
29 January 2016

MXC December 2015 - Quarterly Activity Report

- Shareholders' approve acquisition and change of company name to MGC Pharmaceuticals Ltd - expected to recommence trading under new code MXC on the ASX in February
- First batch of the Ananda CBD cosmetic products being finalised, worth approximately AU\$500,000 in gross sales revenues – MXC approaching first revenues and sales, to be generated in the March quarter
- Initial run of Ananda CBD cosmetics increased from 7,500 units to 16,000 units due to increased demand - interest through Ananda joint venture partner channels and MXC's own direct distribution network
- New CBD based cosmetic and therapeutic product development continues, with skin care formulas completing first phase of testing, successfully demonstrating relief for Psoriatic skin conditions
- Substantial progress of MGC Pharmaceutical's Australian Strategy, headlined through the appointment of renowned Australian cardiologist and media commentator Dr Ross Walker, to the MXC Board
- Execution of strategic collaboration agreement with Sydney University, work programs set to commence
- Strategically positioned to accelerate path to commercialisation and significant first cashflows during 2016

MGC Pharmaceuticals Ltd (ASX: MXC or "the Company") has today released its Appendix 5B Report for the three-month period to 31 December 2015 and is pleased to provide a review of the progress made during period.

Corporate Update

The process to complete the acquisition of MGC Pharmaceuticals group of companies was significantly advanced and key transactional milestones were completed during the December quarter, including the Company's shareholders' approval to complete the acquisition and change its name to MGC Pharmaceuticals Ltd on 16 November 2015, followed by the lodgement of the re-compliance prospectus Friday 18 December 2015.

In late January the Board received the Conditional Reinstatement letter from the ASX and is currently completing the final compliance processes with the ASX, and will shortly be recommending trading under the Company's new ticker code MXC.

Most importantly, since commencing the process of acquiring MGC Pharmaceuticals, the MGC team and operations have made significant progress on executing its business plan and steps towards first phase commercialisation of its medical cannabis based cosmetic and medical products, and first cannabidiol (CBD) resin production in Slovenia during mid-2016, and potentially in additional jurisdictions during the 2016 calendar year.

The Company had cash at bank of \$1.06m at 31 December 2015, and MXC now expects to generate its first operational cashflow during the March quarter with the commercial launch and first sales from its first line of Ananda CBD based cosmetic products.

Operational Update

Cosmetic CBD Products – Development Complete and Sales Commenced

In the previous September quarter the Company completed the development of its first batch of its cosmetic range, consisting of 16 products. During the December quarter MGC moved towards completion of the manufacture of 16,000 initial units, worth approximately \$500,000 in gross revenue using current exchange rates.

The products will be available for sale via MXC's online platform and the Company is in advanced discussions with global distribution partners with the intention of executing strategic supply agreements with key distributional channels during the March and June 16 quarters, with strategic channel partners in both Europe and North America.

Dermatological Skin Care Formula

Second phase testing of the Company's dermatological skin care formula's commenced during the December quarter following the successful completion of phase one testing focusing on Psoriasis and Acne, which demonstrated positive results on the skins condition on over 93% of the volunteer sample who suffered from varying degrees of Psoriasis.

Second phase testing is due to be completed during Q2 2016, with the final testing phase beginning before the end of the Q3 2016 at which time the Company is planning to commercially launch its first CBD based cream to provide relief for Psoriatic skin conditions. Development of the CBD skincare formula forms a key part of MXC's strategy to build its own range of compliant of Cannabidiol dermatological products.

Following successful final phase testing the Company expects sale of the product to commence in late-2016. MGC Pharmaceuticals has an additional 20+ formulas undergoing trials with human volunteers and will progress those that show positive results to second phase testing. The Company will provide updates on these formulas as the results become available.

MGC Pharmaceuticals plans to have over 50 different CBD based cosmetic and dermatological products available for sale during 2016.

Australian Strategy – Launch and Material Progress in December Quarter

The Company made significant progress towards establishing its Australian strategy, following the recent developments within the Federal Government to legalise the cultivation and distribution of medical cannabis in Australia.

Dr Ross Walker, renowned Australian cardiologist and media commentator will be appointed to the Board on completion of the acquisition as a Non-Executive Director of MGC Pharmaceuticals Ltd, and will also Chair the Company's newly established Strategic Advisory Board that will evaluate commercial opportunities in the medical cannabis industry within Australia.

Dr Walker's role will be to lead MGC's investigative study and evaluate new medical and commercial opportunities for medical cannabis products. He will also be responsible for driving relations with regulators, with the intention of establishing MGC as a licensed producer and distributor of a local medical cannabis supply.

Additionally, MXC has entered into a collaborative relationship with BuddingTech – a hub for technological involvement in the cannabis industry, with the goal of furthering multiple agendas in the Cannabis space – including regulation of the industry and aligning key stakeholders in the cannabis industry in Australia. This is a key plank of MXC's strategy and is in line with the Prime Minister, Mr Malcolm Turnbull's new technology innovation policy, assisting MXC in creating unique leveraged relationship to facilitate a speedy move into being a market leader in all elements of the cannabis supply chain in Australia, while maintaining a presence in the forming of the industry in this country.

Furthermore, in the December quarter MXC executed a collaboration agreement with the University of Sydney Business School's Community Placement Program (CPP, and has commenced work already on a "Primary White Paper" focused on the potential Australian Cannabis Industry which explores and outlines various opportunities in the Australian medical cannabis market. Driven by changes in the Australian regulatory environment, the project will facilitate MXC's placement as a key player with both government and industry in this field, and ensure our continuous contact and involvement with the emergence of the industry, and with establishing its best practices and standards of performance.

MXC believes that creating a sophisticated and professional environment in which the Australian Cannabis industry can thrive is best facilitated by being involved in the creation of the governments and the public's understanding of the medical, commercial and societal benefits of Cannabis legalisation, while taking advantage of this involvement to best leverage ourselves in what has potential to be a massive industry for Australia.

Given the current outlook towards legislative change in Australia and the possibilities innately available to us by focusing on our CBD heavy strains, there is the potential for MXC to be one of the largest producer of CBD in the Southern Hemisphere, supplying product to various verticals that will be emerging into the future.

Outlook

MXC is well positioned to take advantage of positive regulatory changes in Australia following the appointment of Dr Ross Walker, completion of the University of Sydney White Paper, and continued engagement with various elements of the emerging market. The University of Sydney program will progress in coming semesters with even more focus and specialisation, as well as MXC supported events to encourage technological and legislative developments of the emerging Cannabis industry in Australia.

Cultivation of first crops is expected to commence in the coming June quarter in Slovenia, with the Company beginning to supply the processed CBD extract to its wholesale partners as early as the September 2016 quarter. This will be a key catalyst in completing the Company's strategy of establishing operations across the entire supply chain and adding a significant revenue stream.

The Company is also seeking further opportunities within Europe to expand its production capabilities as it seeks and secures further CBD off-take and IP development agreements, and establishing key distribution channel partner agreements for the Ananda CBD cosmetic and dermatological products.

-Ends-

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About MGC Pharmaceuticals

MGC Pharmaceuticals (MGC) is EU based medical and cosmetic cannabis company with over many years of technical and commercial experience in the medical and cosmetics 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 Cannabinoid resin extract ("CBD") to the growing European cosmetics and medical markets.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

MGC PHARMACEUTICALS LTD

ABN

30 116 800 269

Quarter Ended ("Current Quarter")

31 DECEMBER 2015

Consolidated statement of cash flows

| Cash flows related to operating activities | | Current Quarter \$A'000 | Year to Date (6 months) \$A'000 |
|---|--|----------------------------|---------------------------------------|
| 1.1 | Receipts from product sales and related debtors | - | - |
| 1.2 | Payments for (a) exploration & evaluation | (5) | (121) |
| | (b) development | - | - |
| | (c) production | - | - |
| | (d) administration & staff | (383) | (658) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | 7 | 18 |
| 1.5 | Interest and other costs of finance paid | - | - |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Prior year corporate/administration costs | - | (129) |
| | Net Operating Cash Flows | (381) | (890) |
| Cash flows related to investing activities | | | |
| 1.8 | Payment for purchases of: (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | - | - |
| 1.9 | Proceeds from sale of: (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | - | - |
| 1.10 | Loans to other entities | (595) | (760) |
| 1.11 | Loans repaid by other entities | - | - |
| 1.12 | Other: Due Diligence and Transaction costs | (87) | (287) |
| | Net investing cash flows | (682) | (1,047) |
| 1.13 | Total operating and investing cash flows (carried forward) | (1,063) | (1,937) |

| | | | |
|------|--|----------------|----------------|
| 1.13 | Total operating and investing cash flows (brought forward) | | |
| | | (1,063) | (1,937) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | - | 2,709 |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Capital raising costs | (14) | (148) |
| | Net financing cash flows | (14) | 2,561 |
| | Net increase (decrease) in cash held | (1,077) | 624 |
| 1.20 | Cash at beginning of quarter/year | 2,138 | 437 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | - |
| 1.22 | Cash at end of quarter | 1,061 | 1,061 |

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

| | | Current Quarter \$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 54 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions.

Amount includes Director fees.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

| | Amount Available \$A'000 | Amount Used \$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | - | - |
| 3.2 Credit standby arrangements | - | - |
| 3.3 Convertible note | - | - |

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|--------------|
| 4.1 Exploration and Evaluation | (25) |
| 4.2 Development | - |
| 4.3 Production | - |
| 4.4 Administration | (350) |
| Total | (375) |

Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | Current Quarter \$A'000 | Previous Quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 1,038 | 2,115 |
| 5.2 Deposits at call | 23 | 23 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 1,061 | 2,138 |

Changes in interests in mining tenements

| | Tenement Reference | Nature of Interest (note (2)) | Interest at beginning of quarter | Interest at end of Quarter |
|---|--------------------|----------------------------------|-------------------------------------|-------------------------------|
| 6.1 Interests in mining tenements relinquished, reduced or lapsed | N/A | N/A | N/A | N/A |
| 6.2 Interests in mining tenements acquired or increased | N/A | N/A | N/A | N/A |

Issued and quoted securities at end of current quarter
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | Total Number | Number Quoted | Issue Price per Security (see note 3) (cents) | Amount Paid Up per Security (see note 3) (cents) |
|--|---|---|---|--|
| 7.1 Preference *securities <i>(description)</i> | | | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 *Ordinary securities | 507,586,552 (includes 13,000,000 VHL shares) | 507,586,552 (includes 13,000,000 VHL shares) | | Fully Paid |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | | | | |
| 7.5 *Convertible debt securities <i>(description)</i> | | | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options <i>(description and conversion factor)</i> | | | Exercise Price | Expiry Date |
| | 4,000,000 | Nil | \$0.20 | 30 June 2017 |
| | 1,000,000 | Nil | \$0.30 | 23 Jan 2018 |
| | 500,000 | Nil | \$0.35 | 23 Jan 2018 |
| | 500,000 | Nil | \$0.40 | 23 Jan 2018 |
| | 46,250,000 | Nil | \$0.025 | 30 June 2017 |
| | 21,250,000 | Nil | \$0.04 | 30 June 2017 |
| 7.8 Issued during quarter | 10,000,000 | Nil | \$0.025 | 30 June 2017 |
| | 10,000,000 | Nil | \$0.04 | 30 June 2017 |
| 7.9 Exercised during quarter | | | | |
| 7.1 Expired during quarter | | | | |
| 0 | | | | |
| 7.1 Debentures <i>(totals only)</i> | | | | |
| 1 | | | | |
| 7.1 Unsecured notes <i>(totals only)</i> | | | | |
| 2 | | | | |

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Brett Mitchell
Executive Chairman

Date: 29 January 2016

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* applies to this report.
- 5 **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.