

27 September 2018

ASX Code: MXC

Sale of MGC Derma to Strategic Partner Cannaglobal Canada

Includes exclusive 5-year supply agreement to sell MXC's CBD and raw materials

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- Binding Term Sheet signed with Canadian cannabis investment company, Cannaglobal, to acquire 100% of MGC Derma
- MXC to sell 100% of MGC Derma for C\$12.5m in Cannaglobal equity, C\$2.5m loan repayment to MXC and a 5-year CBD and cosmetic materials supply agreement
- To complete the transaction, MXC has acquired the remaining 49% of MGC Derma held by MGC Derma partner Dr. M. Burnstein Ltd for C\$1.25m (Dr. Burnstein's share of MGC Derma's working capital loan (49%)) to deliver 100% of MGC Derma to Cannaglobal, facilitating this strategic transaction
- Cannaglobal founders and major shareholders are leaders in the Canadian business community and cannabis industry, with a track record of building successful retail business operations both in the cannabis and general retail sectors
- Cannaglobal is currently exploring opportunities to publicly list on one of the Canadian stock exchanges, which is now materially advanced
- Cannaglobal will appoint a new MGC Derma CEO, Mr Hugh Winters, an experienced CEO in the global beauty sector with a track record of success
- The Deal includes an exclusive 5-year Supply Agreement for the provision of MXC's CBD, proprietary production IP and cosmetic materials to Cannaglobal
- 5-year Supply Agreement includes an upfront C\$1 million order and payment for the initial supply of CBD and materials order, with funds to be received by MXC within 10 business days
- Cannaglobal transaction allows MXC to become singly focussed on developing its GMP-grade pharmaceutical product pipeline, generate first pharma revenues and construct its large European based seed-to-pharma commercial operations in Malta
- Delivers clear financial strategy and future funding outcome for MXC – allowing management to focus its resources on becoming a leading Bio-Pharma operator in the European medical cannabis industry
- Shareholder approval under ASX Listing Rule 11.4 will be obtained for the disposal to Cannaglobal at the Company's upcoming AGM

MGC Pharmaceuticals Ltd (ASX: MXC or “the Company”) is pleased to announce it has signed a Binding Term Sheet to sell 100% of MGC Derma to Canadian private cannabis investment company, CG Partners Ltd trading as Cannaglobal (“Cannaglobal”) as part of a strategic partnership, for C\$12.5m in Cannaglobal equity, a C\$2.5m loan repayment to MXC and a 5-year CBD and cosmetic materials supply agreement.

This is a transformational commercial transaction for the Company, which has built the MGC Derma CBD cosmetics products and brand to be a leader in the rapidly emerging cannabis cosmetics industry within a couple of years. This transaction with strategic partner Cannaglobal will allow the MGC Derma business to be developed through its next phase of mass market distribution, led by an experienced team of retail and cannabis industry experts. MXC will retain a material equity holding in Cannaglobal, providing exposure to MGC Derma’s future success and the success of the Cannaglobal group of businesses in the cannabis sector. On completion, MXC will have no further funding obligations to finance the commercialisation roll out of the MGC Derma business.

Importantly, post completion this transaction will enable MXC to focus on its core business, to become one of the leading Bio-Pharma operators in the European medicinal cannabis industry. This will allow the Company to focus its resources to fast track the development of its pharmaceutical product pipeline and build out its large commercial seed-to-pharma operation in Europe. This material equity holding in Cannaglobal, provides a platform for the Company to access significant future working capital and funding and includes the option to convert the \$2.5m working capital loan into additional Cannaglobal equity.

To facilitate the transaction with Cannaglobal, MXC has initially acquired the remaining 49% of MGC Derma from its current partner Dr. M. Burstein Ltd for its share of the working capital loan owed to MXC, being C\$1.25 million (49% of the total loan to date of C\$2.5 million funded in full by MXC to MGC Derma) (collectively with Cannaglobal, the Deal). The Deal also includes an exclusive 5-year supply agreement for the provision of MXC’s CBD, proprietary production intellectual property (IP) and cosmetics materials to Cannaglobal for the production of MGC Derma products (Supply Agreement).

About Cannaglobal

Cannaglobal is a diversified, growth focussed, cannabis investment company with a global portfolio of cannabis assets in markets worldwide. Structured around four strategic cornerstones – consolidation, connection, culture and creation – its mandate is to explore and capitalise on exceptional cannabis opportunities in international markets that are disruptive. Cannaglobal’s management believes the future of cannabis lies in creating outstanding brands in these overlooked markets ahead of others.

MGC Derma is Cannaglobal’s cornerstone investment in its portfolio of brands, providing strong validation of the unique MGC Derma product offering and the huge potential to grow MGC Derma’s sales via Cannaglobal’s global retail footprint, and existing distribution networks.

Cannaglobal is a Canadian private company, founded by a group of Canadian business leaders who have a successful track record in the Canadian cannabis sector and developing successful retail businesses in the cannabis, retail and beauty sectors in North America. The Cannaglobal Board and major shareholders are currently exploring opportunities to publicly list on one of the Canadian stock exchanges, which is now materially advanced and may occur at some point in the near future.

To lead MGC Derma, Hugh Winters will join as its CEO and will be focussed on driving strong global growth of MGC Derma's products. Hugh has over 40 years of business experience, all in the last 40 years in professional management, as CEO of large private and public companies or entrepreneur owner. While his entire career has been in the beauty sector, in Canada and internationally, he has been active in medical services, real estate development, supplements and a number of other fields through operational roles, directorships and consulting, plus active in various charities and business groups.

The primary focus of Hugh's experience in the beauty sector has been with prestige brand names such as Oscar de la Renta, Valentino, Giorgio Beverly Hills, Swiss Army, Hugo Boss, Lacoste, Iman cosmetics, T3 Micro and Glam Glow. Currently, Hugh is President of Azure Beauty Inc. a distributor for L'Oreal, President of Beauty.ca Inc, a consultancy firm and President of Rosecrest Capital, an investment company.

Nativ Segev, MXC Founder and Director, will remain a Non-Executive Director in MGC Derma for operational oversight and brand development of MGC Derma. No other Director or Executive from MGC Pharmaceuticals Ltd will be joining the Cannaglobal Board or Management team as part of this transaction.

Milestone Transaction for MGC Pharmaceuticals – Core Focus Remains on EU Pharma Operations

This transaction will enable MXC to focus on its core business, in becoming one of the leading Bio-Pharma operators in the European medicinal cannabis industry. This will allow the Company to focus its resources on the development of its pharmaceutical product pipeline and build out of its large commercial seed-to-pharma operation in Europe.

The transaction provides MXC with the opportunity to combine MGC Derma's existing operations, brand and products with Cannaglobal – a large, globally-networked business, providing branding and marketing firepower, global retail distribution and a clear path to accelerated global sales. On completion of the Deal, the Cannaglobal team will run the MGC Derma operations, with the executive and management team based out of Canada.

Importantly, the Company will retain exclusive rights to supply MXC's own CBD, production IP and the cosmetics materials for the production of MGC Derma's product range for a minimum of five years and will benefit from future MGC Derma sales growth expected to be generated by Cannaglobal.

Details of the transaction

To facilitate this transaction, MXC has acquired the 49% of MGC Derma from Dr. M. Burnstein, to take its ownership of MGC Derma to 100%, to facilitate this strategic 100% acquisition of MGC Derma by Cannaglobal. Consideration paid by MXC to Dr. Burnstein for this 49% of MGC Derma is the forgiveness of Burstein's share of the working capital loan owed to MXC, of C\$1.2 million (49% of the total loan to date of C\$2.5 million funded in full by MXC to MGC Derma, and invested into the development of MGC Derma's formulas, distribution channels, stock and brand), an exclusion from any future funding obligations, and a new exclusivity agreement to provide future cosmetics raw material and new cosmetic product development to MGC Pharma for CBD and Cannabis based cosmetics products, for all future MGC Derma production orders. The agreement to acquire the MGC Derma shareholding from Dr. Burnstein in itself will not have any impact on the Company's revenue, as the purpose of the purchase was to facilitate the sale of MGC Derma to Cannaglobal.

Following this, and separately under the Binding Term Sheet between MXC and Cannaglobal, Cannaglobal will acquire 100% of MGC Derma from MXC for consideration of C\$12.5 million in ordinary and performance shares in Cannaglobal. Of the C\$12.5 million, C\$9 million will be paid upfront in ordinary shares at settlement, with a remaining C\$3.5 million of shares to be paid upon the achievement of certain revenue performance milestones¹ by the MGC Derma business. In addition, the existing C\$2.5m working capital loan owed to MXC by MGC Derma will remain in place under the existing loan agreement with MGC Derma, and either repaid in cash to MXC under the terms of the agreement, or MXC may elect to convert it into Cannaglobal ordinary shares on successful completion of a future capital raising by Cannaglobal.

Completion of the sale is subject to (i) the board of directors of Cannaglobal approving the sale (already received); (ii) there being no material adverse change in the business, results of operations, prospects, condition (financial or otherwise) or assets of MGC Derma; (iii) the Company obtaining shareholder approval for the purpose of ASX Listing Rule 11.4; and (iv) there being no material adverse change in the business, results of operations, prospects, condition (financial or otherwise) or assets of the Cannaglobal.

The Deal also includes an exclusive 5-year Supply Agreement between MGC Pharma to Cannaglobal for the provision of MXC's CBD, proprietary production IP and cosmetics materials required to manufacture the MGC Derma range of products. In a significant milestone for MXC, the Supply Agreement includes an upfront order and payment of C\$1 million for the purchase of raw materials from MXC for the manufacture of MGC Derma products, of which will be paid to MXC within the next ten working days.

¹ A one-time earn-out payment of C\$1.5 million worth of shares of Cannaglobal to be paid in the event MGC Derma achieves C\$0.5 million aggregate gross revenue within a 3-year period. A one-time earn-out payment of C\$2 million worth of shares of Cannaglobal to be paid in the event MGC achieves C\$1 million aggregate gross revenue based on receivable funds within a 3-year period.

Both the Company and Cannaglobal have completed detailed corporate, operational and financial due diligence on each counterparty over recent months. The Company has completed specific legal and commercial analysis on the main shareholders and directors of Cannaglobal, their business plan, corporate bona fides, retail operational expertise and all other relevant due diligence investigations for such a transaction.

With due diligence now completed by both MXC and Cannaglobal, the Company expects it will move quickly to sign the formal Definitive Agreement with Cannaglobal, which is substantially advanced and near final form.

In accordance with ASX Listing Rule 11.4, the ASX has deemed this Transaction as a sale of a major asset of the Company, and a transaction for which shareholder approval must be obtained. Therefore the Company will seek shareholder approval for the Transaction at the Company’s upcoming Annual General Meeting to be held in early November 2018.

Proposed Timetable

Shareholder approval AGM - early November 2018

Settlement of Sale Mid-November 2018

Roby Zomer, Co-founder and Managing Director, MGC Pharmaceuticals commented

“This is an exciting deal for MXC which provides a huge opportunity to quickly ramp-up sales of MGC Derma’s products and the chance for it to become a globally-recognised brand. To be specifically sought out by Cannaglobal based on the power of the MGC Derma brand and product range is a true honour and provides strong commercial validation of what we have been able to build in the Derma side of the business.”

“Strategically, MXC will continue to benefit from the on-going success of MGC Derma, as the exclusive supplier of CBD and cosmetics materials required to manufacture Derma’s products.”

“Importantly, the transaction will allow the management team to focus MXC’s resources on the pharmaceutical side of our business, as we continue to build out our seed-to-pharma operations and conduct research and development to develop additional cannabis-based medications in the future.”

Hugh Winters, Cannaglobal Executive and nominee CEO, MGC Derma commented:

“This acquisition of MGC Derma, by Cannaglobal augurs great things to come. In under three years, MGC Derma has established itself as a leading global cannabis cosmetics brand. We look forward to capitalizing on the prestigious launch at Harvey Nichols in the UK, which has greatly enhanced awareness of MGC Derma’s unique proposition – the combination of the highest quality cosmetic ingredients with MGC’s proprietary Aquiol™ CBD technology. Due to industry and press interest the company is now fielding inquiries from around the world. We are looking to rapidly expand the beauty division of Cannaglobal under the umbrella of "Cannabeauty", through growth of MGC Derma and other cannabis related cosmetic brand acquisitions.”

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For further information, please contact:

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About MXC

MGC Pharmaceuticals Ltd (ASX: MXC) is an EU based 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 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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