

31 October 2017

ASX Code: MXC

September Quarterly Activity Report

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- Highly productive quarter, which laid the foundations for key and transformational revenue generating contracts
 - **MGC Derma division:** transformational Varm Cosmo terms and conditions agreement signed, valued at \$40 million annually to the MGC Derma joint venture
 - New *DermaPlus* products to launch in 2018 to relieve patients with symptoms of psoriasis, eczema and ache skin ailments
 - **MGC Botanic division:** High CBD Hemp planting and harvest cycle progressed steadily, first cycle of Panax has been harvested with over of 400kg high CBD and THC flowers
 - **MGC Pharma division:** binding umbrella agreement with leading Australian research university, RMIT and commencement of research
 - New 5-year Supply and Distribution Agreement signed with European pharmaceutical distribution company, Lenis
- Revenues from Varm Cosmo and Lenis are expected to become material in 2018
- MGC Derma products to be sold under a new premium Varm Cosmo brand, into the very large global cosmetics industry which was worth US\$460 billion in 2014 and is estimated to reach US\$675 billion by 2020 growing at a rate of 6.4%¹
- MGC Pharmaceuticals has loan funded MGC Derma to date approximately \$3m, to be repaid by as priority from first revenues, materially increasing MXC's cash at bank by ~\$3m during Q4 2017/Q1 2018
- ~\$9.8m cash at bank, making the Company well-funded to continue its research and development efforts and execute its revenue generating contracts

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

Operational Update

During the quarter, MGC Pharmaceuticals has made strong progress across each of its three divisions: MGC Derma, MGC Botanic and MGC Pharma.

Building on these operational foundations, the Company was very pleased that its MGC Derma division signed a transformational binding terms and conditions agreement with Varm Cosmo which is valued at \$40m per annum to the joint venture. Furthermore, the Pharma division's new European supply and distribution contract with Lenis, has meant that two divisions will be generating revenues which the Company expects to become material in 2018.

¹ Source: [Research and Markets](#)

MGC DERMA DIVISION (MXC 51%)

The MGC Derma division signed a binding Terms and Conditions Supply Agreement on 20 October 2017 to supply bulk cosmetics products with a value of approximately \$40,000,000 per annum with Varm Cosmo Inc. (Varm Cosmo), an emerging Korean health care and beauty cosmetics company. Subsequently, the Company signed a Binding Sales Agreement for a minimum contracted volume of \$8,000,000 of product per annum, for the supply of five of its cannabidiol (CBD) cosmetic products in bulk form on 30 October.



Photo: MGC Derma product

These transformational agreements have set the Company on a new course. Two additional binding sales agreements are currently being finalised for separate Varm Cosmo markets and are expected to deliver the full \$40,000,000 per annum Terms and Conditions Supply Agreement signed on 20 October 2017 to the MGC Derma joint venture, which is 51% owned by MGC Pharmaceuticals.

As reported on 30 October, MGC Derma expects Varm Cosmo’s first purchase order and the initial deposit payment of \$1m under the \$8m binding agreement to be received during November.

The management team has worked hard over the course of the year to establish the MGC Derma cosmetics brand in Europe. MGC Derma products can now be purchased by consumers via the Company’s online shop, on the shelves at retailers in Europe and other countries

globally where the products are legal for purchase. With the impending recreational cannabis legislation due to be passed federally in Canada in July 2018, a new massive first world market will become immediately open to the MGC Derma cosmetics business.

Building on the established product range of anti-aging and skincare products, MGC Derma is working towards launching a new line of products focused on deep skin relief. These products will be branded *DermaPlus* and are dermatologically tested products, which have been clinically tested and proven to have a positive effect relieving the symptoms of patients (volunteers) with psoriasis, eczema and acne skin ailments. The new range is expected to be launched in 4 weeks and will be available via MGC Derma’s online shop.

MXC BOTANICS DIVISION (MXC 100%)

The Botanic division’s operations in the Czech Republic and Slovenia have reported steady progress throughout the quarter, moving through planting and harvest cycles for each crop of medicinal cannabis plants.

In the Czech Republic, MGC Pharmaceuticals’ Panax team transferred over 450 medicinal cannabis plants into the Company’s larger 1,100m² glass house facility in June 2017. These plants entered the flowering phase in early October and the Company has now completed the successful harvest of the crop, which has delivered a stronger than expected yield of over 400kgs of flowers.



Photo: Harvesting of flowers in the Czech Republic

In partnership with the government’s Institute of Experimental Botany, the cultivation cycle of this crop is now in the process of being analysed to further optimise the Company’s growing protocols and maximize the yield of the medicinal cannabis strains.

Under the Botanic division’s partnership with the University of Ljubljana in Slovenia, medicinal cannabis seeds were planted in June 2017 for the collaboration’s genetic research program. These plants have now progressed to the flowering phase. Utilising the flowers from these plants, the research team have commenced the first phase of its project which focuses on the implementation and optimisation of molecular markers for sex determination and distinction between strains, as well as developing protocols for both objectives. The research aims to create genetic strains with high levels of CBD and new strains with high tetrahydrocannabinol (THC) levels for the treatment of specific disease symptoms.



Photos: Harvested plants being prepared for the Company’s research project with the University of Ljubljana in Slovenia.

Following the close of the period, the Company completed harvesting of its cannabis crops at its open field farm in Slovenia. This harvest yielded encouraging production volumes of 4,000 kg of biomass in early October 2017. Once dried and prepared, the biomass will be processed at MGC Pharmaceuticals European clean room and CO₂ extraction facility where it will be turned into food grade cannabis for the Company’s nutrient and cosmetics products, with the remaining product being sold in the European market as Aquiol.

MGC PHARMA DIVISION (MXC 100%)

Very strong progress was made during the quarter by the Company in Australia when it signed a binding umbrella agreement with leading Australian research university, Royal Melbourne Institute of Technology (RMIT), to collaborate exclusively on medicinal cannabis research initiatives. This agreement follows the binding MOU that the Company entered with RMIT in the previous quarter.

The collaboration brings together RMIT’s state-of-the-art facilities with MGC Pharmaceuticals’ medicinal cannabis intellectual property and results from its leading global research programs. It encompasses two key projects: the first aims to establish a world first library of cannabis medicine where details on medical cannabis clinical research, cannabinoids sequences and their treatments can be found; the second project will investigate the positive effects of medicinal cannabis derived formulations on several types of cancer and cancer side effects, commencing with a focus on pre-clinical trials melanoma cancer. In September, the Company submitted its application to Australia’s controlled drugs regulator, the Office of Drug Control (ODC) for its medicinal cannabis cultivation and research license for its research collaboration initiatives with RMIT.

Following the completion of construction and testing of the Company’s cutting-edge cleanroom at its European Extraction facility, MGC Pharmaceuticals is pursuing Good Manufacturing Practice (GMP) certification for the facility to be able to produce API materials. Additionally, its clinical research program is poised for commencement. Upon receipt of regulatory approval, the Company will start its Phase 2 Clinical study for Epilepsy in Europe.

Also after the close of the quarter, the Company signed a 5-year, Supply and Distribution Agreement with European pharmaceutical distribution company, Lenis farmaceutika d.o.o. (Lenis). Under the agreement, MGC Pharmaceuticals will supply four of its cannabinoids rich medicinal cannabis flower products (MGC MX201, MGC MX21, MGC MX11 and MGC MX120) to Lenis for wholesale distribution into territories throughout Central and Eastern Europe.

The flower products will be available in pharmacies to provide to patients for the treatment or relief of symptoms for a variety of medical conditions, including nausea and pain, furthermore, Lenis committed for the distribution of MGC Epilepsy medicine CannEpil (see image), which will be used in the Phase 2 clinical studies and will proceed to be registered in the EU and Australia for the treatment of Refractory Epilepsy cases. This a landmark milestone for MGC to be recognized as a BioPharma Company.

MGC Pharma Aquiol (food grade pure CBD) production will increase in the coming year due to the Varm Cosmo deal, which will need to provide MGC Derma with starting quantities of 30kg per annum based on the \$8m binding agreement, and this quantity will be increased to fulfill the \$40m deal once the additional two binding agreements are signed. Current prices of wholesale Aquiol is \$30,000/kg.

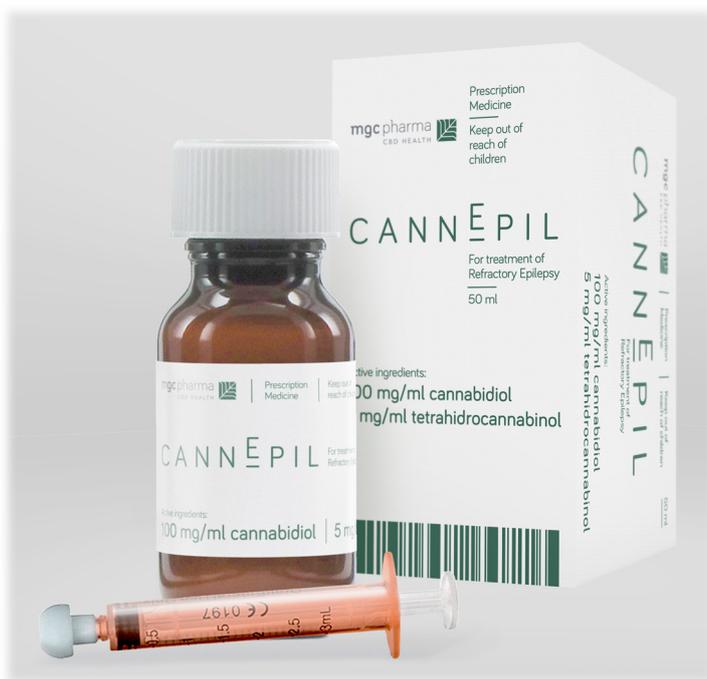


Image: CannEpil – MGC Epilepsy Medicine

During the last quarter following the establishment of MGC Laboratories and R&D Center in Europe, the Company has started to provide R&D service platforms for the medical cannabis industry, the R&D platform will provide development of Food Supplement products alongside applications and devices for the use of Medical Cannabis extracts. The platform will eventually provide new buyers for MGC products once development is completed.

Corporate and Financial Update

The Company has ~\$9.8m cash in the bank, as at 30 September 2017, making it well-funded to continue its research and development efforts and deliver on the revenue generating contracts it has recently signed with Varm Cosmo and Lenis.

Importantly, the Company has nil debt, and following the MGC Derma announcement regarding the binding sales contract with Varm Cosmo, MGC Pharmaceuticals will be repaid approximately \$3m of loan funded to MGC Derma to date which is to be repaid by as priority from first revenues materially increasing MXC's cash at bank by ~\$3m.

H2 2017 Outlook

The steady progress achieved by all three of MGC Pharmaceuticals' divisions during the quarter has set the Company up to deliver strongly on the revenue generating contracts that have been announced post period.

The Company's new partnership with Korean health care and beauty cosmetics company, Varm Cosmo is moving forward rapidly. This deal has the potential to transform the Company, making it the first Australian listed medicinal cannabis company to generate significant revenues.

Building on the cultivation cycle analysis from the crop in the Czech Republic, the Panax team is now commencing preparations for the next round of crop cultivation which will include the implementation of good agricultural and collection practices (GACP) standards.

MGC Derma is preparing to launch its new line of products called *DermaPlus*, which focus on deep skin relief for symptoms of psoriasis, eczema and acne skin ailments in the coming 4 weeks. This new product line is expected to enhance revenues from the Company's online shop.

The RMIT collaboration is moving forward with the backend of the Library platform being completed and is currently being tested. The next steps include the interface and commencement of the collection of global data. The Company's medicinal cannabis cultivation and research license application submitted to Australia's controlled drugs regulator, the Office of Drug Control (ODC) is progressing.

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

"The quarter was very active for MGC Pharmaceuticals, with the most significant progress coming from our Pharma division which signed our Umbrella Agreement with RMIT. Pivotal work was also completed by the Pharma and Derma divisions, which lay the foundations for our Lenis and Varm Cosmo sales agreements, respectively and we are delighted to report that revenue will be generated from these contracts."

-- Ends --

For further information, please contact:

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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")

30 SEPTEMBER 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2	2
1.2 Payments for		
(a) research and development	(404)	(404)
(b) product manufacturing and operating costs		
i) cost of sales	(2)	(2)
ii) operating costs – on behalf of the group	(325)	(325)
(c) advertising and marketing	(71)	(71)
(d) leased assets	-	-
(e) staff costs	(111)	(111)
(f) administration and corporate costs	(393)	(393)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	51	51
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)	(56)	(56)
1.9 Net cash from / (used in) operating activities	(1,309)	(1,309)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(388)	(388)
	(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	(388)	(388)
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	163	163
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	163	163

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	11,364	11,364
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,309)	(1,309)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(388)	(388)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	163	163
4.5	Effect of movement in exchange rates on cash held	(61)	(61)
4.6	Cash and cash equivalents at end of quarter	9,769	9,769

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	1,906	2,324
5.2	Call deposits	7,863	9,040
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)	9,769	11,364

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

Current quarter \$A'000
282
-

- 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	(210)
9.2 Product manufacturing and operating costs	(376)
9.3 Advertising and marketing	-
9.4 Leased assets	-
9.5 Staff costs	(109)
9.6 Administration and corporate costs	(229)
9.7 Other	-
9.8 Total estimated net cash outflows	(924)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	Erin Minerals Resources Pty Ltd Group
10.2 Place of incorporation or registration	-	Australia
10.3 Consideration for acquisition or disposal	-	Nil cash
10.4 Total net assets	-	-
10.5 Nature of business	-	Mining exploration

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 October 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.