

29 September 2016

ASX Code: MXC

Operations Update - Delivery on Multiple Revenue Streams Imminent

- Set for first major product delivery and revenues under Californian distribution deal, with material discussions advanced on additional distribution deals across North America and Europe for its Anti-Aging product range
- Production of the Company's first Slovenian API GMP grade cannabidiol (CBD) nearing completion, with first Active Pharmaceutical Ingredient (API) grade CBD production scheduled for Q2 2017
- Substantial progress of MGC Derma division towards launch of dermatologically tested products for the relief of several skin conditions, including Acne and Psoriasis
- Acquisition of Czech-based medical cannabis company, PANAX Pharma s.r.o (Panax) remains on track towards completion in Q4 2016
- Company to apply for an Australian Medical Cannabis licence during Q4 2016, following recent legislative changes in Australia and pursuant to Office for Drug Control process

MGC Pharmaceuticals Ltd (ASX: MXC or "the Company"), is pleased to provide an update to shareholders on recent material progress across a number of its core business units and future revenue streams.

MGC Derma – Californian revenue generation, new territory agreements advanced

The Company's Californian distribution deal for its MGC Derma Anti-Aging line of cannabidiol cosmetics products is progressing well following a rebranding strategy ahead of the full international launch. This is the Company's first material commercial contract, with the first year contract value in an amount of approximately €1.2m to MGC Derma. MGC Derma is now entering its first phase of full production at the Dr Burstein facility in Slovenia representing the completion of a substantial commercialisation milestone for the Company.

With the Company's Slovenian production facility for its cosmetics products ramping up to full capacity, MGC Pharmaceuticals now aims to rapidly expand its international presence and sales network. The Company is in advanced discussions with a number of interested parties across North America and Europe and will advise the market immediately upon completion of any new distribution agreements.

MGC Pharmaceuticals aims to sign multiple exclusive distribution deals by territory, similar to its Californian deal. MGC Pharmaceuticals is currently finalising a full range of up to 50 cosmetics products which will be available during Q1 2017.

Slovenian API grade CBD extraction facility near completion

MGC Pharmaceuticals' Slovenian API grade GMP cannabidiol (CBD) extraction facility is expected to be completed by the end of 2016, with the installation of state of the art extraction equipment. The facility will allow MXC to produce its first CBD API grade product by Q2 2017. The Company aims for its first API CBD product for use in clinical trials in Europe and Australia for multiple conditions including epilepsy, severe nausea, palliative care and severe pain, and for use in MGC Derma products including the relief of acne, psoriasis and seborrhoea conditions.

Once up and running, this facility will be one of only a few fully compliant GMP API extraction facilities in Europe. The capability to produce API grade CBD products for clinical trials will be a key competitive advantage for MGC Pharmaceuticals.

The Company plans to use this API GMP grade CBD for its own clinical trials in Europe and Australia and will also be able to supply other third party customers.

Acne and Psoriasis skin patch tests go to next phase

The Company has successfully completed the skin patch testing of its CBD Dermatological formulas for safety assessments in Slovenia. The commencement of human patch testing follows the Company's favourable microbiology results, announced to the market on 23 August 2016. The human skin patch tests are designed to determine the safety of the Company's formulations.

The Company will now commence longer 3-month tests with 90 human volunteers across the 3 products, to demonstrate the efficacy of its CBD Dermatological formulations for the relief of psoriasis, acne and seborrhoea conditions.

The development of its own line of CBD dermatological products presents a substantial new commercial opportunity for the Company and diversified future revenue stream, which strongly complements the MGC Derma cosmetic product range and market segment.

Panax acquisition update

The Company's acquisition of Czech-based medical cannabis company, Panax Pharma s.r.o (Panax) is progressing well and is continuing to move towards completion in Q4 2016. The Company is finalising its due diligence processes and is working on finalising the best operating structures of Panax in country.

Panax holds a breeding licence agreement for research of medicinal cannabis strains, the Company intends to conduct research on developing high CBD and high THC strains alongside tissue culture mediums and protocols. The outcome of the research has the potential to be used in MGC Derma cosmetics products or in future clinical trials of medical cannabis.

Australian Medical Cannabis licence

MGC Pharmaceuticals is applying for a medical cannabis growing licence during Q4 2016. Following recent changes to the Federal *Narcotics Drugs Act*, which regulated cannabis, the Australian Federal Government can now issue licenses to growers and regulate local crops of medicinal marijuana.

This process is overseen and managed by the Office for Drug Control in Australia. A growing license is a key plank of the Company's Australian business plan and strategy to undertake clinical trials in Australia, in conjunction with leading medical institutions for various conditions and for development of medical grade products in Australia.

To fast track its operations, the Company intends to commence growing operations in Australia as soon as possible after receiving an Australian medical cannabis growing licence.

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

“The past few months have been extremely busy for the Company, focused on developing our operational strategies and structures in Europe and Australia. With our commercialisation initiatives progressing well, we are expecting to generate a material revenue uplift in the short and medium term. In addition, with our API extraction facility nearing completion, we look forward to the production of our first API CBD product.

“With our Panax acquisition making solid progress and an Australian medical cannabis growing license on the horizon, this is an exciting time in our commercial development as a leading medicinal cannabis Company.”

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About MXC

MGC Pharmaceuticals Ltd (ASX: MXC) is 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 to 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.