or decrease the amount of relief available to the Group with a consequential negative effect on its financial position.

## **RISKS RELATING TO THE INDUSTRY IN WHICH THE GROUP OPERATES**

### ***The risks to the Group relating to infectious diseases and COVID-19***

Emerging infectious diseases or the threat of outbreaks of viruses or other contagions or epidemic diseases, including the current COVID-19 outbreak, could have a material adverse effect on the Group by causing operational and supply chain delays and disruptions (including as a result of Government regulation and prevention measures), labour shortages and shutdowns, social unrest, delays in recruitment for clinical trials, breach of material contracts and collaboration and research agreements, Government or regulatory actions or inactions, increased insurance premiums, decreased demand for or the inability to sell and deliver products, delays in permitting or approvals, Governmental disruptions, capital markets volatility, or other unknown but potentially significant impacts. In addition, Governments may impose strict emergency measures in response to the threat or existence of an infectious disease.

Accordingly, whilst the Directors believe the pandemic will bear no impact on the Group's working capital position, as the full extent and impact of the COVID-19 pandemic is currently unknown, it is not possible to reliably estimate the length and severity of the pandemic and the impact on the financial results and condition of the Group in the longer term outside of the Working Capital Period.

To date the global impact of COVID-19 has included extreme volatility in financial markets, a slowdown in economic activity and has raised the prospect of a global recession. The international response to COVID-19, which has led to significant restrictions on travel, temporary business closures, quarantines, global stock market volatility and a general reduction in global consumer activity, could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could result in a material adverse effect on, investor confidence, and general financial market liquidity, all of which may adversely affect the Group's business and the market price of the Ordinary Shares. Accordingly, any outbreak or threat of an outbreak of an epidemic disease or similar public health emergency, including COVID-19, could have a material adverse effect on the Group's business, financial condition and results of operations. It is unknown whether and how the Group may be affected if a pandemic, such as the COVID-19 outbreak, persists for an extended period of time.

### ***The Group may be subject to product liability claims or regulatory action***

As a manufacturer of a range of phytocannabinoid-derived medicines designed to be applied or ingested by humans, the Group faces an inherent risk of exposure to product liability claims or regulatory action. Such claims or regulatory action may arise if the Group's products are alleged to have caused, illness, or injury. This may be either as a result of the product research, development and manufacture process, tampering of products by unauthorised third parties, product contamination, or adverse reactions resulting from human consumption of phytocannabinoid-derived medicines, either alone or in combination with other medication or substances. As a result of any or all of these circumstances, the Group may be subject to product liability claims, which could be expensive to defend or result in settlement payments or judgments against it. In addition, regulatory authorities may interrupt, delay or halt product research, development and/or manufacture and the Group may be required to make material changes to the development or manufacture of products. A product liability claim, or regulatory action, could also materially and adversely affect the reputation of the Group with its suppliers, distributors and consumers. Should any or all of these circumstances materialise the financial position, prospects and future operations of the Group could be materially and adversely affected.

### ***The Group's products may not be widely adopted or prescribed, or may be subject to significant competition from competing products, treatments or therapies***

Phytocannabinoid-derived medicines as a treatment for neurological disorders, cancer, cancer treatment side effects, autoimmune disorders or chronic pain have not as yet been fully or widely accepted or adopted by the medical community, patients or the general public. Equally, the Group's plant-derived product ArtemiC™, being developed for the treatment of COVID-19, may not become widely accepted or adopted by the medical community or COVID-19 patients.

The phytocannabinoid-derived products of the Group face competition from synthetic cannabis products, established and developed pharmaceutical products or treatments, non-medicinal cannabidiol (CBD) products sold as wellness products or supplements, or in jurisdictions where it is legal, the use of cannabis with moderate to high THC, used recreationally to self-medicate symptoms or conditions. These alternative treatments for the key indications which the Group's products seek to treat, either those which are established or emerging, could render the Group's products obsolete and/or otherwise

uncompetitive. Equally, there are numerous treatments being developed globally for the treatment of COVID-19, any one or a number of these could render ArtemiC™ obsolete or uncompetitive.

Notwithstanding the technical merits of a product there can be no assurance as yet that the Group's phytocannabinoid-derived medicines will be adopted as a standard means of medical practice or that the medical procedures at which the Group's products are targeted will gain wider market acceptance. At present, the prescription of cannabis-based medicinal products remains low and is limited to specialist clinicians. As at the beginning of September 2019, 185 patients had accessed Epidiolex® through compassionate use and early access programmes ahead of a licensing decision by the EMA<sup>6</sup>. Intelligence from NHS England Controlled Drugs Accountable Officers is that, up until the end to November 2019, 104 private prescriptions had been issued for a cannabis-based pharmaceutical medicine in an independent secondary/tertiary care setting in England. According to data from the NHS Business Services Authority (to end of September 2019) there had been fewer than 18 NHS prescriptions for cannabis-based pharmaceutical medicines issued in primary care since November 2018<sup>7</sup>. In November 2019, both Epidiolex® (CBD) and Sativex® (1:1 THC:CBD) were approved for use by the NHS. Equally with a significant number of treatments being developed globally for the treatment of COVID-19, including a number of vaccines, there is no assurance that ArtemiC™ will become widely adopted as a treatment.

Even if the Group's products achieve market acceptance and are more widely prescribed, the market may not be large enough to allow it to generate significant revenues, due to low rates of adoption, or the price at which products are sold being considered prohibitive. The failure of the Group's products to achieve market acceptance, a reluctance by practitioners to prescribe its products, or the greater adoption of established or alternative treatments, could significantly affect further growth and development of the Group's business or the development of further products.

***Unfavourable publicity or unfavourable consumer perception of the Group, or cannabis use generally, may prevent or limit sales and revenue***

The Directors' believe the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy, and quality of the products. Consumer perception of the Group's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, and other publicity regarding the consumption of cannabinoids. There can be no assurance that future clinical trials, scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the hemp and cannabis market, any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention, or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could reduce the demand for the Group's products.

In addition, since the Group's phytocannabinoid-derived medicines contain controlled substances, such as THC, their regulatory approval may generate public controversy. Political and social pressures, including public debate as to the legalisation of recreational cannabis use in certain jurisdictions, could lead to adverse publicity which could lead to delays in the approval of, and increased expenses for the Group's products. THC is a compound in the cannabis plant that has psychoactive side effects and is one of the key active ingredients in the Group's therapeutic medications. Due to THC's psychoactive properties, it has given the plant value as a recreational drug and is therefore a highly controlled substance. This poses several risks for the Group, including security (i.e. diversion of raw or manufactured material), but the main challenge is ongoing changes with legislation and regulation. Currently, there is little homogeneity in global regulation for the import, and access of THC, which can impact the Group's ability to manufacture, export and import its products. Due to almost all the Group's products containing THC, this puts a risk on its ability to operate in regions where regulations may change due to reasons such as a change in Government, while restricting operations to countries that have legislation to allow for the import, distribution and prescription of cannabinoid-derived products.

Any of the pressures set out above could limit or restrict the introduction and marketing of the Group's products and reputation, which could materially and adversely affect the business, operations, financial condition or future prospects of the Group.

***Brexit***

The United Kingdom voted to leave the European Union in a referendum held on 23 June 2016 and the Group faces risks associated with the political and economic instability associated with this, as well as uncertainty relating to the regulatory environment in which its products may be marketed or distributed following the United Kingdom's exit from the European Union on 31 December 2020. For example, as a significant proportion of the legal and regulatory regime applicable to the Group's products, including obtaining CMA, is derived from European Union directives and regulations, the United Kingdom's exit from the European Union could materially change the legal and regulatory framework applicable to the marketing and

6 <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2019-09-02/284234/>

7 [https://apps.nhs.uk/foi/requests/requests/FOI\\_Request\\_\(08823\)2.txt](https://apps.nhs.uk/foi/requests/requests/FOI_Request_(08823)2.txt)

distribution of Group's products or future operations in the United Kingdom. To operate or market and distribute its products in the United Kingdom, the Group may need to comply with new regulatory requirements in the United Kingdom in order for its products to be marketed as a medicine even if in the EU they obtain CMA. In addition, it could result in restrictions on the movement of capital and people between the EU and the United Kingdom, which may impact the Group's ability to recruit and retain personnel with the necessary scientific, medical and technical skills it requires. Any of these risks occurring could have a material adverse effect on the Group's future prospects or operations.

## **RISKS RELATING TO ORDINARY SHARES**

### ***An active trading market may not develop or be sustained in the future***

Although the Company has applied to the FCA for admission of its Ordinary Shares to the Official List and has applied to the London Stock Exchange for admission to trading on the Main Market, the Company can give no assurance that an active trading market for the Ordinary Shares will develop in the United Kingdom or, if developed, can be sustained. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be adversely affected.

### ***Substantial future sales of Ordinary Shares, or the perception that such sales might occur, or additional offerings of Ordinary Shares, could depress the market price of Ordinary Shares***

The Company cannot predict what effect, if any, future sales of Ordinary Shares, or the availability of Ordinary Shares for future sale, or the offer of additional Ordinary Shares in the future, will have on the market price of Ordinary Shares. Sales or an additional offering of substantial numbers of Ordinary Shares in the public market, or the perception or any announcement that such sales or an additional offering could occur, could adversely affect the market price of Ordinary Shares and may make it more difficult for Shareholders to sell their Ordinary Shares at a time and price which they deem appropriate.

### ***Volatility or falls in its share price may materially and adversely affect the operations of the Group***

The Company was quoted on the ASX in 2016 and is now also seeking Admission. As a company with its securities admitted to trading on a public securities exchanges, the price at which its shares are trading may be subject to volatility or a material decrease in value, either as a result of the performance of the Group, rumor or speculation in the market, or due to general or specific factors affecting the performance of capital markets or the Australian, United Kingdom or global economies generally. Some of these factors may be outside the control of the Company. Volatility or a material decrease in the price or trading volume of the Company's shares may make it more difficult for the Company to attract future capital or result in suppliers, partners or customers losing confidence in the operations or future of the Group, if this were to continue for a period of time the business, operations or financial condition of the Group could be materially and adversely affected.

### ***The Company does not currently intend to pay dividends and its ability to pay dividends in the future may be limited***

No dividends have been paid or declared for payment since the incorporation of the Company and at present, the Directors' intention is that all profits generated by the operations of the Group will be reinvested for future growth and development. Therefore, at present, there is no intention to pay dividends and a dividend may never be paid. Any decision to declare and pay dividends will be made at the discretion of the Board and will depend on, among other things, the Group's results of operations, financial condition and solvency and distributable reserves tests imposed by corporate law and such other factors that the Board may consider relevant. As a result, purchasers of the Ordinary Shares may not receive any return on an investment in the Ordinary Shares unless they sell such Ordinary Shares for a price greater than that which they paid for them.

### ***The Company is applying for a Standard Listing and, accordingly, the Company will not be required to comply with those protections applicable to a Premium Listing***

The Company is seeking a Standard Listing and, as a consequence, additional on-going requirements and protections applicable to a Premium Listing will not apply to the Company. In particular, the provisions of Chapters 6 to 13 of the Listing Rules (other than Rule 7.2.1), being additional requirements for a Premium Listing of equity securities (Premium Listing principles, sponsors, continuing obligations, significant transactions, related party transactions, dealing in own securities and treasury shares and contents of circulars), will not apply. In addition, a Standard Listing will not permit the Company to gain UK FTSE indexation.

***The rights afforded to Shareholders are governed by Australian law and non-Australian Shareholders may have difficulties exercising rights which are governed by Australian law***

As the Company is an Australia resident company, the rights of Shareholders will be governed by Australian law and the Constitution. The rights of Shareholders under Australian law may differ from the rights of shareholders of companies incorporated in other jurisdictions. Not all rights available to shareholders under English law will be available to the Shareholders.

The Company is organised and exists under Australian law. Accordingly, the rights and obligations of the Company's shareholders are regulated by Australian corporate law and the Shareholders must follow Australian legal requirements in order to exercise their rights, in particular the resolutions of the shareholders in general meeting may be passed with majorities different from the majorities required for the adoption of equivalent resolutions under English law or other laws.

***Dual listing on the ASX and London Stock Exchange may lead to an inefficient market in the Ordinary Shares***

Dual listing of the Ordinary Shares will result in differences in liquidity, settlement and clearing systems, trading currencies, prices and transaction costs between the exchanges where the Ordinary Shares will be quoted. These and other factors may hinder the transferability of the Ordinary Shares between the two exchanges.

The Ordinary Shares are quoted and traded in Australian Dollars on the ASX. The Ordinary Shares will be quoted and traded in pounds sterling on the London Stock Exchange. The market price of the Ordinary Shares on those exchanges may also differ due to exchange rate fluctuations.

Consequently, the trading in and liquidity of the Ordinary Shares will be split between these two exchanges. The price of the Ordinary Shares may fluctuate and may at any time be different on the ASX and London Stock Exchange. This could adversely affect the trading of the Ordinary Shares on these exchanges and increase their price volatility and/or adversely affect the price and liquidity of the Ordinary Shares on these exchanges.

***Certain Shareholders will be issued Depositary Interests in respect of underlying Ordinary Shares***

On Admission, holders of Ordinary Shares will be able to hold and transfer interests in the Ordinary Shares within CREST pursuant to a depositary interest arrangement established by the Company. The Ordinary Shares will not themselves be admitted to CREST; rather, the Depositary will issue the Depositary Interests in respect of underlying Ordinary Shares. Holders of Depositary Interests may experience delays in receiving any dividends paid by the Company, may receive proxy forms later than other Shareholders and may have to act earlier than other Shareholders when casting votes at general meetings of the Company, by virtue of the administrative process involved in connection with holding Depositary Interests.

***Trading in the Ordinary Shares may be suspended***

The Ordinary Shares are currently traded on ASX. In certain circumstances, the ASX have, and the London Stock Exchange will have following Admission, the right to suspend trading in the Ordinary Shares. If the Ordinary Shares are suspended from trading, the holders of Ordinary Shares may not be able to dispose of their Ordinary Shares on the London Stock Exchange or ASX (as the case may be).

ASX also retains a general discretion to suspend trading in the Ordinary Shares in circumstances where the Company is unable or unwilling to comply with the ASX Listing Rules, to prevent a disorderly or uninformed market or for any other reason ASX deems appropriate. ASX will automatically suspend trading in the Ordinary Shares if the Company fails to lodge annual, half yearly and quarterly reports in accordance with the ASX Listing Rules or fails to pay the Company's annual ASX listing fee within 15 business days of the due date. ASX will also suspend trading in Ordinary Shares 5 business days following the issue of compulsory acquisition notices sent to shareholders pursuant to the Corporations Act.

The FCA may suspend the Ordinary Shares from trading on the London Stock Exchange if it determines that the smooth operation of the market is or may be temporarily jeopardised or it is necessary to protect investors.

The Company believes that as at the date of this Document there are no circumstances which could provide grounds for the halting or suspending of the Ordinary Shares from the London Stock Exchange or ASX for the foreseeable future. However, there can be no assurance that any such circumstances will not arise in relation to the Ordinary Shares in the future.

***The Ordinary Shares may become delisted***

In certain circumstances, the Ordinary Shares may be delisted from the London Stock Exchange or ASX. Delisting could have a material and adverse effect on the liquidity of the Ordinary Shares and on investors' ability to sell the Ordinary Shares at a satisfactory price.

The Company believes that as at the date of this Document there are no circumstances which could provide grounds for the delisting of the Ordinary Shares from the London Stock Exchange or ASX for the foreseeable future. There can however be no assurance that any such circumstances will not arise in relation to the Ordinary Shares in the future.

The Company may request that it be removed from the official list of ASX at any time. However, ASX may request that the Company provide evidence that the request be removed is made pursuant to appropriate authorisations or that the removing occur subject to certain conditions being satisfied. ASX's decision to approve the removal of the Company from the official list of ASX will typically be subject to certain conditions directed to ensure that the interests of the Shareholders are not unduly prejudiced by the removal. ASX also retains a general discretion to remove the Company from the official list of ASX in various circumstances.

The Company believes that as at the date of this Document there are no circumstances which could provide grounds for the removal of the Company from the official list of ASX or the delisting of the Ordinary Shares from the London Stock Exchange in the foreseeable future. However, there can be no assurance that any such circumstances will not arise in relation to the Ordinary Shares in the future.

The FCA may cancel the listing of the Ordinary Shares on the London Stock Exchange if satisfied that there are special circumstances precluding the normal and regular dealings in the Ordinary Shares.

The listing of the Ordinary Shares on the London Stock Exchange may also be cancelled at the request of the Company, subject to the Company giving at least 20 business days' notice of the proposed cancellation of the listing.

Because the Company is seeking a Standard Listing, it would not be required to seek shareholder approval before seeking the cancellation of the listing of the Ordinary Shares.



## PART 3

### PRESENTATION OF FINANCIAL AND OTHER INFORMATION

#### 1. General

This Document comprises a prospectus for the purposes of Article 6 of the Prospectus Regulation and is issued in compliance with the Listing Rules. Investors should only rely on the information in this Document. No person has been authorised to give any information or to make any representations other than those contained in this Document and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company or the Directors. The Company does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Group. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication other than this Document.

The contents of this Document or any subsequent communications from the Company, the Group or any of their respective affiliates, officers, advisers, Directors, employees or agents, are not to be construed as legal, business or tax advice. This Document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company or the Directors or any of its representatives that any recipient of this Document should subscribe for or purchase any securities that may be issued by the Company.

The delivery of this Document shall not, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or the Group since the date of this Document or that the information contained in this Document is correct as at any time subsequent to its date. As required by the Prospectus Regulation Rules, the Company will update the information provided in this Document by means of a supplement to it if a significant new factor that may affect the evaluation by prospective investors of the Group occurs or if this Document contains any material mistake or inaccuracy. Any supplement to this Document will be subject to approval by the FCA and will be made public in accordance with the Prospectus Regulation Rules.

#### 2. Presentation of Historical Financial Information

The Historical Financial Information of the Group presented in the Appendix to this Document—"Historical Financial Information," includes audited consolidated financial statements and accompanying notes for the Group as at and for the years ended 30 June 2020, 30 June 2019 and 30 June 2018.

The audited annual consolidated financial statements for the Group have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"). Within the Document, the consolidated financial statements for the Group are presented in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A note discussing the presentation to International Financial Reporting Standards is included in the Historical Financial Information.

#### 3. Currencies

In this Document, references to "£", "pence" or "p" are to the lawful currency of the UK, references to "AUD", "AU\$" or "A\$", "Australian Dollar" or "A\$" are to the lawful currency of Australia, references to "USD" or "US\$" are to the lawful currency of the United States of America, references to "CAD\$" are references to the lawful currency of Canada and references to "EURO" or "€" are to the lawful currency of the Member States of the European Union. The basis of translation of any foreign currency transactions and amounts in the financial information are set out in the Appendix to this Document—"Historical Financial Information".

#### 4. Rounding

Percentages and certain amounts in this Document, including financial, statistical and operating information, have been rounded to the nearest thousand whole number or single decimal place for ease of presentation. As a result, the figures shown as totals may not be the precise sum of the figures that precede them. In addition, certain percentages and amounts contained in this Document reflect calculations based on the underlying information prior to rounding, and accordingly, may not conform exactly to the percentages or amounts that would be derived if the relevant calculations were based upon the rounded numbers and may not add up to 100%.

## 5. Third party information

The Company confirms that all third-party information contained in this Document has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where third party information has been used in this Document, the source of such information has also been identified.

## 6. Forward-looking statements

Certain statements contained in this Document constitute forward-looking statements. These statements relate to future events or the future performance of the Group but do not seek in any way to qualify the working capital available to the Group during the Working Capital Period, or the working capital statement given by the Company at paragraph 16 of Part 8 of this Document – “Information on the Group. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe”, “expect” or similar expressions. These statements involve numerous assumptions, known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those expressed, anticipated or implied in such forward-looking statements. The Company believes that the expectations reflected in forward-looking statements contained herein are reasonable, but no assurance can be given that such expectations will prove to be correct or accurate, and accordingly such forward-looking statements included in, or incorporated by reference into, this Document should not be unduly relied upon. These statements speak only as of the date of this Document. Actual operational and financial results or events may differ materially from the Company’s expectations contained in the forward-looking statements as a result of various factors, many of which are beyond the control of the Company.

Forward-looking statements in this Document include, but are not limited to, statements with respect to the following:

- the progress and success of clinical trials and development of the Group’s products;
- changes in the markets for and pricing of the Group’s products along with various input costs;
- currency exchange rate fluctuations;
- increasing costs and declining productivity;
- challenges in complying with obligations under local legislation and regulations;
- the capital-intensive nature of the business and the Company’s ability to fund further acquisitions and new business plans, including clinical trials;
- adverse changes in social, legal, economic or political conditions in the relevant countries that the Company operates or neighbouring countries or the effect of governmental efforts to address present or future economic or social problems;
- competition in the medicinal cannabis industries for workers and for senior management;
- employee health and safety issues;
- the Company’s ability to realise and maximise the “Nature to Medicine” strategy, research and development activities, partnerships and acquisition opportunities; and
- criminal acts, bribery, theft, fraud and corruption.

With respect to forward-looking statements contained in this Document, the Company has made assumptions regarding:

- production levels;
- clinical trial costings and timing of such clinical trials;
- patient numbers for the Group’s products;
- access to third party logistics and distribution partners;
- foreign exchange rates;
- development costs;



- future currency and interest rates;
- the Company's ability to generate sufficient cash flow from operations and to access existing or future credit facilities and capital markets to meet its future financial obligations; and
- general economic and financial market conditions,

These factors should not be considered exhaustive. The forward-looking statements contained in this Document are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws.

Investors are cautioned that forward-looking statements are not guarantees of future performance. The Company makes no representation, warranty or prediction that the results predicted by such forward-looking statements will be achieved and these forward-looking statements represent, in each case, only one of many possible scenarios, and should not be viewed as the most likely or standard scenario. Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this Document speak only as at the date of this Document, reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and the availability of new credit. Investors should specifically consider the factors identified in this Document that could cause actual results to differ. All of the forward-looking statements made in this Document are qualified by these cautionary statements.

Subject to the requirements of the Prospectus Regulation Rules, the DTR, the Listing Rules and MAR, or applicable law, the Company explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this Document that may occur due to any change in the Group's expectations or to reflect events or circumstances after the date of it. The information in this Document will be updated as required by the Prospectus Regulation Rules, Listing Rules and the DTR, as appropriate.

#### **7. No incorporation of website**

The contents of the Company's website, any website mentioned in this Document or any website directly or indirectly linked to these websites have not been verified and do not form part of this Document and investors should not rely on such information.

#### **8. Definitions and technical terms**

A list of defined terms used in this Document is set out in Part 17 of this Document – "Definitions". A list of defined technical terms used in this Document is set out in Part 18 of this Document – "Glossary of Technical Terms".

## PART 4

### CONSEQUENCES OF A STANDARD LISTING

After careful consideration, the Directors have concluded that in order to promote liquidity in the Ordinary Shares through a public listing on the London Stock Exchange while allowing a sufficient degree of flexibility for a company of its size and type, it is appropriate for the Ordinary Shares to be admitted to listing on the standard segment of the Official List. In particular, the following are key considerations for the Company's proposed Standard Listing:

- a Standard Listing as compared to a Premium Listing will generally facilitate more cost-efficient administration. In this regard, the Company wishes to align its regulatory responsibilities and the associated cost consequences with the Company's size;
- the proposed Standard Listing of the Company will mean that the Company will not be required to comply with the super-equivalent provisions of the Listing Rules that apply to companies with a Premium Listing, which will have a direct cost saving for the Company; and
- the Listing Rules for securities with a Standard Listing are far less demanding and stringent than those applicable to securities with a Premium Listing.

A Standard Listing affords Shareholders and investors in the Company a lower level of regulatory protection than that afforded to investors in companies whose securities are admitted to the premium segment of the Official List, which are subject to additional obligations under the Listing Rules.

**It should be noted that the FCA will not have the authority to (and will not) monitor the Company's compliance with any of the Listing Rules or any of the DTR, nor to impose sanctions in respect of any failure by the Company to so comply.**

Application has been made for the Ordinary Shares to be admitted to listing on the standard segment of the Official List pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for Standard Listings and does not require the Company to comply with, among other things, the provisions of Chapters 6 to 13 of the Listing Rules (excluding Listing Principles 1 and 2). As a result, the Company's securities will not be eligible for inclusion in the UK series of the FTSE indices.

#### **1. Listing Rules which are not applicable to a Standard Listing**

The following Listing Rules are not applicable to a Standard Listing:

- Chapter 6 of the Listing Rules regarding, among other things, the content of the Historical Financial Information, provisions pertaining to, control of the business, working capital, constitutional arrangements of the Company;
- Chapter 7 of the Listing Rules other than the listing principles relating to (i) taking reasonable steps to establish and maintain adequate procedures, systems and controls to enable the Company to comply with its obligations; and (ii) dealing with the FCA in an open and co-operative manner;
- Chapter 8 of the Listing Rules regarding the appointment of a listing sponsor to guide the Company in understanding and meeting its responsibilities under the Listing Rules in connection with certain matters. In particular, the Company is not required to appoint a sponsor in relation to the publication of this Document or Admission;
- Chapter 9 of the Listing Rules relating to further issues of shares, issuing shares at a discount in excess of 10% of market value, notifications and contents of financial information;
- Chapter 10 of the Listing Rules relating to significant transactions which requires Shareholder consent for certain acquisitions;
- Chapter 11 of the Listing Rules regarding related party transactions;
- Chapter 12 of the Listing Rules regarding purchases by the Company of its Ordinary Shares; and
- Chapter 13 of the Listing Rules regarding the form and content of circulars to be sent to Shareholders.

## **2. Listing Rules with which the Company must comply under a Standard Listing**

There are, however, a number of principles and continuing obligations set out in Chapter 7 and Chapter 14, respectively, of the Listing Rules that will be applicable to the Company. These include requirements as to:

### ***Chapter 7 – Listing Principles***

- the taking of reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations; and
- the dealing with the FCA in an open and co-operative manner.

### ***Chapter 14 – Continuing Obligations***

- the forwarding of circulars and other documentation to the FCA for publication through the document viewing facility and related notification to a regulatory information service;
- the provision of contact details of appropriate persons nominated to act as a first point of contact with the FCA in relation to compliance with the Listing Rules and the DTR;
- the form and content of temporary and definitive documents of title;
- the appointment of a registrar;
- the making of regulatory information service notifications in relation to a range of debt and equity capital issues; and
- at least 25% of the Ordinary Shares being held by the public in the European Economic Area or the jurisdiction in which the Ordinary Shares are listed.

In addition, as a company whose securities are admitted to trading on a regulated market, the Company will be required to comply with the DTR.

## **3. Disclosure Guidance and Transparency Rules**

Under Rule 5 of the DTR (Vote Holder and Issuer Notification Rules) (“**DTR5**”), a person must notify the Company and the FCA of the percentage of the Company’s voting rights he or she holds as a Shareholder (or holds or is deemed to hold through his or her direct or indirect holding of financial instruments) if, as a result of an acquisition or disposal of Ordinary Shares or financial instruments, or as a result of any event changing the breakdown of voting rights of the Company (for example, a buy-back of Ordinary Shares by the Company), the percentage of those voting rights in which he is interested reaches, exceeds or falls below 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

The form in which such notification must be made is provided by the FCA on its website at: <https://www.fca.org.uk/markets/ukla/regulatory-disclosures/submit-investor-notification>

Such notification must be made no later than four trading days after the date upon which the person making the notification: (i) learns of the acquisition or disposal or of the possibility of exercising voting rights, or on which, having regards to the circumstances, should have learned of it, regardless of the date on which the acquisition, disposal or possibility of exercising voting rights takes effect; or (ii) is informed about the event changing the breakdown of voting rights of the Company.

Any person who is in breach of their obligations under DTR5 is liable to a fine and/or public censure by the FCA and the FCA may apply to court to have such person’s voting rights suspended.

## **PART 5**

### **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Publication of this Document	4 February 2021
Admission and commencement of dealings in Ordinary Shares on the London Stock Exchange	8.00 am on 9 February 2021
CREST accounts credited in respect of Depositary Interests	9 February 2021
Despatch of definitive share certificates (where applicable)	From 9 February 2021

These dates and times are indicative only, subject to change and may be brought forward as well as moved back, in which case new dates and times will be announced. The times referred to above are references to the time in London, UK.

## PART 6

### ADMISSION AND PLACING STATISTICS

Number of Existing Ordinary Shares	1,788,130,339
Number of Placing Shares	440,677,967
Placing Price	1.475 pence
Number of Ordinary Shares in issue at Admission	2,228,808,306
Percentage of issued share capital represented by the Placing Shares, at Admission	19.7%
Number of securities convertible into Ordinary Shares at Admission <sup>(1)</sup>	199,334,538
Number of Ordinary Shares on a fully diluted basis at Admission <sup>(2)</sup>	2,428,142,844
Expected market capitalisation of the Company at Admission <sup>(3)</sup>	£32.865 million
Gross proceeds of the Placing <sup>(4)</sup>	£6.5 million
Estimated net proceeds of the Placing <sup>(5)</sup>	£6 million
ISIN	AU000000MXC6
LEI	213800HRE3FQJ6RK4H10
SEDOL	BK70NQ9
Tickers	LSE:MXC ASX:MXC OTC:MGCLF

- 
- (1) This comprises 184,334,538 Options, 15,000,000 Performance Rights. In addition to these amounts, there are convertible notes to the value of A\$4,575,000, which are subject to conversion into Ordinary Shares by reference to the lower of 2 cents Australian, or 92% of the volume weighted average price over the 10 trading days prior to exercise, subject to a floor price of 1.8 cents Australian. Further, 26,440,678 options have been conditionally granted to Turner Pope, these remain subject to shareholder approval, and do not form part of this calculation.
- (2) This assumes all securities convertible into Ordinary Shares are converted into Ordinary Shares at Admission. See also note (1) in respect of convertible notes in issue and conditional options.
- (3) The market capitalisation of the Company at any given time will depend on the market price of the Ordinary Shares at that time.
- (4) Based on an exchange rate of 1.79174 as at 3 February 2021 (being the Last Practicable Date), the gross proceeds of the Placing are A\$11,646,310.
- (5) Based on an exchange rate of 1.79174 as at 3 February 2021 (being the Last Practicable Date), the net proceeds of the Placing are A\$10,750,440.

## PART 7

### DIRECTORS, SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS

<b>Directors</b>	Roby Zomer	<i>Managing Director and CEO</i>
	Brett Mitchell	<i>Executive Chairman</i>
	Nativ Segev	<i>Non-Executive Director</i>
	Dr Stephen Parker	<i>Non-Executive Director and Chairman of Audit, Risk, Nomination and Remuneration Committees</i>
	Dr Ross Walker	<i>Non-Executive Director and Head of Clinical Advisory Team</i>
	Evan Hayes	<i>Non-Executive Director</i>
<b>Company Secretaries</b>	Rachel Kerr	
	Narelle Warren	
<b>Registered Office of the Company</b>	1202 Hay Street West Perth WA 6005 Australia	
<b>Head Office of the Company</b>	1202 Hay Street West Perth WA 6005 Australia	
<b>UK Broker to the Company</b>	Turner Pope Investments Limited 8 Fredrick's Place London EC2R 8AB United Kingdom	
<b>Australian ECM Adviser to the Company</b>	Canaccord Genuity (Australia) Limited Level 4, 60 Collins Street Melbourne VIC 3000 Australia	
<b>English Legal Advisers to the Company</b>	Memery Crystal LLP 165 Fleet Street London EC4A 2DY United Kingdom	
<b>Appointed English Counsel to the Company</b>	Tim Owen QC Matrix Chambers Griffin Building Gray's Inn London WC1R 5LN United Kingdom	
	David Young Red Lion Chambers 18 Red Lion Court London EC4A 3EB United Kingdom	

<b>English Legal Advisers to the UK Broker</b>	Gowling WLG (UK) LLP 4 More London Riverside London SE1 2AU United Kingdom
<b>Australian Legal Advisers to the Company as to corporate matters</b>	Steinepreis Paganin Level 4, The Read Buildings 16 Milligan Street Perth WA 6005 Australia
<b>Australian Legal Advisers to the Company as to regulatory matters</b>	Mills Oakley LLP Level 7, 151 Clarence Street Sydney NSW 2000 Australia
<b>Commercial Legal Advisers to the Group</b>	Levi, Ten-Ami, Shimony co. Law Office Alon Tower 2, 12th Floor 94 Yigal Alon St Tel Aviv, Israel
<b>Maltese Legal Advisers to the Group</b>	Mamo TCV Advocates Palazzo Pietro Stiges 103, Strait Street Valletta VLT 1436 Malta
<b>Slovenian Legal Advisers to the Group</b>	Selih & Partnerji Komenskega ulica 36 1000 Ljubljana Slovenia
<b>Independent Auditors to the Company</b>	Ernst & Young (Appointed 29 November 2019) EY Building, 11 Mounts Bay Road Perth WA 6000 Australia  PKF Mack (Resigned 29 November 2019) Level 4, 35 Havelock Street West Perth WA 6005 Australia
<b>Reporting Accountants</b>	PKF Littlejohn 5th Floor 15 Westferry Circus London E14 4HD United Kingdom

**Registrar**

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

**Depository**

Computershare Investor Services Plc  
The Pavilions  
Bridgwater Road  
Bristol, BS13 8AE  
United Kingdom



## PART 8

### INFORMATION ON THE GROUP

#### 1. Introduction

MGC Pharmaceuticals Limited (the “**Company**”) (ASX: MXC) (OTC: MGCLF) is a bio-pharma company with a “Nature to Medicine” strategy within the international phytocannabinoid<sup>8</sup> and plant-derived medicines industry. With operations through its subsidiaries in Australia, the European Union and the UK (the “**Group**”), the Company is developing phytocannabinoid-derived and plant-derived medicines as well as unique formulations, both proprietary and for third parties, all to GMP standard.

The Company’s “Nature to Medicine” strategy comprises the entire supply chain, from botanical research, to develop new strains of *Cannabis Sativa* (undertaken by the Group and research partners), preclinical and clinical research (undertaken by the Group itself and in collaboration with international research institutions, hospitals and universities), product manufacturing, at the Group’s facility in Slovenia and by a third party OEM, distribution (carried out by pharma distributors selected by the Group), as well as the development of unique drug delivery systems designed to facilitate the Group’s mission.

The Company’s mission is to produce “standardised, affordable, phytocannabinoid and plant-derived medicines” to improve the lives of patients. This mission is cemented by the Group having established a GMP certified facility in Slovenia, which develops and manufactures GMP compliant phytocannabinoid-derived and plant-derived medications following EU pharmacopeia standards<sup>9</sup>, as required for the production of IMP in the EU. This market access has been enhanced with the onboarding of a GMP-certified OEM, increasing the Group’s manufacturing capacity, product lines, and ability to enter additional various markets.

The Group has also completed a Phase II double-blind, randomized, placebo controlled clinical trial in Israel and India, to evaluate the safety and efficacy of a natural anti-inflammatory based formulation ArtemiC™ on patients diagnosed with COVID-19. Results are expected by the end of December 2020.

#### Product authorisation and manufacture

From its research and development work, the Group has developed and is producing two flagship phytocannabinoid-derived medicinal products, CannEpil® and CogniCann™, both of which are in clinical development for central nervous system disorders and are the most progressed products in the Group’s pipeline. Further products of the Group, InCann (Crohn’s disease and colitis), Tetrinol (cachexia) and TopiCann™ (anti-inflammation) are in early-stage development. In addition, a non-cannabis, plant-derived medicine for the treatment of symptoms associated with Covid-19, ArtemiC™, has just completed the Phase II double-blind, randomized, placebo controlled clinical testing, with the Group planning a Phase III clinical trial.

The Group’s near-term objective is to ensure that ArtemiC™, CannEpil® and CogniCann™ successfully complete clinical development and achieve authorisation in Europe, by obtaining CMA from the EMA, and in Australia, by obtaining product approval from the TGA, within three years for CannEpil® and five years for CogniCann™, even sooner for ArtemiC™, which is being fast tracked as a result of the global COVID-19 epidemic. Obtaining CMA in the EU, or product approval from the TGA, will allow the Group to advertise the product’s therapeutic use to the public and medical professionals, and allow medical professionals to prescribe them as an approved medicine; at present it is only able to make these products available as unlicensed medicines. Achieving authorisation in the EU and approval in Australia for these products will be a significant turning point for the Group, allowing these products to access a much wider market, which the Directors’ believe could result in peak annual sales of CannEpil® and CogniCann™ in excess of £1.6 billion (AUD\$3.09 billion) within the EU5, Australia, MENA and Thailand regions<sup>10</sup>.

The Group’s flagship products are currently manufactured at its Slovenian manufacturing facility, operated by MGC Slovenia. The facility in Slovenia is one of only a few in Europe with a Certificate of GMP (demonstrating compliance with the principles and guidelines of GMP laid down in Directive 2003/94/EC), as well as an EU manufacturing license to produce GMP pharmaceutical grade phytocannabinoid-derived medicines<sup>11</sup>. These permissions allow the Group to formulate and

8 Phytocannabinoids are molecules that form naturally in plants, including *Cannabis spp.* such as *Cannabis sativa*. These molecules, the most prevalent of which are cannabidiol (CBD) and Δ-9-tetrahydrocannabinol (THC), interact with the body’s endocannabinoid system through two receptors (CB1 and CB2). The Group’s products are classified as Investigational Medicinal Products (“IMP”) which are produced to GMP pharmaceutical grade.

9 <https://www.edqm.eu/en/ph-eur-reference-standards-orders-catalogue>

10 Alacrita Consulting Limited-Market Projections Paper-October 2019.

11 The Company’s wholly owned subsidiary, MGC Pharmaceuticals, d.o.o. was granted an authorisation for manufacturing of medicinal products no. 800-11/2018-8 on 9 July 2018, namely for the production of medicinal products in clinical trial (human IMP).

compound API provided to the Group and pack the Group's phytocannabinoid-derived medicines for delivery to pharmacies and patients, utilising the Group's appointed distributors.

In order to grow revenue throughout the process of achieving CMA for the Group's products, an OEM with a certificate of GMP has been onboarded to manufacture a range of phytocannabinoid-derived products for supply into Australia, Brazil and the EU, through early access schemes as unapproved/unlicensed prescription medications. These products are branded 'Mercury Pharma' and allow the Group to generate revenue and capture market share. The relationship with the OEM allows the Group to provide the high-quality products expected by the medical community at a very competitive price, establishing the Company as a market leader in the globally expanding medical cannabis oil market. These are products, which are not destined for CMA, but are beginning to be widely adopted as an efficient delivery method to provide ratio based phytocannabinoid-derived products (as opposed to raw flower or whole plant extracts) represent a significant revenue opportunity for the Group. The 'Mercury Pharma' brand of products are non-IMP, providing medical professionals a range of products to prescribe as they believe best suited for their patient, covering a range of indications. The full 'Mercury Pharma' line of products comprises:

- MP 100, a 100mg/ml CBD solution;
- MP 200, a 200mg/ml CBD solution;
- MP 1:30, a 100mg/ml CBD and 3mg/ml THC solution;
- MP 1:1, a 25mg/ml CBD and 25mg/ml THC solution;
- MP 7:1, a 3.6mg/ml CBD and 25mg/ml THC solution;
- MP 15:1, a 1.7mg/ml CBD and 25mg/ml THC solution; and
- MP 25, a 25mg/ml THC solution.

The Group was the first phytocannabinoid-derived medicines developer to obtain a letter of intent from the Government of Malta, allowing the Group to commence the planning and development of facilities for the cultivation and processing of medicinal cannabis for use in its pharmaceutical pipeline. Subsequently, the Group entered into a long-term emphyteutic concession deed with Malta Industrial Parks for 6,000m<sup>2</sup> of land, on which site planning has been completed and construction has been authorised of the new facility.

The Group had originally planned a single multi-story 15,720m<sup>2</sup> new facility, including a 10,480m<sup>2</sup> combined use facility, to include a processing and production laboratory to be built in contemplation of obtaining GMP certification, and a 5,240m<sup>2</sup> greenhouse on the roof for cultivation for production of phytocannabinoids for commercial use.

On 10 September 2020, the Group received a second letter of intent from Malta Enterprise, addressed to MGC UK, confirming that it has approved the allocation of industrial space for the setting up and operation of a facility in Malta for the provision of standard laboratory services to the medical industry in Malta, including process validation, GMP product release, contract research, quality assurance and in-vitro research and the setting up and operation of a production line for the manufacture of ArtemiC™. As a result, the Company has decided to delay the building of the larger facility, and instead build an alternate manufacturing facility for ArtemiC™, which will also undertake clinical research and analytics, and serve as an alternative manufacturing facility (with faster lead time) for the Group's phytocannabinoid products. Construction of this smaller, 480m<sup>2</sup> facility commenced in Q4 2020 and is expected to be completed during 2021. Following its completion, the Company will focus its resources on the construction of the larger facility, which is expected to be operational in mid-2024. Further details of the emphyteutic deed and the deed of lease, pursuant to which the facilities at Hal Far Industrial Estate in Malta have been granted are set out in Part 16 of this Document – "Additional Information".

Once construction of the two facilities in Malta are complete the Group's manufacturing capabilities there will be significantly larger than its existing facility in Slovenia and will be the primary hub for the Group's manufacturing operations. Aside from an ideal climate, Malta has only 5% corporation tax, making it an attractive operational location site for the Group. Malta also has one of the main seaports in the Mediterranean, as well as land access to Italy, making it a desirable location in terms of product access to the mainland of Europe.

The Company intends to fund, in part, the construction of the facilities in Malta from the net proceeds of the Placing.

#### Product research and development

The Group's focus has allowed it to position itself as a global developer and producer of phytocannabinoid-derived and plant-derived medications, supported by a research and development Clinical Advisory Team with years' of experience in the pharmaceutical and cannabinoid industries, backed by a management team with extensive industry experience. Management's ability to understand the global phytocannabinoid industry has continuously allowed the Group to be well-positioned with any developments.

The Group's botanic division, together with the Biotechnical Faculty of the University of Ljubljana, spent the last five years developing strains of *Cannabis spp* with high contents of THC and CBD, giving the Group's cultivation partners the most cost-effective API. In order to maximise cost-effectiveness, the Group will work with its current and future cultivation partners, applying SOPs and protocols that are validated through research and the GMP certification process to maximise biomass grow per square meter and provide the highest cannabinoid yield, cultivated in the most environmental suitable locations, which achieves the most efficient starting point for lower product cost of goods.

The Group is in the process of registering four strains of *Cannabis spp* with the Community Plant Variety Office. Two of the leading strains are MXC-THC-10/3 for THC and MXC-CBD-81/5 for CBD, which have >35% THC and >20% CBD respectively, making them more suitable for isolating their active ingredient.

To develop the Group's current product range, the Group has pursued, both through its Clinical Advisory Team, consultants and in collaboration with international research institutions, hospitals and universities, an ambitious international research and development agenda. At present, the Group has mandated research and development projects in the preclinical and clinical stages, as well as botanical studies, focused at the intersection of phytocannabinoid-derived and plant-derived medications and the pharmaceutical industry.

At RMIT in Australia, the Company, has co-funded a state-of-the-art research facility and as part of an on-going research collaboration agreement, has been granted exclusive access to those facilities for the next four years. RMIT is one of Australia's leading universities, with over 80,000 students and campuses in Australia, Vietnam and Spain. Under the research agreement with RMIT, MGC Research holds a Cannabis Research License and Permit, in respect of its activities at RMIT, allowing for the cultivation and extraction for botanical and non-human preclinical research purposes only. This work program, involving cultivation, has not commenced with RMIT as yet. Once it commences, it will initially focus on botanical research to develop strains with high cannabinoid contents that are shown to be efficacious for treating cancers, specifically melanoma and prostate cancer. The preclinical screening for anti-cancer activity will occur within the facility.

Beyond the botanical and preclinical research conducted at RMIT, the two organisations have partnered with the Hebrew University in Jerusalem and established CannaHub™, a centre open to students, staff and industry focused on research and development in the medicinal cannabis field.

In addition to the on-going research collaboration with RMIT, the Group has entered into other research and development agreements with international research institutions and universities in Australia and Europe to conduct clinical trials. Such partnerships ensure research is conducted according to strict clinical protocols, while maintaining objectivity to data. In each of its research collaborations, the Group defines the research goals and assists with protocol development, while the institutional and university researchers independently execute trials.

The Group is currently progressing a clinical research agenda focused on CannEpi® for epilepsy, and CogniCann™ for dementia/Alzheimer's disease, alongside early-stage development of several other formulations. Other academic partnerships include that with RMIT (in relation to preclinical research on melanoma and prostate cancer), UNDA (for CogniCann™ Phase IIb) and the Schneider Children's Medical Center of Israel alongside the University of Ljubljana (for CannEpi® Phase IIb), in consultation with Galilee Clinical Bio Research, an Israeli pharmaceutical industry level CRO.

In respect of ArtemiC™, the Group commenced a Phase II double-blind, randomized, placebo controlled clinical trial in Israel to evaluate the safety and efficacy ArtemiC™ on patients diagnosed with COVID-19. This followed receipt of Ethics Committee approval of the trial in April 2020 at Nazareth Hospital EMMS and at Hillel Yaffe Hospital in Israel. The first patients were recruited in early May 2020, with the Phase II trial commenced shortly thereafter.

In July 2020, the trial received Ethics Committee approval to be expanded to the Mahatma Gandhi Mission's Medical College & Hospital in India, which commenced in September 2020. Patient recruitment has also commenced at the leading Rambam Academic Hospital in Israel following its Ethics Committee approval.

The Phase II trial has now completed with the results announced by the Company on 15 December 2020. The results showed that ArtemiC™ has successfully met the primary and secondary study endpoints, with 100% of the patients in the treatment group meeting the Trial's primary end point and fully recovering within 15 days of follow up. The Phase II trial met all the FDA requirements for a COVID-19 study including population diversity and ArtemiC™ delivered a NEWS score (main parameter of clinical improvement in COVID-19 patients) of less than or equal to 2 in 100% of patients in the treatment group.

The Group is currently planning a Phase III trial to follow this Phase II trial.

#### Distribution

Over the past several years, the Group has developed relationships with pharmaceutical wholesalers and distributors, providing access to markets in Australia, the United Kingdom, Ireland and Brazil, as well as Germany, Switzerland and Austria;

many of these jurisdictions have early access schemes under which patients can be prescribed the Group's products, prior to CMA being obtained.

For example, in respect of the Australian market, the Group's phytocannabinoid-derived products including CannEpil® and CogniCann™, are manufactured at the Group's manufacturing facility in Slovenia, exported through its distributor Lenis farmacevtika d.o.o, imported under the Company's import licence and distributed by the appointed partners, Health House International and Cannvalate, under the Company's Indent Wholesale Licence. The Group's 'Mercury Pharma' line of products are manufactured through the appointed OEM, with Marken as the appointed logistics partner. The Group's products are then able to be prescribed and made available to patients through the Special Access Scheme.

For distribution into the United Kingdom, MGC Slovenia has appointed Lenis farmacevtika as its product exporter from the Slovenian facility, and Marken as the logistics partner from the OEM. Lyphe Group is the Group's appointed UK product importer and distributor. At present the only product of the Group imported into the United Kingdom is CannEpil® and several products in the 'Mercury Pharma' range, both under the Group's branding and white label. These products are imported into the United Kingdom by Lyphe Group pursuant to its Home Office controlled drug import licence and are then distributed as an unlicensed medicine or "specials", in accordance with the requirements of the MHRA<sup>12</sup>.

The Group is also currently the only known importer of prescription medication containing THC into Brazil. This is done from the Group's OEM in partnership with OnixCann, where individual patients are granted import licences from Anvisa, Brazil's National Health Surveillance Agency, accompanied by the relevant export approvals.

These distribution arrangements and early access schemes have enabled the Group to generate revenue from its products in Australia, the United Kingdom and Brazil while flagship products progress through the clinical development pathway. Details of the revenue generated from sales of the products of the Group are set out in the Historical Financial Information, as set out in the Appendix to this Document – "Historical Financial Information". Total units prescribed in Australia, the United Kingdom and Brazil have reached over 7,000.

In early September 2020, the TGA announced their interim decision to include low-dose CBD as an over-the-counter medication in Australia, coming into effect on 1 June 2021. In order to have a product registered as a Schedule 3 product (meaning the product is available from pharmacies without a prescription), companies will still have to demonstrate CMC (Chemistry, Manufacturing and Control), clinical support, efficacy, safety and more. The Group is one of a small group of companies with the capacity to achieve a Schedule 3 registration and is pursuing a project with the intention of being one of the first to market, which will significantly enhance access to patient and immediate revenues.

## **2. History of the Group**

MGC Pharma (UK) Ltd was established in 2015 by leading Israeli medicinal cannabis industry executives, with the vision of becoming an international leader in the development and supply of phytocannabinoid-derived medicines within the biopharmaceutical industry.

MGC Pharma (UK) Ltd's founder, Nativ Segev, was CEO of Better Cannabis, one of Israel's eight official medicinal cannabis companies, and experienced the limitations of the local market, while recognising the global impact the industry was going to have. Mr Segev recruited, Roby Zomer, whose experience in energy and biofuel projects, large-scale agricultural projects, and global commerce, contributed to founding a business focused on leveraging the Israeli knowledge and experience with a globally emerging industry. Segev and Zomer then established an operational base in Slovenia, while creating an opportunity for the acquisition of MGC Pharma (UK) Ltd by an Australian company, formerly known as Erin Resources Limited, which then became MGC Pharmaceuticals Ltd.

In **2016**, the Company was relisted on the ASX through its RTO of Erin Resources Limited. In that same year it established a wider operating group which launched a wholly owned subsidiary MGC Derma and appointed Dr Ross Walker to the Board. Australia legalised medicinal cannabis, allowing the Group to progress its operations there, while also acquiring an interest in PANAX Pharma s.r.o, allowing it to advance botanical research in the Czech Republic. In this year, leading paediatric epilepsy expert, Prof Uri Kramer, joined the Strategic Advisory Board and launched the Group's development of its flagship epilepsy medication, CannEpil®.

In **2017**, the Group completed construction of the Slovenian manufacturing facility; in addition, the Company signed agreements with RMIT, progressing the Group's research and development agenda, and MGC Slovenia appointed Lenis farmacevtika as the Group's key distribution and wholesale partner.

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12 Since 1 November 2018, cannabis-based products for medical use in humans have been re-scheduled to Schedule 2 of the 2001 Regulations by The Misuse of Drugs (Amendments) (Cannabis and Licence Fees) (England, Wales and Scotland) Regulations 2018), meaning senior clinicians, on the General Medical Council specialist register are able to prescribe cannabis based medicines to patients.

In **2018**, the Group appointed Roby Zomer as Managing Director. During the year the Slovenian facility was granted GMP certification and the Group obtained the letter of intent from the Maltese Government for a large-scale manufacturing facility; further to this the first shipment of CannEpil® arrived in Australia. The year also saw progression of clinical research with CogniCann™, commencing Phase IIb clinical trial with UNDA and CannEpil® research progressing in Slovenia.

In **2019**, the Group reached several milestones:

- Signed numerous distribution agreements to bring products into the United Kingdom, Australia, the EU and Brazil;
- Preclinical glioblastoma research was completed with significant results, in that the statistical results showed a level of significance within the hypothesis test representing probability of efficacy;
- Over 1,000 prescriptions of CannEpil® and MXP100 (the Group's CBD formula) in Australia and the United Kingdom;
- Cannabis Research Licence obtained by MGC Research to cultivate cannabis for botanical and preclinical research at RMIT, Australia;
- Site planning was completed on the Group's 15,720m<sup>2</sup> Malta manufacturing facility;
- Completed sale of the Company's subsidiary MGC Derma to CannaGlobal Canada Co Inc. in consideration for shares representing up to 10% equity interest;
- Entered into a binding term sheet to form a 50:50 joint venture company with Brazil Invest Global Business and Development for the retail sale and marketing of the Group's products in Brazil and the wider Latin American region (this arrangement was terminated in early 2020); and
- Approval received from Ireland's Ministry of Health, permitting the sale of CannEpil® under the medical cannabis access programme.

While COVID-19 is impacting business operations globally in **2020**, the Group has seen considerable movement in operational growth through the year-to-date, with many milestones and achievements being reached:

- Completion of a Phase II placebo controlled clinical trial in Israel and India to evaluate the safety and efficacy of a natural anti-inflammatory based formulation ArtemiC™ on COVID-19 patients, with interim results on 10 patients indicating significant efficacy, with the full results announced by the Company on 15 December 2020;
- Successful research results on glioblastoma multiforme from an ongoing pre-clinical research program in collaboration with the National Institute of Biology in Slovenia;
- Ethics committee approval from Schneider Children's Medical Centre of Israel to commence a Phase IIb clinical trial for the Group's proprietary epilepsy treatment, CannEpil®;
- The launch of 'Mercury Pharma', a new proprietary ratio-based affordable prescription medicine line, with the full suite of products available for prescription in Australia and Brazil in September 2020;
- Execution of a binding amendment to the supply and distribution agreement with ONIX Empreendimentos e Participações, which established a minimum order volume of 20,000 units for year one and a down payment of A\$107,000 (€65,000) was received;
- Significant increase in products sales from 2019, with over 7,000 units sold across Australia, New Zealand, UK and Brazil;
- Successfully granted a three-year renewal of its GMP Certification for its Slovenian manufacturing facility;
- The Group's Australian operating subsidiary, MGC Research, was awarded an import licence and a Research Cultivation Permit for the cannabis research programme with RMIT from the Australian Office of Drug Control, progressing the Group's Australian operations and supporting its fully vertically integrated and research orientated, nature to medicine business model;
- Acquisition of Australian tele-health company, Medical Cannabis Clinics, increasing the Group's access to patients;
- Binding term sheet signed with a wholly owned division of SK-Pharma Group for the sales and distribution of ArtemiC™ in Russia, Israel, the CIS and Balkan countries;

- Binding Term Sheet signed with IM Cannabis Corp. (IMC) for exclusive importation, sale and distribution of CannEpi<sup>®</sup> in Israel for a period of five years;
- Acquisition agreement signed for the disposal of MGC Nutra to Onassis Holdings Corp. in consideration for the issue to MGC UK of Onassis Holdings Corp. common stock worth US\$6,000,000, which is currently expected to be completed in H1 2021, subject to completion of a capital raising and US regulatory approvals; and
- Distribution agreement executed with Anden Bio Naturals S.A for the exclusive distribution and commercialisation of its medicines in Peru and Bolivia for five years.

The Group operates in jurisdictions where the cultivation, manufacturing, research and/or patient access of phytocannabinoid-derived medicines is legal, and in all cases operates in accordance with local law requirements.

The Group has no involvement in the recreational cannabis industry.

### 3. Product Portfolio and Development

The Group's focus is on three therapeutic areas of neurological disorders (clinical), cancer and cancer treatment side effects (preclinical) and autoimmune disorders (clinical & preclinical).

All the Group's phytocannabinoid-derived medicines are being researched and developed with the objective of obtaining CMA from the EMA in Europe, and product registration by the TGA in Australia, which in each case will allow the Group to advertise the relevant product's therapeutic use to the public and medical professionals. This will allow medical professionals to prescribe the product as an approved medicine.

The EMA supports the development of medicines that address unmet medical needs of patients<sup>13</sup>. In the interest of public health, applicants may be granted CMA for such medicines where the benefit of immediate availability outweighs the risk of less comprehensive data than normally required, based on the scope and criteria defined in legislation and guidelines. CMA is valid for one year and can be renewed annually. The holder will be required to complete specific obligations (ongoing or new studies, and in some cases additional activities) with a view to providing comprehensive data confirming that the benefit-risk balance is positive.

Once comprehensive data on the product has been obtained, CMA may be converted into a standard Marketing Authorisation (not subject to specific obligations). Initially, this is valid for five years, but can be renewed for unlimited validity. Applicants for CMA are advised to engage in early dialogue with EMA through scientific advice or protocol assistance and discuss their development plan well in advance of the submission of a Marketing Authorisation application. Other stakeholders (e.g. health-technology-assessment bodies) can be included. Six to seven months before submission, when applicants notify the EMA of their intention to submit an application for Marketing Authorisation, they should indicate also their intention to request a conditional authorisation. For products deemed suitable for CMA, applicants are also encouraged to consider requesting accelerated assessment. The applicant should present the formal request for CMA at the time of the application for Marketing Authorisation. The EU Committee for Medicinal Products for Human Use will assess the request as part of the assessment of the CMA application.

If CMA is granted, the specific obligations and deadlines for their completion will be specified in the authorisation. The EMA will also make these conditions publicly available as part of the European public assessment report.

The Group's product pipeline is centred on the use of phytocannabinoid APIs derived from strains of *Cannabis spp.*, of which the Group has four, with high levels of target phytocannabinoids, that are in the process of registration with the Community Plant Variety Office.

The Group's clinical development program is based on the experience of the Clinical Advisory Team in Israel, who have used medicinal cannabis treatments on various indications for long periods, including several observational studies that form the basic structure for the formulation development process.

#### Background to the clinical benefits of combining THC and CBD

The use of preparations derived from the cannabis sativa plant for medical purposes has a long history. However, by the twentieth century, the use of cannabis for medical purposes had largely declined, and its consumption for medical purposes was already very limited when in 1961 cannabis was included in the Single Convention and classified as a drug that had no medical uses.

<sup>13</sup> <https://www.ema.europa.eu/en/human-regulatory/marketing-authorisation/conditional-marketing-authorisation>.



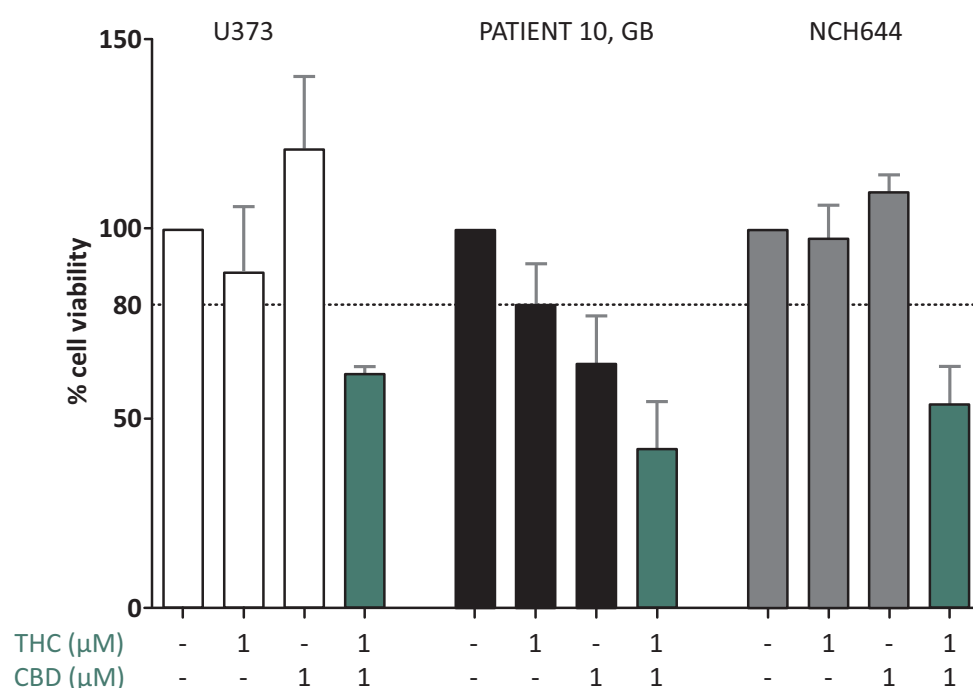
In the past 20 years, however, there has been a resurgence of patient interest in using cannabis and cannabinoids to treat a variety of conditions, including chronic pain, cancer pain, depression, anxiety disorders, sleep disturbances and neurological disorders, the symptoms of which are reportedly improved by using cannabis. Increased patient interest in the use of cannabis for medical purposes has been accompanied by renewed scientific interest in the use of substances found in the cannabis plant for medical purposes, namely cannabinoids.

This followed the discovery, in the early 1990s, of a cannabinoid system in the human brain and body which was implicated in the control of important biological functions, such as cognition, memory, pain, sleep and immune functioning.

The discovery of the endocannabinoid system and cannabinoid receptors (specifically the CB1 and CB2), led to the demonstration of the synergy between THC and CBD, known as the ‘entourage effect’. Scientific evidence of the entourage effect is currently sufficiently strong as to suggest that one molecule is unlikely to match the therapeutic potential of cannabis itself<sup>14</sup>. Small cannabinoids (CBC, CBA, CBG, CBN, THC-V, THCA), flavonoids, terpenes and other compounds are hypothesised to support the entourage effect in order to improve absorption and allow maximum effect of the drug, but they are defined as impurities of the APIs and will be not reported as active ingredients.

In support of this, a recent study of several human breast cancer cell lines in culture and implanted tumours demonstrated superiority of a whole-plant cannabis extract treatment versus pure-THC, which the authors attributed to the presence of small concentrations of cannabigerol and tetrahydrocannabinolic acid<sup>15</sup>.

In 2019, the Group published results, in conjunction with the National Institute of Biology (“NIB”), from preclinical research assessing the efficacy of THC and CBD, in varying ratios, on glioblastoma cancer cells. As demonstrated in Figure 2 below, this research, in collaboration with NIB and the University Medical Centre Ljubljana, verified the synergistic effect of THC and CBD together (as shown in green in the figure below, confirming a lower percentage of cell viability across different cancerous cell-type markers (U373; Patient 10,GB; NCH644)), as opposed to the compounds individually.



**Figure 1:** Synergistic effect of CBD and THC resin on glioblastoma and glioblastoma stem cells.

#### **i. CannEpil®**

##### Overview

The Group’s lead phytocannabinoid-derived medicine is CannEpil®, an oromucosal spray with a 20:1 mix of CBD (100mg/mL) and THC (5mg/mL) in MCT oil (medium-chain triglyceride)<sup>16</sup> for drug resistant epilepsy.

14 Sinclair J., ‘An introduction to cannabis and the endocannabinoid system’, *Australia Journal of Herbal Medicine*, 2016, Vol. 28(4), pp. 107- 117.

15 Blasca-Benito S. *et al.*, ‘Appraising the “entourage effect”: Antitumor action of a pure cannabinoid versus a botanical drug preparation in preclinical models of breast cancer’, *Biochemical Journal*, Vol 157, pp 285-293.

16 MCT oil is a common excipient for liquid pharmaceutical products. The MCT oil the Group uses is Miglyol® 812 N, a fractionated coconut oil.

CannEpi<sup>®</sup> is currently only being made available to patients in Australia, through the SAS and in the United Kingdom, as an unlicensed medicine or “special”, in accordance with the requirements of the MHRA<sup>17</sup>.

The Group has recently received ethics committee approval from Schneider Children’s Medical Centre of Israel to commence a Phase IIb clinical trial for the Company’s proprietary epilepsy treatment, CannEpi<sup>®</sup>, with recruitment expected to begin shortly.

Professor Uri Kramer, a member of the Clinical Advisory Team, who treated drug resistant epilepsy patients in Israel with medicinal cannabis products, conducted significant work with a similar phytocannabinoid ratio as that found in CannEpi<sup>®</sup>. Professor Kramer’s paper, *Efficacy of CBD-enriched medical cannabis for treatment of refractory epilepsy in children and adolescents – An observational, longitudinal study*<sup>18</sup> presented results of 57 patients with drug resistant epilepsy (46 patients were included in the analysis) treated with CBD:THC 20:1 ratio oil (the same ratio as CannEpi<sup>®</sup>). Of these 26 patients (56%) had <50% reduction in mean monthly seizure frequency. The study product was a mix of the whole plant extract and purified CBD. A second paper, *CBD-enriched medical cannabis for intractable pediatric epilepsy: The current Israeli experience*<sup>19</sup>, described the experience of 5 Israeli hospitals with 74 drug resistant epilepsy children treated with CBD:THC 20:1 ratio oil. The majority of the children (66/74, 89%) reported reduction in seizure frequency: 13 (18%) reported 75–100% reduction, 25 (34%) reported 50–75% reduction, 9 (12%) reported 25–50% reduction, and 19 (26%) reported <25% reduction. Professor Kramer joined the Clinical Advisory Team in 2016 and has since spearheaded the clinical development of CannEpi<sup>®</sup>.

Access to patient populations through early access schemes prior to regulatory authorisation represents a unique position for the Group to observe how the medication might be received post-approval and to establish a market presence. This has included establishing relationships with leading pharmaceutical distributors to ensure stable product distribution upon CMA in the EU, and approval by the TGA in Australia, being obtained. The Group intends to continue to leverage this position to generate immediate revenues, establish viable distribution networks, and ensure it remains a leader on price, access and product improvements. The Directors’ believe that CannEpi<sup>®</sup> has an achievable peak annual sales opportunity, with both CMA and TGA approval, in excess of £1.43 billion (AUD\$2.57b) (excluding off-label revenue, which could be significant during this time) within 4 years, if extended to paediatric and adult use, within the EU5, Australia, MENA and Thailand regions<sup>20</sup>.

#### Background on drug resistant epilepsy

Drug resistant epilepsy is one of the key challenges in epilepsy management. Traditionally, drug resistance is defined as the failure of seizures to respond to at least two prescribed anti-epileptic drugs (“AEDs”)<sup>21</sup>. A patient may experience complete resistance to AED treatment or may only partially respond if seizures are reduced in frequency and/or intensity but not prevented.

Approximately one third of patients with newly diagnosed epilepsy experience resistance to AEDs. A recent study on the outcomes of treatment with AEDs for newly diagnosed patients with epilepsy showed that 37% experienced early, sustained seizure freedom; 22% had delayed but sustained seizure freedom; 16% fluctuated between periods of seizure freedom and relapse; and 25% never attained seizure freedom<sup>22</sup>. Overall, 68% of patients were seizure-free, with 62% on monotherapy. A diagnosis of absolute drug resistance may require failure of at least six AEDs, since approximately 17% of patients can become seizure-free even after two to five drugs have previously failed to control their seizures. The mechanisms underlying epilepsy and drug resistant epilepsy are still not fully understood, which highlights a complexity in developing therapeutics for this indication.

#### Current treatment options

Once a patient is diagnosed with epilepsy, they are usually prescribed with AEDs. If these are not successful, surgery, diet or nerve stimulation may be tried, with the goal of preventing seizures and avoiding adverse side effects, allowing the patient to lead a normal life.

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17 Since 1 November 2018, cannabis-based products for medical use in humans have been re-scheduled to Schedule 2 of the 2001 Regulations by The Misuse of Drugs (Amendments)(Cannabis and Licence Fees) (England, Wales and Scotland) Regulations 2018), meaning senior clinicians, on the General Medical Council specialist register are able to prescribe cannabis based medicines to patients.

18 Hausman-Kedem M., Menascu S., Kramer U., ‘Efficacy of CBD-enriched medical cannabis for treatment of refractory epilepsy in children and adolescents – An observational, longitudinal study’, *Brain Development*, 2018, Vol 40(7), pp. 544-551.

19 Tzadok M., et al, ‘CBD-enriched medical cannabis for intractable paediatric epilepsy: The current Israeli experience’, *Seizure*, 2016, Vol 35, pp. 41-44.

20 Alacrita Consulting Limited-Market Projections Paper-October 2019.

21 Wiebe S., ‘Definition of drug-resistant epilepsy: Is it evidence based?’, *Epilepsia*, Vol. 52(2), pp. 9-12.

22 Asconape JJ., ‘Epilepsy: new drug targets and neurostimulation’. *Neurol Clin.* Vol. 31(3), pp. 785–798.



AEDs should have the goal of preventing seizures without causing adverse side effects. Unfortunately, some AEDs not only fail to control seizures but cause side effects that range from minimal impairment of the central nervous system, to death<sup>23</sup>.

Currently, there are over 20 AEDs approved in Europe<sup>24</sup>. As referred above, approximately 30% of patients do not respond to these medications, which is the Group's target patient population.

There are several phytocannabinoid-derived medicines on the market for various indications; however, the main product for epilepsy is Epidiolex by GW Pharma.

Increasingly, medicinal cannabis (particularly CBD) has shown to be an effective treatment for epilepsy<sup>25</sup>; however, the exact mechanism of the anti-epileptic effect of cannabis is not fully understood. It could act at multiple sites, which include intracellular targets such as mitochondria and targets located on neuronal membrane-ion channels (voltage-gated sodium channels, voltage-gated calcium channels), neurotransmitter receptors (GABA, 5-HT) and G-protein coupled receptors (GPR55).

A meta-analysis of observational data in drug resistant epilepsy patients showed that from over 600 patients treated with CBD, 64% reported a reduction in seizures. There was a greater improvement from patients treated with CBD-rich extracts (71%) than over purified CBD (46%), suggesting a potential benefit of the entourage effect in this indication. However, when results were normalised to clinical significance (>50% seizure reduction), there was no difference in efficacy between CBD-high and CBD-pure treatments. Instead, improvement was shown in dose-reduction; the average dose needed in the CBD-rich patients was 6mg/kg/day compared to 25mg/kg/day in the CBD-pure. This was accompanied by a reduction in adverse side effects<sup>26</sup>.

The Group compared a paediatric study of a formulation similar to CannEpi<sup>®</sup> in 46 drug resistant epilepsy patients next to the Epidiolex study conducted by GW Pharma in over 300 patients. In the former, 62% of patients experienced a reduction of 50% or more in the number of seizures (clinical significance measure), while in the GW Pharma study only 47% of patients experienced this. However, only 4% were seizure free versus 9% in the GW Pharma study. This result was also achieved with a lower average dose than the Epidiolex study<sup>27</sup>.

#### Market opportunity

In the United Kingdom, there are over 480,000 people with epilepsy and approximately 25% suffer from drug resistant epilepsy<sup>28</sup>. Since 2001, deaths from epilepsy have risen 70%, and people with the condition now die on average eight years earlier than the rest of the population<sup>29</sup>.

Globally, over 50 million people suffer from epilepsy, with 1.9 million across Europe and over 200,000 in Australia<sup>30</sup>, with the statistic of 25% suffering from drug resistant epilepsy continuing globally. The estimated population at launch of CMA is over 200,000 people with drug resistant epilepsy<sup>31</sup>.

The Directors anticipate that CannEpi<sup>®</sup> will obtain CMA within the next 4 years.

At present, access to medicinal cannabis products in certain regions is highly restricted and the Group's projected patient numbers have assumed a scenario without regulatory hurdles.

The Directors' believe that peak sales of CannEpi<sup>®</sup> could reach £1.43 billion (AUD\$2.57b) (excluding off-label revenue, which could be significant during this time) within the EU5, Australia, MENA and Thailand regions<sup>32</sup> over the next 4 years, if extended to paediatric and adult use.

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23 Goldenburg, M M, 2010, 'Overview of drugs used for epilepsy and seizures, etiology, diagnosis, and treatment', *Journal of Pharmacy and Therapeutics*, vol. 35(7), pp. 392-415.

24 <https://www.epilepsysociety.org.uk/list-anti-epileptic-drugs#.XYMEPJMzZhE>.

25 Mechoulam R., 'Cannabis and epilepsy', *Epilepsy & Behaviour*, vol. 70, pp. 278-279.

26 Pamplona F. A., Rolim da Silva L., Coan A. C., 'Potential clinical benefits of CBD-rich Cannabis extracts over purified CBD in treatment resistant epilepsy: observational data meta-analysis', *Front. Neurol.*, 2018.

27 Tzadok M. *et al.*, 'CBD enriched medicinal cannabis for intractable paediatric epilepsy: The current Israeli experience', *Seizure Journal*, 2016, pp. 1-4.

28 Alacrita Consulting Limited-Market Projections Paper – October 2019.

29 <https://www.epilepsysociety.org.uk/facts-and-statistics>.

30 Alacrita Consulting Limited-Market Projections Paper – October 2019.

31 Alacrita Consulting Limited-Market Projections Paper – October 2019

32 Alacrita Consulting Limited-Market Projections Paper – October 2019.

Given there are no other therapy options, CannEpi<sup>®</sup> could theoretically access 100% of the available patient population. The Group would expect a potential peak market penetration to be 80% or more until, or unless, direct competition emerges.

#### Competitor products in development

Epidiolex, which is approved in the US by the FDA and in the EU by the EMA for use in specific drug resistant epilepsy syndromes, is also being studied under expanded access for children with drug/surgery-resistant epilepsies in several studies (NCT02397863 sponsored by Augusta University, Georgia, USA).

The University of Colorado is also doing an observational study on the use of cannabis for medical purposes in treating medically refractory epilepsy in children and young adults, to develop a product for drug resistant epilepsy, thereby presenting competition for the Group.

Below are two other underdeveloped products in the pipeline for drug resistant epilepsy<sup>33</sup>:

Company	Product	Details	Phase
UCB SA	Padsevonil	Small molecule, presynaptic modulator of synaptic vesicle protein 2 isoforms SV2A, SV2B and SV2C, and post-synaptic partial agonist of the GABA A receptor	III
Biogen	Natalizumab	Already approved for MS, and in development for drug resistant focal epilepsy. Is a mAb specific for the alpha-4/beta-1 integrin (VLA4) antigen expressed on leukocytes.	II

#### Pricing strategy

The price of Epidiolex is at present approximately US\$32,500 (£26,000/AUD\$47,000) per patient, per year. However, this is to treat rare and potentially fatal conditions, such as Dravet syndrome and Lennox Gastaut syndrome. Given CannEpi<sup>®</sup> will be treating patients who have no other options, the Directors have assumed lower pricing of CannEpi<sup>®</sup> compared to Epidiolex, if marketed in the USA. Given this, the Directors are targeting an estimated price for CannEpi<sup>®</sup> in the EU, following both CMA and TGA approval, of £6,000 – £8,000 (AUD\$10,800 – AUD\$15,000) per patient, per year<sup>34</sup>.

#### Clinical development plan

In addition, a range of in-vitro and in-vivo studies have been performed by other parties to characterise the pharmacodynamics, pharmacokinetics, distribution and metabolism, excretion and toxicity of CBD and THC in different ratios<sup>35</sup>. The Group based its clinical program on the observational experience of >100 children with drug resistant epilepsy using a 20:1 ratio oil and is planning to complete preclinical, pharmacokinetics, pharmacodynamics and metabolic trials in accordance with EMA requirements and recommendations after the scientific advice meeting and proposed development plan<sup>36</sup>. These requirements will include the Group performing pharmacokinetic studies with CBD and THC metabolites testing, drug and food interactions, drug-drug interactions, in both health and epileptic children and adults. In parallel, the Group will perform short animal toxicity studies.

Studies suggest that CBD possesses strong anticonvulsant effects in many animal models that are mediated by the endocannabinoid system. In contrast to THC, CBD does not produce euphoric psychoactive effects in any investigated models. All LADME (Liberation, Absorption, Distribution, Metabolism, Excretion) studies show high levels of safety.

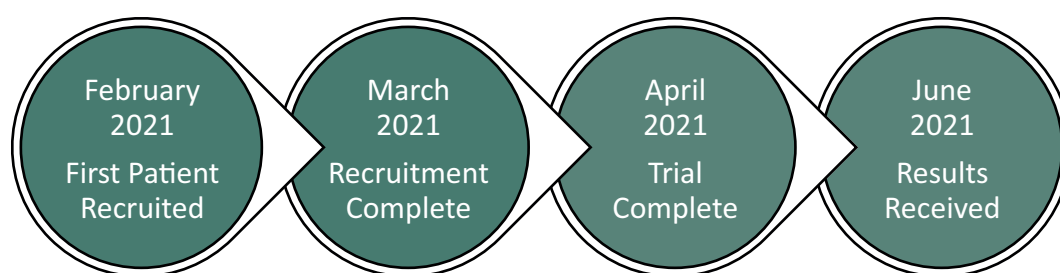
As well as the Phase IIb clinical trial to be conducted by the Group at the Schneider Children's Medical Centre of Israel (as described below), a second trial was granted HREC approval in Australia in 2019. This is a Phase I safety trial combined with assessing the impact of CannEpi<sup>®</sup> on driving competence, which is likely to be conducted in early 2021 on 30 healthy volunteers (15 of which will be administered CannEpi<sup>®</sup> and the other 15 placebo) in collaboration with Swinburne University of Technology, Melbourne. The primary aim of this trial is to gather safety data required for the applications to EMA and the TGA, as well as assess whether CannEpi<sup>®</sup> impairs driving versus placebo using a driving simulator. This trial has progressed slower than expected due to recruitment restrictions caused by University shutdowns as a result of COVID-19.

33 Alacrita Consulting Limited-Market Projections Paper – October 2019.

34 Alacrita Consulting Limited-Market Projections Paper – October 2019.

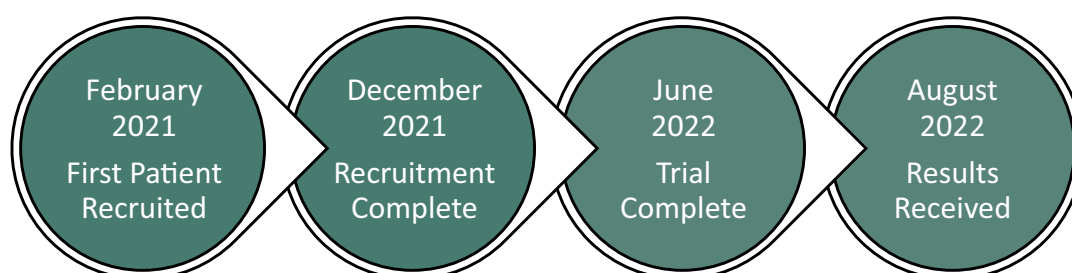
35 Gaston T. E., 'Pharmacology of cannabinoids in the treatment of epilepsy', *Epilepsy and Behaviour*, 2017, Vol. 70, pp. 313-318.

36 Tzadok et al, CBD enriched medical cannabis for intractable paediatric epilepsy – The current Israeli experience.



**Figure 2:** CannEpiL® – Indicative Phase I safety trial timeline

In Israel, at the Schneider Children’s Medical Centre, together with Prof. David Neubauer, a member of the Clinical Advisory Team, the Group is to execute a Phase IIb double blind placebo-controlled crossover study with CannEpiL® in patients with drug resistant epilepsy. The trial will assess whether CannEpiL® can provide a meaningful reduction in seizure frequency. It is anticipated that this trial will commence in early 2021, following Ministry of Health approval.



**Figure 3:** CannEpiL® – Indicative Phase IIb Double Blind timeline

In anticipation of the completion of a successful Phase IIb clinical trial in Israel, the Group will initiate a Phase III clinical trial in Australia. Development of the protocol for this trial is underway. The studies will include long term safety and efficacy data collection (neurophysiological development, adverse events, efficacy parameters), including comparison between CannEpiL® and CBD only.

## **ii. CogniCann™**

### Overview

CogniCann™ is an oromucosal spray with a 3:2 mix of THC (25mg/mL) and CBD (17mg/mL) in an MCT oil base used for symptom management associated with dementia/Alzheimer’s disease. CogniCann™ is currently only being made available to patients in Australia, through the SAS. The Group has a Phase IIb clinical trial underway in collaboration with UNDA. The Directors’ believe CogniCann™ has an achievable peak annual sales opportunity in excess of £134 million – £269 million (~AUD\$241m – AUD\$484m) in the EU5, Australia, MENA and Thailand regions for patients with total mild and moderate dementia/Alzheimer’s disease<sup>37</sup> on the grounds that market authorisation will be achieved with the development of nanoparticles technology.

### Background on dementia/Alzheimer’s disease

Symptoms associated with dementia/Alzheimer’s disease focus around the loss of cognitive functioning; thinking, remembering and reasoning and behavioural abilities, to such an extent that it interferes with a person’s daily life and activities<sup>38</sup>. Dementia ranges in severity from mild to the most severe at which point a person must depend entirely on others for basic activities of daily living. At present, there are no therapeutic treatments approved to manage the cognitive decline in dementia/Alzheimer’s disease. Certain medications can help with concentration and social care, to help with daily living, but there is currently no cure<sup>39</sup>.

<sup>37</sup> Alacrita Consulting Limited-Market Projections Paper-October 2019.

<sup>38</sup> Cohen-Mansfield J., ‘Nonpharmacologic interventions for inappropriate behaviours in dementia: a review, summary, and critique.’ *American Journal Geriatric Psychiatry*, 2001 Fall; 9(4): 361-381.

<sup>39</sup> Mitchell C. *et al.* ‘The utility of the dementia severity rating scale in differentiating mild cognitive impairment and Alzheimer disease from controls’, *Alzheimer Disease and Associated Disorders*, 2015, Vol 29(3), pp. 222-228

Despite thousands of clinical trials and therapeutic agents in development, targeting a wide range of mechanisms that include neurotransmitter modulation and disease-modifying therapies, the last new Alzheimer's disease medication, memantine, was approved in 2003<sup>40</sup>.

#### Current treatment options

All approved treatments for Alzheimer's disease possess a symptomatic mode of action, in that they target the cognitive and functional deficits in patients. The underlying neurodegeneration continues to progress and generally any symptomatic improvements are lost within a few years<sup>41</sup>.

There are two main types of medications currently available to treat symptoms associated with dementia and Alzheimer's disease<sup>42</sup>. For acetylcholinesterase inhibitors, which help nerve cells in the brain communicate with each other, there are three main suppliers. There is also some evidence that these can help treat other forms of dementia, such as Parkinson's.

Company	Product (Brand)	Symptoms	Active Ingredient
Eisai Co.	Aricept	Confusion; memory; awareness	Donepezil
Novartis	Exelon	Confusion; awareness	Rivastigmine
Johnson & Johnson subsidiary Janssen Pharmaceuticals	Reminyl	Confusion; awareness; ability to perform daily functions	Galantamine

For patients who cannot take or tolerate acetylcholinesterase inhibitors, memantine is prescribed, mainly Namenda by Allergan can be prescribed.

Memory loss is a key feature of Alzheimer's disease, and agitation and aggression are commonly observed symptoms in Alzheimer's and other forms of dementia. This has prompted a number of investigators to explore the potential for cannabis and cannabinoids as therapeutic options to address dementia symptoms.

Cholinesterase inhibitors are generally first-line approved treatments for mild Alzheimer's by enhancing acetylcholine availability, as well as reducing amyloidogenesis and subsequent neurotoxicity. THC has been shown in several studies to inhibit acetylcholinesterase more effectively than currently approved medicines (e.g. acrine and donepezil)<sup>43</sup>.

Most clinical studies of cannabinoids in dementia have focused on THC monotherapy, rather than THC:CBD combinations like CogniCann™, and some of these studies have shown contradictory results. However, in 2018, the synthetic cannabinoid analogue of THC, Nabilone, met primary endpoints of reducing agitation, aggression, and improving quality of life in a Phase II/III study of Alzheimer's patients<sup>44</sup>.

The Directors' believe that CogniCann™ will be used for the improvement of quality of life and improvement of frailty in the short term and cognition improvement in the longer term (slowing dementia and improving orientation).

#### Market opportunity

Alzheimer's disease is the most common form of dementia, and accounts for an estimated 60–80% of dementia cases. In 2018, there were 9.8 million prevalent cases of Alzheimer's disease in the US, Japan and EU markets. By 2038, the number will increase to 16 million. Increasing aging populations, particularly of those aged 65 years and older, will contribute to the increasing prevalence<sup>45</sup>.

40 <https://www.healio.com/primary-care/geriatric-medicine/news/online/%7Bac72f639-f9e3-47a4-ad05-cd573a4763e2%7D/despite-efforts-no-new-alzheimers-drug-therapies-in-15-years>

41 Winslow, B. T., Onysko M. K., Stob C. M., Hazlewood K. A., 'Treatment of Alzheimer Disease', *American Family Physician*, 2011, Vol 83(12), pp. 1403-1412

42 <https://www.nhs.uk/conditions/dementia/treatment/>

43 Santibanez R. A., Sepehry A. A., Robin Hsiung G., 'Cannabis and Alzheimer's Disease: A systematic review of the evidence', *Alzheimer's and Dementia*, 2017, Vol. 13(7), pp. 614-614.

44 Herrmann N. *et al.*, 'Randomized placebo-controlled trial of nabilone for agitation in Alzheimer's disease', *The American Journal of Geriatric Psychiatry*, 2019, Vol 15, pp.

45 Cohen-Mansfield J., 'Nonpharmacologic interventions for inappropriate behaviours in dementia: a review, summary, and critique.' *American Journal Geriatric Psychiatry*, 2001 Fall; 9(4): 361-381.

The estimated 2024 dementia patient population (to increase by 15%) is anticipated to be 6.7 million, resulting in a potential peak sales opportunity in excess of £134 million – £269 million (~AUD\$241m – AUD\$484m) in the EU5, Australia, MENA and Thailand regions for patients with total mild and moderate dementia/Alzheimer’s disease<sup>46</sup>.

#### Competitor products in development

There are many medications for symptoms associated with dementia/Alzheimer’s disease, and of those in development there are no new-entity phytocannabinoid-derived medicines. Instead, competing programs are repurposing or expanding the labels of existing cannabidiol medicines.

Company	Product (cannabinoids)	Details	Phase
Sunnybrook Health Sciences Centre	Nabilone (THC)	Safety and efficacy of Nabilone in Alzheimer’s disease	III
Alzheimer’s Research UK	Sativex (CBD:THC)	STAND (Sativex for the Treatment of Agitation in Dementia), will recruit Alzheimer’s patients (aged between 55-90) who are living in care homes and are presenting symptoms of Agitation	
Radboud University/ Echo Pharmaceuticals	Namisol (THC)	Delta-THC (sublingual tablet form of dronabinol) in behavioural disturbances in dementia	II
Johns Hopkins U.	Marinol (THC)	Trial of Dronabinol Adjunctive Treatment of Agitation in Alzheimer’s Disease	
TO Pharma	Avidekel Oil (CBD)	The Effect of Cannabis on Dementia Related Agitation and Aggression	

The main non-cannabinoid competitor technologies to CogniCann™ are pharmaceuticals in development that target enzymes and proteins known to be causes of dementia. According to US Department of Health & Human Services, there are eight clinical therapies in late-stage development targeting neuropsychiatric symptoms of dementia and Alzheimer’s disease in the USA<sup>47</sup>, while Alzheimer Europe identifies an additional eight in Europe<sup>48</sup>.

There are many products being developed with the intention of increasing quality of life for those suffering from dementia. These products do not seem to reduce symptoms, but rather help patients and carers live with them.

#### Pricing strategy

Without any clinical data it is difficult to predict how CogniCann™ should be priced next to current therapies used for this condition. However, the Directors estimate an initial price similar to that of other cholinesterase inhibitors. Rivastigmine is one such (mid-priced) inhibitor, which in the United Kingdom costs £195 (€217/AUD\$351) per patient, per year.

Independent third-party consultants<sup>49</sup> have suggested that prices are dependent on demonstrating major clinical benefit and refer to a price of £400-£800 per patient, per year when supporting a quality of life basis benefits only. The Director’s believe that this is reasonable, however only after the development of nanoparticles technology. The Directors’ have therefore assumed an estimated current price, until the completion of the development of the nano-particles technology and CMA, of £4,400 (€4,900/AUD\$7,900) per patient, per year.

#### Current and future clinical trials

The Group is in collaboration with UNDA to conduct a Phase IIb clinical trial on dementia/Alzheimer’s disease, with a focus on wellbeing and life improvement among older residential care patients. HREC approval has been granted and 2 patients have been treated; however the trial has now been placed on hold due to COVID-19. The Directors’ anticipate that the clinical

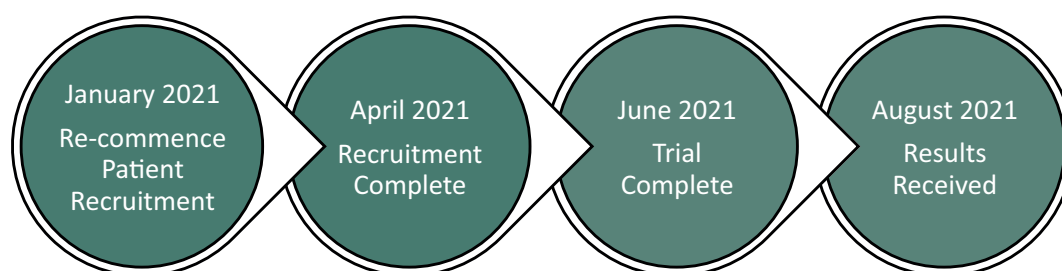
<sup>46</sup> Alacrita Consulting Limited-Market Projections Paper-October 2019.

<sup>47</sup> <https://www.nia.nih.gov/research/ongoing-AD-trials#section4>.

<sup>48</sup> <https://www.alzheimer-europe.org/Research/Clinical-Trials-Watch/Phase-III-trials>.

<sup>49</sup> Alacrita Consulting Limited-Market Projections Paper-October 2019.

trial will re-commence recruitment in January 2021 and be complete in Q3 2021, following which the Group will advance to Phase III with UNDA, dependent on the outcome of the results of the Phase IIb trials.



**Figure 4:** CogniCann™ – Indicative Phase IIb clinical trial timeline

### iii. ArtemiC™

#### Overview

ArtemiC™ is a natural water-soluble food supplement medical spray containing four natural based ingredients consisting of Artemisinin, Curcumin, Boswellia serrata, and Vitamin C. Research conducted on ArtemiC™'s key ingredients has demonstrated both in vitro and in vivo, that they possess immunomodulatory, anti-inflammatory, antioxidant, anti-cancer, antibiotic, and even some anti-viral activity<sup>50</sup>.

Use of the key ingredients of ArtemiC™ in clinical trials has traditionally been limited, as these active ingredients are very poorly soluble in water and therefore not absorbed into the body; however, the Group, through a binding contract manufacturing and distribution agreement with Micelle Technology AG (Micelle), has developed ArtemiC™, a product based on natural ingredients, featuring an innovative delivery system that circumvents the obstacles posed by the difficulty in dissolving the ingredients in water, enabling their effective uptake into the body. Micelle holds the exclusive right to this award-winning and patented MyCell™ delivery system technology that is used in the formulation of ArtemiC™

#### ArtemiC™ as a treatment

ArtemiC™ was initially a promising malaria treatment which participated in a World Health Organization observational study and is now considered to have potential to mitigate and prevent the impact of the severe phase of COVID-19, known as the cytokine storm due to the consistently demonstrated abilities of its ingredients to modify the immune system function in a manner directly relevant to the dysregulated hyperactivated components involved in the progression of COVID-19 to a critical condition<sup>51</sup>.

The active ingredients found in ArtemiC™ have demonstrated efficacy in treating acute lung injury in animal models which simulate the respiratory syndrome causing death in the present epidemic<sup>52</sup>.

The Company has entered into an agreement with a third party to undertake the process of registering the product and generating forward sales in Russia. The third party will be responsible for obtaining all licences and authorisations.

#### Pre-clinical studies

The Group has completed pre-clinical in-vitro laboratory tests which clearly support the claim that ArtemiC™ can modify the function of human immune cells in response to inflammatory stimuli. Specifically, some elements of the formulation demonstrated an effective response on immune function in a manner considered desirable in the treatment of COVID-19. These findings support the clinical study hypothesis that ArtemiC™ can have a beneficial impact on the malignant cytokine storm which plays an important role in the clinical deterioration of those severely affected by infection with the COVID-19.

50 Cao, T.-h., S.-g. Jin, D.-s. Fei, K. Kang, L. Jiang, Z.-y. Lian, S.-h. Pan, M.-r. Zhao and M.-y. Zhao (2016). "Artesunate protects against sepsis-induced lung injury via heme oxygenase-1 modulation."

51 Karimi, A., R. Ghodsi, F. Kooshki, M. Karimi, V. Asghariazar and A. Tarighat-Esfanjani (2019). "Therapeutic effects of curcumin on sepsis and mechanisms of action: A systematic review of preclinical studies." *Phytotherapy Research* 33(11): 2798-2820.

52 Cao, T.-h., S.-g. Jin, D.-s. Fei, K. Kang, L. Jiang, Z.-y. Lian, S.-h. Pan, M.-r. Zhao and M.-y. Zhao (2016). "Artesunate protects against sepsis-induced lung injury via heme oxygenase-1 modulation."

The Group has also completed pre-clinical in vivo safety and toxicity study, including histology testing, of ArtemiC™ on rats which achieved the targeted study outcome, reporting no pathological changes or differences between the study groups. These results are significant and positive as they provide critical additional information on the toxicological evaluation of ArtemiC™ regarding its effect on the organs that were studied and augment the base data supporting the Phase II clinical trial on COVID-19 patients and future clinical studies.

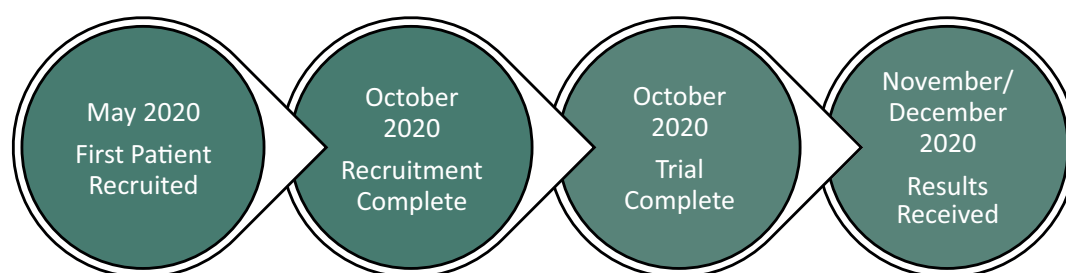
#### Phase II clinical trial

The Group has undertaken a Phase II double-blind, randomized, placebo controlled clinical trial across multiple sites in Israel and India to evaluate the safety and efficacy ArtemiC™ on patients diagnosed with COVID-19. This followed receipt of Ethics Committee approval of the trial in April 2020 at Nazareth Hospital EMMS and at Hillel Yaffe Hospital in Israel. The first patients were recruited in early May 2020, with the Phase II trial commencing shortly thereafter.

In July 2020, the trial received Ethics Committee approval to be expanded to the Mahatma Gandhi Mission's Medical College & Hospital in India, which commenced in September 2020. The trial also received Ethics Committee approval at the Rambam Academic Hospital in Israel.

Primary endpoints include time to clinical improvement, defined as a national Early Warning Score 2 (NEWS2) of  $\leq 2$  maintained for 24 hours in comparison to routine treatment and percentage of participants with definite or probable drug related adverse events. The trial included a total of 50 patients and study duration per patient is 2 weeks. The trial includes dose finding and pharmacokinetics with endpoints including safety and efficacy, measured by prevention of mechanical ventilation, intensive care unit admission and clinical health status.

The Phase II trial is now complete, with results announced by the Company on 15 December 2020, as set out above. Following this, the Company will assess the cost of product manufacture and its pricing strategy. The Group is currently planning a Phase III trial, to follow the Phase II trial.



**Figure 5: ArtemiC™ – Phase II clinical trial timeline**

The World Health Organization is engaging with pharma companies globally conducting clinical trials on COVID-19 patients and has selected the Group to participate with its ArtemiC™ trial in order to obtain the latest updates and specific trial data to include in their living systematic review. The aim is to enable decision makers to access the best up to date evidence on comparative effects of the interventions studied in the COVID-19 trials.

#### **iv. Other Products – Early-stage pipeline**

The Group has a range of other early-stage phytocannabinoid-derived products in the development pipeline, with plans to develop product ranges targeting neurological disorders, cancer and cancer-treatment side effects and autoimmune disorders.

An observational study using TopiCann (psoriasis and eczema) on 90 volunteers was conducted as a cosmetics study, showing positive results.

The others, InCann (Crohn's and colitis), Tetrinol (cachexia) and CepaCann (cerebral palsy), are all in formulation development by the Clinical Advisory Team who have years of experience treating these indications with medicinal cannabis products in Israel.



## Neurological

CepaCann Oral Spray to treat Cerebral Palsy	Preclinical in process
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## Oncological & Cancer Side Effects

Tetrinol Treatment of Anorexia Cachexia in Cancer Patients	Preclinical in process
MXOT01GB01 Treatment of Glioblastoma (NIB Slovenia)	Preclinical in process
MXOT02ME01 Treatment of Melanoma Cancer (RMIT/CannaHub, Aus)	Preclinical in process
MXOT03PC01 Treatment of Prostate Cancer (RMIT/CannaHub, Aus)	Preclinical in process

## Autoimmune Disease – Inflammatory

InCann BiActive Capsule to treat Chron's and IBS (RMIT/CannaHub, Aus)	Preclinical in process
TopiCann Topical treatment of Eczema and inflamed skin (Slovenia, EU)	Study Results: 70% Reducton in 4 weeks

**Figure 6:** The Group's early stage product pipeline

### Melanoma and prostate cancer (preclinical)

As referred below, the Group has entered into a research agreement with RMIT. As part of the agreement, researchers at RMIT will be conducting in-vitro research to assess the effect of specific phytocannabinoids and combinations of phytocannabinoids on cancer cells. This research will initially target melanoma and prostate cancers.

### Glioblastoma (preclinical)

With the National Institute of Biology in Slovenia, the Group has published data following successful preclinical research assessing the efficacy of phytocannabinoid-derived medicines on glioblastoma. Experiments were performed in-vitro on human brain cancer cells, immediately post-mortem and showed that phytocannabinoids, particularly THC, reduce the viability of cancer cells.

## 4. Manufacturing

At present, all the Group's phytocannabinoid-derived investigational medicines are produced at the Group's Slovenia manufacturing facility, which is one of only a few in Europe with a Certificate of GMP Class D non-sterile (demonstrating compliance with the principles and guidelines of GMP laid down in Directive 2003/94/EC), as well as an EU manufacturing licence to produce GMP certified phytocannabinoid medicinal formulations<sup>53</sup>. These allow the Group to formulate and compound API provided by its third-party partner and pack the Group's phytocannabinoid-derived medicines for delivery to pharmacies and patients utilising the Group's appointed distributors. Other companies in Europe with the capacity to manufacture API to GMP are Bionorica (THC+CBD synthetic, THC), Echo Pharmaceuticals (THC, CBD), BSPG (CBD), CBDepot (CBD), Noramco (THC Synthetic), and non-EU companies: Linea (CBD), NYSK (THC).

Currently, the Group purchases THC and CBD API from GMP certified manufacturers in Europe, which is then compounded into final dosage form products and bottled in the Slovenian facility. The Slovenian facility currently has 13 full time staff members focused production.

The Group was the first phytocannabinoid-derived medicines developer and producer to obtain a letter of intent from the Government of Malta, allowing the Group to commence the planning and development of a high level high output pharmaceutical manufacturing facility to create a hub for the Group's global distribution from Malta. The facility is also designed to allow for the possibility (and licensing) of the cultivation and processing of medicinal cannabis for use in the Group's pharmaceutical pipeline, with a minimum commitment of the Group to invest circa £5.4 million (AUD\$9.7million) in improvements to site, plant, machinery and equipment.

The Group has entered into a long-term emphyteutic deed with Malta Industrial Parks for 6,000m<sup>2</sup> of land, on which site planning has been completed and construction has been authorised of the new facility. The Group planned to construct a single multi-story 15,720m<sup>2</sup> facility, including a 10,480m<sup>2</sup> combined use area, designed to include GMP certified processing and production capabilities, with a 5,240m<sup>2</sup> greenhouse on the roof for cannabis cultivation. This facility in Malta was

<sup>53</sup> The Company's wholly owned subsidiary, MGC Pharmaceuticals, d.o.o. was granted an authorisation for manufacturing of medicinal products no. 800-11/2018-8 on 9 July 2018, namely for the production of medicinal products in clinical trial (human IMP).



expected to be operational in mid-2024, subject to the premises and operations being licenced by the Medicines Authority of Malta under the Production of Cannabis for Medicinal and Research Purposes Act 2018.

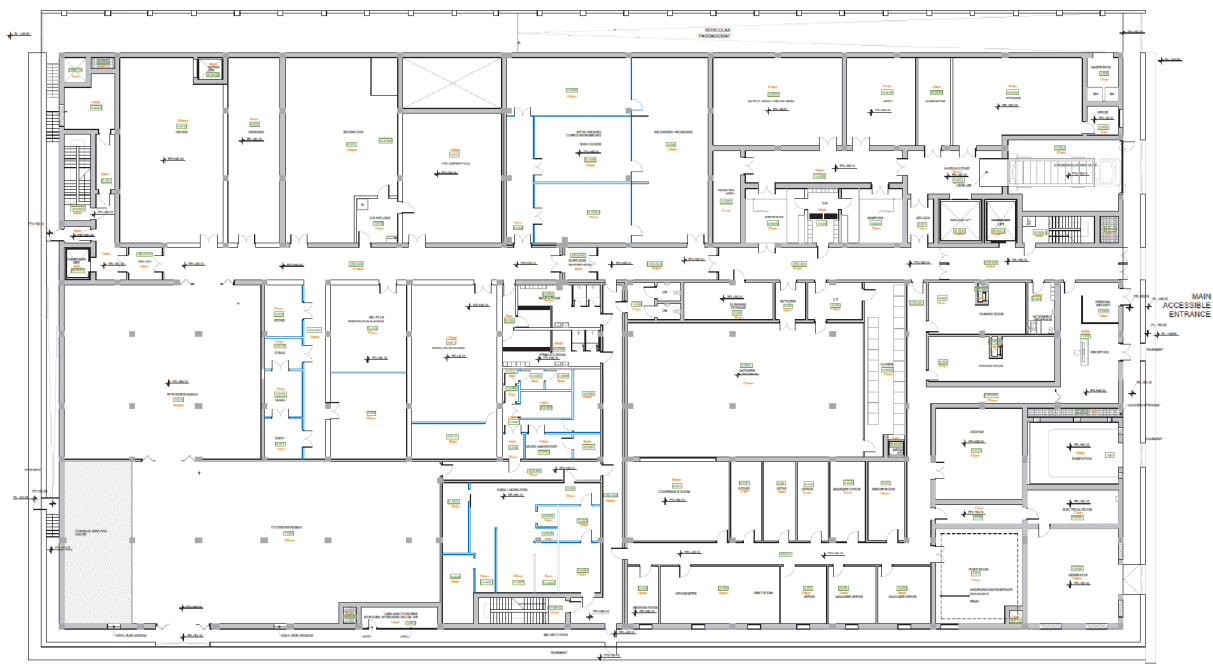
However, on 10 September 2020, the Group received a second letter of intent from Malta Enterprise, addressed to MGC UK, confirming that it has approved the allocation of industrial space for the setting up and operation of a facility in Malta for the provision of standard laboratory services to the medical industry in Malta, including process validation, GMP product release, contract research, quality assurance and in-vitro research and the setting up and operation of a production line for the manufacture of ArtemiC™.

As a result, the Company has decided to delay the building of the larger single multi-story 15,720m<sup>2</sup> facility, and instead build an alternate manufacturing facility for ArtemiC™, which will also undertake clinical research and analytics, and serve as an alternative manufacturing facility (with faster lead time) for the Group's phytocannabinoid-derived products. Construction of this smaller, 480m<sup>2</sup> facility, commenced in Q4 2020 and it is anticipated that it will be completed in 2021. Following its completion, the Company will focus its resources on the construction of the larger 15,720m<sup>2</sup> facility, which is expected to be operational in mid-2024.

The Group's combined facilities in Malta will be significantly larger than its existing facility in Slovenia and, once complete, will be the primary hub for the Group's manufacturing operations. The Slovenia facility will be primarily used for research and manufacturing products for use in clinical trials. At the Malta facilities, the Group expects to employ 27 full time staff, scaling up the ability to meet the peak demand expected by the Group.

Once construction is complete, and licencing and GMP certification is obtained, the 15,720m<sup>2</sup> Maltese facility is expected to be a sizeable GMP phytocannabinoid focused manufacturing facility, with production capacity able to satisfy any foreseeable demand. The Group will be able to utilise existing standard operating procedures and protocols developed and established in Slovenia, in this new facility in Malta. Once complete and fully operational and licenced, the 15,720m<sup>2</sup> facility in Malta, with GMP certified processing and production, will signal the achievement of a key milestone in the Group's goal of being an international supplier of phytocannabinoid-derived medicines.





**Figure 7:** The Group's proposed larger 15,720m<sup>2</sup> manufacturing facility in Malta- First Floor (top image) and Ground Floor (bottom image)



**Figure 8:** Floor plan for the Group's proposed smaller, 480m<sup>2</sup> facility in Malta, construction commenced Q4 2020

Details of the emphyteutic concession deed and the deed of lease, pursuant to which the sites at Hal Far Industrial Estate in Malta have been granted are set out in Part 16 of this Document – “Additional Information”.

The licences which will need to be obtained for the Group’s planned future activities in Malta are as follows:

Licence	Issuing Authority
Civil Protection Endorsement	Civil Protection Dept.
CRPD Endorsement	CRPD Commission
Development/Building/Construction Permits	Planning Authority
Fire & Ventilation Endorsement	Local Engineer
Architectural Endorsement	Local Architect
Electrical License	Local Engineer
Environmental Permit	Environmental Resources Authority
MIA License	Licensing Authority
GMP Certificate	Medicines Authority
Registration as Employer	Jobsplus
Ethanol Importation License	Customs
HAZMAT Import Licenses	Customs
Marketing Authorisation/CTD	National Competent Body for Target Territory
Transfrontier Shipment of Waste	Customs
CoPP (Certificate of a Pharmaceutical Product)	Medicines Authority
VOC Emissions Permit	Environmental Resources Authority
OHS Endorsement	OHS Authority
Public Sewer Discharge	Water Services Corp.
Known Consignor Validation	Customs

In addition to the Group’s Slovenian facility and planned Malta facilities, an EU-GMP Certified OEM has been onboarded in 2020, providing the Group access to production of a range of medicinal cannabis prescription products under the brand ‘Mercury Pharma’. This range is sold in Australia and Brazil and supplied white label to the UK. Save for the production of the ‘Mercury Pharma’ range by the OEM, there are no assets necessary for production which are not owned by the Company.

## 5. International Research and Development

The Group has an ambitious international research and development agenda. Research and development projects include preclinical, clinical and botanical, focused at the intersection of phytocannabinoid-derived and plant-derived medicines and the pharmaceutical industry. The Group undertakes research, itself and in collaboration with international research institutions, hospitals and universities in Australia, Slovenia, India and Israel.

The Group’s Clinical Advisory Team is responsible for leading three main research and development areas: Neurology, Oncology and Autoimmune.

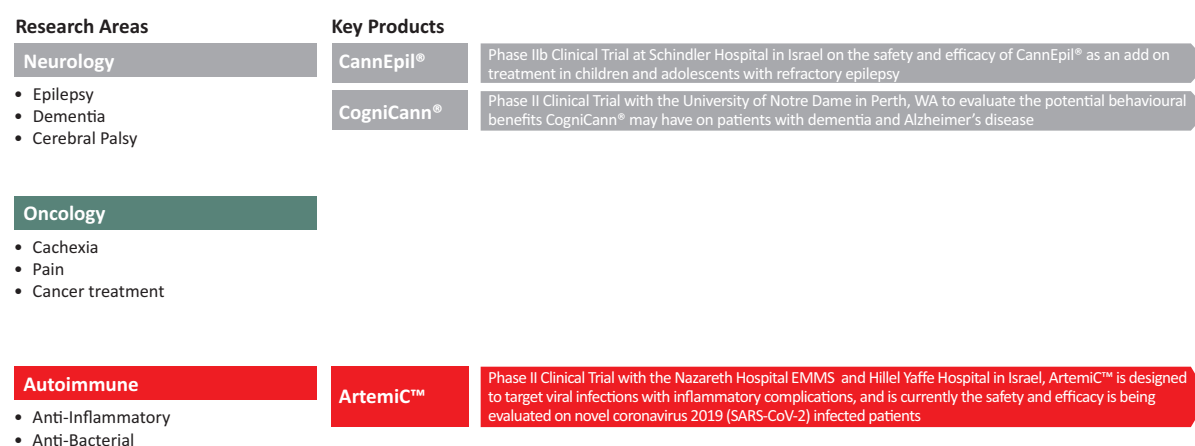


Figure 9: The Group’s research and development areas

Further details of the members of the Clinical Advisory Team are set out in of Part 9 of this Document – “Directors, Senior Managers, Clinical Advisory Team and Corporate Governance”.

Developing an international research and development program is important for several reasons:

- It allows the Group to take advantage a range of skills that are not found in one location;
- Partnerships with leading research institutions and universities increases the Group’s profile and international footprint;
- Provides access to various patient populations; and
- Introduces emerging markets to phytocannabinoid-derived medicines.

**The Group’s international research collaborations are set out below. Further details of the contractual arrangements entered into by the Group with research institutes, universities and hospitals are set out paragraph 17 of Part 16 of this Document – “Additional Information”.**

## **Slovenia**

### *Biotechnical Faculty, University of Ljubljana*

In Slovenia, the Group had partnered with the Biotechnical Faculty at the University of Ljubljana, to conduct a comprehensive, large scale research project on the cultivation of cannabis for medical purposes, and the standardisation of post-cultivation production processes, from genetics through to API. The research enables the Group to create standardisations for cultivation, extraction and production of APIs of various phytocannabinoids. The research with the Biotechnical Faculty at the University of Ljubljana is currently on hold, pending renewed authorisations being granted to the University.

### *The Slovenian Institute of Hop Research and Brewing (“IHPS”)*

The Company has partnered with IHPS, a government organisation in Slovenia, to undertake a first of its kind large-scale research project on cannabis for medical purposes. The Group and IHPS have been granted approval from the Slovenian Ministry of Health to conduct a comprehensive, large-scale research project on the cultivation of cannabis for medical purposes and the standardisation of post-cultivation production processes, from genetics through to API production. This research project enables the Group to create industry first standardisations for cultivation, extraction and production of phytocannabinoid APIs, to ensure the Group maintains a key presence in phytocannabinoid research and development.

### *Graft Polymer d.o.o Research*

During 2019, a research agreement with Graft Polymer d.o.o was reached, covering a novel porous-polymer drug delivery system. Graft Polymer d.o.o is currently registering two new patents in nano drug carriers, which can be used with multiple pharmaceutical products.

## **Australia**

### *Royal Melbourne Institute of Technology (“RMIT”)*

The Company has entered into an exclusive research agreement with RMIT, one of Australia’s leading universities. Pursuant to the agreement, the Company and RMIT are co-funding a research facility with cultivation and processing abilities to run botanical and in-vitro (cell lines) studies, of which the Company holds a five-year lease. For this facility the Company holds a Cannabis Research Licence and Permit from the Australian Office of Drug Control, allowing for botanical and preclinical research to be carried out. The first projects to be conducted at this facility are preclinical studies on the effect of cannabinoids on melanoma and prostate cancer cells, alongside species strain development.

In addition to the AUD\$2 million state of the art co-funded facility dedicated to the research of cannabis, RMIT is also providing the Company with full access to research facilities and resources, with the Company having first rights to any cannabis product developed at the site.

Additionally, the collaboration has established the International Library of Cannabinoids (“ILC”), an open source, large data aggregator built around global cannabis research data, which is being collected and analysed through machine learning tools to provide up to date data and prescribing information to doctors and researchers around the world.

The Company is also using its collaboration with RMIT to facilitate the exchange of academic knowledge with the Epilepsy Association to develop the “C4E Program”.

#### *Swinburne University of Technology, Melbourne*

Pursuant to a collaborative arrangement with Swinburne University of Technology, Melbourne, MGC Research is to undertake a Phase I safety trial on CannEpi<sup>®</sup>, combined with assessing its effect on driving competence. Due to COVID-19 restricting the recruitment process, this safety trial will likely be conducted in late early 2021 on 30 healthy volunteers (15 of which will be administered CannEpi<sup>®</sup> and the other 15 placebo). The primary aim of this trial is to gather safety data required for the applications to the EMA and the TGA, as well as assess whether CannEpi<sup>®</sup> impairs driving versus placebo using a driving simulator.

#### *University of Notre Dame Australia, Fremantle, Western Australia ("UNDA")*

In collaboration with UNDA, a Phase IIb clinical trial is underway on CogniCann<sup>™</sup>, the Group's product developed for the management of the symptoms of dementia/Alzheimer's disease, with a focus on wellbeing and life improvement among older residential care patients. HREC approval has been granted and patient recruitment is underway. COVID-19 has restricted access to aged care centres in Western Australia, which has delayed completing recruitment until early 2021.

#### **Malta**

##### *Research Centre facility in partnership with the Prime Minister's office, Malta Enterprise*

The Maltese Government and the Group have signed an agreement in principle to open a joint research centre for cannabis and cannabinoids, which will work in collaboration with RMIT's Australian activities. Additionally, having assessed the lack of CRO service providers in Malta, the Group intend to provide CRO services, including clinical research development and execution, to the Maltese pharmaceutical sector.

#### **Israel**

##### *Schneider Children's Medical Centre of Israel*

In collaboration, with the Schneider Children's Medical Centre of Israel, the Group has ethics committee approval for a Phase IIb clinical trial, in respect of its lead product CannEpi. Recruitment is expected to begin in early 2021.

##### *RMIT and The Hebrew University of Jerusalem ("HUJI")*

RMIT, HUJI and the Group, have established a research hub to facilitate research in the medicinal cannabis sector. This hub, CannaHub<sup>™</sup>, marks the first example of two leading universities sharing intellectual property with an industry partner, and acts as an independent research institute under the agreement.

The CannaHub<sup>™</sup> will encourage and facilitate the progress of the medicinal cannabis industry globally, and while at the same time provide the Group with first rights to review and commercialise any innovative developments.

##### *Rambam Health Corporation – Clinical trial, ArtemiC<sup>™</sup>*

Rambam Health Corporation has agreed to provide MGC Slovenia with facilities and staff to perform a Phase II clinical trial in respect of a protocol designated by reference to COVID-19 and the product known as ArtemiC<sup>™</sup>.

##### *Hillel Yaffe Hospital – Clinical trial, ArtemiC<sup>™</sup>*

The Fund for Medical Research Development of Infrastructure & health Services, Hillel Yaffe Hospital, has agreed to provide MGC Slovenia with the facilities and staff to perform a Phase II clinical trial in respect of a protocol designated by reference to COVID-19 and the product known as ArtemiC<sup>™</sup>.

##### *Nazareth EMMS Hospital – Clinical trial, ArtemiC<sup>™</sup>*

Nazareth EMMS Hospital has agreed to carry out a Phase II clinical trial on behalf of MGC Slovenia, designed to evaluate the effect of ArtemiC<sup>™</sup> in patients diagnosed with COVID-19.

#### **India**

##### *MRT Group – Clinical trial, ArtemiC<sup>™</sup>*

MRT Group, as the researcher has agreed to provide MGC Slovenia with clinical research services to carry out clinical trials in accordance with an agreed trial protocol.

## **6. Implementation of the "Nature to Medicine" Strategy**

The Company's mission is to produce "standardised, affordable, phytocannabinoid and plant-derived medicines" to improve the lives of patients. The Group is at the forefront of research and development in this growing market, with the potential to supply its products to research efforts worldwide, and then to the markets that this research opens.

The successful implementation of the “Nature to Medicine” strategy and the business plan of the Group is based on certain key assumptions and subject to sensitivities, as set out below:

- In respect of the two most developed products of the Group, CannEpil® and CogniCann™, the Directors have assumed that the proposed clinical trials will show significance in efficacy, with no serious adverse events being recorded. Clinical trials have a high risk of failure and negative advanced clinical trial results can occur even after promising results in earlier trials. In the event that serious adverse events are recorded, or if the clinical trials were unable to proceed, further prescriptions of these products would likely stagnate, which would result in revenues of the Group being much lower than expected and potentially prevent the development of other products in the pipeline and the implementation of the strategy and business plan of the Group. However, given the Group’s recent addition of the ‘Mercury Pharma’ line and with the ability of these products to provide revenue, with no clinical evidence needed, this risk has been reduced, The Group will have the ability to offset the costs of product development via the sale of ‘Mercury Pharma’ products.
- It is anticipated that CMA in the EU and approval by the TGA in Australia in respect of CannEpil® and CogniCann™ will be obtained in the next 4-5 years respectively. In the event that these approvals are not obtained in the time frames anticipated, the Group may incur further costs in order to continue to pursue them. If CMA and/or approval by the TGA is not obtained at all, the Group is unlikely to be able to generate significant revenues and would remain reliant upon the prescription of these and Mercury Pharma products as unlicensed cannabis-based medicinal products.
- It is assumed that the legal and regulatory environment in which the members of the Group operate will remain stable with no significantly negative, or rapid changes, to laws, regulations or the licensing and permitting regimes under which the Group currently conducts business occurring. In the event of such taking place, the cost and time involved for the Group to comply could materially affect the profitability of the Group or materially delay the strategy and its implementation. Legal or regulatory changes could prevent the operation of the Group completely, particularly if these changes affect its key jurisdictions of Malta, Slovenia, United Kingdom or Australia. The Directors’ believe that the legal and regulatory framework in Malta, Slovenia and Australia as it relates to medicinal cannabis, is relatively stable and progressive, as such they consider it unlikely that changes in these key jurisdictions will adversely affect the operations of the Group or the implementation of its strategy.
- The Directors believe that the pricing strategy, as it relates to the products of the Group, is accurate and achievable. The Directors consider that it is unlikely that the pricing strategy will be materially inaccurate, but to the extent that it is, either due to market forces from time to time, or due to an over estimation by the Directors, the revenue available to the Group will be reduced accordingly which could result in the implementation of the business plan and the strategy of the Group being delayed or amended.
- The Directors’ believe that the products of the Group will continue to be more widely adopted as prescribed treatments for their key indications over the next two years. However, the products of the Group face significant competition from other phytocannabinoid-derived medicines on the market, for example, CannEpil®’s most notable competitor is Epidiolex by GW Pharma. The products of the Group will also face competition from synthetic cannabis products and developed non-phytocannabinoid pharmaceutical products or treatments, non-medicinal cannabidiol (CBD) products (sold as wellness products or supplements), or in jurisdictions where it is legal, the use of cannabis with moderate to high THC, being used recreationally to self-medicate symptoms or conditions. In the event that the products of the Group do not become more widely adopted, the revenues and growth of the Group, along with the implementation of its strategy and business plan would be materially impacted.
- The Directors’ believe that, once CMA and TGA approval are obtained for CannEpil® and CogniCann™, peak annual sales in excess of £1.6 billion (AUD\$3.09 billion) within the EU5, Australia, MENA and Thailand regions could be obtained. If this belief proves to be materially inaccurate, the strategy and business plan of the Group will be materially impacted and the development of the business of the Group and its products delayed.
- It is assumed that the Group’s larger facility, approved for construction in Malta, will be constructed, licenced, and become operational by mid-2024. In the unlikely event that there is any material delay in the facility becoming fully operational, the Group would continue to operate and proceed with the implementation of the strategy of the Group and progress with the business plan from its facility in Slovenia.

As part of the “Nature to Medicine” strategy, the Directors will consider M&A opportunities which they believe will allow the Group to develop its own distribution capability, with the objective of expanding the geographical and customer markets for the products of the Group, resulting in new revenue streams. The Company also intends to further develop its partnership with Lenis, its appointed product wholesaler and distributor, particularly to access new territories for the products of the Group and to expand sales capability, with the objective of achieving peak market potential.



As part of the future strategy of the Group, the Directors intend to pursue and obtain patent protection in respect of its products and its wider intellectual property portfolio. Further information as to the intellectual property of the Group is set out in paragraph 8 of this Part 8 of the Document – “Information on the Group”.

## 7. Distribution

To date, the Group has developed partnerships with recognised and established pharmaceutical distributors in key territories to ensure infrastructure is in place to get products to market. Affordable medicine begins with the cost effectiveness of the product, but also demands an efficient international logistics platform and wide distribution reach. To achieve this, the Group has two key strategies. Firstly, engaging Lenis farmacevtika to export the Group’s products from Slovenia to the United Kingdom, EU and ASEAN and utilising its and its other appointed distributors licences to handle all controlled substances. This provides the Group with international reach from its manufacturing facility to local distributors/wholesalers who generate the pharmaceutical prescriptions and sales. In addition, Lenis’ experience in unregistered and niche medicines provides the Group with a full pharma reach with their phytocannabinoid-derived medicines, distinguishing them from the rest of the ‘medicinal cannabis’ market.

Lenis specialises in the distribution of unregistered drugs and niche therapeutic areas (e.g. licenced in the source country but not in the destination country), which includes:

- New drugs not yet accessed through special access schemes;
- Discontinued cost-effective drugs (i.e. infertility, ophthalmology, infectious diseases);
- Product alternatives during drug shortages (e.g. oncology); and
- Comparator drugs for clinical trials.

Lenis provides added value products in niche therapeutic areas and distribution of innovative pharmaceutical products and generic pharmaceuticals with limited number of competitors. In partnership with the Group, Lenis provides knowledge on regulatory affairs, market access, medical support, marketing and sales, wholesale distribution and pharmacovigilance. Their principle client is Gilead Sciences.

The Group manufactures its ‘Mercury Pharma’ line of products at its OEM in the Republic of Northern Macedonia. These products are exported from Skopje International Airport by Marken, UPS’s (United Parcel Service) clinical supply chain subsidiary, specializing in pharmaceutical transport.

The Group’s sales representatives provide a network for education on the Group’s products and support the introduction of products, leading to efficient marketing (in the manner available under local law) and profitable sales within the regions. The extensive network of distribution partners provides access for the Group’s products to hospitals, pharmacies and research institutions. For example, in respect of the Australian market, the Group’s flagship products, CannEpil® and CogniCann™, are exported from the Group’s manufacturing facility through its distributor Lenis and imported and distributed in Australia either under MGC Research’s import licence, or on behalf of the Group by its appointed distributors and logistics service providers, Health House International Pty Ltd and Cannavalate Pty Ltd pursuant to their Wholesale Licences and through MGC Research’s Indent Licence<sup>54</sup>. The Group’s products are then prescribed and made available to patients through early access schemes.

Several of the Group’s ‘Mercury Pharma’ products are imported into the United Kingdom by Eaststone Limited pursuant to its Home Office controlled drug import licence and then distributed by Lyphe Group as unlicensed medicines or “specials”, in accordance with the requirements of the MHRA<sup>55</sup>.

The Group has engaged with MexaCare GmbH, a solely owned subsidiary of MedeVec, to provide the sales, marketing and logistics for CannEpil® to pharmacies, allied health practitioners, labs, hospitals and doctors in Germany, Austria and Switzerland. For MENA countries and Malta, AM Mangion has been contracted to handle distribution. AM Mangion is the exclusive distributor for several large global pharmaceutical companies such as Gilead Sciences, and representative of Johnson & Johnson into MENA countries, France, Italy, Scandinavia and the UK.

In Brazil, distribution of the Group’s products will take place through the Group’s appointed distributor Onix Empreendimentos e Participações. The first shipment of the Group’s products to Brazil took place at the end of 2019.

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54 A wholesale licence allows the storage and supply Schedule 8 (medicinal cannabis products for therapeutic use) or Schedule 9 (medicinal cannabis products for medical or scientific research) substances. Wholesale licences are issued by the Australian State or Territory Department of Health under Regulation 5 of the Customs (Prohibited Imports) Regulations 1956.

55 Since 1 November 2018, cannabis-based products for medical use in humans have been re-scheduled to Schedule 2 of the 2001 Regulations by The Misuse of Drugs (Amendments)(Cannabis and Licence Fees) (England, Wales and Scotland) Regulations 2018), meaning senior clinicians, on the General Medical Council specialist register are able to prescribe cannabis based medicines to patients.

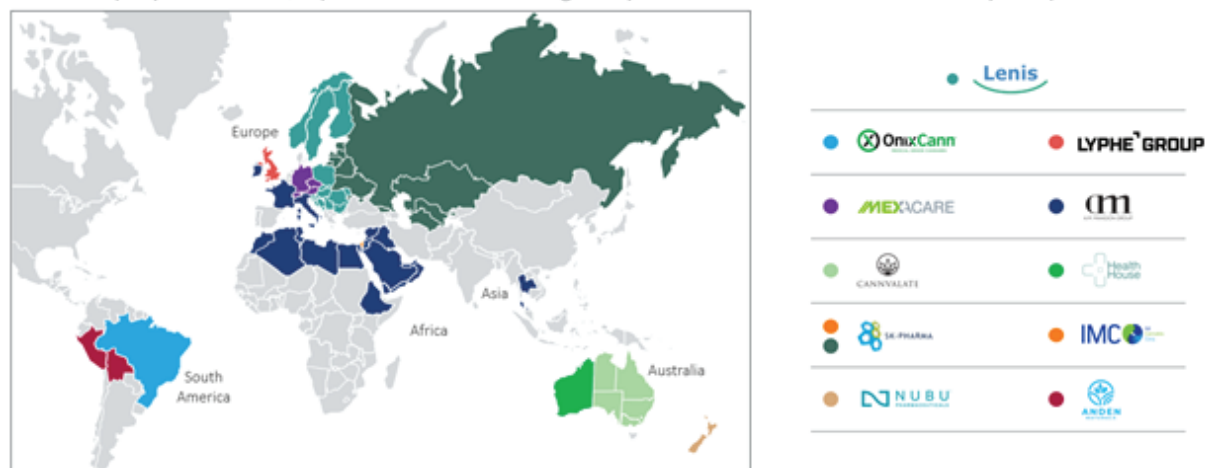
Recently, additional and regular shipments straight to patients have been conducted, under licences to import the products granted by Anvisa, the Brazilian National Health Surveillance Agency.

In Ireland, CannEpil® and several ‘Mercury Pharma’ products are to be distributed by Pacelli Ltd, following approval from Ireland’s Ministry of Health under Ireland’s Medical Cannabis Access Programme.

The Group’s key markets, which can be serviced by regional distributors, are set out below:

## Key Global Distribution Partners

Extensive network in place providing access to hospitals, pharmacies and research institutions around the world – Lenis is the Company’s wholesaler/exporter to all distributors globally and is also a direct distributor to key European markets



**Figure 10:** The Group’s key markets, serviced by experienced regional product distribution partners.

## 8. Intellectual Property

The Company is actively trademarking both its brands and ingredients of the Group’s product suites, ensuring protection against attempts at replication or imitation of the products. The Company has filed for trademarks in both the EU and Australia, for CannEpil®, CogniCann™, ArtemiC™, TopiCann™, CannEkid and CannaHub™ (the Group’s collaboration with RMIT and HUJI).

The Group is also in the process of registering four strains of *Cannabis spp* with the Community Plant Variety Office. Two of the leading strains are MXC-THC-10/3 for THC and strain MXC-CBD-81/5 for CBD, which have >35% THC and >20% CBD, respectively.

The Group has licenced its *Cannabis spp* strains to Safe Pharma in Macedonia for cultivation to reduce costs of API per square metre of cultivation, and thereby improving its yield through isolating the API extracted from the material. The intention is for these flowers to be transferred to the Group’s Slovenia facility for extraction and isolation into API, and then to compounding, all under GMP.

The Group is currently developing unique and proprietary delivery systems, including nano-emulsion for CBD/THC, nano-micellation and encapsulation, core-shell microcapsules and chitosan beads.

Micellation is the process by which fat-soluble substances are converted to a water-soluble form, making them available to the cells in the body; however, this is a time and energy consuming process, so most fat-soluble substances become excreted by the body, unused before reaching its target destination. The bioavailability and effectiveness of fat-soluble substances is therefore relatively low. Micellation technology encapsulates fat-soluble substances in artificially created micelles, so they become water-soluble which dramatically increases the bioavailability of the substances. This technology, with over 30 years in development, creates solutions outside the body that can administer fat-soluble substances in a more efficient way, making the active ingredients more efficient at lower amounts.



### Patent agenda

As a leader in the emerging cannabinoid-based medicines market, and to suit the Company's position as a bio-pharma company with unique pipelines to market, the Group is dividing its intellectual property acquisition and registration agenda to several segments:

**Formulations:** The use of several compounded active ingredients, supported by efficacy clinical results (post Phase II clinical trials), to allow the Group to submit a product specific patent.

**Prime Indications:** CannEpil™ and future MGC products are being designed as targeted for "Prime" indications, such as drug resistant indications, or chronic indications, which allow similar intellectual property/product protection as "Orphan" indications. This is a process which will be initiated in every product development pipeline, post Phase II.

In addition to the above, the Group is also developing an intellectual property agenda centred around ingredient carriers, designed to improve technical and kinetic behaviour of the medicine, which as a result improves bioavailability, stability, water phase vs oil phase, and controlled release, producing end products which are both more affordable and therefore more profitable. The processes and carriers themselves would be patentable elements of this agenda.

The first four drug delivery intellectual property mechanisms will be:

- Micellar Nano-emulsion for CBD/THC;
- PCL-PEG nanoparticles-solvent evaporation – W/O emulsion method;
- Core-shell microcapsules – solvent – leaching – porous PCL core, grafted PEG release regulation shell; and
- Biological "core-shell" for release regulation shell.

## **9. Key Strengths**

### Addressable market opportunities with unmet needs

The Group's initial target indications are drug resistant epilepsy (CannEpil®) and dementia/Alzheimer's disease (CogniCann™), which together, the Directors' believe could result in peak annual sales of approximately £1.6 billion (AUD\$3.09) within the EU5, Australia, MENA and Thailand regions<sup>56</sup> once CMA and approval by the TGA are obtained. For drug resistant epilepsy, there are a limited number of companies attempting to address patient needs, putting the Group in a strong position. The Group's products CannEpil®, CogniCann™, MXP100 and MXC1:1, are already available for prescription by medical professionals in Australia under the Special Access Scheme and CannEpil® is available in the United Kingdom as an unlicensed "specials medicine" and in Ireland and Brazil under their early access regimes. Patient numbers quickly growing in Australia, which is generating revenues and developing networks and market share prior even before TGA approval has been obtained.

### Favourable positioning in medicinal cannabis industry

The Group has positioned itself as a bio-pharma manufacturer of phytocannabinoid-derived and plant-derived medicines to a GMP certified pharmaceutical grade, under GMP certification. It is one of a few in Europe to manufacture and supply products to this level of quality, and consistency, as well as safety. The Group has clinical trials underway for CannEpil®, CogniCann™, with the intention of CMA with the EMA and other key regulatory authorities, with CannEpil® expected within 4 years. This puts the Group at a clear advantage for significant long-term growth and sustainability, with limited competition.

### Cost effective GMP products

Australia is the key market in which the Group is currently operating and is a territory that currently classifies phytocannabinoid-derived medicines as 'unregistered medicines' within the existing pharmaceutical structure. In Australia, there are over 70 'medicinal cannabis' products available on the market, including those of the Group, coming from over 20 distinct brands.

A recent publication by FreshLeaf Analytics, which includes an analysis of product prices, indicated that for most products the Group is currently the cheapest on the market for AUD\$ per mg of active ingredient. In addition, the majority of competitor products are not manufactured under GMP certification.

This puts the Group in a strong position moving forward, as prior to final product approvals they will continue to capture a greater market share, demonstrating to medical professionals that not only are the Group's products the best quality and backed by ongoing research, but also the most affordable for patients.

### Attractive opportunities for significant long-term growth

Beyond the development of CannEpil® and CogniCann™, the Group intends to register a new phytocannabinoid-derived medicine every two years, with four already in early-stage development (preclinical and observational research underway). The target indications are Crohn's/colitis, cerebral palsy, cachexia/anorexia, and eczema/psoriasis, which are large indications and could provide the Group with a strong position for significant long-term growth.

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56 Alacrita Consulting Limited-Market Projections Paper-October 2019.

### Strong pipeline for clinical success

Due to the significant amount of data and research conducted globally to demonstrate the safety profile of phytocannabinoid-derived medicines<sup>57</sup>, the Group has been able to take advantage of regulations and early access schemes to conduct observational studies on formulations prior to launching into the clinical trials required for registration.

### Experienced board and management

The Board's, Senior Management's and Clinical Advisory Team's unique combination of business skills, long-term experience, relationships in the cannabis industry and global vision, have established a team who have a vision and strategy for the Group that positions it at the forefront of an emerging industry.

The members of the Clinical Advisory Team are all renowned for their experience and innovation in the field of phytocannabinoid research and clinical implementation, with global access to various research institutions, existing patient relationships, positioning them to be key influencers in the industry as it grows.

### Generation of revenue prior to product approval

Due to unique legislation concerning medicinal cannabis in the Group's key territories of operations, Australia and the UK, the Group is able to generate revenues prior to CMA or product approval by accessing patients through the Special Access Scheme in Australia and by making Product available as an unlicensed "specials medicine" in the United Kingdom and in Ireland and Brazil under their early access regimes. These revenues can help fund clinical research and business operations during the process of achieving CMA and product approval. Governments have allowed access to medicinal cannabis products mainly due to the proven safety profile of cannabinoids.

## **10. Regulatory Environment**

The global framework, as it relates to drugs, is derived from UN Conventions, whose aim is to advance the global objective of implementing measures to restrict the use of specified substances to medical, therapeutic and research purposes. Under the Narcotics Conventions, where local laws permit the cultivation of cannabis, Governments must ensure that such cultivation is under the control of a Government agency.

Over the past decade, more and more countries are passing legislation to allow for access, cultivation, manufacturing, import and export of cannabis products for medicinal purposes, with a focus on pharmaceutical preparations becoming more prevalent.

In January 2019, the World Health Organisation recommended to the United Nations that cannabis and associated substances be removed from Schedule IV and maintained only on Schedule I of the Single Convention. In December 2019, the European Council published an explanatory memorandum in support of the World Health Organisation's rescheduling proposal. The UN Commission on Narcotic Drugs met in December 2020 to remove cannabis and its derivatives from Schedule IV of the Single Convention, where it has been listed alongside specific deadly addictive opioids.

With the rescheduling of CBD now approved by the UN Commission, the global movement of pharmaceutical preparations of phytocannabinoid-derived medicines is expected to be much easier. This will place the Group in a favourable position to expand its worldwide distribution agenda.

### European Union

To date, the European Union has not provided a central policy to introduce member states to legal cannabis. Instead, it has taken a passive role that allows individual members to develop their own legislation. European cannabis programs will remain strictly medical for the short-term in Europe. As a result, legal cannabis will be regulated as a pharmaceutical product, adhering to a series of international regulatory bodies and local cannabis agencies.

There are laws and guidelines that need to be amended before physicians can easily prescribe cannabis to patients. Particularly as the responsibility to educate the health community about cannabis treatments lies with the doctors themselves.

### United Kingdom

In the United Kingdom, the principal statutory measure as it relates to drugs/narcotics is Misuse of Drugs Act 1971 ("MDA 1971") which classifies drugs into three categories (according to their relative harm), namely in Classes A, B and C, are controlled by Schedule 2 of MDA 1971. Cannabis and its derivatives come under Class B. MDA 1971 sets out different criminal offences, such as importation, production and supply, possession and cultivation of cannabis.

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57 <https://www.cannabis-med.org/studies/study.php>

Section 7(1) of MDA 1971 provides the Secretary of State with the necessary authority to make exceptions in certain circumstances, to make lawful activities which, under MDA 1971 would otherwise be deemed unlawful. Corporate bodies and their officers can commit offences under MDA 1971.

The 2001 Regulations regulate the availability of controlled drugs that have a recognised and legitimate use, by putting them in 1 of 5 schedules of 2001 Regulations. The schedule into which a drug is placed dictates the extent to which it is lawful to import, export, produce, supply and administer and possess the drug and also imposes requirements around prescription writing, record keeping, labeling and safe custody.

Since 1 November 2018, cannabis products for medicinal purposes in humans have been re-scheduled to Schedule 2 of the 2001 Regulations by The Misuse of Drugs (Amendments) (Cannabis and Licence Fees) (England, Wales and Scotland) Regulations 2018), meaning senior clinicians, on the General Medical Council specialist register are able to prescribe cannabis based medicines to patients.

#### Australia

Australia legalised medicinal cannabis in 2016; however, use remains highly regulated in Australia. Australia's TGA regulates the supply, leaving medical professionals to apply to the TGA in order to prescribe medicinal cannabis products to certain patients through the SAS. Australian regulators are open to recognising the extensive data already available in other countries as sufficient Phase I trial data to allow Phase II trials.

In addition, in early September 2020, the TGA announced their interim decision to include low-dose CBD as an over-the-counter medication in Australia, coming into effect on 1 June 2021. In order to have a product registered as Schedule 3, (meaning the product is available from pharmacies without a prescription), companies will still have to demonstrate CMC (Chemistry, Manufacturing and Control), clinical support, efficacy, safety and more. The Group is one of a small group of companies with the capacity to achieve Schedule 3 registration and is pursuing a project with the intention of being one of the first to market, which will significantly enhance access to patient and immediate revenues.

## **11. Employees**

In the past three financial years, the Group has employed, on average, the following numbers of people:

Category of Activity	30 June 2018	30 June 2019	30 June 2020
Office and management	5	9	7
Technical and operational	2	4	9
Total	7	13	16

As at the Last Practicable Date, the Group retained the services of 14 consultants and as at the Last Practicable Date, the number of employees of the Group in (i) office and management, and (ii) technical and operational roles was 13 and 8 respectively.

## **Share Incentive Schemes**

### Incentive plan

There are currently 35.9 million options in issue through the Incentive Plan. Further details of the Incentive Plan are set out in paragraph 15 of Part 16 of this Document – "Additional Information". This plan lapsed on 22 November 2020, however the options issued pursuant to it still subsist.

### Performance rights plan

There are currently 15 million Performance Rights in issue through the Performance Rights Plan. Further details of the terms of the Performance Rights Plan are set out in paragraph 15 of Part 16 of this Document – "Additional Information".

### Performance shares

There are no Performance Shares in issue. Further details of the Performance Shares are set out in paragraph 15 of Part 16 of this Document – "Additional Information".

## **12. Environmental and Social**

The Group's operations are subject to various environmental laws and regulations under the relevant legislation in each of the jurisdictions in which operates. The Board considers full compliance with these laws and regulations as a minimum standard for all operations of the Group to achieve. There have been no significant known breaches by any of the members of the Group during the period covered by the Historical Financial Information.

### 13. Insurance

The Company has paid premiums to insure all of the Directors, the Group's secretary and all executive officers of the Group against any liability incurred as such by a director, secretary or executive officer to the extent permitted by the Corporations Act. The contract of insurance prohibits disclosure of the notice of the liability and the amount of the premium. No member of the Group has indemnified the auditor or paid any insurance premium on behalf of the auditor.

### 14. Dividend Policy

No dividends have been paid or declared for payment since the incorporation of the Company and at present, the Directors' intention is that all profits generated by the operations of the Group will be reinvested for future growth and development.

### 15. Working capital

The Company is of the opinion that the Group has sufficient working capital for its present requirements, that is for at least 12 months following the date of this Document.

### 16. Reasons for listing

Following consultation with its advisers, the Directors have chosen a Standard Listing as they believe that a listing on the Main Market, in addition to the Company's ASX listing and the OTC facility, will enable the Company to enhance its awareness among, and allow it to reach, institutional investors in the UK, Europe, Africa and the Middle East, provide the potential to access capital to fund the strategic growth of the Group, increase share trading liquidity and further raise the profile of the Group.

**Early mover advantage:** Following the UK legalising the prescription of medicinal cannabis in November 2018, the Company has positioned itself to be one of the first companies utilising cannabis for medicinal purposes, to list on the London Stock Exchange or any major exchange in the United Kingdom.

The Directors believe that listing on the London Stock Exchange will enhance the Company's capital markets profile among the international investment community and therefore provide support for the continued development of the Group.

**Increased research coverage:** The Directors anticipate that the number of analysts providing independent investment research on the Group will increase following Admission. The Directors believe that an increased level of analyst coverage will enhance the Group's profile with potential new investors in Europe, North America and internationally and benefit the Company's existing Shareholders.

**Broader access to institutional investors:** The Company benefits from a diverse and supportive Shareholder base from its ASX listing. However, the Directors believe there are a number of European investment funds that are currently unable to hold Ordinary Shares due to the listing outside of a European regulated market.

The Directors therefore believe that admission to trading on the London Stock Exchange will allow the Company to broaden its international investor base.

### 17. The Placing and use of net Proceeds

On 3 February 2021, the Company, the Directors and Turner Pope entered into the Placing Agreement pursuant to which Turner Pope agreed to use its reasonable endeavours to procure subscribers for Ordinary Shares at the Placing Price pursuant to the Placing. Under the Placing, Ordinary Shares have been offered to institutional and certain other investors in the United Kingdom. The Placing has been structured as a private placing and there is no general offer of Ordinary Shares to Shareholders or any member of the public. The currency of the Placing is pound sterling.

The Placing is conditional, inter alia, on: (i) Admission having become effective by 8.00 a.m. on 9 February 2021 or such later date as the Company and Turner Pope may agree (being not later than 26 February 2021); and (ii) the Placing Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms prior to Admission.

The Placing Shares will be issued credited as paid up in cash and will, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared paid or made by reference to a record date falling after Admission.

The Placing comprises 440,677,967 new Ordinary Shares. Existing Shareholders will experience an 19.7% dilution as a result of the issue of the Placing Shares (that is, its, his or her proportionate interest in the Company will decrease by 19.7%). The Company will bear approximately £500,000 of fees and expenses in relation to the Placing and Admission.

Further details of the Placing Agreement, are set out in Part 16 of this Document-“Additional Information”.

The Company will receive net proceeds (after deducting estimated commissions and other fees and expenses (including VAT)) from the Placing of approximately £6 million. The Company intends to use the net proceeds of the Placing to:

- meet the costs associated with the phase 3 clinical trial of ArtemiC™ planned for H1 2021 – £2.5m;
- meet the costs associated with phase 2b clinical trial in respect of CannEpil® – £1.25m;
- increase production of the Group’s product range and expansion into new markets, including Brazil and EU countries – £0.25m;
- meet the registration costs for ArtemiC™ in new markets, including Russia, Middle East and Europe – £0.25m; and
- complete construction of the Group’s proposed manufacturing facilities in Malta – £1.75m.

#### **18. Admission, Settlement, Depositary Interests**

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on the Main Market. It is expected that Admission will become effective and dealings in the Ordinary Shares will commence at 8.00 a.m. on 9 February 2021.

In order to be admitted to trading, the Ordinary Shares must be eligible for electronic settlement. The main electronic settlement system in the UK is CREST, operated by Euroclear UK & Ireland Limited. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument.

With limited exceptions, only shares and other securities which are constituted under English law can be settled through the CREST system, regardless of the fact that they may be admitted to trading on the Main Market. Accordingly, as the Company is incorporated in Australia, the Ordinary Shares are not eligible to be held directly through CREST. However, the Ordinary Shares are capable of being settled indirectly in CREST via CREST’s international settlement services. Shareholders who are CREST members, or who have appointed a CREST member as their nominee, will be able to hold an interest in the Ordinary Shares via these services through the Depositary Interests representing the right to the underlying Ordinary Shares.

Accordingly, the Company has established, via the Depositary, the depositary arrangements. The Constitution is consistent with CREST membership in respect of Depositary Interests and the holding and transfer of Depositary Interests in uncertified form.

The Depositary Interests representing the Ordinary Shares will be issued to the individual Shareholder’s CREST account on a one for one basis, with the Depositary providing the necessary custodial service. It is expected that, where Shareholders have asked to hold their Ordinary Shares in uncertificated form, they will have their CREST accounts credited with Depositary Interests on the day of Admission. Shareholders who are able to and elect to hold their Ordinary Shares as Depositary Interests will be bound by the Deed Poll, executed by the Depositary in favour of Shareholders from time to time, the terms of which are summarised in Part 14 of this Document – “CREST and Depositary Interests”.

## PART 9

### DIRECTORS, SENIOR MANAGEMENT, CLINICAL ADVISORY TEAM AND CORPORATE GOVERNANCE

#### 1. Directors

The Board is responsible for, and has the authority to determine, all matters relating to the strategic direction, policies, practices, goals for the Senior Management and the operations of the Group. The following table lists the names, positions and ages of the Directors and the date that they were each appointed:

Name	Age	Position	Appointment
Roby Zomer	40	Managing Director and CEO	15 February 2016
Brett Mitchell	49	Executive Chairman	4 April 2013
Nativ Segev	42	Non-Executive Director	15 February 2016
Dr. Stephen Parker	62	Non-Executive Director and Chairman of Audit, Risk, Nomination and Remuneration Committees	13 March 2019
Dr. Ross Walker	64	Non-Executive Director and Head of Clinical Advisory Team	15 February 2016
Evan Hayes	44	Non-Executive Director	1 September 2020

The management expertise and experience of each of the Directors is set out below. A director of a public company holds office until validly removed in accordance with the provisions of the Corporations Act or its Constitution. Accordingly, a director may only be removed from office by their resignation, by mandatory rotation (in accordance with the ASX Listing Rules and Constitution), by ordinary resolution of shareholders, or upon the occurrence of certain events specified in the Constitution (such as disqualification, being of unsound mind, disability or insolvency).

Further information on the Directors, including the companies of which each Director has been a director at any time in the past five years, is set out in paragraph 9 of Part 16 of this Document – “Additional Information”.

#### *Roby Zomer, Managing Director and CEO*

Mr. Zomer joined Mr. Segev as co-founder of the Group in 2014, following 10 years in the biotechnology and agrotechnology sectors. Using his skills in running large scale projects, such as being a member of the Manufacturers’ Associations of Israel and leading Biofuel Israeli Regulation, to becoming a founder and Executive Director of Green City Urban Recycling Ltd, establishing energy projects, leading CleanTech delegations and presenting new technologies globally, as well as being a Director and Executive Operational Manager as part of the GreenCoal Group, Mr. Zomer was assigned the role of Executive Director and CEO.

Mr. Zomer’s role encompasses utilising his commercial, scientific and engineering expertise to position the Group as a leader in research and development of phytocannabinoid-derived medicines. Mr. Zomer’s appointment to Managing Director and CEO follows successful implementation of the Group’s pipelines to integrate the Group as a bio-pharma company in Europe and Australia, indicating exemplary scientific standards and leadership.

#### *Brett Mitchell, Executive Chairman*

Mr. Mitchell is a corporate finance executive with over 25 years of experience in the venture capital, capital markets, tech and resources industries. He has been involved in the founding, financing and management of both private and publicly listed companies.

Mr. Mitchell is a founder and director of Chieftain Securities Pty Ltd, a Perth based corporate advisory and venture capital firm and founder and shareholder of Graft Polymer (UK) Ltd. Mr. Mitchell is also currently Executive Chairman of ASX Listed company TNT Mines Ltd (TIN).

#### *Nativ Segev, Non-Executive Director and Head of Business Strategy*

Mr. Segev founded the Group in 2015 with a goal to raise the quality of medicinal phytocannabinoid products, in addition to making them accessible to patients all over the world. Prior to establishing the Group, Mr. Segev was a leader in the medicinal cannabis industry, with a sizeable patient-base, with his position as CEO of Cann Pharmaceuticals Ltd (known as Better Cannabis) in Israel; it was the second, largest medicinal cannabis company in Israel.

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

*Dr. Stephen Parker, Non-Executive Director and Chair of Audit, Risk, Nomination and Remuneration Committees*

Dr. Stephen Parker is a seasoned executive with over 30 years' experience in the pharmaceuticals and biotechnology sectors, as a senior executive, strategic consultant, venture capitalist and senior corporate financier with Baring's, Warburg's and Apax Partners. Dr. Parker is currently Chairman of Sareum Holdings plc and a non-Executive Director of Eternans Limited, as well as a Special Advisor to Canaccord Genuity Limited. Stephen has a D.Phil. from Oxford University and an MBA from City University Business School.

*Dr. Ross Walker, Non-Executive Director and Head of Clinical Advisory Team*

Dr. Ross Walker is an eminent practicing cardiologist with over 35 years' experience as a clinician. For the past 20 years, he has been focusing on preventative cardiology and is one of Australia's leading preventative health experts. Dr. Walker is a keynote speakers and life coach, he is also the author of seven best-selling books and a health presenter in the Australian media.

*Evan Hayes, Non-Executive Director*

Evan Hayes is a highly experienced Board member and brings over 20+ commercial and leadership experience within the Healthcare and Biotechnology sectors. Mr Hayes graduated with a Master of Science 1st Class Honours (Biotechnology) from the National University of Ireland, Galway and prior to this he finished first in his class from the National University of Ireland, Cork with a Bachelor of Science degree (Honours). Mr Hayes' has also won the Daniel O'Carroll Award for Scientific Research. Mr Hayes is currently the Asia Pacific Managing Director of Factors Group, Canada's largest natural health company. Prior to this Mr Hayes was the Director of Sourcing and Product development at Australia's largest natural health company, Blackmores, leading the Procurement, Technical, New product development, and Strategic sourcing divisions and managed a budget of \$250m. Evan has served on multiple boards, worked in Europe the USA and in Australia evidenced by his strong knowledge of both the FDA and the TGA. Mr Hayes is an author of multiple patents including one world patent.

## **2. Senior Management**

The Senior Management are responsible for the day-to-day management of the business, operations and implementation of the Group's strategy. The following table lists the names, positions and ages of the Senior Management and the date that they were each appointed:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Appointment</b>
Daniel Kendall	33	Chief Financial Officer	18 January 2021
Nicole Godresse	43	Global Chief Sales Officer	13 January 2021
Ron Lipsky	44	Vice President of Business Development	1 May 2015
Sasha Freidman	34	Chief Project Officer	1 June 2019
Amir Polak	44	Chief Technical Officer	1 May 2019
Jonathan Grunfeld	63	Chief Medical Officer	1 December 2019
Itay Nissim	43	Chief Operations Officer	1 February 2016
Rachel Kerr	32	Company Secretary	8 June 2010
Narelle Warren	46	Company Secretary	30 November 2020

The management expertise and experience of each of the Senior Management is set out below. Further information on the Senior Management, including the companies of which each senior manager has been a director at any time in the past five years, is set out in paragraph 9 of Part 16 of this Document – "Additional Information".

*Daniel Kendall, Chief Financial Officer*

Daniel has an extensive experience in Corporate Finance and Accounting functions for both private and listed companies. He has previously worked as an auditor on many listed companies for the accounting firm BDO, and as a CFO and Company Secretary in an ASX Listed mining company for 5 years and more recently a diversified large private business in Perth. Daniel is a qualified Chartered Accountant, member of the Governance Institute of Australia and holds Bachelor of Commerce (Accounting & Finance).

*Nicole Godresse, 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 is a true pioneer of medicinal cannabis in Australia, New Zealand and the broader Asia-Pacific region.



*Ron Lipsky, Vice President of Business Development*

Mr. Lipsky brings 20 years of entrepreneurial and business experience in emerging and disruptive industries. He has been involved in the Medical Cannabis industry for the past seven years, acting as Head of Business Development for Better Cannabis in Israel, and effecting their international expansion agenda. Since joining MGC in May 2015, Mr. Lipsky has focused on expanding the global recognition and reach of the Group through its partnerships and relationships with research institutions, strategic partners, and more recently, shaping a global sales agenda for the company.

*Sasha Friedman, Chief Project Officer*

Ms. Friedman has 10 years' experience in project management and business process design and improvement, as a senior consultant for Deloitte and a Project Manager in Tel-Aviv-Jaffa municipality. In these roles, Ms. Friedman was leading various change management, information systems, and knowledge management projects, implementing complex solutions in various Enterprise and Small and Medium-sized Business organizations globally.

*Amir Polak, Chief Technical Officer*

Mr. Polak is a scientist who, for the last 15 years, has been working within the chemical industry in various fields including pharmaceutical, fuel, bio-fuel and 3D printing, from inception through to release to market. Mr. Polak has an MSc in Chemistry from the Hebrew University (Jerusalem).

*Jonathan Grunfeld, Chief Medical Officer*

Graduated with an M.D. from the Tel-Aviv University and subsequently Certified as a neurologist in Israel. Completed a clinical fellowship in neuro-oncology 2002-2004 in the MD Anderson Cancer Centre, Houston, Texas. Dr. Grunfeld has spent the last twenty years focusing on Neuro-Oncology and oncologic symptom management, with a focus since 2010 on cannabis as a treatment for oncological palliative care. Involved in the licensing of care of circa 5,000 medicinal cannabis patients in Israel, giving him a unique insight into questions of dosing, patient groups and developing treatment methodology.

*Itay Nissim, Chief Operations Officer*

With a wealth of experience in multiple industries, from large Scale agricultural rollouts to customer facing retail-oriented product development, Itay brings a focus on streamlining systems and creating efficient operations for MGC across the company's activities. With a passion for finding the best ways for people to work together towards achieving common goals, Itay is working with all parts of the company, both geographically and operationally to ensure MGC's efficiency and ability to scale up in the years ahead.

*Rachel Kerr, Company Secretary*

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

*Narelle Warren, Company Secretary*

Ms Warren is a Chartered Accountant with over twenty years of corporate advisory, financial management and company secretarial experience. Ms Warren has co-ordinated and assisted in a number of corporate transactions, including acquisitions, divestments and raising funds via private and public equity markets. Ms Warren holds both a Bachelor of Laws and Bachelor of Commerce.

### **3. Clinical Advisory Team**

The members of the Clinical Advisory Team are responsible for providing advice to the Group on research, development and clinical advice. The following table lists the names, positions and ages of those members of the Clinical Advisory Team and the date that they were each appointed:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Appointment</b>
Dr. Nadya Lisovoder	43	Clinical Research Officer	1 March 2019
Prof. Uri Kramer	69	Advisor	1 October 2017
Prof. David Neubauer	68	Advisor	1 February 2017
Dr. Jonathan Grunfeld	63	Advisor	15 October 2017



The expertise and experience of each of those members of the Clinical Advisory Team is set out below.

*Dr. Nadya Lisovoder*

Dr. Lisovoder has 15 years of international experience in academic and clinical studies in the pharmaceutical, diagnostic and medical devices industry. Dr. Lisovoder is a clinical and regulatory expert and has been a clinical adviser to public biotech companies as well as incubator companies, including development of FDA approved products. She has managed clinical trials and has been leading for the Israeli government project of biomedical research in seven hospitals in northern Israel in cooperation with universities, international pharmaceutical companies, global CROs and biotechnology companies.

*Prof. Emeritus Uri Kramer*

Prof Kramer has a busy paediatric epilepsy clinic with many patients being treated with cannabis. Prof Kramer has run full scale epilepsy trials with cannabis and brings a wealth of experience in various fields (Paediatric Neurology & Child Development). Additionally, Prof Kramer is a former president of the Israeli League Against Epilepsy.

*Prof. David Neubauer*

Prof. Neubauer is Head of Department of Child, Adolescent and Developmental Neurology at University Children's Hospital, Ljubljana. Prof. Neubauer is widely published and respected, having dealt with children and adolescents in neurological contexts for more than 30 years.

*Dr. Jonathan Grunfeld*

Graduated with an M.D. from the Tel-Aviv University and subsequently Certified as a neurologist in Israel. Completed a clinical fellowship in neuro-oncology 2002-2004 in the MD Anderson Cancer Centre, Houston, Texas. Dr. Grunfeld has spent the last twenty years focusing on Neuro-Oncology and oncologic symptom management, with a focus since 2010 on cannabis as a treatment for oncological palliative care. Involved in the licensing of care of circa 5,000 medicinal cannabis patients in Israel, giving him a unique insight into questions of dosing, patient groups and developing treatment methodology.

#### **4. Corporate Governance**

*The Board*

The Board currently comprises two executive and four non-executive Directors. The Company considers each of Dr. Ross Walker, Dr. Stephen Parker and Evan Hayes to be independent.

Any Director appointed to the Board by the Directors will be subject to election by the Shareholders at the first AGM after his/her appointment. Under the Constitution, all Directors retire from office no later than the longer of the third annual general meeting, or three years, following that Director's last election or appointment. Any Director who retires in accordance with the Constitution is eligible for re-election.

The composition of the Board will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience. The Constitution provides that the number of Directors that may be appointed cannot be fewer than three or greater than nine. Two Directors present and entitled to vote at a board meeting will constitute a quorum.

The Board is responsible for the corporate governance of the Company and has developed policies to ensure that an appropriate level of corporate governance is in place. The Company's corporate governance system is reviewed regularly by the Board to ensure that it fulfils the needs of Shareholders.

*Policies & codes*

The Ordinary Shares are currently quoted on the ASX and the Company is therefore required to comply with the ASX Principles. The Company's approach in applying the ASX Principles is to ensure that the Company's corporate governance policies and principles are established, implemented, and monitored in such a way so as not to compromise or distract the Board and management from their key goals and to enable the organisation to conduct its business in an efficient and effective manner.

The Board believes that the Company's policies and practices comply with the majority of the recommendations set out in the ASX Corporate Governance Principles and Recommendations – 4th Edition.

Together with the Constitution, the following charters and policies have been adopted by the Company to achieve a high standard of corporate governance:

#### **Charters and Codes**

Board Charter  
Corporate Code of Conduct  
Audit and Risk Committee Charter  
Remuneration Committee Charter  
Nomination Committee Charter

#### **Policies**

Performance Evaluation Policy  
Continuous Disclosure Policy  
Risk Management Policy  
Trading Policy  
Diversity Policy  
Whistleblower Protection Policy  
Anti-Bribery and Anti-Corruption Policy  
Shareholder Communications Strategy

#### Corporate governance statement

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors support and have adhered to the principles of sound corporate governance. On 17 September 2019 the Company adopted the recommendations set by the ASX Corporate Governance Council in its publication Corporate Governance Principles and Recommendations – 4th Edition. These principles were re-adopted on 30 September 2020.

The ASX Principles require the Board to consider carefully the development and adoption of appropriate corporate governance policies and practices founded on the ASX Principles. The Board recognises the recommendations of the ASX Corporate Governance Council and considers that the Company is in compliance with the majority of those guidelines which are of importance to the commercial operation of the Company, with the exception of the following:

- Recommendation 1.5  
The Company has adopted a Diversity Policy, which provides a framework for the Company to establish, achieve and measure diversity objectives, including in respect of gender diversity. The Diversity Policy is available, as part of the Corporate Governance Plan, on the Company's website. The Company partially complied with this guideline as the Board did not set measurable gender diversity objectives for the past financial year, because if it became necessary to appoint any new Directors or senior executives, the Board considered the application of the measurable diversity objectives and determined that, given the small size of the Company and the Board, requiring specified objectives to be met, unduly limit the Company from applying the Diversity Policy as a whole and the Company's policy of appointing the best person for the job.
- Recommendation 2.4  
This recommendation notes a majority of the Board of a listed entity should be independent Directors. The Board does not consider an independent majority of the Board is appropriate given the Company considers at least two (2) Directors need to be executive Directors for the Company to be effectively managed, in addition, the Company considers it appropriate to provide remuneration to its Directors in the form of securities in order to conserve its limited cash reserves.
- Recommendation 2.5  
The recommendation notes the Chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity. The Chair of the Company is not an independent Director and is not the CEO/Managing Director. The Board does not have an independent Chair as the Company considers at least two (2) Directors need to be executive Directors for the Company to be effectively managed.
- Recommendation 4.1  
The recommendation notes, amongst other things, that the audit committee have all non-executive directors. The audit committee currently consists of two non-executive directors and one executive director. The Board believe this is appropriate given the skills and experience of each committee member.

- Recommendation 8.3  
This recommendation notes a listed entity which has an equity-based remuneration scheme should have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme. The Company had an equity-based remuneration scheme during the past financial year. The Company did not have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme.

#### Remuneration report

In accordance with section 250R (2) of the Corporations Act, the Company must put the Remuneration Report to the vote of shareholders at the annual general meeting. The Directors' Report included in the Company's Annual Report contains the Remuneration Report, which sets out the remuneration policy for the Company and the remuneration arrangements in place for the executive Directors, specified executives and non-executive Directors.

In accordance with section 250R (3) of the Corporations Act, the resolution put to shareholders is advisory only and does not bind the Directors of the Company. If the resolution is not passed, the Directors will not be required to alter any of the arrangements in the Remuneration Report.

Shareholders will have the opportunity to remove the whole Board except the Managing Director if the Remuneration Report receives a 'no' vote of 25% or more ("**Strike**") at two consecutive annual general meetings.

Where a resolution on the Remuneration Report receives a Strike at two consecutive annual general meetings, the Company will be required to put to Shareholders at the second annual general meeting a resolution on whether another meeting should be held (within 90 days) at which all Directors (other than the Managing Director) who were in office at the date of approval of the applicable Directors' Report must stand for re-election.

The Remuneration Report did not receive a Strike at the 2019 annual general meeting; however it did receive a Strike at the 2020 annual general meeting, with 35.28% of submitted votes by Shareholders voting against the resolution. A large number of Shareholders did not submit their proxies and only 2.92% of issued capital voted against the adoption of the Company's 2020 Remuneration Report.

## **5. Committees**

The Company's committees are constituted as follows:

<b>Committee</b>	<b>Chair</b>	<b>Members</b>
Audit and Risk Committee	Dr. Stephen Parker	Brett Mitchell Dr. Ross Walker
Remuneration Committee	Dr. Stephen Parker	Brett Mitchell Dr. Ross Walker
Nomination Committee	Dr. Stephen Parker	Brett Mitchell Dr. Ross Walker

The deliberations of the various committees do not reduce the individual and collective responsibilities of Board members with regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgement in accordance with their statutory obligations.

#### Audit and Risk Committee

The role of the audit and risk committee is to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance. This charter sets risk parameters and defines the audit and risk committee's function, composition, mode of operation, authority and responsibilities. The members of the committee shall be members of, and appointed by, the Board and shall comprise at least three members who have diverse, complementary backgrounds, and of which two are independent of management and the Company.

The committee must meet not less than two times a year (i.e. before completion of the half-yearly and annual accounts) with the auditors and appropriate members of management. The purpose of these meetings shall be to review and, if necessary, have input into external audit plans, review and approve the half-yearly financial report, update the external audit plans and review and approve the annual financial report. Furthermore, the committee shall meet in private sessions as and when required to assess management's effectiveness.

#### Remuneration Committee

The role of the remuneration committee is to assist the Board in monitoring and reviewing any matters of significance affecting the remuneration of the Board and employees of the Company. The Committee shall be members of and appointed by, the Board and shall comprise at least three members; chaired by an independent Director; and the majority should be independent Directors. Directors serving on this Committee should have diverse, complementary backgrounds, the majority of which are independent of management and the Company.

#### Nomination Committee

The role of the nomination committee is to assist the Board in monitoring and reviewing any matters of significance affecting the composition of the Board and the team of executives as appointed by the Company, being the Executive Team. The primary purpose of the committee is to support and advise the Board in maintaining a Board that has an appropriate mix of experience, skills and knowledge of the Group and the industry in which it operates to be an effective decision-making body; and ensuring that the Board is comprised of Directors who contribute to the successful management of the Group and discharge their duties having regard to the law and the highest standards of corporate governance.

The Board will strive to adhere to the following composition requirements for the committee where at all possible. However, the Board acknowledges that the composition of the Board may not allow adherence to the following composition requirements from time to time.

- (a) The committee shall comprise at least three Directors, the majority of whom must be independent, one of whom will be appointed the Chairman of the committee.
- (b) The Board may appoint additional non-executive Directors to the committee or remove and replace members of the committee by resolution.

### **6. Security Trading Policy**

In order to comply with MAR and DTRs and the ASX Listing Rules, the Company has adopted a Security Trading Policy in relation to the Ordinary Shares and other securities in the Company.

The Security Trading Policy applies to PDMRs and their associates and employees of the Company. Under the Security Trading Policy, PDMRs and their associates and employees are prohibited from dealing in the Company's securities if they have in their possession information that they know, or ought reasonably to know, is inside information.

The Securities Trading Policy also provides prescribed closed periods during which PDMRs and their associates and employees are prohibited from dealing in the Company's securities. PDMRs and their associates and employees must obtain written clearance from the Chairman prior to any dealings in the Company's securities.

### **7. Continuous Disclosure Policy**

The Company has adopted a new continuous disclosure policy to ensure that the Company, as a minimum, complies with its continuous disclosure obligations under the Corporations Act, the Listing Rules of the ASX, MAR and DTR as applicable to the Company; provides Shareholders and the market with timely, direct and equal access to information issued by the Company; and promotes investor confidence in the integrity of the Company and its securities.

### **8. Anti-Bribery and Anti-Corruption Policy**

The Group has adopted an anti-bribery and anti-corruption policy. The Group has developed its anti-bribery and anti-corruption policy to be consistent with the Criminal Code Act 1995 (Cth) and the UK Bribery Act 2010. The purpose of the Anti-Bribery and Anti-Corruption Policy is to set out the responsibilities of the Company and its management and personnel in upholding the Company's commitment to preventing any form of bribery or corruption and provide information and guidance to personnel on how to recognise and deal with any potential bribery and corruption issues.

## PART 10

### INDUSTRY OVERVIEW

*The information in this Part 10 – “Industry Overview” has been provided for background purposes. The information has been extracted from a variety of sources released by public and private organisations. The Company confirms that the information in this Part 10 – “Industry Overview” has been accurately reproduced from these sources and, as far as the Company is aware and is able to ascertain from information published by these sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. The Company believes that these industry publications, surveys and forecasts are reliable, but the Company has not independently verified them and cannot guarantee their accuracy or completeness.*

*The projections and forward-looking statements in this Part 10 – “Industry Overview” are not guarantees of future performance and actual events and circumstances could differ materially from current expectations. Numerous factors could cause or contribute to such differences. See Part 2 – “Risk Factors” and Part 3 – “Presentation of Financial and Other Information”.*

#### **Phytocannabinoid-derived medicines**

##### The history

The use of preparations derived from the cannabis sativa plant for medical purposes has a long history. However, by the twentieth century, the use of cannabis for medical purposes had largely declined, and its consumption for medical purposes was already very limited when in 1961 cannabis was included in the United Nations Single Convention on Narcotic Drugs and classified as a drug that had no medical uses.

In the past 20 years, however, there has been a resurgence of patient interest in using cannabis and cannabinoids to treat a variety of conditions, including chronic pain, cancer pain, depression, anxiety disorders, sleep disturbances and neurological disorders, the symptoms of which are reportedly improved by using cannabis. Increased patient interest in the use of cannabis for medical purposes has been accompanied by renewed scientific interest in the use of substances found in the cannabis plant for medical purposes, namely cannabinoids.

This followed the discovery, in the early 1990s, of a cannabinoid system in the human brain and body that was implicated in the control of important biological functions, such as cognition, memory, pain, sleep and immune functioning. However, the classification of cannabis as a drug without medical uses made it difficult to conduct clinical trials or provide treatment.

In the mid-1990s, citizens in several US states responded to patient demand for cannabis by passing referenda that legalised the use of cannabis for medical purposes for people with a variety of conditions, such as chronic pain, terminal cancer and multiple sclerosis. A similar approach was later adopted in many other US states. In 1999, Canada introduced a medicinal cannabis programme that expanded over the subsequent decades in response to court decisions. In the early 2000s, Israel (2001) and the Netherlands (2003), and later other countries, such as Switzerland (2011), The Czech Republic (2013), Australia (2016), Germany (2017) and United Kingdom (2018), legislated to allow the use of cannabis for medical purposes under specified conditions.

##### The different classes of products

Phytocannabinoid-derived medicines can be classified in two ways. Firstly, cannabis for medical purposes, which refers to plant-based or plant-derived cannabis products prescribed by a medical practitioner for the treatment of specific conditions or diseases such as epilepsy, pain or MS. Medicinal cannabis uses the whole unprocessed plant, the processed plant or the chemicals contained within it. It can include high levels of CBD and low levels of THC (the psychoactive property of the cannabis plant) products, though CBD products may also appear as consumer goods. Medicinal cannabis products are currently prepared as plant materials, oils, tinctures, edibles or capsules.

The second classification is of pharmaceutical finished dosage form products derived from phytocannabinoids, which refers to products formulated using pure cannabinoids, which have been the subject of clinical trials and have then been licensed by a competent authority (such as the EMA) as a medicine.

The most notable cannabis pharmaceutical currently on the market is GW Pharma’s product Sativex, which has been approved by the MHRA and the EMA. GW Pharma have described Sativex as the world’s first prescription medicine derived from the cannabis plant. Sativex (an oromucosal spray of a formulated extract of the cannabis sativa plant that contains THC and CBD in a 1:1 ratio (US approved name: nabiximols), as well as specific minor cannabinoids and other non-cannabinoid

components) is but one example of a medicinal product in a growing international medicinal cannabis industry. A number of other medical products based on cannabis derivatives are being worked on and developed by GW Pharma and other companies, and research facilities.

GW Pharma was admitted to trading on AIM, operated by the London Stock Exchange before trading its shares on the NASDAQ Stock Market in the US. It is understood that GW Pharma's cannabis plants used to research and develop their different products were grown and harvested in England.

GW Pharma has received regulatory approval for Sativex in over 25 countries so far (outside the US). In Europe, it is said to have Marketing Authorisation in 21 countries for the treatment of spasticity (muscle stiffness/spasm) due to MS, namely: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Lichtenstein, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovakia, Spain, Sweden, Switzerland and the United Kingdom. Beyond Europe, Sativex is reported to have received full regulatory approval for MS spasticity in Canada, Australia, New Zealand, Brazil, Colombia, Chile, UAE and Kuwait, and achieved approval in Israel for the indications of MS spasticity and pain and for chronic cancer pain.

GW Pharma has also developed an epilepsy drug treatment called Epidiolex, which is a liquid formulation of highly purified CBD. Epidiolex was approved as a product by the FDA and is now available for by prescription in the USA; it has recently obtained CMA from the EMA which puts the Group at a clear advantage for significant long-term growth and sustainability, with limited competition.

At present, the aforementioned first group of medicinal cannabis products are both more readily available and more commonly produced than products such as GW Pharma's and MGC Pharma's formulated products. This trend is following legalisation in Canada, which enabled producers of adult use products to repurpose or rebrand as medicines.

In the United States, legalisation in Colorado, as well as other States, followed the press exposure for a specific strain of cannabis, which was seen to have had an impact on epilepsy. Therefore this model was both most easily understood and most easily legislated for, involved existing infrastructures of production and manufacture, none of which were or are geared for pharmaceutical level production or research.

Most pharmaceutical regulatory systems allow the use of herbal medicines that do not meet the same requirements as those for pharmaceutical medicines. For example, manufacturers of traditional herbal medicines with well-established uses are not usually required to provide evidence of efficacy and safety from clinical trials. Instead, they are required only to show evidence of product quality and consistency to ensure that consumers receive standardised doses of herbal products that are free from contaminants and adulterants. The justification for this minimal regulatory approach is that herbal medicines have histories of traditional or well-established use, generally in the absence of reports of serious adverse events. Critics of herbal medicines point out that there is a lack of evidence to support many of the therapeutic claims made for these traditional herbal medicines. Moreover, many herbal medicines are used in addition to (rather than instead of) conventional medicines and may interact with pharmaceutical medicines in sometimes unknown ways that may harm patients.

Phytocannabinoid-derived medicines are legal in some form in more than 40 countries worldwide, creating an industry that continues to expand. In Europe these include the United Kingdom, Germany, Spain, the Netherlands, Portugal, Ireland, Greece, Finland, Czech Republic, Slovenia and Malta. Approximately 30 US states and Canada have liberal laws concerning access to cannabis for medical purposes, and there have also been significant developments in Australia and Israel as well as Argentina, Brazil, Mexico, Chile, Colombia, Uruguay, Switzerland, Poland, Romania, Croatia, New Zealand, Jamaica, Poland, Peru, Macedonia, Puerto Rico, and the Philippines.

The World Health Organization has also engaged with the medicinal cannabis sector. Its Director General sent a letter to the Secretary General of the United Nations recommending, amongst other things, that cannabis and associated substances be rescheduled in the international drug control framework<sup>58</sup>. The changes were reported to facilitate the trading of these substances for medical and scientific purposes.

As increasing numbers of countries allow for medical access to phytocannabinoid-derived medicines, the market is expected to continue to grow rapidly. In December 2020, the United Nations Commission on Narcotic Drugs removed cannabis from Schedule IV of the Single Convention, which means that it is no longer listed alongside specific deadly opioids, including heroin.

Though there is currently a dearth of products, and consequently information, on the adoption of final dosage form medications derived from phytocannabinoids, the emerging divide between the North American (Canada and the US) and the European, Australian and Asian model indicates that more conservative regulatory bodies will be happier to adopt,

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58 EMCDDA's Cannabis drug policy news, 25.03.19.

encourage and educate on fully compliant products, with pharmacokinetics and pharmacovigilance, with formulations based on clinical trials, provided with dosage and titration models, than to attempt to encompass or encourage any systems that encourage smoking or otherwise ingesting what is essentially raw product with no way to clinically track the efficacy, side effects, or passage of the product through the body.

### **United Kingdom and European Market**

Europe has a market of over 740 million people, a size twice that of US and Canada combined, and a total healthcare spend of over £2.1 trillion (AUD\$3.7t). The European market is unsurprisingly being seen as a prime market for cannabis products for medical purposes.

A member of the European Parliament's Committee on the Environment, Public Health and Food Safety ("ENVI") has stated that ENVI is currently working on a resolution on the use of cannabis for medical purposes. Miriam Dalli MEP has called for a network which can bring together the European Medicines Agency and the European Monitoring Centre for Drugs and Drug Addiction, as well as responsible national authorities, to ensure an effective implementation of a strategy for cannabis-based medicines<sup>59</sup>.

As more countries are legalising the use of cannabis for medical purposes, such as the United Kingdom in November 2018, the European market is set to take over as the world's largest market within the next five years, with a report by Prohibition Partners estimating it to be worth up to £52 billion (AUD\$94b) by 2028<sup>60</sup>.

On 8 August 2019, the United Kingdom's National Institute for Health and Care Excellence ("NICE"), together with the NHS, published its first draft recommendations on the use of cannabis-based medicinal products following a comprehensive evaluation of their clinical and cost-effectiveness<sup>61</sup>. In November 2019, NICE published its final guidance on the prescribing of cannabis-based medicinal products and the NHS listed two GW Pharma products, Epidiolex® and Sativex®.

Currently, the main cannabis markets for medicinal purposes in Europe are the United Kingdom and Germany; however, frameworks for access are also in place in Austria, Germany, Italy, Netherlands and Switzerland, with most countries currently addressing their legislative framework.

### **Oceania Market**

The two largest countries in the Oceania region are New Zealand and Australia. The wider region has a population of almost 41 million with a total GDP of £4.3 trillion (AUD\$7.7t). Total healthcare spend stands at £84.7 billion (AUD\$152.6b)<sup>62</sup>.

On 18 December 2018, New Zealand amended its misuse of drugs act to allow for much broader use of cannabis for medical purposes, making the drug available to terminally ill patients in the last 12 months of life. In July 2019, the New Zealand Ministry of Health announced a consultation to develop a 'medicinal cannabis scheme' to enable the domestic commercial cultivation and manufacture of cannabis for medical purposes.

In New Zealand, Ministerial approval is required before medicinal cannabis products can be prescribed, supplied or administered. Sativex has already been approved for use as an add-on treatment for symptom improvement in patients with moderate to severe spasticity due to MS who have not responded adequately to other anti-spasticity medication and who demonstrate clinically significant improvement in spasticity related symptoms during an initial trial of therapy.

On 18 December 2019, regulations were passed in New Zealand to implement a medicinal cannabis scheme and to establish a Medicinal Cannabis Agency to administer the scheme; these came into effect on 1 April 2020. The medicinal cannabis scheme is being established to increase access to medicinal cannabis products, including establishing a licencing regime to ensure that medicinal cannabis products are made to quality standards.

### **Australian Market**

In Australia, the growing of cannabis for medicinal and scientific purposes was legalised in February 2016. Subsequently, the usage of medicinal cannabis was legalised at the federal level on 1 November 2016, with all states establishing access pathways in the following years. In 2019, the TGA established the SASb Portal to streamline medicinal cannabis prescription application, to which every state has now signed onto except Tasmania.

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59 'Health Europa', An article "The case for a EU Resolution on medical cannabis", 31 January 2019.

60 The European Cannabis Report-4th Edition, January 2019-Prohibition Partners.

61 <https://www.nice.org.uk/news/article/nice-draft-guidance-and-nhs-england-review-highlight-need-for-more-research-on-cannabis-based-medicinal-products>

62 The Oceania Cannabis Report-November 2018-Prohibition Partners.



Australia accounts for the largest market in terms of value in the Oceania region with more than 20 Australia cannabis producers listed on the ASX.

The total estimated cannabis for medical purposes market value in Australia was £9.9 million (AUD\$17.8m) in 2018, which is set to have grown significantly in 2019 with a large jump in approved patients from 2,000 to 15,000 patients, and forecast to reach £1.9 billion (AUD\$3.4b) by 2028<sup>63</sup>.

### **Global Market Overview**

According to a report by IMARC Group, titled “Medical Cannabis Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2019-2024”, in 2019, the global medicinal cannabis market was approximately US\$16.5 billion, and is expected to grow to US\$44 billion by 2024<sup>64</sup>. The key drivers of this growth include increasing investment in R&D activities by manufacturers such as the Group, an ageing population with chronic diseases increasing demand and further legalisation allowing for market growth.

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63 The Oceania Cannabis Report-November 2018-Prohibition Partners.

64 <https://www.imarcgroup.com/medical-cannabis-market>

## PART 11

### LEGAL AND REGULATORY FRAMEWORK

Details of the legal and regulatory framework, as it relates to the operations of the members of the Group, as a researcher, manufacturer and producer of phytocannabinoid-derived and plant-derived medicines, in Australia, Slovenia, Malta and the United Kingdom (being the jurisdictions of operation of the Group) are set out in this Part 11.

#### Australia

In October 2016, the Australian Government introduced amendments to the Narcotic Drugs Act 1967 (Cth) ("**ND Act**"), through the Narcotic Drugs Amendment Act 2016 (Cth), which introduced a national licensing scheme for the cultivation, production and manufacture of medicinal cannabis and medicinal cannabis products. The scheme is administered in Australia by the Office of Drug Control ("**ODC**") within the Commonwealth Department of Health.

The Therapeutic Goods Act 1989 ("**TG Act**") operates in parallel to the ND Act to regulate therapeutic goods (of which medicinal cannabis products are a subset) which are manufactured in, imported into, exported from or supplied in Australia. The TG Act is administered in Australia by the Therapeutic Goods Administration ("**TGA**"), which is also within the Commonwealth Department of Health.

In addition to Federal regulation, medicinal cannabis activities in Australia are regulated at the State and Territory level.

In Australia, the business activities of the Group consists of the distribution (through distribution partners) of cannabis products for medicinal purposes, as well as research and related initiatives in relation to medicinal cannabis, further details of which are set out in Part 8 of this Document "Information on the Group".

The Company operates in Australia through its wholly owned subsidiary MGC Research in the States of Victoria and Western Australia.

#### Commercial cultivation and production of medicinal cannabis

The ND Act provides that in order to undertake commercial cultivation and production activities relating to medicinal cannabis in Australia, a person must obtain from the ODC both a medicinal cannabis licence ("**MC Licence**"), which is a general authority to lawfully cultivate and/or produce cannabis and cannabis resin (as applicable) for commercial purposes, and a medicinal cannabis permit ("**MC Permit**") authorising a specific instance of cultivation and/or production. Set out below are details of each.

#### *MC Licence*

To obtain an MC Licence, an applicant must provide the ODC with details of the proposed activities and proposed premises and satisfy the ODC, amongst other things:

- (a) that the cultivation and/or production is for the purpose of supply to the holder of a medicinal cannabis manufacture licence ("**M Licence**"), or the holder of a good manufacturing practice licence ("**GMP Licence**");
- (b) that the applicant is a fit and proper person to be granted an MC Licence (having regard to the person's personal, financial and experiential background) and that the applicant's business, familial and other associates are suitable people to be associated with a medicinal cannabis business; and
- (c) of the adequacy of the applicant's proposed security arrangements for the proposed activities (including physical security of the crops, manufactured products and equipment, and information and personnel security) and location of the applicant's premises.

Once granted, a MC Licence specifies, in general terms, the cultivation and/or production activities that the licence holder is authorised to undertake. However, an MC Licence does not alone allow the licence holder to commence cultivating cannabis plants or producing cannabis resin. Rather, it gives the licence holder the right to apply for one or more MC Permits authorising such activities.

In addition, an MC Licence specifies the relevant statutory conditions, and may impose additional conditions, covering matters such as the approval of facility plans prior to the grant of a medicinal cannabis permit pursuant to the licence.

### *MC Permit*

To obtain an MC Permit, an applicant must be an MC Licence holder and is required to demonstrate to the ODC that:

- (a) the planned security arrangements have been effected in accordance with any applicable medicinal cannabis licence conditions; and
- (b) the proposed cultivation and/or production is intended to be undertaken for the purpose of satisfying the licence holder's contractual arrangements with a licensed manufacturer.

In order to satisfy (b) above, the applicant only needs to provide details and evidence of the next person in the supply chain (e.g. a copy of its contract with the licensed manufacturer).

However, as discussed further below, the licensed manufacturer will need to satisfy the ODC that medicinal cannabis products will be supplied in accordance with Commonwealth and relevant State/Territory laws before manufacture can commence. Therefore, the ODC generally requires details of the entire supply chain from cultivation to the proposed distribution before it will issue an MC Permit.

Once granted, an MC Permit will include details of the specific cultivation and/or production activities authorised under the permit (e.g. the types, strains and quantities of plants that may be cultivated; the period in which cultivation and/or production must occur; the maximum quantity of cannabis resin that may be produced; the next party in the supply chain, etc).

### *Manufacture of medicinal cannabis products*

In order to manufacture medicinal cannabis products in Australia for therapeutic end use, a person must hold both an M Licence and medicinal cannabis manufacture permit ("**M Permit**") issued by the Drug Control Section of ODC under the ND Act.

The types of information required in each of these applications is similar to those discussed above in relation to licences and permits for the cultivation of cannabis and production of cannabis resin.

An application for an M Permit may be submitted after an M Licence has been granted, but will not be granted before the manufacturer has also obtained:

- (a) a GMP Licence; and
- (b) any State or Territory licence necessary to conduct the activities.

### *Importing and supply of medicinal cannabis into Australia*

Regulation 5 of the CPI Regulations provides that the importation into Australia of a drug is prohibited unless the person importing the drug is the holder of a licence and permission to import the drug issued by the Secretary of the Commonwealth Department of Health in Australia.

A drug is any substance listed in Schedule 4 of the CPI Regulations and includes, relevantly, cannabis, including extracts and tinctures of cannabis, cannabis resin and cannabinoids. Thus, a person wishing to import medicinal cannabis or medicinal cannabis products into Australia for supply in Australia must obtain an import licence and import permit pursuant to the CPI Regulations.

Similar to the requirements for the grant of a Cannabis Research Licence ("**CR Licence**"), an MC Licence and M Licence, the predominant test for the grant of an import licence is the fit and proper person test. However, prior to an import licence being granted, a person proposing to import medicinal cannabis or medicinal cannabis products into Australia must be the holder of a Wholesale Licence or authority permitting the storage and supply of Schedule 8 (viz medicinal cannabis products for therapeutic use) or Schedule 9 (viz medicinal cannabis products for medical or scientific research) substances, issued by the State or Territory Department of Health in which the person resides.

Once an import licence has been granted, a person may apply for a permit to import specific drugs into Australia.

Finally, any medicinal cannabis product manufactured under the ND Act (in accordance with an M Permit) must be supplied in accordance with the established Commonwealth access schemes for unapproved products and relevant State/Territory supply restrictions.

In order to supply medicinal cannabis products by wholesale for therapeutic use in humans, a person must hold a Wholesale Licence to do so. Thus, in Victoria, a person must hold a Wholesale Licence to supply Schedule 8 substances in order to supply medicinal cannabis products to pharmacists or medical practitioners for the purposes of supply to patients.

In addition, all medicinal cannabis products (unless they are registered in the Australian Register of Therapeutic Goods) must be supplied in accordance with established Commonwealth access schemes for unapproved therapeutic goods and any relevant State/Territory supply restrictions. This entails:

- (c) at the Commonwealth level:
  - (i) supply pursuant to a clinical trial conducted pursuant to the TG Act; or
  - (ii) supply pursuant to patient access schemes, namely the SAS and/or the Authorised Prescriber Scheme (“APS”); and
- (d) at the State level – in Victoria, for example, the requirement, if necessary, to obtain a permit from the Secretary of the Victorian Department of Health if supplying a medicinal cannabis product for a continuous period greater than 8 weeks.

For unapproved therapeutic goods to be imported and supplied pursuant to the APS and SAS, the goods may be imported after the relevant SAS approval or APS authorisation has been obtained and distributed in accordance with the approval/authorisation. Alternatively, the goods may be imported prior to the receipt of an SAS approval or APS authorisation, but in that case they must be:

- (e) held under the direct control of the sponsor (who is the person legally responsible for the goods and answerable to the regulatory authorities in relation to the supply of the goods in Australia) until they are approved for supply in Australia pursuant to the SAS or authorised for supply under the APS;
- (f) kept in a warehouse or a properly secured area under the control of the sponsor; and
- (g) supplied only in accordance with the relevant SAS approval or APS authorisation.

The Group’s products, including CannEpi<sup>®</sup> and CogniCann<sup>™</sup>, are imported into Australia and stored and distributed by the medicinal cannabis distributors and logistics service providers, Health House International Pty Ltd and Cannvalate Pty Limited, on behalf of the Group for supply to eligible Australian patients under the Commonwealth patient access schemes. The Company, as the sponsor of the products, is legally responsible for the products and must have an appropriate pharmacovigilance and quality assurance program in place while the products are supplied in Australia, to assure that the quality, safety and efficacy of the products is acceptable for the purposes for which they are to be used.

CannEpi<sup>®</sup> is currently available for prescription in Australia as an unregistered therapeutic good for intractable epilepsy under the SAS. Further details of CannEpi<sup>®</sup> and the other products of the Group set out in Part 8 of this Document – “Information on the Group”.

#### Clinical research involving medicinal cannabis in Australia

The conduct of clinical trials involving unapproved therapeutic goods, including medicinal cannabis products, can occur via two clinical trial schemes in Australia:

- (h) The Clinical Trial Approval (“CTA”) Scheme; and
- (i) The Clinical Trial Notification (“CTN”) Scheme.

The CTN scheme is a notification scheme where the TGA does not play a role in reviewing or evaluating any data relating to a clinical trial before approval to conduct the trial is granted. All material relating to the proposed trial, including the trial protocol, is submitted directly to a HREC.

The HREC is responsible for assessing the scientific validity of the trial design, the balance of risk versus benefit of the therapeutic good(s) and the overall ethical acceptability of the trial. The CTN scheme is usually used for earlier phase studies if there is adequate preclinical information available, especially regarding safety.

The CTA scheme is an evaluation process whereby the TGA reviews all relevant scientific data (which may be preclinical and early clinical data) prior to the start of a trial. The CTA route is generally for higher risk or novel treatments such as Class 4 biologicals, but is currently under review by the TGA.

Most, if not all, clinical trials involving medicinal cannabis products will be conducted under the CTN Scheme.

### Cannabis research in Australia

In order to conduct medicinal cannabis research in Australia, a person must obtain the requisite authorisations at both the Federal and State or Territory level.

#### *Cultivation and production of cannabis for research purposes*

At the Federal level, a person wishing to cultivate, produce and supply medicinal cannabis for research purposes must obtain from the ODC both a CR Licence, which is a general authority to lawfully obtain, possess and use medicinal cannabis for research purposes, and a Cannabis Research Permit (“**CR Permit**”), which is a permit authorising specific research activities.

The Company has obtained a CR Licence, to cultivate cannabis for botanical and preclinical research at RMIT, and a CR Permit has been applied for, pending approval by the ODC.

To obtain a CR Licence, an applicant must provide the ODC with details of the proposed activities and proposed premises, and satisfy the ODC, amongst other things:

- (j) that the cultivation and production is for the purposes of research;
- (k) that the applicant is a fit and proper person to hold the licence and each of the applicant’s relevant business associates is a fit and proper person to be associated with the holder of the licence; and
- (l) of the adequacy of the applicant’s proposed security arrangements for the proposed activities (including the physical security of the crops and equipment, and information and personnel security) and location of the applicant’s premises.

Once granted, a CR Licence specifies in general terms the cultivation and/or production activities the licence holder is authorised to undertake. However, a CR Licence does not itself allow the licence holder to commence cultivating cannabis plants or producing cannabis resin. Rather, it gives the licence holder the right to apply for one or more CR Permits authorising such activities.

In addition, a CR Licence specifies the relevant statutory conditions, and may impose additional conditions, covering matters such as the approval of facility plans prior to the grant of a medicinal cannabis permit pursuant to the licence.

The CR Licence is the umbrella authority which permits the conduct of medicinal cannabis research, and each specific CR Permit authorises the cultivation, production and supply of specific quantities and strains of medicinal cannabis for use in discrete research activities. In this regard, a person will be issued with one CR Licence authorising the cultivation, production and supply of medicinal cannabis for research purposes generally but may have one or more CR Permits issued to permit the cultivation, production and supply of medicinal cannabis for specific research. For the avoidance of doubt, the cultivation and production of medicinal cannabis for the purposes of research cannot commence until both a CR Licence and CR Permit have been obtained.

#### *Manufacture of cannabis for research purposes*

In order to manufacture medicinal cannabis in Australia for research purposes, a person must hold both an M Licence and M Permit issued by the Drug Control Section of the ODC pursuant to the ND Act.

The types of information required in each of these applications is similar to those discussed above in relation to licences and permits for the cultivation of cannabis and production of cannabis resin.

An application for an M Permit may be submitted after an M Licence has been granted but will not be granted before the manufacturer has also obtained a State or Territory licence authorising the manufacturing activities. For example, in Victoria, a manufacturer is required to hold a licence to manufacture and supply Schedule 9 substances issued by the Victorian Department of Health and Human Services pursuant to the Drugs, Poisons and Controlled Substances Act 1981 (Vic).

#### *Conduct of research using cannabis*

Cannabis is classified in the Poisons Standard February 2019 as a Schedule 9 substance when it is used for research purposes. This places it in the category of “prohibited substances”, which are defined in the standard as substances which may be abused or misused, the manufacture, possession, sale or use of which should be prohibited by law except when required for medical or scientific research, or for analytical, teaching or training purposes with approval of Commonwealth and/or State or Territory Health Authorities.

Accordingly, in order to be able to obtain, possess and use cannabis for medical or scientific research, a person must hold the requisite authorisation from the relevant State or Territory to do so.

The Group has entered into a number of collaborative research arrangements in Australia, including an agreement with RMIT, for the primary purpose of conducting experimental research and the secondary purpose of facilitating the exchange of academic knowledge, collaboration with the Epilepsy Association to develop the “C4E Program” and an arrangement for the conduct of clinical research conducted by the Institute for Health Research, UNDA.

Further details of the Group’s research arrangements in Australia are set out in Part 8 of this Document - “Information on the Group”.

## Slovenia

In Slovenia, pursuant to the Slovenian Decree on the Classification of Illicit Drugs<sup>65</sup> and the Slovenian Production of and Trade in Illicit Drugs Act<sup>66</sup> (“PTDA”), hemp plant (*Cannabis sativa* L.), extracts and resins are classified as class II illegal drugs. Therefore, it is generally illegal to manufacture and/or market such products.

The manufacturing, import and trade of cannabis/hemp-based products can constitute a criminal offence of unlawful manufacture and trade of narcotic drugs, illicit substances in sport and precursors to manufacture narcotic drugs in accordance with the Slovenian Criminal Code<sup>67</sup>. Legal entities (and their responsible persons) may also be criminally liable in accordance with the Slovenian Liability of Legal Persons for Criminal Offences Act.<sup>68</sup>

However, under the PTDA, class II illegal drugs, such as cannabis and related products, may be manufactured, marketed and possessed in medicinal, veterinarian, teaching and scientific research purposes if an authorisation for such activities is issued by the Ministry of Health.

The manufacture of illegal drugs is permitted subject to the satisfaction of conditions for manufacture of medicinal products, as prescribed by the Slovenian Medicinal Products Act<sup>69</sup> (the “MPA”) and/or Slovenian Pharmacy Practice Act<sup>70</sup>.

As regards cannabis cultivation, the applicable rules do not set out specific conditions and procedures for obtaining such an authorisation and it is unclear whether and under what conditions would the Ministry of Health decide to issue it.<sup>71</sup> In the past, the respective Ministry had issued authorisations for cultivation of cannabis for teaching and scientific research purposes, whereas there is no information available confirming that any such authorisations were granted with respect to medical purposes cultivation.

### Medicinal products

In accordance with the MPA, a medicinal product is defined as:

- (a) any substance or a combination of substances presented as having properties for treating or preventing disease in humans or animals; and
- (b) any substance or a combination of substances that may be used in humans or animals and is administered to humans or animals, in order to establish a diagnosis or to restore, correct or modify physiological functions by exerting pharmacological, immunological or metabolic action, or to provide diagnosis.

In Slovenia cannabis and related products may be manufactured and marketed as medicinal products with a manufacturing/Marketing Authorisation in line with the MPA, or as medicinal products which are manufactured/finalised in pharmacies in line with the Slovenian Pharmacy Practice Act (e.g. magistral formula (*magistralna zdravila*) or officinal formula (*galenska zdravila*)).

65 Uredba o razvrstitvi prepovedanih drog; Official Gazette of the Republic of Slovenia no. 69/19, as amended.

66 Zakon o proizvodnji in prometu s prepovedanimi drogami (ZPPPD); Official Gazette of the Republic of Slovenia no. 108/99, as amended.

67 Kazenski zakonik (KZ-1); Official Gazette of the Republic of Slovenia no. 50/12 – official consolidated version, as amended.

68 Zakon o odgovornosti pravnih oseb za kazniva dejanja (ZOPOKD); Official Gazette of the Republic of Slovenia no. 98/04 – official consolidated version, as amended.

69 Zakon o zdravilih (ZZdr-2); Official Gazette of the Republic of Slovenia no. 17/14, as amended.

70 Zakon o lekarniški dejavnosti (ZLD); Official Gazette of the Republic of Slovenia no. 85/16, as amended.

71 That such additional regulation would indeed need to be adopted stems from the Single Convention on Narcotic Drugs (United Nations Single Convention on Narcotic Drugs, 1961). According to the Convention, if a country permits the cultivation of cannabis plant for the production of cannabis or cannabis resin, it needs to apply a certain system of control. Such system of control includes establishing a competent agency that designates the areas in which cultivation of cannabis shall be permitted, purchases and takes physical possession of total crops of cannabis within 4 months after the end of the harvest, etc. It should be noted that no such system of control was implemented into Slovenian law.

Separate authorisation is required for the importation of medicinal products into Slovenia. The relevant provisions of the MPA also apply to medicinal products which are intended to be marketed outside Slovenia and for all intermediate products, semi-finished products, intermediates, active ingredients and excipients (if not provided otherwise with respect to them).

#### Manufacturing of medicinal products

Manufacturing of medicinal products may only be done pursuant to, and in accordance with, an authorisation for medicinal product manufacturing. Manufacturing authorisation needs to be obtained also for manufacturing of medicinal products intended for exit (*iznos*), export (*izvoz*) or clinical trials. The medicinal products manufacturing authorisation must be obtained for:

- (a) the individual manufacturing site;
- (b) the individual manufacturing activity;
- (c) the individual pharmaceutical form; as well as for potential; and
- (d) imports of medicinal products from third countries.

In order to obtain a manufacturing authorisation, which shall be issued for a limited period or conditionally, a business entity with a registered seat in Slovenia must submit an application to the Agency of the Republic of Slovenia for Medicines and Medical Devices (“**ARSZMP**”). On the basis of a manufacturing authorisation an entity may (i) manufacture the medicinal product; and (ii) sell such product to certain business entities provided by the MPA.

The detailed content of the application, the conditions and procedures ascertaining compliance with the requirements, the content and form of the required documentation and authorisation and the name of the manufacturing activity are prescribed with the Slovenian Rules on the production of medicinal products<sup>72</sup>. In issuing a manufacturing authorisation, ARSZMP may also require additional documentation or information in order to issue a decision. The application must contain evidence of compliance with the conditions set forth for manufacturers of medicinal products, which are as follows:

- (a) by reference to the volume and complexity of the medicinal product that they manufacture, the manufacturers must employ an adequate number of experts with degrees of adequate level in appropriate discipline with adequate skills depending on operations of the manufacturer;
- (b) the manufacturer must have contracts with adequately qualified persons responsible for releasing batches of medicinal products on the market and who are available at all times (in cases of group companies, such person may be appointed from one of the group members, if there is adequate legal and organisational delimitation of the responsibilities and competencies of the individual units), whereby such persons need to be able to carry out their duties independently which shall be ensured by placing at their disposal all necessary facilities;
- (c) the manufacturer is required to have suitable and adequate premises, installations and equipment for the manufacture, control, storage and distribution of medicinal products, in accordance with the principles and guidelines of good manufacturing practices for medicinal products; and
- (d) the medicinal products have to be manufactured in accordance with the guidelines and principles of good manufacturing practices for medicinal products while using active substances that have been manufactured and distributed in accordance with the guidelines of good manufacturing and distribution practices for active substances.

ARSZMP must decide on whether or not to grant an authorisation within 90 days of receipt of a complete application on the basis of an opinion issued by an expert commission which assesses compliance with the conditions set out above.

In order to show compliance with good manufacturing practices (one of the conditions for being authorised for manufacture), a certificate of good manufacturing practice (the “**GMP Certificate**”) is issued by a pharmaceutical inspector to the inspected entity. This is done ex officio, if all of the conditions are met, after the inspection, or after the issuance of the manufacturing authorisation for medicinal products or the modification thereof, or the entry in the register of manufacturers of active substances or the entry of the modification thereof. The GMP Certificate may be withdrawn if the outcome of an inspection shows that the holder of the manufacturing authorisation for medicinal products or the business entity entered in the register of the manufacturers of active substances, fails to comply with the conditions for such certificate.

Any changes to the information related to the conditions under which the manufacturer of medicinal products has been granted a manufacturing authorisation must be notified by the authorisation holder to ARSZMP within 15 days from the date of the change.

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<sup>72</sup> Pravilnik o proizvodnji zdravil; Official Gazette of the Republic of Slovenia no. 81/16.



Under MPA manufacturers of medicinal products must, amongst other things:

- (a) have at their disposal and may place on the market only those medicinal products that have been manufactured in accordance with the marketing and manufacturing authorisations for medicinal products;
- (b) verify compliance by the manufacturer and distributors of active substances with good manufacturing and/or distribution practices for active substances by conducting audits;
- (c) ensure that the excipients are suitable for use in medicinal products on the basis of a documented risk assessment in accordance with the applicable European Commission Guidelines ascertaining appropriate good manufacturing practice for excipients;
- (d) verify and ensure that the manufacturers, importers or distributors from whom they obtain active substances are registered with the competent authorities in their home Member States;
- (e) inform ARSZMP and the Marketing Authorisation holders immediately if they become aware that medicinal products that come under the scope of its manufacturing authorisation are, or are suspected of being, falsified, irrespective of whether such medicinal products were distributed within the legal supply chain or by illegal means;
- (f) ensure the authenticity and quality of the active substances and the excipients that they have used; and
- (g) ensure that the medicinal products intended to be placed on the market in the EU bear on the outer packaging the safety features set forth by the MPA and if they are fully or partially removed or covered, ensure that these activities are carried out in accordance with the MPA.

In certain cases, the manufacturing authorisation can be suspended or revoked, for example, where a pharmaceutical inspector ascertains that the manufacturer of medicinal products fails to comply with the conditions for manufacturers of medicinal products and prohibits the manufacturing of medicinal products.

As set out above, MPA provides similar rules as applicable to the manufacturing of medicinal products also for manufacturing of active substances or active pharmaceutical ingredients.

The Company's wholly-owned subsidiary, MGC Slovenia, was granted an authorisation for manufacturing of medicinal products no. 800-11/2018-8 on 9 July 2018, namely for the production of medicinal products in clinical trial (human IMPs) and manufactures the relevant medicinal products of the Group for clinical trials, such as CannEpil®, in its facility in Slovenia. The authorisation will expire on 28 February 2022, upon expiration of the lease of the premises for which the authorization has been granted (at Kamniška ulica 29, Ljubljana, Slovenia).

Further details of the manufacturing of the phytocannabinoid-derived medicines of the Group are set out in Part 8 of this Document- "Information on the Group".

#### Clinical trials

The MPA defines a clinical trial of a medicinal product as a study carried out in healthy individuals and patients in order to detect or verify the clinical and pharmacological effects of the investigated medicinal product, to detect its adverse effects, or to study the absorption, distribution, metabolism and elimination of the investigated medicinal product, with the aim of proving its safety and/or efficacy for human use.

The clinical trial may only be commenced after the submission of the results on analytical and non-clinical pharmacotoxicological testing of the medicinal product and if the medicinal product being investigated has no impact on the subject's germ line genetic identity.

Pre-notification of clinical trials must be notified to the ARSZMP and ARSZMP has two months to authorise commencement of the clinical trial, which may commence after the decision becomes final (even if an administrative dispute is still possible with respect to the decision). The clinical testing may be amended upon notification to ARSZMP, ARSZMP may also order the trial to be temporarily or permanently discontinued.

The clinical testing described in the dossier submitted for the purpose of obtaining a Marketing Authorisation must be conducted in accordance with the requirements set forth by the MPA, the principles and guidelines of good clinical practice, the principles of ethics in medicine and the protection of personal data.

MGC Slovenia intends to apply to ARSZMP for authorisation of its clinical trials in the first quarter 2021. Further details of the status of the MGC Slovenia's proposed clinical trial programme and its status are set out in Part 8 of this Document – "Information on the Group".

### Marketing

In accordance with MPA a medicinal product may only be marketed in Slovenia if the product has been granted a Marketing Authorisation or there are other specific legal grounds for such marketing (e.g. certificate of notification of parallel distribution or an authorisation for compassionate use). Medicinal products can be marketed in the wider EU region, subject to a CMA.

### Central Marketing Authorisation

The process for obtaining CMA is set out in Regulation No 726/2004. The proceedings are conducted before the EMA, however final authorisation is granted by the European Commission. The holder of a Marketing Authorisation must be an entity registered within the EU.

CMA is valid throughout the EU and confers the same rights and obligations in each of the Member States as a Marketing Authorisation granted by that Member State. Such authorisation is generally valid for 5 years and may be renewed on the basis of a re-evaluation of the risk-benefit balance by the EMA. Once renewed, the Marketing Authorisation is generally valid for an unlimited period.

In order to obtain CMA, an application must be filed with EMA, containing particulars and documentation referred to in Directive 2001/83/EC. In addition to the information on the product itself, this generally includes information on manufacturing, results of preclinical and clinical trials, applicant's pharmacovigilance system, risk management plan, relevant production authorizations, etc. This allows EMA to assess the product's risk-benefit balance, its efficacy and good quality required for the authorisation. The EMA then obtains an opinion of the Committee for Medicinal Products for Human Use (the "**Committee**").

The Committee must give its opinion within 210 "active" days after receipt of a valid application (in certain limited cases this deadline may be reduced to 150 days). According to the EMA, the assessment usually last around one year. In its scientific evaluation, the Committee:

- (a) must verify that the submitted particulars and documents comply with the requirements of Directive 2001/83 and must examine whether the conditions specified in Regulation 726/2004 for granting a Marketing Authorisation are satisfied;
- (b) may request that the medicinal product, its starting materials and, if necessary, its intermediate products or other constituent materials are tested in order to ensure that the control methods employed by the manufacturer and described in the application documents are satisfactory; and
- (c) may request that the applicant supplement the particulars accompanying the application within a specific time period, whereby in this case the deadline for issuance of the Committee's opinion is suspended until the supplementary information is provided (the same applies to the time given to the applicant to prepare oral or written explanations).

One of the conditions for an applicant to obtain CMA is that it is permitted to manufacture the medicinal product in question. The Committee shall verify this by requesting the relevant Member State to provide the information showing that the manufacturer or the importer from a third country is able to manufacture the medicinal product concerned and/or carry out the necessary control tests in accordance with the particulars and documents supplied in accordance with Regulation 726/2004. The Committee may also require the applicant to undergo a specific inspection of the manufacturing site of the medicinal product concerned which may be made unannounced by inspectors from the Member State who may be accompanied by a rapporteur or an expert appointed by the Committee.

If the Committee issues an opinion that the (a) application does not satisfy the criteria for authorisation set out in Regulation 726/2004; (b) summary of the product characteristics proposed by the applicant needs to be amended; (c) labelling or package leaflet of the product is not in compliance with Directive 2001/83/EC; or (d) authorisation needs to be granted subject to certain conditions as set forth by Regulation 726/2004, the EMA must notify the applicant. The latter may, within 15 days, give a written notice to the EMA that it requests a re-examination of the opinion and must provide detailed grounds for such request. In such case, the Committee has to re-examine its opinion within further 60 "active" days.

Within 15 days of receipt of Committee's final opinion, the EMA must send it to the Commission, the Member States and to the applicant, together with a report describing the assessment of the medicinal product by the Committee and stating the reasons for its conclusions. If the opinion is favourable to the granting of the relevant authorisation to place the medicinal product concerned on the market, the following documents shall be attached to it:

- (a) a draft summary of the product characteristics as set forth by Directive 2001/83/EC;
- (b) a recommendation on the frequency of submission of periodic safety update reports;
- (c) details of any conditions or restrictions which should be imposed on the supply or use of the medicinal product concerned, including the conditions under which the medicinal product may be made available to patients, in accordance with the criteria laid down in Directive 2001/83/EC;
- (d) details of any recommended conditions or restrictions with regard to the safe and effective use of the medicinal product;
- (e) details of any recommended measures for ensuring the safe use of the medicinal product to be included in the risk management system;
- (f) if appropriate, details of any recommended obligation to conduct post-authorisation safety studies or to comply with obligations on the recording or reporting of suspected adverse reactions which are stricter than those referred to in Regulation 726/2004;
- (g) if appropriate, details of any recommended obligation to conduct post-authorisation efficacy studies where concerns relating to some aspects of the efficacy of the medicinal product are identified and can be resolved only after the medicinal product has been marketed;
- (h) the draft text of the labelling and package leaflet proposed by the applicant, presented in accordance with Directive 2001/83/EC; and
- (i) the assessment report as regards the results of the pharmaceutical and preclinical tests and of the clinical trials, and as regards the risk management system and the pharmacovigilance system for the medicinal product concerned.

The European Commission must prepare a draft of the decision to be taken in respect of the application within 15 days of receipt of the Committee's opinion which shall be sent to the Member States and the applicant. In case the draft decision differs from EMA's opinion, detailed grounds shall be attached. The Member States generally have 22 days from receipt of the draft decision to provide their written observations. The Standing Committee on Medicinal Products for Human Use shall review the draft and the European Commission shall afterwards adopt its final decision within 15 days. If a Member State's written observations raise important new questions of a scientific or technical nature which the EMA has not addressed, the application is reverted back to the EMA for further consideration.

CMA shall be refused in the following cases:

- (a) if, after verification of the particulars and documents submitted in accordance with Regulation 726/2004, it appears that the applicant has not properly or sufficiently demonstrated the quality, safety or efficacy of the medicinal product; or
- (b) if particulars or documents provided by the applicant are incorrect or if the labelling and package leaflet proposed by the applicant are not in accordance with Directive 2001/83/EC.

If the CMA is refused, this constitutes a prohibition on placing on the market such medicinal product throughout the EU.

In exceptional circumstances and following consultation with the applicant, the CMA may be granted subject to certain conditions, in particular relating to the safety of the medicinal product, notification to the competent authorities of any incident relating to its use, and action to be taken. This may only be done if the applicant can show that he is unable to provide comprehensive data on the efficacy and safety of the medicinal product under normal conditions of use, for objective, verifiable reasons and must be based on one of the grounds set out in Directive 2001/83/EC. Continuation of such authorisation shall be linked to the annual reassessment of the conditions.

If a CMA is granted, the holder of the authorisation must inform the EMA of the dates of actual marketing of the medicinal product in the Member States. If the medicinal product is not placed on the market within 3 years or if it is not actually present for 3 consecutive years, the Marketing Authorisation ceases to be valid (certain exceptions may be granted).

After the granting of CMA, EMA may impose an additional obligation on the Marketing Authorisation holder (i) to conduct a post-authorisation safety study if there are concerns about the risks of an authorised medicinal product; and/or (ii) to conduct a post-authorisation efficacy study when the understanding of the disease or the clinical methodology indicate that previous efficacy evaluations might have to be revised significantly. The imposition of such an obligation shall be duly justified, notified in writing, and shall include the objectives and timeframe for submission and conduct of the study. If the Marketing Authorisation holder so requests, it has the opportunity to present its written observations within 30 days of

receipt of the written notification of the obligation. On the basis of such observations and the EMA's opinion, the Commission withdraws or confirms the respective obligation.

The holder of the CMA must notify the EMA of any action (even if made in a third country) it takes to suspend the marketing of a medicinal product, to withdraw a medicinal product from the market, to request the withdrawal of a CMA or not to apply for renewal of a CMA, together with the reasons for such action. The EMA must forward such information to the competent authorities of the Member States without undue delay.

MGC Slovenia is in the process of obtaining CMA to market its phytocannabinoid-derived medicines, such as CannEpil® in Slovenia and the wider EU region, further details of which are set out in Part 8 of this Document – “Information on the Group”.

#### Regulatory cultivation and research framework

As set out above, cultivation of cannabis is generally prohibited as it falls under illegal drugs production. However, cultivation may be permitted in medicinal, veterinarian, teaching or scientific research purposes, provided that an authorisation for such activity is issued by the Ministry of Health.

MGC Slovenia had partnered with the Biotechnical Faculty at the University of Ljubljana, to conduct a comprehensive, large scale research project on the cultivation of cannabis for medical purposes, and the standardisation of post-cultivation production processes, from genetics through to API. The research enables the Group to create standardisations for cultivation, extraction and production of APIs of various phytocannabinoids. The research with the Biotechnical Faculty at the University of Ljubljana is currently on hold, pending renewed authorisations being granted to the University.

### **Malta**

The attitude to the use of cannabis for medical purposes in Malta has changed drastically in recent years and relatively ‘new’ legislation relating to decriminalisation of recreational cannabis in April 2015 is the manifestation of that shift in attitude paving the way for further legislative developments.

The newest legislative development was Bill No. 18 – Drug Dependence (Treatment not Imprisonment) (Amendment) Bill, which aimed to widen the scope of the current Article 10 of the Drug Dependence (Treatment not Imprisonment) Act, so as to allow for the prescription of synthetic cannabinoids, cannabis products produced under GMP and allowing such prescription by all licensed medical practitioners who are duly registered in accordance with the Health Care Professions Act.

In addition, a Production of Cannabis for Medicinal Use Bill was introduced and read for the first time at the House of Representatives’ sitting of the 15th January 2018. Its object, and purpose, was to permit the local industrial production of cannabis products for medical use in the context of a controlled and supervised environment.

#### Production of Cannabis for Medicinal and Research Purposes Act

On the 17th April 2018, the Maltese Government enacted the Production of Cannabis for Medicinal and Research Purposes Act (the “**Production of Cannabis Law**”) which now provides the legislative measures to permit the production of cannabis for medicinal and research purposes. This law followed the amendment to the Drug Dependence (Treatment not Imprisonment) Act with respect to the prescribing of medicinal preparations of cannabis.

Under Article 4(1) of the Production of Cannabis Law, no cultivation, importation or processing of Cannabis and no production of any products intended for medicinal and/or research purposes deriving from or resulting from the use of Cannabis and no trade in Cannabis and/or any preparations intended for medicinal and/or research purposes as deriving from Cannabis shall be carried out in Malta prior to obtaining all necessary approvals, authorisations, licences and/or permits as required by or under all applicable laws, including such law and any regulations made thereunder. Under this:

- (a) an approval, authorisation, licence and/or permit may only be granted where the intended use of Cannabis and/or products deriving therefrom is for medicinal and/or research purposes; and
- (b) cultivation that does not form an integral part of a production process intended for production of products for medicinal and/or research purposes is expressly prohibited.

Article 4(2) continues by stating that all persons intending to carry any of the activities identified under Article 4(1) shall:

- (a) comply with the provisions of the Production of Cannabis Law;
- (b) obtain a letter of intent from Malta Enterprise after making an application on the prescribed form (Malta Enterprise shall ensure that the proposed activity is solely a production process);

- (c) comply with all regulations, including international obligations resulting from a treaty to which Malta may from time to time be a party, as may be applicable;
- (d) comply with all regulations relating to the production and quality standards of products for medical and/or research purposes, as the case may be, as applicable under the Medicines Act 2003 and with any other relevant regulations;
- (e) obtain a licence from the Medicines Authority of Malta; and
- (f) comply with any other relevant regulations as shall, from time to time, be promulgated under the Production of Cannabis Law or any other applicable law.

Article 5 of the Production of Cannabis Law subsequently deals with operational requirements and sets out the requirements for the issuance of a licence by the Medicines Authority and a letter of intent by Malta Enterprise.

#### Licence from the Medicines Authority of Malta

Article 5 of the Production of Cannabis Law also provides that the issuing of a licence by the Medicines Authority of Malta (and it remaining in valid) shall be subject to the following:

- (a) the submission by the applicant and the evaluation of documents, including due diligence documentation, and other prescribed information as may be deemed necessary in order to ensure fulfilment of Licence requirements. The complete application form and other prescribed supporting documents must be completed and submitted to the Medicines Authority and the licence and EU GMP certificate (as applicable) must be granted before activities related to the production of cannabis for medicinal and research purposes cannabis are carried out;
- (b) the licence holder requesting and maintaining clean police conducts for all personnel, with up-to-date certificates being accessible to the Medicines Authority as required;
- (c) the Medicines Authority having determined that the application meets the regulatory requirements and the relevant approvals, certificates, licences and permits are issued;
- (d) there not having been a suspension, withdrawal, revocation, cancellation, or expiry of the letter of intent, EU GMP Certificate and/or licence for any reason; and
- (e) the licence holder having such authorisations, permits, approvals and clearances from other entities as may be prescribed and applicable under the Production of Cannabis Law and under any other relevant legislation current at the time.

The licence holder must also engage a qualified person who meets the requirements specified in the Medicines Act and its subsidiary legislation, is recognised by the Medicines Authority to act as a qualified person is a pharmacist registered with the Maltese Pharmacy Council and is resident in Malta.

The Medicines Authority General Guidelines on the Production of cannabis for medicinal and research purposes issued by the Malta Medicines Authority in December 2018 also impose obligations on the licence holder regarding security at the premises, cannabis storage, packaging, labelling and disposal of waste product.

The licence holder is also responsible for obtaining the import and export documentation and permits required and must comply with all applicable Maltese customs laws.

Following receipt by Malta Enterprise of the Group's application and business plan on 2nd February 2018, the Group was granted approval, pursuant to a letter dated 30 August 2018, to establish industrial premises and to set up a business in Malta for the cultivation, growing and subsequent production of medicinal cannabis. The Group has since been able to progress the plans for the development of its facilities and operations in Malta, subject to complying with the conditions set out in the letter of August 2018 which relate to the conduct and operations of the business, engagement of employees and capital expenditure.

Following the issuance of the letter of intent, MGC Pharma (Malta) Property Limited signed an emphyteutic concession deed which allocated industrial land measuring approximately 6,000m<sup>2</sup> at Hal Far Industrial Estate on an emphyteusis basis to allow construction of the facility to commence. Further details of the emphyteutic concession deed are set out in Part 16 of this Document – "Additional Information".

Following the issuance of a 2nd letter of intent dated 10th September 2020, Malta Enterprise approved the allocation of industrial space for the setting up and operation of a facility in Malta for the provision of standard laboratory services to the medical industry in Malta, including process validation, GMP product release, contract research, quality assurance and in-vitro research and the setting up and operation of a production line for the manufacture of ArtemiCTM a Covid-19 treatment. In accordance with the terms set out in the 2nd letter of intent, a lease agreement dated 6th October 2020 was entered into by and between Malta Industrial Parks Limited (as Landlord) and MGC Pharma (Malta) R&D Limited (as Tenant) pursuant to which the Landlord granted to Tenant the land and building known as HHF001C situated at Hal Far Industrial Estate in its *tale quale* condition by title of lease exclusively for the manufacture of ArtemiC™ and the provision of standard laboratory services to the medicinal cannabis industry in Malta, including process validation, GMP product release, contract research, quality assurance and in-vitro research or any other use approved in writing by the Landlord from time to time.

Further details of the current and proposed operations of the Group in Malta are set out in Part 8 of this Document – “Information on the Group”.

## **United Kingdom**

### Cannabis as a drug

The principal statutory measure in the United Kingdom relevant to cannabis is the Misuse of Drugs Act 1971 (“**MDA 1971**”) which specifies that drugs in three categories (according to their relative harm), namely in Classes A, B and C, are controlled by Schedule 2 of the MDA 1971. Cannabis and its derivatives fall under Class B. The MDA 1971 sets out different criminal offences, such as importation, production and supply, possession and cultivation of cannabis.

The MDA 1971 mirrors the United Kingdom’s obligation and commitment to comply with the three principal United Nations Conventions whose aim is to advance the global objective of implementing measures to restrict the use of specified substances to medical, therapeutic and research purposes. Under the Convention, where local laws permit the cultivation of cannabis all signatories must ensure that such cultivation is under the control of a Government Agency. The three international UN Conventions are the Single Convention, the Convention on Psychotropic Substances 1971 and the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances 1988.

The MDA 1971 enshrines into law the special protection envisaged by the international conventions for medical practitioners and others so that they may lawfully possess and supply controlled drugs. Section 7(1) MDA 1971 provides the Secretary of State with the necessary authority to make exceptions in certain circumstances to section 5(1) MDA 1971 (and section 3(1)(a) or (b) and 4(1)(a) MDA 1971) controlled drugs (and to make other provisions as he deems fit) in order to make lawful activities which, under sections 4(1), 5(1) and 6(1) MDA 1971 would under other circumstances be deemed unlawful.

In compliance with the requirements of the Narcotics Conventions, and pursuant to section 7(1) MDA 1971, the 2001 Regulations regulate the availability of the controlled drugs that have a recognised and legitimate use by allocating them to one of 5 schedules to the 2001 Regulations. The schedule into which a drug is placed essentially dictates the extent to which it is lawful to import, export, produce, supply, administer and possess the drug. It also imposes requirements around prescription writing, record keeping, labeling and safe custody. Drugs listed in Schedule 1 of the 2001 Regulations can only be possessed or supplied under a Home Office licence and cannot be prescribed by a medical practitioner. Cannabis and its derivatives were until last year placed in Schedule 1 to the 2001 Regulations.

### Cannabis-based products for medicinal use

In August 2018, a review by the CMO determined that there was “conclusive evidence of the therapeutic benefit of some cannabis-based products for certain medical conditions, and reasonable evidence of therapeutic benefit in several other medical conditions”. As a result, it recommended moving cannabis-based medicinal products out of Schedule 1 of the 2001 Regulations and into Schedule 2, thereby permitting them to be prescribed for medicinal purposes under controlled conditions by registered medical practitioners.

Advice from the ACMD supported the CMO’s recommendation but recommended that synthetic cannabinoids should remain in Schedule 1 of the 2001 Regulations pending a further review by the ACMD.

In September 2018, against the background of the CMO’s review and in a response to the ACMD advice, Ministers announced that cannabis-based medicinal products would be rescheduled as Schedule 2 controlled drugs and that prescribing will be restricted to doctors on the Specialist Register of the General Medical Council.

In October 2018, the Home Office announced that from 1 November 2018 doctors on the Specialist Register of the General Medical Council will be able to prescribe cannabis-based medicinal products. On the 1 November 2018 the law was duly amended.<sup>73</sup>

In order to qualify as a cannabis-based medicinal product (and therefore to be rescheduled to Schedule 2 of the 2001 Regulations) a product must satisfy the definition under Regulation 2; being a cannabis-based medicinal product is a preparation or other product, other than Sativex, which:

- (a) is or contains cannabis, cannabis resin, cannabinal, or a cannabinal derivative (not being Dronabinol or its stereoisomers);
- (b) is produced for medicinal use in humans; and
- (c) is a medicinal product or a substance or preparation for use as an ingredient of, or in the production of, a medicinal product.

The requirement for the product to be both “produced for medicinal use in humans” and to be either “a medicinal product or an ingredient in a medicinal product” ensures that only products regulated as medicines and produced specifically for medicinal purposes are placed in Schedule 2.

The Group’s product, CannEpil®, is now being prescribed to patients as a result of the 1 November 2018 law change and is being made available in the United Kingdom as an unlicensed medicine, known as a “special”, pursuant to the special access scheme operated by MHRA. For distribution into the United Kingdom, MGC Slovenia has appointed Lenis farmacevtika as its product exporter from the Slovenian facility and Lyphe Group is the Group’s appointed UK product importer and distributor. At present the only product of the Group imported into the United Kingdom is CannEpil® and several products in the ‘Mercury Pharma’, range both under the Group’s branding and white label. These products are imported into the United Kingdom by Lyphe pursuant to its Home Office controlled drug import licence and are then distributed as an unlicensed medicine or “specials”, in accordance with the requirements of the MHRA<sup>74</sup>. Further details of CannEpil® and the other phytocannabinoid-derived medicines of the Group are set out in Part 8 of this Document - “Information on the Group”.

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<sup>73</sup> These have been rescheduled under the 2018 Regulations by operation of the Misuse of Drugs (Amendments) (Cannabis and License Fees) (England, Wales and Scotland) Regulation 2018, effective from 1st November 2018.

<sup>74</sup> Since 1 November 2018, cannabis-based products for medical use in humans have been re-scheduled to Schedule 2 of the 2001 Regulations by The Misuse of Drugs (Amendments) (Cannabis and Licence Fees) (England, Wales and Scotland) Regulations 2018), meaning senior clinicians, on the General Medical Council specialist register are able to prescribe cannabis based medicines to patients.



## PART 12

### OPERATING AND FINANCIAL REVIEW

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in Group's results of operations and financial condition during the period covered by the Historical Financial Information.

Historical results may not be indicative of future financial performance. Forward-looking statements contained in this review that reflect the current view of management involves risks and uncertainties and are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such a difference include, but are not limited to, those discussed in "Forward-Looking Statements" and "Risk Factors". In this Document the consolidated financial statements presented are those of the Group. This discussion is based on the consolidated financial statements of the Group and should be read in conjunction with its consolidated financial statements and the accompanying notes contained in the Appendix to this Document – "Historical Financial Information" and with the information relating to the business of the Group included elsewhere in this Document. Unless otherwise indicated, all of the financial data and discussions thereof are based upon financial statements prepared in accordance with IFRS. Investors should read the whole of this Document and not rely just on summarised information.

#### Overview

The Company was incorporated in Australia on 27 October 2005. The Company was named MGC Pharmaceuticals Limited (ASX:MXC) (OTC:MGCLF) in December 2015 (previously known as Erin Resources Ltd), following which it completed its acquisition of MGC Pharma (UK) Limited in February 2016. Since the acquisition, the Company has pursued a "Nature to Medicine" strategy at the forefront of phytocannabinoid-derived and plant-derived medicines.

During this period, the Company has established operations in Australia and the European Union, including its manufacturing facility in Slovenia, received approval to commence construction of manufacturing facilities in Malta and has developed pipelines for phytocannabinoid-derived and plant-derived medicines and unique formulations (phytomedicines), both proprietary and for third parties.

#### Principal risk and uncertainties

The principle risks and uncertainties that may have an effect on the operational and financial performance of the Group are detailed in Part 2 of this Document – "Risk Factors".

#### Recent developments

##### Research & development and clinical trials

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

##### Pharma Operations

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

#### Licenses, approvals and distribution agreements

- The Group has successfully granted a three-year renewal of its EU Good Manufacturing Practice (EU GMP) licence for its Slovenian cannabinoid medicine manufacturing and compounding facility, following an annual licence audit conducted by the JAZMP.
- The Group was awarded an Import Licence and a cannabis cultivation research permit from the Australian Office of Drug Control, progressing MXC's Australian operations and supporting its fully vertically integrated nature to medicine business model.
- The Group executed a binding amendment to the supply and distribution agreement with ONIX Empreendimentos e Participações, which established a minimum order volume of 20,000 units for year one and a down payment of ~\$107,000 (€65,000) was received. Binding term sheet signed with KS Kim, a wholly owned division of SK-Pharma Group, for the sales and distribution of ArtemiCTM in Russia, Israel, the CIS and Balkan countries.
- Binding Term Sheet signed with IM Cannabis Corp. (IMC) for exclusive importation, sale and distribution of CannEpi<sup>®</sup> in Israel for a period of five years.
- Distribution agreement executed with Anden Bio Naturals S.A for the exclusive distribution and commercialisation of its medicines in Peru and Bolivia for five years.

#### Corporate

- In response to the COVID-19 outbreak, the Board implemented salary reductions for directors (up to 60%) and senior management team (up to 30%), combined with material reduction of operational costs including partial cash salary offsets with MXC equity for staff.
- Acquisition agreement signed for MXC to sell 100% of MGC Nutraceuticals to leading US CBD & Hemp Wellness company for US\$6m worth of shares in Onassis Holdings Corp, which is currently expected to be completed in H1 2021, subject to completion of a capital raising and US regulatory approvals.

#### Subsequent to the year end:

- The Group signed a binding term sheet to acquire 100% of Cannvalate's Australian operating doctor to patient clinic-based assets, data and intellectual property of its wholly owned subsidiary Medicinal Cannabis Clinic, a leading Australian medicinal cannabis clinic with a large and existing doctor and patient network.
- Distribution agreement signed with leading UK medicinal cannabis provider LYPHE Group Limited and first purchase order received for the 'Mercury Pharma' line of products.
- Evan Hayes appointed as an independent Non-Executive Director to the Board, bringing 20+ years of commercial healthcare and biotechnology experience, including senior executive roles within Blackmores Limited.
- Material equity financing agreement signed with Mercer Street to provide up to \$15m in working capital to the Company, with the first tranche of \$2.25m drawn down in September 2020 and a further \$3.5m drawn down in November 2020.

#### **Key factors affecting the Group's results of operations, financial condition, revenue and profitability**

The results of the Group have been and will continue to be affected by many factors, some of which are beyond the control of the Group. This section sets out some key factors the Directors' believe have affected the Group's financial performance, by referring to the year on year movements on the Group's financials.

##### **1. Revenue and Gross Profit**

	<b>30 June 20</b>	<b>30 June 19</b>	<b>30 June 18</b>
	<b>AUD\$ '000</b>	<b>AUD\$ '000</b>	<b>AUD\$ '000</b>
Product revenue	2,079	657	297
Cost of goods sold	(1,905)	(357)	(119)
<b>Gross profit/(loss)</b>	<b>175</b>	<b>300</b>	<b>178</b>
<b>Gross profit margin (%)</b>	<b>8.42</b>	<b>45.58</b>	<b>59.79</b>

Sales revenue has increased on a continual basis during the three-year period as a result of the increase in operations and product range introduced by the Group across its phytocannabinoid-derived products. Distribution Agreements have been

signed with recognised distributors who have the appropriate licences to import the Group's products pursuant to unlicensed medicines access schemes following changes to legislation in both Australia and the UK. This has opened up additional markets along with the increased awareness of the Group's products, which has increased patient numbers year on year and thereby achieving increased revenues.

	30 June 20 AUD\$ '000	30 June 19 AUD\$ '000	30 June 18 AUD\$ '000
Cosmetics revenue – MGC Derma	–	–	80
Non-Pharmaceuticals revenue	882	620	–
Pharmaceuticals revenue	1,197	37	217
	<b>2,079</b>	<b>657</b>	<b>297</b>

In 2017, the majority of the Group's revenue came from the sale of cosmetics products through MGC Derma, continuing into 2018, with nil in 2019 (and beyond) given the disposal of the MGC Derma subsidiary to a private Canadian cannabis investment company, CannaGlobal Canada Co Inc. These cosmetic revenues were complemented by the supply of CBD formulation products to Mabsut Life in 2018 and 2019, in addition to the sale of CannEpil®, following approval of its importation into Australia and the UK during 2019. Pharmaceutical revenue increased significantly during 2020 as a result of the growth in patient numbers and units prescribed throughout the year (as presented in the table above), supported also with the introduction of the 'Mercury Pharma' line of products in early 2020.

Cost of sales has risen in line with the increase in sales revenue, however as expected, early development of the pharmaceutical sales and introduction of the new product lines has seen higher initial cost of sales for these medicinal cannabis products due primarily to the initial purchase of API raw materials from third parties thus resulting in a corresponding decrease in gross margin percentages year on year.

## 2. Other Income and rebates

	30 June 20 AUD\$ '000	30 June 19 AUD\$ '000	30 June 18 AUD\$ '000
Interest income	12	202	192
Research and development rebate	429	328	–
Government grants received	90	–	–
	<b>519</b>	<b>530</b>	<b>192</b>

Interest income relates to the interest income earned on term deposit accounts and remained relatively stable from 2018 to 2019, however it fell in 2020 as reflective of the movement in cash on term deposit.

The research and development rebate relates to the receipt of an R&D tax incentive claim made in Australia in conjunction with 'AusIndustry' (the Australian Government's principal agency for delivering assistance, programmes and services which support industry, research and innovation) and the Australian Tax Office for qualified R&D expenditure incurred on eligible R&D activities for the preceding years.

## 3. Operational and Research Expenditure

	30 June 20 AUD\$ '000	30 June 19 AUD\$ '000	30 June 18 AUD\$ '000
Laboratory operational expenditure	(3,286)	(2,040)	–
Research expenditure	(2,084)	(1,663)	(951)
	<b>(5,370)</b>	<b>(3,323)</b>	<b>(951)</b>

Following GMP certification of the Slovenia facilities, operational activities increased, which saw a rise in, amongst other items, operational staff, consumables, allocation of overheads and other associated operational costs across the Group.

In addition, the Group continued to develop R&D from prior periods, following the formalisation of research initiatives with institutions such as RMIT and UNDA, leading to the recruitment of further staff and additional legal costs (trademarks/licenses etc) to support these increased activities.

A portion of these R&D costs are eligible for rebates (as described above), with a claim currently being prepared for the financial year ended 2020 on qualifying R&D activities.

#### 4. General Administration Costs

	30 June 20 AUD\$ '000	30 June 19 AUD\$ '000	30 June 18 AUD\$ '000
General administration costs	(3,610)	(3,106)	(2,311)

The increase in general administration costs has been reflective of the growth in activities within the Group during year on year with an increased number of expert professionals and consultants having been engaged to undertake various tasks, including legal fees and consultancy costs.

#### 5. Director and Employee Expenses

	30 June 20 AUD\$ '000	30 June 19 AUD\$ '000	30 June 18 AUD\$ '000
Director Fees	(1,178)	(1,195)	(1,259)
Employee benefit expenses	(485)	(538)	(804)
Employee share based payment expense	(855)	(537)	(1,073)
	(2,518)	(2,279)	(3,36)

Director fees have decreased over the three years, despite there being an additional director appointed late 2019 and another in 2020. This is attributed to the fact that there has been a formal reduction in the base salaries of each of the executive directors year on year, coupled with, in response to the COVID-19 outbreak, additional salary reduction implemented for directors (up to 60%).

The decrease in employee benefit expenses has resulted from the allocation of various employee costs to research expenditure in line with their services performed from 2018 to 2019. In 2020, there was an increase in employee numbers in response to the increased operations throughout the Group, however the employee benefits expense decreased from 2019 to 2020 as the Board implemented salary reductions in response to the COVID-19 outbreak for senior management (up to 30%). This decrease was offset by the grant of equity to employees which is reflective in the increase in employee share based payments expense from 2019 to 2020. There was a noticeable decrease in employee share based payment costs from 2018 to 2019 given the nature of the share-based payments made, whereas the increase into 2020 was reflective of Company equity issued as referred above. A summary of these instruments and milestones are detailed below.

See note 17 in the Historical Financial Information in the Appendix to this Document – “Historical Financial Information” for further details in relation to equity instruments on issue.

During the financial year ended 30 June 2020, the 20 million Performance Rights were issued to two Directors with the following key terms and conditions:

Vesting Milestone	Performance Rights	Milestone Date
1. GMP approval for Malta facility	5,000,000	31 December 2021
2. A Director on the Board as at 31 December 2019.	5,000,000	31 December 2019
3. Holding a Director position on the Board by 31 December 2020 and achieving a share value of minimum 8c for a minimum of 10 consecutive days.	5,000,000	31 December 2020
4. Holding a Director position on the Board by 31 December 2021 and achieving a share value of minimum 8c for a minimum of 10 consecutive days.	5,000,000	31 December 2021

The fair value of the performance rights for milestone 1 and 2 was determined to be \$0.034/right. The fair value of milestones 3 and 4 were determined to be \$0.00848/right and 0.01213/right respectively. Milestone 2 was met during the year and the associated performance rights vested.

Additionally, during the financial year ended 30 June 2020, the Group issued 8 million performance rights at a fair value of \$0.031/right to certain key employees with the following key conditions to be met:

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

These rights vested on 31 January 2020.

A total of 20.5 million unlisted options were issued to employees during the financial year ended 2018 at a fair value of \$0.058, conditional on the achievement of two milestones: 50% conversion on continuous service and 50% on reaching Group sales of AUD\$1 million; during 2018, 4 million of these options vested immediately and during the 2019 financial year 600,000 of these options were cancelled. Further to this, in 2019, following shareholder approval of an Employee Incentive Plan in November 2017, 16 million unlisted options were issued to key management personnel, with no vesting conditions, at a fair value of \$0.0106.

6. *Fair value movement on financial instruments*

	30 June 20 AUD\$ '000	30 June 19 AUD\$ '000	30 June 18 AUD\$ '000
Fair value movement on financial assets	(2,098)	(501)	–
	<b>(2,098)</b>	<b>(501)</b>	<b>–</b>

In 2020, a provision for impairment of AUD\$2,159,000 in relation to the Group's 2.5 million shares in CannaGlobal Canada Co Inc. was taken to the statement of profit and loss, offset by a AUD\$60,000 gain on level 1 investments held by the Group. The opening value of the 2.5 million shares held at 30 June 2019 was AUD\$2.718 million and following the impairment of the shares during the year, the fair value of the 2.5 million shares held at 30 June 2020 being AUD\$560,000.

In 2019, a provision for impairment of AUD\$482,000 in relation to the Group's 2.5 million shares in CannaGlobal Canada Co Inc. recognised following the disposal of its MGC Derma subsidiary (refer note 6 above), was taken to the statement of profit and loss. The initial value of the shares when issued to the Group was AUD\$3.2 million with the fair value of the 2.5 million shares held at 30 June 2019 being AUD\$2.7 million.

7. *Gain/(loss) on re-measurement of performance shares and gain/(loss) from discontinued operations*

	30 June 20 AUD\$ '000	30 June 19 AUD\$ '000	30 June 18 AUD\$ '000
Gain/(loss) on re-measurement of performance shares	–	–	–
Restatement of performance shares	–	–	–
(Loss)/gain from discontinued operations	(600)	2,430	1
	<b>(600)</b>	<b>2,430</b>	<b>1</b>

A contingent consideration liability arose from the acquisition of MGC Pharma (UK) Limited during the financial year ended 30 June 2016. This arose as a result of the performance shares which can be converted into fully paid Ordinary Shares at a rate of one Ordinary Share for every performance share.

The determination of the fair value is based on a probability weighted payout approach, where key assumptions take into consideration the probability of meeting each milestone and any future development which may require further revisions to the estimate. At each balance sheet date, a fair value is determined for the performance shares. In February 2019, the performance shares expired as it was determined that the milestone for conversion had not been achieved, resulting in a gain of AUD\$6.27 million on the re-measurement of the performance shares being booked on the performance shares expiring.

During the current year, the Company re-assessed the accounting treatment of the performance shares issued as consideration payable for the initial acquisition of MGC Pharma (UK) Limited and determined it should have been accounted for as an equity based payment under AASB 2 Share Based Payments. This resulted in the reclassification of the fair value movement through the profit and loss in 2019 of AUD\$1.3 million to the share based payment reserve being the assessed fair value of the equity instruments granted at the date control of MGC Pharma (UK) Limited was obtained, and the balance of AUD\$ being taken to accumulated losses.

In 2020 the Company signed an agreement to dispose of its 100% interest in subsidiary MGC Nutra which resulted in MGC Nutra being classified as a discontinued operation. The AUD\$0.6 million loss represents the results of MGC Nutra for the period as follows:

	<b>30 June 2020</b>
	<b>AUD '000</b>
Revenue	149
Expenses	(749)
<b>Pre-tax loss</b>	<b>(600)</b>

In 2019, the gain from discontinued operations was the result of the disposal of the Company's subsidiary MGC Derma. A gain of AUD\$2.88 million was recognised on deconsolidation of MGC Derma on 31 January 2019 and taken to the statement of profit and loss, represented by:

	<b>31 Jan 19</b>
	<b>AUD '000</b>
<b>Consideration received</b>	
2,500,000 CannaGlobal Canada Co Inc. shares	3,200
Carrying amount of net assets sold	(745)
	2,455
Reclassification of foreign currency translation reserve	(25)
<b>Gain on deconsolidation</b>	<b>2,430</b>

8. *Impairment provision expense*

	<b>30 June 20</b>	<b>30 June 19</b>	<b>30 June 18</b>
	<b>AUD\$ '000</b>	<b>AUD\$ '000</b>	<b>AUD\$ '000</b>
Impairment provision expense	(5,118)	(2,012)	(208)
	<b>(5,118)</b>	<b>(2,012)</b>	<b>(208)</b>

The impairment expense in 2020 related to a full impairment of the intangible assets of the Group related to the license to grow industrial cannabis in Slovenia, which is subject to an annual review process. As the license expired during the year ended 30 June 2020 and was not renewed on the basis that it is not required for the Group's current operations in Slovenia, the intangible assets value was written off in full.

The impairment expense in 2019 comprised of an impairment of the intangible asset relating to the license to grow industrial cannabis in Slovenia. During 2019, the intangible asset was tested for indications of impairment using a value in use model resulting in a provision for impairment of AUD\$2.012 million.

The assessment takes into consideration a number of significant assumptions, estimates and judgements in relation to the growth of the revenue streams, being pharma and non-pharma, pertaining to the cash generating unit over a 5-year forecast period. The Directors' believe the forecast net cashflows are achievable from current, contracted distribution agreements in place and the expected market share of medicinal products, in line with available market data, and have taken a prudent approach by applying a probability factor to future revenues in later years relating to its current developed products, CannEpi<sup>®</sup> and CogniCann<sup>™</sup> which are considered to have significant growth upon the completion of the Phase III trials. A resulting provision for impairment of AUD\$2.012 million, as referred above, was recognised during the year and taken to the statement of profit and loss and other comprehensive income.

Should the above estimates and judgments not occur, the resulting provision for impairment may increase and the intangible asset carrying amount further decrease. The sensitivities are as follows:

- If the probability applied was reduced to 20% (from 22.5%), the resulting additional impairment would be \$1,319,680 with all other assumptions remaining constant.
- If the discount rate was to increase by 1% (from 20%), the additional impairment would be \$445,596, with all other variables held constant.

**Selected audited consolidated financial information**

Results of operations liquidity and capital resources

The Group's primary sources of liquidity have been from equity contributions. The primary use of this liquidity is to fund the Group's operations, as detailed above. As at the date of this Document, the Group had no financial indebtedness other than trade and other payables in the ordinary course of business.

## Statement of Cash flows

	30-Jun-20 AUD '000	30-Jun-19 AUD '000	30-Jun-18 AUD '000
<b>Cash flows from operating activities</b>			
Receipts from customers	2,072	985	300
Payments to suppliers and employees	(8,453)	(4,906)	(5,356)
Payments for research expense	(3,974)	(2,892)	(951)
Research and development rebate	429	328	–
Government grant received	90	–	–
Interest received	14	158	168
Interest paid	(136)	–	(48)
Income tax paid	–	(27)	–
<b>Net cash used in operating activities</b>	<b>(9,957)</b>	<b>(6,354)</b>	<b>(5,887)</b>
<b>Cash flows from investing activities</b>			
Subsidiary held for sale, net of cash disposed of	(13)	(570)	–
Purchase of plant and equipment	(962)	(377)	(459)
Proceeds from disposal of plant and equipment	5	–	119
<b>Net cash used in investing activities</b>	<b>(970)</b>	<b>(947)</b>	<b>(340)</b>
<b>Cash flows from financing activities</b>			
Payment of lease liabilities	(184)	–	–
Proceeds from issue of shares and options	11,433	36	5,017
Capital raising costs	(787)	(9)	(317)
<b>Net cash provided by financing activities</b>	<b>10,462</b>	<b>27</b>	<b>4,700</b>
<b>Net increase in cash and cash equivalents held</b>	<b>(465)</b>	<b>(7,274)</b>	<b>(1,527)</b>
Cash and cash equivalents at beginning of year	2,354	9,859	11,364
Foreign exchange movement in cash	(16)	(231)	22
<b>Cash and cash equivalents at end of year</b>	<b>1,873</b>	<b>2,354</b>	<b>9,859</b>

### Net cashflow from operating activities

Net receipts from customers has increased over the three years as a result of the increase in operations and product range introduced by the Group during these periods accentuated in 2020 as a result of the growth in patient numbers and units prescribed throughout the year (as presented in the table above), supported also with the introduction of the 'Mercury Pharma' line of products, whilst the payments to suppliers and employers have remained relatively stable across the 2018 and 2019, however these were accentuated in 2020 given the notable ramp up in operations throughout this period.

Payments for research expenses also increased across the periods as the Group continued to ramp up its R&D activities and entered into research initiatives with institutions such as RMIT and UNDA, coupled with the commencement and continuation of clinical trials and research programs for ArtemiC™ and the treatment of glioblastoma multiforme respectively.

The R&D rebate received in 2019 and 2020 relates to an R&D tax incentive claim made in Australia in conjunction with Aus Industry and the ATO for qualified R&D expenditure incurred on eligible R&D activities during the financial year ended 2018 and 2019. Interest income was stable over 2019 and 2018, being interest earned on the term deposit accounts, which decreased in 2020 as reflective of the decrease in average cash held during the year.

Interest paid during 2020 related to Group leases contract during the year and loan with the third party.

### Net cashflow from investing activities

The disposal of MGC Derma during 2019 saw net cash disposed of AUD\$570,000. With the completion of the Slovenian manufacturing facilities in 2018, there was a significant decrease in costs for plant and equipment in 2019, however with the commencement of Malta operations, expenditure increased into 2020 comprising construction in progress relating to design and engineering work for these Malta operations.

### Net cashflows from financing activities

The net inflow from financing activities for the years ended 2020 and 2018 comprised primarily of proceeds, net of expenses, from the issuance of new Ordinary Shares in connection with equity raises; there were negligible inflows from financing activities during 2019.



## Financing

The Group has been financed over the last three years by the issuance of new Ordinary Shares in connection with equity raises. The Company currently has an AUD\$15 million working capital facility with Mercer Street of which AUD\$2.25 million was drawn down in September 2020 and a further \$3.5m in November 2020, leaving AUD\$9.25 million of the facility remaining to be drawn down. The Company is also pursuing the admission of its Ordinary Shares to the standard segment of the Official List and to trading on the Main Market, which will provide access to additional capital markets for the Company. Revenue is also expected to be generated from the sale of products including CannEpil®, CogniCann™ ArtemiC™, and the ‘Mercury Pharma’ range of products and further phytocannabinoid-derived medicines currently in development, as discussed in Part 8 of this Document – “Information on the Group”.

### 9. Capital expenditure

The primary capital expenditure of the Group is in relation to the establishment of the manufacturing facility in Slovenia during 2017 and early 2018, whilst in 2020 expenditure was incurred for construction in progress, relating to design and engineering works for its planned Malta operations.

Further to the approval of the Company’s planned project in Malta, following its initial Letter of Intent with Malta Enterprise in the 2018, the Company agreed to invest a minimum of €6,000,000 in improvements to site, plant, machinery and equipment within 3 years from the date of allocation of the site.

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

### **Statement of Financial Position**

The following table summarises the Company’s financial position over the past three years.

	Notes	30-Jun-20 AUD ‘000	30-Jun-19 AUD ‘000	30-Jun-18 AUD ‘000
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	a)	1,873	2,354	9,859
Inventory	b)	402	139	712
Trade and other receivables	c)	593	1,227	932
Non-current assets classified as held for sale		363	–	–
<b>Total Current Assets</b>		<b>3,231</b>	<b>3,720</b>	<b>11,503</b>
<b>NON-CURRENT ASSETS</b>				
Plant and equipment	d)	2,193	1,471	1,334
Intangible assets	e)	–	5,034	7,083
Other assets	f)	674	2,772	73
Right of use assets	g)	1,831		
<b>Total Non-Current Assets</b>		<b>4,698</b>	<b>9,277</b>	<b>8,490</b>
<b>TOTAL ASSETS</b>		<b>7,929</b>	<b>12,997</b>	<b>19,993</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	h)	2,706	1,594	960
Deferred revenue	h)	101	588	–
Liabilities directly associated with non-current assets classified as held for sale		109	–	–
Lease liabilities – current	g)	54	–	–
<b>Total Current Liabilities</b>		<b>2,970</b>	<b>2,182</b>	<b>960</b>

	Notes	30-Jun-20 AUD '000	30-Jun-19 AUD '000	30-Jun-18 AUD '000
<b>NON-CURRENT LIABILITIES</b>				
Loans to third parties			–	22
Deferred revenue			–	47
Provisions		20	17	3
Lease liabilities – non-current	g)	1,845		
<b>Total Non-Current Liabilities</b>		<b>1,865</b>	<b>17</b>	<b>72</b>
<b>TOTAL LIABILITIES</b>		<b>4,835</b>	<b>2,199</b>	<b>7,302</b>
<b>NET ASSETS</b>		<b>3,094</b>	<b>10,798</b>	<b>18,961</b>
<b>EQUITY</b>				
Contributed equity	i)	60,149	49,134	48,441
Share based payment reserve		5,381	3,256	3,385
Foreign currency translation reserve		85	34	137
Retained earnings		(62,510)	(41,465)	(38,030)
<b>Equity attributable to holders of the parent</b>		<b>3,105</b>	<b>10,959</b>	<b>13,933</b>
Non-controlling interest		(11)	(161)	(1,242)
<b>TOTAL EQUITY</b>		<b>3,094</b>	<b>10,798</b>	<b>12,691</b>

a. Cash and cash equivalents

The movements in the cash balance relate to timing of financing and the investment cycle of the Group. These are discussed in more detail in the cashflow section above.

b. Inventory

In 2018, there was an equal split between cosmetic raw materials/finished goods and raw materials for the production of medicinal cannabis products, however following the sale of MGC Derma in 2018, the inventory balance in 2019 and 2020 comprised predominantly of the raw materials. required for the production of the medicinal cannabis products.

c. Trade and other receivables

Trade and other receivables comprise the following balances over the period:

	30-Jun-20 AUD\$ '000	30-Jun-19 AUD\$ '000	30-Jun-18 AUD\$ '000
Trade receivables	–	271	71
Other receivables	214	710	323
GST receivable	255	159	68
Prepayments	71	87	463
Short term loan to third party	53	–	7
	<b>593</b>	<b>1,227</b>	<b>932</b>

The increase in trade receivables is reflective of the growth in products sold during the period as reflected in the revenue analysis above. The decrease in other receivables relates primarily to the advanced payment for raw materials used to supply CannaGlobal Canada Co Inc. in 2019, with a corresponding amount recorded in deferred revenue, which was not carried over into 2020.

d. Property, Plant and Equipment

	30-Jun-20 AUD '000	30-Jun-19 AUD '000	30-Jun-18 AUD '000
<b>Plant and equipment movement</b>			
Opening balance at 1 July	1,470	1,334	1,258
Additions	1,121	344	459
Disposal	(28)	(21)	(196)
Disposal on derecognition of subsidiary	–	(44)	–
Depreciation	(321)	(260)	(328)
Foreign currency translation reserve	(49)	118	141
	<b>2,193</b>	<b>1,471</b>	<b>1,334</b>

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

The majority of the balance in property, plant and equipment relates to the facilities in Slovenia that received GMP approval during 2018, with the net increase in plant and equipment over the periods primarily relating to additions towards the GMP facilities and associated equipment acquired to support these facilities; in addition, during the 2019 financial year, construction commenced and progressed on the property in Malta with costs incurred of AUD\$233,000 as at 30 June 2019 and AUD\$901,000 for the year ended 30 June 2020. The remainder of this asset balance relates to general office and computer equipment within the Group.

A breakdown by broad category is as follows:

	30-Jun-20 AUD '000	30-Jun-19 AUD '000	30-Jun-18 AUD '000
<b>Plant and equipment by category</b>			
Fixture, fittings, laboratory	955	967	783
Property under construction	1,134	233	–
Office and computer equipment	104	271	551
	<b>2,193</b>	<b>1,471</b>	<b>1,334</b>

e. Intangible assets

Intangible assets in the Group largely relate to intangible assets acquired as part of a business combination or asset acquisition. In particular, the intangible asset of the Group relates to a license to grow industrial cannabis in Slovenia recognised on acquisition of the Slovenian entity.

See the discussion on 'impairment provision expense' above, for further detail on movements in the year.

f. Other assets

Other assets for 2019 comprise primarily the investment in CannaGlobal Canada Co Inc. Other investments and other financial assets are initially measured at fair value. See the discussion on '*Fair value movement on financial instruments*' above, for further detail on movements in the year.

g. Right of use asset/lease liabilities

The year ended 30 June 2020, the Company adopted IFRS 16 Leases which require the recognition of most leases on the balance sheet. As such, an initial right of use asset and corresponding lease liability was recognised with respect to the long-term lease entered into by the Group for the use of the land for the construction of the Malta facility on a discounted basis. The right of use assets will be depreciated over the life of the lease, whilst the lease liability will be reduced by payments made offset by the unwinding of the discount value of the lease.

h. Trade and other payables and current deferred consideration

	30-Jun-20 AUD '000	30-Jun-19 AUD '000	30-Jun-18 AUD '000
<b>Current trade and other payables</b>			
Trade payables	2,004	1,165	809
Accruals	556	333	145
Other payables	146	96	6
	<b>2,706</b>	<b>1,594</b>	<b>960</b>
<b>Deferred revenue</b>			
Deferred revenues – current	101	588	–
Deferred revenues – non-current	–	–	47
	<b>101</b>	<b>588</b>	<b>47</b>

The increase in trade and other payables are in line with the increase in operational, corporate and general spend across all entities as outlined above, whilst the deferred revenue for 2019 reflects the raw materials that the Group will supply to CannaGlobal Canada Co Inc. as per of the 5-year supply agreement, with a corresponding amount recorded in other receivables.

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

Deferred revenues represent revenues collected but not as yet earned as at the year ended 30 June 2019 and 2020 with revenue recognised in 2020 relating to the opening deferred revenue was AUD\$536k.

i. Contributed equity

	30-Jun-20 AUD '000	30-Jun-19 AUD '000	30-Jun-18 AUD '000
Ordinary shares on issue, fully paid	60,149	49,134	48,441
	<b>60,149</b>	<b>49,134</b>	<b>48,441</b>

	30-Jun-20 Number of Ordinary Shares	30-Jun-19 Number of Ordinary Shares	30-Jun-18 Number of Ordinary Shares
Ordinary Shares on issue, fully paid	1,575,612,348	1,203,048,174	1,189,830,412
Voluntary Holding Lock shares	–	10,335,511	13,000,000
	<b>1,575,612,348</b>	<b>1,213,383,685</b>	<b>1,202,830,412</b>

The movements in contributed equity reflect the issue of shares during the period as a result of a number of equity capital raisings and conversion of performance shares into Ordinary Shares.

In 2020, the Company raised a total of AUD\$11.4 million before costs through a number of placements during the year through the issue of 347 million Ordinary shares at an average price of A\$0.033 per Ordinary Share.

In addition:

- 5.8 million Ordinary Shares at AUD\$0.04 per Ordinary Share were issued to vendors of Panax s.r.o. for the acquisition of an additional 6.7% in Panax s.r.o.;
- 3.6 million Ordinary Shares at AUD\$0.041 per Ordinary Share upon conversion of performance rights;
- 5.7 million Ordinary Shares at an average price of \$AUD0.032 per Ordinary Shares issued as consideration for services in lieu of cash payment.

In 2019, there were approximately 10 million Performance Rights converted into Ordinary Shares at a value of AUD\$480,000.

In 2018, the Company raised a total of AUD\$5 million before costs through the issue of 71 million Ordinary Shares at a price of AUD\$0.07 per Ordinary Share. In addition, approximately 34.5 million Performance Rights held by Directors, key management personnel and employees were converted into ordinary shares following the satisfaction of milestones to

trigger the conversion. The deemed value of these conversions was approximately AUD\$1.573 million. Costs associated with the issue of shares during the period was AUD\$706,000.

j. Future commitments and contingencies

Commitments

As at 30 June 2020 the Group had total commitments of AUD\$1.315 million (30 June 2019: AUD\$1.346 million) which mainly related to research and development agreements entered into by MGC Research with RMIT, for both the Breeding and preclinical Research and the Library of Cannabinoids Project, and the University of Notre Dame, CogniCann<sup>®</sup> clinical trial.

Further to the approval of the Company's planned project in Malta, following its initial Letter of Intent with Malta Enterprise in the 2018, the Company agreed to invest a minimum of €6,000,000 in improvements to site, plant, machinery and equipment within 3 years from the date of allocation of the site.

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

Contingencies

Refer above to commentary on contingent consideration in the balance sheet.

k. Disclosure about market risk

The risks to which the Group is considered to be subject to are set out in Part 1 of this Document – "Risk Factors".

Capital and Resources

As outlined in the 'Contributed Equity' section, the working capital requirements of the Group have historically been funded through the issue of Ordinary Shares to investors. The details of the capital raised in the three years to 30 June 2020 are also included in the 'Contributed Equity' paragraph's above. The cashflows in this period are outlined in the 'Statement of Cashflows' section.

The Group has had no significant debt instruments in the 3 years to 30 June 2020 and has no debt outstanding as at that date, however subsequent to the year end, the Company entered into an AUD\$15 million working capital facility with Mercer Street of which AUD\$2.25 million was drawn down in September 2020, leaving AUD\$12.75 million of the facility remaining to be drawn down.

The Company is also pursuing the admission of its Ordinary Shares to the standard segment of the Official List and to trading on the Main Market, which will provide access to additional capital markets for the Company. Revenue is also expected to be generated from the sale of products including CannEpi<sup>®</sup> and CogniCann<sup>™</sup> and further phytocannabinoid-derived medicines currently in development, as discussed in Part 8 of this Document – "Information on the Group".

The Company will be raising capital in GBP and AUD, whilst the majority of its expenditure will be incurred in Euro's. The Group has historically not used any hedging arrangements to mitigate the foreign exchange risk, however will continue to monitor exchange rate fluctuations and if necessary, will take out appropriate hedging instruments.

There have been no restrictions on the use of the capital resources of the Company that have materially affected the operations.

Further detail on the Group's treasury and risk management are set out in the Appendix of this Document – "Historical Financial Information".

## PART 13

### CAPITALISATION AND INDEBTEDNESS

The table below sets out the indebtedness and capitalisation of the Group as at 30 June 2020, extracted without material adjustment from the audited financial statements.

	30 June 2020 AUD 000
<b>Total Current Debt</b>	
Guaranteed	—
Secured	—
Unguaranteed/Unsecured	—
<b>Total Non-Current Debt</b>	
Guaranteed	—
Secured	—
Unguaranteed/Unsecured	—
<b>Shareholder Equity</b>	30 June 2020 AUD 000
Share Capital	60,149
Other Reserves <sup>1</sup>	5,084
<b>Total<sup>2</sup></b>	<b>65,233</b>

1. Other reserves include share based payment, foreign currency translation and consolidation reserves.

2. Total shareholder equity does not include the retained earnings of the Group, as these are not considered to be part of the invested capital of the Group.

The information above has been extracted without material adjustment from the audited financial statements for the Group for the year ended 30 June 2020 and which is set out in the Appendix of this Document.

As at the Last Practicable Date, there has been no material change to the Group's capitalisation since 30 June 2020, with the exception of the issue of the following:

- On 10 July 2020, 8,000,000 Ordinary Shares were issued upon the conversion of Performance Rights issued on 23 December 2019 under the Company's Employee Performance Rights Plan.
- On 31 July 2020, 37,036 Ordinary Shares were issued upon conversion of 37,036 listed Options.
- On 12 August 2020:
  - a. 28,303,404 Ordinary Shares were issued to employees of the Company as settlement of accrued salaries in lieu of cash settlement at a deemed price of \$0.022/per share;
  - b. 14,464,119 Ordinary Shares were issued as settlement of expenses in lieu of cash settlement at a deemed price of \$0.022/per share; and
  - c. 5,000,000 Ordinary Shares were issued upon the conversion of Performance Rights issued to directors Brett Mitchell and Roby Zomer under the Performance Rights Plan.
- On 15 September 2020:
  - a. 2,475,000 convertible note securities were issued at a deemed price of \$0.90909 per security following drawdown of \$2,250,000 from the Mercer Street \$15m finance facility; and
  - b. 9,375,000 Ordinary Shares issues under the terms of the facility.
- On 13 November 2020 12,817,884 Ordinary Shares were issued following the conversion of 250,000 convertible notes at face of value of \$250,000.

- On 24 November 2020:
  - a. 45,454,545 Ordinary Shares were issued as part payment for acquisition of Medicinal Cannabis Clinic assets to the value of A\$1,000,000;
  - b. 12,013,756 Ordinary Shares were issued as settlement of expenses in lieu of cash settlement at a deemed price of \$0.022/per share; and
  - c. 3,850,000 convertible note securities were issued at a deemed price of \$0.90909 per security following drawdown of \$3,500,000 from the Mercer Street \$15m finance facility.
- On 11 December 2020 25,773,196 ordinary shares were issued following conversion of convertible loan notes at face value of \$500,000.
- On 22 December 2020 51,282,051 ordinary shares were issued following conversion of convertible loan notes at face value of \$1,000,000.

The following table shows the Group's net indebtedness as at 30 November 2020 extracted from the unaudited management accounts of the Group:

	<b>30 November 2020 AUD 000</b>
A. Cash	3,888
B. Cash equivalent	–
C. Trading securities	–
D. <b>Liquidity</b> (A) + (B) + (C)	3,888
E. Current financial receivable	799
F. Current bank debt	–
G. Current portion of non current debt	–
H. Other current financial debt	(9,013)
I. <b>Current Financial Debt</b> (F) + (G) + (H)	(9,013)
J. <b>Net Current Financial Indebtedness</b> (I) – (E) – (D)	(4,326)
K. Non current bank loans	–
L. Bonds issued	–
M. Other non current loans	–
N. Non current Financial Indebtedness (K) + (L) + (M)	–
O. <b>Net Financial Indebtedness</b> (J) + (N)	4,326

As at 30 November 2020, the Group had no direct or contingent indebtedness.

As at the Latest Practicable Date, there has been no material change in the indebtedness of the Group since 30 November 2020, with the exception of:

- On 11 December 2020 25,773,196 Ordinary Shares were issued following conversion of convertible loan notes at face value of \$500,000.
- On 22 December 2020 51,282,051 Ordinary Shares were issued following conversion of convertible loan notes at face value of \$1,000,000.



## PART 14

### CREST AND DEPOSITARY INTERESTS

1. The Company has established arrangements to enable investors to settle interests in the Ordinary Shares through the CREST system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK companies, such as the Company, cannot be held or transferred electronically in the CREST system. However, Depositary Interests allow such securities to be dematerialised and settled electronically through CREST. Where investors choose to settle interests in the Ordinary Shares through the CREST system, and pursuant to depositary arrangements established by the Company, the Custodian will hold the Ordinary Shares and issue dematerialised Depositary Interests representing the underlying Ordinary Shares, which will be held on trust for the holders of the Depositary Interests. The Depositary Interests will be independent securities constituted under English law which may be held and transferred through the CREST system. Investors should note that it is the Depositary Interests which will be admitted to and settled through CREST and not the Ordinary Shares.
2. The Constitution is consistent with CREST membership in respect of Depositary Interests and the holding and transfer of Depositary Interests in uncertified form. Under the Corporations Act, companies are not prohibited from issuing shares in book-entry form, but shareholders have the right to require the companies to issue physical certificates. The Board has passed a resolution authorising the issuance of Ordinary Shares in book-entry form.
3. The Company and the Depositary entered into a depositary agreement on 26 January 2021, the principal terms of which are summarised below.
4. The Depositary Interests have been created pursuant to and issued on the terms of a deed poll that was executed on 26 January 2021 by the Depositary in favour of the holders of the Depositary Interests from time to time. Holders of Depositary Interests should note that they will have no rights against Euroclear UK & Ireland Limited (the operators of CREST) or its subsidiaries in respect of the underlying Ordinary Shares or the Depositary Interests representing them.
5. If a holder of Ordinary Shares so requests, its Ordinary Shares will be transferred to an account of the Depositary or the Custodian maintained on the Company's share register by Computershare Investor Services Pty Limited and the Depositary will issue Depositary Interests to participating CREST members.
6. Each Depositary Interest will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends. The Depositary will pass on to holders of Depositary Interests any share or cash benefits received by it as holder of Ordinary Shares on trust for such Depositary Interest holder. Depositary Interest holders, through the Depositary, will also be able to receive notices of meetings of holders of Ordinary Shares and other notices issued by the Company to its Shareholders.
7. The Depositary Interests have the same security code (ISIN) as the underlying Ordinary Shares and will not require a separate admission to the Main Market. The Depositary Interests can then be traded and settled within the CREST system in the same way as any other CREST securities. Application will be made for the Depositary Interests to be admitted to CREST with effect from Admission.
8. If a holder wishes to cancel its Depositary Interest, it will either directly or through its broker instruct the applicable CREST participant to initiate a CREST withdrawal (where such withdrawal is sent to the Depositary) for the name that appears on the Register. The Depositary Interest will then be cancelled by the Depositary and the related Ordinary Shares will be credited to the account on the Register by the Registrar. The Registrar will then send the holder a new Ordinary Share certificate.
9. The information included within this section relating to the obtaining and cancellation of Depositary Interests by a holder is intended to be a summary only and is not to be construed as legal, business or tax advice. Each investor should consult his or her own lawyer, financial adviser, broker or tax adviser for legal, financial or tax advice in relation to Depositary Interests.

### ***Deed Poll***

The Deed Poll executed by the Depositary prior to Admission contains the following provisions:

10. The Depositary will hold (itself or through the Custodian), as bare trustee, the underlying Ordinary Shares and all and any rights and other securities, property and cash attributable to the underlying Ordinary Shares pertaining to the Depositary Interests for the benefit of the holders of the relevant Depositary Interests as tenants in common. The Depositary will re-allocate securities or Depositary Interests distributions allocated to the Depositary or Custodian pro-rata to the Ordinary Shares held for the respective accounts of the holders of Depositary Interests but will not be required to account for fractional entitlements arising from such re-allocation.
11. Holders of Depositary Interests agree to give such warranties and certifications to the Depositary as the Depositary may reasonably require. In particular, holders of Depositary Interests warrant, among other things, that the securities in the Company transferred or issued to the Depositary or Custodian on behalf of the Depositary for the account of the Depositary Interest holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's constitutional documents or any contractual obligation, or applicable law or regulation binding or affecting such holder, and holders of Depositary Interests agree to indemnify the Depositary against any liability incurred as a result of any breach of such warranty.
12. The Depositary and any Custodian shall pass on to the Depositary Interest holders and, so far as they are reasonably able, exercise on behalf of the Depositary Interest holders all rights and entitlements received or to which they are entitled in respect of the underlying Ordinary Shares which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to call for, attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received, together with amendments and additional documentation necessary to effect such passing-on, or, as the case may be, exercised in accordance with the Deed Poll. If arrangements are made which allow a holder to take up rights in the Company's securities requiring further payment, the holder must put the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights.
13. The Depositary will be entitled to cancel Depositary Interests and treat the holders thereof as having requested a withdrawal of the underlying securities in certain circumstances, including where a Depositary Interest holder fails to furnish to the Depositary with such certificates or representations as to material matters of fact, including his identity, as the Depositary deems appropriate.
14. The Depositary warrants that it is an authorised person under the FSMA and is duly authorised to carry out custodian and other activities under the Deed Poll. It also undertakes to maintain that status and authorisation.
15. The Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any Depositary Interest holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Except in the case of personal injury or death, any liability incurred by the Depositary to a holder under the Deed Poll is limited to the lesser of:
  - (a) the value of the Ordinary Shares that would have been properly attributable to the Depositary Interests to which the liability relates; and
  - (b) that proportion of £5 million which corresponds to the portion which the amount the Depositary would otherwise be liable to pay to the holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all such holders in respect of the same act, omission or event which gave rise to such liability or, if there are no such amounts, £5 million.
16. The Depositary is entitled to charge holders of Depositary Interests fees and expenses for the provision of its services under the Deed Poll.
17. Each holder of Depositary Interests is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees), and hold each of them harmless, from and against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of that holder, other than those caused by or resulting from the wilful default, negligence or fraud of: (i) the Depositary; or (ii) the Custodian or any agent if such Custodian or agent is a member of the Depositary's group or if, not being a

member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.

18. The Depositary is entitled to make deductions from the deposited property or any income or capital arising therefrom, or to sell such deposited property and make deductions from the sale proceeds thereof, in order to discharge the indemnification obligations of Depositary Interest holders.
19. The Depositary may terminate the Deed Poll by giving not less than 30 days' notice. During such notice period, Depositary Interest holders may cancel their Depositary Interests and withdraw their deposited property and, if any Depositary Interests remain outstanding after termination, the Depositary shall, as soon as reasonably practicable and amongst other things: (i) deliver the deposited property in respect of the Depositary Interests to the relevant Depositary Interest holder, or at the Depositary's discretion; (ii) sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll, pro-rata to the Depositary Interest holders in respect of their Depositary Interests.
20. The Depositary or the Company may require from any holder: (i) information as to the capacity in which Depositary Interests are owned or held by such holders and the identity of any other person with any interest of any kind in such Depositary Interests or the underlying Ordinary Shares and the nature and amounts of such interests; (ii) evidence or declaration of nationality or residence of the legal or beneficial owner(s) of Depositary Interests and such information as is required to transfer the relevant Depositary Interests or Ordinary Shares to the holder; and (iii) such information as is necessary or desirable for the purposes of the Deed Poll or CREST system, and holders are bound to provide such information requested. The holders of Depositary Interests consent to the disclosure of such information by the Depositary, Custodian or Company to the extent necessary or desirable to comply with their respective legal or regulatory obligations.
21. Furthermore, to the extent that the Company's constitutional documents, applicable laws or regulations, the Ground Rules for the Management of the FTSE UK Index Series (if applicable), or any court or legal or regulatory authority may require or the Company deems it necessary or desirable in connection therewith (including in response to requests for information), the disclosure to the Company of, or limitations in relation to, beneficial or other ownership of, or interests of any kind whatsoever in the Company's securities, the Depositary Interest holders are to comply with such provisions and with the Company's instructions with respect thereto, and consent to the disclosure of such information for such purposes.
22. It should also be noted that holders of Depositary Interests may not have the opportunity to exercise all of the rights and entitlements available to holders of Ordinary Shares, including, for example, the ability to vote on a show of hands. In relation to voting, it will be important for holders of Depositary Interests to give prompt instructions to the Registrar or its nominated Custodian, in accordance with any voting arrangements made available to them, to vote the underlying Ordinary Shares on their behalf or, to the extent possible, to take advantage of any arrangements enabling holders of Depositary Interests to vote such Ordinary Shares as a proxy of the Registrar or its nominated Custodian.

#### ***Depositary Agreement***

The Depositary Agreement entered into between the Company and the Depositary prior to Admission contains the following provisions:

1. Under the Depositary Agreement, the Company appoints the Depositary to constitute and issue from time to time, upon the terms of the Deed Poll, a series of Depositary Interests representing Ordinary Shares and to provide certain other services (including depositary services, custody services and dividend services) in connection with such Depositary Interests.
2. The Depositary agrees that it will comply with the terms of the Deed Poll and that it will perform its obligations with reasonable skill and care. The Depositary assumes certain specific obligations, including, for example, to arrange for the Depositary Interests to be admitted to CREST as participating securities and provide copies of, and access to, the register of Depositary Interests.
3. The Company acknowledges that it shall be its responsibility and undertakes to advise the Depositary promptly of any securities laws or other applicable laws, rules or regulations in the State of Delaware, USA with which the Depositary must comply in providing the services.

4. The Company agrees to provide such assistance, information and documentation to the Depositary as is reasonably required by the Depositary for the purposes of performing its duties, responsibilities and obligations under the Depositary Agreement.
5. The Depositary is to indemnify the Company and its officers and employees from and against any loss (excluding indirect, consequential or special loss) which any of them may incur in any way as a result of or in connection with the fraud, negligence or wilful default of the Depositary (or its officers, employees, agents or sub-contractors).
6. Subject to earlier termination, the appointment of the Depositary shall continue for a fixed period of one year and thereafter until terminated in accordance with the terms of the Depositary Agreement. Should the Depositary Agreement be terminated for any reason, other than arising from the Depositary's fraud, negligence, wilful default or material breach of a term of the Depositary Agreement, the Company shall within 30 days of termination pay to the Depositary the Depositary's reasonable costs and expenses of transferring the Depositary Interest register to its new registrar. Either party may terminate the Depositary Agreement by giving not less than three months' notice in writing. Either party may terminate the Depositary Agreement with immediate effect by notice in writing if the other party: (i) shall be in persistent or material breach of any material term (of the Depositary Agreement) and such breach is not remedied within 21 days of a request for such remedy; (ii) goes into insolvency or liquidation or administration or a receiver is appointed over any part of its undertaking or assets, subject to certain provisos; or (iii) shall cease to have the appropriate authorisations which permit it lawfully to perform its obligations under the Depositary Agreement.
7. The Depositary will be entitled to employ agents for the purposes of carrying out certain of its obligations under the Depositary Agreement which the Depositary reasonably considers to be of a specialist nature.
8. The Company is to pay to the Depositary an annual fee for the services. The Company shall pay a fixed fee for the deposit, cancellation and transfer of the Depositary Interests and the compilation of the initial Depositary Interests register. The Company shall in addition reimburse the Depositary within 30 days of the Depositary's invoice for all network charges, CREST charges, money transmission and banking charges and other out-of-pocket expenses incurred by it in connection with the provision of the services under the Depositary Agreement.
9. The Company will indemnify the Depositary from and against all loss suffered by the Depositary as a result of or in connection with the performance of its obligations under the Depositary Agreement.
10. The aggregate liability of the Depositary to the Company over any 12-month period under the Depositary Agreement will not exceed twice the amount of the fees (as defined in the Depositary Agreement) payable in any 12-month period in respect of a single claim or in the aggregate.

## PART 15

### TAXATION

The information set out below describes the principal UK and Australian tax consequences of the acquisition, holding and disposal of the Ordinary Shares and is included for general information only. It is not intended to be, nor should it be construed to be, legal or tax advice to any prospective investors. This section does not take into account the individual circumstances of any prospective investors and should not be relied upon by any prospective investor or any other person. Each prospective investor should obtain, and only rely upon, their own professional tax advice regarding the tax consequences of acquiring, holding and disposing of the Ordinary Shares under the laws of their country and/or state of citizenship, domicile or residence. This summary is based on tax legislation in force as at the Last Practical Date, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

#### 1. Tax residency

MGC Pharmaceuticals Limited is incorporated in Australia and considered to be an Australian tax resident. Companies incorporated in Australia are generally residents of Australia for income tax purposes, as are companies that are not incorporated in Australia but that carry on business in Australia with either their central management and control in Australia or their voting power controlled by Australian residents. An individual is generally considered to be a tax resident of Australia if he or she is domiciled in Australia or physically present in Australia for a period or periods exceeding in aggregate more than 183 days in any calendar year. An Australian tax resident is subject to income tax in Australia on its worldwide income, subject to certain exemptions.

Other members of the Group may be subject to the payment of corporate or other tax in jurisdictions outside of Australia either where they have their registered office and/or where they are managed and controlled and/or carry out their operations (subject to the tax laws in the relevant jurisdictions). The tax residency status of other Group companies has not been examined in this Document. This section has been limited to outlining the tax rules and rates applicable in the three principle jurisdictions where the Company and/or its subsidiaries may have business interests and/or where its Shareholders may be tax resident for the purposes of preliminarily assessing taxable income derived from shares held in the Company. However, each Shareholder should obtain independent professional advice as to the tax implications of its holding of Ordinary Shares.

#### 2. UK taxation

The following statements are intended only as a general guide to current UK tax legislation and to the current practice of HMRC and may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes. They relate (except where stated otherwise) to persons who are resident, and in the case of individuals, domiciled in (and only in) the UK for UK tax purposes, who are beneficial owners of Ordinary Shares (and any dividends paid on them) and who hold their Ordinary Shares as an investment (and not as employment-related securities and other than via an individual savings account). They are based on current UK legislation and what is understood to be the current practice of HMRC as at the Last Practical Date, both of which may change, possibly with retroactive effect. The tax position of certain categories of Shareholders who are subject to special rules (such as persons acquiring their Ordinary Shares in connection with employment, dealers in securities, insurance companies and collective investment schemes or those who hold 10% or more of the Ordinary Shares or those who are non-UK domiciled individuals) is not considered.

Any person who is in any doubt as to his or her tax position, or who is subject to taxation in any jurisdiction other than that of the UK, should consult his or her own professional advisers immediately.

##### 2.1 *Taxation of dividends – individual Shareholders*

UK resident individual Shareholders will be liable to income tax in respect of dividends or other income distributions of the Company. A UK resident individual Shareholder will generally benefit from an allowance in the form of an exemption from tax for the first £2,000 of dividend income received in the 2020/21 tax year. Any dividends above the dividend allowance will be taxable at 7.5% (to the extent it falls within an individual's basic rate band), 32.5% (to the extent it falls within an individual's higher rate band) or 38.1% (to the extent it falls within an individual's additional rate band) for the 2020-21 tax year.

## **2.2      *Taxation of dividends – corporate Shareholders***

Dividends paid to a UK resident corporate Shareholder will be taxable income of the UK corporate Shareholder unless the dividends fall within an exempt class and certain other conditions are met. It is likely that most dividends paid to UK resident corporate Shareholders would fall within one or more of the classes of dividend qualifying for exemption from corporation tax. However, it should be noted that the exemptions are not comprehensive and are also subject to anti-avoidance rules.

To the extent that dividends are not exempt, UK resident corporate Shareholders may be able to obtain credit for any withholding tax and any underlying tax paid by the Company, subject to certain conditions. The UK has complex double tax relief where UK resident companies receive dividends from non-UK resident companies and therefore UK resident corporate Shareholders should seek further advice on these issues.

## **2.3      *Taxation of dividends – trustees***

The annual dividend allowance available to individuals will not be available to UK resident trustees of a discretionary trust. Generally, dividends received by UK resident trustees of a discretionary trust are liable to income tax at a rate of 38.1% (save the first £1,000 of trust income which may attract a lower rate of 7.5%). The £1,000 dividend allowance for trustees must be divided by the total number of trusts which the settlor has settled. However, if the settlor has set up five or more trusts, the standard rate band for each trust is £200.

## **2.4      *Taxation of dividends – UK pension funds and charities***

UK pension funds and charities are generally exempt from tax on dividends, which they receive.

Other Shareholders who are not resident in the UK for tax purposes should consult their own advisers concerning their tax liabilities on dividends received.

## **2.5      *Chargeable gains***

Shareholders who are resident in the UK for tax purposes and who dispose of their Ordinary Shares at a gain will ordinarily be liable to UK taxation on chargeable gains, subject to any available exemptions or reliefs. The gain will be calculated as the difference between the sale proceeds and any allowable costs and expenses, including the original acquisition cost of the Ordinary Shares.

Shareholders who are not resident in the UK for tax purposes but who carry on business in the UK through a branch, agency or permanent establishment with which their investment in the Company is connected may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains.

If an individual Shareholder ceases to be resident in the UK and subsequently disposes of Ordinary Shares, in certain circumstances any gain on that disposal may be liable to UK capital gains tax upon that Shareholder becoming once again resident in the UK.

For UK resident individual Shareholders, capital gains tax at the rate of 10% (for basic rate taxpayers) or 20% (for higher or additional rate tax payers) will be payable on any gain. UK resident individual Shareholders may benefit from certain reliefs and allowances (including an Annual Exempt Amount, which for 2020-21 tax year exempts the first £12,300 of gains from tax) depending on their circumstances.

For UK resident corporate Shareholders any chargeable gain will be within the charge to corporation tax. UK corporate Shareholders can benefit from indexation allowance up to 31 December 2017 (which, in general terms, increases the chargeable gains tax base cost of an asset in accordance with the rise in the retail prices index up to 31 December 2017), but indexation allowance for corporate Shareholders no longer applies post 31 December 2017. Accordingly, any new (post 31 December 2017) UK tax resident corporate Shareholder holding any rolled over tax base cost pre-31 December 2017 may claim indexation allowance on a subsequent disposal of the Ordinary Shares, but such indexation allowance will only be up to 31 December 2017. This is no longer relevant for corporate disposals of shares that are acquired after 1 January 2018.

## **2.6      *Stamp duty and stamp duty reserve tax ("SDRT")***

The statements below are intended as a general guide to the current position under UK tax law. They do not apply to certain intermediaries who may be eligible for relief from stamp duty or SDRT, or to persons connected with depositary arrangements or clearance services (or, in either case, their nominees or agents), who may be liable to stamp duty or SDRT at a higher rate.

## **2.7 Treatment of the transfer of Ordinary Shares into CREST and the trading of Depositary Interests within CREST**

Admission of the Ordinary Shares to the standard segment of the Official List should not give rise to a liability to stamp duty or SDRT on the basis that the Admission does not involve a change in title or beneficial ownership in the Ordinary Shares for consideration.

Where there is a transfer of Ordinary Shares into CREST (where Depositary Interests are issued) there should be no SDRT or stamp duty provided that there is no change in beneficial ownership of the Ordinary Shares. Where there is a transfer of Ordinary Shares into CREST (where Depositary Interests are issued) and there is a change in beneficial ownership of the Ordinary Shares, no charge to SDRT should arise on the basis that:

- (a) the central management and control of the Company currently takes place, and will continue to take place outside the UK;
- (b) the register of members of the Company is, and will be, maintained outside the UK; and
- (c) the underlying Ordinary Shares are, and will continue to be, listed on a recognised stock exchange (such as the ASX).

Assuming that no document of transfer is executed for such a transfer there should be no stamp duty either.

Where Depositary Interests are traded (wholly within CREST), no charge to SDRT should arise on the basis that:

- (a) the central management and control of the Company currently takes place and will continue to take place outside the UK;
- (b) the register of members of the Company is, and will be, maintained outside the UK; and
- (c) the underlying Ordinary Shares are, and will continue to be, listed on a recognised stock exchange (such as the ASX).

Since any transfer of the Depositary Interests will be wholly within CREST, and no documents of transfer will be executed, no charge to stamp duty should arise on the transfer of Depositary Interests (wholly within CREST).

## **2.8 Treatment of the transfer of Ordinary Shares out of CREST and trading of the underlying Ordinary Shares**

Where there is a transfer of Ordinary Shares out of CREST (which may involve a collapse of the Depositary Interests) and there is a change in beneficial ownership of the Ordinary Shares, no charge to SDRT should arise, provided that:

- (a) the register of members of the Company continues to be maintained outside the UK; and
- (b) the Ordinary Shares are not paired with shares or marketable securities in UK-incorporated companies.

Provided that the register of members of the Company continues to be maintained outside the UK, and the Ordinary Shares are not paired with shares or marketable securities in UK incorporated companies, there should be no SDRT on any agreement to transfer the Ordinary Shares themselves.

However, any document transferring title to the Ordinary Shares will be technically within the scope of UK stamp duty (at the rate of 0.5%, rounded to the nearest £5) if it is executed in the UK or relates (wheresoever executed) to any matter or thing done or to be done in the UK. Where stamp duty arises, this is generally payable by the purchaser.

Stamp duty is not a directly enforceable tax. As such, any stamp duty which may arise should not generally be required to be paid in respect of transfers of Ordinary Shares, unless the document of transfer is required to be relied upon as evidence in a UK court or for other official purpose in the UK. However, where the stamp duty is paid late, interest and penalties may arise.

## **2.9 Inheritance tax**

If any individual Shareholder is regarded as domiciled in the UK for inheritance tax purposes, inheritance tax may be payable in respect of the Ordinary Shares on the death of the Shareholder or on certain gifts of the Ordinary Shares during their lifetime, subject to any allowances, exemptions or reliefs.

Non-UK domiciled individual Shareholders may be regarded as deemed domiciled for inheritance tax purposes following a long period of residence in the UK. Further advice should be sought in these circumstances.

Individual Shareholders who are in any doubt about the impact of this change on their tax position should obtain detailed tax advice from their own professional advisers.

UK inheritance tax is a complex area and individuals should obtain their own advice in respect of this.



### **3. Australian tax**

This section provides a general summary of the potential Australian tax consequences for MGC shareholders and does not purport to be a complete analysis of all potential Australian tax implications of owning and disposing of Ordinary Shares. The specific tax position of each Shareholder will determine the applicable Australian income tax implications for that Shareholder. It is recommended that each Shareholder consult their own tax adviser concerning the implications of receiving dividends and owning and disposing of Ordinary Shares.

This summary is based on established judicial and administrative interpretations of the Tax Acts and relevant stamp duty legislation (collectively referred to as the “taxation law”) as at the date of this letter. This summary does not take into account or anticipate changes in the taxation law or future judicial and administrative interpretations of the taxation law.

#### **3.1 Acquisition & disposal**

##### **Australian Resident Shareholders**

The taxation treatment on the disposal of Ordinary Shares will depend upon whether the shares are held on revenue or capital account. This will be a question of fact and each investor will need to consider its own circumstances.

Australian resident Shareholders who trade in Ordinary Shares as part of the ordinary course of their business would hold their shares on revenue account. These Shareholders will be required to include the profit arising from the disposal of their Ordinary Shares in their assessable income. Conversely, a loss arising from the disposal of Ordinary Shares on revenue account may be allowed as a deduction from assessable income. Shareholders who include profit made on the disposal of their Ordinary Shares in their assessable income (or include their loss arising on the disposal of their Ordinary Shares as an allowable deduction) should not be assessed for tax under the capital gains tax (“CGT”) provisions but under the ordinary income tax provisions of the ITAA 1997.

Generally, all other Australian resident Shareholders will hold their Ordinary Shares on capital account. These Australian resident Shareholders should consider the impact of the Australian capital gains tax rules on the disposal of their Ordinary Shares.

A Shareholder acquires an Ordinary Share on the date the Ordinary Share is issued or transferred. The cost base of an Ordinary Share acquired is generally the amount the Shareholder pays to acquire the Ordinary Share plus any incidental costs incurred (for example, brokerage). Reduced cost base is usually determined in a similar, but not identical, manner. These amounts should be determined in AUD.

The disposal of Ordinary Shares will give rise to a CGT event for Australian resident Shareholders. The time of the CGT event will generally be the date of the contract for sale or the date of transfer of the shares. An Australian resident Shareholder will derive a capital gain where the proceeds received on disposal exceed the cost base of an Ordinary Share for CGT purposes. Alternatively, a Shareholder will incur a capital loss where the disposal proceeds received are less than the reduced cost base of the Ordinary Share. Capital losses can only be used to offset current year capital gains or carried forward to offset future capital gains (subject to the satisfaction of any required loss recoupment tests). Shareholders cannot offset their net capital losses against their ordinary income.

An Australian resident Shareholder who is an individual who holds the Ordinary Shares (directly or indirectly through a trust), or a complying superannuation fund may be entitled to claim the CGT discount in calculating any capital gain provided that the Ordinary Shares were acquired at least 12 months before the date of disposal. In that instance, the applicable CGT discount that should reduce a net capital gain arising from the disposal of Ordinary Shares is as follows:

- (a) 50% for individuals; and
- (b) 33⅓% for a complying superannuation entity.

The CGT discount is applied to the capital gain after any available current or prior year capital losses of the Shareholder are first offset against that capital gain (i.e. on the net gain).

Corporate Shareholders and Non-Australian resident individual Shareholders are not eligible for the general capital gains tax discount concession.

Any net capital gain (after applying capital losses and the CGT discount, as applicable) should be included in the Shareholder’s assessable income. The applicable tax payable on the net capital gain will be dependent on the type of Shareholder. An Australian tax resident individual Shareholder will be taxed at their marginal rate. Alternatively, an Australian resident company Shareholder will generally be subject to tax at the corporate rate of 30% of taxable income or 26% if the company qualifies as a base rate entity.

### *Non-Australian resident Shareholders*

Where Non-Australian resident Shareholders hold Ordinary Shares on revenue account, the profits on the sale of the Ordinary Shares may be required to be included in the Shareholder's assessable income. This is subject to the application of any relief under Australia's double tax treaties, which may exclude such profits from Australian taxation. However, in the event that a profit is excluded under a double tax treaty, it is still relevant to consider the Australian CGT rules if the Ordinary Shares constitute taxable Australian property (refer below). Taxable Australian property includes:

- (a) A direct interest in real property situated in Australia;
- (b) A CGT asset that you have used at any time in carrying on a business through a permanent establishment in Australia;
- (c) An indirect interest in Australian real property.

Generally, all other Non-Australian resident Shareholders will hold their Ordinary Shares on capital account. These Non-Australian resident Shareholders should consider the impact of the Australian CGT rules on the disposal of their Ordinary Shares.

Under the existing law, a non-Australian resident Shareholder disposing of shares in an Australian company should not be subject to CGT in Australia, subject to the following two exceptions:

- (a) Shares are held as part of a trade or business conducted through a permanent establishment in Australia; or
- (b) Shares are Taxable Australian Property. Broadly, this will be the case where Shares are held in a company where:
  - (i) the Shareholder and its associates hold (or have held for a 12-month period during the last 24 months) an interest of 10% or more in the issued capital of the company; and
  - (ii) more than 50% of the value of the company's assets are attributable to taxable Australian real property; or
  - (iii) the shares are covered by an election made by the taxpayer to disregard a gain on ceasing to be an Australian resident taxpayer.

Taxable Australian real property includes real property situated in Australia (including a lease of land, if the land is situated in Australia) or a mining, quarrying or prospecting right (to the extent that the right is not a real property), if the minerals, petroleum or quarry materials are situated in Australia.

### **3.2 Dividends**

Broadly, dividends paid on Ordinary Shares may be wholly or partially "franked", or "unfranked". The franked portion of a dividend has franking credits attached. These credits represent underlying Australian corporate tax that has been paid on the profits distributed. To the extent a dividend is unfranked no franking credits are attached.

The residency status of the Shareholder, and whether a dividend is franked or unfranked, will have different income tax implications as set out below.

#### *Australian resident Shareholders*

Australian resident Shareholders will include dividends received, together with any franking credits attached, in their assessable income. The Australian resident Shareholders are then entitled to a franking tax offset equal to the amount of franking credits attached to the dividend.

Generally, to be eligible for the franking credit or franking offset, the Shareholder must have held the shares at risk for 45 days (not counting the day of acquisition or disposal). However, this rule should not apply where an individual taxpayer did not have total franking tax offsets exceeding A\$5,000 during the income year in which the dividend is received.

Individual Shareholders and complying superannuation funds may receive a tax refund to the extent the franking tax offset exceeds their tax liability for the income year. A corporate entity with franking tax offsets greater than the tax payable by the company in an income year will not receive a refund of the balance. Rather, the excess franking tax offset should be grossed up and carried forward as a tax loss that can be used to reduce the company's taxable income in future years, subject to satisfying company loss rules. The receipt of a franked dividend will also generally give rise to a credit in the corporate entity's franking account to the extent the dividend is franked.

#### Non-Australian resident Shareholders

Fully franked dividends paid to non-Australian resident Shareholders are generally not subject to withholding tax. Dividends that are not fully franked dividends are subject to withholding tax on the unfranked portion except to the extent that the dividend is declared to be “conduit foreign income” (in essence income and gains that have a foreign source from an Australian perspective, which includes dividends received from Non-Australian resident subsidiaries).

To the extent unfranked dividends are not paid out of conduit foreign income, dividend withholding tax will apply at the rate of 30% unless the rate is reduced under a double tax treaty. For example, the Australia – UK tax treaty generally reduces the dividend withholding tax rate to 15%, noting that this rate may differ in certain circumstances.

The Company will send shareholders statements that indicate the extent to which dividends are franked, paid out of conduit foreign income, and the amount of tax (if any) withheld.

A non-Australian resident holder of ordinary shares (who is not also a tax resident of Australia and who does not hold ordinary shares as a business asset through a permanent establishment in Australia) with no other Australian source income is not required to file an Australian tax return.

### **3.3 Australian Stamp Duty (General)**

While the Ordinary Shares remain quoted on the ASX or London Stock Exchange, the acquisition or disposal of Ordinary Shares will generally not have any stamp duty implications in Australia.

Australian stamp duty however may arise if a person, together with related persons, acquires a significant interest in the company (90% or greater interest) while the company is listed on the ASX or the London Stock Exchange. This will occur where the Company is a direct or indirect holder of land, subject to the landholder duty rules applicable in each state and territory in Australia.

### **3.4 Goods and Services Tax (GST)**

While the Ordinary Shares remain quoted on the ASX or London Stock Exchange, the acquisition or disposal of Ordinary Shares should not have any direct GST implications in Australia as they are considered input taxed financial supplies.

Australian resident Shareholders who are registered for GST will need to consider their individual circumstances as to whether they are entitled to claim input tax credits for GST incurred on expenses related to acquiring or disposing of Ordinary Shares.

### **3.5 Other Matters**

Australian resident Shareholders will generally be required to notify the Company of their tax file number (or Australian Business Number if carrying on an enterprise) in respect of Ordinary Shares held. Failure to do so may result in the Company being required to withhold tax at the top marginal individual rate including Medicare levy (currently 47%) on any unfranked dividend distributions made by the Company. The Shareholder will however be entitled to a credit or refund in their tax returns to the extent of the tax withheld.

## PART 16

### ADDITIONAL INFORMATION

#### 1. Responsibility Statement

The Company and the Directors accept responsibility for the information contained in this Document. To the best of the knowledge of the Company and the Directors, the information contained in this Document is in accordance with the facts and the Document makes no omission likely to affect its import.

#### 2. The Company

The Company is a public company limited by shares, incorporated and registered in Australia with Australian Company Number ACN 116 800 269 on 27 October 2005. The LEI is 213800HRE3FQJ6RK4H10.

The Company is domiciled in Western Australia with the registered office of the Company, and business address for all of the Directors and Senior Managers, as at the date of this Document, being 1202 Hay Street, West Perth, WA 6005, Australia.

The Company's telephone number is +61 (8) 6382 3390 and the Group's website is <https://mgcpharma.com.au>. Information contained on the Group's website or the contents of any website accessible from hyperlinks on the Group's website are not incorporated into and do not form part of this Document.

The principal legislation under which the Company operates with conformity is the Corporations Act.

#### 3. Share capital of the Company

As at the Last Practicable Date, the Company has an issued share capital of 1,788,130,339 Ordinary Shares, all of which are fully paid up.

The issued share capital of the Company immediately after Admission is expected to be 2,228,808,306 Ordinary Shares. The Directors have received Shareholder approval for the issue of the placement shares for the purposes of ASX Listing Rule 7.1.

On Admission, it is expected that approximately 94.5% of the Ordinary Shares in issue will be held in public hands (within the meaning of Listing Rule 14.2.2(4)).

The Ordinary Shares will be registered, and may be held in either certificated or uncertificated form (by way of Depositary Interests) on the London Stock Exchange.

During the period covered by the Historical Financial Information, there have been the following changes to the Company's issued share capital:

	2020 Number of Ordinary Shares	2019 Number of Ordinary Shares	2018 Number of Ordinary Shares
<b>Share Capital</b>			
Total issued share capital as at 30 June	1,575,612,348	1,213,383,685	1,202,830,412
<b>Movements in share capital</b>			
<b>Balance at the beginning of the year</b>	<b>1,213,383,685</b>	<b>1,202,830,412</b>	<b>1,096,608,703</b>
<i>Issued during the year</i>			
• Issued at AUD\$0.065 per Ordinary Share on exercise of Options	87,426	—	—
• Issued at AUD\$0.04 per Ordinary Share pursuant to a placing of Ordinary Shares	118,750,000	—	—
• Issued at AUD\$0.041 per Ordinary Share on conversion of Performance Rights	3,638,000	—	—
• Issued at AUD\$0.04 per Ordinary Share pursuant to the issue of Ordinary Shares to vendor	5,850,875	—	—
• Issued at AUD\$0.04 per Ordinary Share pursuant to a placing of Ordinary Shares	25,001,000	—	—
• Issued at AUD\$0.034 per Ordinary Share as part consideration for services	4,411,765	—	—

	2020 Number of Ordinary Shares	2019 Number of Ordinary Shares	2018 Number of Ordinary Shares
<b>Movements in share capital</b>			
• Issued at AUD\$0.032 per Ordinary Share pursuant to a placing of Ordinary Shares	31,250,000	–	–
• Issued at AUD\$0.027 per Ordinary Share pursuant to a share purchase plan	42,313,301	–	–
• Issued at AUD\$0.027 per Ordinary Share pursuant to a placing of Ordinary Shares	129,630,000	–	–
• Issued at AUD\$0.027 per Ordinary Share as part consideration for services	1,296,296	–	–
• Issued at AUD\$0.048 per Ordinary Share on conversion of Performance Rights	–	10,000,000	–
• Issued- at AUD\$0.041 per Ordinary Share on conversion of performance shares	–	7	–
• Issued at AUD\$0.065 per Ordinary Share on exercise of Options	–	553,266	–
• Issued at AUD\$0.041 per Ordinary Share on conversion of Performance Rights	–	–	12,026,000
• Issued at AUD\$0.048 per Ordinary Share on conversion of Performance Rights	–	–	22,500,000
• Issued at AUD\$0.065 per Ordinary Share on exercise of options	–	–	267,137
• Issued at AUD\$0.070 per Ordinary Share pursuant to a placing of Ordinary Shares on 17 April 2018	–	–	71,428,572
<b>Balance at the end of the year</b>	<b>1,575,612,348</b>	<b>1,213,383,685</b>	<b>1,202,830,412</b>

In the period following the year covered by the Historical Financial Information, there have been the following changes to the Company's issued share capital:

	30 June 2020 to Last Practicable Date
<b>Movements in share capital</b>	
<b>Balance at 1 July 2020</b>	<b>1,575,612,348</b>
<i>Issued during the year</i>	
• Conversion of Employee Performance Rights	8,000,000
• Exercise of AUD\$0.065 Options into Ordinary Shares	37,036
• Issued in lieu of backpay to employees and for services provided by multiple providers in lieu of cash payment for fees	47,767,523
• Issued in lieu of fees incurred under the Convertible Note Facility	9,375,000
• Conversion of Convertible Notes – Tranche 1	12,817,884
• Issued for services provided by multiple providers in lieu of cash payment for fees, also for part payment of the 100% acquisition of Medicinal Cannabis Clinic Pty Ltd	57,465,301
• Conversion of Convertible Notes – Tranche 2	25,773,196
• Conversion of Convertible Notes – Tranche 3	51,282,051
<b>Total issued share capital as at the Last Practicable Date</b>	<b>1,788,130,339</b>

#### 4. Australian Takeover Provisions

The Company is incorporated, resident and has its head office and central place of management in Australia. Accordingly, the following Australian legislation and regulations in relation to takeovers apply to the Company:

- the Corporations Act; and
- the FATA.

The main Australian regulatory bodies are:

- ASIC, which is responsible for administering and enforcing the Corporations Act;
- the Australian Takeovers Panel, a peer review body that regulates corporate control transactions, including the resolution of takeover disputes; and
- the ASX Exchange, which is responsible for overseeing compliance by listed entities with the ASX Listing Rules and by participants with the operating rules of the various markets and clearing and settlement facilities operated by the ASX (and its related bodies corporate).

If a proposed investor is a foreign company for the purposes of FATA, the acquisition may need to be approved by the Treasurer of Australia acting on the advice of the Foreign Investment Review Board.

##### 4.1 Corporations Act

Section 606 of the Corporations Act prohibits a person from acquiring a “relevant interest” in voting shares (or a legal or equitable interest in securities which results in a person acquiring such a relevant interest) in a listed company or an unlisted company with more than 50 shareholders if, because of the acquisition, that person’s or someone else’s voting power increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

However, it is not mandatory for a person who exceeds these thresholds to make a takeover bid for all the shares in the relevant company. A person generally has a “relevant interest” in a share if they hold the share, have the power to control disposal of that share or to control the exercise of the right to vote in respect of that share. The term “voting power” is broadly defined and captures any relevant interest in shares held by a person’s “associates”.

These concepts are broad and, for example, a person can have a relevant interest and voting power in a share as a result of an agreement to purchase the share (even a conditional agreement) or a call option to acquire the share.

The concept of “associates” generally includes:

- (a) a person with whom the other person is acting, or proposing to act, in concert in relation to the company’s affairs;
- (b) persons with whom the relevant person has entered or proposed to enter into an agreement for the purpose of controlling or influencing the composition of the company’s board or the conduct of the company’s affairs; and
- (c) companies that the person controls or that control the person.

##### 4.2 Exceptions to the takeovers prohibition

If a person wishes to acquire more than 20% of the Company or increase a holding which is already above 20% (but less than 90%), the person must do so under an exception. There are five principal exceptions to the general prohibition under section 606 of the Corporations Act which are relevant in this context:

- (a) under a formal takeover offer in which all Shareholders can participate;
- (b) pro rata offers of new shares in which all Shareholders can participate;
- (c) by an underwriter or sub-underwriter to offers of securities in the Company in certain circumstances;
- (d) in 3% increments every six months (provided that the acquirer has had voting power of at least 19 % in the Company at all times during the six months prior to the acquisition); and
- (e) with the approval of a majority of Shareholders who are not parties to the transaction, given at a General Meeting.

#### 4.3 Compulsory acquisitions

A bidder may compulsorily acquire any remaining securities in the bid class if during, or at the end of, the offer period, the bidder and its associates have:

- (a) a relevant interest in at least 90% (by number) of the securities in the bid class; and
- (b) acquired at least 75% (by number) of the securities that the bidder offered to acquire under the bid.

The process for making a compulsory acquisition is set out in Chapter 6A of the Corporations Act.

#### 4.4 Scheme of arrangement

In addition to takeover bids, the other main method of acquiring all of the voting shares of an Australian listed company or unlisted company with more than 50 shareholders, is a scheme of arrangement. A scheme of arrangement is a statutory procedure under Part 5.1 of the Corporations Act that allows a company to reorganise its capital structure to give effect to a proposal, such as transferring all of the voting shares in a company to a bidder.

Unlike a takeover bid, a scheme of arrangement is a legal process involving the target company and its shareholders consenting to a proposal that will bind all shareholders. For a scheme of arrangement to bind all shareholders, the following majority approvals must be obtained from shareholders:

- (a) head count test – a simple majority in number (more than 50%) of the shareholders who vote; and
- (b) voted shares test – at least 75% of the total number of votes cast.

The scheme of arrangement must also be approved by an Australian Court, having regard to whether the majority approvals for shareholders have been achieved. Once the scheme of arrangement is approved by the Australian Court, it becomes legally binding on all shareholders of the target company, including those who voted against the scheme or omitted to vote as soon as the Australian Court's order is lodged with ASIC. Following which, the scheme will be implemented according to its terms.

#### 4.5 Foreign investment

Foreign investment in, and ownership of, companies and property in Australia is regulated under the FATA. The FATA is administered by the Foreign Investment Review Board, a division of the Treasury Department of the federal government ("Treasurer"). The ultimate responsibility for making decisions on foreign investment proposals rests with the Treasurer.

The FATA provides for, among other things, a notification and approval process for proposed investments in Australia by "foreign persons" (individuals, corporations or trusts), to acquire, or to increase, a substantial interest in, or acquire a controlling interest in, the assets of a prescribed Australian corporation valued above the relevant thresholds. Regulations (and accompanying guidelines) to FATA set out a number of exemptions from notification for small proposed transactions whilst large proposed transactions generally require notification; both are subject to determination as to whether they are in the Australian national interest. Under FATA, the threshold requirements for notification vary according to, for example, the nature of the foreign investor (i.e. whether the foreign investor is private or state-owned), the nature and value of the business to be acquired and the aggregate Australian land holding of that business. The threshold values are subject to temporary COVID-19 amendments which are due to expire on 1 January 2021. The effect of temporary COVID-19 amendments is the thresholds values have dropped to nil.

The provisions of FATA generally provide that where:

- (a) the Treasurer is satisfied a person proposes to acquire shares in a company which carries on an Australian business;
- (b) the acquisition would result in the company being controlled by a foreign person; and
- (c) the result would be contrary to the national interest,

the Treasurer may make an order prohibiting the acquisition.



Generally, a proposed acquisition of shares (unless an exempt dealing under FATA) will have the effect of a foreign person acquiring a controlling interest in an Australian company if one of the following applies:

- (a) that person alone, or together with their associates, directly or indirectly acquires 20% or more of the shares or controls 20% or more of the voting power (or potential voting power) in an Australian company; or
- (b) that person, together with other foreign persons and each of their associates, directly or indirectly acquires 40% or more of the shares or controls 40% or more of the voting power (or potential voting power) in an Australian company.

If a foreign person is required to give notice of a proposed transaction to the Treasurer under FATA, it must either wait for the decision of the Treasurer or allow for a prescribed period following the notification to the Treasurer to lapse before entering into a binding agreement to acquire shares which will result in a foreign person acquiring a controlling interest in a company.

## **5. Minority Shareholders**

The Corporations Act provides protection for minority shareholders where the conduct of a company's affairs or an act or omission (including a resolution of members or a class or members) by a company is contrary to the interests of the members as a whole, or oppressive to, unfairly prejudicial to, or unfairly discriminatory against a member or a group of members.

## **6. Substantial holdings**

Under the Corporations Act, a person has a "substantial holding" if that person and his/her associates have a relevant interest in 5% or more of voting shares in a listed company or an unlisted company with over 50 shareholders. A person who begins to or ceases to have a substantial holding in a company, or has a substantial holding in a company and there is movement in that holding by at least 1%, must give notice to the Company and to the ASX. The contents of this notice are prescribed in section 671B (3) and (4) of the Corporations Act.

Under the DTR, specifically Rule 5 of the DTR, Shareholders must notify the Company of the percentage of voting rights he or she holds as a shareholder (or holds or is deemed to hold through his direct or indirect holding of financial instruments) if, as a result of an acquisition or disposal of shares or financial instruments, the percentage of those voting rights reaches, exceeds or falls below 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%. This obligation is in addition to the obligation to notify the Company and the ASX under the Corporations Act.

## **7. ASX Disclosure requirements**

### **7.1 Periodic disclosure**

The Corporations Act and ASX Listing Rules set out the periodic disclosure requirements that apply to the Company. For example, the Company must prepare and lodge half-year and full-year financial reports, and must prepare and lodge an annual report to Shareholders.

In addition, the Company is subject to the quarterly cash flow reporting regime under the ASX Listing Rules and must provide ASX with a quarterly cash flow report within one month after the end of each quarter of its financial year.

### **7.2 Continuous disclosure**

ASX Listing Rule 3.1 provides that once the Company is aware or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the Company's securities, it must immediately tell the ASX that information, subject to the limited exception outlined below.

Immediate disclosure under ASX Listing Rule 3.1 can only be delayed under ASX Listing Rule 3.1A if each of the following is satisfied:

- (a) a reasonable person would not expect the information to be disclosed;
- (b) the information is confidential and ASX has not formed the view that the information has ceased to be confidential; and
- (c) one or more of the following applies:
  - (i) it would be a breach of a law to disclose the information; or
  - (ii) the information concerns an incomplete proposal or negotiation; or
  - (iii) the information comprises matters of supposition or is insufficiently definite to warrant disclosure; or

- (iv) the information is generated for internal management purposes of the Company; or
- (v) the information is a “trade secret.”

### 7.3 Disclosure in relation to false markets

ASX Listing Rule 3.1B provides that if ASX considers that there is, or is likely to be, a false market in an entity’s securities, and requests information from the entity to correct or prevent the false market, the entity must give ASX the information needed to correct or prevent the false market.

### 7.4 Information must be given to ASX first

ASX Listing Rule 15.7 requires that an entity must not release information that is for release to the market to anyone until it has given the information to ASX and has received an acknowledgement from ASX that the information has been released to the market. The ASX has issued guidance for dual listed companies that where the company becomes aware of information outside of ASX trading hours and which it is required to release that information on an overseas exchange, it is permitted to do so provided that it gives the information to the ASX Market Announcements Office at the same time, together with written advice that the information has been released to the overseas exchange.

## **8. Constitution**

The following is a non-exhaustive summary of the provisions of the Constitution. Please see paragraph 25 of this Part 16 of this Document – “Additional Information”, for details of how to obtain a full copy of the Constitution.

### 8.1 Objects

The Constitution does not contain any limitations on the Company’s objects and purposes.

### 8.2 Shareholder voting

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at meetings of Shareholders or classes of Shareholders:

- (a) each Shareholder entitled to vote may vote in person or by proxy, attorney, representative (in the case of a Company) or, subject to the Board resolving that direct voting is permitted at the meeting, by direct vote;
- (b) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote (even though he or she may represent more than one member); and
- (c) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder (or where a direct vote has been lodged) shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the Share, but in respect of partly paid Shares, shall have such number of votes being equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable in respect of those Shares (excluding amounts credited).

A poll may be demanded by the Chairperson of the meeting, at least five Shareholders entitled to vote on that resolution, or by any one or more Shareholders holding not less than 5% of the total voting rights of all Shareholders having the right to vote on that resolution.

### 8.3 Dividends

Subject to and in accordance with the Corporations Act, the ASX Listing Rules, the rights of any preference shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividend, the Directors may from time to time decide to pay a dividend to the Shareholders entitled to the dividend which shall be payable on all shares according to the proportion that the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) in respect of such Shares. The Directors may rescind a decision to pay a dividend if they decide, before the payment date, that the Company’s financial position no longer justifies the payment.

### 8.4 Offers of Shares to be on a pre-emptive basis

The Constitution does not contain any requirement for the Company to offer shares on a pre-emptive basis and there are no pre-emptive rights afforded to shareholders under the ASX Listing Rules. However, a listed company is required to seek shareholder approval to issue more than 15% of its issued shares (or 25% for certain entities that meet the threshold eligibility criteria and have obtained shareholder approval by special resolution at their AGM) in a 12-month period.

#### 8.5 Issue of Shares

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, unissued shares shall be under the control of the Directors and, subject to the Corporations Act and the ASX Listing Rules (together, “**Applicable Law**”), the Directors may at any time issue such number of shares either as Ordinary Shares or shares of a named class or classes (being either an existing class or a new class) at the issue price that the Directors determine and with such preferred, deferred, or other special rights or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Directors shall, in their absolute discretion, determine.

Subject to the ASX Listing Rules, the Directors may at any time and from time to time issue options over shares on such terms and conditions as the Directors shall, in their absolute discretion, determine.

#### 8.6 Reductions of capital and buy backs

Subject to the Applicable Law, the Company may reduce its share capital and buy-back shares in itself on any terms and at any time. The Corporations Act sets out certain procedures that must be followed in relation to reductions in share capital and the buy-back of shares.

#### 8.7 Variation of class rights

Subject to the Corporations Act and the terms of issue of shares of a particular class, the Company may:

- (a) vary or cancel rights attached to shares in that class; or
- (b) convert shares from one class to another,

by special resolution of the Company and:

- (c) a special resolution passed at a meeting on the members holding shares in that class; or
- (d) the written consent of members who are entitled to at least 75% of the votes that may be cast in respect of shares in that class.

#### 8.8 Number and appointment of Directors

The number of Directors must not be less than three and not more than nine. The Company may in a general meeting alter the maximum or minimum number of Directors provided that the minimum is not less than three. The Directors may appoint any person as a Director. The Company in general meeting may by ordinary resolution appoint any person as a Director. A Director need not be a member.

The Directors may at any time appoint a person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, but so that the total number of Directors does not at any time exceed the maximum number specified by the Constitution. Any Director so appointed holds office only until the next following annual general meeting and is then eligible for re-election.

#### 8.9 Removal and resignation of Directors

The Company may by ordinary resolution passed at a general meeting remove any Director, and if thought fit, appoint another person in place of that Director. A Director may resign from office by giving the Company notice in writing.

#### 8.10 Remuneration of Directors

The Company may pay the non-executive Directors a maximum total amount as determined by the Company in a general meeting, or until so determined, as the Director’s resolve. The remuneration of the executive Directors must, subject to the provisions of any contract between each of them and the Company, be fixed by the Directors. If a Director performs extra or special services, including being a member on a committee of Directors or the chairperson or deputy chairperson, the Company may pay additional remuneration or provide benefits to that Director as the Directors resolve. The remuneration of Directors must not be calculated as a commission on, or percentage of, profits or operative revenue.

#### 8.12 Disqualification and retirement of Directors

All Directors, excluding the managing Director, must retire from office no later than the longer of:

- (a) the third annual general meeting; or
- (b) three years,

following that Director's last election or appointment.

If the Company has three or more Directors, one third of the Directors (excluding the managing Director) must retire at each annual general meeting. If the Company has less than three Directors, one Director must retire at each annual general meeting.

The Directors to retire are:

- (a) those who have held their office as Director the longest period of time since their last election or appointment; and
- (b) if two or more Directors have held office for the same period of time, those Directors determined by lot, unless those Directors agree otherwise.

A Director who retires under the Constitution is eligible for re-election.

A Director appointed by the existing Directors may retire at the general meeting and is eligible for re-election at that meeting. If that Director does not retire at the next general meeting, that Director must retire at the next annual general meeting and is eligible for re-election at that meeting.

A Director ceases to be a Director if:

- (a) ceases to be a director by virtue of Section 203D or any other provision of the Corporations Act;
- (b) becomes bankrupt or insolvent or makes any arrangement or composition with his creditors generally;
- (c) becomes prohibited from being a director by reason of any order made under the Corporations Act;
- (d) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental health;
- (e) resigns his or her office by notice in writing to the Company;
- (f) is removed from office by resolution of the Company; or
- (g) is absent for more than six months, without permission of the Directors, from meetings of the Directors held during that period.

#### 8.13 Powers of the Board

The business of the Company is managed by or under the direction of the Directors. The Directors may exercise all the powers of the Company except any powers that the Corporations Act or the Constitution require the Company to exercise in general meeting.

#### 8.14 Interests of Directors

A Director may:

- (a) hold an office or a place of profit (except as auditor) in the Company on terms as the Directors resolve, or in a related body corporate of the Company; or
- (b) act, or the Director's firm may act, in any professional capacity for the Company (except as auditor) or any related body corporate of the Company,

and retain the benefits of doing so provided that the Director discloses the interest giving rise to those benefits in accordance with the Corporations Act.

#### 8.15 Quorum of General Meetings

A quorum for a meeting of members is two eligible Shareholders entitled to vote at that meeting.

#### 8.16 Notice of General Meetings

A general meeting must be called by a notice of at least 28 days to Shareholders.

The notice must set out the date and time of the meeting (if the meeting is to be held in two or more places, the technology that will be used), the general nature of the business of the meeting, the date and time (being not more than 48 hours before the meeting) at which persons will be taken for the purpose of the meeting to hold Shares and any other information or documents specified by the Applicable Law.

A meeting may be held at two or more places linked together by technology that gives the Shareholders a reasonable opportunity to participate, enables the chairperson to be aware of the proceedings in each place, and enables the Shareholders in each place to vote by a show of hands and by a poll.

#### 8.17 Registered holders

Except as required by law or the Constitution, the Company is not required to recognise any interest in, or right in respect of, a share except an absolute right of legal ownership of the Shareholder registered as the holder of that Share.

#### 8.18 Transfer of Shares

Subject to the Constitution and the Applicable Law, the Company must not refuse or fail to register a transfer of shares.

The Company may refuse to register any transfer of shares where the Applicable Law permits the Company to do so.

The Company must refuse to register any transfer of shares where:

- (a) the Applicable Law requires the Company to do so;
- (b) those shares are restricted securities during the escrow period;
- (c) the Company has lien on those shares; or
- (d) the proportional takeover provisions of the Constitution require the Company to do so.

#### 8.19 Unmarketable parcels

The Constitution contains provisions enabling the Company to require the Shareholder to dispose of shares where the Shareholder holds less than a marketable parcel of shares. A marketable parcel is a parcel of shares or securities of not less than AUD\$500 in value based on the closing price on the ASX. To invoke this procedure, the Directors must first give notice to the relevant Shareholder holding less than a marketable parcel of shares, who may then elect not to sell or dispose of the shares by notifying the Company.

#### 8.20 Indemnity

To the extent permitted by law, the Company indemnifies every person who is or has been a Director or secretary of the Company against a liability incurred by that person in his or her capacity as a Director or secretary. Indemnities not permitted under the Corporations Act include where a liability is owed to a third party and did not arise out of conduct in good faith. A similar indemnity is provided in respect of legal proceedings. The Company may also pay the premiums on Directors' and officers' liability insurance.

#### 8.21 Borrowing powers

The Constitution does not contain provisions specific to the borrowing powers of the Company. The Company may exercise in any manner permitted by the Corporations Act any power which a public company limited by shares may exercise under the Corporations Act.

## 9. Information on the Directors and Senior Management

The Directors and Senior Management, their functions within the Group and brief biographies are set out in Part 5 of this Document – “Directors, Senior Management, Clinical Advisory Team and Corporate Governance”.

Details of the names of companies and partnerships (excluding directorships in the Group) of which the Directors and Senior Management are or have been members of the administrative, management or supervisory bodies or partners at any time in the five years preceding the date of this Document are set out below:

<b>Name</b>	<b>Current partnerships/directorships</b>	<b>Past partnerships/directorships</b>
<b><u>Directors</u></b>		
Roby Zomer	Green City Urban Recycling Ltd Graft Polymer (UK) Limited Graft Polymer (Malta) Limited Chitta Lu Limited Sputnik Enterprises Ltd Freya Holdings Limited	GreenCoal (Namibia) (Pty) Ltd GreenCoal South Africa (Pty) Ltd
Nativ Segev	Bright Global Limited	Cann Pharma Ltd
Brett Mitchell	Australian Cannabis Ventures Ltd Broadway Investments (WA) Pty Ltd Chieftain Securities Pty Ltd Guv Pty Ltd Luissi Investments Pty Ltd Mitchell Lodge Australia Pty Ltd Platypus Assets Pty Ltd Sibella Capital Pty Ltd TNT Mines Limited Verona Technology Pty Ltd Yampi Iron Pty Ltd YCAGAGF Investments Pty Ltd	Citation Resources Aus Pty Ltd Citation Resources Operations Pty Ltd Cloud Lands Digital Fortress Pty Ltd Digitalx Limited Erin Mineral Resources Pty Ltd Erin Minerals Pty Ltd Mt Garnet Mines N.L. Pearl Global Limited Sky and Space Global Ltd Skye Resources Pty Ltd Tamaska Oil and Gas Ltd Verona Capital Pty Ltd 2020 Ventures Pty Ltd
Dr. Stephen Parker	SP2 Asset Management Limited Sareum Holdings Plc Sareum Limited Albucasis Limited sp2 Consulting Limited	Silence Therapeutics Plc Liverpool Chirochem Limited Celtic Pharma Development UK Plc Xenova Group Limited Xenova Limited Gammadelta Therapeutics Limited
Dr. Ross Walker	Lindfield Cardiology Limited	None
Evan Hayes	Factors Group Australia Relae Pty Limited Fit Milestones/Karoshi Pty Ltd New Zealand Coastal Seafoods Limited	The International Probiotics Association. B More Bioceuticals
<b><u>Senior Management</u></b>		
Daniel Kendall	None	None
Nicole Godresse	Green Pastures Pty Limited	None
Sasha Friedman	None	None
Amir Polak	Alfa Solutions	Green City Urban Recycling Ltd
Ron Lipsky	None	None
Jonathan Grunfeld	None	None
Itay Nissim	None	None
Rachel Kerr	2020 Ventures Pty Ltd	None
Narelle Warren	Concept Biotech Pty Ltd Philuchna Pty Ltd	None

None of the Directors or Senior Management:

- (a) have any convictions in relation to fraudulent offences for at least the previous five years; or
- (b) have been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or of a senior manager of any company for at least the previous five years; or
- (c) have been subject to any official public incriminations and/or sanctions by any statutory or regulatory authority (including designated professional bodies) for at least the previous five years; or
- (d) have ever been disqualified by a court from acting as a director of a company, or from acting as a member of the administrative, management or supervisor bodies of a company, or from acting the management or conduct of the affairs of any company for at least the previous five years.

There are no family relationships between any of the Directors or Senior Management.

There are no potential or actual conflicts of interest between any duties owed by the Directors or the Senior Management to the Company and their private interests and/or other duties, save for their interest as holders of securities of the Company.

#### 10. Directors' and Senior Management's interests

The Ordinary Shares and other securities held by the Directors and Senior Management (all of which are held beneficially unless otherwise stated) held as at the Last Practicable Date and as they are expected to be at Admission (as a result of the issue of the Placing Shares), are as follows:

Directors	Ordinary Shares as at Last Practicable Date	Percentage of the share capital as at Last Practicable Date	Option holding balance as at Last Practicable Date and Admission	Performance Rights balance as at Last Practicable Date and Admission	Ordinary Shares as at Admission	Percentage holding at Admission
Brett Mitchell	30,405,004	1.85%	10,055,554 <sup>i</sup>	7,500,000	30,405,004	1.36%
Roby Zomer	33,000,001	2.01%	0	7,500,000	33,000,001	1.48%
Nativ Segev	53,000,001	3.23%	0	0	53,000,001	2.37%
Ross Walker	4,370,370	0.27%	185,185	0	4,370,370	0.19%
Stephen Parker	0	0%	0	0	0%	0%
Evan Hayes	0	0%	0	0	0%	0%
<b>Total</b>	<b>120,775,376</b>	<b>7.36%</b>	<b>10,240,739</b>	<b>15,000,000</b>	<b>120,775,376</b>	<b>5.40%</b>

<sup>i</sup> Chieftain Securities Pty Ltd, of which Mr Mitchell is a director and 33.33% shareholder, holds 9,500,000 of these options.

Senior Management	Ordinary Shares as at Last Practicable Date	Percentage of the share capital as at Last Practicable Date	Option holding balance as at Last Practicable Date and Admission	Performance Rights balance as at Last Practicable Date and Admission	Ordinary Shares as at Admission	Percentage holding at Admission
Daniel Kendall	0	0%	0	0	0	0%
Nicole Godresse	0	0%	0	0	0	0%
Sasha Friedman	0	0%	0	0	0	0%
Amir Polak	1,500,000	0.09%	0	0	1,500,000	0.06%
Ron Lipsky	4,000,000	0.24%	3,500,000	0	4,000,000	0.17%
Jonathan Grunfeld	3,818,182	0.23%	300,000	0	3,818,182	0.17%
Itay Nissim	1,000,000	0.06%	1,700,000	0	1,000,000	0.04%
Rachel Kerr	1,120,735	0.07%	1,100,000	0	1,120,735	0.05%
Narelle Warren	0	0	0	0	0	0%
<b>Total</b>	<b>11,438,917</b>	<b>0.69%</b>	<b>6,600,000</b>	<b>0</b>	<b>11,438,917</b>	<b>0.49%</b>

There are no Performance Shares currently in issue.



## **11. Major Shareholders**

As at the Last Practicable Date, the Company is not aware of any person who, directly or indirectly, is interested in 5% or more of the Company's capital or voting rights.

Immediately following Admission, as a result of the Placing, the Directors expect that a number of persons will have any interest directly or indirectly, in at least 5% of the voting rights attached to the Ordinary Shares. Such persons will be required to notify such interests to the Company in accordance with the provisions of Chapter 5 of the DTR and such interests will be notified by the Company to the public.

The Company is not aware of any person who, directly or indirectly, owns or controls the Company. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

## **12. Directors' and Senior Management's service agreements**

### Directors

#### **Mr Roby Zomer, CEO & Managing Director**

Mr Zomer has a director agreement with the Company dated 1 July 2020, there is no termination date and no payment on termination under this agreement. The fee payable to Mr Zomer under this agreement is A\$4,000 per month.

Separate to the director agreement with the Company, Mr Zomer also has an executive services agreement with the Company entered into by Chitta Lu Limited, an entity controlled by Mr Zomer, dated 1 July 2020. This agreement renews every 12 months unless terminated and fees payable to Mr Zomer are A\$12,500 per month, with no termination fee payable. Mr Zomer has a director agreement with subsidiary MGC Pharmaceuticals d.o.o, dated 1 July 2018, this agreement has no termination date or payment on termination. Fees payable to Mr Zomer are €1,000 per month.

Mr Zomer also has a director agreement with subsidiary MGC Pharma (UK) Ltd, dated 30 June 2016, this agreement has no termination date or payment on termination. Fees payable to Mr Zomer are €910 per month.

#### **Mr Brett Mitchell, Executive Chairman**

Mr Mitchell has a director agreement with the Company dated 1 July 2020, there is no termination date and no payment on termination under this agreement. The fee payable to Mr Mitchell under this agreement is A\$4,000 per month.

Separate to the director agreement with the Company, Mr Mitchell also has an executive services agreement with the Company entered into with Sibella Capital Pty Ltd, an entity controlled by Mr Mitchell, dated 1 July 2020. This agreement renews every 12 months unless terminated and fees payable to Mr Mitchell are A\$12,000 per month, with no termination fee payable.

Mr Mitchell has a director agreement with subsidiary MGC Pharma (UK) Ltd dated 30 June 2016, this agreement has no termination date or payment on termination. Fees payable to Mr Mitchell are €910 per month.

#### **Mr Nativ Segev, Non-Executive Director**

Mr Segev has a director agreement with the Company dated 1 July 2020, there is no termination date and no payment on termination under this agreement. The fee payable to Mr Segev under this agreement is A\$4,000 per month.

Separate to the director agreement with the Company, Mr Segev also has a services agreement with the Company entered into with Bright Global Limited, an entity controlled by Mr Segev, dated 1 July 2020. This agreement renews every 12 months unless terminated and fees payable to Mr Segev are A\$5,000 per month, with no termination fee payable.

#### **Dr Ross Walker, Non-Executive Director and Chairman of Clinical Advisory Board**

Dr Walker has a director agreement with the Company dated 1 July 2020, there is no termination date and no payment on termination under this agreement. The fee payable to Mr Walker under this agreement is A\$4,000 per month.

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

Dr Parker has a director agreement with the Company dated 1 July 2020, there is no termination date and no payment on termination under this agreement. The fee payable to Mr Parker under this agreement is A\$4,000 per month plus A\$1,000 per annum as Chairman of the Corporate Governance Committees.

#### **Mr Evan Hayes, Non-Executive Director**

Mr Hayes has a director agreement with the Company dated 1 July 2020, there is no termination date and no payment on termination under this agreement. The fee payable to Mr Hayes under this agreement is A\$4,000 per month.

### Senior Management

#### *Daniel Kendall*

Mr Kendall is appointed as group Chief Executive Officer at 2020 Ventures Pty Limited and in that capacity, provides professional accounting and statutory reporting services to a number of listed and private companies, including the Group. Annual salary is A\$160,000 per annum, with superannuation of 9.5%. Mr Kendall will be eligible for a performance related bonus.

#### *Nicole Godresse*

Ms Godresse provides her services to the Company through Green Pastures Pty Limited and is paid a base salary of A\$96,000 per annum, as well as being eligible for a performance-based equity bonus where certain key sales and revenue milestones are achieved.

#### *Ron Lipsky*

The Company has entered into a service agreement with Ron Lipsky pursuant to which Mr Lipsky is appointed as VP Business Development of the Company. The current service agreement is dated 1 July 2020.

Mr Lipsky receives a fixed monthly fee of A\$10,000 inclusive of all applicable taxes payable in arrears for each relevant month, against an invoice issued by Mr Lipsky.

The agreement may be terminated by 60 days' notice in writing to the other party, or such shorter period as the parties may agree.

The agreement otherwise contains terms and conditions that are considered standard for agreements of this nature.

#### *Sasha Friedman*

The Company has entered into a service agreement with Sasha Friedman pursuant to which Ms Friedman is appointed as Chief Project Officer of the Company. The current service agreement is dated 1 July 2020.

Ms Friedman receives a fixed monthly fee of A\$7,500 inclusive of all applicable taxes, payable in arrears for each relevant month, against an invoice issued by Ms Friedman.

The agreement may be terminated by 60 days' notice in writing to the other party, or such shorter period as the parties may agree.

The agreement otherwise contains terms and conditions that are considered standard for agreements of this nature.

#### *Amir Polak*

The Company has entered into a service agreement with Amir Polak pursuant to which Mr Polak is appointed as Chief Technology Officer of the Company. The current service agreement is dated 1 July 2020.

Mr Polak receives a fixed monthly fee of A\$12,000 inclusive of all applicable taxes, payable in arrears for each relevant month, against an invoice issued by Mr Polak.

The agreement may be terminated by 60 days' notice in writing to the other party, or such shorter period as the parties may agree. The agreement otherwise contains terms and conditions that are considered standard for agreements of this nature.

#### *Jonathan Grunfeld*

The Company entered into a service agreement with Jonathan Grunfeld on 1 July 2020 pursuant to which Dr Grunfeld is appointed as Chief Medical Officer of the Company.

Dr Grunfeld receives a fixed monthly fee of A\$12,000 inclusive of all applicable taxes, payable in arrears for each relevant month, against an invoice issued by Dr Grunfeld. Also included in his remuneration package is, subject to shareholder approval, a bonus of \$50,000 worth of Shares at the end of each calendar year if the engagement remains in force; and a bonus of \$250,000 worth of Shares upon the Company successfully registering (i.e. obtaining a marketing authorisation in accordance with applicable law) each medicinal drug, medical device or other intellectual property of scientific or commercial value to the Company.

Dr Grunfeld is also entitled to receive a 0.5% royalty for any revenue generated by the Company on a specific medical drug, medical device or other intellectual property of scientific or commercial value that has been developed by the Company based on the intellectual property of Dr Grunfeld.

The agreement may be terminated by 60 days' notice in writing to the other party, or such shorter period as the parties may agree. The agreement otherwise contains terms and conditions that are considered standard for agreements of this nature.

#### *Itay Nissim*

The Company has entered into a service agreement with Itay Nissim pursuant to which Mr Nissim is appointed as Chief Operations Officer of the Company. The current service agreement is dated 1 July 2020.

Mr Nissim receives a fixed monthly fee of A\$7,500 inclusive of all applicable taxes, payable in arrears for each relevant month, against an invoice issued by Mr Nissim.

The agreement may be terminated by 60 days' notice in writing to the other party, or such shorter period as the parties may agree. The agreement otherwise contains terms and conditions that are considered standard for agreements of this nature.

#### *Rachel Kerr*

The Company has entered into a letter agreement with 2020 Ventures Pty Ltd for the provision of corporate administrative services. This includes Mrs Kerr's services which are charged by 2020 Ventures Pty Ltd at \$9,500 per month.

#### *Narelle Warren*

The Company has entered into an agreement with Concept Biotech Pty Limited, through which, Ms Warren provides corporate and company secretarial services in consideration for \$6,000 to \$8,000 (exclusive of GST), per month, by reference to the level of services required.

### **13. Summary of remuneration and benefits**

A summary of the amount of remuneration paid by the Group to the Directors and Senior Managers (including any contingent or deferred compensation) and benefits in kind for the financial year ended 30 June 2020 for their services, in all capabilities, to the Group is set out below:

	Cash					Non-Cash			
	Short-term Benefits			Post-employment benefits		Equity	Share based Payments	Performance related Total	related %
	Cash and salary	Performance Bonus	Other	Super-annuation	Termination benefits				
<b>Directors</b>									
Brett Mitchell	230,532	30,000	–	–	–	–	91,456 <sup>i</sup>	351,988	22.43%
Roby Zomer	290,319	30,000	28,211	–	–	–	91,456 <sup>i</sup>	439,986	17.95%
Nativ Segev	240,319	30,000	53,722	–	–	–	(58,521)	265,520	5.26%
Ross Walker	52,000	–	–	–	–	–	–	52,000	–
Stephen Parker	60,608	–	–	–	–	–	–	60,608	–
Evan Hayes	–	–	–	–	–	–	–	–	–
<b>Total</b>	<b>873,778</b>	<b>90,000</b>	<b>81,933</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>124,391</b>	<b>1,170,102</b>	<b>–</b>
	Cash					Non-Cash			
	Short-term Benefits			Post-employment benefits		Equity	Share based Payments	Performance related Total	related %
	Cash and salary	Performance Bonus	Other	Super-annuation	Termination benefits				
<b>Senior Managers</b>									
Daniel Kendall	–	–	–	–	–	–	–	–	–
Nicole Godresse	–	–	–	–	–	–	–	–	–
Sasha Friedman	71,208	–	86	–	–	–	–	71,294	–
Amir Polak	71,189	–	2,571	–	–	–	–	73,760	–
Ron Lipsky	148,846	–	1,048	–	–	55,760	38,611	244,265	–
Jonathan Grunfeld	141,798	–	461	–	–	–	9,653	151,912	–
Itay Nissim	106,451	–	–	–	–	13,940	21,236	141,627	–
Rachel Kerr	46,000	–	–	–	–	27,880	14,479	88,359	–
Narelle Warren	–	–	–	–	–	–	–	–	–
<b>Total</b>	<b>585,492</b>	<b>–</b>	<b>4,166</b>	<b>–</b>	<b>–</b>	<b>97,580</b>	<b>83,979</b>	<b>771,217</b>	<b>–</b>

The Directors are not entitled to a termination fee upon termination of their service agreements, as detailed in paragraph 12.

The Company has entered into standard deeds of indemnity, access and insurance with each of the Directors. Pursuant to those deeds, the Company has undertaken, consistent with the Corporations Act, to indemnify each Director in certain circumstances and to maintain directors' and officers' insurance cover in favour of the Director during the period of their appointment and for seven years after the Director has ceased to be a Director.

#### 14. Pension Arrangements

The Group does not provide pension, retirement or similar benefits to the Directors or Senior Managers.

#### 15. Incentives

##### Incentive Plan

The material terms and conditions of the Incentive Plan are as follows:

- (a) Eligibility: Participants in the Incentive Plan may be:
  - (i) a Director (whether executive or non-executive) of a Group Company or an associated company;
  - (ii) a full or part time employee of any Group Company or an associated company;
  - (iii) a casual employee or contractor of the Group to the extent permitted by a Class Order, or as otherwise permitted by the Board in its sole discretion; or
  - (iv) a prospective participant, being a person to whom the offer is made but who can only accept the offer if an arrangement has been entered into that will result in the person becoming a participant under subparagraphs (i), (ii), or (iii) above,who is declared by the Board to be eligible to receive grants of Options under the Incentive Plan.
- (b) Offer: The Board may, from time to time, in its absolute discretion, make a written offer to any Eligible Participant (including an Eligible Participant who has previously received an offer) to apply for up to a specified number of Options, upon the terms set out in the Incentive Plan and upon such additional terms and conditions as the Board determines.
- (c) Plan limit: Where the Company has relied or intends relying on the Class Order to make an Offer, the Company must have reasonable grounds to believe, when making an offer, that the number of shares to be received on exercise of Options offered under an offer, when aggregated with the number of shares issued or that may be issued as a result of offers made in reliance on the Class Order at any time during the previous three year period under an employee incentive scheme covered by the Class Order or an ASIC exempt arrangement of a similar kind to an employee incentive scheme, will not exceed 5% of the total number of shares on issue at the date of the offer.
- (d) Issue price: Unless the Options are quoted on the ASX, Options issued under the Incentive Plan will be issued for no more than nominal cash consideration.
- (e) Vesting Conditions: An Option may be made subject to Vesting Conditions as determined by the Board in its discretion and as specified in the offer for the Option.
- (f) Vesting: The Board may in its absolute discretion (except in respect of a change of control occurring where Vesting Conditions are deemed to be automatically waived) by written notice to a Relevant Person, resolve to waive any of the Vesting Conditions applying to Options due to:
  - (i) Special Circumstances arising in relation to a Relevant Person in respect of those Options; or
  - (ii) a change of control occurring; or
  - (iii) the Company passing a resolution for voluntary winding up, or an order is made for the compulsory winding up of the Company.
- (g) Lapse of an Option: An Option will lapse upon the earlier to occur of:
  - (i) an unauthorised dealing in the Option;
  - (ii) a Vesting Condition in relation to the Option is not satisfied by its due date, or becomes incapable of satisfaction, unless the Board exercises its discretion to waive the Vesting Conditions and vest the Option in the circumstances set out in paragraph (f) or the Board resolves, in its absolute discretion, to allow the unvested Options to remain unvested after the Relevant Person ceases to be an Eligible Participant;

- (iii) in respect of unvested Option only, an Eligible Participant ceases to be an Eligible Participant, unless the Board exercises its discretion to vest the Option in the circumstances set out in paragraph (f) or the Board resolves, in its absolute discretion, to allow the unvested Options to remain unvested after the Relevant Person ceases to be an Eligible Participant;
  - (iv) in respect of vested Options only, a Relevant Person ceases to be an Eligible Participant and the Option granted in respect of that person is not exercised within one month (or such later date as the Board determines) of the date that person ceases to be an Eligible Participant;
  - (v) the Board deems that an Option lapses due to fraud, dishonesty or other improper behaviour of the Eligible Participant;
  - (vi) the Company undergoes a change of control or a winding up resolution or order is made and the Board does not exercise its discretion to vest the Option;
  - (vii) the expiry date of the Option.
- (h) Not transferrable: Options are only transferrable in Special Circumstances with the prior written consent of the Board (which may be withheld in its absolute discretion) or by force of law upon death, to the participant's legal personal representative or upon bankruptcy to the participant's trustee in bankruptcy.
  - (i) Shares: Shares resulting from the exercise of the Options shall, subject to any Sale Restrictions (refer paragraph (k)) from the date of issue, rank on equal terms with all other shares in issue.
  - (j) Quotation of shares: If shares of the same class as those issued upon exercise of Options issued under the Incentive Plan are quoted on the ASX, the Company will, subject to the ASX Listing Rules, apply to the ASX for those shares to be quoted on ASX within 10 business days of the later of the date the shares are issued and the date any restriction period applying to the disposal of shares ends.
  - (k) Sale Restrictions: The Board may, in its discretion, determine at any time up until exercise of Options, that a restriction period will apply to some or all of the shares issued to an Eligible Participant (or their eligible nominee) on exercise of those Options. In addition, the Board may, in its sole discretion, having regard to the circumstances at the time, waive any such restriction period determined.
  - (l) No participation rights: There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options.
  - (m) Change in exercise price of number of underlying securities: Unless specified in the offer of the Options and subject to compliance with the ASX Listing Rules, an Option does not confer the right to a change in exercise price or in the number of underlying shares over which the Option can be exercised.
  - (n) Reorganisation: If, at any time, the issued capital of the Company is reorganised (including consolidation, subdivision, reduction or return), all rights of a holder of an Option are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reorganisation.
  - (o) Amendments: Subject to express restrictions set out in the Incentive Plan and complying with the Corporations Act, ASX Listing Rules and any other applicable law, the Board may at any time by resolution amend or add to all or any of the provisions of the Incentive Plan, or the terms or conditions of any Option granted under the Incentive Plan including giving any amendment retrospective effect.
  - (p) Trust: The Board may, at any time, establish a trust for the sole purpose of acquiring and holding shares in respect of which a participant may exercise, or has exercised, vested Options, including for the purpose of enforcing the disposal restrictions and appoint a trustee to act as trustee of the trust. The trustee will hold the shares as trustee for and on behalf of a participant as beneficial owner upon the terms of the trust. The Board may at any time amend all or any of the provisions of the Incentive Plan to effect the establishment of such a trust and the appointment of such a trustee.

#### Performance Rights Plan

The principle terms of the Employee Performance Rights Plan are summarised below:

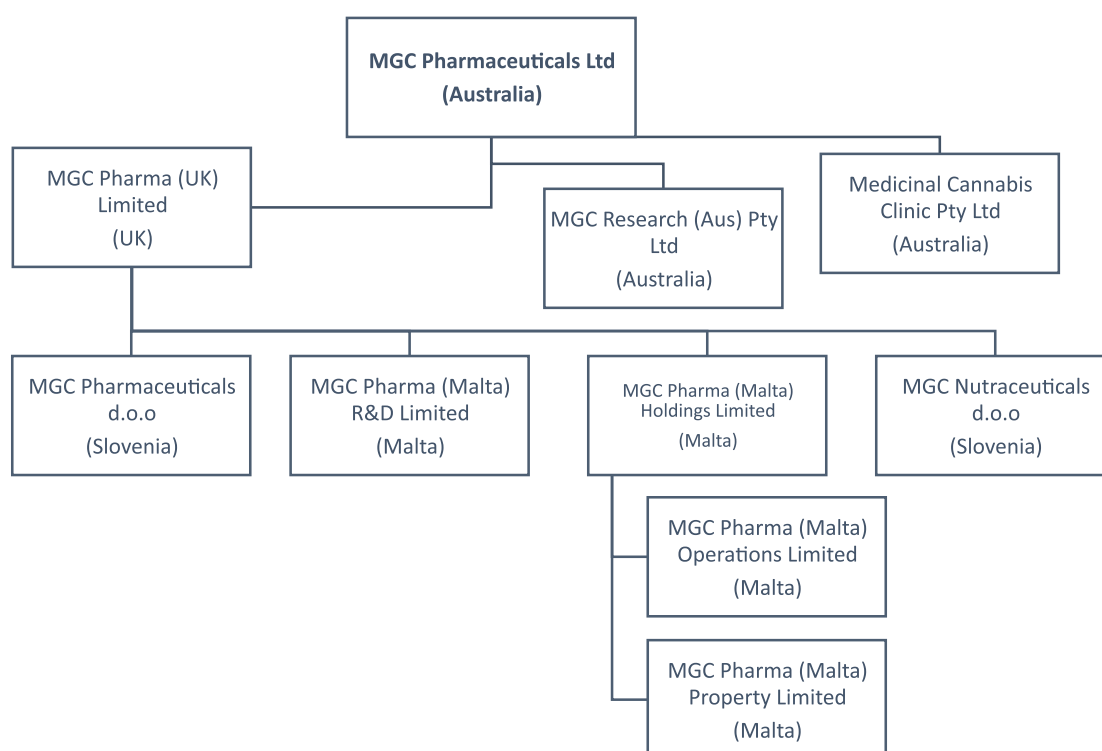
- (a) Eligibility: Participants in the Performance Rights Plan may be:
  - (i) a Director (whether executive or non-executive) of:
    - (A) the Company;

- (B) any Group Company;
  - (C) a body corporate which has an entitlement to not less than 20% of the voting shares of the Company; and
  - (D) a body corporate in which the Company has an entitlement to not less than 20% of the voting shares.
- (ii) a full or part time employee of any Group Company; or
  - (iii) a casual employee or contractor of a Group Company to the extent permitted by a Class Order; or
  - (iv) a prospective participant, being a person to whom the offer is made but who can only accept the offer if an arrangement has been entered into that will result in the person becoming a participant under subparagraphs (i), (ii), or (iii) above,
- who is declared by the Board to be eligible to receive grants of Performance Rights under the Performance Rights Plan.
- (b) Offer: The Board may, from time to time, at its absolute discretion, make a written offer to any Eligible Participant to apply for Performance Rights, upon the terms set out in the Performance Rights Plan and upon such additional terms and conditions as the Board determines.
  - (c) Plan limit: Where the Company has relied or intends relying on the Class Order to make an offer, the Company must have reasonable grounds to believe, when making an offer, that the number of Shares to be received on exercise of Performance Rights offered under an offer, when aggregated with the number of Shares issued or that may be issued as a result of offers made in reliance on the Class Order at any time during the previous 3 year period under an employee incentive scheme covered by the Class Order or an ASIC exempt arrangement of a similar kind to an employee incentive scheme, will not exceed 5% of the total number of Shares on issue at the date of the offer.
  - (d) Consideration: Performance Rights granted under the Performance Rights Plan will be issued for nil cash consideration.
  - (e) Vesting Conditions: A Performance Right may be made subject to vesting conditions as determined by the Board in its discretion and as specified in the offer for the Performance Right.
  - (f) Vesting: The Board may in its absolute discretion (except in respect of a change of control occurring where Vesting Conditions are deemed to be automatically waived) by written notice to a Relevant Person, resolve to waive any of the Vesting Conditions applying to Performance Rights due to Special Circumstances, a change of control occurring; or the Company passing a resolution for voluntary winding up, or an order is made for the compulsory winding up of the Company.
  - (g) Lapse of a Performance Right: A Performance Right will lapse upon the earlier to occur of:
    - (i) an unauthorised dealing in, or hedging of, the Performance Right occurring;
    - (ii) a Vesting Condition in relation to the Performance Right is not satisfied by its due date, or becomes incapable of satisfaction, as determined by the Board in its absolute discretion, unless the Board exercises its discretion to waive the Vesting Condition and vest the Performance Right in the circumstances set out in paragraph (f) or the Board resolves, in its absolute discretion, to allow the unvested Performance Rights to remain unvested after the Relevant Person ceases to be an Eligible Participant;
    - (iii) in respect of unvested Performance Right only, a Relevant Person ceases to be an Eligible Participant, unless the Board exercises its discretion to vest the Performance Right in the circumstances set out in paragraph (f) or the Board resolves, in its absolute discretion, to allow the unvested Performance Rights to remain unvested after the Relevant Person ceases to be an Eligible Participant;
    - (iv) in respect of vested Performance Rights only, a Relevant Person ceases to be an Eligible Participant and the Performance Rights granted in respect of that Relevant Person are not exercised within one (1) month (or such later date as the Board determines) of the date that Relevant Person ceases to be an Eligible Participant;
    - (v) the Board deems that a Performance Right lapses due to fraud, dishonesty or other improper behaviour of the Eligible Participant;
    - (vi) the Company undergoes a change of control or a winding up resolution or order is made, and the Board does not exercise its discretion to vest the Performance Right; and
    - (vii) the expiry date of the Performance Rights.

- (h) Not transferrable: Subject to the ASX Listing Rules, and except as otherwise provided for by an offer, Performance Rights are only transferrable in Special Circumstances with the prior written consent of the Board (which may be withheld in its absolute discretion) or by force of law upon death, to the Participant's legal personal representative or upon bankruptcy to the participant's trustee in bankruptcy.
- (i) Shares: Shares resulting from the vesting of the Performance Rights shall, subject to any sale restrictions (refer to paragraph (i)), from the date of issue, rank on equal terms with all other shares on issue.
- (j) Sale Restrictions: The Board may, in its discretion, determine at any time up until exercise of Performance Rights, that a restriction period will apply to some or all of the Shares issued to a participant on exercise of those Performance Rights. In addition, the Board may, in its sole discretion, having regard to the circumstances at the time, waive any such restriction period.
- (k) Quotation of shares: If shares of the same class as those issued under the Performance Rights Plan are quoted on the ASX, the Company will, subject to the ASX Listing Rules, apply to the ASX for those Shares to be quoted on ASX within 10 business days of the later of the date the Shares are issued and the date any restriction period applying to the shares ends. The Company will not apply for quotation of any Performance Rights on the ASX.
- (l) No participation rights: There are no participation rights or entitlements inherent in the Performance Rights and participants will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Performance Rights without exercising the Performance Right.
- (m) No change: A Performance Right does not confer the right to a change in the number of underlying shares over which the Performance Right can be exercised.
- (n) Reorganisation: If, at any time, the issued capital of the Company is reorganised (including consolidation, subdivision, reduction or return), all rights of a participant are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reorganisation.
- (o) Amendments: Subject to express restrictions set out in the Performance Rights Plan and complying with the Corporations Act, ASX Listing Rules and any other applicable law, the Board may, at any time, by resolution amend or add to all or any of the provisions of the Performance Rights Plan, or the terms or conditions of any Performance Rights granted under the Performance Rights Plan including giving any amendment retrospective effect.

## 16. Group Structure

The Group's structure is as follows:





The Company has the following directly held subsidiaries:

<b>Name</b>	<b>Country of Incorporation</b>	<b>Proportion of Ownership Interest</b>	<b>Principal Activity</b>
MGC Research (Aus) Pty Ltd	Australia	100%	Research and development
MGC Pharma (UK) Limited	United Kingdom	100%	Holding Company
Medicinal Cannabis Clinic Pty Ltd	Australia	100%	Clinic Holding Company

MGC Pharma (UK) Limited has the following directly held subsidiaries:

<b>Name</b>	<b>Country of Incorporation</b>	<b>Proportion of Ownership Interest</b>	<b>Principal Activity</b>
MGC Pharmaceuticals d.o.o.	Slovenia	100%	Operations and research and development
MGC Nutraceuticals d.o.o.	Slovenia	100%	Non-core operations in food-grade cannabidiol (CBD) market in Europe
MGC Pharma (Malta) Holdings Limited	Malta	100%	Holding company
MGC Pharma (Malta) R&D Limited	Malta	100%	Research and development

MGC Pharma (Malta) Holdings Limited has the following directly held subsidiaries:

<b>Name</b>	<b>Country of Incorporation</b>	<b>Proportion of Ownership Interest</b>	<b>Principal Activity</b>
MGC Pharma (Malta) Operations Limited	Malta	100%	Operational company
MGC Pharma (Malta) Property Limited	Malta	100%	Land lease holder

## 17. Material contracts

The following contracts are outside the course of business and either: (a) have been entered into by the Group within two years immediately preceding the date of this Document; or (b) contain provisions under which the Group has an obligation or entitlement that is or may be material to the Group as at the date of this Document:

### Placing Agreement – Turner Pope

On the 3 February 2021, the Company, the Directors and Turner Pope entered into the Placing Agreement, the Company and the Directors have given certain customary warranties, and the Company has given an indemnity, in connection with the Placing and Admission, as well as other matters relating to the Group and its affairs.

Turner Pope may terminate the Placing Agreement in certain specified circumstances prior to Admission, including if Turner Pope become aware of any circumstance which has resulted in material breach of any of the warranties, there has been a material adverse change in the financial or trading position or prospects of the Group, a material new factor or inaccuracy has been discovered relating to the information in the Prospectus, or there has been an adverse event in the markets effecting the ASX of the London Stock Exchange or the economic financial or political environment. The Placing Agreement is subject to the satisfaction or waiver of a number of conditions prior to Admission, including, certain warranties remaining true and accurate, the allotment and issue of the Placing Shares (subject to Admission) and Admission taking place by 9 February 2021 (or such later time as may be agreed by the Company and Turner Pope, being not later than 26 February 2021).

In consideration of its services under the Placing Agreement, the Company has agreed to pay Turner Pope the following, plus VAT (if any) and disbursements (as well as any reasonable out of pocket expenses incurred), a fee of £10,000, a cash commission equal to 6 per cent. of the aggregate value at the Placing Price of the Placing Shares for which Turner Pope has procured subscribers and 1 per cent. of the aggregate value at the Placing Price of the Placing Shares for which the Directors and their associates or third parties have procured subscribers, as well as options to subscribe for a number of Ordinary Shares which is equal to 6% of the gross aggregate value of the Placing Shares for which Turner Pope has procured subscribers divided by the Placing Price, with such options being exercisable at the Placing Price (these options remain subject to the approval by Shareholders at the next general meeting of the Company).

### **Broker Agreement**

The Company has agreed to appoint Turner Pope as its UK broker following Admission for a period of 2 years in consideration for an annual fee of £35,000 (plus VAT).

### **Canaccord Genuity (Australia) Limited Engagement Letter**

On 19 August 2019, (1) the Company; and (2) Canaccord Genuity (Australia) Limited (“**Canaccord Genuity Australia**”) entered into an engagement letter, pursuant to which the Company appointed Canaccord Genuity Australia as its equity capital markets corporate advisor in Australia and Asia.

The engagement is for a minimum period of 24 months (“**Minimum Term**”) from the date of the engagement letter, being 19 August 2019. The engagement may be terminated by the Company at any time following the expiry of the Minimum Term with 30 days’ written notice. Canaccord may terminate the engagement at any time during the course of the engagement. The engagement is subject to customary default provisions, warranties and undertakings for an arrangement of this nature.

Pursuant to the August 2019 Fundraising and the engagement, the Company agreed to issue to Canaccord Genuity Australia an options package consisting of:

- 14,500,000 unlisted Options exercisable at AUD\$0.05 per Option (Tranche 1);
- 14,500,000 unlisted Options exercisable at AUD\$0.06 per Option (Tranche 2; and
- 14,500,000 unlisted Options exercisable at AUD\$0.07 per Option (Tranche 3),

each expiring 31 August 2019, which Canaccord Genuity Australia exercised in full in consideration for AUD\$2.61 million, resulting in the Company issuing 29,000,000 Ordinary Shares to Canaccord Genuity Australia in August 2019, with the Tranche 3 Options issued in late November 2019. The agreement is governed by the laws of Victoria, Australia.

### **Share Purchase Agreement – CannaGlobal Canada Co Inc.**

On 7 November 2018, (1) the Company; and (2) CannaGlobal Canada Co Inc., (“**CannaGlobal**”) entered into a share purchase agreement, pursuant to which the Company agreed to sell the entire issued share capital of MGC Derma to CannaGlobal in consideration for CannaGlobal issuing 2,500,000 common shares in its share capital to the Company.

In addition, the Company entered into a supply agreement with CannaGlobal as part of the disposal of MGC Derma, pursuant to which the Company agreed to provide CannaGlobal with an exclusive five-year term to use the MGC UK registered trademark “Aquiol” in cosmetic products.

### **Acquisition Agreement – MGC Nutraceuticals**

On 17 June 2020, (1) MGC UK; (2) the Company; (3) Onassis Holdings Corp.; and (4) MGC Nutra, entered into an acquisition agreement, pursuant to which MGC UK agreed to sell the entire issued share capital of MGC Nutra to Onassis Holdings Corp. in consideration for the issue to MGC UK of Onassis Holdings Corp. common stock worth US\$6,000,000.

The agreement contains customary representations and warranties from MGC UK, as seller, as to, amongst other matters, the organisation and business of MGC Nutra and from Onassis Holdings Corp. as buyer, as to, amongst other matters, its share capital, financial statements and business plan.

The agreement contains an obligation on MGC Nutra to purchase certain products and formula’s solely from MGC UK, or other subsidiaries of the Company, for so long as the Company or its subsidiaries continue operating any production facilities in the EU, at a price which shall not be higher than 50% of the market price for “EU GMP food grade quality”.

The agreement is governed by the laws of the State of New York.

### **Binding Term Sheet and Sale Agreement-Acquisition of Medicinal Cannabis Clinic Pty Ltd**

On 19 July 2020, (1) the Company; and (2) Cannvalate Pty Ltd, entered into a binding term sheet (subject to the negotiation and execution of a definitive contract of sale to effect the transaction), pursuant to which the Company was to acquire 100% of the clinical assets of Medicinal Cannabis Clinic Pty Ltd. The acquisition was subject to a number of customary conditions, including, due diligence, application being made for relevant state and federal licences to allow for distribution of medicinal cannabis products in Australia and the entry into certain operating, service and research agreements as between the parties.

Then on 29 October 2020, (1) the Company; (2) Cannvalate Pty Ltd, (3) Medicinal Cannabis Clinic Pty Ltd; and A.C.N 644816704 Pty Ltd, entered into a business sale and purchase agreement, pursuant to which A.C.N 644816704 Pty Ltd (now renamed as Medicinal Cannabis Clinic Pty Ltd) purchased certain access and business of Medicinal Cannabis Clinic Pty Ltd, as the operator of tele-health clinics. The consideration payable and due was A\$400,000, paid on completion, plus a further A\$1,000,000 of Ordinary Shares (such number being determined by reference to a 20 trading day volume weighted average price of the Ordinary Shares), issued in 2 tranches over the following 12 month period. The agreement contains customary warranties and indemnities as to the business and assets in favour of A.C.N 644816704 Pty Ltd (now renamed as Medicinal Cannabis Clinic Pty Ltd).

In connection with the sale and purchase, A.C.N 644816704 Pty Ltd (now renamed as Medicinal Cannabis Clinic Pty Ltd) entered into a service level agreement with Cannvalate Pty Ltd (to provide consulting services in relation to patient eligibility to access medical cannabis in Australia) and a master clinical trial agreement (details of which are set out below).

The term sheet and the agreement are governed by the laws of Victoria, Australia.

#### **Secured Convertible Securities Agreement**

On 8 September 2020, (1) the Company; and (2) Mercer Street Global Opportunity Fund, LLC, as the investor, entered into a convertible securities agreement, pursuant to which, the investor agreed to invest a first tranche of A\$2,250,000 to the Company (with the potential to invest between a further A\$500,000 and A\$12,750,000 as further tranches within 18 months of the date of the agreement). The investment amount may be converted by the investor into Ordinary Shares at any time within 12 months from the date each tranche is made. The price at which amounts advanced may be converted is determined by reference to a formula, with a price of not less than A\$0.024 in the first two months and the thereafter A\$0.018.

If the convertible securities are not converted into Ordinary Shares by the investor by the maturity date, the amount outstanding must be repaid by the Company. The Company may elect to redeem the convertible securities at any time at a 3% premium, provided that the investor may also elect to convert 30% of the amount to be redeemed into Ordinary Shares.

A total of 9,375,000 Ordinary Shares were issued in consideration for provision of funding by the investor.

The agreement contains customary representations and warranties as to the good standing of the Company, the convertible securities being issued, the Ordinary Shares, other convertible securities of the Company, as well as its accounts, status as to litigation and the operation of the business. The agreement also contains negative covenants in favour of the investor (including in respect of the Company incurring further debt, granting security, or disposing of assets) and events of default (including breaches of the agreement, misrepresentations to the investor, insolvency events, and suspension or cessation of the Ordinary Shares from trading), which could allow termination of the agreement and all amounts outstanding to be repaid upon demand. Pursuant to the agreement, the Company agrees to indemnify the investor and its related parties in respect of any breach of the agreement, or any inaccuracies and representations, amongst other matters.

The amounts advanced pursuant to the agreement are secured against all present and future assets, undertakings, rights and property of the Company, pursuant to a security deed entered into by the parties. The security deed is in a usual form and contains customary undertakings, event of default, negative covenants and representations and warranties, along with enforcement provisions and an indemnity in favour of the investor.

#### **Corporate Advisor Mandate – Chieftain Securities Pty Ltd**

On 1 July 2018, (1) the Company; and (2) Chieftain entered into an agreement pursuant to which Chieftain was appointed as the Company's corporate advisor providing general corporate and strategic advice in relation to the Company's existing assets, new investment opportunities and for future capital raisings to the Company for a retainer of AUD\$5,000 per month for an initial minimum period of 6 months, commencing 1 July 2018, which automatically renews in additional three periods. The agreement is subject to customary default provisions, warranties and undertakings for an arrangement of this nature.

Under the agreement, Chieftain is appointed to be the Lead Manager (or co-Lead Manager as mutually agreed) for future equity or debt fund raising activities.

The agreement is governed by the laws of Western Australia.

## LAND CONCESSION ARRANGEMENTS– MALTA INDUSTRIAL PARKS LIMITED

### *2019 Emphyteutical Concession Deed*

On 8 August 2019, (1) Malta Industrial Parks Limited; and (2) MGC Pharma (Malta) Property, executed an emphyteutic concession deed for the allocation of industrial land measuring approximately 6,000m<sup>2</sup> located at Hal Far Industrial Estate in Malta, for the benefit of MGC Pharma (Malta) Property, for the purpose of constructing a manufacturing facility.

The term of lease is 65 years and annual rent is €73,500 (plus VAT), which is subject to revision after the first five years of the lease.

Pursuant to the deed, MGC Pharma (Malta) Property agrees to construct a facility costing not less than €2,700,000 (plus VAT), which shall be commenced within three months and completed by not later than 18 months, from the date upon which all permits required by law have been issued. The land must be used specifically for the purposes of the growing and subsequent production of medical cannabis.

MGC Pharma (Malta) Property shall throughout the term of the lease observe and abide by all the conditions set out in the letter of intent from Malta Enterprise, dated 30 August 2018, which includes the following:

- The site shall be used for the setting up and operation of a facility exclusively for the cultivation and subsequent processing of medical cannabis, with the resulting end product to be used exclusively for the Group's API pipeline;
- All activities shall be carried out within a designated, confined industrial factory;
- MGC Pharma (Malta) Property shall comply with the provisions of the Production of Cannabis Law, including obtaining a licence from the Medicines Authority and comply with any other relevant regulations as shall, from time to time, be made under the Production of Cannabis Law, or any other applicable law;
- MGC Pharma (Malta) Property shall provide Malta Enterprise with details of the cannabis to be processed in Malta, in the manner and to the extent required by Malta Enterprise;
- MGC Pharma (Malta) Property shall employ at least 27 full-time equivalent employees within 3 years;
- MGC Pharma (Malta) Property shall undertake an investment of *circa* €6,000,000 in improvements to the site, plant, machinery and equipment. This investment shall be implemented within 3 years from the date of allocation of the site;
- MGC Pharma (Malta) Property shall satisfy Malta Enterprise as to its compliance in all material respects with applicable law and shall obtain and maintain all necessary licences and permits; and
- In the event MGC Pharma (Malta) Property fails to comply with any of the conditions set out in the letter, or if there is any material change in the proposals set out in the Group's application, after notice shall have been served by Malta Enterprise requesting its compliance, Malta Enterprise shall be entitled to withdraw the letter of intent and its application shall be considered of no consequence and without any legal effect.

MGC Pharma (Malta) Property shall submit, for approval, detailed plans of the proposed facility and Malta Industrial Parks Limited may, at its discretion, either approve the proposed plans or request MGC Malta Property submit new plans which include the required changes. MGC Malta Property shall, within three months from the date of approval of the plans by Malta Industrial Parks Limited, lodge the necessary applications with the planning authority to obtain all necessary permits to be able to carry out the necessary works. In the event that the necessary permits for the execution of the works are not issued within 24 months of the deed, MGC Pharma (Malta) Property shall have the right to terminate the deed.

MGC Pharma (Malta) Property shall have the right to lease the site to MGC Pharma (Malta) Operations Limited for the production of medicinal cannabis and undertakes to impose its obligations under the deed on MGC Pharma (Malta) Operations Limited.

The deed contains customary undertakings and commitments to maintain and operate the site and the premises in good order.

Malta Industrial Parks Limited shall have the right to terminate the deed in customary circumstances, including if the premises are used for a purpose, other than the production of medicinal cannabis, the construction of the facility is not commenced within 3 months from the issue of the relevant permits and is not completed within 18 months of the issue of the relevant permits, rent is not paid, or necessary licences/permits are not obtained.

The deed is governed by the laws of Malta.

### **2020 Lease Arrangements**

On 6 October 2020, (1) Malta Industrial Parks Limited; and (2) MGC Pharma (Malta) R&D Limited, entered into a lease (by reference to the letter of intent from Malta Enterprise, dated 10 September 2020) for the allocation of industrial premises space located at Hal Far Industrial Estate in Malta.

The term of lease is 5 years which is subject to extension at the election of MGC Pharma (Malta) R&D Limited for a further period of five years. The annual rent for the first 5-year period is €10,340.92, excluding VAT and for any further extended period of 5 years shall be revised at the rate of 5%.

The lease contains an indemnity from MGC Pharma (Malta) R&D Limited in favour of the landlord in respect of taxation, and loss arising out of any act or negligence or damage to the landlord, as well as an obligation for MGC Pharma (Malta) R&D Limited to comply with all requirements of the law of Malta as they apply to the premises and the use of the premises.

The premises are to be used exclusively for the manufacture of ArtemiC™ and the provision of standard laboratory services to the medicinal cannabis industry in Malta, including process validation, GMP product release, quality assurance and in-vitro research.

MGC Pharma (Malta) R&D Limited also undertakes to comply with the covenants and conditions set out in the Malta Enterprise letter of intent dated 10 September 2020, which includes amongst others that it shall:

- Comply with the provisions of the Production of Cannabis Law;
- Comply with all regulations, including international obligations resulting from a treaty to which Malta may from time to time be a party, as may be applicable;
- Comply with all regulations relating to the production and quality standards of products for medicinal and, or research purposes, as the case may be, as applicable under the Medicines Act 2003 and with any other relevant regulations;
- Obtain a Licence from the Medicines Authority of Malta;
- Comply with any other relevant regulations as shall, from time to time, be promulgated under the Production of Cannabis Law or any other applicable law;
- Undertake investment of *circa* three million and eight hundred forty-one thousand, two hundred Euro (€3,841,200) in improvements to the 2nd Premises, plant, machinery and equipment included therein. This investment shall be implemented within three (3) years from the date of allocation of the premises; and
- In the event of MGC Pharma (Malta) R&D Limited fails to comply with any of the conditions set out in the letter, or if there is any material change in the set-up of the project as contained in the application, after notice shall have been served by Malta Enterprise requesting its compliance, Malta Enterprise shall be entitled to withdraw the letter and its application shall be considered of no consequence and without any legal effect. The exercise of such right by Malta Enterprise is without prejudice to any other legal rights and sanctions.

The lease contains customary termination provisions, undertakings and commitments to maintain and operate the site and the premises in good order, as well as maintain insurance.

The lease is governed by the laws of Malta.

### **RESEARCH COLLABORATION AGREEMENTS**

The following is a summary of the Group's research and collaboration agreements:

#### ***Australia***

##### **Royal Melbourne Institute of Technology ("RMIT")**

###### ***Framework agreement***

On 23 August 2017, (1) the Company; and (2) RMIT entered into a collaborative research agreement, setting out certain framework terms that governs the relations of the parties and pursuant to which the parties have entered into three project agreements as at the Last Practicable Date. The purpose of the agreement is to undertake experimental research and facilitate the exchange of academic knowledge.

Pursuant to the agreement, the Company has agreed to provide, among other things, its expertise and know how, and provide access as reasonably required to RMIT researchers or students to its premises. Each project agreed between the parties is subject to further obligations.

Each of the Company and RMIT reserve their rights in their respective intellectual property, although they each grant the other a non-exclusive, worldwide, royalty-free, non-transferable licence to use intellectual property required by the other to the extent require to carry out any project.

Any intellectual property created pursuant to the agreement or a project will belong to the Company. If either party wishes to commercialise any project intellectual property, the parties agree that they will enter into a separate written agreement to address that exploitation on market terms.

The agreement is subject to customary events of default events, warranties and undertakings for an arrangement of this nature. Either party can terminate the agreement in the event that the other breaches a term of the agreement and such a breach is not remedied within 14 days' written notice by the other party.

The term of the agreement was for three years from 23 August 2017, to 23 August 2020, however the parties have agreed extended until 31 January 2024.

The agreement is governed by the laws of Victoria, Australia.

#### *Breeding and pre-clinical research Project*

On 12 October 2017, (1) the Company; and (2) RMIT commenced a Project for a term of three years from the date of an ODC license being obtained. The Company is obligated under the Project to contribute AUD\$1,263,821 to the Project, relating to, among other things, the costs of research officers and plant cultivation and biological analysis materials.

The parties are co-funding a research facility with cultivation and processing abilities to run botanical and in-vitro (cell lines) studies, of which the Group holds a five-year lease. This facility, under the Group's name, holds a Cannabis Research Licence from the Australian Office of Drug Control, allowing for botanical and preclinical research to be carried out. The first projects to be conducted at this facility are preclinical studies on the effect of cannabinoids on melanoma and prostate cancer cells, alongside species strain development.

In addition to the AUD\$2 million state of the art co-funded facility dedicated to research of cannabis, RMIT is also providing the Group with full access to research facilities and resources, with the Group having first rights to any cannabis product developed at the site.

#### *International Library of Cannabinoids Project ("ILC")*

On 10 October 2017, (1) the Company; and (2) RMIT commenced a Project for a term of three years from 10 November 2017 to establish the ILC, an open source, large data aggregator built around global cannabis research data, which is being collected and analysed through machine learning tools to provide up to date data and prescribing information to doctors and researchers around the world. The Company is obligated under the Project to contribute AUD\$238,008 to the Project, relating to, among other things, the costs of a research officer and software licensing.

The Group is also using its collaboration with RMIT to facilitate the exchange of academic knowledge with the Epilepsy Association to develop the "C4E Program".

#### *Analysis of usability aspects of applications to collect treatment data Project*

On 1 October 2018, (1) the Company; and (2) RMIT commenced a Project for a term until 30 November 2018, to which the Company contributed AUD\$12,000 plus GST. The purpose of the Project was to analysis core usability aspects for the collection of treatment data and to create an iOS or Android application to collect treatment data from patients prescribed CannEpiil®

#### **University of Notre Dame, Fremantle, Western Australia**

On 1 June 2020, (1) MGC Research; and (2) UNDA entered into a funding agreement, pursuant to which the parties have agreed to progress existing collaborative researches activities to develop collaborative researches activities along with clinical trials to develop CogniCann™, the Group's product developed for the management of the symptoms of dementia/Alzheimer's disease, with a focus on wellbeing and life improvement among older residential care patients.

Pursuant to the agreement, the parties have agreed that MGC Research will fund the employment by UNDA of academic research staff along with associated research costs, estimated to be approximately AUD\$265,147, for a term of 12 months from the commencement of the agreement until 31 May 2021.



Either party can terminate the agreement in the event that the other breaches a term of the agreement and such a breach is not remedied within 14 days' written notice by the other party, or with immediate effect if a significant breach of the agreement occurs by the other. MGC Research may also terminate the agreement at any time with three months' written notice.

UNDA agrees that any intellectual property created in undertaking the research will exclusively vest with MGC Research upon its creation. Each party grants the other a non-exclusive, worldwide, royalty-free, non-transferable licence to use intellectual property owned or licenced by the party prior to the commencement of the agreement, required by the other to the extent required to carry out the agreement.

#### ***Cannvalate Pty Ltd***

On 30 October 2020, (1) MGC Research; and (2) Cannvalate Pty Ltd entered into a master clinical trial agreement, pursuant to which Cannvalate Pty Ltd will provide services for MGC Research to support clinical trial investigations, management and/or research of a particular study or series of studies, following the execution of a work order and the entry into a start-up agreement. The agreement contains customary undertakings and indemnities from the parties as to compliance with laws, professional standards or care and methodologies as to the conduct of any trials and patient safety. Costs, invoicing and payment shall be set out in each work order.

The term of the agreement is five years, unless terminated by either party on 30 days' notice, with any work order able to be terminated by MGC Research by 10 days' notice (immediate termination is available by the parties in limited circumstances, such as insolvency or where patient safety is at risk).

The agreement is governed by the laws of Victoria, Australia.

#### ***Israel***

##### **Research hub agreement with RMIT and Yissum Research Development Company of the Hebrew University of Jerusalem, Ltd**

On 4 November 2019, (and as amended by a deed of variation dated 10 May 2020) (1) the Company; (2) RMIT; and (3) Yissum Research Development Company of the Hebrew University of Jerusalem, Ltd entered into a cooperation agreement, pursuant to which the parties agreed to establish a research hub to facilitate research in the medicinal cannabis sector. This hub, CannaHub™, marks the first example of two leading universities sharing intellectual property with an industry partner, and acts as an independent research institute under the agreement.

Pursuant to the agreement, the parties have agreed to solicit written research proposals from researchers operating within the field of medicinal cannabis. The Company has first right of refusal for a 45-day period to consider whether it wishes to fund a particular research proposal (a sponsoring entity) and following notification by the Company, if it wishes to act as sponsoring entity, each of the parties and the researcher will enter into a separate sponsored research agreement. The Company is not obligated to act as sponsoring entity and if it does not wish to fund a particular proposal it will notify CannaHub™ of its decision.

The parties have agreed that pursuant to any given sponsored research agreement, the sponsoring entity will be entitled to full title of the results of any research proposal.

The parties have committed funding for year 1 of \$214,305.85 exclusive of GST with \$194,823.50 being already paid to date and the outstanding year 1 sums paid in 10 equal monthly instalments of \$19,482.35 a month from 20 September 2020. The year 2 amount of \$421,087 exclusive of GST is payable on 15 September 2021 and the year 3 amount of \$453,087 exclusive of GST is payable on 15 September 2020.

The agreement is subject to customary warranties and undertakings for an arrangement of this nature and expires on 31 January 2024. The agreement has no termination provisions.

The agreement is subject to the laws of Australia.

#### **Clinical Trial Agreement, Rambam Health Corporation**

On 9 July 2020, (1) MGC Slovenia; and (2) Rambam Health Corporation, entered into a clinical trial agreement, pursuant to which Rambam Health Corporation agreed to provide the facilities and staff to perform a trial on behalf MGC Slovenia in respect of a protocol designated by reference to COVID-19 and the product known as ArtemiC™, as annexed to the agreement. The study will be conducted at the Rambam Health Campus in Israel.

The parties agree to comply with the terms of the protocol the Helsinki Declaration, the ICH Harmonized Tripartite Guideline for Good Clinical Practice and the Guidelines of the Ministry of Health, as well as other applicable law and regulation.



The Company shall supply to Rambam Health Corporation and its principal investigator, the product necessary for the trial.

MGC Slovenia agrees to indemnify and hold harmless MRT Group and its related parties, in respect of all losses, claims, damages and expenses of MRT Group which arise in connection with the trial, save where such arise as a result of MRT Group's material breach of the trial protocol, GCP, Helsinki Declaration, National Health Regulations, or other applicable law.

MGC Slovenia is required to hold insurance in respect of the trial with cover of not less than US\$3 million for any one occurrence and in the aggregate and shall be liable for any medical expenses of any subject who may be subject to injury.

Each party shall retain its rights in any know-how, trade secret or other intellectual property owned prior to the date of the agreement; however, all rights and title to results derived from the trial, or the product, as well as any inventions and discoveries made shall be exclusively owned by MGC Slovenia.

The agreement contains customary confidentiality provisions in favour of MGC Slovenia in respect of the product and the results of the trial.

The agreement shall come to an end at the end of the trial or by 30 days' written notice by either of the parties, by any party immediately, in the event of material breach of the agreement which is not remedied within 30 days, in the event of customary insolvency or bankruptcy events of the parties, or if the Ministry of Health withdraws its approval of the trial or an adverse event occurs to the participants of the trial.

The agreement is governed by the laws of the State of Israel.

#### **Clinical Trial Agreement, Hillel Yaffe Hospital**

On 24 April 2020, (1) MGC Slovenia; and (2) Fund for Medical Research Development of Infrastructure & health Services, Hillel Yaffe Hospital, entered into a clinical trial agreement, pursuant to which Hillel Yaffe Hospital agreed to provide the facilities and staff to perform a trial on behalf MGC Slovenia in respect of a protocol designated by reference to COVID-19 and the product known as ArtemiC™, as annexed to the agreement. The study will be conducted at the Hillel Yaffe Medical Centre, Israel.

The agreement is governed by the laws of the State of Israel and is in substantially the same form as the agreement with Rambam Health Corporation set out above.

#### **Clinical Trial Agreement, Nazareth EMMS Hospital**

On 17 April 2020, (1) MGC Slovenia; and (2) Nazareth EMMS Hospital, entered into a clinical trial agreement, pursuant to which Nazareth EMMS Hospital agreed to carry out a Phase II, controlled clinical study designed to evaluate the effect of ArtemiC™ in patients diagnosed with COVID-19.

The agreement is governed by the laws of the State of Israel and is in substantially the same form as the agreement with Rambam Health Corporation and Hillel Yaffe Hospital set out above.

### **India**

#### **Clinical Research Services Agreement, MRT Group**

On 13 June 2020, (1) MGC Slovenia; (2) MRT Group, as the researcher; and (3) Ashtavinayak Hi-tech Corporation LLP, as the funder of the trials, entered into an agreement for clinical research services, pursuant to MRT Group was engaged to carry out clinical trials in accordance with an agreed trial protocol, as annexed to the agreement (as modified from time to time by the parties).

The agreement contains representations from MRT Group as to its qualifications and experience to perform the trial in line with professional standards, local ministry approvals, the Helsinki Declaration and otherwise in accordance with the standards of performance set out in the agreement.

MRT Group shall be responsible for obtaining all approvals, permits and licences required for the performance of the trial in accordance with applicable law and MGC Slovenia shall be responsible for providing the products for the clinical trial.

MRT Group is appointed solely as an independent research organisation, the parties shall not be joint venture parties or have an agency relationship.

All materials, documentation and reports, including all intellectual property generated by MRT Group shall be the joint property of the parties (all inventions, know-how and other intellectual property which does not include any of MGC Slovenia's products and confidential information shall be the property of MRT Group).

MGC Slovenia agrees to indemnify and hold harmless MRT Group and its related parties, in respect of all losses, claims, damages and expenses of MRT Group which arise in connection with the trial, save where such arise as a result of MRT Group's material breach of the trial protocol, GCP, Helsinki Declaration, National Health Regulations or other applicable law.

The agreement contains customary confidentiality provisions in favour of MGC Slovenia in respect of the work product of the trial.

The agreement may be terminated by MGC Slovenia by giving 60 days' written notice, or by any party immediately, in the event of material breach of the agreement which is not remedied within 30 days.

MGC Slovenia has the sole and absolute right, without limit of time, worldwide, to make any and all use of any intellectual property, including to manufacture, or grant a right to use, the products derived from the trial.

## **Malta**

### **Research and Development Facility-Letter of Intent**

Pursuant to a letter dated 21 March 2019, Malta Enterprise (the entity entrusted by the Government of Malta to approve and regulate assistance in relation to the manufacture and research of cannabis for medical use, as well as to promote and assist the development and competitiveness of enterprises in Malta) approved a cash grant of €200,000 for the reimbursement of expenses incurred in the establishment of a medicinal cannabis facility in Malta, to consist of process validation, GMP product release, quality assurance and in-vitro research. In consideration for the grant, the Group is required to comply with all applicable laws and regulations in the operations of the facility, particularly as they relate to the possession and handling of medicines (including cannabis derivatives).

### **Memorandum of Understanding with Malta Enterprise Research Centre in partnership with the Prime Minister's office, Malta Enterprise**

The role MGC Pharma (Malta) Operations Limited is to work with Malta Enterprise by participating in discussions with stakeholders and to make an application to agree the terms of financial assistance to the value of €200,000 with the aim of setting up a research facility focused on the cannabis industry, to provide clinical research and develop the medicinal cannabis industry in accordance with local legislation. Malta Enterprise's obligations are to consider and review the proposed plans and application and facilitate discussions between MGC Pharma Malta Operations Limited and stakeholders.

The memorandum of understanding is governed by Maltese law and is not legally binding.

## **18. Statutory auditors**

The auditors of the Group for the financial year ended on 30 June 2020 have been Ernst and Young, having been appointed at the 2019 annual general meeting of the Company held on 29 November 2019, whose registered address is at 11 Mounts Bay Road, Perth, WA 6000, Australia. Ernst and Young replaced PKF Mack, who were the auditors for the financial years ended 30 June 2019 and 30 June 2018, whose registered address is at Level 4, 35 Havelock Street, West Perth, WA 6005, Australia.

The audited the annual consolidated financial statements for the Group for the periods covered by the Historical Financial Information, which have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The audited annual consolidated financial statements also comply with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

## **19. No significant change**

Save for the Financing and following that, the issue of 25,773,196 Ordinary Shares following conversion of convertible loan notes at face value of \$500,000 and 51,282,051 Ordinary Shares following conversion of convertible loan notes at face value of \$1,000,000, there has been no significant change in the financial performance or financial position of the Group since 30 June 2020, being the end of the last financial period of the Group for which financial information has been published, to the date of this Document. Such financial information, being the Historical Financial Information, is included in the Appendix of this Document.

## **20. Litigation**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during the 12 months period preceding the date of this Document, which may have, or have had in the recent past, significant effects on the Company and/or the Group's financial position or profitability.

**21. Research and development, patents and licences**

The Group has not had any patents granted in respect of any of its products.

**22. Related party transactions**

Other than as disclosed in the financial report for the year ended 30 June 2020, there have been no other related party transactions between the Company or members of the Group and related parties entered into from the date of the financial report for the year ended 30 June 2020.

**23. Consents**

Canaccord Genuity (Australia) Limited and Turner Pope have given and not withdrawn their written consent to the inclusion of references to their respective names in this Document in the form in which they appear.

PKF Littlejohn is a member of the ICAEW and (in its capacity as reporting accountant) has given and not withdrawn its written consent to the inclusion of its report, included in the Appendix of this Document and references to that report in this Document and for the purposes of Rule 5.3.2R(2)(f) and Rule 5.3.9R of the Prospectus Regulation Rules has authorised the contents of such parts of this Document that comprise that report.

**24. Third party information**

The Company confirms that all third-party information contained in this Document has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where third party information has been used in this Document, the source of such information has also been identified.

**25. Documents available for inspection**

Copies of the following documents will be available for inspection during usual business hours on any Business Day for a period of 12 months following the date of Document at the offices of Memery Crystal LLP at 165 Fleet Street, London, EC4A 2DY and on the Group's website at [www.mgcpharma.com.au](http://www.mgcpharma.com.au):

- this Document;
- the Constitution;
- the report of PKF Littlejohn, as well as the audited annual consolidated financial statements for the Group in respect of each of the three financial years ended 30 June 2020, 30 June 2019 and 30 June 2018; and
- the letters confirming the consents referred to in paragraph 23 'Consents' of this Part 16 "Additional Information".

Dated 4 February 2021

## PART 17

### DEFINITIONS

<b>2001 Regulations</b>	the Misuse of Drugs Regulations 2001
<b>ACMD</b>	Advisory Council on the Misuse of Drugs, a British advisory non-departmental public body, established under the Misuse of Drugs Act 1971
<b>Admission</b>	the admission of all of the Ordinary Shares to the standard segment of the Official List and to trading on the Main Market
<b>Anti-Bribery and Anti-Corruption Policy</b>	the policies developed by the Company to be consistent with the Criminal Code Act 1995 and the UK Bribery Act 2010 to set out the responsibilities of the Company, its management and personnel in upholding the Company's commitment to prevent bribery and corruption
<b>Applicable Law</b>	the Corporations Act and the ASX Listing Rules
<b>ARSZMP</b>	Agency of the Republic of Slovenia for Medicines and Medical Devices, a Slovenian agency part of the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia that proposes policies and regulations in Slovenia
<b>ArtemiC™</b>	the Group's plant-derived product, being developed for the treatment of COVID-19
<b>ASEAN</b>	the Association of Southeast Asian Nations
<b>ASIC</b>	the Australian Securities & Investments Commission
<b>ASX</b>	ASX Limited ACN 008 624 691 trading as the 'Australian Securities Exchange' or the financial market operated by it as the context requires
<b>ASX Corporate Governance Council</b>	an independent Australian body that develops recommendations on the corporate governance practices to be adopted by ASX listed entities
<b>ASX Listing Rules</b>	the official listing rules of the ASX
<b>ASX Principles</b>	the corporate governance principles and recommendations of the ASX
<b>Audit and Risk Committee</b>	the committee of the Board monitoring and reviewing any matters of significance affecting financial reporting and compliance
<b>August 2019 Fundraising</b>	the private placement whereby the Company issued and allotted 118,750,000 Ordinary Shares at a price of AUD\$0.04 per Ordinary Share on 29 August 2019, raising gross proceeds of AUD\$4.75 million
<b>Australian Accounting Interpretations</b>	statements issued by the Australian Accounting Standards Board to provide requirements concerning urgent financial reporting issues
<b>Australian Accounting Standards</b>	financial reporting standards applicable to entities in the private and public sectors of the Australian economy
<b>Australian Accounting Standards Board or AASB</b>	an Australian Government agency that develops and maintains financial reporting standards applicable to entities in the private and public sectors of the Australian economy
<b>Australian Office of Drug Control</b>	the Australian body that regulates and provides advice on the import, export and manufacture of controlled drugs as well as the cultivation of cannabis for medicinal purposes
<b>Authorised Prescriber Scheme or APS</b>	an Australian scheme for therapeutic goods that are not included on the Australian Register of Therapeutic Goods that allows medical practitioners

	who become Authorised Prescribers to access and legally supply an unapproved therapeutic good or class of goods to appropriate patients
<b>Board</b>	the board of Directors
<b>C4E Program</b>	Cannabis for Epilepsy Educational Program which provides medicinal cannabis news and information on cannabis and epilepsy
<b>Cannabis Research Licence or CR Licence</b>	a general authority issued by the ODC to lawfully obtain, possess and use medicinal cannabis for research purposes
<b>Cannabis Research Permit CR Permit</b>	a permit issued by the ODC authorising specific research activities
<b>CannaGlobal</b>	CannaGlobal Canada Co Inc.
<b>Cannahub™</b>	the research hub being established by RMIT, HUJI and the Group, to facilitate research in the medicinal cannabis sector
<b>CannEpi®</b>	the Group's lead phytocannabinoid-derived medicine, a high-CBD, low-THC formulation in MCT oil (medium-chain triglyceride) for drug resistant epilepsy
<b>Cannvalate</b>	Cannvalate Pty Ltd
<b>Change of Control</b>	a Board endorsed 100% change of control of the Company
<b>Class Order</b>	ASIC Class Order 14/1000 as amended or replaced
<b>Clinical Advisory team</b>	the clinical advisory team of the Group, which carries out product specific research and development, details of which are set out in paragraph 3 of Part 5 of this Document
<b>CMA</b>	central marketing authorisation of a medicine, as set out in Regulation No 726/2004. By obtaining CMA status a product is recognised as a medicine and may be marketed and made available to patients and healthcare professionals throughout the EU under a single authorisation
<b>CMO</b>	Chief Medical Officer, a senior adviser to the UK government on health matters
<b>CogniCann™</b>	the Group's phytocannabinoid-derived medicine, an oromucosal spray with a 3:2 mix of THC (25mg/mL) and CBD (17mg/mL) in a MCT oil base used for symptom management associated with dementia/Alzheimer's disease
<b>Community Plant Variety Office</b>	an EU agency that manages the system of plant variety rights covering the 28 Member States
<b>Company or MGC</b>	MGC Pharmaceuticals Limited, a public limited company incorporated in Australia with company number ACN 116 800 269 and having its registered office at 1202 Hay Street, West Perth, WA 6005, Australia
<b>Constitution</b>	the constitution of the Company adopted as at the date of this Prospectus
<b>Continuous Disclosure Policy</b>	the policy of the Company to ensure compliance with disclosure obligations under the Corporations Act, the Listing Rules of the ASX, MAR and DTR
<b>Corporate Governance Principles and Recommendations – 4th Edition or Recommendations</b>	the recommendations on corporate governance published by the ASX Corporate Governance Council in February 2019
<b>Corporations Act 2001 or Corporations Act</b>	the Australian Corporations Act 2001 (Commonwealth)
<b>COVID-19</b>	the infectious disease caused by severe acute respiratory syndrome coronavirus (SARS-CoV-2)
<b>CREST</b>	the relevant system in respect of which Euroclear UK & Ireland Limited is the operator (as defined in the CREST Regulations)

<b>CREST Manual</b>	the rules governing the operation of CREST
<b>CREST Regulations</b>	the Uncertified Securities Regulations 2001 (SI 2001 No. 3755), as amended
<b>CRO</b>	Clinical Research Organisation
<b>Custodian</b>	Computershare Investor Services PLC, or a subsidiary or third party appointed by Computershare Investor Services PLC to provide custody services
<b>Data Protection Law</b>	the Data Protection Act 1998 and other relevant data protection legislation which may be applicable
<b>Deed Poll</b>	the deed poll executed by the Depositary in favor of the holders of the Depositary Interests from time to time
<b>Depositary</b>	Computershare Investor Services plc, a private company incorporated in England and Wales with company number 3498808 and whose registered office is at The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom
<b>Depositary Agreement</b>	the agreement entered into between the Company and the Depositary appointing the Depositary, details of which are set out in Part 14 of this Document – “CREST and Depositary Interests”
<b>Depositary Interests</b>	the dematerialised depositary interests issued by the Depositary in respect of the underlying Ordinary Shares
<b>Directive 2001/83/EC of the European Parliament</b>	Directive 2001/83/EC of the European Parliament and of the Council of 6 November 2001 on the community code relating to medicinal products for human use
<b>Directive 2003/94/EC</b>	Directive 2003/94/EC from the EU laying down the principles and guidelines of good manufacturing practice in respect of medicinal products for human use and investigational medicinal products for human use
<b>Directors</b>	the directors of the Company from time to time whose names, as at the date of this Document, are set out on page 30 of this Document
<b>Document</b>	this prospectus relating to MGC Pharmaceuticals Limited, prepared in accordance with the Prospectus Regulation Rules of the Financial Conduct Authority
<b>DTR</b>	the disclosure guidance and transparency rules made by the FCA under section 73A of FSMA, and as amended
<b>DTR5</b>	Rule 5 of the DTR
<b>EMA</b>	the European Medicines Agency
<b>Employee Incentive</b>	a Plan Share, Plan Option or Plan Performance Right
<b>ENVI</b>	European Parliament’s Committee on the Environment, Public Health and Food Safety, a committee of the European Union responsible for public health and food safety issues
<b>Erin Resources Limited</b>	the previous trading name of MGC Pharmaceuticals Ltd
<b>EU Committee for Medicinal Products for Human Use or the Committee</b>	a committee of the European Union responsible for human medicines
<b>Euro, EUR or €</b>	the lawful currency of 19 Member States of the European Union
<b>Existing Shareholders</b>	Shareholders of the Company prior to Admission
<b>Existing Ordinary Shares</b>	the Ordinary Shares in issue as at the Last Practicable Date
<b>FATA</b>	the Australian, Foreign Acquisitions and Takeovers Act 1975

<b>FCA</b>	the United Kingdom Financial Conduct Authority
<b>FDA</b>	the United States Food and Drug Administration
<b>Financing</b>	the finance provided to the Group by Mercer Street Global Opportunity Fund, LLC, as the investor, pursuant to the convertible securities agreement, details of which are set out in paragraph 17 of Part 16 of this Document – “Additional Information”
<b>FSMA</b>	the Financial Services and Markets Act 2000, as amended
<b>Galilee Clinical Bio Research</b>	an Israeli pharmaceutical industry level CRO
<b>Group</b>	the Company and its Subsidiaries
<b>Group Company</b>	any company in the Group
<b>GST</b>	Goods and Services Tax, pursuant to the GST Act
<b>GST Act</b>	A New Tax System (Goods & Services Tax) Act 1999 (Cth)
<b>GW Pharma</b>	GW Pharmaceuticals plc, the company registered in England & Wales, being a developer of cannabinoid based medicines, whose securities are listed on the NASDAQ
<b>Historical Financial Information</b>	the audited consolidated financial statements of the Group and its consolidated financial statements and the accompanying notes contained in the Appendix to this Document
<b>HMRC</b>	Her Majesty’s Revenue and Customs
<b>HREC</b>	Human Research Ethics Committee, a committee responsible for reviewing all research proposals involving human participants to ensure that they are ethically responsible
<b>IFRS</b>	International Financial Reporting standards, the standards of financial reporting provided by the International Accounting Standard Board
<b>IHPS</b>	Slovenian Institute of Hop Research and Brewing
<b>ILC</b>	International Library of Cannabinoids, an open source, large data aggregator built around global cannabis research data
<b>InCann</b>	the Groups phytocannabinoid-derived medicine for the treatment of Crohn’s disease and colitis
<b>Incentive Plan</b>	the Company’s Incentive Plan, details of which are set out in paragraph 15 of Part 16 of this Document – “Additional Information”
<b>International Accounting Standard Board or IASB</b>	an independent body that provides International Financial Reporting Standards
<b>ISIN</b>	International Securities Identification Number
<b>ITAA 1936</b>	Income Tax Assessment Act 1936 (Cth)
<b>ITAA 1997</b>	Income Tax Assessment Act 1997 (Cth)
<b>Key Management Personnel</b>	persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any Director (whether executive or otherwise) of the Company
<b>Last Practicable Date</b>	3 February 2021
<b>LEI</b>	Legal Entity Identifier



<b>Lenis farmacevtika or Lenis</b>	the Group's exporter, distribution and wholesale partner for its phytocannabinoid-derived medicines
<b>Listing Rules</b>	the listing rules made by the FCA under section 73A of FSMA, as amended
<b>London Stock Exchange</b>	London Stock Exchange plc, a public limited company incorporated in England & Wales with company number 02075721 and having its registered office at 10 Paternoster Square, London EC4M 7LS
<b>Lyphe Group</b>	Lyphe Group Limited
<b>Main Market</b>	the main market for listed securities of the London Stock Exchange
<b>Malta Enterprise</b>	the agency of the Government of Malta responsible for attracting inward investment and supporting enterprise in Malta
<b>Malta Industrial Parks</b>	a Company having its office address as 88 Msida Valley Road, Birkirkara BKR 9020, Malta responsible for the administration of government-owned industrial parks
<b>MAR</b>	the European Union Market Abuse Regulation (596/2014) as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 and as amended
<b>Marketing Authorisation</b>	the process of reviewing and assessing evidence to support a medicinal product in relation to its marketing, finalised by approval to market a medicine in one, several or all European Union Member States
<b>MDA 1971</b>	Misuse of Drugs Act 1971
<b>Member State</b>	a member states of the European Union
<b>MGC Derma</b>	MGC Derma d.o.o. a former subsidiary of the Group
<b>MGC Nutra</b>	MGC Nutraceuticals d.o.o, a subsidiary of the Company registered in Slovenian
<b>MGC Pharma (Malta) Property</b>	MGC Pharma (Malta) Holdings Limited, a subsidiary of the Group
<b>MGC Research (AUS) Pty Ltd or MGC Research</b>	MGC Research (Aus) Pty Ltd, a private company limited by shares incorporated in Australia with company number 612 872 974 and having its registered office at 1202 Hay Street, West Perth, WA 6005, Australia.
<b>MGC Slovenia</b>	MGC Pharmaceuticals d.o.o. the Group's Slovenian registered operating company
<b>MGC UK</b>	MGC Pharma (UK) Limited, a private company limited by shares incorporated in the United Kingdom with company number 09750155 and having its registered office at Central Working Ecclestone Yards, 25 Ecclestone Place, London, SW1W 9NF, United Kingdom
<b>MHRA</b>	Medicines and Healthcare Products Regulatory Agency an agency in the United Kingdom responsible for the regulation of medicines, medical devices and blood components for transfusion
<b>MiFID II</b>	the EU Directive 2014/65/ EU on markets in financial instruments as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 and as amended, as amended
<b>MiFID II Product Governance Requirements</b>	MiFID II, Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II and local implementing measures as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 and as amended
<b>MPA</b>	Slovenian Medicinal Products Act

<b>Narcotics Conventions</b>	the three international UN Conventions, the Single Convention, the Convention on Psychotropic Substances 1971, and the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances 1988
<b>ND Act</b>	Narcotic Drugs Act 1967 (Cth)
<b>NHS</b>	National Health Service of the United Kingdom
<b>NIB</b>	National Institute of Biology
<b>NICE</b>	National Institute for Health and Care Excellence
<b>Nomination Committee</b>	a committee to assist the Board of the Company in monitoring and reviewing any matters of significance affecting the composition of the Board and the team of executives as appointed by the Company
<b>ODC</b>	Office of Drug Control
<b>Official List</b>	the Official List of the FCA
<b>Option</b>	an option to acquire an Ordinary Share
<b>Ordinary Share</b>	an ordinary share of no par value in the capital of the Company
<b>Over-the-Counter or OTC</b>	off exchange trading directly between two parties, without the supervision of an exchange
<b>PDMR</b>	person discharging managerial responsibilities, as defined in Article 3(1)(25) of MAR
<b>Performance Right</b>	a performance right issued to an eligible participant, pursuant to the Employee Performance Rights Plan
<b>Performance Rights Plan</b>	the Company's performance rights plan, details of which are set out in paragraph 15 of Part 16 of this Document – "Additional Information"
<b>Placing</b>	the placing of the Ordinary Shares to certain institutional investors in the United Kingdom by Turner Pope as agent for the Company, pursuant to the terms of the Placing Agreement
<b>Placing Agreement</b>	the conditional placing agreement dated 3 February 2021 between the Company, the Directors; and (3) Turner Pope, which are set out in paragraph 17 of Part 16 of this Document – "Additional Information"
<b>Placing Price</b>	1.475 pence per Placing Share
<b>Placing Shares</b>	440,677,967 new ordinary Shares to be issued by the Company pursuant to the Placing
<b>Plan Option</b>	an option issued pursuant to the Employee Incentive Plan
<b>Plan Optionholder</b>	a holder of a Plan Option
<b>Plan Share</b>	an Ordinary Share issued pursuant to the Employee Incentive Plan
<b>Premium Listing</b>	a listing on the premium segment of the Official List
<b>Production of Cannabis Law</b>	Production of Cannabis for Medicinal and Research Purposes Act 2018
<b>Prospectus Delegated Regulations</b>	Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing the Prospectus Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 and as amended
<b>Prospectus Regulation</b>	Regulation (EU) 2017/1129 of the European Parliament and Council of 14 June 2017 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 and as amended

<b>Prospectus Regulation Rules</b>	the prospectus regulation rules made by the FCA under section 73A of FSMA, as amended
<b>PTDA</b>	the Slovenian Production of and Trade in Illicit Drugs Act
<b>R&amp;D</b>	research and development
<b>Regulation 726/2004</b>	Regulation (EC) No 726/2004 of the European Parliament and of the Council of 31 March 2004 outlining the process for obtaining CMA
<b>Relevant Interest</b>	as defined in the Corporations Act
<b>Relevant Person</b>	in respect of an Eligible Participant, that person and in respect of a nominee of an Eligible Participant, that Eligible Participant
<b>Remuneration Committee</b>	a committee to assist the Board of the Company in monitoring and reviewing any matters of significance affecting the remuneration of the Board and employees of the Company
<b>Remuneration Report</b>	the remuneration policy for the Company and the remuneration arrangements in place for the executive Directors, specified executives and non-executive Directors
<b>RMIT</b>	Royal Melbourne Institute of Technology, Australia
<b>SAS or Special Access Scheme</b>	the special access scheme arrangements that provide for the import and/or supply and prescription of unapproved therapeutic goods for a single patient on a case-by-case basis, pursuant to the Therapeutic Goods Act 1989
<b>Special Circumstances</b>	<p>in respect of the Incentive Plan or the Performance Rights Plan means:</p> <p>(i) a Relevant Person ceasing to be an Eligible Participant due to death or total or permanent disability of a Relevant Person, or retirement or Redundancy of a Relevant Person; (ii) a Relevant Person suffering severe financial hardship; (iii) any other circumstance stated to constitute “special circumstances” in the terms of the relevant offer made to and accepted by the participant; or any other circumstances determined by the Board at any time (whether before or after the offer) and notified to the relevant participant which circumstances may relate to the participant, a class of participant, including the participant or particular circumstances or class of circumstances applying to the participant</p>
<b>Senior Managers or Senior Management</b>	the senior managers of the Group from time to time whose names, as at the date of this Document, are set out on page 30 of this Document
<b>Shareholders</b>	the holders of Ordinary Shares from time to time
<b>Single Convention</b>	the United Nations Single Convention on Narcotic Drugs 1961 (amended by the 1972 Protocol)
<b>Specialist Register of the General Medical Council</b>	a list of doctors in the United Kingdom who are eligible to take up appointment in any fixed term, honorary or substantive consultant post in the National Health Service, excluding foundation trusts and doctors must be on the Specialist Register in order to take up appointment to any post as a consultant
<b>Standard Listing</b>	a listing on the standard segment of the Official List
<b>Strike</b>	the Remuneration Report receiving a ‘no’ vote of 25% or more
<b>Subsidiaries</b>	the subsidiaries (both direct and indirect) of the Company from time to time, details of which are set out in Part 18 of this Document- “Additional Information”
<b>TAA 1953</b>	Taxation Administration Act 1953 (Cth)

<b>Target Market Assessment</b>	the assessment of the Ordinary Shares undertaken for the purposes of and pursuant to MiFID II
<b>Tax Acts</b>	ITAA 1997, ITAA 1936, TAA 1953 and GST Act
<b>Tetrinol</b>	the Group's phytocannabinoid-derived medicine for the treatment of anorexia and cachexia
<b>TGA</b>	Therapeutic Goods Administration of Australia
<b>TopiCann™</b>	the Group's early stage anti-inflammation product
<b>Turner Pope</b>	Turner Pope Investments Limited, UK broker to the Company for the purposes of the Placing
<b>UK Listing Authority</b>	the FCA in its capacity as competent authority under the FSMA
<b>UNDA</b>	the University of Notre Dame, Fremantle, Western Australia
<b>Vesting Conditions</b>	such conditions as determined by the Board in its discretion and as specified in the offer for the Option
<b>Working Capital Period</b>	the 12 month period from the date of this Document

## PART 18

### GLOSSARY OF TECHNICAL TERMS

<b>acetylcholinesterase or acetylcholine</b>	an inhibitor that inhibits the acetylcholinesterase enzyme from breaking down acetylcholine into choline and acetate
<b>API</b>	an active pharmaceutical ingredient is the ingredient in a pharmaceutical drug that is biologically active
<b>Alzheimer's disease</b>	an irreversible, progressive brain disorder that slowly destroys memory and thinking skills and, eventually, the ability to carry out the simplest task
<b>amyloidogenesis</b>	results from the accumulation of pathogenic amyloids—most of which are aggregates of misfolded proteins—in a variety of tissues
<b>AEDs</b>	anti-epileptic drugs, the main type of treatment for most people with epilepsy
<b>autoimmune disorders</b>	conditions where the immune system mistakenly attacks healthy body cells
<b>anticonvulsant</b>	a diverse group of pharmacological agents used in the treatment of epileptic seizures
<b>Artemisinin</b>	a drug derived from the plant <i>artemisia annua</i> , sweet wormwood used for the treatment of malaria
<b>Boswellia serrata</b>	herbal extract taken from the <i>Boswellia serrata</i> tree used to treat chronic inflammatory illnesses
<b>cachexia</b>	loss of weight, muscle atrophy, fatigue, weakness and significant loss of appetite in someone who is not actively trying to lose weight
<b>cannabigerol or CBG</b>	the non-acidic form of cannabigerolic acid, the parent molecule from which other cannabinoids are synthesized
<b>cannabinoids</b>	a diverse array of 'cannabis like' molecules which encompass phytocannabinoids, endocannabinoids and synthetic cannabinoids
<b>cannabis spp</b>	cannabis species
<b>CB<sub>1</sub> and CB<sub>2</sub></b>	cannabinoid receptors: CB <sub>1</sub> receptors are located in the brain and throughout the body, while CB <sub>2</sub> receptors are found mostly in the immune and gastrointestinal system; although CB <sub>2</sub> receptors are also found in the brain, they are not expressed quite as densely as CB <sub>1</sub> receptors
<b>cannabidiol or CBD</b>	a phytocannabinoid that accounts for up to 40% of a cannabis plant's extract
<b>cannabinoid receptors</b>	part of the endocannabinoid system, which is now known to be a ubiquitous neuromodulatory system with wide-ranging actions
<b>Cannabinol or CBN</b>	a crystalline, mildly psychoactive cannabinoid found in very small quantities in cannabis
<b>central nervous system disorders</b>	a group of neurological disorders that affect the structure or function of the brain or spinal cord, which collectively form the central nervous system
<b>Certificate of GMP</b>	a certificate that demonstrates compliance with the principles and guidelines of GMP laid down in Directive 2003/94/EC, as well as an EU licence to produce pharmaceutical grade (GMP certified) phytocannabinoid medicinal formulations
<b>chromatograph</b>	laboratory technique for the separation of a mixture by passing it in solution or suspension through a medium in which the components move at different rates

<b>cholinesterase</b>	a family of esterases that lyses choline-based esters, several of which serve as neurotransmitters
<b>chronic pain</b>	pain that carries on for longer than 12 weeks despite medication or treatment
<b>Curcumin</b>	the principal bioactive substance of turmeric, often sold as an herbal supplement, cosmetics ingredient, food flavouring, and food colouring
<b>cytokine storm</b>	severe immune reaction in which the body releases too many cytokines into the blood too quickly
<b>Delta-THC</b>	the primary psychoactive ingredient in THC
<b>Dementia</b>	a chronic or persistent disorder of the mental processes caused by brain disease or injury and marked by memory disorders, personality changes, and impaired reasoning
<b>dose form or dosage form</b>	are pharmaceutical drug products in the form in which they are marketed for use, with a specific mixture of active ingredients and inactive component, in a particular configuration (such as a capsule shell, for example), and apportioned into a particular dose
<b>double blind</b>	neither the patients nor the researchers know who is receiving a placebo and who is receiving treatment in a trial
<b>crossover trial</b>	an observational research method in which data is gathered for the same subjects repeatedly over a period of time in which subjects receive a sequence of different treatments (or exposures)
<b>Dravet syndrome</b>	a severe form of epilepsy characterised by frequent, prolonged seizures
<b>drug resistant</b>	the reduction in effectiveness of a medication in treating a disease or condition
<b>Early Warning Score 2 (NEWS2)</b>	National Early Warning Score 2, a standardised system in which a score is allocated to physiological measurements, such as pulse rate and temperature to assess and respond to acute illness in hospitals in England
<b>endocannabinoid system</b>	the network of neurons, endocannabinoids and cannabinoid receptors in all vertebrates
<b>EU pharmacopeia standards</b>	publication that provides common quality standards throughout the pharmaceutical industry in Europe to control the quality of medicines, and the substances used to manufacture them
<b>flavonoids</b>	a group of plant metabolites thought to provide health benefits through cell signalling pathways and antioxidant effects
<b>GABA A receptor</b>	an ionotropic receptor and ligand-gated ion channel. Its endogenous ligand is $\gamma$ -aminobutyric acid, the major inhibitory neurotransmitter in the central nervous system
<b>glioblastoma</b>	a form of cancer that begins in the brain
<b>GCP</b>	ethical and scientific quality standards for designing, conducting, recording and reporting trials that involve the participation of humans
<b>Good Manufacturing Practice or GMP</b>	the practices required in order to conform to the guidelines recommended by agencies that control the authorisation and licensing of the manufacture and sale pharmaceutical products
<b>G-protein coupled receptors or GPR55</b>	a form of membrane receptors with the GPR55 gene being a G protein-coupled receptor that in humans is encoded by the GPR55 gene

<b>head-to-head trial</b>	where an investigational medicine is directly compared to an existing standard of care
<b>hemp</b>	a strain of the cannabis sativa plant species that is grown specifically for the industrial uses of its derived products
<b>IMP</b>	investigational medicinal product, is an active ingredient or placebo that has been pharmaceutically formulated (prepared) for human use which is being tested, or used as a comparator, in a clinical trial
<b>in-vitro</b>	the technique of performing a given procedure in a controlled environment outside of a living organism
<b>in-vivo</b>	those in which the effects of various biological entities are tested on whole, living organisms or cells
<b>LADME</b>	<p>the pharmacokinetic processes which follow a given dosage regimen</p> <p>L = Liberation, the release of the drug from it's dosage form</p> <p>A = Absorption, the movement of drug from the site of administration to the blood circulation.</p> <p>D = Distribution, the process by which drug diffuses or is transferred from intravascular space to extravascular space (body tissues).</p> <p>M = Metabolism, the chemical conversion or transformation of drugs into compounds which are easier to eliminate.</p> <p>E = Excretion, the elimination of unchanged drug or metabolite from the body via renal, biliary, or pulmonary processes</p>
<b>Lennox Gastaut syndrome</b>	a complex, rare, and severe childhood-onset epilepsy
<b>MCT oil</b>	medium-chain triglycerides oil
<b>medicinal cannabis products</b>	cannabis based products for medicinal use
<b>MC Licence</b>	general authority to lawfully cultivate and/or produce cannabis and cannabis resin (as applicable) for commercial purposes under the ND Act
<b>MC Permit</b>	permit authorising a specific instance of cultivation and/or production under the ND Act
<b>mitochondria</b>	parts of cells that turn sugars, fats and proteins that is eaten, into forms of chemical energy that the body uses to live
<b>molecule</b>	a particle made up of two or more atoms that are chemically bonded together
<b>monotherapy</b>	the treatment of a disease with a single drug
<b>MS</b>	multiple sclerosis
<b>MS spasticity</b>	MS spasticity whereby certain muscles are continuously contracted
<b>MXC-THC-10/3 for THC</b>	proprietary strain/genotype of the Company
<b>neuropsychiatric symptoms</b>	various symptoms that can be part of dementia including: apathy, depression, sleep disorders, hallucinations, delusions, psychosis, agitation, and aggression
<b>nanoparticle</b>	Nanoparticles are particles between 1 and 100 nanometres in size with a surrounding interfacial layer. The interfacial layer is an integral part of nanoscale matter, fundamentally affecting all of its properties. The interfacial layer typically consists of ions, inorganic and organic molecules
<b>nabilone</b>	a synthetic cannabinoid with therapeutic use for neuropathic pain



<b>Negative clinical trial</b>	A clinical trial that shows that a new treatment is inferior to standard treatment
<b>neurological disorders</b>	diseases of the brain, spine and the nerves that connect them
<b>neurodegeneration</b>	the progressive loss of structure or function of neurons, including death of neurons
<b>neuronal membrane-ion channels</b>	specialised proteins called channels, which form pores in the membrane that are selectively permeable to particular ions
<b>neurotransmitter receptors (GABA, 5-HT)</b>	a class of receptors that specifically binds with neurotransmitters as opposed to other molecules – GABA and 5-HT being G protein-coupled receptor and ligand-gated ion channels found in the central and peripheral nervous system
<b>neurotransmitter modulation</b>	Neurotransmitters – are endogenous chemicals that enable neurotransmission. It is a type of chemical messenger which transmits signals across a chemical synapse – modulation being the control of these chemicals?
<b>non-human preclinical research</b>	preclinical research not performed on humans
<b>nutraceutical</b>	is a pharmaceutical alternative which claims physiological benefits
<b>OEM</b>	original equipment manufacturer
<b>off-label</b>	the prescription of a drug for a condition other than that for which it has been officially approved
<b>oromucosal</b>	relating to, or directed towards the mucous surfaces of the mouth
<b>paediatric epilepsy</b>	Epilepsy in children
<b>pharmacodynamics</b>	the study of the biochemical and physiologic effects of drugs
<b>pharmacokinetics</b>	branch of pharmacology concerned with the movement of drugs within the body
<b>pharmacopeia</b>	an official publication containing a list of medicinal drugs with their effects and directions for their use
<b>pharmacotoxicological</b>	entails the study of the consequences of toxic exposure to pharmaceutical drugs and agents in the health care field
<b>Pharmacovigilance system</b>	a system used by an organisation to fulfil its legal tasks and responsibilities in relation to pharmacovigilance and designed to monitor the safety of authorised medicinal products and detect any change to their risk-benefit balance
<b>Phase I clinical trial</b>	trials to screen for safety and are often first-in-person with testing within a small group of people to evaluate safety, determine safe dosage ranges and identify side effects
<b>Phase II clinical trial</b>	trials to establish the preliminary efficacy of a drug, usually against a placebo, with testing on a larger group of people to determine efficacy and to further evaluate its safety. Can be divided into Phase IIa – to evaluate short-term safety of a drug and Phase IIb – refer below
<b>Phase IIb clinical trial</b>	to confirm clinical efficacy of a drug and determine the therapeutic dose range
<b>Phase III clinical trial</b>	trials to provide final confirmation of safety and efficacy with testing on larger groups to confirm efficacy, evaluate effectiveness, monitor side effects, compare it to commonly used treatments and collect information that will allow it to be used safely
<b>phytocannabinoid</b>	a cannabinoid produced in trichomes of the cannabis plant

<b>phytomedicines</b>	a plant-based traditional medicinal practice that uses various plant materials in preventive and therapeutic processes
<b>placebo controlled</b>	a method of research in which an inactive substance (a placebo) is given to one group of participants, while the treatment (usually a drug or vaccine) being tested is given to another group
<b>post-synaptic</b>	occurring after synapsis
<b>psychoactive</b>	chemical substance that acts primarily upon the central nervous system where it alters brain function, resulting in temporary changes in perception, mood, consciousness and behaviour
<b>preclinical</b>	the period before clinical trials can begin, and during which important feasibility, iterative testing and drug safety data are collected
<b>presynaptic modulator</b>	being either excitatory or inhibitory, it provides a more specific response and more precise control of action potentials
<b>Rett syndrome</b>	a rare genetic disorder that affects brain development, resulting in severe mental and physical disability. Symptoms include problems with language, coordination, and repetitive movements
<b>refractory epilepsy</b>	seizures that are not controlled with seizure medications, also known as uncontrolled, intractable, or drug-resistant epilepsy
<b>CPI Regulations</b>	Customs (Prohibited Imports) Regulations 1956
<b>seizures</b>	uncontrolled electrical activity in the brain, which may produce a physical convulsion, minor physical signs, thought disturbances, or a combination of symptoms
<b>Single Convention</b>	the United Nation's Single Convention on Narcotic Drugs, 1961
<b>standard operating procedures or SOPs</b>	step-by-step instructions explaining how to complete routine complex tasks and operations
<b>strain MXC-CBD-81/5 for CBD</b>	proprietary strain/genotype of the Company
<b>SV2A, SV2B and SV2C</b>	varieties of synaptic vesicle protein 2, isoforms that are highly related proteins belonging to a family of transporters
<b>terpenes</b>	fragrant oils found in many types of plants that produce a unique taste and smell
<b>tetrahydrocannabinolic acid or THCA</b>	tetrahydrocannabinolic acid, the most abundant non-psychoactive cannabinoid found in cannabis
<b>THC</b>	tetrahydrocannabinol, the principal psychoactive constituent of cannabis
<b>THC-V</b>	tetrahydrocannabivarin, a psychoactive cannabinoid found most prevalently in sativa strains of cannabis. It is known to produce a more motivated, alert and energizing feeling of euphoria
<b>tremor</b>	an involuntary, rhythmic muscle contraction leading to shaking movements in one or more parts of the body
<b>triglyceride</b>	a type of fat found in blood
<b>Vitamin C</b>	an essential nutrient found mainly in fruits and vegetables that acts as an antioxidant helping to protect cells and maintain bones, blood vessels, and skin

**wholesale licence**

a licence that allows the storage and supply Schedule 8 (medicinal cannabis products for therapeutic use) or Schedule 9 (medicinal cannabis products for medical or scientific research) substances. Wholesale licences are issued by the Australian State or Territory Department of Health under Regulation 5 of the Customs (Prohibited Imports) Regulations 1956

## **APPENDIX**

### **HISTORICAL FINANCIAL INFORMATION**

This section of the Document includes Historical Financial Information for the three financial years ended 30 June 2020, 30 June 2019 and 30 June 2018, as well as an accountant's report prepared by PKF Littlejohn. This Appendix is set out in two parts, as follows:

- Part A sets out PKF Littlejohn's accountant's report on the Historical Financial Information; and
- Part B sets out the Historical Financial Information.

## PART A: ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF THE GROUP



Accountants &  
business advisers

The Directors  
MGC Pharmaceuticals Limited (the “Company”)  
1202 Hay Street  
West Perth  
WA 6005

Dear Sirs

### Introduction

We report on the financial information of the Group for the period from 1 July 2017 to 30 June 2020 which comprises the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the cash flow statement, and the related notes. This financial information has been prepared for inclusion in the Prospectus of the Company dated 4 February 2021 on the basis of the accounting policies set out in note 2 to the financial information. The report is required by Annex 1, Section 18, Item 18.3.1 of Commission Delegated Regulation (EU) 2019/980 and is given for the purpose of complying with that paragraph and for no other purpose.

### Responsibilities

The Directors of the Group are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex 1, Section 1, Item 1.3 of Commission Delegated Regulation (EU) 2019/980, consenting to its inclusion in the Prospectus.

### Basis of opinion

We conducted our work in accordance with Standards of Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### Opinion

In our opinion the financial information set out below gives, for the purposes of the Prospectus dated 4 February 2021, a true and fair view of the state of affairs of the Group as at 30 June 2018, 2019 and 2020 and of the results, cash flows and changes in equity for the periods then ended in accordance with IFRS and has been prepared in a form that is consistent with the accounting policies adopted by the Group.

**Declaration**

For the purposes of Prospectus Regulation Rule 5.3.2R(2)(f) we are responsible for the report as part of the Prospectus and declare that the report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex 1, Section 1, Item 1.2 of Commission Delegated Regulation (EU) 2019/980.

Yours faithfully

**PKF Littlejohn LLP**  
**Reporting Accountant**

**4 February 2021**

15 Westferry Circus  
Canary Wharf  
London E14 4HD

## PART B: HISTORICAL FINANCIAL INFORMATION

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>Continuing operations</b>	<b>Note</b>			
Revenue	6a)	2,079,169	656,237	296,811
Cost of sales	7a)	(1,904,504)	(356,642)	(119,340)
<b>Gross profit</b>		<b>174,665</b>	<b>299,595</b>	<b>177,471</b>
Other operating income	6c)	518,851	327,565	–
Administrative expenses	7b)	(6,609,147)	(5,635,303)	(5,936,666)
Other operating expenses	7c)	(5,520,556)	(3,711,003)	(1,258,528)
Fair value movement on financial instruments	21	(2,098,064)	(501,027)	19,672
Write-off/impairment expense	7d)	(5,117,767)	(2,011,542)	(207,976)
<b>Operating loss</b>		<b>(18,652,018)</b>	<b>(11,231,715)</b>	<b>(7,206,027)</b>
Finance costs	7e)	(135,582)	(444)	(48,240)
Finance income	6b)	12,336	201,850	191,593
Other income		5,465	3,711	(27,796)
<b>Loss before income tax from continuing operations</b>		<b>(18,769,799)</b>	<b>(11,026,598)</b>	<b>(7,090,470)</b>
Income tax expense	9	–	(27,315)	–
<b>Loss for the year from continuing operations</b>		<b>(18,769,799)</b>	<b>(11,053,913)</b>	<b>(7,090,470)</b>
<b>Discontinued operations</b>				
(Loss)/gain after tax for the year from discontinued operations	5	(600,427)	2,430,057	1,038
<b>Loss for the year</b>		<b>(19,370,226)</b>	<b>(8,623,856)</b>	<b>(7,089,432)</b>
Attributable to:				
Members of the parent entity		(19,363,089)	(8,579,331)	(6,346,340)
Non-controlling interest		(7,137)	(44,525)	(743,092)
<b>Other comprehensive income for the year</b>		<b>(19,370,226)</b>	<b>(8,623,856)</b>	<b>(7,089,432)</b>
<b>Items that may be reclassified subsequently to profit or loss</b>				
Exchange differences on the translation of foreign operations		51,356	(127,067)	118,485
Derecognition of foreign currency reserve		–	24,295	–
<b>Other comprehensive income (net of tax) for the year</b>		<b>51,356</b>	<b>(102,772)</b>	<b>118,485</b>
<b>Total comprehensive loss for the year</b>		<b>(19,318,870)</b>	<b>(8,726,628)</b>	<b>(6,970,947)</b>
<b>Total comprehensive loss attributable to:</b>				
Members of the parent entity		(19,311,733)	(8,682,103)	(6,173,791)
Non-controlling interest		(7,137)	(44,525)	(797,156)
		<b>(19,318,870)</b>	<b>(8,726,628)</b>	<b>(6,970,947)</b>
<b>Earnings per share</b>				
Basic and diluted, loss for the year attributable to ordinary equity holders of the parent	19	(1.40)	(0.71)	(0.63)
<b>Earnings per share for continuing operations</b>				
Basic and diluted, loss for the year attributable to ordinary equity holders of the parent	19	(1.36)	(0.91)	(0.63)

The accompanying notes form part of the financial information



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	<i>Note</i>	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>NON-CURRENT ASSETS</b>				
Plant and equipment	13	2,192,974	1,470,479	1,334,492
Intangible assets	14	—	5,034,309	7,082,904
Financial assets	21	673,740	2,771,804	72,857
Right-of-use assets	16	1,831,377	—	—
<b>Total Non-Current Assets</b>		<b>4,698,091</b>	<b>9,276,592</b>	<b>8,490,253</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	10	1,873,373	2,354,086	9,858,977
Inventory	11	402,237	138,800	712,315
Trade and other receivables	12	521,684	139,952	468,967
Prepayment		71,032	87,333	463,352
Non-current assets classified as held for sale	5	362,657	—	—
<b>Total Current Assets</b>		<b>3,230,983</b>	<b>3,720,171</b>	<b>11,503,611</b>
<b>TOTAL ASSETS</b>		<b>7,929,074</b>	<b>12,996,763</b>	<b>19,993,864</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	15a)	2,705,818	1,593,707	960,575
Deferred revenue	15b)	100,440	587,688	—
Liabilities directly associated with non-current assets classified as held for sale	5	109,254	—	—
Lease liabilities – current	16	53,924	—	—
<b>Total Current Liabilities</b>		<b>2,969,436</b>	<b>2,181,395</b>	<b>960,575</b>
<b>NON-CURRENT LIABILITIES</b>				
Loans from third parties		—	—	21,556
Deferred revenue	15b)	—	—	47,280
Provisions		19,982	17,195	3,669
Lease liabilities – non-current	16	1,845,300	—	—
<b>Total Non-Current Liabilities</b>		<b>1,865,282</b>	<b>17,195</b>	<b>72,505</b>
<b>TOTAL LIABILITIES</b>		<b>4,834,718</b>	<b>2,198,590</b>	<b>1,033,080</b>
<b>NET ASSETS</b>		<b>3,094,356</b>	<b>10,798,173</b>	<b>18,960,784</b>
<b>EQUITY</b>				
Share capital	17a)	60,149,457	49,133,819	48,440,990
Share based payment reserve	17bi)	5,380,904	4,556,418	4,685,229
Foreign currency translation reserve	17bii)	85,284	33,928	136,700
Accumulated losses		(62,510,322)	(42,764,829)	(33,060,342)
<b>Equity attributable to equity holders of the parent</b>		<b>3,105,323</b>	<b>10,959,336</b>	<b>20,202,577</b>
Non-controlling interest		(10,967)	(161,163)	(1,241,793)
<b>TOTAL EQUITY</b>		<b>3,094,356</b>	<b>10,798,173</b>	<b>18,960,784</b>

The accompanying notes form part of the financial information

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital A\$	Share Based Payment Reserve A\$	Foreign Currency Translation Reserve A\$	Retained Earnings A\$	Non- Controlling Interest A\$	Total A\$
<b>Balance at 1 July 2017</b>	<b>42,557,404</b>	<b>3,495,614</b>	<b>(35,849)</b>	<b>(26,714,002)</b>	<b>(444,637)</b>	<b>20,158,530</b>
Other comprehensive income	—	—	172,549	—	(54,064)	118,485
Loss after income tax expense	—	—	—	(6,346,340)	(743,092)	(7,089,432)
<b>Total comprehensive loss for the year</b>	<b>—</b>	<b>—</b>	<b>172,549</b>	<b>(6,346,340)</b>	<b>(797,156)</b>	<b>(6,970,947)</b>
Shares issued during the year (net of share issue costs)	4,310,520	—	—	—	—	4,310,520
Share based payment	—	1,462,681	—	—	—	1,462,681
Transfer to issued share capital	1,573,066	(1,573,066)	—	—	—	—
<b>Balance at 30 June 2018</b>	<b>48,440,990</b>	<b>4,685,229</b>	<b>136,700</b>	<b>(33,060,342)</b>	<b>(1,241,793)</b>	<b>18,960,784</b>
<b>Balance at 1 July 2018</b>	<b>48,440,990</b>	<b>4,685,229</b>	<b>136,700</b>	<b>(33,060,342)</b>	<b>(1,241,793)</b>	<b>18,960,784</b>
Other comprehensive income	—	—	(102,772)	—	—	(102,772)
Loss after income tax expense	—	—	—	(8,579,332)	(44,525)	(8,623,857)
<b>Total comprehensive loss for the year</b>	<b>—</b>	<b>—</b>	<b>(102,772)</b>	<b>(8,579,332)</b>	<b>(44,525)</b>	<b>(8,726,629)</b>
Shares issued during the year (net of share issue costs)	692,829	—	—	—	—	692,829
Share based payment	—	(128,811)	—	—	—	(128,811)
Acquisition of non-controlling interest	—	—	—	(1,125,155)	1,125,155	—
<b>Balance at 30 June 2019</b>	<b>49,133,819</b>	<b>4,556,418</b>	<b>33,928</b>	<b>(42,764,829)</b>	<b>(161,163)</b>	<b>10,798,173</b>
<b>Balance at 1 July 2019</b>	<b>49,133,819</b>	<b>4,556,418</b>	<b>33,928</b>	<b>(42,764,829)</b>	<b>(161,163)</b>	<b>10,798,173</b>
Other comprehensive income	—	—	51,356	—	—	51,356
Loss after income tax expense	—	—	—	(19,363,089)	(7,137)	(19,370,226)
<b>Total comprehensive loss for the year</b>	<b>—</b>	<b>—</b>	<b>51</b>	<b>(19,363,089)</b>	<b>(7,137)</b>	<b>(19,318,870)</b>
Shares issued during the year (net of share issue costs)	9,911,672	—	—	—	—	9,911,672
Transfer to issued capital	869,931	(869,931)	—	—	—	—
Share based payment	—	1,694,417	—	—	—	1,694,417
Acquisition of non-controlling interest	234,035	—	—	(382,404)	157,333	8,964
<b>Balance at 30 June 2020</b>	<b>60,149,457</b>	<b>5,380,904</b>	<b>85,284</b>	<b>(62,510,322)</b>	<b>(10,967)</b>	<b>3,094,356</b>

The accompanying notes form part of the financial information

**CONSOLIDATED STATEMENT OF CASHFLOW**

	<i>Note</i>	<b>30-Jun-20 A\$</b>	<b>30-Jun-19 A\$</b>	<b>30-Jun-18 A\$</b>
<b><i>Cash flows from operating activities</i></b>				
Receipts from customers		2,072,246	985,195	299,514
Payments to suppliers and employees		(8,452,920)	(4,905,359)	(5,354,718)
Payments for research expenses		(3,973,805)	(2,892,045)	(951,323)
Research and development rebate	6c	429,401	327,565	–
Government grant received		89,551	–	–
Interest received		14,242	158,193	167,977
Interest paid		(135,582)	(444)	(48,240)
Income tax paid		–	(27,315)	–
<b>Net cash used in operating activities</b>	25	<b>(9,956,867)</b>	<b>(6,354,210)</b>	<b>(5,886,790)</b>
<b><i>Cash flows from investing activities</i></b>				
Subsidiary disposed; net of cash disposed of		(13,252)	(569,992)	–
Proceeds from sales of plant and equipment		5,465	–	118,864
Purchase of plant and equipment/assets under construction		(962,097)	(377,043)	(459,443)
<b>Net cash used in investing activities</b>		<b>(969,884)</b>	<b>(947,035)</b>	<b>(340,579)</b>
<b><i>Cash flows from financing activities</i></b>				
Proceeds from issue of shares and options		11,433,193	35,962	5,017,365
Payment of lease liabilities		(183,611)	–	–
Transaction costs on issue of shares		(787,677)	(8,948)	(316,844)
<b>Net cash provided by financing activities</b>		<b>10,461,905</b>	<b>27,014</b>	<b>4,700,521</b>
<b>Net (decrease) in cash and cash equivalents held</b>		<b>(464,846)</b>	<b>(7,274,231)</b>	<b>(1,526,848)</b>
Cash and cash equivalents at beginning of year		2,354,086	9,858,977	11,363,902
Foreign exchange movement in cash		(15,867)	(230,660)	21,923
<b>Cash and cash equivalents at end of year</b>	10	<b>1,873,373</b>	<b>2,354,086</b>	<b>9,858,927</b>

The accompanying notes form part of the financial information

## **1. CORPORATE INFORMATION**

The financial information of MGC Pharmaceuticals Limited for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of Directors on 30 September 2020. The consolidated financial information and notes represent those of MGC Pharmaceuticals Limited (the “Company”) and Controlled Entities (the “consolidated group” or “Group”). Note 22 contains information of all entities included within the consolidation.

MGC Pharmaceuticals Limited is a for-profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (“ASX”). The nature of the operations and principal activities of the Group are described in Note 23. The registered office of the Company is 1202 Hay Street, West Perth WA 6005.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **a) Statement of Compliance**

The financial information has been presented in Australian dollars (A\$), being the functional currency of the Group.

This financial information of the Group has been prepared for the sole purpose of publication within this Admission Document. It has been prepared in accordance with the requirements of the Listing Rules for Companies of the London Stock Exchange plc and has been prepared in accordance with International Financial Reporting Standards and IFRS interpretations Committee (IFRS IC) interpretations (“IFRS”) and the policies stated elsewhere within the financial information. The financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The Group’s historic financial statements have historically been prepared under Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (“AASB”). Details on the presentation adjustments from AASB to IFRS are included in note 32.

### **Basis of Preparation**

The financial information has been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of financial assets.

The preparation of the financial information requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in note 3.

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

### **Financial report prepared on a going concern basis**

The financial information has been prepared on the going concern basis of accounting, which assumes the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

During the year ended 30 June 2020 the consolidated group incurred a loss from continuing operations of \$18,769,799 (2019: \$11,053,913 / 2018: \$7,090,470) and net operating cash outflows of \$9,956,867 (2019: \$6,354,210 / 2018: \$5,886,977). Net losses for the period included impairment expenses of \$5,117,767 (2019: \$2,011,542 / 2018: \$207,976). At 30 June 2020, the consolidated group had net current assets of \$261,547 (2019: \$1,538,776 / 2018: \$10,543,036), including a cash and cash equivalents balance of \$1,873,373 (2019: \$2,354,086 / 2018: \$9,859,000).

The consolidated group cashflow forecasts for the 24 months ending 31 December 2022 indicate that the ability of the group to conduct its planned activities and continue as a going concern. The Directors are satisfied that the going concern basis of preparation is appropriate due to the availability of funding under the convertible securities financing agreement signed with Mercer Street Global Opportunity Fund, LLC (“the investor”) (“the agreement”) and announced subsequent to year end. The first tranche of funding under the agreement of \$2,250,000 was received on 14 September 2020, and the second tranche of \$3,500,000 was received on 23 November 2020 as detailed at note 31, *Events After the Reporting Date*. At the discretion of both the Company and the investor, up to a further \$9,250,000 can be drawn down under the agreement via the issue of further convertible notes, subject to certain operational milestones being achieved and the Company having sufficient capacity under Chapter 7 of the ASX Listing Rules to issue the convertible notes, or shareholder approval being obtained. In addition, the group has a history of successfully raising capital to fund its operations.

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

The consolidated financial information 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.

#### **b) Principles of Consolidation**

The consolidated financial information comprises of the financial information of MGC Pharmaceuticals Ltd and its subsidiaries as at 30 June 2020 ("the Group"), which are set out in note 22.

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

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

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

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

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

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

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

#### **c) Non-current assets (or disposal groups) held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet. A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss

**d) Trade and other receivables**

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

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

**e) Other Financial Assets**

Financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

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

*Financial assets at fair value through profit or loss*

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

**f) Impairment of Non-Financial Assets**

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

**g) Current and Non-Current Classification**

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

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or

- A Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

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

The Group classifies all other liabilities as non-current.

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

#### **h) Government Grants**

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

#### **i) Goods and Services Tax (GST)**

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

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

#### **New and amended Accounting Standards and Interpretations adopted by the Group**

The Group has adopted all of the new and revised Accounting Standards and Interpretations issued under IFRS that are relevant to its operations and effective from 1 July 2017.

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

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

#### **Impact of adopting IFRS 16**

IFRS 16 supersedes IAS 17 Leases. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

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

The Group adopted IFRS 16 from 1 July 2019 using the modified retrospective method of adoption. The Group has applied practical expedients allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17. The Group also elected to apply practical expedients in relation to lease contracts that, at the date of initial application, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value (considered to have a total cost of less than \$5,000) ('low-value assets'), and the practical expedient to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

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

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



### **Group as Lessee**

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

### ***Right-of-use assets***

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

### ***Lease liabilities***

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

### ***Short-term leases and leases of low-value assets***

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

## **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

- a) **Share Based Payments** (refer note 29).
- b) **Impairment Assessments for Non-current Assets** (refer note 14).
- c) **Leases** (refer note 16)
- d) **Research and Development Rebate** (refer note 6)

### ***COVID-19***

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

#### 4. RECONCILIATION TO 30 JUNE 2018 AND 30 JUNE 2019 PUBLISHED FINANCIAL STATEMENTS

The historic financial information presented has been adjusted from the historically published audited financial statements of the Group. During FY20, the Company re-assessed its accounting treatment of the initial asset acquisition of MGC UK and determined that the performance shares as consideration payable for the net assets acquired should have been accounted for as an equity-settled share based payment under IFRS 2 – Share based payments.

The recognition of the increase in the Group's interest in Panax s.r.o. during the year from 80% to 87% and subsequent treatment of the historical Panax earnings associated with this increase was recognised in a consolidation reserve in the audited financial statements. An adjustment has been included to reclassify this reserve as part of retained earnings. There is no impact on the result for the year as a result of this reclassification.

The historic financial information has been presented following these adjustments and a reconciliation to the previously issued financial statements is included below.

##### *Consolidated Statements of Financial Position at 30 June 2020*

	30-Jun-20 A\$	Adjustment A\$	30-Jun-20 As previously disclosed A\$
Consolidation reserve	–	382,404	(382,404)
Accumulated losses	(62,510,322)	(382,404)	(62,127,918)
Total equity	3,094,356	–	3,094,356

##### *Consolidated Statements of Financial Position at 30 June 2019 and 30 June 2018*

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

	30-Jun-18 A\$	Adjustment A\$	30-Jun-18 As previously disclosed A\$
Share based payment reserve	4,685,229	1,300,000	3,385,229
Accumulated losses	(33,060,342)	4,970,000	(38,030,342)
Current liabilities	960,575	(6,270,000)	7,230,575
Total equity	18,960,784	6,270,000	12,690,784

##### *Consolidated statement of Financial Position at 30 June 2017*

The table below reflects the cumulative adjustment to the consolidated statement of financial position at 30 June 2017, the period immediately prior to the commencement of the Historical Financial Information.

	30-Jun-17 A\$	Adjustment A\$	30-Jun-17 As previously disclosed A\$
Share based payment reserve	4,795,614	1,300,000	3,495,614
Accumulated losses	(26,714,002)	3,070,000	(29,784,002)
Current liabilities	596,275	(4,370,000)	4,966,275
Total equity	20,158,530	4,370,000	15,788,530

**Consolidated Statement of Profit or Loss and Other Comprehensive Income for the years ended 30 June 2019 and 30 June 2018**

	30-Jun-19 A\$	Adjustment A\$	30-Jun-19 As previously disclosed A\$
Gain on re-measurement of performance shares	–	(6,270,000)	6,270,000
Net loss for the period attributable to members of the parent entity	(8,579,332)	(6,270,000)	(2,309,332)

	30-Jun-18 A\$	Adjustment A\$	30-Jun-18 As previously disclosed A\$
Loss on re-measurement of performance shares	–	1,900,000	(1,900,000)
Net loss for the period attributable to members of the parent entity	(6,346,340)	1,900,000	(8,246,340)

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

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

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

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

	Year to 30 June 2020 A\$
Revenue	148,544
Expenses	(748,971)
Loss before income tax expense from MGC Nutraceuticals as a discontinued operation	(600,427)
Income tax expense/benefit	–

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

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

In the prior reporting period to 30 June 2019, the discontinued operation presented related to the Group's disposal of its subsidiary MGC Derma d.o.o.

During the year ended 30 June 2019 the Group entered into a binding sale agreement, and subsequently a share purchase agreement on 7 November 2018, for the sale of its cosmetics subsidiary, MGC Derma d.o.o ("MGC Derma") with CannaGlobal

Canada Co Inc ("CannaGlobal"), in exchange for consideration of shares in the private Canadian cannabis investment company.

On execution and completion, the following is effective:

- Purchase of remaining non-controlling interest of MGC Derma by the Company
- Transfer of CAD\$0.5 million to MGC Derma for the first order of CBD materials as per the 5-year exclusivity supply agreement executed between the two parties
- 100% ownership of MGC Derma transferred to CannaGlobal
- 10% equity holding by the Group in CannaGlobal

In September 2018 the remaining 49% of MGC Derma was acquired by the Company and thereafter the agreed CAD\$0.5m transfer was completed in November 2018.

On 29 January 2019 all conditions precedent for completion of the acquisition by CannaGlobal were executed and 2.5m shares in CannaGlobal were issued to the Group as consideration. A deemed disposal date of 31 January 2019 has been used for accounting purposes. The initial value of these shares received were \$3,199,973.

It was determined that the 10% equity holding, based on underlying information provided by CannaGlobal, that the fair value of the 2.5m shares held as at 30 June 2019 was \$2,718,375. The company recognised an impairment expense of \$481,598 in the statement of profit or loss for the year ended 30 June 2019.

A gain on deconsolidation as at date of disposal of \$2,880,242 was recognised and taken to the statement of profit and loss.

*Gain on deconsolidation of MGC Derma d.o.o*

	31-Jan-19 \$
<b>Consideration received</b>	
2,500,000 Cannaglobal shares	3,199,977
Carrying amount of net assets sold	(295,438)
	2,904,539
Reclassification of foreign currency translation reserve	(24,299)
<b>Gain on deconsolidation</b>	<b>2,880,240</b>

– *Financial Performance for MGC Derma d.o.o*

	7 months to 31-Jan-19 \$
<b>Consideration</b>	
Revenues	106,229
Cost of goods sold	(150,665)
<b>Gross (loss)/profit</b>	<b>(44,436)</b>
Other income	18,790
Operational expenditure	(237,218)
Corporate costs	(480)
Professional and consultancy fees	(54,216)
Travel and marketing expenses	–
Depreciation	(25,167)
Office and administrative expenses	–
Finance costs	(88,466)
Impairment provision expense	(16,132)
Other expenses	(2,860)
<b>Loss before income tax</b>	<b>(450,185)</b>
Income tax benefit	–
<b>Loss after income tax expense from discontinued operations</b>	<b>(450,185)</b>

*Cash flow information for MGC Derma d.o.o*

**Cash flows from operating activities**

Receipts from customers  
Payments to suppliers and employees  
Interest received

**Net cash used in operating activities**

**Cash flows from investing activities**

Purchase of plant and equipment

**Net cash used in investing activities**

**Cash flows from financing activities**

Proceeds of borrowing from parent entity

**Net cash provided by financing activities**

**Net increase in cash and cash equivalents**

Cash and cash equivalents at the beginning of the year  
Foreign exchange movement in cash

**Cash and cash equivalents**

7 months to 31-Jan-19 \$
621,278
(284,582)
18,790
<b>355,486</b>
(2,733)
<b>(2,733)</b>
–
–
<b>352,753</b>
289,142
(71,903)
<b>569,992</b>

*Assets and liabilities of MGC Derma d.o.o at disposal date*

**Assets**

Cash and cash equivalents  
Trade and other receivables  
Inventory  
Property, plant and equipment

**Liabilities**

Trade and other payables  
Deferred revenue

**Net assets held for sale at disposal date**

31-Jan-19 \$
569,992
79,176
232,173
44,219
<b>925,560</b>
53,777
576,345
<b>630,122</b>
<b>295,438</b>
31-Jan-19 \$
2,880,240
(450,185)
<b>2,430,057</b>

**6. REVENUE AND OTHER INCOME**

***Revenue from contracts with customers***

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

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

until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

#### **Revenue from sale of pharma products**

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

#### **Revenue from sale of non-pharma products**

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

#### **Interest revenue**

Interest revenue is recognized using the effective interest rate method.

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>a) Revenue from contracts with customers</b>			
Pharma sales	1,197,130	36,273	217,281
Non-pharma sales	882,039	619,964	79,530
	<b>2,079,169</b>	<b>656,237</b>	<b>296,811</b>
<b>b) Finance income</b>			
Interest income calculated using the effective interest rate method	12,336	201,850	191,593
	<b>12,336</b>	<b>201,850</b>	<b>191,593</b>
<b>c) Other operating income</b>			
Refund on research and development claim <sup>1</sup>	429,401	327,565	–
Government grants received	89,450	–	–
	<b>518,851</b>	<b>327,565</b>	<b>–</b>

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

#### **Research and development rebate**

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

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

## 7. COST OF SALES AND EXPENSES

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>a) Cost of sales</b>			
Cost of goods sold – Pharma	1,242,311	65,034	79,103
Cost of goods sold – Non-pharma	662,193	291,608	40,237
	<b>1,904,504</b>	<b>356,642</b>	<b>119,340</b>
<b>b) Administrative expenses</b>			
Corporate costs	303,681	235,527	239,437
Professional and consultancy fees	1,819,532	1,025,476	507,778
Directors' fees	1,178,114	1,194,852	1,258,802
Employee benefit expenses	485,412	537,906	812,701
Employee share based payment expense	854,915	537,004	1,072,681
Travel expenses	399,934	511,689	291,646
Marketing expenses	562,125	574,983	612,760
Depreciation	481,130	259,744	328,112
Office and administrative expenses	524,304	758,122	811,749
	<b>6,609,147</b>	<b>5,635,303</b>	<b>5,935,666</b>
<b>c) Other operating expenses</b>			
Unrealised foreign exchange	69,896	2,486	1,213
Realised foreign exchange	80,506	5,070	49,916
Laboratory operation expenses	3,285,946	2,040,128	522,262
Research expense	2,084,208	1,663,319	685,137
	<b>5,520,556</b>	<b>3,711,003</b>	<b>1,258,528</b>
<b>d) Impairment expense</b>			
Write off/impairment of intangible assets (note 14)	5,117,767	2,011,542	207,976
	<b>5,117,767</b>	<b>2,011,542</b>	<b>207,976</b>
<b>e) Finance cost</b>			
Finance costs	135,582	444	48,240
	<b>135,582</b>	<b>444</b>	<b>48,240</b>

## 8. EMPLOYEE EXPENSES

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

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
Wages and salaries	485,412	537,906	804,900
Employee share-based payment expense (note 29)	854,915	537,004	1,072,681
Other employee costs	–	–	7,801
	<b>1,340,327</b>	<b>1,074,910</b>	<b>1,885,382</b>

## 9. INCOME TAX

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

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

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



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

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

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

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

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

#### *Tax Consolidation*

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

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

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>a) Major components of income tax expense for the periods presented:</b>			
Current tax	—	—	—
Deferred tax	—	—	—
Income tax expense reported in the Statement of Comprehensive Income	—	—	—
<b>b) The prima facie tax on (loss) from continuing operations and discontinued operations before income tax is reconciled to the income tax as follows:</b>			
Prima facie tax payable on (loss) from continuing operations and discontinued operations before income tax at 27.5% (2019: 27.5% / 2018: 27.5%)	(5,326,812)	(515,998)	(2,472,094)

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
Adjustments due to permanent differences	483,339	(1,488,334)	570,229
Deferred tax assets not brought to account	2,732,232	2,031,647	1,901,865
Under/over provision of prior year	–	27,315	–
<b>Income tax expense/(benefit)</b>	<b>–</b>	<b>27,315</b>	<b>–</b>
Deferred Tax Assets Not Brought to Account, the benefits of which will only be realised if the conditions for deductibility set out in note above			
Tax Losses	6,164,503	4,747,381	3,651,169
Temporary Differences	428,686	312,579	876,589
<b>Total</b>	<b>6,593,189</b>	<b>5,059,960</b>	<b>4,527,758</b>

#### 10. CASH AND CASH EQUIVALENTS

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
Cash at bank	1,873,373	2,354,086	9,858,977
	<b>1,873,373</b>	<b>2,354,086</b>	<b>9,858,977</b>

#### 11. INVENTORY

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

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>At net realisable value</b>			
Finished goods	92,511	20,932	8,853
Work in progress	18,786	–	–
<b>At cost</b>			
Raw materials	290,940	117,868	703,462
	<b>402,237</b>	<b>138,800</b>	<b>712,315</b>

#### 12. TRADE AND OTHER RECEIVABLES

Trade receivables are generally due for settlement between thirty (30) and ninety (90) days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after reporting date.

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>Current</b>			
Trade receivables	–	271,022	70,466
Other receivables	214,209	710,298	322,966
GST/VAT receivable	254,297	158,632	68,120
Short term loan to third party	53,178	–	7,415
	<b>521,684</b>	<b>1,139,952</b>	<b>468,967</b>

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

#### 13. PLANT AND EQUIPMENT

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

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

Plant and equipment 3-5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. Construction in progress is stated at cost and is not depreciated until point at which the assets are available for use.

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

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>Plant and equipment*</b>			
– gross carrying amount at cost	1,964,672	1,814,706	1,701,604
– accumulated depreciation	(905,455)	(576,987)	(367,112)
	<b>1,059,217</b>	<b>1,237,719</b>	<b>1,334,492</b>
<b>Construction in progress</b>			
– gross carrying amount at cost	1,133,757	232,760	–
– accumulated depreciation	–	–	–
	<b>1,133,757</b>	<b>232,760</b>	<b>–</b>
<b>Total property, plant and equipment</b>	<b>2,192,974</b>	<b>1,470,479</b>	<b>1,334,492</b>

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

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>Property, plant and equipment movement</b>			
Opening balance at 1 July	1,470,479	1,334,492	1,258,478
Additions	1,120,963	344,566	459,022
Disposal	(28,830)	(21,365)	(196,293)
Disposal on derecognition of subsidiary	–	(44,219)	–
Depreciation	(320,943)	(259,744)	(328,112)
Foreign currency translation	(48,695)	117,749	141,397
	<b>2,192,974</b>	<b>1,470,479</b>	<b>1,334,492</b>

## Impairment testing

### Slovenia

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

### Malta

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

## 14. INTANGIBLE ASSETS

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of acquisition.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

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

#### *Licenses/permit costs*

The intangible asset of the Group related to a license to grow industrial cannabis in Slovenia, which was subject to an annual renewal process. For each period, the Group assess the carrying value of the intangible asset based on licenses in place and discounted cashflow forecast to determine if any impairment indicators are present. As the license expired during the current period and was not renewed on the basis that it is not required for the Group's current operations in Slovenia, the intangible asset value was written off in full. A write-off expense of \$5,038,064 was taken to the statement of profit or loss.

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>Intangible assets – Licence in Slovenia</b>			
Opening balance at 1 July	5,034,309	7,082,904	7,076,166
– write-off/provision for impairment	(5,038,064)	(2,011,542)	–
– other	–	(38,942)	–
– foreign currency translation	3,755	1,889	6,738
	<b>–</b>	<b>5,034,309</b>	<b>7,082,904</b>

#### **15. PAYABLES AND DEFERRED REVENUE**

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

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>a) Current trade and other payables</b>			
Trade payables	2,003,677	1,164,819	808,530
Accruals	556,205	333,036	145,400
Other payables	145,936	95,852	6,645
	<b>2,705,818</b>	<b>1,593,707</b>	<b>960,575</b>
<b>b) Deferred revenue</b>			
Deferred revenues – current	100,440	587,688	–
Deferred revenues – non current	–	–	47,280
	<b>100,440</b>	<b>587,688</b>	<b>47,280</b>

Deferred revenue represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration at the year end. Revenue recognised in the year to 30 June 2020, which related to opening deferred revenue at 1 July 2019 totalled \$1,000 (June 2019: \$Nil / June 2018: \$Nil).

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

#### **16. LEASES**

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

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

	30-Jun-20 A\$
<b>Right-of-use assets</b>	
Opening balance at 1 July 2019 on adoption of IFRS 16	185,908
Additions of right-of-use assets in period	1,805,656
Depreciation of right-of-use assets	(160,187)
<b>As at 30 June 2020</b>	<b>1,831,377</b>

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

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

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

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

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

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

The following is a reconciliation of the Group's operating lease commitments under IAS 17 at 30 June 2020 to the lease liability recognized at 1 July 2020 on transition to IFRS 16.

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

#### Malta long-term lease agreement

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

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

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

## 17. SHARE CAPITAL AND RESERVES

### a) Share capital

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

	30-Jun-20 NUMBER	30-Jun-19 NUMBER	30-Jun-18 NUMBER	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
Ordinary shares on issue, fully paid	1,575,612,348	1,203,048,174	1,189,830,412	60,149,457	49,133,819	48,440,990
VHL shares	–	10,335,511	13,000,000	–	–	–
	<b>1,575,612,348</b>	<b>1,213,383,685</b>	<b>1,202,830,412</b>	<b>60,149,457</b>	<b>49,133,819</b>	<b>48,440,990</b>

### Reconciliation of movement in share capital

#### 30 June 2020

Opening balance of 1 July 2019
Exercise of listed options – 5 Jul 2019
Issue of capital raising placement shares – 29 Aug 2019
Conversion of M3 performance rights – 9 Sep 2019
Issue of shares to vendor of Panax s.r.o – 9 Sep 2019
Issue of priority offer placement shares – 16 Sep 2019 <sup>1</sup>
Release of VHL Shares – 12 November 2019
Issue of Shares as part consideration for services – 29 Nov 2019 <sup>2</sup>
Issue of capital raising placement shares – 26 Feb 2020
Issue of share purchase plan – 18 Mar 2020
Issue of capital raising placement shares – 4 May 2020
Issue of shares in lieu of cash payment – 4 May 2020
Less: costs of issue

#### Closing balance at 30 June 2020

No. Of Shares	Issue Price \$	Amount A\$
<b>1,213,383,685</b>		<b>49,133,819</b>
87,426	0.065	5,683
118,750,000	0.04	4,750,000
3,638,000	0.041	149,158
5,850,875	0.04	234,035
25,001,000	0.04	1,000,040
–	0.06974	720,773
4,411,765	0.034	150,000
31,250,000	0.032	1,000,000
42,313,301	0.027	1,142,459
129,630,000	0.027	3,500,010
1,296,296	0.027	35,000
		(1,671,520)
<b>1,575,612,348</b>		<b>60,149,457</b>

#### 30 June 2019

Opening balance of 1 July 2018
Conversion of Milestone 1 Performance Rights – 18 Jul 2018
Conversion of Milestone 2 Performance Rights – 18 Jul 2018
Release of VHL shares – 18 Jul 2018
Release of VHL shares – 5 Dec 2018
Conversion of Performance Shares – 19 Feb 2019
Exercise of listed options – 21 June 2019
Less: costs of issue

#### Closing balance at 30 June 2019

No. Of Shares	Issue Price \$	Amount A\$
<b>1,202,830,412</b>		<b>48,440,990</b>
6,000,000	0.048	288,000
4,000,000	0.048	192,000
–	0.069	24,237
–	0.069	161,578
7	0.040	–
553,266	0.065	35,962
		(8,948)
<b>1,213,383,685</b>		<b>49,133,819</b>

#### 30 June 2018

Opening balance of 1 July 2017
Exercise of listed options – 15 Dec 2017
Conversion of Milestone 1 performance rights – Directors – 30 Jan 2018
Conversion of Milestone 2 performance rights – Directors – 30 Jan 2018
Conversion of Milestone 1 performance rights – KMP and employees – 30 Jan 2018
Conversion of Milestone 2 performance rights – KMP and employees – 30 Jan 2018
Exercise of listed options – 16 Feb 2018
Exercise of listed options – 23 March 2018
Capital raising placement – 17 April 2018
Exercise of listed options – 18 May 2018
Less: costs of issue

#### Closing balance at 30 June 2018

No. Of Shares	Issue Price \$	Amount A\$
<b>1,096,608,703</b>		<b>42,557,404</b>
113,637	0.065	7,386
13,500,000	0.048	648,000
9,000,000	0.048	432,000
2,400,000	0.041	98,400
9,626,000	0.041	394,666
18,940	0.065	1,231
37,879	0.065	2,462
71,428,572	0.070	5,000,000
96,681	0.065	6,284
		(706,843)
<b>1,202,830,412</b>		<b>48,440,990</b>

1. In line with agreement held with the minority shareholder of the Group's subsidiary, Panax s.r.o, 5,850,875 shares were issued following the exercise of an option and a further 6.67% interest in the subsidiary was acquired, resulting in a total holding of 86.67% (2019: 80% / 2018: 80%).
2. Pursuant to agreement with Cannvalate Pty Ltd, it was agreed that 50% of their services would be paid as ordinary shares, valued using a 30-day VWAP. During the year 4,411,765 shares were issued at \$0.0343/share for services rendered during the year.

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

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

### Capital risk management

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

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

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

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

### b) Reserves

#### i. Share based payment reserve

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
Opening balance at 1 July	4,556,418	4,685,229	4,795,614
Conversion of performance rights (note 29)	(149,158)	(480,000)	(1,573,066)
Release of VHL shares (note 17)	(720,773)	(185,815)	–
Share based payment vesting expense (note 29)	1,694,417	537,004	1,462,681
	<b>5,380,904</b>	<b>4,556,418</b>	<b>4,685,229</b>

#### ii. Foreign currency translation reserve

##### *Functional and Presentation Currency*

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial information is presented in Australian dollars, which is the Company's functional and presentation currency. The presentational currency is based on the currency in the which the Group's primary funding is received and majority of operating costs incurred.

##### *Transactions and Balances*

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

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

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

##### *Group companies*

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

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



	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
Opening balance at 1 July	33,928	136,700	(35,849)
Currency translation differences arising during the year	51,356	(127,067)	172,549
Derecognition upon disposal of subsidiary	—	24,295	—
	<b>85,284</b>	<b>33,928</b>	<b>136,700</b>

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

## 18. DIVIDENDS

No dividends have been paid or provided during the year to 30 June 2020 (June 2019: \$Nil and June 2018: \$Nil).

## 19. EARNINGS PER SHARE

### *Basic earnings per share*

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

### *Diluted earnings per share*

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

	30-Jun-20	30-Jun-19	30-Jun-18
<b>Earning per share</b>			
Basic loss per share (cents)	(1.40)	(0.71)	(0.63)
Diluted loss per share (cents)	(1.40)	(0.71)	(0.63)
<b>Reconciliation of earnings to profit or loss</b>	<b>A\$</b>	<b>A\$</b>	<b>A\$</b>
(Loss) used in calculating basic and diluted EPS	(19,370,226)	(8,623,856)	(7,089,432)
<b>Earnings per share for continuing operations</b>			
Basic loss per share (cents)	(1.36)	(0.91)	(0.63)
Diluted loss per share (cents)	(1.36)	(0.91)	(0.63)
<b>Reconciliation of earnings to profit or loss</b>	<b>A\$</b>	<b>A\$</b>	<b>A\$</b>
(Loss) used in calculating basic and diluted EPS	(18,769,799)	(11,053,913)	(7,090,470)
<b>Weighted average number of ordinary shares and potential ordinary shares</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic and diluted EPS	1,382,194,646	1,209,142,408	1,125,542,692
<b>Earning per share for discontinued operations</b>			
Basic loss per share (cents)	(0.04)	(0.20)	—
Diluted loss per share (cents)	(0.04)	(0.20)	—
<b>Reconciliation of earnings to profit or loss</b>	<b>A\$</b>	<b>A\$</b>	<b>A\$</b>
(Loss) used in calculating basic and diluted EPS	(600,427)	2,430,057	1,038
<b>Weighted average number of ordinary shares and potential ordinary shares</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic and diluted EPS	1,382,194,646	1,209,142,408	1,125,542,692

At 30 June 2020, the Company had on issue 20,000,000 performance rights (2019: Nil/2018: 13,638,000) and 184,334,538 options (2019: 45,900,000/2018: 121,786,090). Given the Group made a loss during the current financial year, these potential shares are considered non-dilutive and therefore not included in the diluted EPS calculation.

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

## 20. FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of cash at bank, payables and receivables.

The Group has not formulated any specific management objectives and policies in respect to debt financing, derivatives or hedging activity. As a result, the Group has not formulated any specific management objectives and policies in respect to these types of financial instruments. Should the Group change its position in the future, a considered summary of these policies will be disclosed at that time.

The Group's current exposure to the risk of changes in the market is managed by the Board of Directors.

### Market risks

The Group is exposed to a variety of financial risks through its financial instruments for example, interest rate risk, liquidity risk and credit risk, as well as foreign currency risk.

#### Interest rate risk

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

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

	Floating interest rate A\$	1 Year or less A\$	Over 1 to 5 years A\$	Non-interest bearing A\$	Remaining contractual maturities A\$	Weighted average interest rate %
<b>30 June 2020</b>						
<b>Financial assets</b>						
Cash and cash equivalents	1,873,373	1,873,373	—	—	1,873,373	<b>0.65%</b>
Trade and other receivables	—	—	—	468,506	468,506	
	<b>1,873,373</b>	<b>1,873,373</b>	<b>—</b>	<b>468,506</b>	<b>2,341,879</b>	
<b>Financial liabilities</b>						
Other payables and sundry accruals	—	—	—	2,705,818	2,705,818	
Lease liabilities	1,899,224	53,924	1,845,300	—	1,899,224	
	<b>1,899,224</b>	<b>53,924</b>	<b>1,845,300</b>	<b>2,705,818</b>	<b>4,605,042</b>	
<b>30 June 2019</b>						
<b>Financial assets</b>						
Cash and cash equivalents	2,354,086	2,354,086	—	—	2,354,086	<b>5.83%</b>
Trade and other receivables	—	—	—	1,139,952	1,139,952	
	<b>2,354,086</b>	<b>2,354,086</b>	<b>—</b>	<b>1,139,952</b>	<b>3,494,038</b>	
<b>Financial liabilities</b>						
Other payables and sundry accruals	—	—	—	1,593,707	1,593,707	
	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,593,707</b>	<b>1,593,707</b>	
<b>30 June 2018</b>						
<b>Financial assets</b>						
Cash and cash equivalents	9,857,489	9,857,489	—	1,488	9,858,977	1.94%
Trade and other receivables	—	—	—	7,415	7,415	
	<b>9,857,489</b>	<b>9,857,489</b>	<b>—</b>	<b>8,903</b>	<b>9,866,392</b>	
<b>Financial liabilities</b>						
Other payables and sundry accruals	—	—	—	960,575	960,575	
	<b>—</b>	<b>—</b>	<b>—</b>	<b>960,575</b>	<b>960,575</b>	

At 30 June 2020, the Directors do not expect a change in interest rates to result in a material change to the Group's post-tax loss or net assets for the year.

### *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group monitors forecast cash flows on regular basis to manage its liquidity risk.

### *Credit risk*

Management has assessed the credit risk exposure as minimal at reporting date. Credit risk arises from exposure to customers deposits with banks and other receivables. Management monitors its exposure to ensure recovery and repayment of outstanding amounts. Cash deposits are only made with reputable banking institutions.

### *Foreign currency risk*

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

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

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

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

## **21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

All assets and liabilities for which fair value is measured or disclosed in the financial information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial information on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table presents the Group's financial assets and liabilities measured and recognised at fair value.

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

30 June 2018	Level 1 A\$	Level 2 A\$	Level 3 A\$	Total A\$
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	53,185	–	–	53,185
Fair value movement in the period	19,672	–	–	19,672
<b>Closing balance at 30 June 2018</b>	<b>72,857</b>	<b>–</b>	<b>–</b>	<b>72,857</b>

### 1. Valuation techniques used to derive Level 1 fair values

The fair value of financial instruments recognised under Level 1 are measured based on the active market value, determined in this case by the value a third party is willing to pay for the assets (refer note 21).

### 2. Valuation techniques used to derive Level 3 fair values

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

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

The contingent consideration was valued by applying the probability weighted payout approach as described in note 24a and is reviewed on a six-monthly basis.

A 5% increase or decrease in the probability applied, or MGC's share price, would result in the following movements:

	30-Jun-20 \$'000		30-Jun-19 \$'000		30-Jun-18 \$'000	
	Profit/(loss) 5% increase	Profit/(loss) 5% decrease	Profit/(loss) 5% increase	Profit/(loss) 5% decrease	Profit/(loss) 5% increase	Profit/(loss) 5% decrease
Probability	–	–	–	–	(330)	330
Share price	–	–	–	–	(314)	314

### 3. Fair value of other financial instruments

The Group also has a number of financial instruments that are not measured at fair value in the balance sheet. The carrying value of cash, trade receivables and payables is a reasonable approximation of their fair values due to their short-term nature.

## 22. CONTROLLED ENTITIES

The consolidated financial information of the Group include:

Parent Entity:	Country of incorporation	Percentage Owned (%)*		
		30-Jun-20	30-Jun-19	30-Jun-18
MGC Pharmaceuticals Limited	Australia			
<b>Subsidiaries of MGC Pharmaceuticals Limited:</b>				
MGC Pharma (UK) Limited	UK	100	100	100
MGC Research (Aus) Pty Ltd	Australia	100	100	100
<b>Subsidiaries of MGC Pharma (UK) Limited:</b>				
MGC Pharmaceuticals d.o.o	Slovenia	100	100	100
MGC Derma d.o.o	Slovenia	–	–	51
Panax Pharma s.r.o	Czech Republic	87	80	80
MGC Nutraceuticals d.o.o	Slovenia	100	100	–
MGC Pharma (Malta) Holdings Limited	Malta	100	100	–
MGC Pharma (Malta) R&D Limited	Malta	100	–	–
<b>Subsidiaries of MGC Pharma (Malta) Holdings Limited</b>				
MGC Pharma (Malta) Property Limited <sup>1</sup>	Malta	100	100	–
MGC Pharma (Malta) Operations Limited <sup>1</sup>	Malta	100	100	–

1 • •

## 23. SEGMENT REPORTING

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

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

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

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

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

	Malta A\$	Slovenia A\$	Australia A\$
<b>30 June 2020</b>			
Sales revenues	–	1,938,428 <sup>1</sup>	140,741
Total non-current assets	2,957,260	1,009,824	–
<b>30 June 2019</b>			
Sales revenues	–	652,595 <sup>1</sup>	3,642
Total non-current assets	232,760	1,148,808	–
<b>30 June 2018</b>			
Sales revenues	–	296,811	–
Total non-current assets	–	1,156,505	–

1 Two external customers individually contributed greater than 10 per cent of Group revenue (\$1,056,390 and \$573,772 respectively) (30 June 2019: one external customers, \$437,203/30 June 2018: \$nil)

## 24. CONTINGENCIES AND COMMITMENTS

### a) Contingencies

There were no contingent liabilities as at 30 June 2020 (30 June 2019: \$Nil/30 June 2018: \$Nil).

### b) Commitments

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
No later than one year	779,070	1,143,460	683,889
Later than one year and not later than five years	536,023	202,214	847,627
<b>Total commitments</b>	<b>1,315,093</b>	<b>1,345,674</b>	<b>1,531,516</b>

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

### Malta long-term lease – construction commitments

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

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

## 25. CASH FLOW INFORMATION

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>Reconciliation of Cash Flow from Operations with Loss after Income Tax</b>			
(Loss) after income tax	(19,370,226)	(8,623,856)	(7,089,432)
Cash flows excluded from loss attributable to operating activities			
Non-cash flows in loss			
Depreciation and amortisation	481,130	259,744	328,112
Impairment expense	5,117,767	2,011,542	207,976
Share based payment expense	854,916	537,004	1,072,681
Gain on disposal of subsidiary	–	–	(86,352)
(Gain)/loss revaluation of investment held	2,098,064	501,027	(19,672)
Discontinued operations	600,427	(2,430,057)	–
Lease liability	(183,611)	–	–
Exchange differences	(82,205)	478,706	(140,888)
Changes in assets and liabilities, net of the effects of purchase of subsidiaries			
Decrease/(Increase) in inventory	(263,437)	573,515	(204,442)
(Increase) in trade and other receivables	271,912	(294,966)	(319,073)
Increase in trade payables and accruals	518,396	633,131	364,300
<b>Cash flow from operations</b>	<b>(9,956,867)</b>	<b>(6,354,210)</b>	<b>(5,886,790)</b>

## 26. AUDITOR'S REMUNERATION

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
<b>Fees to Ernst &amp; Young (Australia):</b>			
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	163,350	–	–
<b>Total fees to Ernst &amp; Young (Australia)</b>	<b>163,350</b>	<b>–</b>	<b>–</b>
<b>Fees to PKF (Australia):</b>			
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	8,548	51,150	39,760
Fees for other services			
– Tax compliance	–	–	–
– Others	1,900	–	–
<b>Total fees to PKF (Australia)</b>	<b>10,448</b>	<b>51,150</b>	<b>39,760</b>
<b>Fees to other overseas member firms of PKF (Australia):</b>			
Fees for auditing the financial report of any controlled entities	1,771	66,055	69,699
<b>Total fees to overseas member firms of PKF (Australia)</b>	<b>1,771</b>	<b>66,055</b>	<b>69,699</b>
<b>Total auditor's remuneration</b>	<b>175,569</b>	<b>117,205</b>	<b>109,459</b>

## 27. PARENT COMPANY DISCLOSURES

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

### i) Summary of financial information

The financial information for the parent entity show the following aggregate amounts:

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
Current assets	1,723,652	1,947,520	9,413,667
Non-current assets	2,400,695	9,335,256	9,694,618
<b>Total Assets</b>	<b>4,124,347</b>	<b>11,282,776</b>	<b>19,108,285</b>
Current liabilities	1,029,991	484,603	6,417,501
<b>Total Liabilities</b>	<b>1,029,991</b>	<b>484,603</b>	<b>6,417,501</b>
Share capital	60,149,458	49,133,820	48,440,991
Share based payment reserve	4,080,904	3,256,419	3,385,230
Accumulated losses	(61,136,006)	(41,592,066)	(39,135,437)
<b>Total Equity</b>	<b>3,094,356</b>	<b>10,798,173</b>	<b>12,690,784</b>
<b>Loss for the year</b>	<b>(19,543,940)</b>	<b>(2,456,629)</b>	<b>(12,970,891)</b>
<b>Total comprehensive loss for the year</b>	<b>(19,543,940)</b>	<b>(2,456,629)</b>	<b>(12,970,891)</b>

### ii) Commitments and contingent liabilities of the parent

The parent entity did not have any contingent liabilities or commitments, as at 30 June 2020 (30 June 2019: nil / 2018: nil) other than as disclosed at note 24.

### iii) Guarantees entered into the parent entity

There were no guarantees entered into by the parent entity.

## 28. RELATED PARTY TRANSACTIONS

### a) Key Management Personnel Remuneration

#### Compensation

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

	30-Jun-20 A\$	30-Jun-19 A\$	30-Jun-18 A\$
Short-term employee benefits	1,045,709	1,259,773	1,281,157
Post-employment benefits	—	—	—
Long-term benefits	—	—	—
Share-based payments	124,391	175,563	293,306
<b>Total</b>	<b>1,170,100</b>	<b>1,435,336</b>	<b>1,574,463</b>



**b) Transactions with Director related entities**

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

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

Related Party	Relationship	Nature of transactions	Transactions			Balances (owing to) / owed by		
			Full Year 30-Jun-20 A\$	Full Year 30-Jun-19 A\$	Full Year 30-Jun-18 A\$	Full Year 30-Jun-20 A\$	Full Year 30-Jun-19 A\$	Full Year 30-Jun-18 A\$
Bright Global Ltd (Bright)	(i)	Reimbursement from Bright for corporate administration costs	–	5,702	7,760	–	–	–
Chieftain Securities Pty Ltd (Chieftain)	(ii)	Charges from Chieftain for corporate advisory fees	60,000	61,748	111,823	(5,500)	–	–
Chieftain Securities Pty Ltd (Chieftain)	(ii)	Charges from Chieftain for capital raising costs	116,594	–	–	–	–	–
Chitta Lu Ltd (Chitta Lu)	(iii)	Reimbursement from Chitta Lu for corporate administration costs	–	1,010	4,393	–	–	–
Sibella Capital Pty Ltd (Sibella)	(iv)	Reimbursement from/ (re-charges to) Sibella for corporate administration costs	388	14	(7,402)	–	–	8,105
Graft Polymer d.o.o (GPO)	(v)	Services charges from/ (recharges to) GPO development for MGC proprietary drug delivery technology	510,859	(27,114)	–	40,000	33,079	–
TNT Mines Ltd (TNT)	(vi)	(Re-charges) to TNT for corporate administration costs	–	(5,320)	(5,070)	–	–	116
Sputnik Enterprises Ltd (Sputnik)	(vii)	Reimbursement from/ (re-charges to) Sputnik for corporate administration costs	–	–	(611)	–	–	611
Graft Polymer (UK) Limited (GPUK)	(viii)	Reimbursement from/ (re-charges to) GPUK for corporate administration costs	–	–	(611)	–	–	–

- (i) Bright Global Ltd is an entity controlled by Mr Nativ Segev.
- (ii) Mr Mitchell is a Director and holds a 33% shareholdings in Chieftain Securities Pty Ltd.
- (iii) Chitta Lu Ltd is an entity controlled by Mr Roby Zomer.
- (iv) Sibella Capital Pty Ltd is an entity controlled by Mr Brett Mitchell.
- (v) Mr Roby Zomer is Executive Chairman of Graft Polymer d.o.o, who are developing the proprietary nano-emulsion and nano-particle drug delivery platform for MGC Pharma medicines.
- (vi) Mr Brett Mitchell is an Executive Director of TNT Mines Limited.
- (vii) Sputnik Enterprises Ltd is a company associated with Mr Brett Mitchell and Mr Roby Zomer, both of whom are Directors.
- (viii) Graft Polymer (UK) Limited is a company associated with Mr Roby Zomer, both of whom are Directors.

**Other related party transactions**

There were no other related party transactions.

## 29. SHARE BASED PAYMENTS

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

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

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

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

- The fair value for all share options, as detailed below, are determined using a binomial option pricing method that takes into account the exercise price, the term of the option, the probability of exercise, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.
- The inputs used for the valuations are tabled below for each class of option issued.
- The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The probability of the performance conditions occurring, where applicable are included in determining the fair value of the options.

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

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

### a) Voluntary Holding Lock Shares

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

### b) Performance Rights

#### *Directors*

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

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

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

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

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

### Employees

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

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

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

### c) Options

#### *Equity Capital Markets Advisor*

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

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

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

#### *Joint Leading Managers*

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

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

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

– *Prior period – 16m unlisted options*

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

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

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

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

– *Prior period – 20.5m unlisted options*

Following shareholder approval on 22 November 2017, 20.5m unlisted options were issued to employees, subject to the following terms and conditions:

	Tranche 1	Tranche 2	Tranche 3	Total
Number options issued	8,250,000	8,250,000	4,000,000	20,500,000
Fair value per option	\$0.058	\$0.058	\$0.058	
Total value of the issue	\$478,500	\$478,500	\$232,000	\$1,189,000

The following milestones are also applied to tranches 1 and 2 above:

	Probability	Weighting	Milestone date
1. 50% of the unlisted options issued will vest after 12 months of continuous service to 31 January 2019	100%	50%	31 Jan 2019
2. 50% of the unlisted options issued will vest upon the MGC Group achieving sales over A\$1,000,000.	100%	70%	31 Mar 2021

\* Tranche 3 are no subject to any vesting conditions and vest immediately on issue.

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

	Tranche 1	Tranche 2	Tranche 3
Valuation date	22 Nov 2017	22 Nov 2017	22 Nov 2017
Dividend yield (%)	Nil	Nil	Nil
Expected volatility (%)	103%	103%	103%
Risk-free interest rate (%)	1.91%	1.91%	1.91%
Expected life of option (years)	3.5	3.5	3.5
Option exercise price (\$)	\$0.125	\$0.125	\$0.125
Share price at grant date (\$)	\$0.094	\$0.094	\$0.094
Expiry date	31 Mar 2021	31 Mar 2021	31 Mar 2021
Performance conditions	As above	As above	As above

– *Prior period – 10m unlisted options*

10m unlisted options were issued for lead advisory services following the \$5m placement completed on 17 April 2018. The options are exercisable at \$0.15 on or before 30 June 2021.

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

Valuation date	22 Nov 2017
Dividend yield (%)	Nil
Expected volatility (%)	101%
Risk-free interest rate (%)	2.14%
Expected life of option (years)	3.5
Option exercise price (\$)	\$0.15
Share price at grant date (\$)	\$0.075
Expiry date	30 Jun 2021
Valuation of option	\$0.039
Total value of option	\$390,000

These costs are included in the costs of capital for the year ended 30 June 2018.

**Share-based payment expense**

For the year ended 30 June 2020, the Group has recognised \$855,000 of share-based payment expenses in the statement of profit or loss (30 June 2019: \$537,000 / 2018: \$832,000) relating to share-based payments to directors and employees. The Group has also recognised \$840,000 (30 June 2019: nil / 30 June 2018: \$390,000) of share-based payment expense in relation to capital raising costs (refer to note 17).

**30. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS**

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

The Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the International Accounting Standards Board that are relevant to its operations and effective for accounting periods commencing on or after 1 July 2019.

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

At the date of approval of the financial information, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

- Amendments to References to Conceptual Framework in IFRS Standards – effective 1 January 2020
- Definition of Material (Amendments to IAS 1 and IAS 8) – effective 1 January 2020
- Amendment to IFRS 3 Business Combinations – effective 1 January
- 2020 Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current – effective 1 January 2022

The effect of these new and amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material.

### 31. EVENTS AFTER THE REPORTING DATE

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

Date	Event
21 September 2020	<b>MXC Welcomes New FCA Guidance for Cannabis Sector in the UK</b> MGC welcomed the FCA's guidance note on its approach to assessing applications from cannabis-related companies for listing in the UK and is accelerating its plans to be one of the first cannabis-related companies listed on the LSE.
28 September 2020	<b>Update on ArtemiC™ Phase II Trial on Covid-19 Patients</b> Patient recruitment already commenced for Phase II Clinical Trial on COVID-19 Patients at the leading Rambam Academic Hospital in Israel, with 3 patients already enrolled for the Trial. Patient recruitment also commenced at Mahatma Gandhi Mission's Medical College & Hospital (MGM Hospital) in India.
7 October 2020	<b>MGC Pharma launches CannEpi® App</b> The CannEpi® App is designed to collect patient data, whilst under the supervision of a medicinal practitioner, with the goal of further evaluating the usage, dosage and efficacy of CannEpi® as a treatment.  MGC has also provided access to the International Library of Cannabinoids to medical professionals as part of its continuing collaboration with the Royal Melbourne Institute of Technology (RMIT).
12 October 2020	<b>First High THC Products Shipped Direct to Brazil Patients</b> This is a major operational and commercial achievement as MGC Pharma is now the first company globally to ever supply high THC formulations directly to patients in Brazil under the country's Compassionate Use Program.
14 October 2020	<b>ArtemiC™ Histology on Rats Confirm No Pathological Impact</b> Results of a pre-clinical <i>in vivo</i> safety and toxicity study, including histology testing, of ArtemiC™ on rats which achieved the targeted study outcome, reporting no pathological changes or differences between the study groups. These results are significant and positive as they provide critical additional information on the toxicological evaluation of ArtemiC™ regarding its effect on the organs that were studied and augment the base data supporting the current Phase IIa clinical trial on COVID-19 patients and future clinical studies.
20 October 2020	<b>MGC Pharma Delivers Record Consecutive Weekly Sales Growth</b> Revenue growth through September and October - exceeding \$225,000 in the past 4 weeks alone. This is an outstanding result for the Company, delivering on the key platforms of the business strategy and recently delivered very strong growth in the number of sales to now over 7,000 units, up more than 65% since 30 June 2020.
5 November 2020	<b>Completion of Phase II Clinical Trial on Covid-19 Patients</b> Completion of the 50 patient Phase II double-blind, placebo-controlled clinical trial for anti-inflammatory treatment, ArtemiC™, on patients diagnosed with COVID-19 to evaluate the safety and efficacy.
17 November 2020	<b>Further Successful Results From Glioblastoma Research</b> Successful results from 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.
23 November 2020	<b>MGC Pharma Completes Acquisition of Telehealth Platform MCC</b> Completion of the 100% acquisition of the operating telehealth clinic business assets, data and intellectual property of Medicinal Cannabis Clinics ("MCC") which was a wholly owned subsidiary of Cannvalate Pty Ltd.  The completion of the MCC acquisition follows the signing of the binding term sheet in July 2020 and execution of transaction documents. The payment of the consideration is \$1m MGC Pharma Ordinary Shares and \$400,000 in cash.
23 November 2020	<b>Drawdown of \$3.5M Convertible Note</b> Further to the announcement on 10 September 2020, MGC has drawn a further \$3.5M against the facility with Mercer Street. The Drawdown will be provided through the issue of 3,850,000 convertible notes with a face value of \$1 each.

Date	Event
15 December 2020	<b>Artemic™ Phase II Clinical Trial Results</b> The Company has completed its Trial on ArtemiC™ on 50 infected patients across 3 independent hospital sites in Israel and India, 50 patients were recruited to the trial, 33 in the treatment group and 17 in the placebo group. 2 - 6 The full results have demonstrated to improve the health status of COVID-19 patients delivering a 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 ( $p < 0.4$ ) than in the treatment group – 0.5.

### 32. PRESENTATIONAL ADJUSTMENT TO IFRS

The financial statements of the Group have historically been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001 as appropriate for ‘for-profit’ orientated entities. Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard Board (“IASB”). Material accounting policies adopted in the preparation of these financial information are presented below and they have been consistently applied unless otherwise stated.

The presentation of the financial information under IFRS has resulted in no numerical or material presentational adjustments.

### 33. AUDITORS

The financial information has been audited under IFRS for inclusion in the Listing Document.

The historic financial statements are audited under AAS to meet local audit requirements and requirements under the Australian Securities Exchange.



