

5 March 2018

ASX Code: MXC

## MXC Operational and Strategy Update

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- Production of first CannEpi<sup>TM</sup> batch remains on track for completion in March, with grant of full GMP Certification of MXC's European laboratory and compounding facility expected soon after this final compliance stage
- All extraction equipment and systems now fully installed at MXC's European Facility, for commencement of second phase of GMP certification.
- RMIT collaboration delivers significant progress in developing the Library of Cannabinoids over the past 6 months
- Partnership discussions commenced between RMIT, MXC and leading Israeli research universities to identify and potentially deliver new medicinal cannabis technologies to market
- Commencement of first 2018 crop at MXC's Czech Republic glasshouse facility using new generation cannabis genetics
- Extraction of cannabinoids from 2017 Czech botanical production to be completed in Prague during March, to be used in manufacture of new MGC products
- Potential strategic investment and JV opportunities for a MXC operation identified with established licensed producers in Australia and North America, providing opportunity to fast track the Company's operations in both regions to complement its European pharma infrastructure and product development

**MGC Pharmaceuticals Ltd (ASX: MXC or "the Company")** is pleased to provide the following operational update as it continues to make strong progress across its MGC Pharma, MGC Botanic and MGC Derma divisions.

The Company's core strategic focus remains to build the MGC Pharma business into a leading global bio-Pharma operation, and it has made further strong progress over the past few months. Final GMP certification for the laboratory and compounding facility is expected shortly after the Company's first CannEpi<sup>TM</sup> batch is completed and inspected, which remains on track for March.

Additionally, the executive management team has also been focused on advancing numerous commercial and strategic discussions with potential key partners, to fast track the Company's licensed producer status in Australia and North America, to complement the Company's existing facilities and operations in Europe.

The management team have delivered material progress across the Pharma, Derma and Botanic Divisions over the past few quarters, and a summary for each of the three areas is outlined below.

## MGC Pharma

### Production of first CannEpi<sup>TM</sup> batch and GMP certification on track

In January 2018, the Company was granted an interim Good Manufacturing Practice (GMP) licence for its European production and manufacturing facility, significantly progressing the Company towards the completion of its full GMP licence.

Under this interim certification, the imminent production of MXC's first batch of CannEpi<sup>TM</sup> will undergo analysis and inspection as a final step before full GMP certification is granted.



The Company remains on track to complete the manufacture of its first batch of CannEpi<sup>TM</sup> in March and expects to receive the final GMP certification for its European laboratory and compounding facility shortly thereafter.

Once final GMP certification is received for the laboratory and compounding facility, MXC will focus on the GMP certification process for its European extraction facility. Once both certifications are received, MXC will have a fully-integrated GMP facility for the future extraction, compounding and production of new pharmaceutical grade cannabinoid medicine products.

### RMIT University collaboration - material progress on Library of Cannabinoids and new initiatives

The collaboration with RMIT University has made material progress on 3 key project initiatives over the past 6 months, including the strategic Library of Cannabinoids. Currently, PhDs students are working full time on the Library of Cannabinoids, with the repository of information to be used in the further study of medicinal cannabis safety, efficacy and the development of personalised medications. The information will also be used to support real-time doctor and patient monitoring of medicinal cannabis use.

Furthermore, RMIT and MXC have commenced potential strategic partnership discussions with leading Israeli medicinal cannabis research centres and universities, to work together on the Library of Cannabinoids to support global medicinal cannabis clinical studies, with the data to be analysed statistically using complex algorithms. The data will also be used to identify and incubate new innovative technologies in the medical cannabis sector including cutting edge genetics, delivery systems, treatments and new medical products.

In September 2017, MXC submitted its first application to Australia’s Office of Drug Control (ODC) for its medicinal cannabis research cultivation licence for its collaborative research initiative with RMIT University. In recent months, RMIT and MXC have been actively working with the ODC to progress its licence application through the approval process. The Company and RMIT hope an Australian research cultivation licence will be granted in due course, and are actively engaging with the federal licensing body on any further requirements and next steps.

### **Mabsut Life contract on-track to deliver annualised \$1m revenue**

The multi-year contract with Mabsut Life remains on track to deliver annualised revenues of \$1 million with MXC supplying a minimum of 12kg of CBD extract per quarter from MXC’s European extraction facility.

Additionally, Mabsut have recently requested that MXC commence work on new products lines, which are now currently under development at MXC’s European research and development facilities.

### **MGC Botanic**

#### **Second year’s crop commenced at MXC’s Czech Republic facility**

Following a successful first harvest in 2017 at the Company’s Czech Republic facility, MXC has commenced its second year’s crop, with seedlings already cultivated for the entire 1,100 square meter glasshouse facility, 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. The Czech botanical operation is a key strategic base for the Company and ensures it is well placed to meet expected strong future demand from key European emerging markets.

Furthermore, the Company will commence operations in Prague to extract cannabinoids from its 2017 Czech Republic botanical production in March, for use in the manufacture of new MGC products.

#### **MXC first genetics crop completed with University of Ljubljana**

The research collaboration with University of Ljubljana, Slovenia continues to progress well, with the crop of cannabis plants grown using MXC genetics now in the middle of flowering stage. Preparations are currently underway for analysis, which will be the next phase in the project, the outcomes of which will be detailed in the next research report, which is released semi-annually.



## **Discussions underway to establish potential licensed producer joint ventures/ partnerships**

In recent months, the executive management team have advanced discussions to establish potential strategic joint ventures or partnerships with existing licensed producers. The discussions are focused on establishing an operational base in both Australia and North America, two key new markets identified by the Company. The execution of strategic partnerships or joint ventures would ideally provide MXC with immediate access to fully licensed medical cannabis facilities in each region, or enable fast tracking the establishment of key botanical operations in both continents. Management continues to progress these discussions and will provide an update to shareholders and further details, should an agreement be reached.

## **MGC Derma**

### **MGC Derma sales increase following successful Cult Beauty launch**

MGC Derma has seen a material increase in month on month sales revenues during February compared to Q3/Q4 2017 following the successful launch of 15 of MGC Derma's cosmetics products and its Derma Plus skin care range on global online cosmetics store Cult Beauty. The Cult Beauty launch is supported by an exclusive 6-month marketing campaign, and already, is driving a direct increase in sales of MGC Derma's products.

### **Varm Cosmo Sales Contract Update**

During February the Korean cosmetics manufacturer Varm Cosmo formally launched its CavaLabs brand using their own formulation and products lines. Based on the most recent correspondence received by the Company, Varm Cosmo is expected to launch its premium range of CavaLabs Derma products in the coming months, which is utilizing the MGC Derma formulations. The MGC Derma binding sales contract announced in late 2017 is for the supply of white label cosmetics products, which will be used by Varm Cosmo in its premium CavaLabs Derma premium range. Five of MGC Derma's CBD based cosmetics products will be sold as part of its CavaLabs Derma premium range under the white-label arrangement.

As previously announced in Company updates during 2018, MXC has not yet received payment of the initial \$1m deposit that was due when the first binding purchase order was executed. This directly results from delays caused to Varm Cosmo's testing process over the last 3 months to complete the finalisation of their premium product line as detailed in previous releases. Management now expects that once Varm Cosmo's testing is completed that the Company will receive Varm Cosmo's final order for its CavaLabs Derma premium product line, after which this first deposit would be received.

### **Two additional Derma Plus products to launch**

The Company is pleased to confirm that following the successful launch its Derma Plus Herbal Repair Cream, for sensitive and flaking prone skin in the December quarter, it will launch two additional products from the Derma Plus range.

MXC's Derma Plus range utilises proprietary cannabidiol (CBD) compounds and comprises three clinically tested products, which have been shown to deliver strong improvements across a range of skin conditions. Its CBD Herbal Replenish Cream for red and sensitive skin, targeting sufferers of eczema and seborrheic dermatitis will launch in March, followed by CBD Herbal Balm, designed for oily and acne prone skin in July 2018. Both products will be made available on MGC Derma's website [www.mgcderma.com](http://www.mgcderma.com).

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### **New Derma Product Catalogue to be launched in March**

New MGC Derma marketing materials will be released in March, to support ongoing sales and marketing initiatives of the MGC Derma product range.



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

“It has been a very busy few months, with the management team focused on completing some key operational milestones and a number of strategic discussions that could provide a huge opportunity to fast track our Pharma operations in a number of geographies.”

“We’ve made strong progress across all three divisions, and are fast approaching a major milestone for our Pharma division, with GMP certification imminent, following the first production of CannEpi<sup>TM</sup> which is on track for March.”

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### **About MXC**

MGC Pharmaceuticals Ltd (ASX: MXC) is an EU based specialist Bio Pharma company with many years of technical clinical and commercial experience in the medical cannabis industry. The Company’s founders were key figures in the global medical cannabis industry and the core business strategy is to develop and supply high quality Cannabinoids based pharmaceuticals products for the growing demand in the medical markets in Europe, North America and Australasia.

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