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ASX Code: MXC

New Panax Acquisition Agreement Signed, Settlement Imminent

New Czech Scientific Research Partner Engaged, Immediate Medical Cannabis Genetics and Breeding Facility Access

- MGC Pharmaceuticals has executed a new acquisition agreement with Czech-based medical cannabis company PANAX Pharma s.r.o (Panax), on improved commercial terms for MGC Pharmaceuticals
- Settlement is now imminent, in coming weeks, as due diligence processes are materially completed
- New acquisition agreements cement a strategic partnership with a highly respected Czech Republic science institution, the Institute of Experimental Botany of the Academy of Sciences of the Czech Republic (IEB AS)
- The IEB AS is a leading Czech research institute in plant biology, namely in plant genetics, physiology and biotechnology, with a world-class Institute of Experimental Botany scientific facility in Prague
- This facility will utilize a medicinal cannabis breeding license for a specific medical cannabis breeding program for the MXC/Panax operations
- Strategic acquisition gives MGC Pharmaceuticals immediate access to the Academy's laboratories growing facilities and with potential of up to 1,000m² of greenhouses growing space to conduct medical cannabis breeding research
- Genetics and breeding program will facilitate the growing of various strains of medical grade cannabis on continuous cycles for the MXC research plan

MGC Pharmaceuticals Ltd (ASX: MXC or "the Company") is pleased to announce that, pursuant to its announcement dated 27 April 2016, following a detailed due diligence review being undertaken and completed on the acquisition and operation of the business in the Czech Republic, the Company has executed a new binding heads of agreement to acquire up to 100% equity in Czech-based medical cannabis company PANAX Pharma s.r.o.

As part of the new binding agreement now in place, Panax has an agreement to develop a medical cannabis genetics and breeding operation with near-term access to the modern science facilities of the IEB AS in Prague, to be led by the MGC Pharmaceuticals executive team following settlement of the Panax acquisition.

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Key Deal Terms Summary

As the Company's due diligence programs are nearly complete, settlement of the Panax acquisition is now expected within weeks. The material commercial terms under the new binding heads of agreement are set out below (and are broadly consistent with the original deal):

- i. 25% equity issued upfront to MGC Pharmaceuticals,
- ii. 55% equity issued for MGC Pharmaceuticals' commitment to fund the first 12 months operating costs (capped at €700,000), and
- iii. An option (exercisable within 3 years following the end of the 12 month funding period) to acquire the final 20% equity at MGC Pharmaceuticals' election for €600,000 of MXC ordinary shares to be issued on a 20 day vwap at the date of option exercise.

The only material change has been that the acquisition of the final 20% equity in Panax will only cost MGC Pharmaceuticals €600,000, reduced from €800,000 in the original deal terms as announced on 27 April 2016.

Under the terms of the transaction, the IEB AS will prepare a Research Plan for MGC Pharmaceuticals' approval. The Academy's Institute of Experimental Botany will then monitor the research progress and delegate a supervisor for the breeding operations. MGC Pharmaceuticals is to provide its expertise and technical know-how to facilitate the successful research plan.

Background on Panax and the IEB AS

The strategic acquisition of Panax will give MGC Pharmaceuticals access to the world-class facilities of the Institution of Experimental Botany of Academy of Sciences of the Czech Republic, located in Prague. This new strategic partnership between Panax and the Academy offers Panax a materially stronger research and scientific partnership for the development of the medicinal cannabis genetics and breeding program in the Czech Republic.

Panax Pharma s.r.o is a Czech Republic based medical cannabis company that has research access rights to the Academy's facilities. The Academy of Botanical Sciences is a leading Czech research institute in plant biology, namely in plant genetics, physiology and biotechnology. The Academy of Sciences facility has the approval for a cannabis breeding license and all required approvals for cannabis research which are granted by Ministry of Health in the Czech Republic.

The acquisition enables MGC Pharmaceuticals to immediately commence research operations in January, which potentially will scale up to 1,000m² of greenhouses growing space. The Company will start researching a variety of medical cannabis plants with different CBD and THC yields. This strengthens MGC Pharmaceuticals' research credentials and may potentially give the Company access to new genetic strains of medicinal cannabis for use in its MGC Pharmaceuticals products or in future clinical trials with medicinal cannabis.

As part of this research, the Company intends to isolate the ideal genotypes of medical cannabis strains and cross breed genetics to create a bank of strains that are ideal for both indoor and outdoor growing of high CBD/low THC and high THC/low CBD plants. Under the agreement, MGC Pharmaceuticals will have the exclusive rights to commercialize the research results.

Panax Due Diligence Completion and Imminent Settlement – Commencement of Operations

The Company has substantially completed the extensive due diligence processes on the acquisition of Panax Pharma s.r.o, medical cannabis operations in the Czech Republic, and the critical genetics and breeding programs planned for the IEB AS facilities operated by Institute of Experimental Botany. The Company is now very confident that it will quickly complete the final due diligence process including an independent report on the transaction and legal operation of this business in the Czech Republic, in the coming weeks.

Upon settlement of the Panax acquisition, the Company intends to immediately commence its operations in the Czech Republic with the Institute of Experimental Botany and at its growing facilities in January 2017.

Nativ Segev, Co-founder and Managing Director, MGC Pharmaceuticals commented:

“With the new binding Panax acquisition agreement executed, we will shortly commence medical cannabis research operations in the world-class Institute of Experimental Botany of the Academy of Sciences of the Czech Republic. This acquisition will strengthen our research capabilities and we intend to conduct research on our medicinal cannabis strains in the facility which have the potential to be used in the coming MGC Pharmaceuticals products and clinical trials, both in Europe and in Australia.”

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For further information, please contact:

Media Enquiries

Ben Grubb
Account Director
Media and Capital Partners
+61 414 197 508
ben.grubb@mcpartners.com.au

MGC Pharmaceuticals Ltd

Brett Mitchell
Executive Chairman
+61 8 9389 2000
info@mgcpharma.com.au

About MXC

MGC Pharmaceuticals Ltd (ASX: MXC) is an EU based specialist medical cannabis company with many years of technical and commercial experience in the medical cannabis industry. The Company's founders were key figures in the Israeli medical cannabis industry and the core business strategy is to develop and supply high quality non-psychoactive Cannabidiol (CBD) resin extract for the growing demand in cosmetics and medical markets in Europe, North America and Australasia. The Company is also developing strategic joint ventures in these key value add industries, as demonstrated with MGC Derma CBD cosmetics.

About IEB AS

The Institute of Experimental Botany of the Academy of Sciences of the Czech Republic was founded in 1962. Its 14 laboratories are located in two cities, Prague and Olomouc. The Institute primarily conducts research in plant biology, namely in plant genetics, physiology and biotechnology. IEB is also involved in applied research.

In plant genetics, the projects are focused on molecular genetics of pollen and on plant functional genomics. Physiological investigations include hormonal and ecological control of plant growth and development, mechanisms of transport and action of growth regulators, physiology of plant viruses, and plant pathophysiology. Biotechnological topics include design and preparation of edible vaccines from plants and mechanisms of phytoremediation.

Some projects at the Institute are aimed at practical applications. For example, studies of plant hormones resulted in the synthesis of compounds which delay skin aging or show promising cytostatic effects.

The Institute collaborates with many research institutions and universities in the Czech Republic and abroad. IEB researchers teach at several Czech universities and students from these universities work on their master and doctoral theses at the Institute.