

18 January 2019

ASX Code: MXC

December 2018 Quarterly Activity Report

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- The December quarter delivers strong progress across the Company with a number of significant milestones achieved on its seed-to-pharma business model
- CannEpil™ is now available for supply in Australia under the Authorised Prescriber Scheme following its first importation from MXC's GMP certified European manufacturing facility in December. This follows confirmation of the authorisation from the TGA and successful independent tests certifying CannEpil™ as GMP compliant
- Divestment of MGC Derma announced during the quarter will enable the Company to focus on becoming a pure bio-pharma company, and to capitalise on the growth and expansion of the medicinal cannabis products sector
- Key management personnel appointments and internal role transitioning completed, to support the management and implementation of the Company's future European and Australian bio-pharma, research and botanical operations
- An important and unique Research & Development (R&D) project, CannaHub, launched with RMIT and the Hebrew University of Jerusalem to ensure MXC builds a strong foundation of pharmaceutical innovation, and securing a strategic product pipeline for generation of new industry technologies and applications
- An educational platform, Cannabis for Epilepsy (C4E), launched with Epilepsy Action Australia, to provide education and information on medicinal cannabis and epilepsy

MGC Pharmaceuticals Ltd (ASX: MXC or "the Company") has today published its Appendix 4C for the three months ended 31 December 2018 and provides an overview of its operational highlights for the period.

Operational Update

The Company achieved two significant milestones during the December quarter, signing a binding sale agreement for MGC Derma and importing the first batch of CannEpil™, following confirmation of the authorisation from the TGA for its supply in Australia.

The Company has focussed on streamlining its operations in order to deliver and commercialise its seed-to-pharma strategy in 2019 and beyond.

Binding Agreement Executed to Sell MGC Derma to CannaGlobal

On 13 November the Company signed a binding Share Purchase Agreement for the sale of MGC Derma d.o.o (“MGC Derma”) to CannaGlobal Canada Co Inc. (“CannaGlobal”). CannaGlobal, founded by Canadian cannabis industry leader Lorne Gertner, is a diversified, growth-focused Toronto-based holding company, with a global portfolio of cannabis assets, one of which will be MGC Derma upon settlement.

In December 2018, the Company announced the intention to lodge all formal and legally binding documents to sell MGC Derma to CannaGlobal with the Slovenian courts, for the completion of formal settlement. These documents included the executed Share Purchase Agreement and formal share transfer documents that were required to be translated, notarised and lodged under Slovenian company law to legally ratify the change of MGC Derma shareholding. Following lodgement of these executed documents with a court notary in December, the Company was instructed additional original documents were needed to be notarised and apostilled in Australia and the United Kingdom, for the formal settlement to be completed by the Slovenian court.

These additional documents have since been executed and are now in the process of being notarised and apostilled in Australia and the UK. Once completed, the documents will be re-submitted to the court and the Company now expects this to take place before the end of January. On completion of the MGC Derma sale, now expected to occur by the end of January 2019, 100% ownership of MGC Derma will be transferred in exchange for 10% of the ordinary shares in CannaGlobal. This 10% equity holding is based on completion of all acquisitions and investments CannaGlobal was concluding at the time of executing the MGC Derma Binding Sale Agreement.

The Company also received the first C\$0.5 million from CannaGlobal for the first order of CBD and cosmetic materials under the CannaGlobal 5-year Supply Agreement, executed as part of this transaction.

The divestment of MGC Derma represents a significant milestone for the Company, freeing resources to focus on delivering its corporate strategy to become a world leading bio-pharma company.

CannEpil™ available for supply in Australia

In a landmark achievement, MXC’s first Investigational Medicinal Product (IMP) CannEpil™ has been successfully imported into Australia and is available for supply under the Authorised Prescriber Scheme. CannEpil™ has been independently tested and certified as compliant with quality guidelines and strict European GMP standards allowing Authorised Prescribers to prescribe CannEpil™ to suitable patients under their care.

Some of the Authorised Prescribers of CannEpil™ were first endorsed by the Human Research Ethics Committee at St Vincent’s Hospital, Melbourne.

MXC will work with HL Pharma to coordinate the supply of CannEpil™ in Australia to eligible Authorised Prescribers, as per the Heads of Agreement signed on the 1st of November 2017.

The arrival of CannEpiTM also represents a significant milestone for the Company and its development as an accomplished European-based bio-pharma company.

Maltese operations progress on track

The Company has completed all architectural plans for its GMP certified Production and Manufacturing facility following the release of the guidelines on the manufacturing and production of cannabis for medicinal and research purposes, by the Maltese Medical Authority. This follows legislative changes enacted by Maltese Parliament in May 2018.

This represents the last legislative step required by the Maltese Government and the Company is poised to move to the next phase of the project which will be the execution of a long-term lease agreement on the approved land followed by the commencement of construction of the large scale, GMP cultivation and manufacturing facility. Initial ground work will commence on the facility site in the coming weeks.

Change in Executive Roles and Growth of New MGC Management Team

During 2018, the Board completed a number of key management level appointments to drive the Company's operational plans across its Pharma, Research and Botanical divisions. Effective 1 January 2019, this new management team will hold key responsibilities for the management of the Company's future operations and the commercialisation of the Company's key business units. These appointments mark the transition of some key responsibilities to management, which until recently have been performed by the Company's Executive Directors. The need to bolster the Company's management level resourcing is a direct result of significant growth and development in both Pharma and Botanical business operations in 2018, both across Europe and Australia and focusses this experienced management team on delivering MXC's seed-to-pharma strategy.

With the transition of responsibilities completed during the December quarter and the resulting change to executive responsibility at the board level, the roles and remuneration structure for MXC's Executive Directors has been materially revised to reflect a transition of key responsibilities to the new management team, effective 1 January 2019.

Details of this are reflected below.

- Roby Zomer - Managing Director

Annual remuneration of \$300,000 with additional performance shares (equating to 30% of annual salary) based on share performance and operational milestones.

As Managing Director, Roby remains responsible for the execution of the Board's strategy and operations across the Company's entire operations.

- Brett Mitchell - Executive Chairman

Annual remuneration of \$240,000 with additional performance shares (equating to 30% of annual salary) based on share performance and operational milestones.

As Executive Chairman, Brett will continue to be responsible for the Company's financing, corporate strategy and development.

- Nativ Segev - Director and Business Strategy Manager

Annual remuneration of \$240,000 with additional performance shares (equating to 30% of annual salary) based on share performance and operational milestones.

Nativ in his new role will act as the business strategy advisor to the Board utilising his vast experience and extensive network of industry experts in the medicinal cannabis sector. This role has been created to ensure the Company remains at the forefront of industry innovation and development. Further to this, as the Company's project in Malta will be the focus of 2019, Nativ will be responsible for the Malta project construction and operation, ensuring it meets the required KPIs.

Additionally, to expedite commercialisation of MXC's pharma division, Dr Jonathan Grunfeld has been promoted to Chief Scientific Officer (CSO) of research operations, effective from 1st of January 2019.

Dr Grunfeld graduated from the Tel Aviv University Sackler Faculty of Medicine with an M.D. in 1996 and went on to qualify as a neurologist after completing his 5-year residency at the University of Tel Aviv teaching hospital. Jonathan then went on to complete a clinical Fellowship in neuro-oncology at the M.D. Anderson Cancer Center in Houston, Texas in 2004.

Dr Grunfeld currently works within oncological palliative care at the Cancer Institute of the Assaf HaRofeh Medical Center, Israel and has been authorised to issue prescriptions for the use of medical cannabis since 2010. He has extensive direct experience treating multiple conditions with cannabis to over 4,500 patients during this tenure. Jonathan will be responsible for envisioning and developing research capabilities.

Additionally, other key management appointments in 2018 have included Keren Bar-Zakay as General Manager of Australian Operations, Rutchi Kaushal as Group CFO, Ron Lipsky as General Manager of Global Business Development and Irena Pribošič as the Head of Pharma Quality Assurance.

MXC commences trading on US OTC market

On the 18th of December, MXC commenced trading on the OTCQB® Venture Market in the United States under the ticker MGCLF. The OTC Markets Group operates a number of markets for the utilisation of global securities as a way to increase exposure and credibility within the US.

Trading on this international market provides greater global exposure, increased access to institutional investors and the ability to generate a broader shareholder base through increased liquidity.

The ASX remains the Company's primary exchange and this OTC listing will not impact its compliance with ASX Listing Rules.

Research and Development initiatives – Launch of CannaHub Tech Incubator with RMIT

Agreement signed with RMIT to launch international cannabinoid research library - CannaHub

As an extension to its current research and development projects, the Company signed a binding partnership agreement with RMIT (Royal Melbourne Institute of Technology) and HUI (The Hebrew University of Jerusalem), to create an international research hub focussed on innovation and technology within the medicinal cannabis industry.

CannaHub will take the form of an international shared library containing research, data and analytical information on medicinal cannabis and its potential uses. Research departments within leading universities and industry bodies will be invited and incentivised to join *CannaHub* and participate in ground-breaking research, increasing the credibility and exposure of the hub.

CannaHub is set to become MXC's primary R&D engine with all findings, outcomes and conclusions to remain the property of the *CannaHub* partners. MXC will hold the first right to use or acquire any data or findings from the hub for commercial purposes.

Educational platform launched with Epilepsy Action Australia (C4E)

As an extension to current projects, MXC formally partnered with Epilepsy Action Australia (EAA) and created an online platform dedicated to providing education and information on medicinal cannabis and epilepsy.

The platform is taking the form of an EAA website designed for healthcare practitioners and patients and will contain information under its 'Get Educated' and 'Get Access' portals. The portals will provide easily-packaged and user-friendly information on medicinal cannabis news, research breakthroughs, available treatments, clinical trials and information on how to access medicinal cannabis as a patient.

The platform was launched during CannaTech in Sydney in October 2018.

The Company is dedicated to transforming the lives of epilepsy patients and the launch of this website supports its business model of helping patients by providing a range of premium CBD, GMP certified medicinal products where current medicines are ineffective.

Financial Update

As at 31 December 2018, MXC had cash of c. \$6.9 million, leaving the Company well-funded to continue building out its seed-to-pharma operations, and commence construction of its Maltese medical cannabis production and cultivation facility in the coming months, once all formal agreements are signed with the Maltese Government and its agencies.

Outlook

The December quarter has been important for the Company and its growth both domestically and internationally. It has surpassed a number of significant operational milestones which have enabled the Board to streamline the Company to deliver on its seed-to-pharma commercialisation strategy.

The sale of MGC Derma enables MXC to dedicate all its resources into strengthening its pharmaceutical pipeline of products and delivering on its growth strategy by generating material revenues.

Confirmation of the authorisation from the TGA to supply products under the Authorised Prescriber Scheme will be transformational for MXC's operations going forward and with the approval for the Company's first IMP CannEpiTM representing the first of a pipeline of products to be commercialised by the Company.

The Board and Senior Management team are fully committed to the growth and expansion plans of MXC's pharma operations in 2019 in Europe, and following the sale of MGC Derma and the successful importation of its first GMP certified medicinal cannabis product to Australia, the Company will focus on commencing the construction of its Maltese manufacturing and cultivation facility in the coming months.

-Ends-

For further information, please contact:

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About MXC

MGC Pharmaceuticals Ltd (ASX: MXC) is an EU based Bio-Pharma 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 develop and supply high quality Cannabinoids based pharmaceuticals products for the growing demand in the medical markets in Europe, North America and Australasia.

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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 DECEMBER 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
(a) Pharma division	177	263
(b) Derma division	29	78
(c) Other - CannaGlobal receipt for first order of CBD and cosmetics raw materials	538	538
1.2 Payments for		
(a) research and development	(530)	(856)
(b) product manufacturing and operating costs		
i) cost of sales	(141)	(182)
ii) operating costs	(717)	(1,179)
(c) advertising and marketing	(164)	(252)
(d) leased assets	-	-
(e) staff costs	(154)	(285)
(f) administration and corporate costs	(752)	(1,156)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	57	110
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives:	117	117
- Research and development rebate		
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,540)	(2,804)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(115)	(155)
	(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	-	-
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	(115)	(155)

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	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(5)
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	-	(5)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	8,572	9,859
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,540)	(2,804)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(115)	(155)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	(5)
4.5	Effect of movement in exchange rates on cash held	34	56
4.6	Cash and cash equivalents at end of quarter	6,951	6,951

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,377	1,330
5.2	Call deposits	5,574	7,242
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)	6,951	8,572

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
344
-

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	

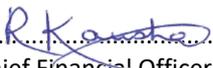
8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	NIL	NIL
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description 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	371
9.2 Product manufacturing and operating costs	273
9.3 Advertising and marketing	11
9.4 Leased assets	72
9.5 Staff costs	491
9.6 Administration and corporate costs	447
9.7 Other – Malta facility construction	100
9.8 Total estimated net cash outflows	1,765

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: .....
Chief Financial Officer

Date: 18 January 2019

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.