

MEDICAL CANNABIS LTD

ABN 53 604 732 612

FINANCIAL REPORT

30 JUNE 2017

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Medical Cannabis Ltd

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## DIRECTORS' REPORT

The Directors of Medical Cannabis Ltd (the Company) present their report together with the financial statements for the financial year ended 30 June 2017.

Medical Cannabis Ltd was incorporated on 16 March 2015. This report represents the results from 1 July 2016 to 30 June 2017.

### Directors

The names of the directors in office at any time during, or since the end of, the year are:

#### **Terry Cuthbertson (Chair)**

##### **B.Bus FCA**

Director appointed 16 March 2015

Terry holds a Bachelor of Business and is a member of the Chartered Accountants Australia & New Zealand. He is a former partner of the Audit and Corporate Finance Divisions of KPMG and former NSW Partner in charge of Mergers and Acquisitions. He is currently Chairman of several Australian listed companies.

#### **David Evans**

##### **B.Sc (Geology and Environmental Science)**

Director appointed 16 March 2015

David holds a Bachelor of Science (Geology and Environmental Science) and has successfully taken two companies through IPO in the past 7 years. David has a strong track record for assembling mining and exploration assets across a range of mineral commodities in Australia and internationally and successfully funding and listing those assets on the Hang Seng and the ASX.

#### **Gary Mares**

##### **B.Com FCA**

Director appointed 16 March 2015

Fellow of the Chartered Accountants Australia & New Zealand, Bachelor of Commerce.

Gary has extensive public accounting, corporate governance and corporate services experience. Mr Mares is currently a Non-executive Director of Australian Whisky Holdings Limited and Joint Managing Director of Rio Dorado Limited.

#### **Andrew Kavalilas**

Director appointed 16 March 2015

Andrew is the founder of Vitahemp, is a licensed NSW hemp grower and has been involved in permitted cannabis research since 1999.

In 2001/2002, Andrew took part in and funded a project, the only such research known in Australia involving the cultivation of high THC cannabis plants under a permit issued by NSW Health.

Bulk raw cannabis was supplied to the Australian Centre of Photochemistry at the Southern Cross University of Lismore NSW for processing and analysis.

The project sought to establish testing capabilities, benchmarks and protocols for additional research into the productions of refined cannabinoids leading to further clinical development.

Findings from this project were supplied to NSW Health in an unsuccessful application to continue the project.

Importantly, the second application virtually mimics what would be required in this EOI, especially the replication models for cultivation, standardisation, and determination of cannabinoid variations,

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### DIRECTORS' REPORT

purification and refinement for pre clinical investigation. Viathemp continues to grow low THC cannabis and leads the way in breeding and development of sub tropical varieties suited to seed production rather than fiber.

#### Gary Stewart

Company Secretary appointed 16 March 2015

Gary has been Director and Company Secretary of public listed companies both in Australia and the United States of America. Gary is also a solicitor of the Supreme Court of New South Wales and practices as a Corporate Lawyer with Gary Stewart & Co, Lawyers in Sydney, where he advises and works for a number of public listed companies in Australia.

#### Principal Activities

During the year, the principal activities of the Company were cannabis and cannabinoid research and cultivation.

There have been no significant changes in the nature of these activities occurred during the year.

#### Review of Operations

The Company incurred an operating loss of \$363,211 (2016 153,037 loss). The loss reflects the Company's commencement and establishment costs in cannabinoid research. No operational revenues were generated during the financial year.

#### Significant Changes in the State of Affairs

No significant changes in the company's state of affairs occurred during the financial year.

#### Events Subsequent to the End of the Reporting Year

Except for a strategic alliance with ASX listed Queensland Bauxite Limited (ASX: BQL), no matters or circumstances have arisen since the end of the financial year that significantly affect or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

#### Likely Developments and Expected Results of Operations

Likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Company.

#### Dividends

No dividends were paid or declared during the financial year.

#### Environmental Regulation

The Company operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

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**DIRECTORS' REPORT**

**Unissued shares under option**

Unissued ordinary shares of Medical Cannabis Ltd under option at the date of this report are:

Date options granted	Expiry date	Exercise price of shares (\$)	Number under option
02/02/2015	30/06/2018	0.20	500,000
16/03/2015	30/06/2018	0.20	14,200,000
02/04/2015	30/06/2018	0.20	2,000,000
03/11/2015	30/06/2018	0.20	500,000
Total			17,200,000

The options were issued as a cost effective means of consideration and to incentivise directors, managers and consultants in performing their role with the company. Options do not expire if employee leaves the employment of Medical Cannabis Ltd.

No shares were issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests.

**Proceedings on Behalf of Company**

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

**Directors' Meetings**

During the financial year, 1 meeting of directors (including committees of directors) was held. Attendances by each director during the year were as follows:

Directors	Board Meetings	
	Eligible to Attend	Attended
Terry Cuthbertson (Chair)	1	1
David Evans	1	1
Gary Mares	1	1
Andrew Kavasilas	1	1
Gary Stewart	1	1

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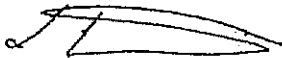
**DIRECTORS' REPORT**

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 5.

No officer of the Company is or has been a partner/director of any auditor of the Company.

This directors' report is signed in accordance with a resolution of the Board of Directors:

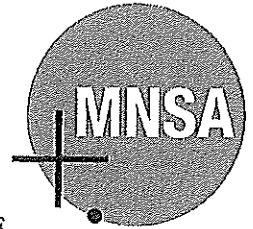


Terry Cuthbertson

Dated this on 25 August 2017

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AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE  
CORPORATIONS ACT 2001  
TO THE DIRECTORS OF MEDICAL CANNABIS LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro

Sydney, 25 August 2017

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	\$	\$
Revenue	3,355	-
Cost of sales	(1,869)	-
<b>Gross Profit</b>	<u>1,486</u>	<u>-</u>
<b>Expenses</b>		
Amortisation	(192)	(192)
Accounting	(2,000)	(4,500)
Audit Fees	(2,000)	(4,500)
Bank Charges	(120)	(120)
Depreciation	(1,000)	(1,000)
Directors fees	(72,000)	(24,000)
Consultants Fees	(253,999)	(89,433)
Filing Fees	(1,790)	(1,500)
Interest expense	-	(197)
Legal costs	(8,374)	-
Travel Expenses	(14,444)	(19,756)
Other expenses	(8,778)	(7,839)
<b>Loss before income tax</b>	<u>(363,211)</u>	<u>(153,037)</u>
Income tax expense	-	-
<b>Loss for the year</b>	<u>(363,211)</u>	<u>(153,037)</u>
Other comprehensive income	-	-
<b>Total comprehensive loss for the year</b>	<u>(363,211)</u>	<u>(153,037)</u>

The accompanying notes form part of these financial statements.



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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	2017	2016
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	2	788	908
Trade and other receivables	3	18,443	15,361
Inventories		21,926	4,673
<b>TOTAL CURRENT ASSETS</b>		<b>41,157</b>	<b>20,942</b>
<b>Non-current</b>			
Intangible assets	4	248,398	248,590
Property, plant & equipment	5	18,000	19,000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>266,398</b>	<b>267,590</b>
<b>TOTAL ASSETS</b>		<b>307,555</b>	<b>288,532</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Creditors and accruals		34,905	24,644
Loans payable		3,700	22,436
<b>TOTAL CURRENT LIABILITIES</b>		<b>38,605</b>	<b>47,080</b>
<b>Non-current</b>			
Accrued liabilities	6	335,000	69,000
Trade and other payables	7	344,209	220,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>679,209</b>	<b>289,000</b>
<b>TOTAL LIABILITIES</b>		<b>717,814</b>	<b>336,080</b>
<b>NET ASSETS</b>		<b>(410,259)</b>	<b>(47,548)</b>
<b>EQUITY</b>			
Share capital	8	151,750	151,250
Accumulated losses		(562,009)	(198,798)
<b>TOTAL EQUITY</b>		<b>(410,259)</b>	<b>(47,548)</b>

The accompanying notes form part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2017

	Share Capital	Accumulated Losses	Total
	\$	\$	\$
Balance at 30 June 2015	108,750	(45,761)	62,989
Comprehensive income	-	-	-
Issue of share capital, net of transaction costs	42,500	-	42,500
Loss for the period	-	(153,037)	(153,037)
<b>Balance at 30 June 2016</b>	<b>151,250</b>	<b>(198,798)</b>	<b>(47,548)</b>
Balance at 30 June 2016	151,250	(198,798)	(47,548)
Comprehensive income	-	-	-
Issue of share capital, net of transaction costs	500	-	500
Loss for the year	-	(363,211)	(363,211)
<b>Balance at 30 June 2017</b>	<b>151,750</b>	<b>(562,009)</b>	<b>(410,259)</b>

The accompanying notes form part of these financial statements.

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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

	Note	2017 \$	2016 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and related parties		399,606	-
Payments to suppliers and employees		(399,726)	(39,794)
Net cash (used in) operating activities	9	<u>(120)</u>	<u>(39,794)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of intangible assets		-	(11,616)
Net cash (used in) investing activities		<u>-</u>	<u>(11,616)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		-	42,500
Net cash provided by financing activities		<u>-</u>	<u>42,500</u>
Net (decrease) in cash and cash equivalents		(120)	(8,910)
Cash and cash equivalents at beginning of year		908	9,818
Cash and cash equivalents at end of year	2	<u>788</u>	<u>908</u>

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017

The financial statements and notes represent those of Medical Cannabis Ltd (Company). The Company was incorporated and domiciled in Australia.

The financial statements were authorised for issue on 25 August 2017 by the board of directors.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Preparation**

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board. The Company is a for-profit Company for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**a. Income Tax**

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable Company or different taxable entities, where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future years in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

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### b. Fair Value of Assets and Liabilities

The Company measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Company would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the Company at the end of the reporting year (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the Company's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

### c. Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities assumed is recognised.

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting year to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

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### d. Intangibles

#### Goodwill

The amount of goodwill recognised on acquisition of each subsidiary in which the Company holds a less than 100% interest will depend on the method adopted in measuring the non-controlling interest. The Company can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value ("full goodwill method") or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ("proportionate interest method"). In such circumstances, the Company determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interest is recognised in the consolidated financial statements.

Goodwill is tested for impairment annually and is allocated to the Company's cash-generating units, which represents the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

#### Intellectual Property

Intellectual property is recognised at cost of acquisition. They have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Intellectual property are amortised over their useful lives.

### e. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value, as indicated, less, where applicable, any accumulated depreciation and impairment losses.

#### Plant and equipment

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss in the financial year in which they are incurred.

#### Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the Company commencing from the time the asset is held ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised in profit or loss when the item is derecognised. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

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### f. Financial Instruments

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions to the financial instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss" in which case transaction costs are recognised as expenses in profit or loss immediately.

#### Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less repayments made and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

The *effective interest method* is used to allocate interest income or interest expense over the relevant year and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

#### Impairment

At the end of each reporting year, the Company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if the directors establish that the carrying amount cannot be recovered by any means, at that point the anticipated loss is charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss event that has occurred is duly considered.

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### Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as financial liabilities at fair value on initial recognition.

The fair value of financial guarantee contracts is assessed using the probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting year;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: *Revenue*. Where the Company gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

### Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

#### g. Impairment of Non-financial Assets

At the end of each reporting year, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: *Property, Plant and Equipment*). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

#### h. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at-call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

#### i. Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting year are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.



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### j. Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the company that remain unpaid at the end of the reporting year. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

### k. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from financing and investing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

### l. Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

#### Key estimates

##### *Impairment*

The Company assesses impairment at the end of each reporting year by evaluation of conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations, which incorporate various key assumptions.

### m. New Accounting Standards for Application in Future Years

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Company, together with an assessment of the potential impact of such pronouncements on the Company when adopted in future years, are discussed below:

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable for annual reporting years commencing on or after 1 January 2018).

These Standards will be applicable retrospectively (subject to the comment on hedge accounting below) and include revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes made to the Standard that may affect the Company on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the Company elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Company's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 15: *Revenue from Contracts with Customers* (applicable for annual reporting years commencing on or after 1 January 2017).

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This Standard, when effective, will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principle of AASB 15 is that an Company will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step model:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the performance obligation is satisfied.

AASB 15 also requires enhanced disclosures regarding revenues.

This Standard will require retrospective restatement and is available for early adoption.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Company's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impacts.

### Note 2: CASH AND CASH EQUIVALENTS

	Note	2017	2016
		\$	\$
Cash at bank and on hand		788	908

### NOTE 3: TRADE AND OTHER RECEIVABLES

	2017	2016
	\$	\$
CURRENT		
Other receivables	-	10,000
GST receivables	8,443	5,361
Deferred capital raising costs	10,000	-
Total current receivables	18,443	15,361

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NOTE 4: INTANGIBLE

	2017	2016
	\$	\$
Formation cost		
Formation at cost	965	965
Accumulated amortisation	(475)	(283)
	<u>490</u>	<u>682</u>
Intellectual property		
Seed back & plant genetics	230,000	230,000
Other intellectual property	17,908	17,908
	<u>247,908</u>	<u>247,908</u>
Balance at the end of the reporting year	<u>248,398</u>	<u>248,590</u>

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

	2017	2016
	\$	\$
Plant and equipment		
Plant and equipment at cost	20,000	20,000
Additions	-	-
Accumulated amortisation	(2,000)	(1,000)
	<u>18,000</u>	<u>19,000</u>

NOTE 6: ACCRUED LIABILITIES

	2017	2016
	\$	\$
Payables to related parties	335,000	69,000
	<u>335,000</u>	<u>69,000</u>

NOTE 7: TRADE AND OTHER PAYABLES

	2017	2016
	\$	\$
NON-CURRENT		
Trade payable	4,723	-
Loan payable – QBL	68,225	-
Loan payable – Andrew Kavasilas	51,261	-
Other payables	220,000	220,000
	<u>344,209</u>	<u>220,000</u>

Other payables represents residual amount on acquisition of business assets of Vitahemp Pty Ltd.

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NOTE 8: EQUITY

**Share Capital**

The share capital of Medical Cannabis Ltd consists of ordinary shares; the shares do not have a par value. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Medical Cannabis Ltd.

	2017	2016	2017	2016
	Shares	Shares	\$	\$
Issued and fully paid shares	21,766,667	21,266,667	151,750	151,250
	<u>21,766,667</u>	<u>21,266,667</u>	<u>151,750</u>	<u>151,250</u>

NOTE 9: CASH FLOW INFORMATION

	2017	2016
	\$	\$
<b>Reconciliation of cash flow from operations with profit/loss</b>		
Loss (after income tax) for the year:	(363,211)	(153,037)
Non-cash items included in profit or loss:		
Depreciation and amortisation expense	1,192	1,192
Net changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	361,899	112,051
<b>Net cash used in operating activities</b>	<u>(120)</u>	<u>(39,794)</u>

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NOTE 10: RELATED PARTY TRANSACTIONS

**Key management personnel of the Company**

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors of the Company, is considered key management personnel.

**Other related parties of the Company**

Other related parties include close family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively with their close family members.

**Transactions with management personnel**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties (ie at arm's length) unless the terms and conditions disclosed state otherwise.

	Note	2017	2016
Directors fees		\$	\$
Andrew Kavasilas		18,000	6,000
David Evans		18,000	6,000
La Herencia Pty Limited (Gary D Mares)		18,000	6,000
Kore management Services Pty Limited		18,000	6,000
Total Directors fees		<u>72,000</u>	<u>24,000</u>
Consulting fees:			
Andrew Kavasilas		89,500	16,500
David Evans		84,500	16,500
La Herencia Limited (Gary D Mares)		57,000	6,000
Ellsar Pty Limited (Gary Stewart)		22,500	6,000
Total consulting fees		<u>253,500</u>	<u>45,000</u>
Total Directors fees and consulting fees paid to management personnel		<u>325,500</u>	<u>69,000</u>
		2017	2016
		\$	\$
Loan to/(from) related parties			
David Evans		-	5,000
Ellsar Investments Pty Ltd		-	1,500
Kore Management Services		(3,700)	3,500
Total loan to related parties		<u>(3,700)</u>	<u>10,000</u>

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### NOTE 11: FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist mainly of cash; accounts receivable; and loans made to related parties.

The totals for each category of financial instruments, measured in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* as detailed in the accounting policies, are as follows:

	2017	2016
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	788	908
Trade and other receivables	14,943	14,711
<b>Total financial assets</b>	<u>15,731</u>	<u>15,619</u>
<b>Financial liabilities</b>		
Trade and other payables	34,905	24,644
<b>Total financial liabilities</b>	<u>34,905</u>	<u>24,644</u>

### Financial Risk Management Policies

The Board's overall risk management strategy seeks to assist the company in meeting its financial targets, while minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Board on a regular basis. These include the credit risk policies and future cash flow requirements.

Senior executives meet on a regular basis to analyse financial risk exposure in the context of the most recent economic conditions and forecasts. The overall risk management strategy seeks to assist the Company in meeting its financial targets, while minimising potential adverse effects on financial performance.

### NOTE 12: EVENTS AFTER THE REPORTING YEAR

On 1 March 2017 the Company formed a strategic alliance with Queensland Bauxite Limited (QBL). Queensland Bauxite Limited (BQL) acquired 55% of Medical Cannabis Limited. It is the Company's intention to work with Queensland Bauxite Limited (QBL) towards the issue of a Prospectus associated with an Initial Public Offering (IPO) and application for listing on the Australian Stock Exchange in the late part of 2017.

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**NOTE 13: GOING CONCERN**

Notwithstanding the loss before tax for the year of \$363,211 (2016 loss of \$153,037) and negative cash flows from operating activities of \$120 (\$39,794 for 2016) the financial report has been prepared on a going concern *basis* due to the fact the board is confident that the Company will be able to meet forecast targets to provide sufficient funds in order to meet the working capital needs of the business.

The Company's ability to continue as a going concern is contingent upon successfully raising additional working capital as required. If additional funds are not raised the going concern basis may not be appropriate with the result that the company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business, with amounts being realised being different from those disclosed in the financial report. No allowance for such circumstance has been made in the financial report.

**NOTE 14: COMPANY DETAILS**

The registered office and principal place of business is:

Level 10  
2 -10 Loftus Street  
Sydney NSW 2000

Medical Cannabis Ltd

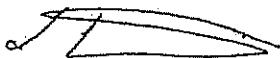
ABN 53 604 732 612

**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of Medical Cannabis Ltd, the directors of the Company declare that:

1. The financial statements and notes, as set out on pages 6 to 21, are in accordance with the *Corporations Act 2001* and:
  - a. comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRSs); and
  - b. give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the Company.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The declaration is made in accordance with a resolution of the Board of Directors.



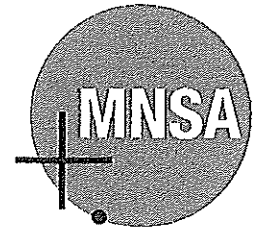
Terry Cuthbertson

Dated this on 25 August 2017



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
MEDICAL CANNABIS LIMITED

**Report on the Financial Report**

We have audited the accompanying financial report of Medical Cannabis Limited, which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards (IFRS).

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

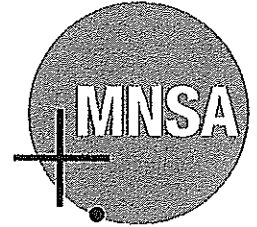
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

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

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*Material uncertainty regarding Going Concern*

Without qualifying our opinion, we draw attention to the financial report which indicates that the company incurred a net loss of \$363,211 (\$153,037 for 2016) during the year ended 30 June 2017 and, as of that date, the company had negative cash flows from operating activities of \$120 (\$39,794 for 2016). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

*Auditor's Opinion*

In our opinion:

- a) the financial report of Medical Cannabis Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b.) the financial report also complies with International Financial Reporting Standards as disclosed in Note I.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro

Sydney, 25 August 2017