

30 April 2018

ASX Code:
MXC

March 2018 Quarterly Activity Report

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- Strong progress made across all three divisions on multiple projects
- MGC Pharma Division: First production of CannEpi™ completed, with validation underway ahead of GMP certification
- MGC Botanic: Contract signed with Maltese Government awarding a contract to construct a new fully licensed medicinal cannabis production and cultivation facility to produce final cannabis medication
- MGC Botanic: Cultivation underway for 2018 production of food-grade cannabidiol crystals for use in MGC Pharma and Derma operations
- MGC Derma: Recent increases in sales driven by product launch on online global cosmetics store, Cult Beauty
- MGC Nutraceuticals: Launch of premium range of vegan, gluten free nutraceutical products launched based on high-grade phytocannabinoids, proteins and vitamins
- Corporate: Strategic partner discussions advanced on potential joint venture opportunities with licensed producers in Australia and North America

MGC Pharmaceuticals Ltd (ASX: MXC or “the Company”) has today published its Appendix 4C for the three-month period to 31 March 2018, and is pleased to provide a review of the progress made during the quarter.

Operational Update

During the quarter, MGC Pharmaceuticals recorded significant progress across all divisions, and especially within MGC Botanic. The Botanic division signed a contract with the Maltese government awarding MXC with 4000m² of land to establish and operate a fully licensed medicinal cannabis cultivation and production facility, subject to new federal legislation being passed where the second bill was passed on 16 April 2018. As well as this, MGC Botanic will examine the potential to increase the footprint of the cultivation operation in the Czech Republic, to enable an increased number of seedlings to be planted and a bigger crop be harvested.

Within the MGC Pharma division, the imminent receipt of a full GMP licence for its European compounding facility positions the MGC Pharma division for a transformational year.

Recent products released into the MGC Derma and MGC Derma Plus ranges have been met with great interest internationally in the cosmetics and medical cannabis sectors, and new skincare product planning is currently underway.

Subsequent to quarter-end, MGC Pharmaceuticals successfully completed a \$5.0 million capital raising via a share placement at \$0.07 per share. The oversubscribed placing was led by Bell Potter who has been appointed as MXC's Australian lead broker.

MGC PHARMA (MXC 100%)

First batch production of CannEpi™ completed, advancing GMP licence process

Meaningful progress has been made during the March quarter within the Company's Pharma division. MXC has been granted an interim Good Manufacturing Practice (GMP) licence for its European production and manufacturing facility under which it has completed production of the first batch of CannEpi™. Relevant verification and inspection procedures are now underway. This process is substantially completed and expected to result in the granting of a full GMP licence during Q2 2018.



Once MXC's production and manufacturing facility receives its full GMP licence, MXC will focus on production of CannEpi™ to supply the Australian market and its clinical pipeline.

RMIT University collaboration

During the last six months, significant progress has been made on the three key medicinal cannabis project initiatives underway with RMIT. This includes the creation of a strategic Library of Cannabinoids, currently being worked on by a select group of PhD students. This work entails compiling and analysing information to support and aid further study into the efficiency, development and safety of personalised medications. A further benefit of this information will be its use in the real-time monitoring and care of patients during medicinal cannabis use.

In addition to this, conversations have commenced regarding the initiation of strategic partnerships with medicinal cannabis research centres and universities based in Israel. The aim of these partnerships is to collaboratively develop the Library of Cannabinoids to support global medicinal cannabis research. The data also has the potential to aid research into technological innovations within the sector.

MXC continues to progress with its first application to Australia's Office of Drug Control (ODC), for a medical cannabis research licence. The receipt of this licence will facilitate and support the collaborative research work already underway with RMIT.

Mabsut contract on target to delivery annualised revenues of \$1m

The recently signed multi-year contract with Mabsut Life remains on track with the expectation of delivering annualised revenues of \$1 million on the back of MXC supplying a minimum of 12kg of CBD extract per quarter. The Company issued Mabsut with its second material invoice in March for €87k with part payment received in March and the majority of funds to be received in April.

The relationship between MXC and Mabsut has strengthened following a recent request from Mabsut for the Company to begin work on new product lines, which are now in the development phase at its European research and development facilities.

Launch of MGC Nutraceuticals range

MXC recently announced the launch of its Nutraceuticals range of premium vegan products targeting the high-end dietary supplement market. Promoting inner health and wellbeing, MGC Nutraceuticals' product range includes seven premium products, comprising four supplements and three food grade products in various flavours. The products contain high-grade phytocannabinoids, which have been grown, extracted and processed under the Company's strict quality control guidelines and standards, alongside natural vegan proteins and vitamins.



MGC BOTANIC (MXC 100%)

Contract signed with Maltese Government awarding MXC for a fully licensed medicinal cannabis facility

As announced on 11 April 2018, MXC are pleased to report they have countersigned a contract with the Maltese government. The contract confirms MXC will be awarded 4000m² of land to build and operate a fully licensed medicinal cannabis cultivation and manufacturing facility. Cannabis for medicinal purposes was initially legalised in Malta on 23 March 2018 with the final bill that legalises the production of medicinal cannabis in Malta for sale both locally and abroad being passed by Parliament on 16 April 2018.

Following the positive evaluation by Malta Enterprise Corporation on the Company's formal submission, MXC to date is one of five entities, and the only Australian company, approved to build and operate a fully licensed medical cannabis facility in Malta.

Under the agreement, the Company will be permitted to produce all THC and CBD strains of medical cannabis, expanding the commercial opportunity for MXC to develop additional medical cannabis pharmaceutical products into key European and global markets, which derive benefits from THC in addition to CBD.

Second Czech Republic crop planted

Following a successful harvest at the Company’s Czech Republic facility in 2017, MXC planted seedlings across the entire 1,100m² glasshouse facility, using new cannabis genetics, in preparation for a second harvest.



During 2018, the Company will consider extending its facility to its full 2,200m² capacity to ensure it is well positioned to meet future demand driven by growth within the European market.

Slovenian Project: crop analysis underway

Slovenian operations, in collaboration with The University of Ljubljana, have been progressing steadily. The current crop of cannabis plants grown using MXC genetics has reached flowering stage, with preparations for the next phase of the project, being analysis of the crop, now underway. The outcomes of this phase will be detailed in the next research report, expected in the coming weeks.

MGC DERMA (MXC 51%)

Two new products for MGC Derma Plus

At the beginning of the quarter, MXC announced the launch of its Herbal Repair Cream, specifically developed to provide relief from mild forms of psoriasis.

MXC plans to launch two further products within the MGC Derma Plus range, incorporating MXC’s own cannabidiol (CBD) compounds and targeting a range of skin conditions including seborrheic dermatitis and acne. The clinically tested and research-backed products will be available on MGC Derma’s website www.mgcterma.com and are expected to launch in the coming months.



Cult Beauty drives new sales for MGC Derma

Early 2018 saw the launch of 15 MGC Derma cosmetic products and its Derma Plus skin care range on global online cosmetics store Cult Beauty. MXC have seen a direct drive in brand recognition and sales figures, with the partnership supported by a six-month exclusive marketing campaign.

Furthermore, MGC Derma have recently released new and updated marketing materials outlining specific benefits of each product to support ongoing sales and marketing programmes.

Varm Cosmo White Label Supply Contract

As previously announced in recent Company updates, MXC did not receive payment of the initial \$1m deposit during the March quarter which was due following the execution of the first binding purchase order. This directly results from delays in Varm Cosmo's testing and product finalisation during recent months and the subsequent finalisation of Varm Cosmo's premium product line that MXC is contracted to supply. MXC management has been advised that once Varm Cosmo's final product line is completed, MXC will receive Varm Cosmo's final order for its premium product line, after which the deposit will be received.

Corporate and Financial Update

As at 31 March 2018, MXC had cash of ~\$7 million.

In early April, MXC completed a \$5 million placement to bring significant funds to support the Company's establishment of a medical cannabis production and cultivation facility in Malta and for general working capital.

Completing on 17 April 2018, the oversubscribed placement was led by Bell Potter and cornerstoned by the Merchant Opportunities Fund, receiving strong demand from sophisticated and professional investors. The issue of 71,428,572 ordinary shares at \$0.07 per share raised \$5 million before costs.

H1 2018 Outlook

The start of 2018 has seen meaningful progress across all divisions and especially within MGC Pharma. Completion of the first batch of CannEpiTM paves the way for the commencement of clinical studies and distribution into the Australian market, under the Company's agreement with HL Pharma.

Changes in Maltese legislation are expected to continue in the coming months, which will allow for the commencement of planning and building the fully licensed facility. This is expected to unfold in Q2 2018.

2018 is expected to be a transformational year within the MGC Botanic division, noting how significant the opening of a Maltese facility will be for the Company's ability to grow and produce medical cannabis. This division remains a key driver of anticipated growth and will complete the Board's strategic plan to establish a fully vertically integrated medical cannabis 'seed to sale' operation in the European Union

Strong growth for the MGC Derma division is anticipated given the recent successes surrounding new product launches and strong sales following its launch of products on Cult Beauty's online store.

-- Ends --

For further information, please contact:

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About MXC

MGC Pharmaceuticals Ltd (ASX: MXC) is a European based specialist medical cannabis biopharma company with many years of technical, clinical and commercial experience in the medical cannabis industry. The Company's founders were key figures in the global medical cannabis industry and the core business strategy is to be a global leader in phytocannabinoid-based medicine within the biopharmaceutical medical markets in Europe, Australasia and North America.

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

MGC PHARMACEUTICALS LTD

ABN

30 116 800 269

Quarter ended ("current quarter")

31 MARCH 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	81	152
1.2 Payments for		
(a) research and development	(437)	(1,297)
(b) product manufacturing and operating costs		
i) cost of sales	-	(2)
ii) operating costs – on behalf of the group	(287)	(671)
(c) advertising and marketing	(133)	(383)
(d) leased assets	-	-
(e) staff costs	(125)	(394)
(f) administration and corporate costs	(428)	(1,341)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	42	125
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (MGC Derma JV partner operational costs)	(128)	(313)
1.9 Net cash from / (used in) operating activities	(1,415)	(4,124)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(25)	(470)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets (exploration asset)	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(25)	(470)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	4	174
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-	-
3.10	Net cash from / (used in) financing activities	4	174

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	8,321	11,364
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,415)	(4,124)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(25)	(470)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4	174
4.5	Effect of movement in exchange rates on cash held	23	(36)
4.6	Cash and cash equivalents at end of quarter	6,908	6,908

5.	Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1	Bank balances	637	1,240
5.2	Call deposits	6,271	7,081
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	6,908	8,321

6. Payments to directors of the entity and their associates

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
325
-

Director and executive services fees, and reimbursement of corporate administrative costs

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	
NIL	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	NIL	NIL
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
NIL		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(504)
9.2 Product manufacturing and operating costs	(685)
9.3 Advertising and marketing	(55)
9.4 Leased assets	(20)
9.5 Staff costs	(340)
9.6 Administration and corporate costs	(380)
9.7 Other – GMP CBD Separator equipment	(303)
9.8 Total estimated net cash outflows	(2,287)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(Group Financial Controller)

Date: 30 April 2018

Print name: Rutchi Kaushal

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.