



**MGC PHARMACEUTICALS LTD**  
**ACN 116 800 269**

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**PROSPECTUS**

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A placement to investors for the offer of 79,545,455 Shares in the capital of the Company at an issue price of \$0.044 per Share to raise \$3,500,000 (before costs), together with one (1) free attaching New Option for every three (3) Shares subscribed for and issued, with the capacity to accept oversubscriptions of up to a further \$1,500,000 (**Offer**).

This Prospectus also contains an additional offer for twenty (20) Shares at an issue price of \$0.044 per Share for the purpose of removing any trading restrictions on the sale of Shares issued by the Company prior to the Closing Date (**Cleansing Offer**). Further details of the Cleansing Offer is set out in Section 4.2 of this Prospectus.

Sanlam Private Wealth is acting as lead manager to the Offer.



PRIVATE **Wealth**

**IMPORTANT NOTICE**

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the Securities being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser.

**The Securities offered by this Prospectus should be considered as speculative.**

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## 1. CORPORATE DIRECTORY

### Directors

Mr Brett Mitchell  
*Executive Chairman*

Mr Nativ Segev  
*Managing Director*

Mr Roby Zomer  
*Executive Director*

Mr Nick Castleden  
*Non-Executive Director*

Dr Ross Walker  
*Non-Executive Director*

### Company Secretary

Mrs Rachel Kerr

### Registered Office

Level 7, 1008 Hay Street  
PERTH WA 6000

Telephone: +61 8 9389 2000

Facsimile: +61 8 9389 2099

Website: [www.mgcpharma.com.au](http://www.mgcpharma.com.au)

Email: [info@mgcpharma.com.au](mailto:info@mgcpharma.com.au)

### Auditor\*

PKF Mack  
4<sup>th</sup> Floor  
35 Havelock Street  
WEST PERTH WA 6005

### Share Registry\*

Computershare Investor Services Pty Limited  
Level 11  
172 St Georges Terrace  
PERTH WA 6000

### Solicitors

Steinepreis Paganin  
Lawyers and Consultants  
Level 4, The Read Buildings  
16 Milligan Street  
PERTH WA 6000

### Lead Manager

Sanlam Private Wealth Pty Ltd  
Level 7, 100 Collins Street  
MELBOURNE VIC 3000

\* These entities have not been involved in the preparation of this Prospectus and have not consented to being named in this Prospectus. They have been included for information purposes only.

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## **2. IMPORTANT NOTES**

This Prospectus is dated 4 May 2016 and a copy of this Prospectus was lodged with the ASIC on that date. The ASIC and ASX take no responsibility for the content of this Prospectus or the merits of the investment to which this Prospectus relates.

No Securities may be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

No person is authorised to give information or to make any representation in connection with this Prospectus, which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

It is important that investors read this Prospectus in its entirety and seek professional advice where necessary. The Securities the subject of this Prospectus should be considered highly speculative.

Applications for Securities offered pursuant to this Prospectus can only be submitted on an original Application Form.

This Prospectus is a transaction specific prospectus for an offer of continuously quoted securities (as defined in the Corporations Act) and has been prepared in accordance with section 713 of the Corporations Act. It does not contain the same level of disclosure as an initial public offering prospectus. In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

### **2.1 Risk factors**

Potential investors should be aware that subscribing for Securities in the Company involves a number of risks. The key risk factors of which investors should be aware are set out in Section 7 of this Prospectus. These risks together with other general risks applicable to all investments in listed securities not specifically referred to, may affect the value of the Shares in the future. Accordingly, an investment in the Company should be considered highly speculative. Investors should consider consulting their professional advisers before deciding whether to apply for Securities pursuant to this Prospectus.

### **2.2 Website**

A copy of this Prospectus can be downloaded from the website of the Company at [www.mgcpharma.com.au](http://www.mgcpharma.com.au). Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

## **2.3 Forward-looking Statements**

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of our Company, the Directors and our management.

We cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

We have no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this prospectus, except where required by law.

These forward looking statements are subject to various risk factors that could cause our actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 5 of this Prospectus.

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**3. INDICATIVE TIMETABLE\***

Lodgement of Prospectus with the ASIC and ASX	4 May 2016
Lodgement of Appendix 3B	4 May 2016
Opening Date	4 May 2016
Closing Date*	6 May 2016
Expected date of issue of holding statements	10 May 2016
Expected date of Official Quotation of the Securities*	11 May 2016

\* The Directors reserve the right to bring forward or extend the Closing Date of the Offer at any time after the Opening Date of the Offer without notice. As such, the date the Shares are expected to commence trading on ASX may vary with any change in the Closing Date of the Offer.

The proposed timetable for the Share Purchase Offer will be released to the market shortly after lodgement of this Prospectus with ASIC.

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## 4. DETAILS OF THE OFFER

### 4.1 Offer

By this Prospectus, the Company invites investors to apply for a total of 79,545,455 Shares at an issue price of \$0.044 per Share to raise \$3,500,000 (before costs), together with one (1) free attaching New Option for every three (3) Shares subscribed for and issued, with the capacity to accept oversubscriptions of up to a further \$1,500,000.

All of the Shares offered under this Prospectus will rank equally with Shares on issue at the date of this Prospectus.

Please refer to Section 5.5 of this Prospectus for further information regarding the rights and liabilities attaching to the Shares offered pursuant to this Prospectus.

The issue of the free attaching New Options will be subject to Shareholder approval at a general meeting to be scheduled by the Company in the coming weeks and the free attaching New Options will be issued on the terms and conditions set out in Section 6.2.

All Shares issued on conversion of the New Options will rank equally with the Shares on issue at the date of this Prospectus.

The Company will apply to the ASX for the Shares and New Options offered pursuant to this Prospectus to be granted Official Quotation on ASX.

The purpose of the Offer and the intended use of funds raised are set out in Section 5 of this Prospectus.

### 4.2 Cleansing Offer

This Prospectus also contains an offer of up to 20 Shares in the capital of the Company at an issue price of \$0.044 per Share (**Cleansing Offer**).

The Offer will only be extended to specific parties on invitation from the Directors. Application Forms will only be provided by the Company to these parties.

The Cleansing Offer is included for the purpose of section 708A(11) of the Corporations Act to remove any trading restrictions on the sale of Shares issued by the Company prior to the Closing Date.

#### Background to the Cleansing Offer

On 22 July 2014, the Company issued 1,750,000 unlisted incentive options to key management personnel, exercisable at \$0.025 each on or before 30 June 2017. Following shareholder approval, the Company also issued 3,500,000 unlisted incentive options on 17 September 2014 to Non-Executive Director Mr David Nicholas Castleden, exercisable at \$0.025 each on or before 30 June 2017 (**Incentive Options**).

On 18 May 2015, the Company issued 25,000,000 unlisted options as part of a placement to sophisticated and professional investors exercisable at \$0.025 on or before 30 June 2017 without disclosure (**Prior Placement Options**). Various investors now wish to exercise their Incentive Options and Prior Placement Options and the Company proposes to 'cleanse' and remove any trading restrictions that may attach to the Shares issued on exercise of the Incentive Options and Prior Placement Options (issued prior to the Closing Date) within the 12 month period after they are issued.

Furthermore, the Company will issue on or prior to the date of issue of the Shares under the Offer 2,000,000 Shares to S3 Consortium Pty Ltd (trading as "StocksDigital") (**StocksDigital**) pursuant to the services contract entered between the parties in 2015, as part consideration for services provided by StocksDigital in relation to the

management of the Company's online digital presence and the online engagement of potential and current investors (**StocksDigital Shares**). An additional purpose of the Cleansing Offer is to also 'cleanse' the StocksDigital Shares and remove any secondary sale restrictions.

Relevantly, section 708A(11) of the Corporations Act provides that a sale offer does not need disclosure to investors if:

- (a) the relevant securities are in a class of securities that are quoted securities of the body; and
- (b) either:
  - (i) a prospectus is lodged with the ASIC on or after the day on which the relevant securities were issued but before the day on which the sale offer is made; or
  - (ii) a prospectus is lodged with ASIC before the day on which the relevant securities are issued and offers of securities that have been made under the prospectus are still open for acceptance on the day on which the relevant securities were issued; and
- (c) the prospectus is for an offer of securities issued by the body that are in the same class of securities as the relevant securities.

#### **4.3 Priority Right Offer**

The Company also proposes to undertake a separate offer to Shareholders on or about 11 May 2016 for the offer of a total of 45,454,545 Shares at an issue price of \$0.044 per Share in order to raise \$2,000,000 (before costs), together with one (1) free attaching New Option for every three (3) Shares subscribed for and issued, with the capacity to accept oversubscriptions of up to a further \$500,000 (**Priority Right Offer**). Details of the Priority Right Offer will be set out in the Company's prospectus to be dated on around 11 May 2016 which may be found on the Company's website [www.mgcpharma.com.au](http://www.mgcpharma.com.au) or on the Company's ASX platform (ASX:MXC) from the date of lodgement.

#### **4.4 Opening and Closing Dates of the Offer**

The Opening Date of the Offer will be 4 May 2016 and the Closing Date will be 6 May 2016 at 5:00pm WST. The Directors reserve the right to close the Offer early or extend the Closing Date (as the case may be) in their absolute discretion, should it be considered by them necessary to do so.

#### **4.5 Minimum Subscription**

The minimum subscription is \$3,500,000. No Securities will be issued until the minimum subscription has been received. If the minimum subscription is not achieved within 4 months after the date of issue of this Prospectus, the Company will either repay the Application monies to the Applicants or issue a supplementary prospectus or replacement prospectus and allow Applicants one month to withdraw their Application and be repaid their Application monies.

#### **4.6 Oversubscriptions**

The Company may accept oversubscriptions of up to a further \$1,500,000 worth of Shares above the full subscription of \$3,500,000 (for a total of \$5,000,000).

#### **4.7 Application for Shares**

Applications for Securities must be made by investors using the Application Form accompanying this Prospectus. By completing an Application Form, applicants will be

taken to have declared that all details and statements made by them are complete and accurate and that they have personally received the Application Form together with a complete and unaltered copy of the Prospectus.

Completed Application Forms must be mailed or delivered to the address set out on the Application Form, with sufficient time to be received by or on behalf of the Company by **no later than 5.00pm (WST) on the Closing Date**, which is currently scheduled to occur on 6 May 2016.

Applications under the Offer must be accompanied by payment in full at the issue price of \$0.044 per Share in Australian currency by cheque or direct debit in accordance with the instructions set out in the Application Form.

The Company reserves the right to close the Offer early.

If you require assistance in completing an Application Form, please contact the Share Registry on 1300 787 272 or the Company on +61 8 9389 2000.

#### **4.8 Payment by cheque/bank draft**

All cheques must be drawn on an Australian bank or bank draft made payable in Australian currency to **"MGC Pharmaceuticals Offer Account"** and crossed **"Not Negotiable"**.

Your completed Entitlement and Acceptance Form and cheque must reach the Company's share registry no later than 5:00pm WST on the Closing Date.

#### **4.9 Implications on acceptance**

Returning a completed Application Form will be taken to constitute a representation by you that:

- (a) You have received a copy of this Prospectus and the accompanying Application Form, and read them both in their entirety;
- (b) You acknowledge that once the Application Form is returned the application may not be varied or withdrawn except as required by law.

#### **4.10 Lead Manager**

Sanlam Private Wealth Pty Ltd (**Lead Manager**) has been appointed as Lead Manager to the Offer. The terms of the appointment of the Lead Manager are summarised in Section 8.4.1 of this Prospectus.

#### **4.11 Issue**

The Securities issued pursuant to the Offer will be issued in accordance with the ASX Listing Rules and the timetable set out at the commencement of this Prospectus. Holding statements for the Securities issued under the Offer will be mailed in accordance with the ASX Listing Rules and timetable set out at the commencement of this Prospectus.

Pending the issue of the Securities or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

The Directors will determine the recipients of the issued Securities in their sole discretion. The Board reserves the right to reject any Application or to allocate any Applicant fewer Securities than the number applied for. Where the number of Securities issued is less than the number applied for, or where no issue is made, surplus Application

monies will be refunded (without interest) to the Applicant as soon as practicable after the Closing Date.

If an Application Form is not completed correctly or if the accompanying payment is the wrong amount, the Company may, in its discretion, still treat the Application Form to be valid. The Company's decision to treat an Application as valid, or how to construe, amend or complete it, will be final.

#### **4.12 ASX Listing**

The Company will apply for Official Quotation of all Securities issued under this Prospectus within 7 days after the date of this Prospectus. If ASX does not grant Official Quotation of the Securities offered pursuant to this Prospectus before the expiration of 3 months after the date of issue of the Prospectus, (or such period as varied by the ASIC), the Company will not issue any Securities and will repay all application monies for the Securities within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant Official Quotation to the Securities is not to be taken in any way as an indication of the merits of the Company or the Securities now offered for subscription.

#### **4.13 Overseas shareholders**

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus.

It is not practicable for the Company to comply with the securities laws of overseas jurisdictions having regard to the number of overseas Shareholders, the number and value of Securities these Shareholders would be offered and the cost of complying with regulatory requirements in each relevant jurisdiction. Accordingly, the Offer is not being extended and Securities will not be issued to Shareholders with a registered address which is outside Australia.

Applicants resident outside of Australia are responsible for ensuring that taking up the Offer does not breach regulations in the relevant overseas jurisdiction. Return of a duly completed Application Form will be taken by the Company to constitute a representation that there has been no breach of those regulations.

#### **4.14 Clearing House Electronic Sub-Register System and Issuer Sponsorship**

The Company participates in the Clearing House Electronic Sub-register System (**CHES**). ASX Settlement Pty Ltd, a wholly owned subsidiary of ASX, operates CHES. Investors who do not wish to participate through CHES will be issuer sponsored by the Company.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with separate statements (similar to a bank account statement) that set out the number of Securities issued to them under this Prospectus. The notice will also advise holders of their Holder Identification Number or Security Holder Reference Number and explain, for future reference, the sale and purchase procedures under CHES and issuer sponsorship.

Electronic sub-registers also mean ownership of Securities can be transferred without having to rely upon paper documentation. Further, monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month. Shareholders may request a holding statement at any other time, however a charge may be made for such additional statements.

#### **4.15 Enquiries**

Any questions concerning the Offer should be directed to the Company Secretary, Mrs Rachel Kerr, on +61 8 9389 2000.

## 5. PURPOSE AND EFFECT OF THE OFFER

### 5.1 Purpose of the Offer

The primary purpose of the Offer is to raise \$3,500,000 (assuming full subscription) (before costs) or \$5,000,000 (assuming full oversubscription) (before costs) to be applied in accordance with the table set out below:

Item	Proceeds of the Offer	Full Subscription (\$)	%	Full Oversubscription (\$)	%
1.	Construction of the Slovenian CBD growing facility	\$875,000	25.00%	\$875,000	17.50%
2.	Completing construction of the Slovenian laboratory and CBD extraction facility	\$760,000	21.71%	\$760,000	15.20%
3.	Funding the Panax/Vukoz genetics and breeding research operations	\$1,055,000	30.14%	\$1,055,000	21.10%
4.	Development of Australian Strategy and implementation	\$150,000	4.29%	\$400,000	8.00%
5.	Complete the rollout of the MGC Derma cosmetics product line, including its psoriasis and acne treatment products	\$416,666	11.90%	\$416,666	8.33%
6.	Expenses of the Offer <sup>1</sup>	\$229,804	6.57%	\$321,963	6.44%
7.	Working capital	\$13,530	0.39%	\$1,171,371 <sup>2</sup>	23.43%
	<b>Total</b>	<b>\$3,500,000</b>	<b>100%</b>	<b>\$5,000,000</b>	<b>100%</b>

#### Notes:

1. Refer to Section 8.8 for details in respect of the estimated expenses of the Offer.
2. The Board proposes to utilise these funds in priority towards new medical product development, application by the Company for an Australian growers licence and towards general costs associated with the management and operation of the business, including administration expenses, salaries, directors' fees, rent and other associated costs.

On completion of the Offer, the Board believes the Company will have sufficient working capital to achieve these objectives.

The above table is a statement of current intentions as of the date of this Notice. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

In the event that more than the full subscription is raised, but less than the full oversubscription, the additional funds raised (after adjustment of expenses of the Offer) will be applied in priority towards new medical product development, application by the Company for an Australian growers licence and towards general costs associated with the management and operation of the business, including administration expenses, salaries, directors' fees, rent and other associated costs.

### 5.2 Effect of the Offer

The principal effect of the Offer (and the Cleansing Offer) and assuming no Options on issue at the date of this Prospectus have been exercised will be to:

- (a) increase the cash reserves by \$3,270,196 (after deducting the estimated expenses of the Offer) assuming full subscription, immediately after completion of the Offer;
- (b) increase the number of Shares on issue from 711,433,252 as at the date of this Prospectus to 792,978,727 Shares (assuming full subscription) or 827,069,636 Shares (assuming full oversubscription) (which assumes no Shares have been issued or Options exercised under the Priority Right Offer); and
- (c) increase the number of Options on issue from 53,500,000 as at the date of this Prospectus to 80,015,152 Options (assuming full subscription) or 91,378,788 Options (assuming full oversubscription) (which assumes no Shares have been issued or Options exercised under the Priority Right Offer).

Further to this, the Company has been advised that certain holders of a total of 29,750,000 Options (exercisable at \$0.025 each on or before 30/06/17) (**2.5 Cent Options**) intend to exercise their 2.5 Cent Options between the date of lodgement of this Prospectus and the Closing Date of the Offer. If the 2.5 Cent Options are exercised during this period, the number of Shares on issue will increase by a further 29,750,000 Shares, to a maximum total of 856,819,636 at completion of the Offer (assuming full oversubscription and no Shares have been issued or Options exercised under the Priority Right Offer).

### **5.3 Financial effect**

The unaudited balance sheet as at 31 March 2016 and the unaudited pro-forma balance sheet as at 31 March 2016 shown below have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position.

The pro-forma balance sheet has been prepared assuming all Shares offered under the Prospectus are issued.

The pro-forma balance sheet has been prepared to provide investors with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below. The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

	UNAUDITED 31 March 2016	PROFORMA 31 March 2016
<b>CURRENT ASSETS</b>		
Cash <sup>1</sup>	1,142,115	6,635,865
Other current assets	471,897	471,897
<b>TOTAL CURRENT ASSETS</b>	<b>1,614,012</b>	<b>7,107,762</b>
<b>NON-CURRENT ASSETS</b>		
Exploration and evaluation expenditure	516,663	516,663
Property, plant and equipment	42,239	42,239
Intangible assets	5,890,141	5,890,141
Investments	59,084	59,084
Other non-current receivables	471,957	471,957
<b>TOTAL NON-CURRENT ASSETS</b>	<b>6,980,084</b>	<b>6,980,084</b>
<b>TOTAL ASSETS</b>	<b>8,594,096</b>	<b>14,087,846</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	502,817	502,817
<b>TOTAL CURRENT LIABILITIES</b>	<b>502,817</b>	<b>502,817</b>
<b>NON-CURRENT LIABILITIES</b>		
Loans to third parties	1,256,779	1,256,779
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>1,256,779</b>	<b>1,256,779</b>
<b>TOTAL LIABILITIES</b>	<b>1,759,596</b>	<b>1,759,596</b>
<b>NET ASSETS</b>	<b>6,834,500</b>	<b>12,328,250</b>
<b>EQUITY</b>		
Share capital <sup>1</sup>	24,307,030	29,800,780
Share based payment reserve	1,013,890	1,013,890
Foreign currency translation reserve	24,121	24,121
Retained loss	(18,510,541)	(18,510,541)
<b>TOTAL EQUITY</b>	<b>6,834,500</b>	<b>12,328,250</b>

<sup>1</sup> Includes: 29,750,000 options exercised at \$0.025; placement of 79,545,455 shares at \$0.044 and oversubscription shares of 34,090,909 shares at \$0.044, net of capital raising costs.

Note, the above does not take into account shares proposed to be issued under the Priority Right Offer.

#### 5.4 Effect on capital structure

The principal effect of the Offer and Cleansing Offer on the capital structure of the Company, assuming all Shares offered under the Prospectus are issued, no existing Options are exercised and no existing Performance Shares vest is set out below.

## Shares

	Number	Number
	Full Subscription	Full Oversubscription
Shares on issue as at the date of this Prospectus <sup>1</sup>	711,433,252	711,433,252
Issued under the Offer	79,545,455	113,636,364
Issued to StocksDigital <sup>2</sup>	2,000,000	2,000,000
Issued under the Cleansing Offer	20	20
<b>Total Shares on completion of the Offer</b>	<b>792,978,727</b>	<b>827,069,636</b>

## Options

	Number	Number
	Full Subscription	Full Oversubscription
Options currently on issue:		
Unquoted exercisable at \$0.025 each on or before 30/06/17	36,250,000 <sup>i</sup>	36,250,000 <sup>i</sup>
Unquoted exercisable at \$0.04 each on or before 30/06/17	11,250,000	11,250,000
Unquoted exercisable at \$0.20 each on or before 30/06/17	4,000,000	4,000,000
Unquoted exercisable at \$0.30 each on or before 23/01/18	1,000,000	1,000,000
Unquoted exercisable at \$0.35 each on or before 23/01/18	500,000	500,000
Unquoted exercisable at \$0.40 each on or before 23/01/18	500,000	500,000
Issued under the Offer <sup>5</sup>	26,515,152	37,878,788
<b>Total Options on issue after completion of the Offer</b>	<b>80,015,152<sup>4</sup></b>	<b>91,378,788<sup>4</sup></b>

## Performance Shares

	Number
Performance Shares on issue as at the date of this Prospectus <sup>3</sup>	100,000,000
Issued under the Offer	Nil
<b>Total Performance Shares on completion of the Offer</b>	<b>100,000,000</b>

## Notes

1. Consisting:
  - a. 508,086,552 Shares (including 13,000,000 VHL ordinary shares);
  - b. 63,346,700 Shares escrowed for 24 months from 23 February 2016; and

c. 140,000,000 Shares escrowed until 15 February 2017.

Please note, this does not take into account Shares proposed to be issued under the Priority Right Offer or on exercise of the 2.5 Cent Options.

2. Refer to Section 4.2 for details.
3. Consisting 30,000,000 Performance Shares escrowed for 24 months from 23 February 2016 and 70,000,000 Performance Shares escrowed until 15 February 2017.
4. These figures will be reduced depending on the number of 2.5 Cent Options exercised prior to the Closing Date.
5. The issue of the free attaching New Options will be subject to Shareholder approval at a general meeting to be scheduled by the Company in the coming weeks and the free attaching New Options will be issued on the terms and conditions set out in Section 6.2.

## 5.5 Details of substantial holders

Based on publically available information as at the date of this Prospectus, those persons which (together with their associates) have a relevant interest in 5% or more of the Shares on issue are set out below:

Shareholder	Shares	%
Nativ Segev	40,000,000	5.62
Elad Segev	40,000,000	5.62

Other than Nativ Segev and Elad Segev, whose existing holdings will be diluted below 5% if more than the minimum subscription is raised, following completion of the Offer, no persons (together with their associates) will have a relevant interest in 5% or more of the Shares on issue.

Furthermore, no persons (together with their associates) will be permitted to subscribe for Shares that will result in their holding exceeding 20% of the voting Shares in the Company.

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## **6. RIGHTS AND LIABILITIES ATTACHING TO SECURITIES**

### **6.1 Shares**

The following is a summary of the more significant rights and liabilities attaching to Shares to be issued pursuant to this Prospectus. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights and liabilities attaching to Shares are set out in the Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

#### **(a) General meeting and notices**

Each member is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be sent to members under the Constitution, the Corporations Act or the Listing Rules.

#### **(b) Voting rights**

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at a general meeting of the Company every holder of fully paid ordinary shares present in person or by an attorney; representative or proxy has one vote on a show of hands (unless a member has appointed 2 proxies) and one vote per share on a poll.

A person who holds a share which is not fully paid is entitled, on a poll, to a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share.

Where there are 2 or more joint holders of a share and more than one of them is present at a meeting and tenders a vote in respect of the share, the Company will count only the vote cast by the member whose name appears first in the Company's register of members.

#### **(c) Issues of further Shares**

The Directors may, on behalf of the Company, issue, grant options over unissued shares to any person on the terms, with the rights, and at the times that the Directors decide. However, the Directors must act in accordance with the restrictions imposed by the Constitution, Listing Rules, the Corporations Act and any rights for the time being attached to the shares in any special class of those shares.

#### **(d) Variation of Rights**

Unless otherwise provided by the terms of issue of a class of shares and subject to the Corporations Act, the rights attached to the shares in any class may be varied or cancelled only with the written consent of the holders of at least three-quarters of the issued shares of the affected class, or by special resolution passed at a separate meeting of the holders of the issued shares of the affected class.

#### **(e) Transfer of Shares**

Subject to the Constitution, the Corporations Act and Listing Rules, Shares are freely transferable.

The Shares may be transferred by a proper transfer effected in accordance with the ASX Settlement Operating Rules, by any other method of transferring or dealing with Shares introduced by ASX and as otherwise permitted by the Corporations Act or by a written instrument of transfer in any usual form or in any other form approved by either the Directors or ASX that is permitted by the Corporations Act.

The Directors may decline to register a transfer of Shares (other than a proper transfer in accordance with the ASX Settlement Operating Rules) where permitted to do so under the Listing Rules. If the Directors decline to register a transfer, the Company must, within 5 business days after the transfer is delivered to the Company, give the party lodging the transfer written notice of the refusal and the reason for the refusal. The Directors must decline to register a transfer of Shares when required by law, by the Listing Rules or by the ASX Settlement Operating Rules.

(f) **Dividends**

The Directors may from time to time determine dividends to be distributed to members according to their rights and interests. The Directors may fix the time for distribution and the methods of distribution. Subject to the terms of issue of shares, the Company may pay a dividend on one class of shares to the exclusion of another class.

Each share carries the right to participate in the dividend in the same proportion that the amount for the time being paid on the share (not credited) bears to the total amounts paid and payable (excluding amounts credited) in respect of such shares.

(g) **Dividend reinvestment and Share plans**

Subject to the requirements in the Corporations Act and the Listing Rules, the Directors may implement and maintain dividend reinvestment plans (under which any member may elect that dividends payable by the Company be reinvested by way of subscription for fully paid shares in the Company).

(h) **Capitalisation of profits**

Subject to the Listing Rules and any rights or restrictions attaching to any class of shares, the Company may capitalise profits. Members are entitled to participate in a capital distribution in the same proportions in which they are entitled to participate in dividends.

(i) **Winding-up**

Subject to the rights of holders of shares with special rights in a winding-up and the Corporations Act, if the Company is wound up all monies and property that are to be distributed among Shareholders on a winding-up, shall be distributed in proportion to the Shares held by them respectively, irrespective of the amount paid-up or credited as paid-up on the Shares.

(j) **Shareholder liability**

As the Shares issued will be fully paid shares, they will not be subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(k) **Alteration of constitution**

In accordance with the Corporations Act, the Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. In addition, at least

28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

## 6.2 New Options

(a) **Entitlement**

Each New Option entitles the holder to subscribe for one Share upon exercise of the New Option.

(b) **Exercise Price**

Subject to paragraph (i), the amount payable upon exercise of each Option will be \$0.065 (**Exercise Price**).

(c) **Expiry Date**

Each New Option will expire at 5:00 pm (WST) on 30 June 2019 (**Expiry Date**). A New Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The New Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The New Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the New Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each New Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each New Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Within 15 Business Days after the later of the following:

- (i) the Exercise Date; and
- (ii) when excluded information in respect to the Company (as defined in section 708A(7) of the Corporations Act) (if any) ceases to be excluded information,

but in any case no later than 20 Business Days after the Exercise Date, the Company will:

- (iii) allot and issue the number of Shares required under these terms and conditions in respect of the number of New Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (iv) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with

the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and

- (v) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the New Options.

If a notice delivered under g(iv) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(h) **Shares issued on exercise**

Shares issued on exercise of the New Options rank equally with the then issued shares of the Company.

(i) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(j) **Participation in new issues**

There are no participation rights or entitlements inherent in the New Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(k) **Change in exercise price**

A New Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the New Option can be exercised.

(l) **Quotation**

The Company will apply for quotation of the New Options on ASX.

(m) **Transferability**

The New Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

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## **7. RISK FACTORS**

### **7.1 General**

The Shares offered under this Prospectus are considered highly speculative. An investment in the Company is not risk free and the Directors strongly recommend potential investors to consider the risk factors described below, together with information contained elsewhere in this Prospectus and to consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

There are specific risks which relate directly to the Company's business. In addition, there are other general risks, many of which are largely beyond the control of the Company and the Directors. The risks identified in this section, or other risk factors, may have a material impact on the financial performance of the Company and the market price of the Shares.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

### **7.2 Offer specific – dilution risk**

Upon implementation of the Offer, assuming the Offer is fully oversubscribed, Shares are issued to StocksDigital (as outlined in Section 4.2) and no Options are exercised or Performance Shares are vested, the number of Shares in the Company will increase from 711,433,252 currently on issue to a maximum of 827,069,636 (assuming no Shares have been issued or Options exercised under the Priority Right Offer). This means that each Share will represent a significantly lower proportion of the ownership of the Company.

It is not possible to predict what the value of the Company or a Share will be following the completion of the Offer being implemented and the Directors do not make any representation as to such matters.

The last trading price of Shares on ASX prior to the prospectus being lodged of \$0.054 is not a reliable indicator as to the potential trading price of Shares after implementation of the Offer.

### **7.3 Company specific – growing facilities**

#### **(a) Property for growing**

The Company has recently entered into an agreement to lease farmland for its Slovenian cannabis growing operations. Although the Company does not require vast acreage for the planting of its cannabis plants (up to 20 acres in the initial business plan), and depending on the size of the future MGC growing operations in Slovenia there can be no guarantee that the Company will be able to acquire all the necessary land on suitable terms although there is significant supply of suitable agricultural land available in Slovenia. In addition, there is no guarantee that the Company will be able to renew the lease it has been granted on suitable terms and if the lease agreement is not renewed on expiry of the term, the hemp license may be at risk of being terminated.

#### **(b) Agriculture risks**

The Company's business involves the growing of medicinal cannabis, which is an agricultural product. As such the business is subject to the risks inherent in the agricultural industry, such as insects, plant diseases, storm, fire, frost, flood, drought, water availability, water salinity, pests, bird damage and force majeure events. Although the Company plans to have both indoor and outdoor growing operations under climate controlled conditions and employ

trained personnel to carefully monitor and manage the growing conditions there can be no guarantee that natural elements will not have a material adverse effect on the production of the growing operations.

(c) **Key inputs for growing medicinal cannabis**

The key inputs include raw material and supplies related to growing operation as well as electricity, water and other local utilities. Any significant interruptions or negative changes in the availability of economics of the supply chain for the inputs could materially impact the business, financial condition and operating results of the Company. Due to the nature of the product some of these inputs may only be available from single suppliers or a limited group of suppliers. Any restrictions on the ability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial conditions and operating results of the Company.

(d) **Production yields**

Any Medical Cannabis company is inherently dependent on its ability to maintain a supply of specific plant genetics for the product it plans to produce. MGC has a similar inherent need to maintain supply of high CBD yield product from its growing and extraction operations.

The deciding factor ultimately is the mass of material produced per area cultivated and the percentage content of CBD in the final extract (in the case of MGC, consistently yielding +10% CBD from the cannabis Savita plants).

(e) **Product liability claims (Cosmetics, Food Supplements and Medicinal)**

As a manufacturer and distributor of a range of cosmetic and medical cannabis products designed to be applied or potentially ingested by humans the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation. These risks will arise if the Company's medicinal cannabis is alleged to have caused significant loss or injury. In addition, the manufacture of medicinal cannabis involves the risk of injury to consumers due to tampering by unauthorised third parties or product contamination. Previously unknown adverse reaction resulting from human consumption of medicinal cannabis alone or in combination with other medication or substances could occur. The Company may be subject to various product liability claims, including among others that the Company's products caused injury or illness, inadequate instructions for use or warnings concerning possible side effects. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally and could have a material adverse effect on the Company's results of operations and financial conditions.

(f) **Obtaining and maintaining licences**

The Company's ability to research, develop and commercialise its products is dependent on the Company's ability to maintain licenses relating to the cultivation, possession and supply of controlled substances in its area of operations. The Company's operations are initially located in Slovenia. Initial licenses to cultivate cannabis and produce and export cannabis products need to be obtained for each operation and are granted by the relevant local authorities. MGC Slovenia has been granted a license from the Slovenian Government to grow and process its unique cannabis sativa L (Hemp). The license enables MGC to establish a growing operation in the region. The license also enables MGC to extract the CBD resin from the

Cannabis Sativa L at the growing facility. The license for the first CBD crop issued by the Slovenian government is required to be renewed with each new crop that is planted, and the Company will make application at the appropriate time to ensure the correct procedures are followed for renewal. Although the Slovenian Government may have previously granted growing licenses historically, they may not do so in the future. If this is the case, MGC may not be in a position to carry on its research and development program in Slovenia.

Additionally, any proposed growing operations that are developed in any other European country will be subject to the licenses required and other applicable legislation and regulations enforced in the respective country where the operations are based. The amount of medicinal cannabis and CBD MGC is able to produce in any of these countries could potentially be capped and ultimately this will restrict the amount of cannabinoids that can be sold.

In addition MGC will require a license from the Slovenian Government (and any other European country where MGC may have future operations) to export the products produced. Prior to finalisation of processing CBD resin, MGC will apply for further licenses to export the products. There is no guarantee that these licenses will be granted or that they will be granted on satisfactory terms which may have a negative affect on the Company's operations.

(g) **Controlled substance legislation**

Controlled substance legislation differs between countries and legislation in certain countries may restrict or limit MGC's ability to sell its proposed products.

Most countries are parties to the Single Convention on Narcotic Drugs 1961, which governs international trade and domestic control of narcotic substances, including cannabis extracts. Countries may interpret and implement their treaty obligations in a way that creates a legal obstacle to obtaining marketing approval for MGC's proposed products in those countries. These countries may not be willing or able to amend or otherwise modify their laws and regulations to permit MGC's proposed products to be marketed, or achieving such amendments to the laws and regulations may take a prolonged period of time.

(h) **Changes in laws and regulations**

The Company's operations are subject to a variety of laws, regulations and guidelines. The medicinal cannabis industry is evolving worldwide and in Australia and has been identified as possibly posing risks in relation to law enforcement and government regulation. It is likely that governments worldwide, including Australia, will continue to explore the benefits, risks, regulations and operations of companies involved in medical cannabis. While to the knowledge of management, the Company is currently in compliance with all current laws, changes to laws and regulations due to matters beyond the control of the Company may cause adverse effects to its operations. The introduction of new legislation or amendments to existing legislation by governments, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial position and financial performance of the Company and its Shares. In addition there is a risk that legal action

may be taken against the Company in relation to commercial, legal, regulatory or other matters.

#### **7.4 Risks to the Company's business – products**

(a) **CBD Resin**

If MGC is unable to achieve a CBD resin or product of a sufficiently high purity to enable it to be marketable to the MGC's joint venture partners or other third parties in an efficient and cost effective manner, it may be unable to produce CBD resin to provide to MGC's joint venture partners or other third parties in a profitable manner. In this eventuality, subcontractors and vendors may be sourced in order to provide some of the materials committed to by MGC. These occurrences may have a detrimental effect on MGC's financial performance.

(b) **Controlled substances**

Some of MGC's proposed products may contain controlled substances and their regulatory approval may generate public controversy. Political and social pressures and adverse publicity could lead to delays in approval of, and increased expenses for, MGC's products. These pressures could also limit or restrict the introduction and marketing of MGC's products. Adverse publicity from cannabis misuse or adverse side effects from cannabis or other cannabinoid products may adversely affect the commercial success or market penetration achievable by MGC's products. The nature of MGC's business attracts a high level of public and media interest, and in the event of any resultant adverse publicity, MGC's reputation may be harmed.

(c) **Development of products and counterparty risks**

The MGC Group has entered into agreements with third parties for the development of cosmetic and therapeutic products as well as the purchase of some of the CBD resin that the MGC Group produces. The MGC Group may also become party to other material agreements with third parties. The financial performance of the MGC Group will be exposed to, and may be adversely affected by, any failure by counterparties to these agreements to comply with the terms of those contracts. This risk is beyond the MGC Group's control. In addition, there is a risk of financial failure or default by a participant in any joint venture or collaboration arrangements to which the MGC Group is or may become a party. There is also a risk of the insolvency or managerial failure by any of the contractors or other suppliers used by MGC in any of its activities, or that any of those agreements are terminated in accordance with their terms. Any of the above outcomes, could result in an adverse effect on MGC's operations, financial position and performance.

(d) **Competition for products**

The medicinal and cosmetic cannabis products industry is highly competitive and subject to rapid change. The industry continues to expand and evolve as an increasing number of competitors and potential competitors enter the market. Many of these competitors and potential competitors have substantially greater financial, technological, managerial and research and development resources and experience than MGC. Some of these competitors and potential competitors have more experience than MGC has in the development of medical and cosmetic products, including validation procedures and regulatory matters. In addition, MGC's proposed products will, if successfully developed, compete with, product offerings from large and well established companies that have greater marketing and sales experience and capabilities than MGC or its joint venture and collaboration

partners have. If MGC is unable to compete successfully, MGC may be unable to generate, grow and sustain its revenue.

(e) **Market price of products**

If the Company achieves success leading to production of CBD resin or other cannabis based products, the revenue it will derive through the sale of CBD resin or other cannabis based products exposes the potential income of the Company to market price for those things. There is currently no transparent or liquid quoted market price for CBD resin or other cannabis based products, prices are set under off take contracts. The prices for CBD resin or other cannabis based products may fluctuate and may be affected by many factors beyond the control of the Company. Such factors include supply and demand fluctuations for CBD resin or other cannabis based products, technological advancements and other macro-economic factors.

(f) **Research and development activities**

Research and development activities for products are expensive, time consuming and difficult to design and implement. Even if the results of MGC's research and development activities are favourable, some product development activities may be expected to continue for several years and may take significantly longer to complete. In addition, regulatory authorities, including state and local, may suspend, delay or terminate research and development activities at any time, or suspend or terminate the registrations and quota allotments required in order to procure and handle controlled substances, for various reasons. Any of the foregoing could have a material adverse effect on MGC's business, results of operations and financial condition.

(g) **Dangerous products**

If any of MGC's proposed products, prior to or after any approval for commercial sale, cause serious or unexpected side effects, or are associated with other safety risks such as misuse, abuse or diversion, a number of potentially significant negative consequences could result, including:

- (i) regulatory authorities may interrupt, delay or halt product development;
- (ii) regulatory authorities may deny regulatory approval of MGC's products;
- (iii) regulatory authorities may require certain labelling statements, such as warnings or contraindications or limitations on the indications for use, and/or impose restrictions on distribution;
- (iv) regulatory authorities may withdraw their approval, require more onerous labelling statements any product that is approved;
- (v) MGC may be required to make material changes to products;
- (vi) MGC's relationships with joint venture and collaboration partners may suffer;
- (vii) MGC could be sued and held liable for harm caused to product users; or
- (viii) MGC's reputation may suffer generally.

MGC may have to voluntarily suspend or terminate research and development activities if at any time they present an unacceptable risks to

consumers or if preliminary data demonstrates that products are unlikely to receive regulatory approval or unlikely to be successfully commercialised.

(h) **Industry growth and competition**

The medicinal cannabis industry is undergoing rapid growth and substantial change, which has resulted in increasing consolidation and formation of strategic relationships. The Company expects this consolidation and strategic collaborating to continue. Acquisitions or other consolidating transactions could harm MGC in a number of ways, including:

- (i) MGC could lose strategic relationships if third parties with whom it has arrangements with are acquired by or enter into relationships with a competitor (which could cause MGC to lose access to distribution, content, technology and other resources);
- (ii) the relationship between MGC and such third parties may deteriorate and cause an adverse effect on MGC's business; and
- (iii) MGC's current competitors could become stronger, or new competitors could form, from consolidations. Any of these events could put MGC at a competitive disadvantage, which could cause MGC to lose research and development facilities or access to technology. Consolidation could also force MGC to expend greater resources to meet new or additional competitive threats, which could also harm MGC's results.

## 7.5 General risks

(a) **Sufficiency of funding**

The MGC Group's business strategy will require substantial expenditure and there can be no guarantees that the Company's existing cash reserves and funds generated over time by the MGC business will be sufficient to successfully achieve all the objectives of the Company's business strategy. Further funding of projects may be required by the Company to support the ongoing activities and operations of the MGC Group, including the need to conduct further research and development, enhance its operating infrastructure and to acquire complementary businesses and technologies.

Accordingly, the Company may need to engage in equity or debt financing to secure additional funds. If the Company is unable to use debt or equity to fund expansion after utilising existing working capital, there can be no assurance that the Company will have sufficient capital resources for that purpose, or other purposes, or that it will be able to obtain additional resources on terms acceptable to the Company or at all.

Any additional equity financing may be dilutive to the Company's existing Shareholders and any debt financing, if available, may involve restrictive covenants, which limit the Company's operations and business strategy. If the Company is unable to raise capital if and when needed, this could delay or suspend the Company's business strategy and could have a material adverse effect on the Company's activities.

(b) **Protection of Intellectual Property Rights**

The MGC Group does not currently have any patent protection of its intellectual property and it is not yet known whether it will be in fact possible to obtain any patent protection of the MGC Group intellectual property. In particular, MGC does not have any intellectual property protection for the seeds that it holds. It may be difficult to prove ownership of the genetic and

DNA code of the strain of cannabis which MGC owns seeds for as the seeds have been modified through hybrid plants and clones without tracing the original genetic codes. Accordingly, the MGC Group relies on its intellectual property being kept confidential within the organisation, although it has plans to register its relevant intellectual property at the appropriate time, and jurisdiction, in the future. If the MGC Group fails to protect its intellectual property secrets, competitors may gain access to its know-how and technology, which could harm the business.

The Company may be required to spend significant resources to monitor and protect the intellectual property acquired through the proposed Acquisition of MGC. It may initiate or otherwise be involved in litigation against third parties for infringement, or to establish the validity, of its rights. Any litigation, whether or not it is successful, could result in significant expense to the Company and divert the efforts of its personnel.

(c) **Limited trading history**

MGC has only been recently incorporated and whilst its management have significant experience in the industry, MGC has a limited trading history. Given this limited trading history, there is inherent uncertainty in relation to MGC's business, and investors should consider the Prospectus in light of this. There can be no guarantee that MGC's research and development initiatives will be successful, or even if they are successful, to be able to generate revenue.

(d) **Reliance on key personnel**

The recent developments of MGC have been in large part due to the talent, effort and experience of its senior management team, in particular the leadership of Nativ Segev and Roby Zomer. Although these individuals have entered into executive services agreements with the Company, there is no assurance that such contracts will not be terminated. If such contracts are terminated or breached, or if these individuals no longer continue in their current roles, new personnel will need to be employed which may adversely affect the business. The MGC Group is also substantially dependent on the continued service of its existing development personnel because of the complexity of its services and technologies. There is no assurance that the MGC Group will be able to retain the services of these persons.

(e) **Research and development**

The Company can make no representation that any of its research into or development of its delivery system technologies will be successful, that the development milestones will be achieved, or that the delivery system technologies will be developed into products that are commercially exploitable. There are many risks inherent in the development of new products, particularly where the products are in the early stages of development. Projects can be delayed or fail to demonstrate any benefit, or research may cease to be viable for a range of scientific and commercial reasons.

(f) **Dependence on outside parties**

The Company may pursue a strategy that forms strategic business relationships with the other organisations for the manufacture and distribution of products and services. The manufacture and global distribution of products and services is important to the overall success of the Company. There can be no assurance that the Company will be able to attract such prospective organisations and to negotiate appropriate terms and conditions with these organisations.

(g) **Foreign exchange risks**

The Company (inclusive of the MGC Group) operates in numerous jurisdictions, including Slovenia. Consequently, it may generate revenue and incurs costs and expenses in more than one currency. Accordingly, the depreciation and/or the appreciation of the Euro, for example, relative to the Australian Dollar would result in a foreign currency loss/gain. Any depreciation of the foreign currencies relative to the Australian Dollar may result in lower than anticipated revenue, profit and earnings. MGC Group will be affected on an ongoing basis by foreign exchange risks and will have to monitor this risk on an ongoing basis.

(h) **Insurance coverage**

The Company faces various risks in connection with the MGC Group and may lack adequate insurance coverage or may not have the relevant insurance coverage. The Company maintains insurance coverage for its employees, as well as professional indemnity, product liability and third party liability insurance. However it does not maintain business interruption insurance or insurance against claims for certain property damage. The Company will need to review its insurance requirements periodically. If MGC Group incurs substantial losses or liabilities and its insurance coverage is unavailable or inadequate to cover such losses or liabilities, the Company's financial position and financial performance may be adversely affected.

(i) **Market conditions**

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) introduction of tax reform or other new legislation;
- (iii) interest rates and inflation rates;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and technology related stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(j) **Economic and government risks**

The future viability of the Company is also dependent on a number of other factors affecting performance of all industries and not just the medical and cosmetics industry including, but not limited to, the following:

- (i) general economic conditions in jurisdictions in which the Company operates;
- (ii) changes in government policies, taxation and other laws in jurisdictions in which the Company operates;

- (iii) the strength of the equity and share markets in Australia and throughout the world, and in particular investor sentiment towards the bio-medical sector;
- (iv) movement in, or outlook on, interest rates and inflation rates in jurisdictions in which the Company operates; and
- (v) natural disasters, social upheaval or war in jurisdictions in which the Company operates.

## **7.6 Investment speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares offered under this Prospectus.

Therefore, the Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares.

Potential investors should consider that the investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

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## **8. ADDITIONAL INFORMATION**

### **8.1 Litigation**

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

### **8.2 Continuous Disclosure Obligations**

The Company is a “disclosing entity” (as defined in Section 111AC of the Corporations Act) for the purposes of Section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities.

This Prospectus is a “transaction specific prospectus”. In general terms a “transaction specific prospectus” is only required to contain information in relation to the effect of the issue of securities on the Company and the rights attaching to the securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquires as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 3 months before the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act, states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in Section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the Closing Date:
  - (i) the annual financial report most recently lodged by the Company with the ASIC;
  - (ii) any half-year financial report lodged by the Company with the ASIC after the lodgement of the annual financial report referred to in (i) and before the lodgement of this Prospectus with the ASIC; and

- (iii) any continuous disclosure documents given by the Company to ASX in accordance with the ASX Listing Rules as referred to in Section 674(1) of the Corporations Act after the lodgement of the annual financial report referred to in (i) and before the lodgement of this Prospectus with the ASIC.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

Details of documents lodged with ASX since the date of lodgement of the Company's latest annual financial report and before the lodgement of this Prospectus with the ASIC are set out in the table below.

Date	Description of Announcement
04/05/2016	MXC to Raise \$5.0m - Capital Raising Oversubscribed
02/05/2016	Response to ASX Aware Letter
02/05/2016	Trading Halt
02/05/2016	March Quarterly Activity and Cashflow Report
27/04/2016	MXC to Acquire Licensed European Medical Cannabis Company
22/04/2016	Trading Halt
18/04/2016	Response to ASX Price Query
13/04/2016	Launch of Online Store – First Retail Sales of CBD Cosmetics
04/04/2016	MXC to Enter Australian Medicinal Cannabis Market
29/03/2016	MXC Publishes First Australian Med Cannabis White Paper
24/03/2016	MXC Secures First Cosmetics Sales Agreement
03/03/2016	Agreement with SipNose takes MXC into Global Epilepsy Market
29/02/2016	Half Yearly Report and Accounts
25/02/2016	Legalisation of Medical Cannabis Fast Tracks Aus Opportunity
23/02/2016	Investor Report by the Next Bio Tech
23/02/2016	Managing Director's Update to Shareholders
19/02/2016	Capital structure
19/02/2016	Securities trading policy
19/02/2016	Pro forma balance sheet as at 31 January 2016
19/02/2016	MGC Pharma (UK) Limited's account for 26/8/15 - 30/9/15
19/02/2016	Corporate governance statement
19/02/2016	Terms and conditions of Performance Shares
19/02/2016	Confirmations
19/02/2016	Appendix 1A and Information Form and Checklist
19/02/2016	Constitution
19/02/2016	Distribution schedule & Top 20 Holders
19/02/2016	Pre-reinstatement disclosure
19/02/2016	ASX Notice - Reinstatement to Official Quotation
19/02/2016	Reinstatement to Official Quotation (23/02/2016)
17/02/2016	Form 603 - Notice of initial substantial holder x 2

17/02/2016	Form 605 - Notice of ceasing to be a substantial holder x 2
16/02/2016	Appendix 3X - Initial Director's Interest Notice x 3
16/02/2016	Appendix 3Z - Final Director's Interest Notice
16/02/2016	Completion of Acquisition - Appendix 3B
12/02/2016	Managing Director's Update to Shareholders
11/02/2016	Supplementary Prospectus
11/02/2016	Issue of Supplementary Prospectus and Option Cancellation
11/02/2016	MGC Welcomes Medical Cannabis Legislation Change
01/02/2016	December Quarterly Activity and Cashflow Report
27/01/2016	Conditional Reinstatement Letter Issued
04/01/2016	Prospectus Offers Closed
04/01/2016	App 3B Issue of July 15 Unlisted Options
1/12/2015	Change of Company Name to MGC Pharmaceuticals Ltd
30/11/2015	Results of Annual General Meeting
16/11/2015	Results of General Meeting
13/11/2015	Suspension from official quotation
11/11/2015	Investor Report by the Next Bio Tech
05/11/2015	MGC to Collaborate with Leading University of Sydney Faculty
03/11/2015	Trading Halt
02/11/2015	September Quarterly Activity and Cashflow Report
28/10/2015	Notice of Annual General Meeting/Proxy Form

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours.

The announcements are also available through the Company's website [www.mgcpharma.com.au](http://www.mgcpharma.com.au).

### 8.3 Market price of shares

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are enhanced disclosure securities quoted on ASX.

The highest, lowest and last market sale prices of the Shares on ASX during the three months immediately preceding the date of lodgement of this Prospectus with the ASIC and the most recent respective dates of those sales were:

Highest	\$0.083	19 April 2016
Lowest	\$0.023	23 February 2016
Last	\$0.054	29 April 2016

### 8.4 Material contracts

The following are summaries of the significant terms of the material agreements which relate to the business of the Company:

#### 8.4.1 Lead Manager Agreement

The Company has entered into a binding terms sheet with the Lead Manager (**Lead Manager Agreement**) under which the Lead Manager has agreed to act as lead

manager to the Offer. The Company has agreed to pay the Lead Manager a fee of 6% (+GST) of funds raised under the Offer (being a maximum of \$300,000 if the Offer is fully oversubscribed) in consideration for its services.

## 8.5 Directors' Interests

Other than as set out in this Prospectus, no Director holds or has held within 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with
  - (i) its formation or promotion or
  - (ii) the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be and no benefits have been given or agreed to be given to a Director:

- (a) as an inducement to become, or to qualify him as, a Director; or
- (b) for services provided in connection with:
  - (i) the formation or promotion of the Company; or
  - (ii) the Offer.

### Security holdings

The relevant interest of each of the Directors in the securities of the Company as at the date of this Prospectus is set out in the table below.

Director	Shares	%Interest	Options	Performance Shares
Brett Mitchell	11,193,894	1.58%	5,800,000 <sup>1</sup>	Nil
Nativ Segev	40,000,000	5.62%	Nil	20,000,000
Roby Zomer	20,000,000	2.81%	Nil	10,000,000
Nick Castleden	1,185,148 <sup>3</sup>	0.17%	7,000,000 <sup>2,3</sup>	Nil
Ross Walker	Nil	Nil	Nil	Nil

### Notes

1. Consisting 2,500,000 Unlisted Options exercisable at \$0.25 each on or before 30 June 2017, 2,500,000 Unlisted Options exercisable at \$0.04 each on or before 30 June 2017 and 800,000 Unlisted Options exercisable at \$0.20 each on or before 30 June 2017.
2. Consisting 3,500,000 Unlisted Options exercisable at \$0.025 each on or before 30 June 2017 and 3,500,000 Unlisted Options exercisable at \$0.04 each on or before 30 June 2017.
3. Mr Castleden intends to exercise 3,500,000 2.5 Cent Options between the date of lodgement of this Prospectus and the closing date of this Prospectus as outlined in Section 5.2 above.

None of the Directors will participate in the Offer.

### Remuneration of Directors

The Constitution of the Company provides that the non-executive Directors may be paid for their services as Directors, a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the

Directors and in default of agreement then in equal shares. The maximum aggregate remuneration for non-executive Directors has been set at no more than \$250,000 per annum.

In addition, a Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

The table below shows the total annual remuneration paid to both executive and non-executive directors and proposed directors in each of the past two financial years and the proposed remuneration for the current financial year.

Director	Financial year ending 30 June 2014	Financial year ending 30 June 2015	Proposed financial year ending 30 June 2016
Brett Mitchell	\$69,500	\$178,500	\$180,000
Nativ Segev <sup>1</sup>	Nil	Nil	\$223,181 <sup>5</sup>
Roby Zomer <sup>2</sup>	Nil	Nil	\$178,544 <sup>5</sup>
Nick Castleden <sup>3</sup>	\$4,167	\$24,833	\$36,000
Ross Walker <sup>4</sup>	Nil	Nil	\$36,000

**Notes:**

1. Mr Segev was appointed on 15 February 2016.
2. Mr Zomer was appointed on 15 February 2016.
3. Mr Castleden was appointed on 12 May 2014.
4. Mr Walker was appointed on 15 February 2016.
5. Based on an exchange rate of EU€1: A\$0.6721, as quoted on the Reserve Bank of Australia website on 29 April 2016.

**8.6 Interests of Experts and Advisers**

Other than as set out below or elsewhere in this Prospectus, no:

- (a) person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (b) promoter of the Company; or
- (c) underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in this Prospectus as a financial services licensee involved in the issue,

holds, or has held, within 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with:
  - (i) its formation or promotion or
  - (ii) the Offer; or

(c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of these persons for services provided in connection with:

(a) the formation or promotion of the Company; or

(b) the Offer.

Steinepreis Paganin has acted as solicitors to the Company in relation to the Offer. The Company estimates it will pay Steinepreis Paganin approximately \$5,000 (excluding GST and disbursements) for these services and other services relating to the Offer generally. During the 24 months preceding lodgement of this Prospectus with the ASIC, Steinepreis Paganin has been paid fees totalling \$21,942 (excluding GST and disbursements) for legal services provided to the Company.

Sanlam Private Wealth will be paid a lead manager fee of approximately \$300,000 (assuming the Offer is fully oversubscribed) in respect of this Offer. During the 24 months preceding lodgement of this Prospectus with the ASIC, Sanlam Private Wealth has been paid fees totalling \$96,500 by the Company, relating to prior capital raisings and performing the role of lead broker and corporate adviser to the company during the past 12 months.

## **8.7 Consents**

Each of the parties referred to in this Section:

- (a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this Section; and
- (b) to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this Section.

Steinepreis Paganin has given its written consent to being named as the solicitors to the Company in this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Sanlam Private Wealth has given its written consent to being named as Lead Manager to the Company in this Prospectus. Sanlam Private Wealth has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

## **8.8 Estimated Expenses of Offer**

The total expenses of the Offer are estimated to be approximately \$19,804 (excluding GST) for full subscription and \$21,963 (excluding GST) for full oversubscription, and are expected to be applied towards the items set out in the table below:

Expenses of the Offer	\$ Full Subscription	\$ Full Oversubscription
ASIC lodgement fee	2,320	2,320
ASX quotation fees	10,484	12,643
Legal expenses	5,000	5,000
Share Registry	1,000	1,000
Printing, distribution and other expenses	1,000	1,000
<b>Total</b>	<b>19,804</b>	<b>21,963</b>

As per 8.4.1, the Company has agreed to pay the Lead Manager a fee of 6% (+GST) of funds raised under the Offer (being a maximum of \$300,000 if the Offer is fully oversubscribed) in consideration for its services. This fee will also be included as part of the overall expenses of the Offer.

### 8.9 Electronic Prospectus

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please phone the Company on +61 8 9389 2000 and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus, or both. Alternatively, you may obtain a copy of this Prospectus from the Company's website at [www.mgcpharma.com.au](http://www.mgcpharma.com.au).

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

### 8.10 Privacy Act

If you complete an application for Shares, you will be providing personal information to the Company (directly or by the Company's share registry). The Company collects, holds and will use that information to assess your application, service your needs as a holder of equity securities in the Company, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company's share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its share registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (Cth) (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the application for Shares, the Company may not be able to accept or process your application.

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**9. DIRECTORS' AUTHORISATION**

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors and Proposed Directors.

In accordance with section 720 of the Corporations Act, each Director and Proposed Director has consented, and as at the date of this Prospectus has not withdrawn his consent, to the lodgement of this Prospectus with the ASIC.



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**Mr Brett Mitchell**  
**Executive Chairman**  
**Signed for and on behalf of**  
**MGC PHARMACEUTICALS LTD**

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## 10. DEFINITIONS

**\$** means Australian dollars.

**2.5 Cent Option** has the meaning given in Section 5.2.

**Applicant** means an investor who applies for Shares pursuant to the Offer.

**Application** means an application for Shares made on an Application Form.

**Application Form** means an application form either attached to or accompanying this Prospectus.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the financial market operated by it as the context requires.

**ASX Listing Rules** means the Listing Rules of the ASX.

**ASX Settlement Operating Rules** means the settlement rules of the securities clearing house which operates CHESSE.

**Board** means the board of Directors unless the context indicates otherwise.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day that ASX declares is not a Business Day.

**CBD** means cannabidiol.

**Cleansing Offer** means the offer of up to 20 Shares at an issue price of \$0.044 for the purpose of removing any trading restrictions on the sale of Shares issued by the Company prior to the Closing Date, the details of which are set out in section 4.2 of this Prospectus.

**Closing Date** means the closing date specified in Section 3 of this Prospectus (unless extended or closed earlier).

**Company** or **MXC** or **MGC Pharmaceuticals** means MGC Pharmaceuticals Ltd (ACN 116 800 269).

**Constitution** means the constitution of the Company as at the date of this Prospectus.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Directors** means the directors of the Company as at the date of this Prospectus.

**MGC** means the Company's wholly owned subsidiary, MGC Pharma (UK) Ltd a company incorporated in the United Kingdom.

**MGC Group** or **MGC Group Companies** means the MGC and MGC Slovenia.

**MGC Slovenia** means the Company's wholly owned subsidiary MGC Pharmaceuticals d.o.o an entity incorporated in Slovenia, company number 6255108000.

**New Option** means an Option granted with the terms and conditions set out in Section 6.2.

**Offer** means the offer of Shares and Options the subject of this Prospectus.

**Official Quotation** means official quotation on ASX.

**Opening Date** means the opening date specified in Section 3 of this Prospectus.

**Option** means an option to acquire a Share.

**Performance Share** means a performance shares issued on the terms and conditions set out in section 14.2 of the Company's Prospectus dated 18 December 2015.

**Placement** means the offer of Shares to investors as set out in section 4.1 of this Prospectus.

**Prospectus** means this prospectus.

**Securities** means Shares and or Options.

**Share** means a fully paid ordinary share in the capital of the Company.

**Priority Right Offer** has that meaning given to in Section 4.3.

**Shareholder** means the holder of a Share.

**WST** means Western Standard Time as observed in Perth, Western Australia.