

31 July 2017

ASX Code: MXC

## June Quarterly Activity Report

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- MXC delivered significant operational progress across all divisions during the June quarter:
  - **MGC Derma division:** secured new wholesale reseller agreements for its CBD based cosmetic product lines in Europe, and delivered very positive results from final phase clinical tests for its dermatological products, now certified for EU sales
  - **MGC Botanic division:** operations underway with 470 plants (+1,000m<sup>2</sup>) of THC/CBD medicinal cannabis growing in Czech facility, 5,000m<sup>2</sup> of high CBD Sativa outdoor crop in Slovenia maturing for harvest, and EU medicinal cannabis license granted with University of Ljubljana for MXC botanical research project
  - **MGC Pharma division:** completed European extraction facility on time and budget, produced first cannabinoid extracts ahead of schedule, secured first distribution deal with leading laboratory supplier, secured landmark agreement with RMIT for medical cannabis research and cultivation
- **Strong Cash Position:** Successful \$10m capital raising to fully fund current operating and strategic plan for its pharma operations in Europe and Australia, cosmetics and dermatological products. In excess of \$11m in cash, no debt, at 30 June
- **CEO Appointment:** Founding partner, Roby Zomer appointed as CEO, to lead the Company on its mission to become a global biopharma company

**MGC Pharmaceuticals Ltd** (ASX: **MXC** or “**the Company**”) has today published its Appendix 4C for the three-month period to 30 June 2017 and is pleased to provide a review of the progress made during the quarter.

### Operational Update

This quarter has seen the MXC team deliver significant operational progress over all three of its business divisions across Europe and Australia.

#### **MGC DERMA DIVISION (MXC 51%)**

MXC was pleased to announce the signing of new European wholesale reseller agreements for its MGC Derma cosmetics product line. The agreements are first stage distribution deals with dispensaries and lifestyle retail outlets in Spain, Italy and Romania. Based on the initial sales reported, the Company believes the materiality of the agreements will develop and is initiating contracts with new European distributors.

The Company is advancing negotiations with other established cosmetics retailers and e-tailers in Europe and the UK, to expand MXC’s distribution network into the €70 billion European cosmetics market<sup>1</sup>.

<sup>1</sup> Source: [Cosmetics Europe Annual Report 2015](#)

Positive final phase clinical results were reported in May 2017 for MGC's *DermaPlus* range of products, which have been developed for the relief of redness, dry, flaky and oily indications for skin prone to acne, seborrhea and psoriasis like symptoms on the skin. All three products have now received approval from the CPNP (European regulator) and granted the "dermatologically tested" label under European Regulations. The Company will be completing its first *DermaPlus* production for commercial sale in the coming months and expects to commence generating revenues in late Q3/early Q4 2017.

The results were obtained from clinical evaluation over a three-month period on 90 volunteers at a leading European dermatological clinic on all three of the Company's *DermaPlus* products. MGC's *DermaPlus* products demonstrated significant improvements for irritated or inflamed skin conditions with 92% of volunteers stating they would continue using the creams. This clinical test and positive results confirmed the safety and efficacy of *DermaPlus* products, which are now classified "ready for sale" into EU markets.

### **MXC BOTANICS DIVISION (MXC 100%)**

During the June quarter MXC made a very successful start to the Panax research and cultivation operations in Prague, Czech Republic. The first batch of varying cannabis genetics produced by the Company's Panax operations with the Czech government's Institute of Experimental Botany (IEB) has been successful, with over 470 medicinal cannabis plants (over 1,000sqm) successfully transferred from the IEB facility to the Company's larger greenhouse facility outside of Prague (see photo below). The Company expects to harvest the first Panax medicinal cannabis crop in September, and the success of the operation to date is shown in the pictures from the recent visit by the Board of Directors to the Panax greenhouse.



**Medicinal cannabis plants in the Company's larger greenhouse facility outside of Prague**

In addition to the Panax operations in Czech Republic, in early June 2017 MXC entered into a new strategic agreement with the University of Ljubljana to develop core intellectual property for the Company through proprietary medical cannabis genetics that will be subsequently registered with the EU. The University was issued a full medical cannabis licence for this genetics, breeding and cultivation program with MXC for strains of both high THC and CBD. The focus of this program is to develop MXC proprietary strains of medicinal cannabis for high THC and CBD that it can then use legally for its European growing operations, and potentially license to third parties in the future. The first seeds were planted under this program in late June 2017 (see photo below).



**Vegetative phase at the University of Ljubljana – July 2017**

As part of its strategic agreement with the University of Ljubljana, MXC will create medicinal cannabis strains tailored for specific medical indications, including epilepsy, chronic pain as well as the side effects of oncology. The core aim of this project is to produce critical new genetic intellectual property which will be owned 100% by the Company, giving it a strong competitive advantage for future production operations.

#### **MGC PHARMA DIVISION (MXC 100%)**

At the beginning of the quarter, MXC produced its first cannabinoid extracts at its European Extraction facility in Slovenia. The production was achieved ahead of schedule and marked a major technical and commercial milestone for the Company. Good Manufacturing Practice (GMP) certification is now underway for both the MXC laboratory and extraction facility, and once awarded MXC will commence commercial production of active pharmaceutical ingredients (APIs) for its own medicine to be used in upcoming clinical trials both in Europe and Australia.



**European Extraction Facility clean room**



**Extract paste of high consistency of Phytocannabinoids**





#### **Inside MGC Pharma's European Laboratory – July 2017**

MXC was also pleased to announce it signed its first CBD distribution deal with leading European laboratory supplier, Mikro+Polo for its APIs. Mikro+Polo is the largest Slovenian supplier of laboratory accessories across Slovenia, Croatia and Bosnia with an established Government hospital and medical services customer base.

This agreement gives MXC the ability to leverage Mikro+Polo's existing relationships for additional distribution chains in the future. This distribution deal is the first pharmaceutical distribution deal for MXC in Europe and marks the first steps towards the Company generating material revenues from API sales into the European market.

Perhaps most importantly for the Pharma division, is the binding memorandum of understanding (MOU) with leading Australian research university, Royal Melbourne Institute of Technology (RMIT).

The collaboration involves a full suite of medicinal cannabis research initiatives centred on genetics for medical indications, with a specific focus on development of genetics and medicines to be used for the treatment of cancer. It will also see MXC and RMIT establish a world first library of cannabis medicines and collaborate on the development of genetics and breeding programs for medical cannabis strains and protocols in Australia. The parties also intend to initiate trials to determine the optimal formula for the treatment of melanoma cancer.

As part of the initiative, the parties will shortly be lodging the application for an MGC Pharmaceuticals Australian medical cannabis licence for cultivation and research activities at RMIT's facilities. The formal binding Umbrella Agreement is expected to be signed in the coming weeks.

#### **European Epilepsy Study**

MGC Pharmaceuticals' planned Phase 2A crossover (non-pivotal) epilepsy clinical study in Slovenia is ready to commence immediately upon receipt of the final clinical trial approval from the key regulatory body in Slovenia, the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (JAZMP). The Company is very pleased with the preparations made in readiness to commence the clinical trial, to be run by 2 world experts in epilepsy treatments being Dr David Neubauer and Professor Uri Kramer, upon receipt of the final approval from the JAZMP which is currently being assessed.

The results from the study will deliver the Company a defined pathway for it to produce its own registered medicine for the treatment of epilepsy, as its first step to producing and selling its own medical grade product.

## Corporate Update

### CEO Appointment

MGC Pharmaceuticals was pleased to announce the appointment of Mr Roby Zomer, as CEO of MGC Pharmaceuticals. As a founder of MXC, it was a natural transition for Mr Zomer to the role of Chief Executive Officer (CEO), from Chief Technical Officer.

He brings over ten years of strong corporate and operational experience to the role and as CEO, Mr Zomer is well equipped to operate the Company's global operations as it embarks on its mission to become an internationally recognised medical products company.

### Cash Position

The Company has ~\$11.4m cash at bank as at 30 June 2017. This cash balance leaves the Company well-funded to drive forward its research and development initiatives and advance its commercialisation initiatives of its products that are ready and available to market.

### Sale of Remaining Senegal Gold Assets

During the quarter the Company entered into a binding term sheet for Chesser Resources Limited to acquire our subsidiary Erin Mineral Resources Pty Ltd which holds the Company's remaining Senegal gold assets Youboubou (100%), Woye (80%) and Garaboreya South (80%). On 12 July 2017, the acquisition was completed as announced by Chesser.

## H2 2017 Outlook

MGC Pharmaceuticals enters the coming quarter in a strong position, both operationally and financially. There have been significant advancements across all its divisions and operations are now progressing across all aspects of the value chain.

The Company is looking forward to commencing the sale of its *DermaPlus* products throughout Europe and adding to its revenue stream from additional material distribution agreements for its CBD based cosmetic products from the MGC Derma line.

The Company continues to focus on innovation and is excited to be commencing breeding research initiatives in Australia with RMIT, and to be commencing programs on the treatment of melanoma cancer with RMIT, a highly prominent cancer in Australia and one that will form a key part of its investigations in the oncology sector.

### Roby Zomer, Co-founder and CEO, commented:

"I have been delighted with the achievements made during this quarter. All our divisions have significantly progressed operations. The Derma division will soon be launching its *DermaPlus* products, adding to our existing revenues from our Derma products. We completed the first CBD extraction at our European Extraction facility and secured our first distribution partnership for the active pharmaceutical ingredients, which is key to advancing the commercialisation of our APIs. The next quarter promises to be equally as active and I am looking forward to commencing work alongside RMIT to drive our Australian operations and research activities."

-- Ends --

**For further information, please contact:**

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## About MXC

MGC Pharmaceuticals Ltd (ASX: MXC) is an EU based specialist medical cannabis company with many years of technical, clinical and commercial experience in the medical cannabis industry. The Company's founders were key figures in the Israeli medical cannabis industry and the core business strategy is to develop and supply high quality Cannabinoid based pharmaceuticals products for the growing medical markets in Europe, North America and Australasia.

Follow MXC through our social media channels   

## 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")

30 JUNE 2017

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1.</b>	<b>Cash flows from operating activities</b>		
1.1	Receipts from customers	15	71
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs		
	i) cost of sales	-	(3)
	ii) operating costs – on behalf of the group	(876)	(2,207)
	(c) advertising and marketing	-	-
	(d) leased assets	-	-
	(e) staff costs	(106)	(343)
	(f) administration and corporate costs	(574)	(1,748)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	48	110
1.5	Interest and other costs of finance paid	-	(27)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (MGC Derma JV partner operational costs)	(70)	(329)
<b>1.9</b>	<b>Net cash from / (used in) operating activities</b>	<b>(1,563)</b>	<b>(4,476)</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(364)	(1,065)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	(4)	(14)
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)	-	500
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(368)</b>	<b>(579)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	10,000
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	15	305
3.4	Transaction costs related to issues of shares, convertible notes or options	(660)	(758)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(1,000)
3.7	Transaction costs related to loans and borrowings	-	(50)
3.8	Dividends paid	-	-
3.9	Other	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(645)</b>	<b>8,497</b>



<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	13,856	7,896
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,563)	(4,476)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(368)	(579)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(645)	8,497
4.5	Effect of movement in exchange rates on cash held	84	26
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>11,364</b>	<b>11,364</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b>	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
	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	2,324	13,833
5.2	Call deposits	9,040	23
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>11,364</b>	<b>13,856</b>

**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

<b>Current quarter \$A'000</b>
593
-

Director and executive services fees and reimbursement of corporate administrative costs

<b>7. Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
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	

<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
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		

<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Research and development	(336)
9.2 Product manufacturing and operating costs	(191)
9.3 Advertising and marketing	-
9.4 Leased assets	-
9.5 Staff costs	(550)
9.6 Administration and corporate costs	(284)
9.7 Other:	-
(a) Acquisition of API Separator for Clean Room	(292)
<b>9.8 Total estimated net cash outflows</b>	<b>(1,653)</b>

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: 31 July 2017

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.