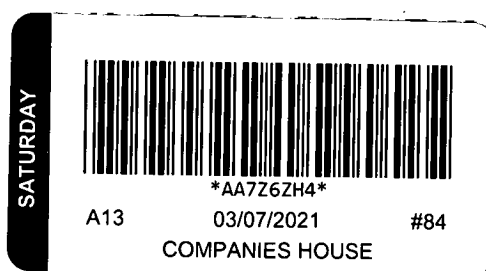


Company Registration No. 09750155 (England and Wales)

**MGC Pharma (UK) Ltd**

**Report and financial statements  
for the year ended 30 June 2020**



## **MGC Pharma (UK) Ltd**

### **Company information**

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**Directors**

Roby Zomer  
Brett Mitchell  
Anthony Eastman  
Nativ Segev – resigned 31 August 2020

**Company number**

09750155

**Registered office**

Eccleston Yards  
25 Eccleston Place  
London  
SW1W 9NF

**Independent Auditor**

CJA Accounting Limited  
16 Bridge Road  
Haywards Heath  
RH16 IUA

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## **MGC Pharma (UK) Ltd**

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## **MGC Pharma (UK) Ltd**

### **Directors' report**

**For the year ended 30 June 2020**

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The directors present their report and financial statements for the year ended 30 June 2020. The comparative period is for the year ended 30 June 2019.

#### **Principal activities**

MGC Pharma (UK) Ltd ("the Company") is a limited company (registered number 09750155) domiciled in the UK and incorporated on 26 August 2015. The principal activity of the Company is looking for opportunities to develop businesses and companies focused in the medicinal cannabis sector.

#### **Results and dividends**

The loss for the year after taxation amounted to £1,304,155 (2019: loss of £640,609). The directors do not recommend the payment of a dividend (2019: nil).

#### **Directors**

The following directors have held office during the year ended 30 June 2020:

Roby Zomer  
Brett Mitchell  
Anthony Eastman  
Nativ Segev - resigned 31 August 2020

#### **Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks. The principal risks and uncertainties are integrated within the principal risks of the group, MGC Pharmaceuticals Ltd, and are not currently managed separately. Further discussion of these risks and uncertainties, in the context of the group as a whole, are provided in the group's 2020 Annual Report, available on the website - <https://mgcpharma.com.au>.

#### **Statement of disclosure to auditors**

So far as each of the directors is aware at the time this report is approved:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

#### **Auditors**

Under section 487 of the Companies Act 2006, CJA Accounting Limited will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the Registrar, whichever is earlier. CJA Accounting Limited has indicated its willingness to continue in office.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

On behalf of the board



**Anthony Eastman**  
Director  
30 June 2021

**Statement of directors' responsibilities**

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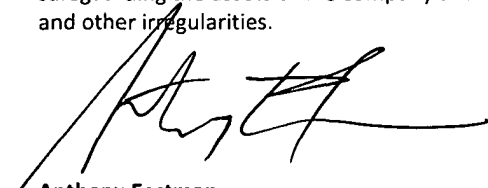
The directors are responsible for preparing the Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing the financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



**Anthony Eastman**  
Director  
30 June 2021

## **MGC Pharma (UK) Ltd**

### **Independent auditor's report to the members of MGC Pharma (UK) Ltd**

#### **Opinion**

We have audited the financial statements of MGC Pharma (UK) Limited (the 'company') for the year ended 30 June 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Material uncertainty related to going concern**

We draw attention to note 2.2 of the financial statements. Which describes the principal conditions that raise doubt about the company's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### **Other information**

The directors are responsible for the other information, which comprises the information included in the Report of the Directors, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report have been prepared in accordance with applicable legal requirements.

## **MGC Pharma (UK) Ltd**

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities Set out on page two, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. the extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

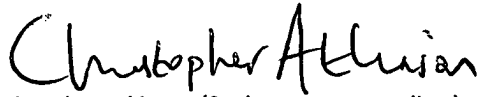
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management any actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- obtaining an understanding of provisions and holding discussions with management to understand the basis of recognition or non-recognition of tax provisions;
- addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **MGC Pharma (UK) Ltd**

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Christopher Atkinson (Senior statutory auditor)**  
**For and on behalf of C J A Accounting Limited**  
**Delta House**  
**16 Bridge Road**  
**Haywards Heath**  
**West Sussex**  
**RH16 1UA**

**30 June 2021**



**MGC Pharma (UK) Ltd**

**Statement of comprehensive income  
For the year ended 30 June 2020**

	Notes	2020 £	2019 £
Revenue	5	120,000	120,000
General and administrative costs	6	(386,589)	(597,485)
Fair value losses on financial assets held at fair value through profit or loss	12	(1,190,569)	(266,082)
<b>Operating loss</b>		<b>(1,457,158)</b>	<b>(743,567)</b>
Finance income	9	-	35,674
Exchange gain		153,003	67,284
<b>Loss before tax</b>		<b>(1,304,155)</b>	<b>(640,609)</b>
Tax on loss on ordinary activities	10	-	-
<b>Loss for the year</b>		<b>(1,304,155)</b>	<b>(640,609)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b>(1,304,155)</b>	<b>(640,609)</b>

The income statement has been prepared on the basis that all operations are continuing operations.

The notes on pages 10 to 23 form part of these financial statements.

**MGC Pharma (UK) Ltd**

**Statement of financial position**

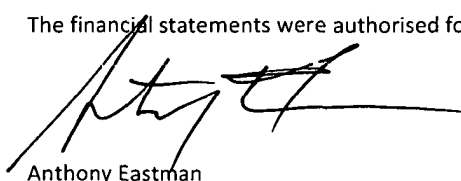
**As at 30 June 2020**

**Company number: 09750155**

	Notes	2020 £	2019 £
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	11	910,372	869,889
Financial assets at fair value through profit or loss	12	312,181	1,502,750
Other receivables	13	6,628,664	3,675,372
		<u>7,851,217</u>	<u>6,048,011</u>
<b>Current assets</b>			
Cash and cash equivalents		31,046	56,674
Trade and other receivables	13	49,061	23,706
		<u>80,107</u>	<u>80,380</u>
<b>Total Assets</b>		<u><b>7,931,324</b></u>	<u><b>6,128,391</b></u>
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	16	10	10
Capital contribution		618,268	618,268
Accumulated loss		(2,207,623)	(903,468)
		<u>(1,589,345)</u>	<u>(285,190)</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	14	9,470,206	6,228,724
		<u>9,470,206</u>	<u>6,228,724</u>
<b>Current liabilities</b>			
Trade and other payables	14	50,463	82,153
Contingent consideration	15	-	102,704
		<u>50,463</u>	<u>184,857</u>
<b>Total Equity and Liabilities</b>		<u><b>7,931,324</b></u>	<u><b>6,128,391</b></u>

The notes on pages 10 to 23 form part of these financial statements.

The financial statements were authorised for issue by the Board on 29 June 2021 and were signed on its behalf.

  
Anthony Eastman  
Director

**MGC Pharma (UK) Ltd**

**Statements of changes in equity  
For the year ended 30 June 2020**

	Notes	Share capital £	Capital Contribution £	Accumulated loss £	Total £
Balance at 1 July 2018		10	618,268	(262,859)	355,419
Total comprehensive income for the period		-	-	(640,609)	(640,609)
Total transactions with owners, recognised directly in equity		-	-	(640,609)	(640,609)
<b>Balance at 30 June 2019</b>		<b>10</b>	<b>618,268</b>	<b>(903,468)</b>	<b>(285,190)</b>
Total comprehensive income for the year		-	-	(1,304,155)	(1,304,155)
Total transactions with owners, recognised directly in equity		-	-	(1,304,155)	(1,304,155)
<b>Balance at 30 June 2020</b>		<b>10</b>	<b>618,268</b>	<b>(2,207,623)</b>	<b>(1,589,345)</b>

The notes on pages 10 to 23 form part of these financial statements.

**MGC Pharma (UK) Ltd**

**Statement of cash flow  
For the year ended 30 June 2020**

	Notes	2020 £	2019 £
<b>Cash flows from operating activities</b>			
Cash used in operating activities	17	(11,373)	77,693
Income taxes paid		-	(15,091)
<b>Net cash used in operating activities</b>		<u>(11,373)</u>	<u>62,602</u>
<b>Cash flows from investing activities</b>			
Payment for investments		<u>(14,255)</u>	<u>(28,734)</u>
<b>Net cash used in investing activities</b>		<u>(14,255)</u>	<u>(28,734)</u>
Net increase in cash and cash equivalents		<b>(25,628)</b>	<b>33,868</b>
Cash and cash equivalents at beginning of the period		56,674	22,806
<b>Cash and cash equivalents at end of the year</b>		<u><b>31,046</b></u>	<u><b>56,674</b></u>

The notes on pages 10 to 23 form part of these financial statements.

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**1 General information**

The principal activity of the Company is looking for opportunities to develop businesses and companies focused in the medical cannabis sector. The Company is domiciled in the United Kingdom and incorporated and registered in England and Wales (company number 09750155). The Company's registered office is Eccleston Yards, 25 Eccleston Place, London SW1W 9NF.

**2 Accounting policies**

The principal accounting policies applied in preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

**2.1. Basis of preparation**

The financial statements of MGC Pharma (UK) Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations (IFRIC) as adopted by the European Union and the UK Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets held at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant in the financial statements, are disclosed in Note 4.

*Exemption from preparing consolidated financial statements has been taken under the provision of Section 400 of the Companies Act 2006, as the parent company MGC Pharmaceuticals Limited consolidated financial statements are publicly available on the website - <https://mgcpharma.com.au>. Therefore, the financial statements show information about the company as an individual entity.*

**2.2. Going concern**

The Company is required to assess whether it has sufficient resources to continue its operations and to meet its commitments for the foreseeable future. The directors have prepared the financial statements on a going concern basis, as in their opinion the Company is able to meet its obligations as they fall due. This opinion is based on detailed forecasting for the 12 months from the date of signing, based on current and expected market conditions, together with current performance levels, consideration of the impact of COVID-19 and that cost reduction measures will be implemented if required. The Company's ability to continue as a going concern depends upon the continual financial support of its parent both in respect of the provision of funds and not calling in loans due. Its ultimate parent undertakings financial statements include a material uncertainty in respect of going concern in respect of the need for further funding. Whilst the Directors consider that this funding will be raised, COVID-19 has increased the uncertainty of this being achieved and there is no certainty that future funding will be generated when required and this may affect the Company's ability to carry out its activities as expected and meet its obligations as they fall due. The auditors make reference to going concern by way of a material uncertainty.

**2.3. Foreign currencies**

The financial information is presented in Sterling which is the Company's functional and presentational currency.

Transactions in currencies other than the functional currency are recognised at the rates of exchange on the dates of the transactions. At each reporting date, monetary assets and liabilities are retranslated at the rates prevailing at the reporting date with differences recognised in the Statement of comprehensive income in the period in which they arise.

**2.4. Revenue recognition**

Revenue comprises management charges to the subsidiary companies. This is recognised at the fair value of the consideration received or receivable for the services provided to the subsidiary in the ordinary course of the Company's activity. Revenue is shown net of value added tax, returns, rebates and discounts. The Company recognises revenue when the amount of the revenue can be reliably measured and when it is probable that economic benefits will flow to the entity.

**2 Accounting policies (continued)**

**2.5 Financial Instruments**

**2.5.1 Initial recognition**

A financial asset or financial liability is recognised in the statement of financial position of the company when it arises or when the company becomes part of the contractual terms of the financial instrument.

**2.5.2 Classification**

***Financial assets at amortised cost***

The Company measures financial assets at amortised cost if both of the following conditions are met:

- (1) the asset is held within a business model whose objective is to collect contractual cash flows; and
- (2) the contractual terms of the financial asset generating cash flows at specified dates only pertain to capital and interest payments on the balance of the initial capital.

Financial assets which are measured at amortised cost, using the Effective Interest Rate Method (EIR) and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

***Financial assets at fair value through profit or loss***

The company classifies the following financial assets at fair value through profit or loss (FVPL):

- (1) debt instruments that do not qualify for measurement at either amortised cost or FVOCI;
- (2) equity investments that are held for trading; and
- (3) equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

***Financial liabilities at amortised cost***

Financial liabilities measured at amortised cost using the effective interest rate method include current borrowings and trade and other payables that are short term in nature. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate ("EIR"). The EIR amortisation is included as finance costs in profit or loss. Trade payables other payables are non-interest bearing and are stated at amortised cost using the effective interest method.

**2.5.3 Derecognition**

A financial asset is derecognised when:

- (1) The rights to receive cash flows from the asset have expired, or
- (2) The Group has transferred its rights to receive cash flows from the asset or has undertaken the commitment to fully pay the cash flows received without significant delay to a third party under an arrangement and has either (a) transferred substantially all the risks and the assets of the asset or (b) has neither transferred nor held substantially all the risks and estimates of the asset but has transferred the control of the asset.

**2 Accounting policies (continued)**

**2.5.4 Impairment**

The group recognises a provision for impairment for expected credit losses regarding all financial assets. Expected credit losses are based on the balance between all the payable contractual cash flows and all discounted cash flows that the Group expects to receive. Regarding trade receivables, the group applies the IFRS 9 simplified approach in order to calculate expected credit losses. Therefore, at every reporting date, provision for losses regarding a financial instrument is measured at an amount equal to the expected credit losses over its lifetime without monitoring changes in credit risk. To measure expected credit losses, trade receivables and contract assets have been grouped based on shared risk characteristics.

**2.6 Cash and cash equivalents**

Cash and cash equivalents include cash at bank and bank deposits.

**2.7 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment – 3 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation. Useful lives and residual values are reviewed at the end of every reporting period.

**2.8 Investments in group undertakings**

Investments in group undertakings consist of investments in subsidiary undertakings. Investments in subsidiary undertakings are stated at cost less provision for impairment. Where a development loan has been provided to a subsidiary the discounted element of the intercompany loan has been taken to investments to reflect the nature of the underlying loan, with the discounted amount being recognised directly within investments.

**2.9 Share capital/equity instruments and reserves**

Ordinary shares are classified as equity. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Capital contribution relates to the discounting of intercompany loans from the parent company, with the discounted amount being recognised directly in equity.

Reserves relate to the accumulated loss in the period.

**2 Accounting policies (continued)****2.10 Current and deferred tax**

Tax for the period comprises current and deferred tax.

No tax is currently payable based on the loss for the period. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled. Deferred tax is charged or credited in the profit or loss, except when it relates to items credited or charged in other comprehensive income directly to equity, in which case the deferred tax is also dealt with in other comprehensive income.

**2.11 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. After initial recognition, loans are measured at the amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**2.12 Changes in accounting policies****2.12.1 New standards, amendments to standards and interpretations**

The Company has adopted all of the new and revised Accounting Standards, and interpretations issued by the International Financial Reporting Standards (the IFRS) that are relevant to its operations and effective from 1 July 2019. There was no significant impact on the financial statements as a result of the adoption of these standards.

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

**2.12.2 Standards and Interpretations effective for subsequent periods****New standards, amendments and interpretations not yet adopted**

Standard / Interpretation	Title	Effective date
IFRS Standards	Amendments to References to Conceptual Framework	1 January 2020
IAS 1 & IAS 8	Definition of Material	1 January 2020
IFRS 3	Business Combinations	*1 January 2020
IAS 1	Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	*1 January 2022

The Company are evaluating the impact of the new and amended standards above. The Directors do not expect that these new and amended standards will have a material impact on the Group's and Company's results or shareholders' funds. (\*subject to EU endorsement)



### 3 Risk Management

#### *Financial Risk Management*

Financial risk is managed at group level. The main financial risks facing the Company are the availability of adequate funding and fluctuations in foreign exchange rates. Constant monitoring of these risks ensures that the Company is protected against any potential adverse effects of such risks so far as it is possible and foreseeable. The Company does not hold derivatives, does not trade in financial instruments and does not engage in hedging arrangements.

The future operations of the Company depend on continued funding from the parent company and development of the trade in the subsidiary companies. Management monitors its cash and future funding requirements through the use of ongoing cash flow forecasts. The Company's liquidity risk is considered to be insignificant.

As the Company operates internationally, it is exposed to foreign exchange risk, primarily with respect to the Euro. The Company does not hedge its exposure to foreign exchange risk although the amount of cash which is maintained in foreign currency is limited to the immediate working capital requirements in order to limit the exposure as far as possible.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers. The Company does not have any material credit risk exposure to any single receivable or group receivable under financial instruments entered into by the Company.

#### **Capital Risk Management**

Capital risk is managed at group level. The main objective of the capital risk management policy is to safeguard the Company's going concern status.

### 4 Critical accounting estimates and judgements

In applying of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### *Critical judgements in applying the Company's accounting policies*

The critical judgements that the directors have made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognised in the financial statements have been identified as:

#### ***Carrying value of Investments and the recoverability of intercompany loans***

As an intermediary holding company, the Company holds investments in subsidiaries from which the Group, in the future, consider will be revenue generating and build value for the larger Group. The Company also, as part of its role, provides loans to these subsidiaries. At each period end the Directors make judgements about the carrying value of these investments and the recoverability of the loans held.

*Key sources of estimation uncertainty*

The Company has identified the following area where management estimates and assumptions have been applied:

***Intercompany loans***

The Company holds intercompany loans (both payable and receivable) with other Group companies. Where applicable these loans are held at amortised cost using an effective, implied interest rate of 10%. The directors have assessed this rate to be reasonable based on other interest rates within the Group. A 1% movement in the interest rate used would have a £nil (2019: £3,568) impact on the net assets in the financial statements. Estimates are made in respect of the timing for which repayment of these loans will be sought.

***Carrying value of investment and recoverability of intercompany loans***

Estimates are made by management in respect of the timing of the generation of sufficient revenues and profits from which profitability can be generated to support the carrying value of the investments. These are considered through a value in use model details of which are provided in more detail within the Group financial statements.

***Financial assets held at fair value through profit or loss***

Financial assets held at fair value through profit or loss have a carrying value of £312,181, (2019: £1,502,750) at 30 June 2020 and an impairment charge of £1,190,569 (2019: £266,082) was recognised in the year.

The Company follows the guidance of IFRS 9 to determine when an investment at fair value through profit or loss is impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of the short-term business outlook for the investee, including factors such as industry and sector performance and operational and financing cash flow. Management also consider external indicators such as commodity prices, investment performance and demand for the underlying commodity. Details of financial assets held at fair value through profit or loss, and the basis for their fair value measurement, is included in note 12.

**5 Revenue**

Revenue in the year comprises management charges to the subsidiary company, MGC Pharmaceuticals d.o.o. All revenue arose in Europe.

**MGC Pharma (UK) Ltd**

**Notes to the financial statements (continued)**  
**For the year ended 30 June 2020**

**6 Expenses by nature**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Corporate costs	90,212	17,212
Professional services costs	81,434	115,268
Consultancy costs	44,127	237,333
Directors' fees	92,040	90,053
Travel costs	59,948	58,729
Other expenses	18,828	78,890
Total general and administrative costs	<u>386,589</u>	<u>597,485</u>

**7 Auditor Remuneration**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
During the year the Company obtained the following services from the Company's auditor and its associates:		
Fees payable for the audit of the Company's financial statements	5,000	27,500
Fees payable to company's auditor and its associates for other services:		
Interim work performed	-	9,500
Tax compliance services	-	2,250
Company secretarial services	-	1,845
VAT compliance services	-	650
	<u>5,000</u>	<u>41,945</u>

Included in the above are amounts borne for work performed in relation to the subsidiaries of the Company.

**8 Staff costs**

	<b>2020</b>	<b>2019</b>
The average monthly number of employees (including directors) employed by the Company was:	<u>4</u>	<u>4</u>
	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
<b>Aggregate remuneration (including directors)</b>		
Directors' fees	<u>92,040</u>	<u>90,053</u>
	<u>92,040</u>	<u>90,053</u>

**MGC Pharma (UK) Ltd**

**Notes to the financial statements (continued)**  
**For the year ended 30 June 2020**

**9 Finance income**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Interest income on loans to related parties	-	35,674

**10 Taxation**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
<i>Current tax</i>		
Current tax on profits	-	(15,091)
Adjustments for current tax of prior periods	-	15,091
Total current tax expense	-	-
<i>Deferred tax</i>	-	-
Tax expense	-	-

Tax can be reconciled to the loss in the statement of comprehensive income as follows:

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
(Loss) / profit before taxation	(1,304,155)	(640,609)
Tax at the UK corporation tax rate of 19% (2018: 19%)	(247,789)	(121,716)
Expenses not deductible for tax purposes	39,175	53,021
Adjustments for current tax of prior periods	-	15,091
Losses carried back	-	15,061
Changes in tax rates	-	5,646
Tax losses for which no deferred tax asset was recognised	208,614	47,988
Utilisation of previously unrecognised tax losses	-	(15,091)
Tax	-	-

The Company did not recognise a deferred tax asset in respect of UK losses. These losses can be carried forward and used against future taxable profits. There are trading losses of approximately £805,254 (2019: £577,840) available to be carried forward for tax purposes. No deferred tax asset has been recognised due to uncertainty over when profits will be available against which these losses can be utilised.

**MGC Pharma (UK) Ltd**

**Notes to the financial statements (continued)**  
**For the year ended 30 June 2020**

**11 Investments in group undertakings**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
<b>Investment in group undertakings</b>		
Beginning of the year	869,889	880,574
Additions	143,187	28,731
Contingent consideration reversal (note 15)	(102,704)	-
Disposal (a)	-	(39,416)
	<u>910,372</u>	<u>869,889</u>

(a) The disposal during the prior year was made on a nil gain nil loss basis therefore there is no disclosure in respect of this elsewhere in the financial statements.

Investment in group undertakings:	Principal activity:	Country of Incorporation	Share - holding	<b>2020</b>	<b>2019</b>
				<b>£</b>	<b>£</b>
MGC Pharmaceuticals d.o.o	Licensing for growing and selling of cannabidiol products for use in medicinal cannabis products	Slovenia	100%	254,443	254,443
Panax Pharma s.r.o.	Research in collaboration with the Institution of Experimental Botany at the Academy of Botanical Sciences	Czech Republic	87%	647,002	607,596
MGC Pharma (Malta) R&D Limited	Establishment of pharmaceutical production facilities	Malta	100%	1,077	-
MGC Pharma (Malta) Holdings Limited	Maltese Holding Company	Malta	100%	1,152	1,152
MGC Nutraceuticals d.o.o.	Sale of wellness cannabis products	Slovenia	100%	6,698	6,698
				<u>910,372</u>	<u>869,889</u>

Investment in group undertakings include amounts of £248,646 (2019: £248,646) in MGC Pharmaceuticals d.o.o. in relation to the initial recognition difference of the non-current intercompany receivable (refer note 13).

Included in the investment in Panax Pharma s.r.o. is an amount of £nil (2019: £102,704), representing contingent consideration payable as part of the agreement to acquire the 80% interest (refer note 15). During the year, the Company increased its interest in Panax Pharma s.r.o. to 87% through the issue from the Parent Company of 5,850,875 shares valued at £130,009 with the contingent consideration due on the initial purchase of the 80% interest being waived, resulting in this contingent consideration amount of £102,704 being reversed out of investments in group undertakings. For further information on the acquisition of the group undertakings, please refer to the MGC Pharmaceuticals Limited Group financial statements.

**12 Financial assets at fair value through profit or loss**

	2020	2019
	£	£
<b>Investments in unlisted entities</b>		
Beginning of the year	1,502,750	-
Additions	-	1,768,832
Change in fair value	<u>(1,190,569)</u>	<u>(266,082)</u>
	<u>312,181</u>	<u>1,502,750</u>

The table below analyses financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's assets that were measured at fair value as at 30 June 2019 and 30 June 2018. The Company does not have any liabilities measured at fair value.

	Level 1	Level 2	Level 3	Total
	£	£	£	£
<b>30 June 2020:</b>				
Financial assets through profit and loss				
- Equity holdings	-	312,181	-	312,181
<b>30 June 2019:</b>				
Financial assets through profit and loss				
- Equity holdings	-	1,502,750	-	1,502,750

The fair value of financial instruments recognised under Level 2 are measured based on observable, underlying data obtained on the fair value of shares issue, determined in this case to be the value a third party is willing to pay based on share transaction prices.

**MGC Pharma (UK) Ltd****Notes to the financial statements (continued)**  
**For the year ended 30 June 2020****13 Receivables**

	2020	2019
	£	£
<b>Non-current</b>		
Intercompany receivables	6,628,664	3,675,372
	<u>6,628,664</u>	<u>3,675,372</u>
<b>Current</b>		
Corporation tax receivable	-	15,091
Other receivables	49,061	8,615
	<u>49,061</u>	<u>23,706</u>

The non-current intercompany receivables comprise advances made to MGC Pharmaceuticals d.o.o £5,706,205 (2019: £3,483,350), MGC Nutraceuticals d.o.o £177,450 (2019: £nil), MGC Pharma (Malta) Holdings Limited £742,124 (2019: £192,022) and MGC Pharma (Malta) R&D Limited £2,885 (2019: £nil).

The receivable from MGC Pharmaceuticals d.o.o. is interest free. This loan is held at amortised cost using the effective interest rate of 10%. An amount of £248,646 (2019: £248,646) has been recognised in investments in this respect.

The receivable from MGC Nutraceuticals d.o.o., MGC Pharma (Malta) Holdings Limited & MGC Pharma (Malta) R&D Limited is interest free. This loan is held at amortised cost using the effective interest rate of 10%. An amount of £nil (2019: £nil) has been recognised in investments in this respect.

**14 Trade and other payables**

	2020	2019
	£	£
<b>Non-current</b>		
Intercompany payables	9,470,206	6,228,724
	<u>9,470,206</u>	<u>6,228,724</u>
<b>Current</b>		
Trade creditors	38,939	-
Accruals	5,516	81,917
Other payables	6,008	596
	<u>50,463</u>	<u>82,513</u>

The non-current intercompany payable comprises an interest free loan from the parent company MGC Pharmaceuticals Limited. The loan is held at amortised cost at an effective interest rate of 10% repayable on repayment of the intercompany receivables. The adjustment in respect of the effective interest rate of £nil (2019: £nil) has been recognised in equity as a capital contribution.

**MGC Pharma (UK) Ltd****Notes to the financial statements (continued)**  
**For the year ended 30 June 2020****15 Contingent consideration**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
<b>Current</b>		
Contingent consideration	-	102,704
	<u>-</u>	<u>102,704</u>

During 2017 the Company entered into agreement to acquire 80% Panax Pharma s.r.o. for a commitment to expend €700,000 on operations. As at 30 June 2019, the Company had provided funding to Panax Pharma s.r.o. of £504,691 (2019: £504,891). During the year, the Company increase its share in Panax Pharma s.r.o. to 87% with future contingent consideration payable being waived, resulting in the contingent consideration amount of £102,704 being reversed against the investment in group undertakings (Note 11).

**16 Share capital**

	<b>Number of shares in issue</b>	<b>Share capital £</b>	<b>Total £</b>
Ordinary shares of £1			
Balance as at 1 July 2018	10	10	10
Shares issued during the year	-	-	-
<b>Balance at 30 June 2019</b>	<u>10</u>	<u>10</u>	<u>10</u>
Shares issued during the year	-	-	-
<b>Balance at 30 June 2020</b>	<u>10</u>	<u>10</u>	<u>10</u>

The Company has one class of Ordinary share which carries no right to fixed income.



**17 Operating cashflow**

<i>Reconciliation of Cash Flows from Operations with loss for the year</i>	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
(Loss)/profit for the year	<u>(1,304,155)</u>	<u>(640,609)</u>
<i>Adjustments for:</i>		
Non-cash flows in loss for the year		
Interest income accrual from group borrowings	-	(35,673)
Intercompany management fee accrual	-	(120,000)
Fair value losses on financial assets at fair value through profit or loss	1,190,569	266,082
Foreign exchange movement	(153,003)	(67,284)
<i>Changes in working capital:</i>		
(Increase) / decrease in trade and other receivables	(2,954,574)	83,651
Financial assets at fair value through profit or loss	-	(1,768,832)
Increase in trade and other payables	<u>3,209,790</u>	<u>2,360,353</u>
Cash used in operating activities	<u><u>(11,373)</u></u>	<u><u>77,691</u></u>

**18 Related party disclosures****Remuneration of directors and key management personnel (all benefits are short term benefits)**

	<b>2020</b>	<b>Outstanding at year end</b>	<b>2019</b>	<b>Outstanding at year end</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Mr Nativ Segev	10,920	-	10,920	-
Mr Roby Zomer	10,920	-	10,920	-
Mr Brett Mitchell	10,920	-	10,920	-
Mr Anthony Eastman	59,280	-	57,293	-
	<u>92,040</u>	<u>-</u>	<u>90,053</u>	<u>-</u>

**Other related party transactions**

As at 30 June 2020 the amount owed to the parent company, MGC Pharmaceuticals Limited, was £10,088,474 (2019: £6,846,992) in respect of a working capital loan to the Company. The loan is interest free and repayable upon repayment of the loans from the subsidiary undertakings.

The Company also issued working capital loans to its four subsidiaries. As at 30 June 2020, the amount due from these subsidiaries (Note 11a) was £6,628,664 (2019: £3,675,372).

The Company charged management fees of £120,000 to MGC Pharmaceuticals d.o.o. (2019: £120,000). These amounts along with the 2017, 2018 and 2019 amounts are outstanding as at 30 June 2020

**19 Control**

The ultimate controlling party of the Company is MGC Pharmaceuticals Limited who own 100% of the Company and is incorporated in Australia. The Annual Report for MGC Pharmaceuticals Limited is available on their website, [www.mgcpharma.com.au](http://www.mgcpharma.com.au).

**20 Events after the reporting period**

Following the year end the COVID-19 pandemic has continued to have a global impact. The situation is continually developing and as at the date of this report the situation will need continual attention and will continue to evolve over time. In our view, consistent with others, COVID-19 is considered to be a non-adjusting post balance sheet event and no adjustment is made in the financial statements as a result.

The rapid development and fluidity of the COVID-19 virus makes it difficult to predict the ultimate impact on the Company at this stage. In line with most experts, we believe that the impact of the virus will be material on the general economy and central banks have already begun to reduce interest rates and taking other measures. Undoubtedly, this will continue to have implications for the Company's operations, for example restricting travel movements and impacting fund raising activities as investors look to delay decisions until the crisis is over. Management continues to address the impact of COVID-19 on the Company, however given the fluidity and volatility of the situation it remains not possible to quantify the impact at this stage.