

8 August 2019

ASX Code: MXC

MGC signs long-term lease with Malta Industrial Parks for construction of large scale Pharma Production Facility

MGC Pharmaceuticals Ltd (ASX: MXC, 'MGC Pharma' or 'the Company'), a European based 'Seed to Pharmacy' bio-pharma company focused on developing and commercialising cannabinoid derived medicines, is pleased to announce a major milestone that has been delivered for the construction of its Maltese state-of-the-art GMP production and research facility. Further to recent announcements, the Company has signed a long-term lease agreement on the 6,000m² site in Malta, which was previously identified and designated to MGC Pharma by Malta Industrial Parks, following formal approval from Malta Enterprise as part of a government signing ceremony held in Malta today, Thursday 8 August.

This represents a major event for the Maltese medical cannabis industry as MGC Pharma's facility will be one of the first commercial EU-GMP grade production and research facilities in the country within the medical cannabis sector. The facility will facilitate development of expertise for cannabinoid derived medicines and research in Malta with subsequent products to be delivered into the European Union and global markets.

Overview:

- MGC Pharma was issued one of the first binding letters of intent (**LOI**) by Malta Enterprise for the cultivation, production and research of cannabis for medical purposes in Malta in April 2018
- MGC Pharma is now one of the first cannabis industry companies to sign a long-term lease agreement with the government, and to develop a fully integrated, Good Manufacturing Practice (**GMP**) compliant medical cannabis production facility in Malta
- Following recently issued regulatory approvals and permits, MGC Pharma has entered into a long-term lease agreement with Malta Industrial Parks Limited (**MIP**) that will see the construction of the facility delivering local operations including cultivation, production and research of MGC Pharma cannabinoid derived medicines for global distribution
- The large scale, eco-friendly commercial facility is proposed to be a 15,000m² multi-story building for the operation of the Company's fully GMP bio-pharma business, with a production capacity of over 8,000 units per hour of each product, which is a material production volume for the pharmaceutical industry
- In addition to the construction of the facility, MGC Pharma has commenced the process for GMP certification of its cannabinoid derived medicines commercial operations at the Maltese facility, with GMP building design approval already received
- Construction and planning approvals have already been received, with preliminary site works to start immediately and construction due to commence this quarter
- The Malta facility will enable MGC Pharma to materially scale up its existing production capacity and future revenue generation potential, which is currently centred on its research and manufacturing facility in Ljubljana, Slovenia

Roby Zomer, Co-founder and Managing Director of MGC Pharma, commented: “This is a transformational event for MGC Pharma. Providing a gateway to key European and global markets, the Maltese facility, when constructed, will be our centralised European production and distribution hub. This will be integral as we advance our strategy of becoming a leading European focused producer of cannabinoid derived medicinal products. The Maltese facility will significantly scale up our existing operations and commercial activities currently based in Slovenia and the Czech Republic.

“The lease agreement is a key step forward, and with planning approvals also in place we will now look to swiftly move into the construction phase. The state-of-the-art Maltese facility is to be a key asset for MGC Pharma to provide a platform for future product development and commercial growth, with large-scale production driving strong future revenues upon completion. I look forward to updating shareholders with details of our progress in the upcoming months.”

Karl Azzopardi, CEO of Malta Industrial Parks Ltd, commented: “We are delighted to welcome MGC Pharma to our ever growing and evolving industry. Indeed, MGC Pharma's inclusion is a milestone that proves that the combined efforts specifically that of creating the right framework in the context of attracting investment to our Country is an area of top priority. As it happened with all other industry sectors, although the Medical Cannabis Sector is relatively new, MIP is committed to provide facilitation and full support towards the growth of such an area in a smooth and timely manner. We congratulate MGC Pharma on this specific occasion and look forward towards a closer collaboration in the months and years to come.”

Kurt Farrugia, CEO of Malta Enterprise commented “MGC Pharma was one of the first companies to recognise that Malta’s new legislative framework for the ‘Production of Cannabis for Medicinal and Research Purposes’, presented an ideal and strategic opportunity for their company. We are very proud to have MGC Pharma operating in our Medical Cannabis Ecosystem, together with other global players. Malta Enterprise has been working very closely with MGC in order to ensure that their project materialises in the most efficient way possible. The signing of this lease agreement, is yet another landmark in MGC’s progress towards establishing and consolidating its presence in Europe. Malta Enterprise will keep assisting the industry to flourish within a transparent regulatory framework as a jurisdiction of excellence in Medical Cannabis.”

Material Operating Advantages from New Production Facility

The European GMP compliant pharma industry scale cannabis production facility will be capable of producing over 8,000 units of each MGC Pharma pharmaceutical grade product per hour, which is designed with significant excess capacity to meet the Company’s future global needs once in full production. As an eco-friendly energy efficient building, it is designed to minimize its carbon footprint as well as providing material operational cost savings and margin improvements to the Company, with the facility design fully compliant to EU energy efficiency regulations.

The single site, pharma industry scale ‘Seed to Pharmacy’ production facility is unique in the industry, and in the European Union, and being based in Malta delivers a number of benefits for the Company’s operating business into the future.

This centralising of the ‘Seed to Pharmacy’ operations, along with geographical benefits of being based in Malta, will benefit MGC Pharma in the ongoing development to become a leading European focused producer of cannabinoid derived medicines.

Key Terms of the Agreement

MGC Pharma has entered into a lease agreement (‘the **Agreement**’) with MIP, the entity responsible for the administration of the government-owned industrial parks and related facilities around Malta. The Company proposes to construct a 15,000m² multi-story facility that allows for the full process of an EU-GMP production and manufacturing area. The Agreement is further to the LOI between the Company and Malta Enterprise (announced on 11 April 2018) for the construction of a state-of-the-art facility for cannabinoid derived medicines. The Agreement represents a milestone in the permitting process ahead of proposed construction.

The key terms of the Agreement are summarised below;

- Long-term multi-decade lease, structured to assist the Company to build a world class cannabinoid manufacturing and research facility in Malta to operate for many decades to come
- Building works (minimum cost of €2.7 million) are to be commenced within three (3) months of the issue of all permits required by law (already received by the Company), with buildings erected within no later than eighteen (18) months of issued permits
- The Company undertakes to invest a minimum of €6 million in improvements on the site (including with respect to plant, machinery and equipment) within 3 years from the date of the Agreement
- The Company shall keep employed a minimum of 27 full time workers within 3 years from commencement of operations at the site, for the duration of the lease

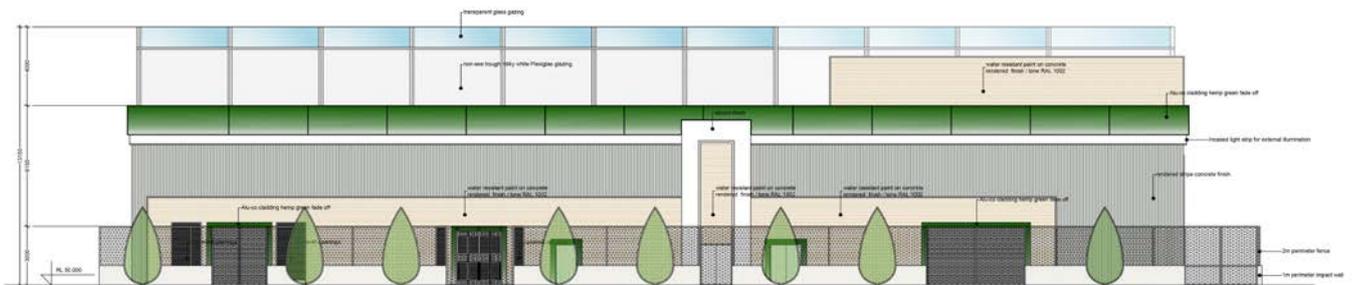
Following a survey of the land, the Company has secured civil works approval, Fire Safety approval and Hazard and Environmental approval from local authorities.

Under the Agreement, the Company is permitted to complete research and production of cannabis for medical purposes, which expands the commercial opportunity for MGC Pharma to develop additional pharmaceutical products into key European and global markets.

Figure 1: Architectural Design of Malta Hub



Front view



Side view

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About MGC Pharma

MGC Pharmaceuticals Ltd (ASX: MXC, OTCQB: MGCLF) is an EU-based 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 develop and supply high quality cannabinoid derived pharmaceutical products for the growing demand in the medical markets in Europe, North America and Australasia.

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About Malta Industrial Parks Ltd (MIP)

Malta Industrial Parks Ltd (MIP) is responsible for the administration of the government-owned industrial parks and related facilities around Malta and Gozo, as well as supporting and promoting their further development. MIP also manages the largest industrial property portfolio in Malta, spread across a number of industrial zones around the Maltese islands, which also include some industrial zones dedicated to specific sectors. Given the size of the country, all the industrial estates are within close proximity to the facilities that their tenants would require.

About Malta Enterprise

Malta Enterprise is the country's economic development agency, tasked with attracting new foreign direct investment as well as facilitating the growth of existing operations. In operation under various guises since the 1950s, which is almost since the beginning of Malta's industrial development, the Corporation contains within it a great deal of accumulated experience in the field. Furthermore, it acts as an adviser to government on economic policy due to its close and constant interaction with the main economic players in the country.