

# MGC Pharmaceuticals Limited

## Pharmaceuticals

### BUY

**MXC A\$0.055****TARGET PRICE A\$0.13**

MGC Pharmaceuticals Ltd (MXC) is a European based specialist medical cannabis biopharma company with many years of technical, clinical and commercial experience in the medical cannabis industry. MXC'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.

### Company Data

Number of shares	1,212.8M
Market Capitalisation	\$60.6M
Free float (%)	77.74
12-month high/low	\$0.12/\$0.038
Average Daily Turnover (\$m)	0.0799
% S&P/ASX200	0.0
DDM Ranking	N/A
% All Ordinaries	0.003
GICS Industry Group	Non-Energy

Source: FactSet, EverBlu Capital

### Earnings Summary (AUD)

Year end June	2018A	2019F	2020F	2021F	2022F
Revenue (\$M)	0.3	10.2	17.3	20.3	23.4
EBITDA (\$M)	-8.5	2.3	8.0	10.4	12.9
Adjusted NPAT (\$M)	-8.9	2.0	7.2	9.6	10.0
Reported EPS (c)	-0.6	0.1	0.5	0.7	0.7
Adjusted EPS (c - FD)	-0.6	0.1	0.5	0.7	0.7
Adjusted EPS growth (%)	0.1	-1.2	2.7	0.3	0.0
Adjusted P/E (x)	-11.4	51.7	14.0	10.6	10.2
Dividend (c/sh)	-	-	0.1	0.5	0.5
Gross yield (%)	-	-	1.4	7.1	9.8
Net yield (%)	-	-	1.4	7.1	6.9
ROIC (%)	N/A	8.6	24.6	28.7	26.3

Source: FactSet, EverBlu Capital

EverBlu Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

### Share price performance



Source: FactSet, EverBlu Capital

## A medical cannabis company focused on developing its GMP-grade pharmaceuticals

### Company Overview

MXC was founded in 2015 following a reverse takeover deal of former gold explorer company Erin Resources Ltd. MXC operates three main divisions to capture the entire medical cannabis value chain from cultivation to distribution.

MXC commenced growing operations of cannabis sativa high yielding CBD seeds in 2016, which were sold to cosmetic and therapeutic product manufacturers, used for research and development of commercial products (MGC Pharma), providing cannabis strains for specific medical ailments (MGC Botanic) and offering pharmaceutical-grade nutrition products (MGC Nutraceuticals).

During a period of sweeping legislative changes in Europe, North America, and Australasia, MXC entered the medical cannabis industry with experienced industry leaders in product development and patient interaction.

Its strategic agreements have allowed access to a multi-billion-dollar market globally, especially in Europe. Furthermore, its vertical integration allows it to quickly upscale as it builds production capacity.

On the 27<sup>th</sup> of September 2018 MXC announced it signed a Binding Term Sheet to sell 100% of MGC Derma, MXC's 51% dermatology subsidiary to Canadian private cannabis investment company, CG Partners Ltd trading as 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 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.

### Capital Position

On April 17<sup>th</sup>, 2018 the Company completed a \$5m share placement at 7.0 cents per share. The \$5m Placement funds raised will be used by the Company to contribute to the construction of the fully licensed medical cannabis production and cultivation facility in Malta, as well as for general working capital.

According to MXC's 1QFY19 4C, MXC's cash position was at \$8.6M. This is down from the \$9.9M reported at the end of FY18. Also, cash outflows for the next quarter are estimated to be \$1.0M.

### Valuation

The majority of distribution contracts including HL Pharma, Mikro+Polo, Lenis and CannaGlobal begin in FY19. Additionally we have assumed that MXC will be expanding their operation within MGC Botanicals by increasing the size of their Malta Greenhouse to 6000sqm by FY22. As a result MXC will not be making a profit until FY20, hence we have used our forecast earnings for FY22 for the purposes of valuing MXC.

We are initiating coverage on MXC with a 12-month price target of A13c/sh and a BUY recommendation.

For FY22 the market PE multiple is 14.9 times earnings. This equates to us suggesting that MXC should trade at a 25% premium to the market multiple in FY21 (14.9 times 125% times 0.7c equals A13c/sh).

The price target is underpinned by our DDM valuation and uses a cost of equity of 9.61%.

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## COMPANY OVERVIEW

MXC was founded in 2015 following a reverse takeover deal of former gold explorer company Erin Resources Limited.



MGC Pharmaceuticals (ASX:MXC) is a medical cannabis company focused on full vertical integration through the medical cannabis value chain, with target sectors in pharmaceuticals (MGC Pharma) and cannabis production (MGC Botanic).

MXC aims to be globally known as an innovator in Phytocannabinoid-based medicine within the biopharmaceutical industry.

MXC's core strategies include:

- Pharmaceutical product research and development; and
- Active Pharmaceutical Ingredient (API) extraction.

MXC is positioned as a medical cannabis company listed on the ASX with a combined Israeli, European and Australian clinical research strategy to take advantage of the rapidly changing regulatory landscape. The executive management team and board experienced in clinical research and successful human trials with medical cannabis supports MXC's contributions to the growing global medical cannabis market.

MXC has 3 sectors:

### MGC Pharma

This division operating in Israel, Slovenia, Czech Republic and Australia, focuses on the medical research and development of MXC's pharmaceutical products pipeline.

These include nutraceuticals, which will be able to provide the additional needs and requirements that our body demands daily to improve the immune system, detoxify and enhance wellness. Additionally, this includes MXC's extracts, at various levels of purity, and with the ability to extract various phytocannabinoids and terpenes to the level of API.

MGC Pharma has created a seamless, highly-supervised supply chain, for developing Phytocannabinoid medications from seed to sale, with global operations providing proprietary Phytocannabinoid formulations to researchers, doctors, and patients worldwide.

The MGC Pharma division focuses on four areas:

- Neurological disorders which include MGC proprietary formulations for epilepsy (CannEpi);
- Oncological care and treatment which includes the entry into clinical and preclinical research with RMIT;
- Autoimmune diseases; and
- Various anti-inflammatory benefits the product has on the body.

These areas of focus allow MXC to provide treatment for various indications, such as Epilepsy, Dementia, Cachexia, Melanoma Cancer, Eczema, Psoriasis and Fibromyalgia.

### MGC Botanic

The Botanic division is focused on the development of new genetics, which concentrates on specific medical indications.

This division is where all of MXC's GMP raw material for clinical studies is created for patient treatment worldwide. It engages with multiple cultivation sites to meet increasing global demand, alongside research into breeding and genetics with leading institutions and academia.

MGC Botanic harvests the product in Slovenia and Czech Republic, and use the raw material at its production facility, as well as provide the product globally.





### MGC Nutraceuticals

MGC Nutraceuticals is a new branch of MXC, still very small in its size. It offers pharmaceutical-grade and standardised nutrition products, including proteins and vitamins, derived from MXC pharmaceutical pipeline.

MGC Nutraceuticals is dedicated to making more premium nutraceutical products, compared to others on the market. All the products are manufactured in MXC's GMP-certified facility in Slovenia.

MGC Nutraceuticals range offers vegan and gluten free nutraceutical products based on high grade phytocannabinoids, proteins and vitamins.

The products are formulated for daily use and claim to contribute to normal immune system function and provide improved protection against stress.

The MGC Nutraceuticals range leverages the Company's existing medicinal cannabis IP, manufacturing capabilities and marketing distribution and has been fully developed with minimal investment.

The range meets EU standards health claims complying with EU legislation. It is offered through an e-commerce platform for the MGC Nutraceuticals, with the range available online.

### Business Model

**MXC's Vision:** To be a global leader in Phytocannabinoid-based medicines within the biopharmaceutical industry.

**MXC's Mission:** To create a global supply chain focused on creating high level products and improving the lives of patients, by developing ground-breaking treatments through innovative research across multiple markets.

MXC's underlying business model is the growing of cannabis sativa crops, harvesting, drying and extracting CBD before selling wholesale to enterprise customers such as cosmetic and therapeutic product manufacturers under a B2B Business Model.

The strategic focus of MXC is primarily on research and development as well as entry into the cosmetics industry. Notable achievements of MXC are the publishing of two Australian Medical Cannabis White Papers and securing cosmetic sales agreements with countries in Europe. It had accomplished retail sales by launching its online store in April 2016 selling CBD Cosmetics.

By focusing its operations on four divisions, MXC is positioned to develop pharmaceutical grade medical cannabis which is supported by strong botanical genetics research and raw material production business.

Figure 1 MXC's Global Operations



Source: MGC Pharma Website

## COMPANY STRATEGY

MXC's business model involves growing cannabis sativa plants from high CBD yielding seeds and extracting CBD resin from the plants grown.

MXC will then both sell the CBD resin as a wholesale product to cosmetic and therapeutic product manufacturers.

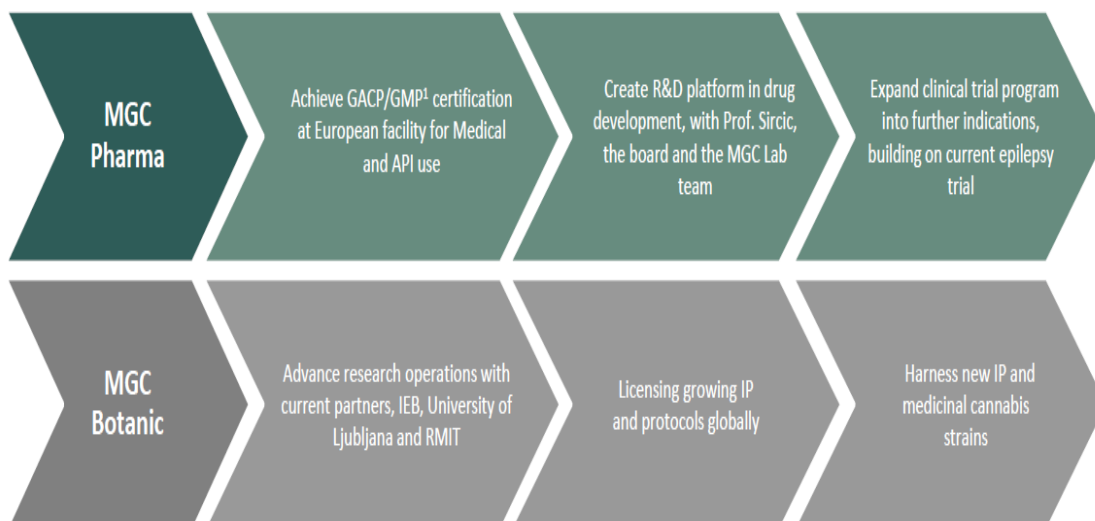
Simply put, MXC will grow a product, harvest it, dry it out, extract it and then provide it to enterprise customers in bulk, individual consumers in delivery devices or other products, and maintain a supply with which to engage in further research and development.

### Business Strategy

MXC's core business strategy is owning the whole Medical Cannabis value chain and Intellectual Property. It seeks to accomplish this through developments in its vertically integrated process:

1. **Genetics and Breeding**  
MXC develops proprietary medical cannabis genetic strains with the Institution of Experimental Botany of Academy of Sciences in Czech Republic and at MGC Pharma facilities.
2. **Cultivation**  
MXC harvests and processes cannabis strains at its Slovenian growing operations, the IEB in Czech Republic and plans to have cultivation procedures implemented in Australia.
3. **API Grade CBD Extraction**  
MXC has European API Cannabinoids production facilities for MXC registered medicines, and medical cannabis products and all 3<sup>rd</sup> party products including Natura Limited.
4. **Production and Distribution**  
API cannabinoids extract and registered medical cannabis products from clinical trials have signed production and distribution agreements with affiliates in target markets.
5. **Research and Development**  
MXC has progressed with programs and clinical trials to develop MXC registered medicines and medical cannabis products for the treatment of various medical symptoms with a focus on neurological and oncological.

Figure 2 MXC Growth Strategy



Source: MXC Investor Presentation May 2018

## Strategic Transactions: CannaGlobal

On 27<sup>th</sup> September 2018 MXC announced it signed a Binding Term Sheet to sell 100% of MGC Derma to Canadian private cannabis investment company, CG Partners Ltd trading as 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 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.

**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.

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 Burnstein'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.

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 milestones 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.

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 on the week beginning on 1<sup>st</sup> October 2018

This advanced instalment under the supply agreement is a demonstration of goodwill in the Company's new partnership with CannaGlobal as both parties move towards the finalisation of the Definitive Agreement this week, for the sale of MGC Derma to CannaGlobal. CannaGlobal is also now materially advanced towards a listing on the Canadian Securities Exchange.



## BUSINESS PROCESS

The MXC revenue model is based on producing and selling CBD resin as a wholesale product to the cosmetic, therapeutic and medical product producer. In addition, MXC aims to create a line of vertically integrated CBD products in order to capture a higher margin of its CBD produced than by selling the CBD resin to the wholesale market. The phases of MXC are explained below:

### 1. Sativa High CBD Yielding Seeds

MXC holds seeds with specialised genetics consisting of a strain of cannabis sativa which comprises of very low THC at below 0.3% and a very high CBD content in excess of 10%. Cannabis strains with high yields of CBD are highly sought after in the industry, as they generate higher amounts of CBD from a smaller distribution of cannabis.

MXC will then use the high yielding seeds to grow cannabis sativa L (Hemp) crops.

The MGC Group does not currently have any registered protection of its intellectual property in its sativa high CBD yielding seeds and it is not yet known whether it will be in fact possible to obtain any registered protection of the intellectual property.

### 2. Growing Cannabis Sativa

- Green house facility in Malta (4,000m<sup>2</sup>): Biomass will be processed at Malta GMP facilities for commercial production of MXC medical product for the European and the global market. MXC has been granted 4,000m<sup>2</sup> of land and a licence for the cultivation and manufacturing of Medical Cannabis in Malta for final medication;
- Green house facility in Czech Republic (+1,000m<sup>2</sup>): Biomass will be processed at Malta GMP facilities for commercial production of MXC medical product for the European and the global market, yielding over 400kg of high CBD and THC flowers in its first cycle of harvest;
- Open Field Farm and Collaborative Partnerships in Slovenia (5,000m<sup>2</sup>): Open field Hemp cultivation for cosmetics and medicinal raw materials as well as used for MXC's genetic research program underway to create genetic strains with high levels of CBD and THC for the treatment of specific disease symptoms.

Figure 3. MXC CBD planting operations underway Ljubljana, Slovenia



Source: MXC Investor Presentation May 2018

### 3. Extracting CBD Resin

The extraction process to be used is known as a CO<sub>2</sub> Super Critical Fluid extraction process, which is a well-known and commonly used extraction process in the pharmaceutical and chemical industries- for food, biofuels and agriculture as a few examples. MXC proposes to maintain all of its facilities as certified GMP (Good Manufacturing Practices), GAP (Good Agricultural Practices), and GLP (Good Laboratory Practices), as part of ensuring that only the highest quality product will enter MXC's supply chain and reach the customer.

This method is widely acknowledged as the way to achieve the highest concentration end product. Unlike regular solvent extraction, super-critical solvent extraction can produce a product with no solvent residues.

Other benefits of using this method are its extraction properties can be widely and precisely manipulated with subtle changes in pressure and temperature, carbon dioxide is inexpensive, and it is perfectly adapted in essential oils industries due to its low critical temperature of 31°C.

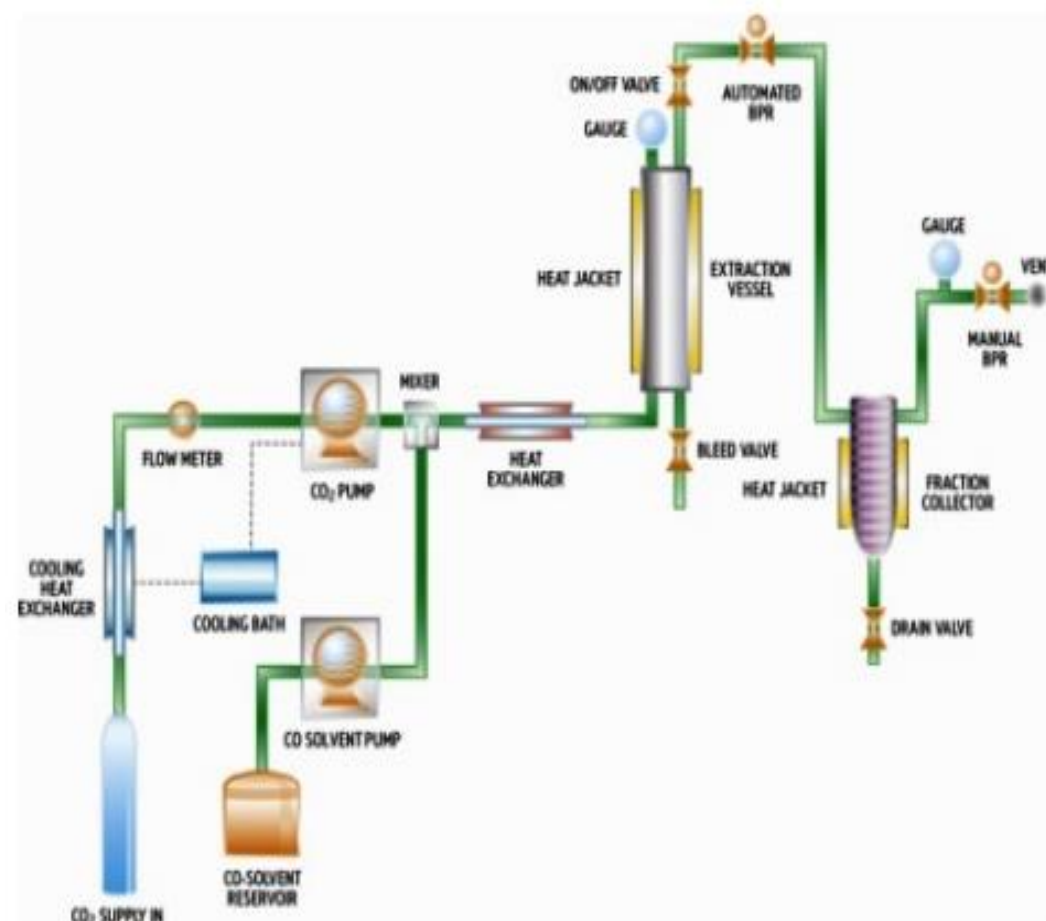
Liquid CO<sub>2</sub> is compressed and heated to a super-critical phase. It is then pumped into an extractor, which freezes and compresses the fluid into a cold liquid state.

The product is passed through the dried cannabis flowers in the separator, removing all the essential trichome oils out of the plant material and into collection receptacles.

After the extraction process is complete, the CO<sub>2</sub> pressure is decreased, allowing it to either return to gaseous phase or stay in liquid phase.

In either form the carbon dioxide is captured and stored to be used again.

Figure 4 Extraction Process



Source: MXC Prospectus

#### 4. Selling and Using CBD Resin

The CBD resin extracted at MXC's facilities will be sold as a wholesale product to cosmetic and therapeutic product manufacturers. MGC business model is focused on the growing of high CBD yielding cannabis sativa crop, with the plants harvested after a 4-month growth cycle and then the whole plant processed through a CO<sub>2</sub> extraction process to separate and capture the high value CBD resin.

CBD resin is used as a base product for a number of medical and cosmetic products globally.



## MXC'S COMPETITIVE ADVANTAGE

Figure 5 Investment Summary

Diversified Business Model	Geographically Scalable	Clear Australian Strategy
<p>Medical Cannabis Pharmaceutical products</p> <p>Research and Development</p> <p>HEMP Nutraceuticals and Supplements</p> <p>CBD Skin Care and Dermatological</p>	<p>Holding three site operational position with Europe as center of R&amp;D and production</p> <p>IP is transferrable globally, with active collaborations with global research institutions to facilitate immediate entry into new markets as they open</p>	<p>Industry leadership position: University of Sydney White Paper, RMIT Medical Cannabis Library, Educational program with EAA</p> <p>Advanced discussions on Australian genetics and breeding operation, and commencement of Clinical Trials</p>
World Class Assets	Substantial Market Opportunity	Strong Leadership
<p>World-class European GMP facility and pharma clean rooms</p> <p>Genetics and breeding research collaboration with the Ljubljana University and Czech Republic's Institute, fully licensed</p>	<p>Medical cannabis market is estimated to be worth +US\$100b by 2020<sup>1</sup></p> <p>Emerging research continues to validate the significant medical application of cannabis</p>	<p>Experienced Board and Executive Management team</p> <p>World leaders in medical cannabis research and clinical trials (Prof Kramer, Prof Neubauer and Dr. Johnny Gruenfeld ), with access to world's best research institutes</p>

Source: MXC Investor Presentation May 2018

### Awarded First Binding Letter of Intent (LOI) in Malta

During FY2018, MXC received a binding letter of intent, granting approval and a contract to establish a medical cannabis cultivation and production facility in Malta on 4000m<sup>2</sup> of land granted by Malta Enterprise Corporation. MXC was the very first to negotiate and sign a binding letter of intent in March 2018 with Malta Enterprise.

Under the terms of this contract, MXC plans to cultivate and produce all THC and CBD strains of pharmaceutical grade cannabis for medicinal purposes in its Maltese facility. This is now the cornerstone of the Company's EU and UK focused "Seed to Pharma" strategy. The facility expands the commercial opportunity for the Company, allowing the development and export of additional medical cannabis pharmaceutical products into key European and global markets, as Malta is part of the EU.

### Distribution Partnership Agreement with Maltese A.M. Mangion

MXC is the first global medical cannabis company to sign a binding LOI with Malta Enterprise and approval to build a medical cannabis cultivation and production facility in Malta. A.M. Mangion Ltd is one of the leading distributors of pharmaceutical products to the European healthcare sector and under the partnership will allow MXC to fast track the distribution of MXC's medical cannabis pharmaceutical products into Malta, parts of Europe, the MENA region and the UK.

### GMP Approval

During the 4<sup>th</sup> quarter of FY2018, MXC received the final GMP certificate and manufacturing licence for its European facility. The certification makes MXC's facility one of the most advanced of its kind in Europe and permits the immediate production of GMP-grade medical cannabis medication. It allows for full-scale manufacturing of CannEpi<sup>TM</sup> to commence and then to be independently validated, ahead of export of first products to the Australian and European markets.

Receipt of the formal manufacturing licence also permits MXC to produce additional medicinal cannabis based pharmaceutical products, for use by MXC in clinical studies, research pipelines and product development. This can be distributed into the global market and target the increasing demand for such products. The construction of GMP cultivation and production facility provides a significant operational advantage for MXC, allowing them to fully-leverage the internal expertise developed over the last 18 months in establishing its first GMP-certified facility in Slovenia, which is the only 1 of 6 currently in the world of this standard.

## PRODUCT PORTFOLIO

MXC's revenue streams are mainly comprised of MGC Botanic's wholesale production and supply of API Cannabinoids raw material to the cosmetics and medical markets in Europe, North America and Australasia, MGC Pharma's formulations arising from research and development in neurological and oncological symptoms, and MGC Derma's wholesale distribution and direct retail consumer sales of cosmetic products at selected outlets, pharmacy chains and online. Recently-added MGC Nutraceuticals range also aims to improve health and general well-being.

### MGC Pharma - CannEpi™ Adult Medical Cannabis Epilepsy Medicine

MGC Pharma has focused on a range of medical symptoms including neurological disorders, oncological care and treatment, and autoimmune diseases. The proprietary formulations for epilepsy have been developed into an adult medical cannabis product for the relief of refractory epilepsy. The product is sold as a 50mL bottle containing 100mg/mL of CBD and cannabinoids which is administered orally.

Retailing at a retail price of under A\$800 with a doctor's prescription, the medication is competitively priced lower than any competing product on the market. HL Pharma will wholesale distribute the CannEpi™ product to hospitals and pharmacies across Australia, ensuring Therapeutic Goods Agency and Office of Drug Control approval.

The Company can immediately commence production under the GMP certification for pharmaceutical grade products. MXC has reached this major milestone from final tests on the first batch of drug-resistant epilepsy medication - CannEpi™, now completed, resulting in receipt of this formal manufacturing licence for its European facility. The awarding of this licence signifies compliance with strict European quality standards for production and manufacturing of pharmaceutical grade products and the handling of cannabis-based medicines

CannEpi™ is now available for supply in Australia under the Authorised Prescriber Scheme. Authorisation has been granted by the TGA to specialist prescribers who are now authorised to supply CannEpi™ to patients in Australia.

Figure 7 MGC Pharma CannEpi™ Epilepsy Medicine



Source: MGC Pharma

**CogniCann™**

CogniCann™ is a GMP certified pharmaceutical grade medical cannabis compounded formulation one of MXC's medical cannabis pharmaceutical products. It has a THC:CBD ratio specifically formulated for the treatment of key Dementia symptoms and improving specific cognitive functions.

MXC announced that it had been granted full Ethics approval to conduct a Phase II clinical trial, scheduled to commence in early 2019.

**MGC Pharma - Dried Flowers**

- MGC MX201 - Rich THC T20/C4. Indicated for: Patients during chemotherapy and up to six months after completion of chemotherapy, Relief from nausea, vomiting, or pain related to treatment; Adult patients diagnosed with Tourette's syndrome who have a disorder;
- MGC MX21 - Rich THC T10/C2. Indicated for: Patients diagnosed with acquired immunodeficiency syndrome (AIDS) and extreme weight loss CAC, for improvement of appetite or relief from gastrointestinal vomiting and symptoms; Patients diagnosed with Parkinson's disease who have been treated for at least one year with anti-Parkinson's therapy, and who suffer from pain, chronic pain or pain caused by rheumatism (which did not respond to conventional pain therapy);
- MGC MX11 - Balanced T10/C10. Indicated for: Patients suffering from neuropathy from a clear organic source; Patients diagnosed with multiple sclerosis; Terminal patients (expected survival 6 months or less); Adult patients diagnosed with Tourette syndrome; and
- MGC MX120 - Rich CBD T1/C20. Indicated for: Minors and adults who suffer from uncontrollable severe epilepsy; Patients with active and proven inflammatory bowel disease; Patients with Crohn's disease, or ulcerative colitis; Adult patients diagnosed with posttraumatic stress disorder – PTSD.

**MGC Pharma – Whole Plant Extracts**

- MGC WPE MX201 (10 ml bottle) - Rich THC T15/C1. Indicated for: Patients during chemotherapy and up to six months after completion of chemotherapy, Relief from nausea, vomiting, or pain related to treatment; Adult patients diagnosed with Tourette's syndrome who have a disorder;
- MGC WPE MX21 (10 ml bottle) - Rich THC T7/C1. Indicated for: Patients diagnosed with acquired immunodeficiency syndrome (AIDS) and extreme weight loss CAC, for improvement of appetite or relief from gastrointestinal vomiting and symptoms; Patients diagnosed with Parkinson's disease who have been treated for at least one year with anti-Parkinson's therapy, and who suffer from pain, chronic pain or pain caused by rheumatism (which did not respond to conventional pain therapy);
- MGC WPE MX11 (10 ml bottle) - Balanced T1/C1. Indicated for: Patients suffering from neuropathy from a clear organic source; Patients diagnosed with multiple sclerosis; Terminal patients (expected survival 6 months or less); Adult patients diagnosed with Tourette syndrome; and
- MGC WPE MX120 (10 ml bottle) - Rich CBD T1/C24. Indicated for: Minors and adults who suffer from uncontrollable severe epilepsy; Patients with active and proven inflammatory bowel disease; Patients with Crohn's disease, or ulcerative colitis; Adult patients diagnosed with posttraumatic stress disorder – PTSD.

**MGC Pharma – Active Pharmaceutical Ingredients**

- MGC CBD (GMP > 96% purity): Studies and preclinical trials have proven that CBD can help as an anti-inflammatory, antioxidant, neuroprotector, anxiolytic, analgesic, antidepressant, anti-psychotic, and as an anti-tumoral agent. It can be used in a wide variety of cases in which any of the previously mentioned conditions are mentioned; and
- MGC THC (GMP > 98% purity): Studies and preclinical trials have proven that THC can be used to treat or prevent the nausea and vomiting associated with cancer medicines and to increase the appetites of people with AIDS.

**MGC Nutraceuticals Range**

MXC introduced its Nutraceuticals product portfolio in March 2018. Examples of the new range include:

- Powder in a Packet and Ready-to-Drink (RTD) products based on hemp proteins and CBD;
- Supplements;
- MXWS Water-Soluble CBD; and
- MGCaps

MXC products meet the strict EU guidelines, with all claims made in accordance with the main EU legislation for the use of health claims on foodstuffs.

## CLINICAL TRIALS

### CogniCann™

#### Phase 2 Clinical Trial

MXC has been granted full Ethics approval to conduct a Phase II clinical trial into the effects of GMP certified medicinal cannabis medicine CogniCann™, pharmaceutical grade medicinal cannabis compounded formulation, on patients with mild Dementia and Alzheimer's.

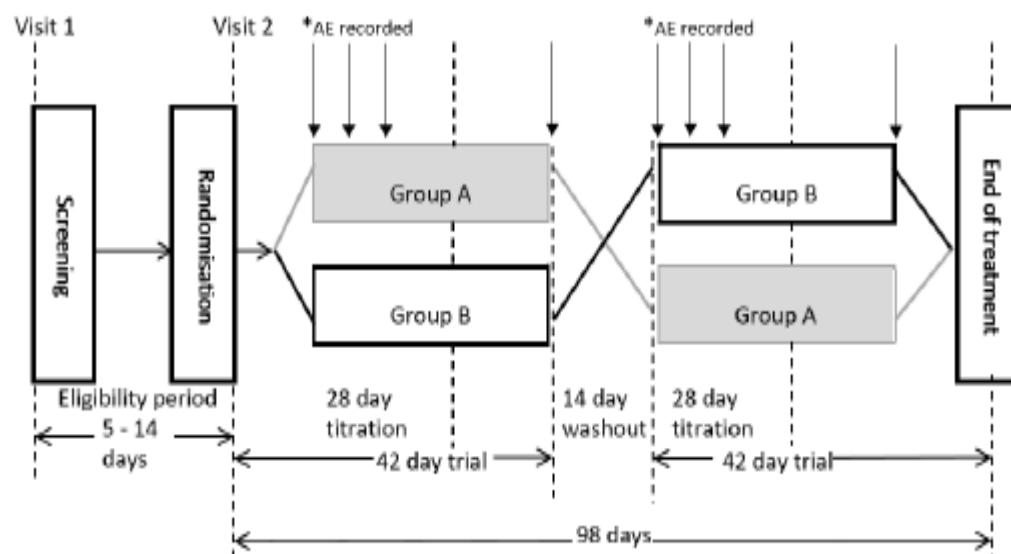
Approval follows the successful completion of a full ethical review undertaken by the Human Research Ethics Committee (HREC) at the University of Notre Dame in Western Australia (UNDA), in accordance with the National Statement on Ethical Conduct in Human Research.

The 16-week trial will be undertaken by the University's Institute for Health Research and is expected to commence in early 2019, subject to TGA approval, using a randomised, double-blind, crossover, placebo-control design to evaluate the behavioural changes, quality of life, and level of discomfort and pain in Dementia patients living in residential aged care facilities.

- Will be tested on a total of 50 participants aged 65 years and older;
- Performed alongside a series of pre and post-treatment surveys and focus groups that will be used to assess residential staff and family member's knowledge and perceptions towards the use of the treatment;
- The trial has been designed by MXC's expert Medical Advisory Board led by Professor Uri Kramer and the research team at UNDA.

On completion of the trial, MXC will own all IP and results and the researchers will acquire a worldwide non-exclusive, royalty free licence to use the project's Intellectual Property for non-commercial research purposes including research publications.

Figure 6 Extraction Process



Source: MGC Pharma

## CannEpi<sup>TM</sup>

### Phase 2A Clinical Trial

On the 14<sup>th</sup> of February 2017 MXC announced it is commencing a clinical study following the signing of a binding research agreement with the University Children's Hospital Ljubljana for a Phase IIA Crossover (non-pivotal) clinical study. The study uses enriched medical cannabis products in children and adolescents with treatment-resistant epilepsy at the Hospital's Department of Adolescent & Developmental Neurology. The research has also received approval from the Hospital Ethics Committee for the study.

- Over 65 patients have already been recruited to participate in the 6-week study;
- A total of 70 volunteers required to achieve statistical significance;
- The Company has a large pool of over 150 potential volunteers that have expressed an interest in participating.

The study uses a whole plant extract based medicine with high CBD/THC ratio and compares it to pure synthetic CBD. The primary end point of the study will be a reduction in the frequency of seizures experienced by individuals suffering from epilepsy.

The study is being led by two globally renowned epilepsy experts, Dr David Neubauer and MXC strategic advisory board member, Professor Uri Kramer, who have both previously conducted ground breaking clinical studies targeting epilepsy with medical cannabis. Dr Neubauer is a paediatric specialist whose research focuses on the use of cannabidiol (CBD) to treat children suffering from epilepsy. He has previously directed a 3-year clinical study using synthetic CBD with over 65 patients. Leading Israeli epilepsy expert, Professor Uri Kramer, has previously directed a 3-year clinical study using whole plant extract with over 100 patients. Both clinical studies demonstrated a reduction in seizures experienced by approximately 50% of the study's participants.

The results from the study will guide the MXC's development of CannEpi<sup>TM</sup> for the treatment of epilepsy that will use the Company's own proprietary formula and intellectual property. Following the clinical efficacy study, the Company aims to have the formula designated as a magisterial drug in Slovenia which allows Slovenian doctors to prescribe the product to sufferers of epilepsy.



## MARKET OVERVIEW

MXC's business and operations are currently located in the European Union and based in Slovenia, focusing on commercial and research opportunities in the medical and cosmetics cannabis market. The core business strategy is to develop and supply high quality nonpsychoactive CBD to the growing European and international cosmetics and medical markets.

By being positioned globally, MXC leverages its intellectual property and experience to facilitate entry into new markets and assist with development of breakthrough government, academic and commercial research. It ensures products will reach patients and customers with the strictest Quality Control and Quality Assurance. MXC's has global operations in the following countries to execute this vertically integrated strategy.

## Why Medical Cannabis

Medical Cannabis has been used as a Medical therapeutic agent for thousands of years, with its compounds used to treat a variety of ailments and symptoms. This makes it one of the oldest known treatments, derived from nature, known to man.

There is mounting evidence globally that Medical Cannabis formulations can treat a wide range of conditions. The *American National Academies of Sciences, Engineering and Medicine* issued a report on *The Health Effects of Cannabis and Cannabinoids: The Current State of Evidence* that found there is conclusive evidence that Medical Cannabis is an effective treatment for chronic pain, chemotherapy-induced nausea and vomiting, and multiple sclerosis spasticity symptoms. It also found that there is substantial and growing evidence for use in the treatment of many other conditions including sleep conditions, anxiety, posttraumatic stress disorder, glaucoma symptoms, symptoms associated with motor system diseases, such as Parkinson's, and cancer.

Canada, North America, Israel and many other countries around the world are already using Medical Cannabis to treat patients with symptoms including muscle spasms caused by multiple sclerosis, nausea from cancer chemotherapy, poor appetite and weight loss caused by chronic illness, such as HIV, or nerve pain and seizure disorders including epilepsy.

The Cannabis plant contains close to 500 compounds, of which approximately 100 have been identified as cannabinoids, with the most active cannabinoids said to be Cannabidiol (CBD) and Tetrahydrocannabinol (THC). Cannabinoids have been found to bind with the receptors, creating a reaction in either the brain or the central nervous system, depending on the receptor. It is the interactions between the receptors and the cannabinoids that have been found to make Medical Cannabis an effective therapeutic treatment.

## Overview of Medical Cannabis Market

### USA

The legalisation of medical marijuana is the key driving force behind the increasing attractiveness of the US market affecting also the rest of the world. Currently, the use of medical marijuana is legal in 23 states, of which California, with over half a million MC patients, is the largest. 12 states have passed or are about to pass CBD only medical cannabis regulations. Medical marijuana is still not legal at the federal level. Recently, new Senate legislation has passed shielding medical marijuana patients, from federal prosecution in states that have legalised marijuana for medical purposes. Other pending legislation is calling to reclassify marijuana from a Schedule I drug, which has no medical benefit and includes recreational drugs (like LSD and heroin), to a Schedule II drug, which has an accepted medical use.

### Europe

Europe is a small market but growing. It is served primarily by the Dutch company Bedrocan and imported by individual patients from across Europe. The Czech Republic has legalized medical cannabis in 2013 and recently launched a national medical cannabis program with a number of local growers. Italy is joining the trend and the military has taken the role to grow in secured location.

As of January 1st, 2018, Denmark has initiated a four-year medical cannabis pilot program. Its guidelines are laid out in the act of medical cannabis pilot program, which allows companies to apply for admission of cannabis products at the Danish Medicines Agency.

In addition to the mentioned countries in the EU Austria, Finland, Portugal, Poland and Spain currently authorise marijuana's use as a medicine - while a few other states are planning legislation on the issue. The current estimated compounded annual growth is approximately 15% for the European market as a whole.

## Australia

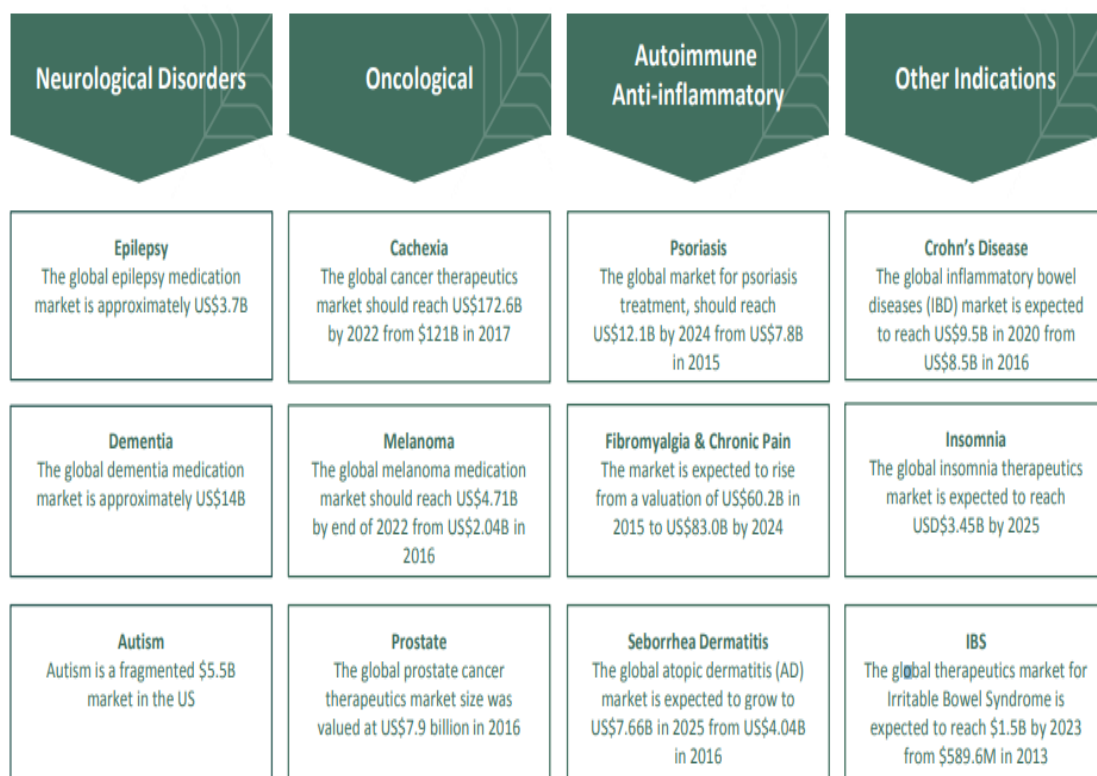
In October 2016, legislative changes came into effect legalising medicinal cannabis in Australia, meaning that authorised doctors are now able to legally prescribe medicinal cannabis to patients with specific medical conditions, or through the Therapeutic Goods Administration (TGA)'s special access scheme. State Governments have also passed legislation which permits medicinal cannabis to be prescribed to certain patient groups or under certain circumstances.

Specifically, only producers registered with the TGA and approved by the Office of Drug Control (ODC) will be able to cultivate cannabis products, conduct clinical trials and develop therapeutic products in Australia. In July 2017, the ABC reported that the TGA had approved 12 businesses within Australia to grow and manufacture the drug. Since legalising the practice in October 2016, the Department of Health has received over 75 applications<sup>1</sup>.

While Australian produced medicinal cannabis products are not yet available (there are legal channels for imported products, but a number of patients currently rely on black-market products), the growing number of approvals indicates that this will no longer be the case within the next year or two. Researchers from the University of Sydney estimated in 2016 that the Australian domestic market for medicinal cannabis could be worth more than \$100 million a year.

While the Government has not yet announced a limit to the number of licenses that will be granted, the ODC has (as at September 2017) granted licences to eight companies to cultivate and produce medicinal cannabis and licences to four companies to manufacture it.

Figure 8 MGC Pharma Market Potential



Source: MGC Pharma

## Epilepsy

Epilepsy is a common disease of the brain where there is a tendency to have recurrent seizures. A seizure is an event – a disruption of the normal electrochemical activity of the brain. It is a neurological disorder seizure caused by a temporary disruption of the electrical activity in the brain. Approximately 50 million people worldwide have epilepsy, making it one of the most common neurological diseases globally. Epilepsy can start at any age although it is more likely to be diagnosed in childhood or senior years. Globally, an estimated 2.4 million people are diagnosed with epilepsy each year. In high-income countries, annual new cases are between 30 and 50 per 100 000 people in the general population. In low- and middle-income countries, this figure can be up to two times higher. There are many different types of epilepsies and people's experiences differ greatly. Some types of epilepsy last for a limited time and the person eventually stops having seizures. For others, epilepsy is a life-long condition. However more than two thirds of people with epilepsy become seizure free with medication.

While the majority of those with epilepsy are able to obtain seizure control through the use of antiepileptic drugs (AEDs), around 35% continue to experience seizure activity despite trying numerous combinations these medications. This group is considered to have intractable (medication resistant) epilepsy with some diagnosed with catastrophic types of epilepsy, where they suffer recurrent severe and damaging seizures on a daily basis. Recent research is finding that medications derived from the cannabis plant can significantly reduce the severity and frequency of seizures, especially in children who have certain epilepsy disorders.

Unlike recreational marijuana (where usually the crushed leaves are smoked), medicinal cannabis does NOT contain the properties that cause the effect of getting 'high' or 'stoned'. CBD is thought to have an anti-psychoactive effect that controls or moderates the 'high' caused by THC and may even reduce some of the other negative effects that people can experience from THC, such as anxiety.

The global epilepsy therapeutics market was valued at approximately USD 4,500 million in 2017 and is expected to generate revenue of around USD 5,900 million by end of 2024, growing at a CAGR of around 3.9% between 2018 and 2024, according to a report published by Zion Market Research.

## Dementia

Dementia describes a collection of symptoms that are caused by disorders affecting the brain. It is not one specific disease. Dementia affects thinking, behaviour and the ability to perform everyday tasks. Brain function is affected enough to interfere with the person's normal social or working life. There are over 100 diseases that may cause dementia. The most common causes of dementia include Alzheimer's disease, vascular dementia and dementia with Lewy bodies.

Most scientists seem to agree that there are two proteins in the brain that are heavily involved. One is beta-amyloid, usually just called amyloid, which reaches abnormal levels in the brain of someone with Alzheimer's and forms plaques that collect between neurons and disrupt cell function. The other is called tau. This also reaches abnormal levels, and forms neurofibrillary tangles inside neurons which block the neuron's transport system. What scientists don't know is exactly how these proteins relate to each other, or what causes them to build to such damaging levels.

The most common types of dementia are Alzheimer's disease, Vascular dementia, Dementia with Lewy bodies, Fronto Temporal Lobar Degeneration (FTLD), Huntington's disease, Alcohol related dementia (Korsakoff's syndrome) and Creutzfeldt-Jacob disease.

Someone in the world develops dementia every 3 seconds. There were an estimated 46.8 million people worldwide living with dementia in 2015 and this number is believed to be close to 50 million people in 2017. This number will almost double every 20 years, reaching 75 million in 2030 and 131.5 million in 2050. Much of the increase will be in developing countries. Already 58% of people with dementia live in low and middle income countries, but by 2050 this will rise to 68%.

The global dementia drugs market was valued US\$ 13.90 Billion in 2017 and is projected to exhibit a CAGR of 8.4% over the forecast period (2018 – 2026). The global dementia drugs market is expected to witness significant growth over the forecast period, owing to increasing incidence of dementia worldwide, especially in Asian countries such as China, India, Japan, and Korea along with increasing launch of pipeline drugs.

## COMPANY UPDATES

### MGC Pharma

MXC formed a strategic alliance with Epilepsy Action Australia (EAA) with the appointment of Professor Uri Kramer to its Advisory Board in July 2016. Professor Uri Kramer serves as a Director of Paediatric Epilepsy Service at Tel Aviv Sourasky Medical Centre, where he led research regarding medical cannabis treatments for severe cases of epilepsy. Epilepsy Action Australia will introduce MXC's CBD products to its members in accordance with their medical requirements, as well as work towards joint clinical trials for treating epilepsy.

MXC also successfully completed construction of its European extraction facility in April 2017, allowing it to produce approximately 3,000kg of raw materials into cannabinoid extracts per year at full capacity. As at 13<sup>th</sup> July 2018, MXC's European medicinal cannabis compounding and manufacturing facility is now fully GMP (Good manufacturing practice) certified, and in addition also awarded the manufacturing licence for the production of medicinal cannabis-based medicines.

MXC signed a Memorandum of Understanding (MOU) with the Royal Melbourne Institute of Technology (RMIT) to collaborate on a full suite of medical cannabis research initiatives including a world first library of cannabis medicines and pre-clinical research on melanoma. This library will detail the genetic composition of a wide variety of cannabinoid strains and identify genetics and cannabinoids sequences for establishing medical cannabinoid profiles for specific diseases. MXC have applied for a medical cannabis research cultivation license to the Australia's Office of Drug Control (ODC) in September 2017. The Company has been working closely with RMIT and the ODC to progress its licence application.

On the 1<sup>st</sup> November 2017, MXC signed an agreement to bring its adult medical cannabis epilepsy product, CannEpil, to the Australian market from early 2018. The deal will leverage the relationship between MXC and Epilepsy Action Australia (EAA) to build a patient market through authorised prescribing doctors, the deal is expected to generate \$1m in revenues from 2018 from less than 100 registered patients, from a potential market of over 70,000 Australians suffering from drug resistant epilepsy.

On the 13<sup>th</sup> July 2018 MXC announced that it has received its GMP Certificate and a Manufacturing licence allows MXC to produce and manufacture pharmaceutical grade medicines containing phytocannabinoid APIs such as THC and CBD, progressing them towards its first commercial sales of CannEpil™. The product will then undergo final independent validation by the National Institute of Chemistry in Slovenia ahead of planned exportation into Australasia & Europe.

On the 27<sup>th</sup> August 2018 MXC announced that in partnership with the University of Notre Dame it has been granted full Ethics approval to conduct a Phase II clinical trial (usually require randomized populations of approximately 300 patients that must be afflicted with the condition for which the drugs are intended to accurately evaluate the drugs' dosage, efficacy and safety) into the effects of CogniCann™, a GMP certified, pharmaceutical grade medicinal cannabis compounded formulation, on patients with mild Dementia and Alzheimer's. CogniCann™ is one of MXC's medical cannabis pharmaceutical products with a THC:CBD ratio specifically formulated for the treatment of key Dementia symptoms and improving specific cognitive functions.

On the 6<sup>th</sup> September 2018 MXC announced that it has signed a distribution agreement with A.M. Mangion Ltd, that can help distribute pharmaceutical products to markets in Europe including Malta, the UK, Middle East and Africa. Under the 3-year agreement, an initial range of MXC's medical cannabis pharmaceutical products will be supplied to A.M. Mangion for distribution via its existing international distribution network

On 27<sup>th</sup> November 2018 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, for C\$12.5m in CannaGlobal equity and a C\$2.5m loan repayment to MXC. The deal includes an exclusive 5-year Supply Agreement for the provision of MXC's CBD, proprietary production IP and cosmetic materials to CannaGlobal. In addition, 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 of the announcement.

On the 4<sup>th</sup> of October MXC provided an update on the MGC Derma transaction with CannaGlobal, as announced on 27 September 2018. The Company will receive an initial payment from CannaGlobal on the week beginning on 1<sup>st</sup> October 2018 as part of their total C\$1 million initial order of MXC's CBD, proprietary production IP, and cosmetic materials required to manufacture the MGC Derma range of products. The total C\$1m is on track to be paid by CannaGlobal within the 10-business day timeframe stipulated in MXC's announcement on 27 September 2018, along with completion of the formal agreements for the transaction. Also, MXC stated that it and CannaGlobal have made significant progress to finalise the formal Definitive Agreement for the sale of 100% MGC Derma.

On the 11<sup>th</sup> October 2018, announced the receipt of formal authorisation for the availability of its product CannEpil™ for supply in Australia through specialist prescribers under the Authorised Prescriber Scheme. This is a major milestone which represents MXC's progress towards becoming a world-leading Bio-Pharma company. It also signals the immediate commencement of commercial-scale production of CannEpil™ at MXC's EU GMP certified facility in Slovenia, and the start of revenue generation from the Company's core pharma activity.

### **MGC Botanic**

MGC Botanic successfully harvested the Company's first cannabidiol (CBD) test crop in Slovenia to find the optimal climate and soil conditions for production of cannabis strains. It concurrently analysed new environmental data, such as water and soil analysis, pesticide and fertiliser protocols, and sunlight levels, as part of the research to improve the yield of CBD in outdoor plantations.

In February 2017 MXC acquired 80% of Panax Pharma, progressing its breeding program of cannabis strains as part of its strategic partnership with the highly respected Czech Republic science institute, the IEB AS. MXC can further leverage this relationship because Panax has access to a medical cannabis breeding license for its joint breeding program. This breeding program forms part of the MGC Botanic's core objective to create new genetic strains of medicinal cannabis and develop Intellectual Property (IP) for specific medical indications and high potency of phytocannabinoids. Following a successful first harvest in 2017, MXC has commenced its second year's crop using new cannabis genetics. The Company plans to expand its current facility operations in 2018, potentially up to the full 2,000 square meter capacity during the year.

In April 2018, the Maltese Government Approved MGC Pharma's Fully Licensed Medical Cannabis Facility. The company is planning to construct a 4,000m<sup>2</sup> state-of-the-art, fully licensed medical cannabis production and cultivation facility. MXC has also been given approval by the Maltese Government for full medical cannabis production and cultivation in Malta, producing all THC and CBD strains of pharmaceutical grade cannabis extracts, for medicinal purposes serving the European market.

During the June quarter CY18, the Maltese Government passed a bill legalising the production of cannabis for medicinal use, significantly advancing the Company's progress towards receipt of its final contract from the Maltese Government and any other relevant local licenses and permits. Design of the facility has commenced, and construction will begin following receipt of final contracts, which are expected to be completed in the

As at July 2018, MGC Botanic's Slovenian operations have progressed materially on the breeding and cultivation program with the University of Ljubljana to produce and explore different varieties of cannabis plant containing various concentrations and ratios of CBD and THC.

### **MGC Nutraceutical**

On 13<sup>th</sup> March 2018 MXC announced the launch of MGC Nutraceuticals, a range premium vegan products targeting the high-end dietary supplement market. Formulated for daily use, MGC Nutraceuticals products contribute to normal immune system function and provide improved protection against stress. The range immediately expands MXC's consumer product offering into the global dietary supplement market with 7 new high-end natural vegan products



## PERFORMANCE MILESTONES

### CannaGlobal Transaction

Under the CannaGlobal transaction 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.

### 20.5 million Unlisted Options

On 22 November 2017, 20.5m unlisted options were issued to employees subject to the following terms and conditions:

1. 50% of the unlisted options issues will vest after twelve (12) months of continuous service to 31 January 2019;
2. 50% of the unlisted options issued will vest upon the MGC Pharmaceutical Ltd consolidated group achieving sales over AUD\$1,000,000.

	Tranche 1	Tranche 2	Tranche 3	Total
Number of options	8,250,000	8,250,000	4,000,000	20,500,000
Fair value per option	0.058	0.058	0.058	-
Total value of the issue	478,500	478,500	232,000	1,189,000

### 35.5 million and 4 million Performance Rights

At the General Meeting held on 27 September 2016, 32.5 million unlisted Performance Rights were issued to Directors on 17 October 2016 and a further 4 million were issued on 23 December 2016 as approved at the Annual General Meeting on 29 November 2016. The principal terms and conditions of the Performance Rights include, continuous service in their capacity as Director or Executive to the Company, or as otherwise agreed and are subject to vesting milestones:

1. 21.9 million Performance Rights: Continuous service in their capacity as a Director or Executive of the Company from the date of issue to 31 December 2016;
2. 14.6 million Performance Rights: Continuous service in their capacity as a Director or Executive of the Company from the date of issue to 31 December 2017.

### 22.2 million Performance Rights

On 27 September 2016, 22.2 million unlisted Performance Rights were issued to relevant employees of the Company on 23 December 2016. The principal terms and conditions of the Performance Rights include, continuous service to the Company in their capacity as a full-time employee and permanent part-time employee, within set milestones:

Number of Performance Rights issued	Milestone	Probability	Weighting	Milestone date
12,200,000	1) From the date of issue to 31 December 2016		33%	24 Feb 2017
	2) From the date of issue to 31 December 2017	100%	33%	31 Dec 2017
	3) From the date of issue to 31 December 2018		34%	31 Dec 2018
10,000,000	1) From the date of issue to 24 February 2017		60%	24 Feb 2017
	2) From the date of issue to 31 December 2017	100%	40%	31 Dec 2017

## COMPETITORS



### Botanix Pharmaceuticals Ltd (ASX: BOT)

Botanix Pharmaceuticals Ltd, was relisted on the ASX on the 15th of July 2016 after the reverse takeover of Bone Medical Ltd. BOT is a clinical stage medical dermatology company, which is dedicated to developing next generation therapeutics for the treatment of serious skin diseases by harnessing the untapped potential of a synthetic active pharmaceutical ingredient known as cannabidiol (CBD).



### Elixinol Global (ASX: EXL)

Elixinol Global Limited is a vertically integrated manufacturer and distributor of industrial hemp products and early stage medical cannabis focusing on the importation, cultivation, manufacture and distribution of CBD and THC products.



### Anatara Lifesciences Ltd (ANR)

Anatara Lifesciences is an Australian company developing non-antibiotic oral solutions for gastrointestinal diseases in animals and humans. Their leading product, Detach, is a natural product that is a non-antibiotic approach to aid in the control of diarrhoeal disease (known as scour). The Company's team has a strong track record in biological science as well as building and growing international biotech companies.



### Aratana Therapeutics

Aratana Therapeutics, Inc., a pet therapeutics company, focuses on the licensing, development, and commercialization of therapeutics for dogs and cats in the United States and Belgium. Founded in 2010, its product portfolio includes multiple therapeutics and therapeutic candidates in development consisting of small molecule pharmaceuticals and biologics. It has a collaboration agreement with Elanco Animal Health to develop, manufacture and commercialize Galliprant (grapiprant tablets).



### Bayer Animal Health

Bayer Animal Health is a global leader in animal health that supports the health of animals, as well as farmers, veterinarians and pet owners by offering innovative therapies and solutions. The company has secured a leadership position in researching and developing products for animal health and pest control since 1919, and is constantly working to develop new, better products and improved forms of administration.



### Elanco

Elanco is a global animal health company with a vision to enhance animal health and enrich lives. It is focused on its commitment to provide support for individuals who raise and care for both livestock and companion animals through a wide range of animal health products safe for consumers, animals and the environment through innovation and a shared vision to enrich the life of people worldwide. The Company's products include beef, dairy, swine, poultry, veterinary services, and safety measures.



### Boehringer Ingelheim

Headquartered in Ingelheim, Germany, Boehringer Ingelheim operates globally with 146 affiliates and a total of more than 47,700 employees. The focus of the family-owned company, founded in 1885, is researching, developing, manufacturing and marketing new medications of high therapeutic value for human and veterinary medicine. In January 2017, the company acquired the multinational animal health company Merial.



### Kindred Biosciences

Kindred Biosciences, Inc., a biopharmaceutical company, focuses on the development of therapies for pets. The company's product pipeline includes small molecules and biologics for a range of indications in dogs, cats, and horses. Its lead product candidates comprise Zimeta, a dipyrone injection for the control of pyrexia (fever) in horses; and Mirataz, a mirtazapine transdermal ointment for the management of weight loss in cats.



#### **Zomedica Pharmaceuticals**

Zomedica Pharmaceuticals is a veterinary diagnostic and pharmaceutical company creating products for companion animals (canine, feline and equine) by focusing on the unmet needs of clinical veterinarians. Zomedica's product portfolio will include novel diagnostics and innovative therapeutics that emphasize patient health and practice health.



#### **Medlab Clinical (ASX: MDC)**

Medlab Clinical Limited operates as a nutritional early phase drug development company. The Company offers research and product development in the field of chronic kidney disease, obesity, depression, pain management, and muscular-skeletal health. Medlab Clinical develops bacteria-based medicines.



#### **Creso Pharma (ASX: CPH)**

Creso Pharma Limited develops cannabis- and hemp-derived therapeutic, nutraceutical, and life style products with wide patient and consumer reach for human and animal health. CPH uses GMP development and manufacturing standards for its products as a reference of quality excellence with initial product registrations in Switzerland. CPH has worldwide rights for a number of unique and proprietary innovative delivery technologies which enhance the bioavailability and absorption of cannabinoids.



#### **The Hydroponics Company (ASX: THC)**

The Hydroponics Company Limited (THC) aims to target three points in the cannabis value chain: medical cannabis development & delivery, hydroponic equipment supplies and greenhouse design, construction & management. While THC's initial targets are the US indoor farming market and Australian medicinal cannabis market, THC aims to expand its hydroponics products globally.



#### **Zelda Therapeutics Ltd (ASX: ZLD)**

ZLD is a California-founded biotechnology company focused on delivering medical cannabis therapies with a strong Australian connection. It was formed to fund clinical efficacy trials of medical cannabis formulations that have been developed by its US partner Aunt Zelda and used to treat a range of diseases showing strong efficacy data.



#### **Zoetis**

Zoetis is the global leading animal health company that specialises in discovering, developing and producing animal health medicines and vaccines. These products are used to prevent, treat and cure diseases present in livestock and companion animals. It is also a producer of diagnostic products, biodevices, genetic tests and other services.

## AFFILIATES

MXC plans to move forward on its strategy of vertical integration and wholesale and are progressing toward this goal through the following partnership and sales agreement with the following achieved as of the date of this report:

### Strategic Partnerships

#### CG Partners Ltd trading as CannaGlobal

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.

CannaGlobal is a diversified, growth focussed, cannabis investment company with a global portfolio of cannabis assets in markets worldwide. It is 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. Its management believes the future of cannabis lies in creating outstanding brands in market leading segments. CannaGlobal is well advanced in its plans to publicly list on the Canadian Securities Exchange.

#### Lorne Gertner, founder of CannaGlobal

CannaGlobal was established by high profile Canadian entrepreneur Lorne Gertner. Mr Gertner has significant experience on the boards of a number of publicly traded cannabis companies. Mr Gertner is a co-founder and former chairman of PharmaCan Capital Corporation (now Cronos) Canada's first publicly traded investment company in the medical marijuana sector with investments in numerous legal licensed producers in Canada. Mr Gertner was a co-founder and Director of Cannasat Pharmaceuticals Inc, the first medical marijuana company to be listed on the Toronto stock exchange.

Over the past 15 years, Mr Gertner has helped shape the cannabis industry's focus towards lifestyle design and branding, most recently as co-founder of Tokyo Smoke and Chairman of the board of HIKU Brands Co, until its acquisition by Canopy Growth earlier this year. With CannaGlobal, Mr Gertner has assembled team with strong experience across finance, retail and consumer products, all backed up by proven cannabis expertise.

### Sales, Supply and Production Agreements

#### HL Pharma Pty Ltd

On November 2017, MXC signed Definitive Agreement to bring its adult medical cannabis epilepsy product, CannEpil, to the Australian market from early 2018. MXC has signed a binding Heads of Agreement (HOA) with leading Australian specialist pharmaceutical wholesaler and distributor, HL Pharma Pty Ltd, to bring its adult medical cannabis epilepsy product, CannEpil™. HL Pharma has over 20 years of experience as a specialist supplier of unregistered (pharmaceuticals that are not registered with the Therapeutic Goods Agency (TGA), but are registered with other recognised pharmaceutical regulators) products in Australia. Its sources products only from registered suppliers, which have a pharmaceutical wholesale or manufacturing license and are typically registered with the Medicines and Health Regulatory Agency in the UK.

#### Lenis (Lenis farmaceutika)

In October 2017, a 5-year supply and distribution agreement with European pharmaceutical distribution company Lenis was signed. MXC will supply its medicinal products including MGC cannabis flower and CannEpil Epilepsy medicine under an exclusive distribution deal into Central and Eastern Europe. Lenis is a full-service pharmaceutical distribution company in Central Europe, which is privately owned with 9 years of operations in the region, and would be responsible for marketing, sales, logistics, exporting, handling and drug safety for the products.

#### Mabsut Life

In November 2017, MXC signed a supply agreement with European medicinal products distributor Mabsut Life to supply CBD extract for the production of Mabsut's own CBD e-cigarette brand which will be distributed to Central and Eastern Europe including Germany, the Czech Republic and Austria. The terms of the deal are a minimum supply of 12kg of CBD extract which will be set to generate more than \$1 million USD in annual sales over two years.





#### Mikro Polo

In June 2017, MXC signed a distribution deal with Mikro+Polo, which is a Slovenian laboratory equipment and pharmaceutical supplier, to distribute MXC's Phytocannabinoids Active Pharmaceutical Ingredients (APIs). Mikro+Polo is the largest Slovenian supplier of laboratory accessories, and also has an established Government hospital and medical services customer base. The distribution of API product across Slovenia, Croatia and Bosnia set "a model that can be replicated for distributing our API product across the rest of Europe", according to MXC CEO Ruby Zomer. Research and Development initiatives reveal the growing benefits of API in the treatment of epilepsy and the development of new medicines.



#### MW Pharma

In July 2018, MXC signed a supply agreement with MW Pharma during the quarter, a New Zealand based medicinal cannabis distributor, to distribute its current and future pharma grade medical cannabis products into pharmacies, hospitals and universities throughout the country. MW Pharma are responsible for obtaining all necessary permits and licenses for the export and sale of MXC's products. This agreement provides a pathway for the delivery of the of first MGC's pharmaceutical products to patients via MW Pharma's partner Pro Pharma and its relationship with over 250 pharmacists in New Zealand.



#### A.M. Mangion

On the 6<sup>th</sup> of September 2018 MXC signed a distribution agreement with one of the leading distributors of pharmaceutical products for the healthcare sector with a distribution network that covers Malta, Italy, France, Spain Portugal, the Middle East and North Africa (MENA region) and the UK. Under the 3-year agreement, an initial range of MGC's medical cannabis pharmaceutical products will be supplied to A.M. Mangion for distribution via its existing international distribution network. Additional MXC GMP products will be included for distribution on a mutually agreed, adhoc basis. The partnership with A.M. Mangion provides MXC with a strategic business partner based in Malta that will be instrumental in the supporting MXC to establish its commercial operations in country and with a ready-made market and distribution network for its pharmaceutical grade medicine products, on the completion of its Maltese based EU-GMP manufacturing and production facility.

## Research and Development Agreements

#### University of Ljubljana



In May 2016, MXC began clinical studies on children and adolescents with treatment resistant epilepsy at the University of Ljubljana to test the formulation of medical cannabis by comparing MXC proprietary whole plant extract-based medicine with high CBD/THC ratio to synthetic CBD. Then in June 2017, MXC entered into a new strategic agreement to develop core intellectual property for MXC through proprietary medical cannabis genetics that will be subsequently registered with the European Union.

The University of Ljubljana was issued a full medical licence which was used for genetics, breeding, and cultivation program with MXC to develop strains of high THC and CBD tailored for epilepsy, chronic pain as well as the side effects of oncology. MXC's intention is to use the proprietary strains for its European growing operations and potentially license to third parties in the future, by producing critical new genetic intellectual property.

#### RMIT University



MXC has secured research initiatives with a focus on genetics and medicines for the potential treatment of cancer, with MXC and RMIT establishing a world first library of cannabis medicines and collaborating on the development of genetics and breeding programs for medicinal cannabis strains and protocols within Australia. Both parties successfully lodged an application for an MGC Pharmaceuticals Australian medical cannabis licence.

The research collaboration is currently preparing for the performance of a systematic review on the use of cannabinoids to treat melanoma and prostate cancers with additional recruitment currently underway to expand the team to be ready when research commenced.

During the FY2018 also delivered the world's first library focussed on researching, compiling and analysing information on cannabinoids. The team are currently working to refine the original prototype database by creating algorithms that can retrieve data from public sources. Once completed, the library will be an internationally recognised must-have tool in research into medicinal cannabis safety, efficacy and the development of personalised medications to drive better patient outcomes.





#### University of Sydney/BuddingTech

MXC collaborated with the University of Sydney Business School and BuddingTech industry engagement program to develop two white papers titled *Medical Cannabis in Australia: Science, Regulation & Industry* and *Clinical Evidence for Medical Cannabis: Epilepsy, Cancer and Multiple Sclerosis*. The first white paper, published in March 2016, set out the key challenges, risks and opportunities associated with establishing a national medicinal cannabis scheme in Australia. The second white paper, published in September 2016, evaluates the efficacy of medical cannabis in treating a variety of major diseases, where MXC provided its expertise, contacts and research developed in the Israeli medical cannabis industry.



#### Epilepsy Action Australia

In September 2016, MXC signed a collaboration agreement with Epilepsy Action Australia (EAA), on future joint clinical trials using medical cannabis for treatment of severe epilepsy, further enhancing MXC's expertise. COA builds upon the recent appointment of Uri Kramer, to MXC's Strategic Advisory Board. This allows EAA to introduce MXC's CBD products to its members in accordance with medical requirements.



#### Medical Cannabis Council

MXC is a sponsor member of the Medical Cannabis Council, which aims to facilitate a framework of best practice and supporting the positioning of Australia in research and production of medical cannabis. Members meet annually to discuss and vote on matters related to council activities and direction of the industry. MXC's Founder and Managing Director Nativ Segev is a founding member of the Medical Cannabis Council.



#### Panax Pharma s.r.o, Institute of Botany – Academy of Science, Czech Republic

In February 2017, MXC successfully acquired an 80% share of Czech medical cannabis company Panax Pharma s.r.o with an option to purchase the remaining 20%. This allowed MXC to immediately commence work with the Institute of Experimental Botany of the Academy of Sciences on a R&D program to grow medical grade cannabis, which will focus on developing high CBD and high THC strains alongside Tissue Culture mediums and protocols. MXC also could utilise Panax's license agreements to commercially use waste biomass from the research facilities for production of CBD extract and import and export medical cannabis.



#### University of Notre Dame

In partnership with the Institute for Health Research at the University of Notre Dame, MXC received Human Research Ethics Committee approval to conduct a Phase II clinical trial into the benefits of CogniCann™ in Dementia and Alzheimer patients.

Approval follows the successful completion of a full ethical review undertaken by the Human Research Ethics Committee at the University of Notre Dame in Western Australia, in accordance with the National Statement on Ethical Conduct in Human Research. The 16-week trial will be undertaken by the University's Institute for Health Research and is expected to commence in early 2019, subject to TGA (Therapeutic Goods Administration) approval.

## MXC's RISKS TO BUSINESS

The business, assets and operations of the Company, are subject to certain risk factors that have the potential to influence the operating and financial performance of the Company in the future. These risks can affect the value of an investment in the Securities of the Company. Based on the information available, a non-exhaustive list of the key risk factors affecting the Company is as follows:

**Protection of Intellectual Property Rights** - MXC does not currently have any patent protection of its intellectual property and it is not yet known whether it will be in fact possible to obtain any patent protection of the MXC intellectual property. In particular, MXC does not have any intellectual property protection for the seeds that it holds. It may be difficult to prove ownership of the genetic and DNA code of the strain of cannabis which MXC owns seeds for as the seeds have been modified through hybrid plants and clones without tracing the original genetic codes.

**Key inputs for growing medicinal cannabis** - The key inputs include raw material and supplies related to growing operation as well as electricity, water and other local utilities. Any significant interruptions or negative changes in the availability of economics of the supply chain for the inputs could materially impact the business, financial condition and operating results of the Company. Due to the nature of the product some of these inputs may only be available from single suppliers or a limited group of suppliers. Any restrictions on the ability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial conditions and operating results of the Company.

**Agricultural risks** - The Company's business will involve the growing of medicinal cannabis, which is an agricultural product. As such the business will be subject to the risks inherent in the agricultural industry, such as insects, plant diseases, storm, fire, frost, flood, drought, water availability, water salinity, pests, bird damage and force majeure events. Although the Company plans to have both indoor and outdoor growing operations under climate-controlled conditions and employ trained personnel to carefully monitor and manage the growing conditions there can be no guarantee that natural elements will not have a material adverse effect on the production of the growing operations.

**Competition and new technologies** - The industry continues to expand and evolve as an increasing number of competitors and potential competitors enter the market. Many of these competitors and potential competitors have substantially greater financial, technological, managerial and research and development resources and experience than MXC. A rival product offering or technology developments by third-party competitors may have a materially adverse effect on the value and prospects of the Company.

**Obtaining and maintaining licenses** - The Company's ability to research, develop and commercialise its products are dependent on the Company's ability to maintain licenses relating to the cultivation, possession and supply of controlled substances in its area of operations. While the Company has already successfully obtained licenses to grow, harvest and extract medical cannabis, there is no guarantee that further licenses required in the process of expanding operations will be granted, which may have a negative effect on the Company's operations.

**Changes in laws and regulations** - The Company's operations are subject to a variety of laws, regulations and guidelines. The medicinal cannabis industry is evolving worldwide and in Australia and has been identified as possibly posing risks in relation to law enforcement and government regulation. It is likely that governments worldwide, including Australia, will continue to explore the benefits, risks, regulations and operations of companies involved in medical cannabis. The introduction of new legislation or amendments to existing legislation by governments, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial position and financial performance of the Company and its Shares. In addition, there is a risk that legal action may be taken against the Company in relation to commercial, legal, regulatory or other matters.

**CBD Resin** - If MXC is unable to achieve a CBD resin or product of a sufficiently high purity to enable it to be marketable to the MXC's joint venture partners or other third parties in an efficient and cost-effective manner, it may be unable to produce CBD resin to provide to MXC's joint venture partners or other third parties in a profitable manner. In this eventuality, subcontractors and vendors may be sourced in order to provide some of the materials committed to by MXC. These occurrences may have a detrimental effect on MXC's financial performance.

**Controlled substances** - Some of MXC's proposed products may contain controlled substances and their regulatory approval may generate public controversy. Political and social pressures and adverse publicity could lead to delays in approval of, and increased expenses for, MXC's products. These pressures could also limit or restrict the introduction and marketing of MXC's products. Adverse publicity from cannabis misuse or adverse side effects from cannabis or other cannabinoid products may adversely affect the commercial success or market penetration achievable by MXC's products. The nature of MXC's business attracts a high level of public and media interest, and in the event of any resultant adverse publicity, MXC's reputation may be harmed.

**Competition for products** - The medicinal and cosmetic cannabis products industry is highly competitive and subject to rapid change. The industry continues to expand and evolve as an increasing number of competitors and potential competitors enter the market. Many of these competitors and potential competitors have substantially greater financial, technological, managerial and research and development resources and experience than MXC. Some of these competitors and potential competitors have more experience than MGC has in the development of medical and cosmetic products, including validation procedures and regulatory matters.

**Research and development activities** - Research and development activities for products are expensive, time consuming and difficult to design and implement. Even if the results of MXC's research and development activities are favourable, some product development activities may be expected to continue for several years and may take significantly longer to complete. In addition, regulatory authorities, including state and local, may suspend, delay or terminate research and development activities at any time, or suspend or terminate the registrations and quota allotments required in order to procure and handle controlled substances, for various reasons.

**Dangerous products** - If any of MXC's proposed products, prior to or after any approval for commercial sale, cause serious or unexpected side effects, or are associated with other safety risks such as misuse, abuse or diversion, a number of potentially significant negative consequences could result, including:

- regulatory authorities may interrupt, delay or halt product development;
- regulatory authorities may deny regulatory approval of MXC's products;
- regulatory authorities may require certain labelling statements, such as warnings or contraindications or limitations on the indications for use, and/or impose restrictions on distribution;
- regulatory authorities may withdraw their approval, require more onerous labelling statements any product that is approved;
- MXC may be required to make material changes to products;
- MXC's relationships with joint venture and collaboration partners may suffer;
- MXC could be sued and held liable for harm caused to product users; or
- MXC's reputation may suffer generally.

MXC may have to voluntarily suspend or terminate research and development activities if at any time they present an unacceptable risk to consumers or if preliminary data demonstrates that products are unlikely to receive regulatory approval or unlikely to be successfully commercialised.

**Industry growth and competition** - The medicinal cannabis industry is undergoing rapid growth and substantial change, which has resulted in increasing consolidation and formation of strategic relationships. The Company expects this consolidation and strategic collaborating to continue. Acquisitions or other consolidating transactions could harm MXC in a number of ways, including:

- MXC could lose strategic relationships if third parties with whom it has arrangements with are acquired by or enter into relationships with a competitor;
- The relationship between MXC and such third parties may deteriorate and cause an adverse effect on MXC's business; and
- MXC's current competitors could become stronger, or new competitors could form, from consolidations.

Any of these events could put MXC at a competitive disadvantage, which could cause MGC to lose research and development facilities or access to technology. Consolidation could also force MXC to expend greater resources to meet new or additional competitive threats, which could also harm MXC's results.

**Sufficiency of funding** - The MXC Group's business strategy will require substantial expenditure and there can be no guarantees that the Company's existing cash reserves and funds generated over time by MXC will be sufficient to successfully achieve all the objectives of the Company's business strategy. Further funding of existing and/or new projects may be required by the Company to support the ongoing activities and operations of MXC, including the need to conduct further research and development, enhance its operating infrastructure and to acquire complementary businesses and technologies.

**Reliance on key personnel** - The recent developments of MXC have been in large part due to the talent, effort and experience of its senior management team, in particular the leadership of Nativ Segev and Roby Zomer. Although these individuals have entered into executive services agreements with the Company, there is no assurance that such contracts will not be terminated. If such contracts are terminated or breached, or if these individuals no longer continue in their current roles, new personnel will need to be employed which may adversely affect the business. MXC is also substantially dependent on the continued service of its existing development personnel because of the complexity of its services and technologies.

**Dependence on outside parties** - The Company may pursue a strategy that forms strategic business relationships with the other organisations for the manufacture and distribution of products and services which may be important to the overall success of the Company.

**Foreign exchange risks** - The Company will be operating in numerous jurisdictions, including Slovenia. Consequently, it may generate revenue and incurs costs and expenses in more than one currency. Any depreciation of the foreign currencies relative to the Australian Dollar may result in lower than anticipated revenue, profit and earnings. MXC will be affected on an ongoing basis by foreign exchange risks and will have to monitor this risk on an ongoing basis.

## MXC'S CAPITAL POSITION

On April 17th, 2018 the Company completed a \$5m share placement at 7.0 cents per share. The \$5m Placement funds raised will be used by the Company to contribute to the construction of the fully licensed medical cannabis production and cultivation facility in Malta, as well as for general working capital.

According to MXC's 1QFY19 4C, MXC's cash position was at \$8.6M. This is down from the \$9.9M reported at the end of FY18. Also, cash outflows for the next quarter are estimated to be \$1.0M.

## ASSUMPTIONS

Key assumptions we have made to build forecast profit and loss and cash flow statements are:

- A EUR/AUD exchange rate of 1.60 and a CAD/AUD exchange rate of 1.00;
- The number of years used for straight-line depreciation calculations was 15 years;
- Revenue from the MGC Nutraceuticals division is assumed to be EUR500,000 per year from FY19 onwards;
- Annual revenue from sales to CannaGlobal is assumed to be \$500,000 from FY20 onwards. General non-contracted revenue for MGC Pharma Division is assumed to grow at 17.10% in line with growth in the global cannabis market;
- The Mabsut Life, HL Pharma and Lenis contracts are assumed to provide approximately \$1M in annual revenue. We have assumed that the Mabsut life contract will continue past the minimum 2-year agreement;
- In the MGC Botanics division, the 1000sqm greenhouse facility in the Czech Republic is assumed to generate annual revenues of EUR100,000 from FY19 onwards while the 5000sqm Slovenia open field farm is assumed to generate annual revenues of EUR300,000 from FY19 onwards;
- We have assumed that for every \$250K of revenue 12kg of cannabinoids is sold. The MGC Botanics Malta cultivation site is assumed to expand an extra 2000sqm by 2023.
- The Malta facility is assumed to provide a yield of 7kg of CBD and 7kg of THC per 1000sqm over the forecast period at a price per gram of EUR50 for CBD and EUR200 for THC;
- We have assumed a total cost of \$10M for the construction of an expanded 6000sqm Malta facility to be invested across two years beginning in FY2019; and
- All expenses including R&D expenses are assumed to remain the same as at FY18. Expenses including employee share-based payment expense, due diligence expenditure, doubtful debt expense and loss on re-measurement of performance shares have assumed to be zero in the future as they are considered non-reoccurring.

## VALUATION

The majority of distribution contracts including HL Pharma, Mikro+Polo, Lenis and CannaGlobal begin in FY19. Additionally we have assumed that MXC will be expanding their operation within MGC Botanics by increasing the size of their Malta Greenhouse to 6000sqm by FY22. As a result MXC will not be making a profit until FY20, hence we have used our forecast earnings for FY22 for the purposes of valuing MXC.

We are initiating coverage on MXC with a 12-month price target of A13c/sh and a BUY recommendation.

For FY22 the market PE multiple is 14.9 times earnings. This equates to us suggesting that MXC should trade at a 25% premium to the market multiple in FY21 (14.9 times 125% times 0.7c equals A13c/sh).

The price target is underpinned by our DDM valuation and uses a cost of equity of 9.61%.

29 October 2018

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## FINANCIALS

Profit and loss A\$m	2018a	2019e	2020e	2021e	2022e
Revenue	0.3	10.2	17.3	20.3	23.4
Operating costs	(8.8)	(7.9)	(9.3)	(9.9)	(10.5)
<b>EBITDA</b>	<b>(8.5)</b>	<b>2.3</b>	<b>8.0</b>	<b>10.4</b>	<b>12.9</b>
D&A	(0.5)	(0.4)	(0.8)	(0.8)	(0.8)
<b>EBIT</b>	<b>(9.1)</b>	<b>1.9</b>	<b>7.3</b>	<b>9.6</b>	<b>12.1</b>
Net Interest	0.1	0.1	(0.0)	(0.1)	(0.0)
<b>PBT</b>	<b>(9.0)</b>	<b>2.0</b>	<b>7.2</b>	<b>9.6</b>	<b>12.1</b>
Tax	-	-	-	-	(2.2)
<b>NPAT before minorities</b>	<b>(8.2)</b>	<b>2.0</b>	<b>7.2</b>	<b>9.6</b>	<b>10.0</b>
Minority interests	(0.8)	-	-	-	-
<b>Reported NPAT</b>	<b>(9.0)</b>	<b>2.0</b>	<b>7.2</b>	<b>9.6</b>	<b>10.0</b>
Non-recurring items	0.1	-	-	-	-
<b>Underlying NPAT</b>	<b>(8.9)</b>	<b>2.0</b>	<b>7.2</b>	<b>9.6</b>	<b>10.0</b>

<b>EPS diluted (c)</b>	<b>(0.6)</b>	<b>0.1</b>	<b>0.5</b>	<b>0.7</b>	<b>0.7</b>
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Cashflow A\$m	2018a	2019e	2020e	2021e	2022e
EBITDA	(8.5)	2.3	8.0	10.4	12.9
Change in WC	(0.2)	(2.7)	(3.1)	(1.3)	(1.3)
Tax paid	-	-	-	-	(2.2)
Other	2.7	0.4	0.4	0.4	0.4
Net interest	0.1	0.1	(0.0)	(0.1)	(0.0)
<b>Operating cashflow</b>	<b>(5.9)</b>	<b>0.1</b>	<b>5.4</b>	<b>9.5</b>	<b>9.8</b>

Purchase of PP&E	(0.5)	(5.8)	(5.8)	(0.8)	(0.8)
Other	0.1	-	-	-	-
<b>Investing cashflow</b>	<b>(0.3)</b>	<b>(5.8)</b>	<b>(5.8)</b>	<b>(0.8)</b>	<b>(0.8)</b>

Equity Proceeds	4.7	-	-	-	-
Dividends paid	-	-	(1.2)	(6.1)	(5.9)
Debt Proceeds	-	-	-	-	-
<b>Financing cashflow</b>	<b>4.7</b>	<b>-</b>	<b>(1.2)</b>	<b>(6.1)</b>	<b>(5.9)</b>

<b>Net cashflow</b>	<b>(1.5)</b>	<b>(5.6)</b>	<b>(1.6)</b>	<b>2.7</b>	<b>3.2</b>
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Balance sheet A\$m	2018a	2019e	2020e	2021e	2022e
Cash	9.9	4.2	2.6	5.3	8.5
Other Receivables	0.0	0.0	0.0	0.0	0.0
Receivables	0.9	1.3	2.2	2.5	2.9
Inventory	0.7	3.4	5.8	6.8	7.8
Deferred tax	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>11.5</b>	<b>8.9</b>	<b>10.6</b>	<b>14.6</b>	<b>19.2</b>
PPE	1.3	6.7	11.6	11.6	11.6
Other	0.1	0.1	0.1	0.1	0.1
Intangibles	7.1	7.1	7.1	7.1	7.1
<b>Total assets</b>	<b>20.0</b>	<b>22.7</b>	<b>29.4</b>	<b>33.4</b>	<b>37.9</b>

Accounts payable	1.0	1.3	1.5	1.6	1.8
Debt	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.4	0.8	1.2	1.7
<b>Total current liabilities</b>	<b>1.0</b>	<b>1.7</b>	<b>2.4</b>	<b>2.9</b>	<b>3.4</b>
Other	6.3	6.3	6.3	6.3	6.3
<b>Total liabilities</b>	<b>7.3</b>	<b>8.1</b>	<b>8.7</b>	<b>9.2</b>	<b>9.7</b>

Member's Equity	50.7	50.7	50.7	50.7	50.7
Accumulated losses	(38.0)	(36.1)	(30.1)	(26.6)	(22.5)
<b>Total equity</b>	<b>12.7</b>	<b>14.7</b>	<b>20.7</b>	<b>24.1</b>	<b>28.2</b>

Source: EverBlu Capital

Financial metrics	2018a	2019e	2020e	2021e
Sales growth %	146.8	3320.4	70.8	17.1
EPS growth %	N/A	N/A	N/A	-34.3
EBITDA margin %	-2879	22.6	46.4	51.3
EBIT margin %	-3059.7	18.4	41.9	47.5
Gearing (ND/ND&E) %	-24%	-9%	-6%	-12%
Interest cover (EBIT/Net int)	N/A	N/A	N/A	N/A
Average ROE %	-17.6	3.9	14.3	18.9
Average ROA %	-44.7	8.6	24.6	28.7
W'td ave shares (m)	1212.8	1212.8	1212.8	1212.8
W'td average shares diluted (m)	1428.3	1428.3	1428.3	1428.3

Sales and earnings multiples	2018a	2019e	2020e	2021e
P/E x	N/A	N/A	14.0	10.6
EV/EBITDA x	N/A	75.5	21.5	16.6
EV/EBIT x	N/A	92.5	23.8	17.9
EV/sales x	582.9	17.0	10.0	8.5
Dividend yield %	0.0	0.0	1.4	7.1

DDM valuation	A\$m	A\$/share
9.61% cost of equity, 3.0% terminal growth		
Enterprise value	173.0	
Net cash (debt)	12.0	
<b>Equity value</b>	<b>185.0</b>	<b>0.130</b>

Shares on issue	m
Ordinary shares	1,213
Options	112
Performance Shares	104

<b>Fully diluted</b>	<b>1,428</b>
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Major shareholders	m	Interest
Nativ Segev	52.50	4.3%
Brett Mitchell	16.19	1.3%
Roby Zomer	30.00	2.5%
Ross Walker	4.00	0.3%
<b>Total</b>	<b>102.69</b>	<b>8.5%</b>



## BOARD AND MANAGEMENT



### **Brett Mitchell - Executive Chairman**

Mr Mitchell is a corporate finance executive with over 20 years of experience in the finance, technology and resources industries. He has been the co-founder of a number of ASX and private companies across these sectors, and holds executive and non-executive directorship roles with his key business interests. His executive management responsibilities cover capital markets, corporate finance, new business strategy and treasury for these companies. Mr Mitchell holds a Bachelor of Economics from the University of Western Australia and is also a member of the Australian Institute of Company Directors (AICD).



### **Nativ Segev - Founder and Managing Director**

Mr Segev founded MGC Pharma in 2014 with a goal to expand into international markets and raise the quality of medicinal Phytocannabinoid products, in addition to making them accessible to patients all over the world. Prior to establishing MGC Pharma, Mr. Segev was leader in the Medical Cannabis industry with a sizeable patient-base. He has over 10 years of experience in implementation, legislation and lobbying in the global Medical Cannabis industry, combined with over 15 years of experience in diverse executive roles.



### **Roby Zomer - CEO and Executive Director**

Mr Zomer joined Mr Segev as co-founder of MGC Pharma and then as the Executive Director & CTO, following 10 years of experience in the BioTech and AgroTech sectors, alongside running large scale projects. Mr Zomer brings his extensive list of business contacts and scientific and engineering expertise to ensure MXC is positioned as a leader in research and development, in addition to guaranteeing top performance from global operations. Mr Zomer's recent appointment to CEO follows successful implementation of MXC's pipelines for pharmaceuticals in Europe and Australia, and indicates MXC's commitment to scientific leadership.



### **Ross Walker - Non-Executive Director and Chairman of Strategic Advisory Board**

Dr Ross Walker is an eminent practicing cardiologist with over 35 years' experience as a clinician. For the past 20 years, he has been focusing on preventative cardiology and is one of Australia's leading preventative health experts. Dr Walker is considered one of the world's best keynote speakers and life coaches, he is the author of seven best-selling books, a health presenter in the Australian Media, including regular appearances on the Nine Network's 'Today Show' and 'A Current Affair', and Sky News, Switzer Business. He also has a weekly national radio show, Healthy Living with other regular segments on 2UE, 6PR, 4BC and 3AW.

## Scientific Advisors



**Professor Uri Kramer**

One of the few medical professionals in the world to have run full scale epilepsy trials with Cannabis, Professor Kramer brings a wealth of experience in various fields (Neurology, Paediatric Neurology, Adolescent Psychology & Child Development). Additionally, Professor Kramer is a Former president of the Israeli League Against Epilepsy, giving him unique insight into the daily struggles of the patients his research benefits.



**Professor Stane Srčič**

Stane Srčič is a Professor of Pharmaceutics and Industrial Pharmacy at University of Ljubljana, Faculty of Pharmacy, Slovenia. He served in the past as a quality expert of European Medicines Agency (EMA) and was for many years a member of EMA Committee for Medicinal Products for Veterinary Use (CVMP). Prof. Srčič is assisting MGC Pharma in the development phases of drug products with natural cannabinoids.



**Professor Wendyk D'Souza**

D'Souza is renowned Consultant Neurologist and Epileptologist with over 15 years' clinical experience researching new and emerging treatments for common neurological disorders within a rigorous scientific framework, he is an Associate Professor in Neuroepidemiology & Health Services Research in the Department of Medicine, St Vincent's Hospital, The University of Melbourne & Head of Epilepsy Services at St Vincent's Hospital.



**Dr Jonathon Grunfeld**

Grunfeld is Certified in Israel, with clinical experience in at the M.D. Anderson Cancer Center, he has spent the past twenty years focusing on Neuro-Oncology, with a focus since 2010 on Cannabis as a treatment for oncological palliative care. He has directly been involved in the licensing and care of over 3000 medical cannabis patients in Israel, giving him a unique insight into questions of dosing, patient groups and developing treatment methodology.



**Professor David Neubauer**

Neubauer is the Head of Department of Child, Adolescent and Developmental Neurology at University Children's Hospital, Ljubljana, Professor Neubauer is widely published and respected, and has dealt with children and adolescents in Neurological contexts for more than thirty years.

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EverBlu Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (25) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the EverBlu team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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**Hold** – Describes stocks that are neither a buy nor underperform.

**Underperform** – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

**NR** – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or EverBlu Capital policies.

**Speculative Buy** – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for EverBlu Capital to assign a Buy or Underperform rating.

**Free Float (float / current shares outstanding) \*100** – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

#### Valuation Methodology

EverBlu Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

#### Conflicts of Interest

EverBlu Capital declares that it received financial compensation from MGC Pharmaceuticals Limited for the preparation of this report. Investors should consider this report as a single factor in making their investment decision and should consider the information provided in light of their own personal circumstances and needs.

The author Russell Wright made contact with MGC Pharmaceuticals Limited for the preparation of this report for the verification of facts.

EverBlu Capital and its associates also declare that they deal in securities as part of their financial services business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to the issuing company, holding a position in the securities or acting as principal or agent and as such may effect transactions not consistent with the recommendation (if any) in this report. EverBlu Capital and its associates therefore may benefit from any increase in the price of those securities. EverBlu and its associates may earn brokerage fees, commissions, other benefits as well as fees or advantages as a result of a transaction arising from any advice mentioned in publications to clients.

#### EverBlu Capital Recommendation Proportions

Buy	44.3%	( 5.1% of stocks with recommendations are EverBlu clients)
Speculative Buy	1.4%	( 100.0% of stocks with recommendations are EverBlu clients)
Hold	25.1%	( 0.0% of stocks with recommendations are EverBlu clients)
Underperform	29.2%	( 0.0% of stocks with recommendations are EverBlu clients)