26 October 2018

ASX Code: MXC

September 2018 Quarterly Activity Report

ASX RELEASE

- Key milestones achieved towards MXC achieving its goal as a leading medicinal cannabis Bio-Pharma company
- GMP Certification and Manufacturing Licence awarded to MXC's manufacturing facility in Europe – only one of six such facilities globally for GMP grade medicinal cannabis compounding
- Australian Neurology and Epilepsy Expert Assoc. Professor Wendyl D'Souza joins MXC Medical Advisory Board
- Agreement with leading Maltese healthcare distributor secured, providing access to Malta, the UK, Europe and MENA region for its GMP medical cannabis pharmaceutical grade products
- Ethics Committee approval granted for Phase II clinical trial of CogniCann™, MXC's medical cannabis medication for Dementia and Alzheimer patients
- Agreement with Harvey Nichols UK to supply and sell MGC Derma products expanded to 3 stores in August
- Strategic sale of MCG Derma to CannaGlobal led by Lorne Gertner, allows MXC to focus on pharma offering whilst continuing to financially benefit from MGC Derma's success
- First instalment of initial $1m supply order received under exclusive 5-year supply agreement with CannaGlobal for CBD cosmetic materials

MGC Pharmaceuticals Ltd (ASX: MXC or "the Company") has today published its Appendix 4C for the three-months ended 30 September 2018 and provides an overview of its operational highlights for the period.

Operational Update

The Company achieved a number of significant milestones during the quarter on its path towards becoming a world-leading pure Bio-Pharma company and demonstrating its full seed-to-pharma capabilities.

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GMP Certification and Manufacturing Licence awarded to MXC's manufacturing facility in Europe

In a major Company milestone, during July, MXC's European medicinal cannabis compounding and manufacturing facility received full GMP-certification and has been awarded a manufacturing licence for the production and manufacturing of pharmaceutical grade medical cannabis products containing THC and CBD APIs. The facility is one of the most advanced in Europe and complies with strict European production quality standards.

The certification allows full-scale manufacturing of CannEpil™ to commence, for final and independent validation, before export to markets including Australasia and Europe. The development and manufacturing of additional GMP-grade medical cannabis products targeting a range of conditions, for ongoing research and for clinical studies will also be manufactured at the facility.

This is a significant step in the Company's seed-to-pharma strategy to become a leading Bio-Pharma company providing medical cannabis medication to a global market.

Australian Neurology and Epilepsy Expert Professor Wendyl D'Souza joins MXC Medical Advisory Board

Assoc. Professor Wendyl D'Souza joined MXC's Medical Advisory board to lead research and development into medical cannabis treatment for Epilepsy and other neurological disorders. A renowned Consultant Neurologist and Epileptologist, Wendyl brings over 15 years of clinical experience and research into new and emerging treatments for common neurological disorders. He is an Associate Professor in Neuroepidemiology and Health Services Research in the Department of Medicine at The University of Melbourne and at St Vincent's Hospital, where he is also Head of Epilepsy Services.

Assoc. Professor D'Souza treats over 3,000 patients with drug-resistant epilepsy. Assoc. Professor D'Souza's deep expertise will be instrumental in guiding the MXC team – which is actively working to develop new and innovative cannabis-based medicines to treat a range of neurological and physical disorders – with research and development.

Major distribution agreement signed for GMP pharma products in Malta

In September, MXC signed a major distribution agreement with Maltese-based A.M. Mangion Ltd, one of the leading pharmaceutical products distributors for the European healthcare sector. Under the three-year agreement, MXC's medical cannabis IMP, EU GMP certified products, will be distributed to key markets in Europe, the Middle East and North Africa (MENA region) and the UK. The partnership with A.M. Mangion will play a key role in MXC establishing its Maltese operations and provide immediate access to an established distribution network in Malta and internationally, fast-tracking the delivery of MXC's medical cannabis IMP, EU GMP certified products into the markets and to customers in the aforementioned regions.

Construction of EU GMP Maltese cultivation and production facility to commence

During the quarter, MXC made material progress in country towards commencing construction of its EU GMP facility in Malta, since it signed the first binding letter of intent issued by Malta Enterprise in April 2018. Formal contracts with the Maltese Government authorities are expected to be signed in the coming months following recent Maltese agency board approvals, to allow construction to commence on the land granted by Malta Industrial Corporation under a long-term lease agreement. The Company expects it will be able to leverage key expertise developed over the 18-month process it underwent to achieve EU GMP certification for its Slovenian medical cannabis manufacturing and production facility, providing a strong competitive advantage in its establishment of its Maltese facility. Once operational, the Maltese facility will allow MXC to cultivate all THC and CBD medical cannabis strains to become the hub of the Company's seed-to-pharma operations focussed on serving key markets in Europe, the UK and internationally.

Ethics committee approval granted for Phase II clinical trial into Dementia with Notre Dame University

MXC received Human Research Ethics Committee approval to conduct a Phase II clinical trial into the benefits of MXC's medical cannabis medicine, CogniCann™ for Dementia and Alzheimer's patients. The trial will take place in partnership with the Institute for Health Research at the University of Notre Dame (UNDA) and was designed by MXC's expert Medical Advisory Board, led by Professor Uri Kramer, and the research team of UNDA. Formulated with a specific THC:CBD ratio to treat key Dementia symptoms and to improve special cognitive functions, the GMP-certified CogniCann™ formulation will be tested on 50 participants aged 65 years and older, in a 16-week trial commencing in early 2019. MXC will own all IP and trial results, with the researchers acquiring a worldwide, non-exclusive, royalty free licence to use the project's IP for non-commercial research purposes and in publications.

The trial marks another landmark in the Company's pharmaceutical product development pipeline, under its seed-to-pharma business model with the advancement of another medical cannabis medication developed by MXC.

Strategic sale of MGC Derma to CannaGlobal

At the end of the quarter, the Company entered into a strategic transaction to sell 100% of MGC Derma to private Canadian investment company CannaGlobal, under a partnership that is expected to result in strong growth in global Derma sales. Under the terms of the transaction, MXC will continue to benefit from the future success of the Derma brand, having secured an exclusive 5-year supply agreement with CannaGlobal to provide CBD and cosmetic materials used in the production of Derma products and an equity holding in CannaGlobal[1].

The first instalment has been received for the initial $1 million order placed under the supply agreement with the formal Definitive Agreements for the sale of MGC Derma, together with the balance of the $1m initial order under the supply agreement expected by the end of October.

[1] Consideration to MXC for the sale of 100% of MGC Derma to CannaGlobal is C$12.5m in CannaGlobal equity, a C$2.5m loan repayable to MXC in CannaGlobal equity and an exclusive 5-year CBD and cosmetic materials supply agreement.

The strategic transaction places MGC Derma within a diversified, growth-focussed Toronto-based holding company with a global portfolio of cannabis assets, and established by Lorne Gertner, Canadian billionaire and one of the pioneers of Canada's medical cannabis industry. Led by newly appointed CEO, Hugh Winters, an experienced global beauty sector expert, the Company expects MGC Derma will experience strong growth and commercial success, with the sale allowing the Company to focus its resources on its pharmaceutical offering.

Harvey Nichols UK Supply Agreement Signed With Additional Stores Added

Harvey Nichols' extended its distribution agreement with MGC Derma in August, to stock the MGC Derma and Derma Plus product ranges in the Birmingham and Edinburgh stores following the early success of the range in Knightsbridge. The increased retail footprint, combined with support of a targeted marketing and PR campaign is expected to drive additional growth and contribute to growing brand exposure.

The initial distribution agreement announced in June launched 18 of MGC Derma's products in Harvey Nichols' Knightsbridge store for sale on the ground floor of the Beyond Beauty Department and online.

Financial Update

As at 30 September 2018, MXC had cash of c. $8.5 million, leaving the Company well-funded to continue building out its seed-to-pharma operations, commence construction of its Maltese medical cannabis production and cultivation facility as soon as practicable once all formal agreements are signed in 2018.

Outlook

The Company made strong progress across multiple fronts during the quarter and to the date of this report, validating its seed-to-pharma strategy and signalling the start of commercialisation for CannEpil™ in Australia, confirmed with recent authorisation granted by TGA to specialist prescribers who are now authorised to prescribe CannEpil™ to eligible patients in Australia.

Importantly, the strategic sale of MGC Derma to CannaGlobal allows the management team's focus to shift squarely on continuing to build out MXC's pharma operations, including progressing research with RMIT and the University of Ljubljana, developing new medical cannabis medications to add to the Company's pharmaceutical pipeline, commencing construction of the Company's facility in Malta.

-Ends-

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About MXC

MGC Pharmaceuticals Ltd (ASX: MXC) is an EU based Bio-Pharma 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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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	**Quarter ended ("current quarter")**
30 116 800 269	30 SEPTEMBER 2018

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	135	135
1.2	Payments for		
	(a) research and development	(326)	(326)
	(b) product manufacturing and operating costs		
	i) cost of sales	(41)	(41)
	ii) operating costs	(462)	(462)
	(c) advertising and marketing	(88)	(88)
	(d) leased assets	-	-
	(e) staff costs	(131)	(131)
	(f) administration and corporate costs	(404)	(404)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	53	53
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(1,264)**	**(1,264)**

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Appendix 4C
Quarterly report for entities subject to Listing Rule 4.7B

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	(40)	(40)
	(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**	**(40)**	**(40)**

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	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(5)	(5)
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**	**(5)**	**(5)**

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Appendix 4C
Quarterly report for entities subject to Listing Rule 4.7B

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	9,859	9,859
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,264)	(1,264)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(40)	(40)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(5)	(5)
4.5	Effect of movement in exchange rates on cash held	22	22
4.6	**Cash and cash equivalents at end of quarter**	**8,572**	**8,572**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A'000	Previous quarter $A'000
5.1	Bank balances	1,330	1,067
5.2	Call deposits	7,242	8,792
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)**	**8,572**	**9,859**

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	292
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 *Add notes as necessary for an understanding of the position*	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	(237)
9.2	Product manufacturing and operating costs	(181)
9.3	Advertising and marketing	(16)
9.4	Leased assets	(32)
9.5	Staff costs	(300)
9.6	Administration and corporate costs	(276)
9.7	Other	-
9.8	**Total estimated net cash outflows**	**(1,042)**

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: ..... Date: 26 October 2018
(Group Financial Controller)

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.