31 January 2017

ASX Code: MXC

December Quarterly Activity Report

ASX RELEASE

- Construction commenced on API (Active Pharmaceutical Ingredient) grade Medical Cannabis and Cannabinoids extraction facility in Ljubljana, Slovenia, to support the R&D pipe line to MGC Pharmaceuticals' medicinal products.
- New Panax acquisition agreement executed on improved commercial terms in mid-December, with settlement and operations to start in early 2017
- International cosmetics consultancy company appointed to fast track international sales and growth strategy of its MGC Derma cosmetics range
- Plans advanced for new MGC Derma cosmetics line distribution deals across Europe, the United Kingdom and North America
- Company well-funded to pursue its growth objectives, with a strong cash position of approximately $4.6 million as at 31 December 2016
- Australian strategy for licensing and operations in 2017 continued during quarter

MGC Pharmaceuticals Ltd (ASX: MXC or "the Company"), has today published its Appendix 4C for the three-month period to 31 December 2016 and is pleased to provide a review of the progress made during the period.

Corporate Update

New Panax Acquisition Agreement Signed in December

During the quarter, the Company was pleased to announce it executed a new agreement for the 100% acquisition of Czech Republic company Panax Pharma s.r.o. (Panax) on improved commercial terms for MXC. This new agreement was executed following an extensive due diligence program which delivered with it a new, highly credentialed technology partner, the Institute of Experimental Botany (IEB). Following the execution of the new acquisition agreement in December, the Company advised that settlement was imminent as due diligence being materially completed, and operations are now expected to commence in early 2017.

Under the revised acquisition terms, the consideration to acquire the final 20% equity of Panax has been reduced by €200,000 to a total of €600,000 of MGC Pharmaceuticals shares. The acquisition also now includes access to the prestigious Academy of Science of the Czech Republic's Institute of Experimental Botany. The facility will utilise a medical cannabis breeding licence for a specific medical cannabis breeding program for the MXC/Panax operations.

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This strategic acquisition gives MGC Pharmaceuticals full access to the Academy's laboratories, growing facilities and 1,000m^2 of greenhouse growing space, to conduct medical cannabis breeding research for specific genetics and strains. The Company will start researching a variety of medical cannabis plants with different CBD and THC yields. This strengthens MGC Pharmaceuticals' research credentials and has the potential to deliver the Company access to new genetic strains of medicinal cannabis to use in its MGC Pharmaceuticals products. In addition, it can be used as raw material for MGC Supplements pipe line. This will become a key part of the Company's future intellectual property.

The Panax/IEB genetics and breeding facility is expected to be fully operational and in production by Q2 2017.

Financials

First Major European Sales Order

During the December quarter, the Company announced it had received its first European sales order of approximately AU$65,000 from its Czech Republic distribution deal for its MGC Derma cosmetics products. The Company's exclusive Czech distribution partner, Czech Medical Herbs (CMH) s.r.o is responsible for the distribution of the MGC Derma range to over 80 retail outlets in the Czech Republic.

The distribution agreement is the first for the Company in Europe and is expected to be followed by others during H1 2017, following the InHemp appointment.

Strong Cash Position

The Company is well-funded to pursue its growth objectives with cash at bank of approximately $4.6 million as at 31 December 2016 and no debt.

Operational Update

Slovenian Extraction Facility near Completion

The Company's Active Pharmaceutical Ingredients (API) cannabidiol extraction facility in Slovenia commenced during the quarter, with the construction of the GMP (Good Manufacturing Practice) Clean Rooms and installation of state of the art CBD extraction equipment expected to be completed in Q1 2017.

The establishment of an extraction facility will allow MGC Pharmaceuticals to extract and produce API grade Cannabinoids products that can be used for clinical trials and in the Company's dermatological product range. In addition, the Company intends to sell a portion of its API products to other third party customers. Operations at the Slovenian extraction facility are expected to commence in Q2 2017.

Once established, an extraction facility will be a key competitive advantage of MGC Pharmaceuticals compared to its competitors as it will be one of the few fully compliant Good Manufacturing Practice (GMP) API extraction facilities in Europe.

First Slovenian CBD Crop and Harvest Completed

The Company harvested its first CBD Sativa L test crop in Slovenia from its 5,000m^2 test crop at the Company's growing farm in Slovenia in October. This test crop allowed MGC Pharmaceuticals to evaluate and establish the best soil, nutrients and growing conditions for the cultivation and production of cannabis for use in the Company's products.

The Company is currently preparing its Slovenian operations to commence its first 2017 outdoor crop in April, during the European spring, which will be harvested by July and the second crop to be harvested by October this year.

InHemp Engaged to Accelerate International Expansion

MGC Pharmaceuticals has engaged international cosmetics consulting, sales and marketing firm InHemp to fast track international sales strategy and market penetration. InHemp is led by Mr Malcolm Kemp who has an extensive international track record in expanding cosmetics companies into new markets and has previously held a series of senior roles with global cosmetics giant, Revlon International Corporation.

InHemp's immediate priority will be to maximise retail distribution of MGC Derma's products throughout the UK and Europe through exclusive agreements with e-tailers, established retail outlets and distribution agreements. InHemp will also draw on its expertise to represent and negotiate on behalf of the Company with potential distribution partners and is financially incentivised to make the revenue generation for MGC Derma a success.

CPNP Approval Granted

Immediately subsequent to the end of the quarter, the Company received formal approval from the European Cosmetics Products Notification Portal (CPNP) for its three CBD based dermatological products for the relief of indications of redness, dryness, flake skin prone to acneic and oily skin. CPNP registration allows the Company to sell its CBD Dermatological skin care products throughout the European Union.

The CPNP approval follows the completion of the required safety assessments and human skin patch testing on 30 human volunteers.

Commencement of Clinical Tests on Dermatological Products

In January 2017, MGC Pharmaceuticals commenced clinical tests on human volunteers at a Slovenian dermatology clinic to determine the efficacy of its dermatological product range. The three-month trial will investigate the efficacy of the product range for the relief of indications of redness, dryness, flake skin prone to acneic and oily skin. Following the end of the trial, MXC will be able to sell its dermatological products labelled as clinically tested for the relief of a variety of skin conditions.

Image: MGC Dermatological Product

Australian Opportunities Update

Obtaining an Australian Medical Cannabis licence remains a key plank of the Company's Australian strategy. It will allow MGC Pharmaceuticals to conduct clinical research and growing operations as well as develop medical grade products in Australia.

MGC Pharmaceuticals commenced the application process for a medical cannabis cultivation, production and manufacturing licence during Q4 2016 and will update the market once it has received a response from the Office of Drug Control.

As part of its Australian strategy, the Company aims to commence clinical trials for multiple conditions including epilepsy, lack of appetite, severe nausea, vomiting and severe pain in conjunction with leading Australian medical institutions. MGC Pharmaceuticals also intends to commence Australian growing operations once a medical cannabis licence has been received.

Outlook

MGC Pharmaceuticals will be commencing its clinical research and breeding program in 2017 following the imminent settlement of its Panax Acquisition. In addition, it will re-commence its outdoor Slovenian growing operations in April 2017.

The Company expects its second revenue stream to commence in 2017, with the launch of its dermatologically tested CBD skin care products. MGC Pharmaceuticals will market its dermatological products, targeted for the relief of indications of redness, dryness, flake skin prone to acneic and oily skin conditions via its MGC Derma online shop www.mgcderma.com, select retail outlets and pharmacy chains.

With its GMP Slovenian extraction facility expected to commence operations in Q2 2017, MGC will be integrating its extraction and development capabilities, with its API cannabidiol products to be used in the Company's clinical trials program and in its dermatological products.

Furthermore, MGC Pharmaceuticals is in advanced discussions for further distribution deals for its MGC Derma cosmetics range across the UK and Europe. The Company expects to update the market with further distribution deals during 2017.

-- Ends --

For further information, please contact:

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About MXC

MGC Pharmaceuticals Ltd (ASX: MXC) is an EU based specialist medical cannabis company with many years of clinical 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 medicine based on Cannabinoids extracts for the growing demand in the medical markets in Europe, Australasia and North America. The Company is also developing strategic joint ventures in these key value-add industries, as demonstrated with MGC Derma CBD cosmetics and dermatological product lines.

+Rule 4.7B

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

MGC PHARMACEUTICALS LTD

ABN	**Quarter ended ("current quarter")**
30 116 800 269	31 DECEMBER 2016

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	4	5
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs		
	i) cost of sales	-	(3)
	ii) operating costs – on behalf of the Group	(546)	(817)
	(c) advertising and marketing	-	-
	(d) leased assets	-	-
	(e) staff costs	(79)	(148)
	(f) administration and corporate costs	(631)	(1,160)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	17	48
1.5	Interest and other costs of finance paid	-	(27)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	MGC Derma JV partner operational costs	(176)	(176)
1.9	**Net cash from / (used in) operating activities**	**(1,411)**	**(2,278)**

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(197)	(340)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	(1)	(10)
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets (exploration asset)	-	500
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(198)**	**150**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(22)	(98)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(1,000)
3.7	Transaction costs related to loans and borrowings	-	(50)
3.8	Dividends paid	-	-
3.9	Other	-	-
3.10	**Net cash from / (used in) financing activities**	**(22)**	**(1,148)**

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 months) $A'000
4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of quarter/year to date	6,237	7,896
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,411)	(2,278)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(198)	150
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(22)	(1,148)
4.5	Effect of movement in exchange rates on cash held	(2)	(16)
4.6	**Cash and cash equivalents at end of quarter**	**4,604**	**4,604**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A'000	Previous quarter $A'000
5.1	Bank balances	4,581	6,214
5.2	Call deposits	23	23
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**4,604**	**6,237**

6.	Payments to directors of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	391
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Director and executive services fees and reimbursement of corporate administrative costs

7.	Payments to related entities of the entity and their associates	Current quarter $A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

8.	Financing facilities available *Add notes as necessary for an understanding of the position*	Total facility amount at quarter end $A'000	Amount drawn at quarter end $A'000
8.1	Loan facilities	NIL	NIL
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

NIL

9.	Estimated cash outflows for next quarter	$A'000
9.1	Research and development	36
9.2	Product manufacturing and operating costs	1,070
9.3	Advertising and marketing	-
9.4	Leased assets	-
9.5	Staff costs	314
9.6	Administration and corporate costs	298
9.7	Other (provide details if material)	-
9.8	**Total estimated cash outflows**	**1,718**

10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	-	-
10.2	Place of incorporation or registration	-	-
10.3	Consideration for acquisition or disposal	-	-
10.4	Total net assets	-	-
10.5	Nature of business	-	-

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Sign here: ..... Date: 31 January 2017
(Executive Chairman)

Print name: Brett Mitchell

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.