

Binding term sheet signed for MGC Pharma to acquire 100% of Medicinal Cannabis Clinic

ASX
RELEASE

Key Highlights:

- MGC Pharma signs binding term sheet to acquire 100% of the operating business, data and proprietary assets of Medicinal Cannabis Clinic Pty Ltd, one of Australia’s leading medicinal cannabis clinics
- Medicinal Cannabis Clinic provides a range of solutions focused on enabling patient access to affordable and experienced cannabinoid prescribing doctors
- A new wholly owned Australian subsidiary for MGC Pharma will be incorporated to hold all the operating clinic based assets, data and intellectual property of Medicinal Cannabis Clinic Pty Ltd
- Since July 2019, Medicinal Cannabis Clinic has facilitated cannabinoid prescriptions to over 3,700 patients through the Special Access Scheme. This clinic also has a broad network of 2,480 referring doctors and 60 pharmacies Australia-wide- one of the leading patient networks and data bases in Australia
- Medicinal Cannabis Clinic has a strong track record of month-on-month growth and is committed to providing excellent, independent clinical governance practice
- The acquisition of the Medicinal Cannabis Clinic assets provides an operating platform which significantly expands MGC Pharma’s distribution network into the Australian market and increases the accessibility to an established supply chain
- Following the Company’s recent granting of an Import Licence from the Office of Drug Control, this is the next step in building on-the-ground distribution assets in Australia, allowing MXC to control inventory, retail prices, and increase margins
- Total consideration is \$1 million in MGC Pharma Ordinary Shares (majority subject to trading restrictions) and \$400,000 in cash to be paid upon settlement

MGC Pharmaceuticals Ltd (ASX: MXC, ‘MGC Pharma’ or ‘the Company’), a European based bio-pharma company specialising in the production and development of EU-GMP phytocannabinoid-derived medicines, is pleased to announce it has signed a binding term sheet with Cannvalate Pty Ltd (“**CVL**”) to acquire 100% of the operating clinic based assets, data and intellectual property of its wholly owned subsidiary Medicinal Cannabis Clinic Pty Ltd (“**MCC**” and “**MCC Assets**” as appropriate), a leading Australian medicinal cannabis clinic with an extensive doctor and patient network. A new company (“**New Co**”) will be incorporated to hold all the MCC Assets which will be wholly owned by MGC Pharma.

MCC, one of CVL’s family of cannabis prescribing clinics, was established in 2019 and has become one of Australia’s leading medicinal cannabis clinics, enabling eligible patients to access high-quality and affordable medicinal cannabis products.

Since incorporation, MCC has facilitated over 4,000 medical consultations with pre-screened eligible patients and has shown continued month-on-month growth. The clinic utilises video telemedicine, allowing its doctors to prescribe the range of cannabinoid medications available in Australia, after which, due to the clinic’s pharmacy partnerships, the product can be dispensed and delivered straight to the patient’s door, eliminating the need for multiple visits to both doctor and pharmacy.

Under the terms of the agreement, New Co will obtain relevant state and federal licences to allow for the import and distribution of medicinal cannabis products, moving MGC Pharma’s Australian supply chain to New Co, allowing the Company to continue providing increasingly affordable cannabinoid medications through the focused reduction of importation, storage and distribution costs per unit.

In conjunction with the acquisition, MGC Pharma has secured the services of MCC staff to continue operations of New Co, ensuring clinical independence and excellent clinical governance and does not anticipate any changes to current operations, product offering, or fundamental business ethos of MCC. This provides both MGC Pharma’s and MCC’s patients and business relationships with full confidence of continued operation at existing reputed levels of service and support.

MGC Pharma is focused on providing affordable and accessible high-quality medicinal cannabis products to patients. The acquisition of 100% of the MCC Assets will expand MGC Pharma’s direct distribution network and enable a direct supply chain of MGC Pharma’s proprietary medicinal cannabis products to customers, cementing the Company’s fully vertically integrated Nature-to-Medicine business model.

Consideration due for the acquisition upon completion of settlement conditions includes \$400k in cash and \$1m in MGC Pharma shares (majority subject to trading restrictions). Settlement of the transaction is to be within 90 days. Details of the material key terms of the Term Sheet are contained in Annexure A.

Strategic Rationale

The acquisition of the MCC Assets, with import and distribution capacity alongside, will advance the medicinal cannabis industry in Australia by expanding patient access to affordable and experienced cannabinoid prescribing doctors and reducing supply chain costs for MGC Pharma, leading to increasingly more affordable, high-quality cannabinoid medications.

Following the recent granting of an Import Licence from the Office of Drug Control, allowing MXC to directly import both its Investigational Medicinal Product – CannEpi[®] for drug-resistant epilepsy and CogniCann[®] for dementia/Alzheimer’s – and its Mercury Pharma range, the acquisition of the MCC Assets is the next step in building on-the-ground distribution assets. This will allow the Company to wholesale and distribute directly to other clinics and pharmacies to reduce storage and distribution costs, while giving the ability to set retail price points.

The acquisition of the MCC Assets will also result in a significant decrease in logistics and operational costs for MGC Pharma by increasing the Company’s control of the product value chain from production to patient as the Company will receive higher profit margins on all three of its production, wholesale and clinic sales.

This will also improve MGC Pharma’s cashflow earning potential and expedite the Company towards positive cashflow generation and operating profitability.

Roby Zomer, Co-founder and Managing Director of MGC Pharma, commented: “The acquisition of Medicinal Cannabis Clinics’ assets is an important part of our strategy to grow our distribution network and direct supply chain capabilities in both Australia and Internationally. Importantly, with the acquisition of MCC’s assets, MGC Pharma will be well on the way to achieving our cashflow breakeven targets. We look forward to integrating MCC’s high quality network of clinics”

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About MGC Pharma

MGC Pharmaceuticals Ltd (ASX: MXC) is a European based bio-pharma company developing and supplying affordable standardised phytocannabinoid derived medicines to patients globally. 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 phytocannabinoid derived medicines for the growing demand in the medical markets in Europe, North America and Australasia. MGC Pharma has a robust product offering targeting two widespread medical conditions – epilepsy and dementia – and has further products in the development pipeline.

Employing its 'Nature to Medicine' strategy, MGC Pharma has partnered with renowned institutions and academia to optimise cultivation and the development of targeted phytocannabinoid derived medicines products prior to production in the Company's EU-GMP Certified manufacturing facility. MGC Pharma has a number of research collaborations with world renowned academic institutions, and including recent research highlighting the positive impact of using specific phytocannabinoid formulations developed by MGC Pharma in the treatment of glioblastoma, the most aggressive and so far therapeutically resistant primary brain tumour.

MGC Pharma has a growing patient base in Australia, the UK, Brazil and Ireland and has a global distribution footprint via an extensive network of commercial partners meaning that it is poised to supply the global market.

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ANNEXURE A

MGC Pharma to acquire 100% of the clinical assets of Medicinal Cannabis Clinic Pty Ltd (**'MCC'**) from Cannvalate Pty Ltd (**'CVL'**) (**'Transaction'**) including:

- All trading names, logos, trademarks, domain name registrations, websites associated with MCC;
- All plant and equipment including software and operating systems;
- Assignment, transfer or novation of all agreements including those for premises, medical practitioners, employees, practice management, marketing and distribution; and
- Any other asset necessary for the operation of the clinic

Consideration for the Transaction will be:

1. \$400,000 cash payable immediately on completion of the Conditions Precedent.
2. \$1m worth of MXC ordinary shares (valued at a 20-trading day VWAP preceding the issue date) issued immediately under the Company's Listing Rule 7.1 capacity on completion of the Conditions Precedent to Cannvalate Pty Ltd or nominee:
 - a) 1/3 released on completion of the Conditions Precedent, no trading restriction
 - b) 1/3 voluntary trading restriction for 6 months from completion of the Conditions Precedent
 - c) 1/3 voluntary trading restriction for 12 months from completion of the Conditions Precedent

Material Conditions Precedent are included below:

- the satisfactory completion by each party of due diligence investigation in respect of the Transaction within 14 days of execution
- negotiation and execution of the following agreements (**'Transaction Documents'**) within 90 calendar days;
 - Service Level Agreement
 - Master Clinical Trial Agreement
 - Data Collection Work Order
 - Clinical Research Work Order
 - Director Agreement with Dr Gal Wong

Should the Transaction Documents not be exercised within 90 days of the signing of the Term Sheet for any reason other than CVL's fault, MXC will pay an agreed penalty of \$70,000 in cash and \$100,000 worth of ordinary shares of MXC (valued at a 20 trading day VWAP preceding the issue date).

The Term Sheet will be in effect until it is superseded by a Contract of Sale, or until 90 days following execution, or if either party is not satisfied with the results of its due diligence investigation concluding the proposed Transaction.