

28 July 2016

ASX Code: MXC

June Quarter Activity Report

- Substantial commercial and corporate progress delivered during the June quarter
- Strongly oversubscribed \$7.5 million capital raising, with overwhelming shareholder support
- Binding Heads of Agreement signed for acquisition of Czech-based medical cannabis company PANAX, significantly enhancing genetics and breeding capabilities and allowing MGC Pharmaceuticals to develop new strains of medicinal cannabis - due diligence processes now well advanced
- Confirmation of compliance with United States, European and Canadian regulatory approvals, permitting the sale and distribution of MGC Derma cosmetics products throughout the EU and North America
- First revenues delivered from Californian distribution deal and online shop revenues commence
- Post quarter, appointment of world epilepsy expert Dr Uri Kremer and Memorandum of Understanding signed with Epilepsy Action Australia to collaborate on Australian medical research projects that evaluate the use of medical cannabis in patients with epilepsy
- Strong net cash position of ~\$6.9 million as at 30 June 2016 - MXC's business plan is fully funded and includes new growth initiatives
- Management actively pursuing further opportunities for new MGC Derma distribution agreements in Europe, the USA, Canada and throughout Asia to build on its initial footprint in Europe and the USA

MGC Pharmaceuticals Ltd (ASX:MXC, "MGC Pharma" or "the Company") has today published its Appendix 4C for the three-month period to 30 June 2016 and is pleased to provide a review of the progress made during the period.

Corporate Update

Successful capital raising completed – fully funded business plan

In May, the Company completed a very successful \$7.5 million capital raising, via a \$5 million Placement to sophisticated and professional investors and \$2.5 million Priority Offer to existing eligible shareholders, both of which were heavily oversubscribed.

The Company is now strongly positioned and funded to pursue its core business plan initiatives and strategy to become a key player in the medical cannabis space both in Australia and globally.

PANAX acquisition

During the quarter, MGC Pharma executed a binding Heads of Agreement (HOA) to acquire Czech-based medical cannabis company, PANAX Pharma s.r.o. (Panax). Upon completion, the Panax acquisition significantly enhances MGC Pharmaceuticals' production capabilities, as it gives MGC Pharmaceuticals the right to access a 1,000 square meter plot of growing space in the renowned Vukoz Research Institute, constructed by the Czech Ministry of the Environment. This enables the Company to grow medical grade cannabis on continuous cycles for its clinical trials and MGC Derma cosmetic product range. The acquisition also strengthens MGC Pharmaceuticals' genetics credentials by providing access to new strains of medicinal cannabis.



This acquisition is expected to complete in Q3 2016, following the conclusion of the Company's due diligence processes in the Czech Republic, which have been significantly advanced during the June quarter.

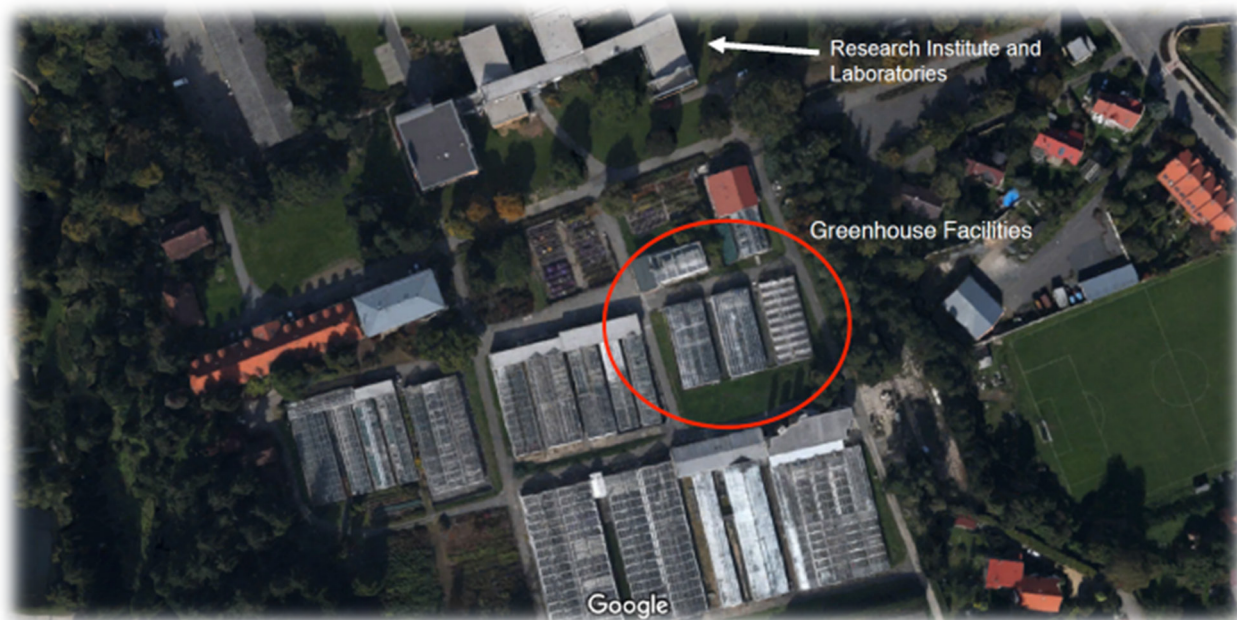


Figure 1: Vukoz Institute Facility

Board and Leadership Changes

During the period, Nick Castleden stepped down from his role as Non-Executive Director, as the Company's Senegalese gold projects are no longer a core business interest.

In addition, following the close of the period the Company announced the appointment of world leading epilepsy expert, Professor Uri Kramer to its Strategic Advisory Board. Professor Kramer is a leading Israeli paediatric and epilepsy expert and will help to direct the development of the Company's clinical trial program in Australia and Europe.

Financials

First revenues

During the June quarter MGC Pharmaceuticals generated its first revenues from its exclusive Californian distribution deal with C&M CBD HOLDING of €30,000 (approximately AUD\$45,000), representing a 10% deposit on their first order valued at €300,000 (approximately A\$460,000). In addition, first sales revenue was delivered via the Company's online shop launched during the quarter.

Senegal gold assets

MGC Pharmaceuticals continued its discussions with interested parties to divest the remaining assets from Senegal Gold during the quarter. An outcome is expected in the coming months.

Strong cash position

The Company had cash at bank of ~\$7.9 million as at 30 June 2016. The cash position includes the funds raised in the \$5 million Placement and \$2.5 million Priority Offer. The Company's net cash position is ~\$6.9m.

Operational Update

First crops planted in Slovenia

MGC Pharmaceuticals successfully planted its first test CBD crops in the Company's cannabis growing farm operation in Slovenia, during June 2016. The test crop will be used to evaluate the best soil and growing conditions needed for high CBD Cannabis Sativa L cultivation and production, for use by MGC Pharmaceuticals as future cosmetics and medicinal raw materials.

The Company remains on track to deliver its first full scale European CBD harvest in 2017, with its first commercial CBD extract production to follow. The Company is now planning to commence the construction of its GMP/GLP CBD extraction facility in Slovenia in the December quarter.



Figure 2: Seedlings



Figure 3: Ljubljana, Slovenia

First USA distribution agreement for MGC Derma - California

MGC Pharmaceuticals signed a new exclusive distribution agreement with Californian-based company, C&M CBD HOLDING LLC in May 2016 and immediately generated the Company's first US sales order of its MGC Derma products. It follows the Company's European distribution agreement signed with Czech Medical Herbs, s.r.o., announced in March 2016.

The Californian economy is the eighth largest in the world¹ and is a leader in the medicinal cannabis industry globally with favourable medicinal cannabis legislation. With the Company having received formal US Food and Drug Administration (FDA) approval for its cosmetic product offering, the Californian economy offers substantial commercial potential for the Company. Under the terms of the distribution agreement, MGC Pharmaceuticals is able to sell their products through the eShop, local distributors and retail outlets across California. The MGC Derma product range is expected to hit US shelves by the end of October.

FDA, European Commission and Health Canada regulatory approvals

MGC Pharmaceuticals was granted approval from the European Commission's Cosmetic Products Notification Portal, for its CBD based MGC Derma cosmetic products, enabling the Company to sell and distribute the products across the European Union, in May 2016.

This key approval was closely followed by a similar regulatory compliance approvals in Canada and the USA, for its MGC Derma product line of CBD-based cosmetics products. These approvals allow the Company to distribute and sell the product line across all US States and across Canada respectively.

¹ Source: [LA Times Article](#)

First revenues from online retail shop

During the quarter, MGC Pharmaceuticals launched its online sales platform in beta phase, allowing consumers to purchase its MGC Derma branded cannabis based cosmetic product range.

With European Commission approval secured, the online store can sell products directly to consumers throughout the European Union and any other country where CBD cosmetics are legal. During the quarter the first MGC Derma cosmetics units were purchased on the online shop.

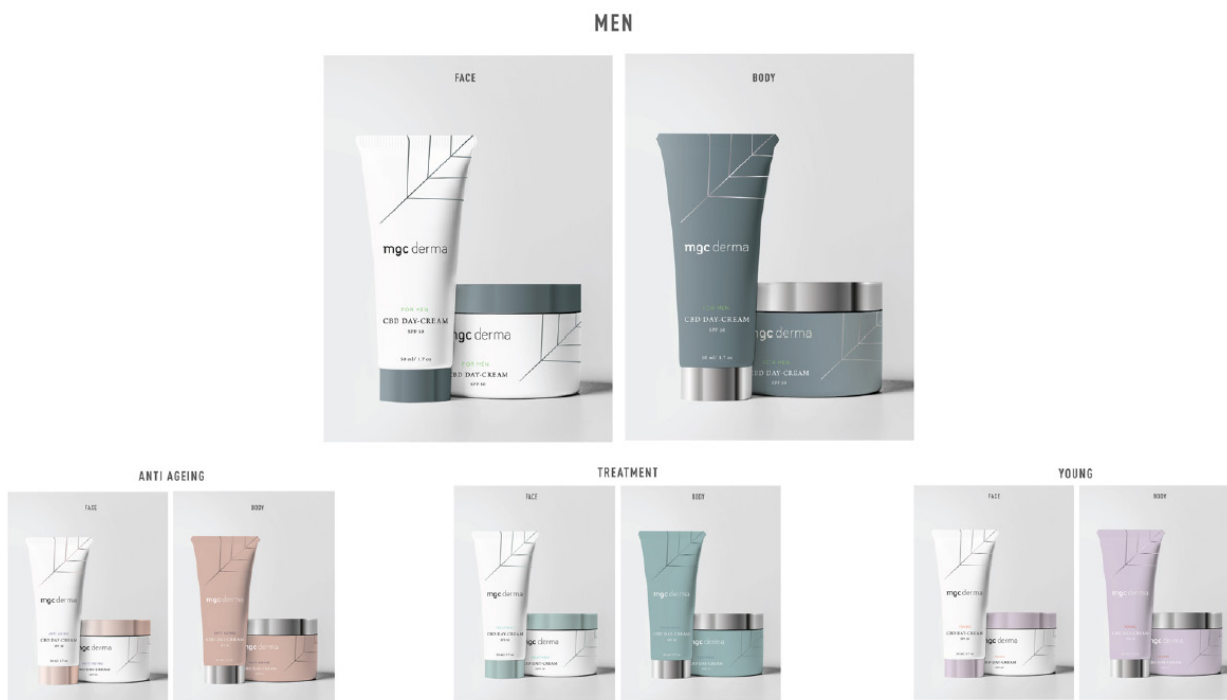


Figure 4: New MGC Derma Product Lines

Strategy to enter Australian market

In early April, the Company announced its strategy to enter the Australian medicinal cannabis market. This strategy includes becoming one of Australia’s first medical cannabis growing licensee’s, extending the clinical trial program to include Australian locations, developing a leadership role in the domestic medicinal cannabis industry, pursuing further additional strategic university research collaborations and expanding the Company’s cosmetic product distribution channels into the Australasian market.

New agreement with Epilepsy Action Australia

Subsequent to the close of the period, the Company signed a Memorandum of Understanding (MOU) with Epilepsy Action Australia (EAA) to collaborate on medical research projects that evaluate the use of medical cannabis in patients with epilepsy.

The EAA is Australia’s largest provider of specialist epilepsy services in the community for people with epilepsy and other seizure disorders, their carers, families and the broader community. It is currently engaged in an epidemiological research project with The George Institute for International Health, maintains The Australian Pregnancy Register for Women on Antiepileptic Medication and supports many other research projects focused on epilepsy.

Under the agreement, the EAA will assist with recruiting patients to participate in Australian studies and provide links with doctors, patient groups and hospitals. MGC Pharmaceuticals will provide industry knowledge along with trial material and resources, as well as agreed funding for the studies.

Outlook

With substantial commercial progress achieved in the quarter and first revenues commencing from its cosmetics products, the Company has set a strong foundation for future revenue growth from its online shop and distribution agreements.

The Company is now strongly focussed on implementing its Australian strategy in the coming quarters, including becoming one of Australia's first medical cannabis growing licensee's, extending the clinical trial program to include Australian locations, developing a leadership role in the domestic medicinal cannabis industry and pursuing key strategic university based research collaborations.

The management team continues to pursue new strategic distribution channel opportunities for MGC Derma in Europe, the USA, Canada and throughout Asia to build on its initial footprint in Europe and the USA. With its Californian distribution agreement in place and already delivering revenues, MGC Pharmaceuticals is pursuing exclusive agreements further with strategic distribution partners in key US states. The Company is also continuing its negotiations for potential CBD genetics and growing operations to be licensed to North American operators.

With regulatory approvals now in place in the USA, Canada and Europe for the sale and distribution of its MGC Derma products, the Company is confident that an outcome will be received on its application for regulatory approval in Australia, paving the way for the commencement of sales to Australian consumers.

-Ends-

For further information, please contact:

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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.

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005, 17/12/10

Name of entity

MGC PHARMACEUTICALS LTD

ABN

30 116 800 269

Quarter ended

30 JUNE 2016

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from customers	3	3
1.2 Payments for (a) staff costs	(327)	(754)
(b) advertising and marketing	-	-
(c) research and development	-	-
(d) leased assets	-	-
(e) administrative and corporate costs	(146)	(693)
(f) operational costs	(370)	(1,395)
(g) other working capital	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	23	46
1.5 Interest and other costs of finance paid	(12)	(12)
1.6 Income taxes paid	-	-
1.7 Prior year corporate/administrative costs	(109)	(238)
Net operating cash flows	(938)	(3,043)

+ See chapter 19 for defined terms.

	Current quarter \$A'000	Year to date \$A'000
1.8 Net operating cash flows (carried forward)	(938)	(3,043)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	(33)
(c) intellectual property	-	-
(d) physical non-current assets	(89)	(89)
(e) other non-current assets	(30)	(160)
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Working capital loans to MGC Derma – Ananda Cosmetics (MXC: 51%)	-	(512)
1.12 Loans repaid by other entities	-	-
1.13 Others:		
(a) Due diligence and transaction costs	(8)	(162)
(b) Cash acquired through business combination	63	143
Net investing cash flows	(64)	(813)
1.14 Total operating and investing cash flows	(1,002)	(3,856)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	8,406	11,125
1.16 Cost of share issue	(449)	(616)
1.17 Proceeds from borrowings	-	1,000
1.18 Repayment of borrowings	(195)	(195)
1.19 Dividends paid	-	-
1.20 Other (cost of capital)	-	-
Net financing cash flows	7,762	11,314
Net increase (decrease) in cash held	6,760	7,458
1.21 Cash at beginning of quarter/year to date	1,129	437
1.22 Exchange rate adjustments to item 1.21	7	1
1.23 Cash at end of quarter	7,896	7,896

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the director

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

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	228
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Director's 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

N/A

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

N/A

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	1,000	1,000
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

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
4.1 Cash on hand and at bank	7,873	1,106
4.2 Deposits at call	23	23
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	7,896	1,129

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	MGC Derma D.O.O	
5.2 Place of incorporation or registration	Slovenia	
5.3 Consideration for acquisition or disposal	\$36,250	
5.4 Total net assets	\$497,073	
5.5 Nature of business	Medicinal Cannabis Cosmetics	

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:
 (Executive Chairman)

Date: 28 July 2016

Print name: Brett Mitchell

+ See chapter 19 for defined terms.

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 definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting 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.

+ See chapter 19 for defined terms.