

31 January 2018

ASX Code: MXC

December Quarterly Activity Report

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- Major operational achievements across all three divisions, material contracts with near term revenue generation potential signed during the quarter
 - **MGC Pharma division:** GMP certification process well advanced as Company prepares for first production of CannEpiTM and an Australian launch in 2018
 - Multi-year agreement and purchase order signed for the supply of CBD extract, with first revenues from Masbut Life received
 - **MGC Botanic division:** First harvests yield in Slovenia and Czech Republic with total over 4,400kg biomass which is being processed for use in the production of MGC's Derma and Pharma products
 - **MGC Derma division:** First binding agreement signed with Varm Cosmo for supply of white label cosmetic products in 2018
 - New Derma Plus product CBD Herbal Repair cream is launched, with an additional two products on track for Q1 2018 launch
- +\$8m cash at bank, ensuring MXC is well funded in the lead up to its first production of CannEpiTM and focuses on securing additional commercial contracts, generating near term revenue from multiple product lines

MGC Pharmaceuticals Ltd (ASX: MXC or "the Company") has today published its Appendix 4C for the three-month period to 31 December 2017 and is pleased to provide a review of the progress made during the quarter.

Operational Update

During the quarter, MGC Pharmaceuticals' three divisions made strong results on the Company's stated timeline, with significant commercial agreements signed in its Pharma and Derma divisions, material progress on the GMP certification of its European production facility, and a successful first harvest completed in Slovenia for the Company's Botanic division.

MGC PHARMA (MXC 100%)

Strong progress towards GMP certification and first production of CannEpiTM

Significant progress was made by the Company's Pharma division during the quarter, with MXC's European production facility now in the final stages of the Good Manufacturing Practice (GMP) certification process.

Once received, GMP certification will allow MXC to produce its adult epilepsy product CannEpiTM and other medicinal cannabis products within the Company's European facility, representing a significant milestone for the Company. The Company remained on-track to receive its initial GMP certification and produce its first batch of CannEpiTM in 1H 2018.

Multi-year agreement and purchase order for CBD extract signed

The Company signed a multi-year binding agreement with European medicinal products distributor, Masbut Life to supply cannabidiol (CBD) extract from its European extraction facility. Under the agreement, a minimum of 12kg of CBD extract will be supplied by MXC per quarter, to deliver \$1 million in annual revenues. MXC has received its first order and revenues under the contract and continues to work with Masbut Life on the development of further products, which will utilise MXC's leading research and development facilities in Europe.

HL Pharma to bring CannEpiTM to the Australian Market

During the quarter, MXC signed a definitive supply agreement with specialist Australian pharmaceutical distributor, HL Pharma to bring MXC's affordable adult epilepsy product, CannEpiTM to the Australian market. Approximately 240,000 Australians live with epilepsy and this number grows by approximately 25,000 each year. Epilepsy Action Australia estimates that ~30% of all epilepsy cases are drug-resistant, with 70,000 Australians currently suffering from the drug-resistant form, for which CannEpiTM has been specifically designed.

The agreement creates a clear pathway for the delivery of the Company's first medical cannabis products, once all necessary importation approvals are obtained by HL Pharma. The Company expects the agreement will deliver revenue of \$1 million from its first full year of operation in Australia alone, from the less than 100 patients already registered to use the product. Revenues are expected to significantly grow in the 2018/19 financial year.

The agreement is a significant milestone for the Company and distribution of its first medical cannabis product in Australia.

Collaboration with RMIT delivers progress in development of medicinal cannabis library

During the quarter, the Company progressed its development of the world's first library of cannabis medicines in collaboration with RMIT University. With development of the library's back end now complete, MXC has turned its focus to the development of the library's user interface. Once complete, the library will be used to support real-time doctor and patient monitoring of medicinal cannabis, with the repository of information used for further study into medicinal cannabis safety, efficacy and the development of personalised medications to drive better patient outcomes.

Australian Federal Government to allow medical cannabis exports

Importantly, in January 2018, the Australian Federal Government of Australia announced an intended change in regulation to allow the export of medicinal cannabis products in Australia, with a clear federal legislative and regulatory framework expected to be in place in February 2018.

The change ensures MXC can accelerate its plans for future Australian operational base, and potential future production of CannEpiTM and future medicinal cannabis products in Australia.

MXC BOTANIC (MXC 100%)

First harvest yields over 4,000kg of biomass

The Company's European Botanic division completed its first harvest, delivering over 4,000kg of biomass from its open field farm in Slovenia. The biomass is now being processed into CBD extract and will be used in the production of the Company's Pharma and Derma product lines.

Czech Republic harvest yields over 400kg of medical cannabis biomass and planning for 1H 2018

The Company harvested its 1,100m² Czech Republic glasshouse facility delivering over 400kg of biomass. Furthermore, the botanic division prepared its operations for 1H 2018 to start breeding of second season, ensuring MXC is well placed to meet future demand from key emerging European markets.

Slovenian research collaboration delivering strong genetics and breeding outcomes

During the quarter, MXC issued its semi-annual report, providing an update on its breeding program and the registration of MXC's genetics, in collaboration with the University of Ljubljana, Slovenia. The report outlined the strong progress made to date in successfully breeding cannabis plants using MXC genetics, with an 80% success rate to date, and the successful mapping of cannabis plant genomes (DNA).

MGC DERMA (MXC 51%)

First of three binding agreements signed with Varm Cosmo

During the quarter, MXC received its first binding purchase order from emerging Korean health care and beauty cosmetics company, Varm Cosmo, under an \$8m binding sales agreement for MGC Derma's cannabidiol cosmetic products. The Company experienced unexpected operational and logistics delays, including damage to some of the initial samples sent from MGC Derma's manufacturing facility, resulting in a delay to receipt of the \$1 million deposit, as recently announced. Replacement and additional bulk samples, including a new formulation were subsequently dispatched during December and January 2018. Once Varm Cosmo completes testing of these new bulk samples, which is now underway, and they finalise their commercial order, receipt of the \$1 million deposit is expected shortly thereafter.

Launch of first Derma Plus product – CBD Herbal Repair Cream

Excitingly, MGC Derma launched its first Derma Plus product, its CBD Herbal Repair Cream in January 2018. Specifically developed to provide relief of mild forms of psoriasis, the Herbal Repair Cream utilises proprietary cannabidiol (CBD) compounds, and has shown in independent clinical testing to be effective in reducing skin irritation and treat skin itchiness, flaking and severe dryness. The Herbal Repair Cream is now available for sale on MGC Derma's website <https://mgcderma.com.au/cbd-herbal-repair-cream> and existing eCommerce platforms throughout the European Union, North America and Asian markets, where legally approved for sale.

Two additional MGC Derma Products, the Herbal Balm and Herbal Replenish Cream have been specifically developed to provide relief from acne and dermatitis conditions and are on track for a 1Q 2018 launch.

Corporate and Financial Update

As at 31 December 2017, the Company had cash of \$8.3 million, and remains well-funded ahead of receiving GMP certification, producing its first batch of CannEpi™ and developing new markets with strategic distribution partners for its MGC Derma and Derma Plus product ranges.

The Company notes that on 23 January 2018 the following options lapsed unexercised:

- 1,000,000 unlisted options exercisable at \$0.30 each
- 500,000 unlisted options exercisable at \$0.35 each
- 500,000 unlisted options exercisable at \$0.40 each

H1 2018 Outlook

The progress delivered by MXC during the 31 December 2017 quarter positions the Company for strong revenue growth in the coming months, as it delivers on recently signed agreements across its Pharma and Derma divisions.

Importantly, the progress made with the Company's Pharma division includes the establishment of a clear pathway for the production and Australian launch of the MXC's first medicinal cannabis product, CannEpi™.

Following the Australian Federal Government's recent confirmation of its intention to legalise medicinal cannabis exports from Australia, the Company has strengthened its plans for its future Australian based operations. MXC intends on selling Australian manufactured medical cannabis products, including CannEpi™ into global markets in the future, with the establishment of an Australian manufacturing facility has the potential to provide significant costs and logistics benefits when supplying the Asia Pacific market.

MGC Derma remains on track for the launch of two new Derma Plus products in early 2018, with both products providing relief from acne and dermatitis skin conditions.

The Company completed the harvest of its 1,100m² Czech Republic facility, and currently plans to expand operations at the site, aim for doubling its capacity for future harvests to meet increased demand from emerging European markets. Once harvested, the biomass will be processed at the Company's European facility, following the successful harvest of over 4,000kg of biomass from the Company's Slovenian site in October 2017.

Roby Zomer, Co-founder and CEO, MGC Pharmaceuticals commented:

"This has been a strong quarter for us operationally, with some exciting deals signed in our Pharma and Derma divisions and great progress made towards the production and distribution of our first medicinal cannabis offering, CannEpi™. We are well advanced towards achieving GMP certification and remain focused on continuing research and development activities to bring additional medicinal cannabis products to market."

-- Ends --

For further information, please contact:

Media Enquiries

Harrison Polites
Media and Capital Partners
+61 409 623 618
harrison.polites@mcpartners.com.au

MGC Pharmaceuticals Ltd

Brett Mitchell
Executive Chairman
+61 8 9389 2000
info@mgcpharma.com.au

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 DECEMBER 2017

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	69	71
1.2	Payments for		
	(a) research and development	(448)	(860)
	(b) product manufacturing and operating costs		
	i) cost of sales	-	(2)
	ii) operating costs – on behalf of the group	(64)	(384)
	(c) advertising and marketing	(179)	(250)
	(d) leased assets	-	-
	(e) staff costs	(158)	(269)
	(f) administration and corporate costs	(524)	(913)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	32	83
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)	(129)	(185)
1.9	Net cash from / (used in) operating activities	(1,401)	(2,709)

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	(57)	(445)
	(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	(57)	(445)
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	7	170
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	7	170

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	9,769	11,364
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,401)	(2,709)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(57)	(445)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	7	170
4.5	Effect of movement in exchange rates on cash held	3	(59)
4.6	Cash and cash equivalents at end of quarter	8,321	8,321

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	1,240	1,906
5.2	Call deposits	7,081	7,863
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)	8,321	9,769

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	410
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	

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	(360)
9.2 Product manufacturing and operating costs	(247)
9.3 Advertising and marketing	-
9.4 Leased assets	-
9.5 Staff costs	(366)
9.6 Administration and corporate costs	(425)
9.7 Other – Purchase of Separator equipment	(236)
9.8 Total estimated net cash outflows	(1,633)

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 January 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.