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mgc pharma



MGC PHARMACEUTICALS LTD

ABN 30 116 800 269

**Appendix 4E and Preliminary
Unaudited Financial Report**

30 JUNE 2020

MGC Pharmaceuticals Ltd provides the following information under the listing rule 4.3A:

Details of reporting period and the previous corresponding period

REPORTING PERIOD

Financial Year end 30 June 2020

PREVIOUS REPORTING PERIOD

Financial Year end 30 June 2019

Results for announcement to the market

	30 June 2020 \$	Change %	30 June 2019 (restated) \$
Revenue	2,034,649	210%	656,237
(Loss) after income tax attributable to members	(19,363,089)	126%	(8,579,331)
Net (Loss) for the year attributable to members	(19,363,089)	126%	(8,579,331)

Net tangible asset per share

	2020 cents/share	2019 cents/share
Net tangible assets per ordinary share	0.22	0.48

Commentary on results

The MGC Pharmaceuticals Limited consolidated entity (MXC) is pleased to report on its 2020 financial year.

The results presented for the period to 30 June 2020 and the restated results for the comparative period ended 30 June 2019 were affected by the following significant items, including a restatement of 2019 after tax loss:

- The result for the 2019 financial year included a one-off gain on sale of subsidiary MGC Derma d.o.o. of \$2,880,242
- The result for the 2020 financial year included a write-off expense on the intangible asset of \$5,038,064 upon expiry of the original Slovenian cannabis cultivation license, which had been assigned a portion of the identifiable fair value relating to the MGC Pharma (UK) Ltd acquisition in 2016 (2019: \$2,011,542)
- The 2020 result included an impairment expense of \$2,238,481 relating to the shares held in Cannaglobal, which were valued at 30 June 2020 with reference to the expected fair value per share based on the Cannaglobal's most recently announced capital raising (2019: \$481,598)
- Share-based payments expense to Directors and employees in 2020 of \$854,916 (2019: \$537,004)

Also the comparative results for the period ended 30 June 2019 were restated following the reassessment of the Group's accounting treatment for the prior year gain on remeasurement of performance shares of \$6,270,000, relating to the asset acquisition of MGC Pharma (UK) Ltd in the 2016 financial year, which was reassessed as an equity-settled share based payment. This increased the Group's loss after tax for the 2019 financial year by \$6,270,000 from the previously reported result. The comparatives above have been restated accordingly.

2020 FY Operational Highlights:

- At the end of FY2020, MGC Pharma had 3,590 prescribed units for 1,428 patients, representing a 65% increase in the 6 months to 30 June 2020
- Three-year EU GMP licence granted to MXC cannabinoid medicine production facility in Slovenia following successful regulatory audit, confirming MXC current and future production capacity
- Key distribution agreements signed to expand MXC international footprint and expedite commercialisation of products through the next 6 to 12 months to move towards 5,000 units per month to achieve cashflow breakeven status
- Commencement of Phase II placebo controlled clinical trial to evaluate the safety and efficacy of a natural anti-inflammatory based formulation ArtemiC on COVID-19 patients, with the interim trial results released post financial year end on the first 10 patients meeting all primary endpoints
- Ethics Committee approval received in Israel for Phase IIb clinical trial to evaluate the safety and efficacy of CannEpil®

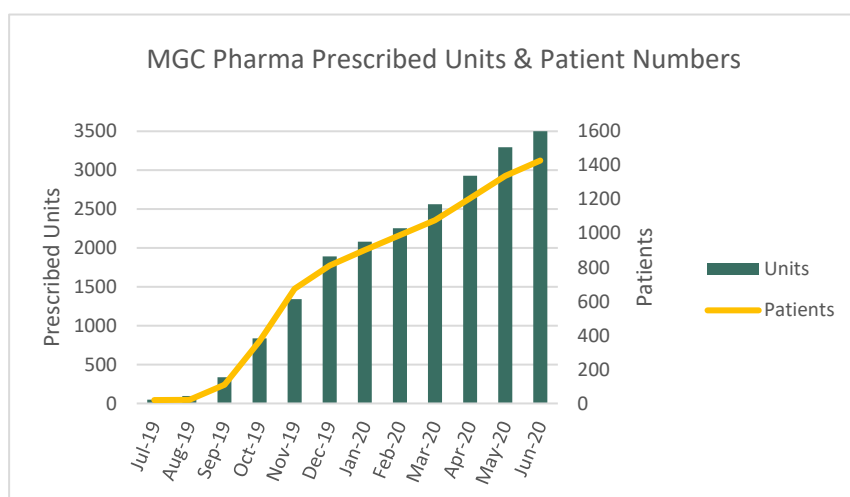
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- Successful research results of MXC cannabinoid formulation on glioblastoma brain cancer, from ongoing pre-clinical in-vitro research program in Europe
- Acquisition agreement signed for MXC to sell MGC Nutraceuticals (100% subsidiary) to leading US CBD & Hemp Wellness company for US\$6m worth of shares in Onassis (OTC:ONSS), to settle in CY2020
- Implementation of salary reductions for directors (up to 60%) and senior management team (up to 30%), combined with material reduction of operational costs including partial cash salary offsets with MXC equity for all staff

MGC Pharmaceuticals Ltd (ASX: MXC, 'MGC Pharma' or 'the Company'), is pleased to announce its preliminary unaudited financial report for the 2020 financial year and its key operational achievements for the period.

Pharma Distribution and Company Operations

At the end of 30 June 2020, the Company issued a total of 3,590 prescribed units of its standardised affordable cannabinoid medicines across the UK, Australia, NZ, Brazil and Ireland, passing its 3,250 milestone in May 2020. This brought the total number of patients prescribed MXC products to 1,428, a 65% increase since the beginning of January 2020.



Due to strong sales since launch in early 2020, the Company is also expanding its Mercury Pharma product line to include six new products. This places the Company in a strong position to achieve its target of issuing 5,000 prescriptions per month in Q1 calendar 2021, which is currently benchmarked for the Company to achieve cashflow breakeven at an operating level.

Three-year EU GMP licence granted

MXC was successfully granted a three-year renewal of its Good Manufacturing Practice (GMP) licence for EU compliance of its Slovenian production and compounding facility. The EU GMP licence is the most highly credentialled in the world for product standardisation and compliance, which is essential for the production and manufacturing of pharma grade medicinal products.

New ONIX Supply Agreement and Receipt of Down Payment

At the beginning of March 2020, MGC Pharma executed a binding amendment to the supply and distribution agreement with ONIX Empreendimentos e Participações, which established a minimum order volume of 20,000 units for year one. A down payment of ~A\$107,000 (€65,000) was received as part payment for the first purchase order of 4,000 units, which has a total value of ~A\$330,000. The minimum order volume will increase to 50,000 units per annum from year two onwards, carrying an estimated value of at least A\$4.1 million (€2.5 million) per annum. The agreement has a minimum seven-year term, which may be renewed for an additional five-year term by mutual agreement. The parties are currently advancing approvals and agreements with key stakeholders in Brazil to facilitate the first large commercial shipment of MGC Pharma products to the country.

Binding term sheet signed for sales & distribution of ArtemiC in Russia, Israel and the CIS & Balkan countries

A binding term sheet was signed with KS Kim, a wholly owned division of SK-Pharma Group, for the sales and distribution of ArtemiC in Russia, Israel, the CIS and Balkan countries (the "Territories"). SK-Pharma operates in more than 19 countries worldwide and is one of the largest distributors of medicines across the Territories.

Research and Development**Phase II clinical trial commences for COVID-19 infected patients**

MXC commenced a Phase II double-blind, randomized, placebo controlled clinical trial to evaluate the safety and efficacy of a natural anti-inflammatory based formulation ArtemiC on patients diagnosed with COVID-19. This followed receipt of Ethics Committee approval on the 17th April 2020 for approval of the trial at Nazareth Hospital EMMS in Israel and on 28th of April 2020 at Hillel Yaffe Hospital in Israel.

The Phase II trial commenced in early May and in July was geographically expanded to the Mahatma Gandhi Mission's Medical College & Hospital in India, which is in the patient recruitment phase. MXC was also selected by the World Health Organisation to participate in a COVID-19 taskforce by reporting on the ArtemiC trial.

Subsequent to the financial year end, the Company released interim results from the trial on the first 10 patients showing all primary endpoints were met which is very encouraging. Separately, the Company received promising results from ArtemiC's safety and toxicity pre-clinical study which delivered no adverse results in standard toxicity measures from the full panel of haematology and chemistry blood tests. In-vitro pre-clinical study results were also released post the end of the period, which showed effective immunological activity for the use of ArtemiC as an immune-modulatory agent for the treatment of COVID-19.

Successful research results for cannabinoid formulation on Glioblastoma – brain cancer

MXC's ongoing pre-clinical in-vitro research program focused on cannabinoid formulations in the development of treatment for glioblastoma multiforme ('GBM'), the most aggressive, and so far, therapeutically resistant, primary brain tumour yielded successful results. The research is being conducted in collaboration with the National Institute of Biology ('NIB') and the Neurosurgery Department at the University Medical Centre in Ljubljana, Slovenia.

Results to date have shown brain tissue samples from a total of 24 patients confirm that the cannabinoid preparations can successfully inhibit tumour cell viability and cause a significant percentage of glioblastoma cells to undergo "programmed cell death". Data from NIB conducted on 14 additional GBM tumour tissue samples, support the direct novel cannabinoid formulations in the treatment of glioblastoma.

The results have shown multi compound cannabinoid formulations are more effective than single cannabinoid preparations and importantly are the intellectual property of MGC Pharma. Pre-clinical studies will continue in-vitro, using a four-dimensional matrix designed to find the most efficient cannabinoid preparation.

Financial and Corporate**Reduction in operating costs and salary cuts formalised for Directors and management team**

Further to the corporate cost saving measures implemented earlier in the year due to the COVID-19 outbreak, the Company has formally revised remuneration agreements with its directors and senior management.

Effective 1st July 2020, MXC directors signed new director agreements which include a salary decrease of up to 60% for the 2021 financial year. Additionally, there is no longer a termination payment due to directors Brett Mitchell, Roby Zomer and Nativ Segev as detailed in their original service agreements, and as was referenced in the ASX announcement of 15 April 2020. Senior management remuneration has been decreased by up to 30%. Director salaries totalled \$115k in the June 2020 quarter compared to \$424k in the December 2019 quarter.

The Company has also continued reduction in administration costs and streamlining operating costs with \$600k spent in the June 2020 quarter comparable to \$1.1m the same quarter 2019.

Events subsequent to year end

Subsequent to year end, MGC was awarded an Import Licence and a cannabis cultivation research permit from the Australian Office of Drug Control. This Import Licence allows the importation of any MGC Pharma Schedule 4 and Schedule 8 medicinal cannabis products into Australia directly by the Company, which was previously facilitated by third parties.

This also now allows MGC to bulk import its products directly resulting in significant cost savings to the Company including logistics and handling costs.

MGC Pharma also signed a binding term sheet with Cannvalate Pty Ltd to acquire 100% of the operating clinic-based assets, data and intellectual property of its wholly owned subsidiary Medicinal Cannabis Clinic (MCC). MCC is a leading Australian medicinal cannabis clinic with a large and existing doctor and patient network.

MGC's acquisition of MCC's intellectual property assets, along with its import and distribution capability will reduce supply chain costs which will in turn lead to increasingly more affordable, high-quality cannabinoid medications for an expanding patient base across Australia. Settlement of the acquisition is expected by October 2020.

Outlook

The Company has delivered material progress during the year including expanding licences and finalising product registrations in a number of jurisdictions as well as the establishment of key distribution agreements for several large target markets which significantly expands the potential commercial opportunity and patient base of MGC Pharma. As a result, the Company is well positioned to achieve its milestone of 5,000 prescribed units per month in the coming financial year from its existing key distribution agreements and sales pipeline already in place, which is currently required to achieve operating cashflow breakeven status for the Company.

Dividends and distributions

The Board has not declared dividends or made dividend payments in the periods 30 June 2019 and 2020. The Company does not have any dividend or distribution reinvestment plans in operation.

Details of subsidiaries over which control has been gained or lost

During the year there were no newly incorporated, nor newly acquired, entities, however, there was an increase in the percentage holding of Panax Pharma s.r.o from 80% to 86.67%. There were no other changes relating to subsidiary holdings from the prior year ended 30 June 2019.

Audit Status

The consolidated financial statements are in the process of being audited.

Financial Report

The following financial report included in this Appendix 4E does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and operating, financing and investing activities of the consolidated entity as the full financial report. The financial report should be read in conjunction with any public announcements made by MGC Pharmaceuticals Limited in accordance with the continuous disclosure obligations of the ASX Listing Rules. The accounting policies applied are the same as those noted in the most recent interim financial report and previous annual report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	<i>Note</i>	30-Jun-20	30-Jun-19
		\$	Restated \$
Revenue from continuing operations			
Revenue from contracts with customers	1	2,034,649	656,237
Cost of sales		(1,904,504)	(356,642)
Gross profit		130,145	299,595
Other operating income		518,851	327,565
Administrative expenses		(6,609,147)	(5,635,303)
Operating expenses		(5,459,843)	(3,703,432)
Impairment expenses		(7,276,544)	(2,493,140)
Operating loss		(18,696,538)	(11,231,715)
Finance costs		(135,582)	(444)
Finance income		12,336	201,850
Other income		5,465	2,883,953
Loss before tax from continuing operations		(18,814,319)	(8,146,356)
Income tax expense		-	(27,315)
Loss for the year from continuing operations		(18,814,319)	(8,173,671)
Discontinued operations			
Loss after tax for the year from discontinued operations		(555,907)	(450,185)
Loss for the year		(19,370,226)	(8,623,856)
Attributable to:			
Member of the parent entity		(19,363,089)	(8,579,331)
Non-controlling interest		(7,137)	(44,525)
		(19,370,226)	(8,623,856)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on the translation of foreign operations		51,356	(127,067)
Derecognition of foreign currency reserve		-	24,295
Other comprehensive income /(loss) (net of tax) for the year		51,356	(102,772)
Total comprehensive loss for the year		(19,318,870)	(8,726,628)
Total comprehensive loss attributable to:			
Members of the parent entity		(19,311,733)	(8,682,103)
Non-controlling interest		(7,137)	(44,525)
		(19,318,870)	(8,726,628)
Earnings per share			
From continuing and discontinued operations			
Basic loss per share (cents)	2	(1.40)	(0.71)
Diluted loss per share (cents)	2	(1.40)	(0.71)

The above consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes

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Consolidated Statement of Financial Position

As at 30 June 2020

	Note	30-Jun-20 \$	30-Jun-19 Restated \$
CURRENT ASSETS			
Cash and cash equivalents	3	1,873,373	2,354,086
Inventory	4	402,237	138,800
Trade and other receivables	5	592,716	1,227,285
Non-current assets classified as held for sale	6	362,657	-
Total Current Assets		3,230,983	3,720,171
NON-CURRENT ASSETS			
Plant and equipment		2,192,974	1,470,479
Intangible assets		-	5,034,309
Financial assets		673,740	2,771,804
Right-of-use assets		1,831,377	-
Total Non-Current Assets		4,698,091	9,276,592
TOTAL ASSETS		7,929,074	12,996,763
CURRENT LIABILITIES			
Trade and other payables		2,705,818	1,593,707
Deferred revenue		100,440	587,688
Liabilities directly associated with non-current assets classified as held for sale	6	109,254	-
Lease liabilities - current		53,924	-
Total Current Liabilities		2,969,436	2,181,395
NON-CURRENT LIABILITIES			
Provisions		19,982	17,195
Lease liabilities - non-current		1,845,300	-
Total Non-Current Liabilities		1,865,282	17,195
TOTAL LIABILITIES		4,834,718	2,198,590
NET ASSETS		3,094,356	10,798,173
EQUITY			
Contributed equity		60,149,457	49,133,819
Share based payment reserve		5,380,904	4,556,418
Foreign currency translation reserve		85,284	33,928
Consolidation reserve		(382,404)	-
Accumulated losses		(62,127,918)	(42,764,829)
Equity attributable to equity holders of the parent		3,105,323	10,959,336
Non-controlling interest		(10,967)	(161,163)
TOTAL EQUITY		3,094,356	10,798,173

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Contributed Equity	Share Based Payment Reserve	Foreign Currency Translation Reserve	Consolidation Reserve	Retained Earnings	Non- Controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018 – as previously stated	48,440,990	3,385,229	136,700	-	(38,030,342)	(1,241,793)	12,690,784
Deferred consideration restatement	-	1,300,000	-	-	4,970,000	-	6,270,000
Balance at 1 July 2018 - restated	48,440,990	4,685,229	136,700	-	(33,060,342)	(1,241,793)	18,960,784
Other comprehensive income	-	-	(102,772)	-	-	-	(102,772)
Loss after income tax expense	-	-	-	-	(8,579,332)	(44,525)	(8,623,8577)
Total comprehensive loss for the year	-	-	(102,772)	-	(8,579,332)	(44,525)	(8,726,629)
Shares issued during the year (net of share issue costs)	692,829	-	-	-	-	-	692,829
Share based payment	-	(128,811)	-	-	-	-	(128,811)
Disposal of subsidiary	-	-	-	-	(1,125,155)	1,125,155	-
Balance at 30 June 2019 (Restated)	49,133,819	4,556,418	33,928	-	(42,764,829)	(161,163)	10,798,173

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Contributed Equity	Share Based Payment Reserve	Foreign Currency Translation Reserve	Consolidation Reserve	Retained Earnings	Non- Controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2019 - restated	49,133,819	4,556,418	33,928	-	(42,764,829)	(161,163)	10,798,173
Other comprehensive income	-	-	51,356	-	-	-	51,356
Loss after income tax expense	-	-	-	-	(19,363,089)	(7,137)	(19,370,226)
Total comprehensive loss for the year	-	-	51,356	-	(19,363,089)	(7,137)	(19,318,870)
Shares issued during the year (net of share issue costs)	9,911,672	-	-	-	-	-	9,911,672
Transfer to issued capital	869,931	(869,931)	-	-	-	-	-
Share based payment	-	1,694,417	-	-	-	-	1,694,417
Acquisition of remaining non-controlling interest	234,035	-	-	(382,404)	-	157,333	8,964
Balance at 30 June 2020	60,149,457	5,380,904	85,284	(382,404)	(62,127,918)	(10,967)	3,094,356

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	<i>Note</i>	30-Jun-20 \$	30-Jun-19 \$
<i>Cash flows from operating activities</i>			
Receipts from customers		2,072,246	985,195
Payments to suppliers and employees		(8,767,168)	(4,905,358)
Payments for research expenses		(3,973,805)	(2,892,045)
Research and development rebate		456,901	327,565
Government grant received		62,051	-
Interest received		14,242	158,193
Interest paid		(4,945)	(444)
Income tax paid		-	(27,315)
Net cash used in operating activities		(10,140,478)	(6,354,209)
<i>Cash flows from investing activities</i>			
Subsidiary held for sale; net of cash disposed of		(13,252)	(569,992)
Proceeds from sales of plant and equipment		5,465	-
Purchase of plant and equipment		(962,097)	(377,043)
Net cash used in investing activities		(969,884)	(947,035)
<i>Cash flows from financing activities</i>			
Proceeds from issue of shares and options		11,433,193	35,962
Transactions costs on issue of shares		(787,677)	(8,948)
Net cash provided by financing activities		10,645,516	27,014
Net (decrease) in cash and cash equivalents held		(464,846)	(7,274,231)
Cash and cash equivalents at beginning of year		2,354,086	9,858,977
Foreign exchange movement in cash		(15,867)	(230,660)
Cash and cash equivalents at end of year	3	1,873,373	2,354,086

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Notes to the Condensed Consolidated Financial Statements

For the year ended 30 June 2020

1. REVENUE FROM CONTRACTS WITH CUSTOMERS

	30-Jun-20	30-Jun-19
Sales revenue	\$	\$
Pharma sales	1,119,414	36,273
Non-pharma sales	915,235	619,964
	2,034,649	656,237

2. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of the basic and diluted earnings per share as follows:

	30-Jun-20	30-Jun-19
Basic loss per share (cents)	(1.40)	(0.71)
Diluted loss per share (cents)	(1.40)	(0.71)
Reconciliation of earnings to profit or loss	\$	\$
(Loss) used in calculating basic and diluted EPS	(19,363,089)	(8,579,331)
	Number	Number
Weighted average number of ordinary shares and potential ordinary shares		
Weighted average number of ordinary shares used in calculating basic and diluted EPS	1,382,194,646	1,209,142,408

3. CASH AND CASH EQUIVALENTS

	30-Jun-20	30-Jun-19
	\$	\$
Cash at bank	1,873,373	2,354,086
	1,873,373	2,354,086

4. INVENTORY

	30-Jun-20	30-Jun-19
	\$	\$
Inventories	92,511	21,050
Raw materials	290,940	117,750
Work in progress	18,786	-
	402,237	138,800

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5. TRADE AND OTHER RECEIVABLES

	30-Jun-20	30-Jun-19
Current	\$	\$
Trade receivables	-	271,022
Other receivables	99,615	710,298
GST receivables	254,297	158,632
Prepayments	185,626	87,333
Short term loan to third party	53,178	-
	592,716	1,227,285

6. ASSETS AND LIABILITIES HELD FOR SALE

Towards the end of the financial year MGC Pharma signed an acquisition agreement to sell MGC Nutraceuticals (100% subsidiary) to US OTC publicly traded company, Onassis Holdings Corp. (OTC: "ONSS") for US\$6 million worth of shares in Onassis. This was a landmark commercial transaction for the Company delivering material value for shareholders and for the MGC Nutraceuticals division as it will continue to be developed by a leading team of market experts through to its next phase of mass market distribution and strong sales growth.

As at 30 June 2020, and in line with relevant standards, MGC Nutraceuticals has been classified as a disposal subsidiary held for sales and as a discontinued operation.

7. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to year end, the ArtemiC Phase II clinical trial received ethics committee approval to proceed with a site expansion to India. Interim results on the first 10 patients were released, with all results meeting the primary endpoints.

MGC was awarded an Import Licence and a cannabis cultivation research permit from the Australian Office of Drug Control. This Import Licence allows the importation of any MGC Pharma Schedule 4 and Schedule 8 medicinal cannabis products into Australia directly by the Company, which was previously facilitated by third parties.

This also now allows MGC to bulk import its products directly resulting in significant cost savings to the Company including logistics and handling costs.

MGC Pharma also signed a binding term sheet with Cannvalate Pty Ltd to acquire 100% of the operating clinic-based assets, data and intellectual property of its wholly owned subsidiary Medicinal Cannabis Clinic (MCC). MCC is a leading Australian medicinal cannabis clinic with a large and existing doctor and patient network.

MGC's acquisition of MCC's Assets, along with its import and distribution capability will reduce supply chain costs which will in turn lead to increasingly more affordable, high-quality cannabinoid medications for an expanding patient base across Australia. Settlement of the acquisition is expected by October 2020.