

Company Registration No. 09750155 (England and Wales)

MGC Pharma (UK) Ltd

**Report and financial statements
for the year ended 30 June 2023**

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MGC Pharma (UK) Ltd

Company information

Directors	Roby Zomer Anthony Eastman
Company number	09750155
Registered office	Eccleston Yards 25 Eccleston Place London SW1W 9NF
Independent Auditor	CJA Accounting Limited 16 Bridge Road Haywards Heath RH16 1UA

MGC Pharma (UK) Ltd

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MGC Pharma (UK) Ltd

Directors' report For the year ended 30 June 2023

The directors present their report and financial statements for the year ended 30 June 2023. The comparative period is for the year ended 30 June 2022.

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 £4,686,706 (2022: loss of £2,147,724). The directors do not recommend the payment of a dividend (2022: nil).

Directors

The following directors have held office during the year ended 30 June 2023:

- Roby Zomer
- Anthony Eastman
- Brett Mitchell – resigned 1 June 2023

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 2023 Annual Report, available on the website - <https://mgcpharma.co.uk>

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
28 March 2024

MGC Pharma (UK) Ltd

Statement of directors' responsibilities

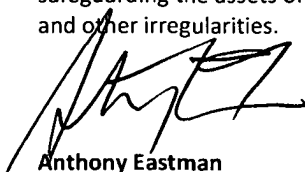
The directors are responsible for preparing the Report and the financial statements in accordance with applicable law and regulations.

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

28 March 2024

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 2023 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 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the United Kingdom; 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 a 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. 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

28 March 2024

MGC Pharma (UK) Ltd

**Statement of comprehensive income
For the year ended 30 June 2023**

	Notes	2023 £	2022 £
Revenue	5	120,000	125,000
General and administrative costs	6	(1,991,747)	(539,883)
Impairment expense	10	(1,839,895)	(1,420,263)
Fair value losses on financial assets held at fair value through profit and loss	12	(700,000)	(312,181)
Operating loss		(4,411,642)	(2,147,328)
Exchange (loss) / gain		(275,064)	(396)
Loss before tax		(4,686,706)	(2,147,724)
Tax on loss on ordinary activities	9	-	-
Loss for the year		(4,686,706)	(2,147,724)
Other comprehensive income		-	-
Total comprehensive loss for the year		(4,686,706)	(2,147,724)

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

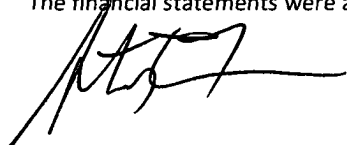
As at 30 June 2023

Company number: 09750155

	Notes	2023 £	2022 £
Assets			
Non-current assets			
Investments in subsidiaries	10	13,748,342	2,750,267
Property, plant and equipment	11	23,814	-
Financial assets at fair value through profit or loss	12	-	-
Other receivables	13	3,792,462	14,585,739
		<u>17,564,618</u>	<u>17,336,006</u>
Current assets			
Cash and cash equivalents		2,258	16,129
Trade and other receivables	13	50,440	50,945
		<u>52,698</u>	<u>67,074</u>
Total Assets		<u>17,617,316</u>	<u>17,403,080</u>
Equity			
Equity attributable to owners of the Company			
Share capital	15	10	10
Capital contribution		618,268	618,268
Accumulated loss		(9,333,923)	(4,647,217)
		<u>(8,715,645)</u>	<u>(4,028,939)</u>
Liabilities			
Non-current liabilities			
Borrowings	14	25,957,944	21,282,886
		<u>25,957,944</u>	<u>21,282,886</u>
Current liabilities			
Trade and other payables	14	375,017	149,133
		<u>375,017</u>	<u>149,133</u>
Total Equity and Liabilities		<u>17,617,316</u>	<u>17,403,080</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 28 March 2024 and were signed on its behalf.



Anthony Eastman
Director

MGC Pharma (UK) Ltd

Statements of changes in equity For the year ended 30 June 2023

	Notes	Share capital £	Capital Contribution £	Accumulated loss £	Total £
Balance at 1 July 2021		10	618,268	(2,499,493)	(1,881,215)
Total comprehensive income for the period		-	-	(2,147,724)	(2,147,724)
Total transactions with owners, recognised directly in equity		-	-	(2,147,724)	(2,147,724)
Balance at 30 June 2022		10	618,268	(4,647,217)	(4,028,939)
Total comprehensive income for the year		-	-	(4,686,706)	(4,686,706)
Total transactions with owners, recognised directly in equity		-	-	(4,686,706)	(4,686,706)
Balance at 30 June 2023		10	618,268	(9,333,923)	(8,715,645)

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 2023**

	Notes	2023 £	2022 £
Cash flows from operating activities			
Cash used in operating activities	16	17,703	(965,865)
Net cash used in operating activities		17,703	(965,865)
Cash flows from investing activities			
Payments for property, plant and equipment		(31,574)	-
Net cash used in investing activities		(31,574)	-
Net increase in cash and cash equivalents		(13,871)	(965,865)
Cash and cash equivalents at beginning of the period		16,129	981,994
Cash and cash equivalents at end of the year		2,258	16,129

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

MGC Pharma (UK) Ltd

Notes to the financial statements For the year ended 30 June 2023

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.co.uk>. 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 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, 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 2022. 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.

2.12.2 Standards and Interpretations effective for subsequent periods

New standards, amendments and interpretations not yet adopted

Standard / Interpretation	Title	Effective date
IAS 1	Non-current Liabilities with Covenants	1 January 2024
IAS 1	Classification of liabilities as Current and Non-current	1 January 2024
IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
IAS 7	Supplier Finance Arrangements	1 January 2024

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.

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.

MGC Pharma (UK) Ltd

Notes to the financial statements (continued) For the year ended 30 June 2023

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 (2022: £nil) 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 £nil, (2022: £nil) at 30 June 2022 and an impairment charge of £700,000 (2022: £312,181) 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

	2023	2022
	£	£
Management charge	120,000	120,000
Government grant	-	5,000
	<u>120,000</u>	<u>125,000</u>

Majority of the revenue in the year comprised 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 2023

6 Expenses by nature

	2023	2022
	£	£
Corporate costs	198,707	91,437
Professional services costs	61,763	48,889
Consultancy costs	835,071	172,904
Wages and salaries	414,712	93,455
Travel costs	419,712	105,365
Depreciation	7,761	-
Other expenses	54,021	27,833
Total general and administrative costs	<u>1,991,747</u>	<u>539,883</u>

7 Auditor Remuneration

	2023	2022
	£	£
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	4,250
Fees payable to company's auditor and its associates for other services	<u>750</u>	<u>750</u>
	<u>5,750</u>	<u>5,000</u>

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

8 Staff costs

	2023	2022
The average monthly number of employees (including directors) employed by the Company was:	<u>7</u>	<u>5</u>
	2023	2022
	£	£
Aggregate remuneration (including directors)		
Wages and salaries	366,322	35,615
Directors' fees	<u>48,390</u>	<u>57,840</u>
	<u>414,712</u>	<u>93,455</u>

MGC Pharma (UK) Ltd

Notes to the financial statements (continued)
For the year ended 30 June 2022

9 Taxation

	2023	2022
	£	£
<i>Current tax</i>		
Current tax on profits	-	-
Adjustments for current tax of prior periods	-	-
Total current tax benefit / (expense)	<u>-</u>	<u>-</u>
<i>Deferred tax</i>	<u>-</u>	<u>-</u>
Tax expense	<u>-</u>	<u>-</u>

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

	2023	2022
	£	£
(Loss) / profit before taxation	<u>(4,686,706)</u>	<u>(2,147,724)</u>
Tax at the UK corporation tax rate of 19% (2022: 19%)	(890,474)	(408,068)
Expenses not deductible for tax purposes	484,055	1,287
Adjustments for current tax of prior periods	-	-
Losses carried back	-	-
Changes in tax rates	-	-
Tax losses for which no deferred tax asset was recognised	406,419	406,781
Utilisation of previously unrecognised tax losses	<u>-</u>	<u>-</u>
Tax	<u>-</u>	<u>-</u>

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 £3,511,755 (2022: £1,258,705) 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.

On 15 March 2023 it was announced that from 1 April 2023 the UK corporation tax rate would increase from 19% to 25% for profits over £250,000. Profits made under the £250,000 threshold will continue to be taxed at a rate of 19%. The Company will continue to calculate the effective tax rate at 19%.

MGC Pharma (UK) Ltd

Notes to the financial statements (continued) For the year ended 30 June 2023

10 Investments in group undertakings

	2023	2022
	£	£
Investment in group undertakings		
Beginning of the year	2,750,267	1,908,796
Additions	12,837,970	2,261,734
Impairments	(1,839,895)	(1,420,263)
	<u>13,748,342</u>	<u>2,750,267</u>

During the year, the amounts owed from subsidiary companies, MGC Pharmaceuticals d.o.o. (£11,683,246) and MGC Nutraceuticals d.o.o. (£1,154,724) were capitalised into capital contributions within these two entities.

Investment in group undertakings:	Principal activity:	Country of Incorporation	Share - holding	2023	2022
				£	£
MGC Pharmaceuticals d.o.o.	Licensing for growing and selling of cannabidiol products for use in medicinal cannabis products	Slovenia	100%	11,937,689	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	647,002
MGC Pharma (Malta) R&D Limited	Establishment of pharmaceutical production facilities	Malta	100%	1,077	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%	1,161,422	6,698
MedicaNL	Medical research	Israel	30%	-	1,839,895
MGC Pharmaceuticals s.r.o.	Czech Holding Company	Czech Republic	54%	-	-
				<u>13,748,342</u>	<u>2,750,267</u>

Investment in group undertakings include amounts of £248,646 (2022: £248,646) in MGC Pharmaceuticals d.o.o. in relation to the initial recognition difference of the non-current intercompany receivable (refer note 13).

MGC Pharma (UK) Ltd

Notes to the financial statements (continued) For the year ended 30 June 2023

Impairment testing

On 21 April 2021, MGC Pharma completed the 100% acquisition of MedicaNL Israel 2019 Ltd (MedicaNL), an Israeli company operating and providing specialist services to the pharmaceutical sector for development of new medicines. Performance since acquisition has been lower than expected and the Group's impairment testing determined that the recoverable amount of the CGU was nil as at 30 June 2023 and recorded an impairment expense of £1,839,895 (2022: £1,420,263) in the profit and loss.

For further information on the acquisition of the group undertakings, please refer to the MGC Pharmaceuticals Limited Group financial statements.

11 Property, plant and equipment

	Plant and equipment	Total
	£	£
Cost		
Opening balance – 1 July 2022	-	-
Additions	31,575	31,575
At 30 June 2023	230,520	4,036,281
Depreciation		
Opening balance – 1 July 2022	-	-
Charge for the period	7,761	7,761
At 30 June 2023	7,761	7,761
Net book value 1 July 2022	-	-
Net book value 30 June 2023	23,814	23,814

12 Financial assets at fair value through profit or loss

	2023	2022
	£	£
Investments in unlisted entities		
Beginning of the year	-	312,181
Additions	700,000	-
Change in fair value	(700,000)	(312,181)
	-	-

MGC Pharma (UK) Ltd

Notes to the financial statements (continued) For the year ended 30 June 2023

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 2022 and 30 June 2021. The Company does not have any liabilities measured at fair value.

On 5 August 2022 the Company acquired 40% of the issued capital of ZAM Software Ltd, a private entity that owns a real-time data collection software with proprietary Artificial Intelligence (AI) algorithms for total consideration of £700,000 through the issue of shares in the Company's parent entity.

ZAM Software Ltd contributed £nil operating profit after tax for the period from acquisition to 30 June 2023. At 30 June 2023 the Company determined that the recoverable amount of the investment was nil as at 30 June 2023 and recorded an impairment expense of £700,000 in the profit and loss.

	Level 1	Level 2	Level 3	Total
	£	£	£	£
30 June 2023:				
Financial assets through profit and loss				
- Equity holdings	-	-	-	-
30 June 2022:				
Financial assets through profit and loss				
- Equity holdings	-	-	-	-

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.

13 Receivables

	2023	2022
	£	£
Non-current		
Intercompany receivables	3,792,462	14,585,739
	<u>3,792,462</u>	<u>14,585,739</u>
Current		
Other receivables	50,440	50,946
	<u>50,440</u>	<u>50,946</u>

MGC Pharma (UK) Ltd

Notes to the financial statements (continued) For the year ended 30 June 2023

During the year, the amounts owed from subsidiary companies, MGC Pharmaceuticals d.o.o. (£11,931,892) and MGC Nutraceuticals d.o.o. (£1,154,724) were capitalised into capital contributions within these two entities.

The non-current intercompany receivables comprise advances made to MGC Pharmaceuticals d.o.o £2,099 (2022: £10,670,886), MGC Nutraceuticals d.o.o £nil (2022: £363,478), MGC Pharma (Malta) Holdings Limited £2,601,366 (2022: £2,642,808) MedicaNL £131,794 (2022: £nil) and MGC Pharmaceuticals s.r.o. of £1,057,203 (2022: £908,567).

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 £nil (2021: £248,646) has been recognised in investments in this respect, given the entire amount was capitalised into investments in the current year.

The receivables from MGC Nutraceuticals d.o.o., MGC Pharma (Malta) Holdings Limited and MGC Pharmaceuticals s.r.o. are interest free. This loan is held at amortised cost using the effective interest rate of 10%. An amount of £nil (2022: £nil) has been recognised in investments in this respect.

14 Trade and other payables

	2023	2022
	£	£
Non-current		
Intercompany payables	25,957,944	21,282,886
	<u>25,957,944</u>	<u>21,282,886</u>
Current		
Trade creditors	154,641	135,888
Accruals	96,090	(7,490)
Other payables	124,286	20,734
	<u>375,017</u>	<u>149,132</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 (2022: £nil) has been recognised in equity as a capital contribution.

Additionally an amount of £17,276 (2022: £21,943 receivable) is due to MGC Pharma (Malta) R&D Limited.

MGC Pharma (UK) Ltd

Notes to the financial statements (continued) For the year ended 30 June 2023

15 Share capital

	Number of shares in issue	Share capital £	Total £
Ordinary shares of £1			
Balance as at 1 July 2021	10	10	10
Shares issued during the year	-	-	-
Balance at 30 June 2022	10	10	10
Shares issued during the year	-	-	-
Balance at 30 June 2023	10	10	10

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

16 Operating cashflow

<i>Reconciliation of Cash Flows from Operations with loss for the year</i>	2023 £	2022 £
(Loss)/profit for the year	(4,686,706)	(2,147,724)
<i>Adjustments for:</i>		
Fair value losses on financial assets at fair value through profit or loss	700,000	312,181
Impairment expense	1,839,895	1,420,263
Depreciation	7,761	-
Foreign exchange movement	275,064	-
<i>Changes in working capital:</i>		
(Increase) / decrease in trade and other receivables	(2,319,253)	(2,831,515)
Increase in trade and other payables	4,200,942	2,280,930
Cash used in operating activities	17,703	(965,865)

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

	2023	Outstanding at year end	2022	Outstanding at year end
	£	£	£	£
Mr Roby Zomer	14,920	-	10,920	-
Mr Brett Mitchell	10,010	-	10,920	-
Mr Anthony Eastman	23,460	-	36,000	-
	<u>48,390</u>	<u>-</u>	<u>57,840</u>	<u>-</u>

Other related party transactions

As at 30 June 2023 the amount owed to the parent company, MGC Pharmaceuticals Limited, was £21,920,764 (2022: £21,260,944) 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.

Additionally an amount of £17,276 (2022: £21,943 receivable) is due to MGC Pharma (Malta) R&D Limited.

The Company also issued working capital loans to its four subsidiaries. As at 30 June 2023, the amount due from these subsidiaries (Note 11a) was £3,792,462 (2022: £14,585,739), following the capitalisation of the loans working capital loans to MGC Pharmaceuticals d.o.o. and MGC Nutraceuticals d.o.o. of £11,931,892 and £1,154,724 respectively.

The Company charged management fees of £120,000 to MGC Pharmaceuticals d.o.o. (2022: £120,000). These amounts along with the 2017, 2018, 2019, 2020, 2021, 2022 and 2023 amounts were all capitalised in the current year to investment in subsidiary.

18 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.

19 Events after the reporting period

There were no events subsequent to year end that require disclosure.