

23 December 2022

ASX Code: MXC

LSE Code: MXC

Cleansing Notice – Issue of Convertible Notes

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This cleansing notice (**Cleansing Notice**) is given by MGC Pharmaceuticals Ltd (**Company**) under section 708A(12C)(e) of the *Corporations Act 2001 (Cth)* (**Corporations Act**) as amended by ASIC *Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82*.

The Company hereby confirms that:

- (a) the convertible notes described below will be issued without disclosure to an investor under Part 6D.2 of the Corporations Act; and
- (b) this Cleansing Notice has been given in accordance with section 708A(12C)(e) of the Corporations Act.

The issue of this Cleansing Notice enables the fully paid ordinary shares in the capital of the Company (**Shares**) issued on the conversion of the convertible notes issued by the Company on the terms described below, to be on-sold to retail investors without further disclosure.

This Cleansing Notice is important and should be read in its entirety.

1. BACKGROUND

1.1 Convertible Securities Agreement

As announced on 29 July 2022, the Company has entered into a convertible securities agreement (**Convertible Securities Agreement**) with Mercer Street Global Opportunity Fund, LLC (**Mercer**), a United States based investment group, to provide the Company with funding of up to a total of US\$10 million.

The Company and Mercer have agreed that, the fifth tranche of funding, being US\$533,120 will be provided shortly to the Company in exchange for the issue of 586,432 convertible notes (each with a face value of US\$1.00) (**Tranche 5 Notes**).

Under the Convertible Securities Agreement, the Company may request additional drawdowns of up to a further US\$6,366,880 in exchange for the issue of a further 7,003,568 convertible notes to Mercer (each with a face value of US\$1.00).

For further information in relation to the Convertible Securities Agreement, please refer to the Company announcement dated 29 July 2022.

A broad summary of the rights, privileges and restrictions attaching to the Tranche 5 Notes is set out in Schedule 1 of this Cleansing Notice. The summary is not exhaustive and does not constitute a definite statement of the rights and liabilities of the Tranche 5 Note holder (**Noteholder**).

2. CONTENTS OF THIS CLEANSING NOTICE

This Cleansing Notice sets out the following:

- (a) in relation to the Tranche 5 Notes:
 - (i) the effect of the issue on the Company;
 - (ii) a summary of the rights and liabilities attaching to the Tranche 5 Notes; and
 - (iii) a summary of the rights and liabilities attaching to the Shares that will be issued on the conversion of the Tranche 5 Notes; and

- (b) any information that:
- (i) has been excluded from continuous disclosure notices in accordance with the ASX Listing Rules; and
 - (ii) is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
 - (A) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
 - (B) the rights and liabilities attaching to the Shares; and
 - (iii) other information relating to the Company's status as a disclosing entity.

3. THE EFFECT OF THE ISSUE ON THE COMPANY

3.1 Effect of the issue on the Company

The principal effect of the issue of the Tranche 5 Notes on the Company will be:

- (a) increase the Company's cash reserves by up to US\$533,120 (before costs associated with the Tranche 5 Notes);
- (b) an increase of the number of unquoted convertible notes on issue from 5,510,000 to 6,242,490;
- (c) the Company having a liability for the aggregate face value of the Tranche 5 Notes (being US\$586,432); and
- (d) if the Tranche 5 Notes are converted at the lowest possible conversion price (being \$0.010), the maximum increase in the number of fully paid ordinary shares in the capital of the Company (**Shares**) on issue will from 2,865,847,321 to 2,953,847,321.¹

3.2 Pro-forma Consolidated Statement of Financial Position

To illustrate the effect of the issue of the Tranche 5 Notes on the Company, a pro-forma Consolidated Statement of Financial Position (**Pro-forma Accounts**) which is set out below, has been prepared based on the financial position of the Company's 30 June 2022 audited accounts.

The Pro-forma Accounts shows the effect of the issue of the Tranche 5 Notes as if they had been issued on 30 June 2022, and no other transactions, in addition to the issue of the Tranche 5 Notes, have occurred. In particular the Pro-Forma Accounts do not show the effect of the issue of the Tranche 1, 2, 3 & 4 Notes. See the Company's announcements on 3 & 25 August 2022, 21 September 2022 and 1 November 2022 for further information in this regard.

The accounting policies adopted in the preparation of the Pro-forma Accounts are the same as those used in the preparation of the 30 June 2022 audited accounts. The historical and Pro-forma Accounts are presented in an abbreviated form, insofar as they don't include all of the disclosures required by Australian Accounting Standards applicable to Full Year Financial Statements. The Pro-forma Accounts have not been subjected to independent audit or review.

The Pro-forma Accounts have been prepared to provide investors with information on the assets and liabilities of the Company and pro-forma assets and liabilities on the basis that the issue of the Tranche 5 Notes were issued on 30 June 2022. The Company advises that the Pro-forma Accounts is not the current financial position of the Company as at the date of this Notice, and that the information is provided for illustrative purposes only.

The Pro-forma Accounts show the impact that the issue of the Tranche 5 Notes and associated securities would have had on the Company's financial position as at 30 June 2022, if these securities were issued on that date, taking into account the following transaction: The issue of the Tranche 5 Notes to Mercer on the investment of US\$533,120 in cash.

¹ Calculated based on the USD spot exchange rate of \$0.6664. The actual number of Shares to be issued on conversion will be calculated in accordance with the conversion formula for the Tranche 5 Notes, as detailed in Schedule 1.



	30-Jun-22 Actual	Adjustment for issue of Tranche 5 Notes (a)	30-Jun-22 Pro-forma
	\$	\$	\$
CURRENT ASSETS			
Cash and cash equivalents	1,886,347	800,000	2,686,347
Other Current Assets	4,571,293		4,571,293
Total Current Assets	6,457,640	800,000	7,257,640
NON-CURRENT ASSETS			
Total Non-Current Assets	12,100,178		12,100,178
TOTAL ASSETS	18,557,818	800,000	19,357,818
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss	2,100,000	880,000	2,980,000
Other Current Liabilities	5,607,256		5,607,256
Total Current Liabilities	7,707,256	880,000	8,587,256
NON-CURRENT LIABILITIES			
Total Non-Current Liabilities	5,670,779		5,670,779
TOTAL LIABILITIES	13,378,035	880,000	14,258,035
NET ASSETS	5,179,783	(80,000)	5,099,783
EQUITY			
Contributed equity	97,251,478		97,251,478
Other Reserves	6,931,269		6,931,269
Accumulated losses	(98,345,335)	(80,000)	(98,425,335)
Equity attributable to equity holders of the parent	5,837,412	(80,000)	5,757,412
Non-controlling interest	(657,629)		(657,629)
TOTAL EQUITY	5,179,783	(80,000)	5,099,783

Note to the Pro-forma Accounts:

Exchange rate used to convert the \$US values to \$A in relation to the Tranche 5 Notes is \$0.6664

3.3 Potential effect on capital structure

(a) As at the date of this Cleansing Notice, the total number of issued Shares is 2,865,847,321.

- (b) The capital structure of the Company will be affected by the conversion of Tranche 5 Notes by the Noteholder.
- (c) Subject to limits on the conversion under the Convertible Securities Agreement, the Tranche 5 Notes can be:
- (i) converted into Shares (at the applicable conversion price) at any time after their issue and prior to 18 months from the date of issue of the Tranche 5 Notes (the **Maturity Date**); or
 - (ii) if the Investor has not notified the Company in writing by 5.00 pm on the day that is 10 business days prior to the Maturity Date that it will be converting the Tranche 5 Notes (in whole or in part), to the extent not already converted or repurchased prior to the relevant maturity date, the Company is to pay in full to the Noteholder the face value of the remaining Tranche 5 Notes (and any accrued but unpaid interest) within 20 business days of the Maturity Date.
- (d) The effect on the capital structure of the Company upon (1) issue and (2) conversion of the Tranche 5 Notes is as follows:

Upon issue:

Convertible Notes	Number
Convertible notes on issue at the date of this Cleansing Notice	5,510,000
Tranche 5 Notes to be issued under the Convertible Securities Agreement	586,432
Total convertible notes on issue following issue of the Tranche 5 Notes under the Convertible Securities Agreement	6,096,432

Upon conversion:

Shares	Number
Shares issued on the date of this Cleansing Notice	2,865,847,321
Shares issued upon conversion of the Tranche 5 Notes ¹	88,000,000
Total Shares on issue following conversion of all Tranche 5 Notes²	2,953,847,321

Note 1: This assumes that the Tranche 5 Notes are converted at the lowest possible Conversion Price (being \$0.010), and USD exchange rate of \$0.6664. The actual number of Shares to be issued on conversion will be calculated in accordance with the conversion formula for the Tranche 5 Notes, as detailed in Schedule 1.

Note 2: This assumes that no Tranche 1,2,3 or 4 Notes are converted - see the Company's announcement of 3 & 25 August 2022, 21 September 2022 and 1 November 2022 for further information.

Other securities currently on issue:

The Company currently has 94,432,986 options on issue. There will be no resulting change to the number of options on issue upon the issue and conversion of the Tranche 5 Notes.

The Company currently has 68,475,000 performance rights on issue. There will be no resulting change to the number of performance rights on issue upon the issue and conversion of the Tranche 5 Notes.

4. RIGHTS AND LIABILITIES ATTACHING TO SHARES ISSUED ON CONVERSION OF THE TRANCHE 5 NOTES

The Shares issued to the Noteholder on the conversion of the Tranche 5 Notes under the Convertible Securities Agreement will rank equally in all respects with all of the Company's existing Shares.

Under the Convertible Securities Agreement, the Company is required to apply to ASX for quotation of the Shares issued on conversion of any Tranche 5 Notes.

Full details of the rights and liabilities attaching to Shares are set out in the Company's Constitution, a copy of which can be inspected free of charge, at the Company's registered office during normal business hours.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

(a) **General meetings**

Each shareholder of the Company (**Shareholder**) is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Company's constitution (**Constitution**), the Corporations Act or the ASX Listing Rules.

(b) **Voting rights**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at a general meeting of the Company every holder of fully paid ordinary Shares present in person or by an attorney; representative or proxy has one vote on a show of hands (unless a member has appointed 2 proxies) and one vote per share on a poll.

A person who holds a share which is not fully paid is entitled, on a poll, to a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share.

Where there are 2 or more joint holders of a Share and more than one of them is present at a meeting and tenders a vote in respect of the Share, the Company will count only the vote cast by the Shareholder whose name appears first in the Company's Share register.

(c) **Variation of Rights**

Unless otherwise provided by the terms of issue of a class of shares and subject to the Corporations Act, the rights attached to the shares in any class may be varied or cancelled only with the written consent of the holders of at least three-quarters of the issued shares of the affected class, or by special resolution passed at a separate meeting of the holders of the issued shares of the affected class.

(d) **Transfer of Shares**

Subject to the Constitution, the Corporations Act and ASX Listing Rules, Shares are freely transferable.

The Shares may be transferred by a proper transfer effected in accordance with the ASX Settlement Operating Rules, by any other method of transferring or dealing with Shares introduced by ASX and as otherwise permitted by the Corporations Act or by a written instrument of transfer in any usual form or in any other form approved by either the Directors or ASX that is permitted by the Corporations Act.

The Directors may decline to register a transfer of Shares (other than a proper transfer in accordance with the ASX Settlement Operating Rules) where permitted to do so under the ASX Listing Rules. If the Directors decline to register a transfer, the Company must, within 5 business days after the transfer is delivered to the Company, give the party lodging the transfer written notice of the refusal and the reason for the refusal. The Directors must decline to register a transfer of Shares when required by law, by the ASX Listing Rules or by the ASX Settlement Operating Rules.

(e) **Dividends**

The Directors may from time to time determine dividends to be distributed to Shareholders according to their rights and interests. The Directors may fix the time for distribution and the methods of

distribution. Subject to the terms of issue of shares, the Company may pay a dividend on one class of shares to the exclusion of another class.

Each Share carries the right to participate in the dividend in the same proportion that the amount for the time being paid on the Share (not credited) bears to the total amounts paid and payable (excluding amounts credited) in respect of such Shares.

(f) **Winding-up**

Subject to the rights of holders of shares with special rights in a winding-up and the Corporations Act, if the Company is wound up all monies and property that are to be distributed among Shareholders on a winding-up,

The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any Shares or other securities in respect of which there is any liability.

(g) **Shareholder liability**

As the Shares to be issued on the conversion of the Tranche 5 Notes will be fully paid shares, they will not be subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(h) **Alteration of constitution**

In accordance with the Corporations Act, the Company's constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. In addition, at least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

5. **COMPLIANCE WITH DISCLOSURE OBLIGATIONS**

The Company is a “**disclosing entity**” under the Corporations Act and, as such, is subject to regular reporting and disclosure obligations under both the Corporations Act and the ASX Listing Rules.

These obligations require the Company to notify ASX of information about specific events and matters as they arise. In particular, the Company is obliged to continuously disclose to the market immediately any information which a reasonable person would expect to have a material effect on the price or the value of the Shares.

The Company is also required to prepare and lodge with ASIC yearly and half-yearly financial statements accompanied by a directors' statement and report, and an audit report or review. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office.

The Company will provide a copy of each of the following documents, free of charge, to any person on request:

- (a) the annual financial report most recently lodged by the Company with ASIC, being the financial report of the Company for the year ended 30 June 2022;
- (b) any half-year financial report lodged by the Company with ASIC after the lodgment of the annual financial report referred to in paragraph (a) and before the lodgment of this Cleansing Notice with ASX; and
- (c) any continuous disclosure notices given by the Company to ASX after the lodgment of the annual financial report referred to in paragraph (a) and before the lodgment of this Cleansing Notice with ASX.

A list of the continuous disclosure notices given by the Company to ASX after lodgment of the annual financial report referred to in paragraph (a) above and before the lodgment of this Cleansing Notice with ASX is set out in the table below.

Date	Announcement
23 December 2022	\$800,000 of funding received through Mercer Facility
7 December 2022	Completion of CimetrA Efficacy Pre-clinical Trial
5 December 2022	US\$1,000,000 ArtemiC order delivered to US partner, AMC
2 December 2022	Publication of Peer Reviewed Glioblastoma Research
25 November 2022	Results of Meeting
25 November 2022	Investor Presentation
17 November 2022	AGM Webcast Registration Instructions
1 November 2022	s708A(5)(e) Cleansing Notice
1 November 2022	Application for quotation of securities - MXC
1 November 2022	Application for quotation of securities - MXC
1 November 2022	Notification regarding unquoted securities - MXC
1 November 2022	s708A(12C)(e) Cleansing Notice
31 October 2022	Quarterly Activities/Appendix 4C Cash Flow Report
28 October 2022	Proposed issue of securities - MXC
25 October 2022	Dispatch of 2022 Annual General Meeting documents
25 October 2022	Long COVID study Results
24 October 2022	Trading Halt
24 October 2022	Pause in Trading
20 October 2022	Operations Update

6. INFORMATION EXCLUDED FROM CONTINUOUS DISCLOSURE NOTICES

As at the date of this Cleansing Notice, the Company advises that it has fully complied with its disclosure obligations under the ASX Listing Rules and the Corporations Act, and, in particular, there is no information which the Company has excluded from any of its continuous disclosure notices given in accordance with the ASX Listing Rules and the Corporations Act as at the date of this Cleansing Notice which it would be reasonable for investors and their professional advisors to require for the purpose of making an informed assessment of:

- (a) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
- (b) the rights and liabilities attaching to the Tranche 5 Notes and the Shares.

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Authorised for release by the Executive Chairman, for further information please contact:



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About MGC Pharma

MGC Pharmaceuticals Ltd (LSE: MXC, ASX: MXC) is a European based pharmaceuticals company, focused on developing and supplying accessible and ethically produced plant inspired medicines, combining in-house research with innovative technologies, with the goal of finding or producing treatments to for unmet medical conditions.

The Company's founders and executives are key figures in the global pharmaceuticals industry and the core business strategy is to develop and supply high quality plant inspired medicines for the growing demand in the medical markets in Europe, North America and Australasia.

MGC Pharma has a robust development pipeline targeting two widespread medical conditions and has further products under development.

MGC Pharma has partnered with renowned institutions and academia to optimise the development of targeted plant inspired medicines, to be produced in the Company's EU-GMP Certified manufacturing facilities.

MGC Pharma has a growing patient base in Australia, the UK, Brazil and Ireland and has a global distribution footprint via an extensive network of commercial partners meaning that it is poised to supply the global market.

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SCHEDULE 1 – TERMS AND CONDITIONS OF CONVERTIBLE NOTES

Terms and conditions of Tranche 5 Notes	
Number of Tranche 5 Notes	586,432 Tranche 5 Notes.
Subscription Price	US\$0.90909 per Tranche 5 Note for an aggregate subscription amount of US\$533,120.
Face Value	Each Tranche 5 Note will have a face value of US\$1.00 for an aggregate face value of US\$586,432.
Maturity Date	18 months from the date of issue of the Tranche 5 Notes.
Interest Rate	Upon an event of default occurring, the Company must pay interest at a rate of 18% per annum on the amount of the face value of all Tranche 5 Notes issued which have not been converted or repurchased, calculated daily and compounded monthly.
Conversion of Tranche 4 Notes	<p>Mercer may (at its absolute discretion) convert the Tranche 5 Notes (in a minimum parcel with a face value of at least US\$25,000) at any time prior to the date which is 18 months from their date of issue, by giving the Company a conversion notice. The conversion will occur within 3 business days of receipt of the notice.</p> <p>The number of Shares to which the Noteholder is entitled upon conversion of the relevant Tranche 5 Notes is determined by the following formula:</p> $\text{Number of Shares} = (\text{FV} * \text{ER}) / \text{CP}$ <p>Where:</p> <ul style="list-style-type: none"> FV means the aggregate face value of the Tranche 5 Notes being converted. ER means the spot rate of exchange as reported by Bloomberg LP on the date immediately prior to the date of issue of a conversion notice by the Noteholder. CP means the applicable conversion price per Tranche 5 Note. The applicable conversion price is set out below. <p>Upon conversion of the Tranche 5 Notes:</p> <ol style="list-style-type: none"> those Tranche 5 Notes are cancelled and may not be reissued; and the face value of the Tranche 5 Notes which have been converted will be deemed satisfied.
Conversion by the Company	The Company has no right to require the Noteholder to convert any Tranche 5 Notes at any time.
Conversion Price	<p>In respect of the Tranche 5 Notes, the conversion price will be the lower of:</p> <ol style="list-style-type: none"> A\$0.02; or 90% of the lowest daily volume weighted average price (VWAP) of the Shares selected by the Noteholder and specified in a conversion notice for the 10 trading days on which the Shares traded in the ordinary course of business on the ASX ending on the date immediately prior to the relevant conversion notice, <p>subject to the conversion price being not less than A\$0.010.</p>
Repurchase	Provided that the Company is:



Terms and conditions of Tranche 5 Notes	
	<p>(i) in compliance with its obligations under the Convertible Securities Agreement;</p> <p>(ii) there is no existing event of default; and</p> <p>(iii) the Noteholder has not issued a conversion notice,</p> <p>the Company may (by written notice to the Noteholder) elect to repurchase all of the outstanding Tranche 5 Notes on issue at any time, for a 3% premium to the face value, provided such repurchase is permitted by law and the ASX Listing Rules.</p> <p>Where the Noteholder receives a written notice from the Company with respect to the repurchase of Tranche 5 Notes, the Noteholder may elect to convert up to 30% of the Tranche 5 Notes, the subject of such notice.</p>
Redemption	<p>If the Noteholder has not notified the Company in writing by the day that is 10 business days prior to the Maturity Date that it will be converting the relevant Tranche 5 Notes (in whole or in part), the Company is to pay in full to the holder of the Tranche 5 Notes, the face value of the Tranche 5 Notes (and any accrued but unpaid interest).</p> <p>If an event of default is subsisting after the Company has notice from the Noteholder requiring repayment, the Company must repay the face value of the outstanding Tranche 5 Notes held by the Noteholder together with any accrued by unpaid interest. The Convertible Securities Agreement contains various events which constitute events of default which are standard for agreements of this nature.</p> <p>If there occurs a Change of Control Event or a delisting event, the Noteholder may require repayment by the Company of some or all of the Tranche 5 Notes.</p> <p>In this Cleansing Notice: Change of Control Event means each of:</p> <ul style="list-style-type: none"> (i) a takeover bid being made to acquire all of the Company's shares and: <ul style="list-style-type: none"> a. the offer under the takeover bid is, or becomes, unconditional; and b. either: <ul style="list-style-type: none"> i. the bidder has acquired at any time during the offer period (or after the close of the offer period) a relevant interest in more than 50 per cent of the shares on issue; or ii. the directors of the Company recommend acceptance of the offer under the takeover bid; (ii) a court approves a proposed scheme of arrangement which, when implemented, will result in a person having a relevant interest in 100 per cent of the Shares on issue in the Company (where the requisite shareholder approval has also been obtained), <p>but, for the avoidance of doubt, shall exclude certain agreed transactions previously detailed in the Company's ASX announcements.</p> <p>Delisting Event means where the Company's shares are no longer quoted on ASX, the Company's Shares are suspended from trading on ASX for a period of 20 consecutive business days, or in any case, other than as a result (directly or indirectly) of a Change of Control Event.</p>
Ranking on Conversion	Shares issued on conversion of the Tranche 5 Notes will rank equally with existing Shares on issue.
Security Documents	Repayment of the face value of the Tranche 5 Notes is secured by a first ranking general security granted by the Company in favour of the Noteholder.
Reconstruction of Capital	In the event of a consolidation, subdivision or similar reconstruction of the issued capital of the Company, the terms of the Tranche 5 Notes will be reconstructed to the extent necessary to comply with the ASX Listing Rules.
Participation Rights	The Tranche 5 Notes will not carry any entitlement to participate in future issues of securities by the Company prior to any conversion of the Tranche 5 Notes into Shares.



Terms and conditions of Tranche 5 Notes

No Voting Rights	Except as required by the Corporations Act, the Tranche 5 Notes will not carry a right to vote at meetings of the Company prior to any conversion of the Tranche 5 Notes into Shares.
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