

30 July 2018

ASX Code:
MXC

June 2018 Quarterly Activity Report

- Significant milestones achieved in the June 2018 quarter
- MGC Pharma: GMP Certification and Manufacturing Licence awarded to European production and manufacturing facility, which is now one of the most sophisticated in Europe
 - Immediate production of CannEpiTM can now commence
- MGC Pharma: MXC granted the first full medical cannabis cultivation and production agreement in Malta, to construct the facility on designated land
- MGC Botanic: Delivers first milestone, with CBD extracted from first Czech Republic harvest manufactured into MXC products under seed-to-sale operations
- MGC Derma: Launched its second Derma Plus product – its CBD Herbal Replenish Cream - and signed a supply agreement with luxury retailer Harvey Nichols
- Corporate: Completed \$5m oversubscribed placement in April 2018 to help the establishment of the medical cannabis cultivation and production facility in Malta and for general working capital
- MXC's Scientific Advisory Board will present at the Cannapaed Symposium 2019 conference, for carers of children with Epilepsy and other serious neurological disorders. The conference is set to educate the UK and European markets about cannabis based neurological medicines

Pharmaceuticals Ltd (ASX: MXC or “the Company”) has today published its Appendix 4C for the three-month period to 30 June 2018 and is pleased to provide a review of the progress made during the quarter

Operational Update

During the quarter, the Company delivered strong progress across all divisions and especially within the MGC Pharma division, where a major milestone was completed on receiving the final GMP certificate and manufacturing licence for its European facility.

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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. Significantly, this allows full-scale manufacturing of CannEpiTM to commence and then to be independently validated, ahead of export of first products to the Australian and European markets.

In another significant milestone for the Company in delivering on its core "Seed to Pharma" European strategy, the Maltese Government granted MXC with approval and the first contract to establish a medical cannabis production facility in Malta on 4000m² of land granted by Malta Enterprise Corporation. Importantly, in May 2018, the Maltese Government legalised the production of cannabis for medicinal use, significantly advancing the Company's progress towards the receipt and completion of final formal agreements from the Maltese Government Authorities, which is now expected during the next quarter.

Projects underway within the MGC Botanic Division continue to track well and are poised for expansion to support the expected strong growth in demand driven by the Pharma and Derma divisions. The collaboration with the University of Ljubljana has resulted in the production of a number of cannabis genetic strains which contain specific quantities of CBD and THC. The purpose is to develop key intellectual property for the Company, and is part of the future cultivation strategy in Europe.

In a demonstration of the Company's Seed-to-Sale operations, a significant milestone was achieved, with CBD successfully extracted from the first crop harvest from the Czech Republic facility, used in the production of the Company's Nutraceuticals and Derma ranges.

A further key milestone for the Company was completed during the quarter, as products within the MGC Derma and MGC Derma Plus collection were successfully launched at luxury retailer Harvey Nichols UK, increasing sales and exposure for the brand. The initial launch week sales success at the flagship Harvey Nichols Knightsbridge store has led to MGC Derma already obtaining priority shelf space to help advance sales from July onwards.

MGC PHARMA (MXC 100%)

European facility awarded Good Manufacturing Practice (GMP) Certificate and a Manufacturing licence

MXC's European production and compounding facility in Slovenia was awarded full GMP certification and a manufacturing licence, making it one of the most advanced facilities of its kind within Europe and supporting the Company's strategy to own a fully-vertically integrated seed-to-pharma operation.

This significant milestone for the Company means the facility is now licensed to produce and manufacture pharmaceutical grade medicines containing phytocannabinoid APIs such as THC and CBD, progressing the Company towards its first commercial sales of CannEpiTM.



The Company can now commence manufacturing of CannEpi™, which will then undergo final independent validation by the National Institute of Chemistry in Slovenia ahead of planned exportation into Australasia & Europe, where sales of high margin product lines and the generation of material revenue streams are expected to follow.

Awarded First Binding LOI in Malta, and land granted for 4,000m² facility

During the quarter, MXC received a binding letter of intent, granting approval and a contract to establish a medical cannabis cultivation and production facility in Malta on 4000m² 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.

During the June quarter, 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 already commenced, and construction will begin following receipt of final contracts, which are expected to be completed in the September quarter.

Supply Agreement Signed with New Zealand Distributor

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 clear 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. This will increase the strength of the Company's position and distribution networks within the Australasian markets.

The agreement also has the potential to deliver revenue at high gross profit margins as the Company plans to commence manufacturing of the products at its GMP certified Slovenian facility.

Research Projects Advanced with RMIT

The International Library of Cannabinoids and Cancer Research Projects

This strategic data library focussed on researching, compiling and analysing information on cannabinoids has expanded with the recruitment of a further two specialist PhD students to concentrate on software development, data retrieval and analytical solutions of the library.

The research team is 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 for research into the applications of medicinal cannabis.

Results are currently being used to further study into the efficacy, development and safety of personalised medicines as well as assisting in the real-time care and monitoring of current medicinal cannabis patients - giving doctors a better knowledge and understanding of the dosages and effects of cannabis as a medicine. The Company intends to utilise this information by incorporating it into a world-first doctor and patient accessible application where knowledge can be shared across the entire medicinal cannabis network.

MGC and RMIT are constructing a state-of-the-art facility within the grounds of RMIT, to house innovative research teams focussing on breeding and pre-clinical research into melanoma and prostate cancers using medicinal cannabis.

The students are 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.

European Paediatric Conference – First Access to CannEpiTM

Medical Advisory board members Professor Uri Kramer, Professor David Neubauer and MD Roby Zomer will present MGC Pharma and CannEpiTM at the EU Doctors Cannapaed Symposium 2019 conference held in Ljubljana, Slovenia - <http://canna.pedkl.si>

The conference is intended for the European Paediatric Neurology Society and anyone who takes care of children with drug-resistant epilepsy and other medical conditions for which cannabis is being researched as a treatment, and will serve as a platform for the awareness of the Company's pharmaceutical products to the UK and European paediatric treatment market. The conference will be presented by a select group of world renowned European Neurological doctors, who will share their knowledge and learn vital information about the medicinal cannabis pharmaceutical needs of the European market.

This is an important event for the Company and supports its business model to generate UK and European awareness for the use of Medical Cannabis products such as CannEpiTM and other future medications. The conference will act as an educational forum for potential users and provide information on the safe and right use of Medical Cannabis.

MGC Nutraceuticals Product Line Launched

MXC recently launched its Nutraceuticals range, a new product line of CBD and hemp-enhanced products for retail customers. The premium range of vegan and gluten-free products is engineered for daily use containing high grade phytocannabinoids, proteins and vitamins and is to be manufactured using CBD extracted by the Company's European operations.

The supplements are designed to promote normal immune system function, improve stress protection and maintain muscle and bone structure, the global nutraceutical market was valued at approximately USD 383 billion in 2016 and is expected to grow to approximately USD 561 billion by 2022¹.

The Nutraceuticals range is now available for purchase at <http://www.mgcnutraceuticals.com/>

MGC BOTANIC (MXC 100%)

Positive results from Botanic genetic testing

The Company has delivered positive results from projects currently underway within Europe and focussed on the analysis and breeding of premium cannabis plants to be used in the production of MXC's products.

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.

A testing centre for the analysis of cannabinoid content in cannabis flowers was successfully implemented at the Biotechnical facility and a total of 170 samples, each in three concentrations, were prepared and analysed.

The samples were taken from the first crop using MXC genetics and the mother plants of three particular breeding lines (MX-CBD-11, MX-CBD-707 and 101) were analysed and evaluated based on their cannabinoid content with 23 selected for cross-pollination.

The 23 cross pollinated flowers (clones) were successfully induced to produce female and male flowers and the resulting plants (progeny) will be further analysed for CBD and THC content. Plants of adequate quality and CBD/THC content will be selected for development of a high CBD – low THC seed propagated cannabis variety.

Panax 1st Milestone achieved from Czech Republic 2017 cultivation

In a major milestone, cannabidiol was successfully extracted from the Company's 2017 plant cultivation in the Czech Republic. This extracted cannabidiol is now being used in the production of the Company's Nutraceuticals and Derma ranges. This demonstrates full integration of the Company's seed-to-sale operations.

¹ <https://www.mordorintelligence.com/industry-reports/global-nutraceuticals-market-industry>

The Company's 2018 cultivation program in Prague of over 500 plants have reached the vegetation stage and is expected to be harvested in late 3Q 2018.

MGC DERMA (MXC 51%)

Second MGC Derma Plus Product and Harvey Nichols UK Launch

During the quarter, MXC launched CBD Herbal Replenish Cream, the second of three Derma Plus products planned for launch during 2018.

As with all MGC Derma Plus products, the CBD Herbal Replenish Cream is research backed and specifically engineered to improve the skin's natural defence and stimulate regeneration.

An independent body conducted a study to assess the efficacy of the cream on a number of volunteers over a 30-days period which concluded that there was a 71% improvement observed in dry skin, an 85% improvement in itchy skin and 92% of volunteers said they would use the Herbal Replenish Cream on a daily basis.

In June, 18 products from the MGC Derma and Derma Plus collections were launched at UK's leading luxury retailer Harvey Nichols flagship Knightsbridge store, with the products available in store and online internationally where legally permitted. MXC's products are now available in Harvey Nichols' Beyond Beauty lounge - the ground floor specialist beauty department, giving the Company an additional revenue generating opportunity.



Delay to Varm Cosmo White Label Cosmetics Supply Contract

The Board has continued its discussions and negotiations with Varm Cosmo during the June quarter, to assist Varm Cosmo to meet their contractual obligations to MGC Derma, under the Binding Sale Agreement announced on 31 October 2017, and the Purchase Order announced on 14 November 2017, for supply of \$8,000,000 of bulk cosmetics product and an initial \$1,000,000 pre-payment on this purchase order.

The MXC Board and Management have been very frustrated and disappointed by the ongoing delays, and to date non-performance by Varm Cosmo under the binding agreements during 2018, but have tried to assist Varm Cosmo in completing their delayed product line launch as it would be materially beneficial to MGC Derma, the Company and all MXC shareholders.

In correspondence during June with the Varm Cosmo CEO, he advised the Company that Varm Cosmo were "currently completing retail and distribution pipelines", and intend to be moving forward with MGC Derma in the coming months. The Company will keep shareholders informed immediately as any material information on the progress of this first binding contract and purchase order with Varm Cosmo.

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Strategic Review Completed to Prioritise Company Resources and Funds

The Board and Executive team completed a strategic review during the first half of 2018 on a number of project initiatives and partnership opportunities that the Company had investigated or entered over the past 3 years. The Board wanted to rationalise and prioritise the Company's resources and funds moving forward and close all non-core initiatives. This resulted in the termination of all the non-material projects and partnerships that the Company has been involved with since 2015. The initial agreements or projects now terminated by the Board included the option for a cultivation project in Namibia, the Sipnose nasal delivery collaboration and all other projects other than those detailed in the Operational Update enclosed in today's report, and ASX announcements during 2018.

Corporate and Financial Update

As at 30 June 2018, MXC had cash of ~\$9.9 million.

Early in the quarter, the Company completed a \$5 million share placement at 7.0 cents per share. The placement was led by Bell Potter and oversubscribed by professional and strategic investors.

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.

Outlook

The final quarter of FY 2018 has delivered strong progress across all divisions and the achievement of significant target milestones.

The receipt of a full GMP licence for MXC's European production and manufacturing facility permits MXC to immediately manufacture commercial batches of CannEpiTM for independent validation, ahead of export to Australasia and Europe, as a final significant step toward commercialisation of the division and first material revenue streams for MGC Pharma.

Recent legislative changes and the development of Malta into a Global Cannabis Hub is expected to facilitate the Company receiving its formal contract for its Maltese medical cannabis facility in the September quarter, and allow construction to commence on the Company's second GMP-certified facility.

Management continues to focus its team and resources into the development of MXC's European operations to develop pharmaceutical grade medicines, and has a clear strategy for commercialisation to target the strong growth in demand for medicinal cannabis products across Europe.

-- Ends --

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About MXC

MGC Pharmaceuticals Ltd (ASX: MXC) is a European based specialist medical cannabis biopharma company with many years of technical, clinical and commercial experience in the medical cannabis industry. The Company's founders were key figures in the global medical cannabis industry and the core business strategy is to be a global leader in phytocannabinoid-based medicine within the biopharmaceutical medical markets in Europe, Australasia and North America.

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

MGC PHARMACEUTICALS LTD

ABN

30 116 800 269

Quarter ended ("current quarter")

30 JUNE 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	89	248
1.2 Payments for		
(a) research and development	(471)	(1,781)
(b) product manufacturing and operating costs		
i) cost of sales	-	(2)
ii) operating costs – on behalf of the group	(213)	(1,027)
(c) advertising and marketing	(98)	(481)
(d) leased assets	-	-
(e) staff costs	(165)	(559)
(f) administration and corporate costs	(384)	(1,730)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	36	161
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (MGC Derma JV partner operational costs)	(218)	(536)
1.9 Net cash from / (used in) operating activities	(1,424)	(5,707)

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(322)	(792)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	142
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets (exploration asset)	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(322)	(650)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	5,000	5,000
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	6	180
3.4	Transaction costs related to issues of shares, convertible notes or options	(299)	(299)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-	-
3.10	Net cash from / (used in) financing activities	4,707	4,881

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	6,908	11,364
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,424)	(5,707)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(322)	(650)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,707	4,881
4.5	Effect of movement in exchange rates on cash held	(10)	(29)
4.6	Cash and cash equivalents at end of quarter	9,859	9,859

5.	Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1	Bank balances	1,067	637
5.2	Call deposits	8,792	6,271
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	9,859	6,908

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	321
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Director and executive services fees, and reimbursement of corporate administrative costs

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7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	118
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Transaction cost related to issue of shares

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	NIL	NIL
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

NIL

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(234)
9.2 Product manufacturing and operating costs	(377)
9.3 Advertising and marketing	(22)
9.4 Leased assets	(12)
9.5 Staff costs	(329)
9.6 Administration and corporate costs	(428)
9.7 Other	-
9.8 Total estimated net cash outflows	(1,402)

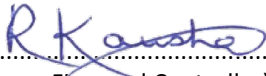
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10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	-	-
10.2	Place of incorporation or registration	-	-
10.3	Consideration for acquisition or disposal	-	-
10.4	Total net assets	-	-
10.5	Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:


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(Group Financial Controller)

Date: 30 July 2018

Print name:

Rutchi Kaushal

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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