

27 October 2016

ASX Code: MXC

September Quarter Activity Report

- Confirmation of first material significant revenue generation - MGC Derma cosmetics line to deliver first shipment in November under its exclusive Californian distribution agreement
- Strong cash position of ~\$6.2m as at 30 September 2016 - MXC fully funded to execute its growth objectives
- New material revenue generating distribution deals MGC Derma underway – focus on key international markets and distribution partners for its full range of MGC Derma cosmetics products
- Panax transaction advanced towards completion of final deal terms and due diligence processes
- Leading world epilepsy expert, Professor Uri Kramer, joins MXC strategic Advisory Board and collaboration agreement signed with Epilepsy Action Australia to collaborate on future joint trials
- Acne and psoriasis tests substantially advanced, with microbiology tests and skin patch testing completed
- Injection of \$500k cash received during the quarter for the sale of non-core Senegal gold assets
- Application for an Australian medical cannabis growing licence from the newly established Office of Drug Control to fast-track its Australian-based operations
- Company publishes second white paper with the University of Sydney Business School titled *Clinical Evidence for Medical Cannabis: Epilepsy, Cancer and Multiple Sclerosis*

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

Corporate Update

Panax Acquisition

MGC Pharmaceuticals’ acquisition of Czech-based medical cannabis company, Panax Pharma s.r.o (Panax) is progressing well, with the completion of the acquisition schedule for Q4 2016. The Company is moving ahead to finalise the due diligence processes, deal terms and the best operating structure of Panax in the country. Upon completion, the acquisition of Panax will give the Company access to breeding licence agreements to conduct research regarding multiple medical cannabis strains, as well as access to world-leading genetics, breeding, growing and research facilities.

Global Epilepsy Expert joins Advisory Board

MGC Pharmaceuticals was extremely pleased to appoint leading Israeli Paediatric Neurology and Paediatric Epilepsy Expert Professor Uri Kramer to the Company’s Strategic Advisory Board during the quarter.

He will help to direct the development of the Company's clinical trial programs in Australia and Europe, with a particular focus on the use of medical cannabis to treat severe epilepsy in children and severe nausea from radiation and chemotherapy treatments. Professor Kramer is the Director of Paediatric Epilepsy Service at Tel Aviv Sourasky Medical Centres in Tel Aviv and has led extensive research regarding medical cannabis treatments with a particular focus on severe epilepsy.

Financials

Sale of Senegal Gold Assets for \$500,000 cash

In August 2016, the Company sold its interests in and exploration data relating to the exploration work completed on its Senegal Bouroubourou and Lingokoto exploration permits. The Company executed a binding agreement with its joint venture project partner Afrigem SL, for total cash consideration of AU\$500,000, which has now been received by the Company.

The Company retains its direct interests in the Garabourea South (80%), Woye (80%) and Youboubou (100%) permits and MXC is in active discussions with interested parties to divest these remaining assets.

MGC Derma Cosmetics – Delivery of First Californian Revenue Generation

The Company's first material contract, its Californian distribution deal for its MGC Derma Anti-Aging line of cannabidiol cosmetics is progressing well and has a first-year contract value of €1.2m to MGC Derma. During the quarter, the Company received the ~\$40k deposit for the sale of MGC Derma products under its Californian distribution deal. The Company is on track to make its first full quarterly shipment under the contract during the December quarter, which will deliver a further ~\$400,000 in revenue to MGC Derma.

The Company is in advanced negotiations with a number of key international distribution partners in strategic markets, for the roll out of its full range of MGC Derma cosmetics products during 2017. The Company will advise the market immediately upon the execution of each new material revenue generating distribution agreement.

Strong positive cash position – ahead of move into revenue generation phase

The Company remains well-funded with cash at bank of ~\$6.2m as at 30 September 2016, with nil debt. This strong cash balance will be leveraged to continue to pursue its growth objectives, including the establishment of further distribution agreements across North America and Europe.

Operational Update

MGC Derma expansion

MGC Pharmaceuticals is currently finalising its full range of up to 50 cosmetics products, which it expects will be available to consumers in Q1 2017. In preparation for an expanded product range and international sales expansion, MGC Derma is entering its first phase of full production at the Dr Burstein facility in Slovenia.

Slovenian API grade, CBD extraction facility – Progress Update

Additionally, MGC Pharmaceuticals Slovenian cannabidiol (CBD) extraction facility is nearing completion, with the installation of state-of-the-art extraction equipment expected by the end of 2016. In this facility, MGC Pharmaceuticals expects to produce its first CBD Active Pharmaceutical Ingredient (API) product by Q2 2017. The Company intends to produce an API product for use in clinical trials in areas relating to epilepsy, severe nausea, palliative care and severe pain. API medical cannabis will also be used in future MGC Derma Dermatological products targeted towards the relief of acne, psoriasis and seborrhoea conditions.

Epilepsy Action Australia Collaboration

The Company signed a Collaboration Agreement (COA) with Epilepsy Action Australia (EAA), with both parties to collaborate on future joint clinical trials using medicinal cannabis to help treat epilepsy symptoms. EAA is the leading Australian epilepsy association and provides support services to children and adults with epilepsy. Under the COA, EAA will introduce MXC's CBD products to its members in accordance with their medical requirements.

New medical cannabis white paper

In September 2016, MGC Pharmaceuticals released its second white paper titled *Clinical Evidence for Medical Cannabis: Epilepsy, Cancer and Multiple Sclerosis*, produced in partnership with the University of Sydney Business School. The white paper evaluated the current evidence regarding the efficacy of medical cannabis in treating a variety of major diseases. The second white paper can be found on this link [here](#).

Its publication follows the Company's first white paper, also jointly published with the University of Sydney Business School and titled *Medicinal Cannabis in Australia: Science, Regulation and Industry*. The white paper can be found on this link [here](#).

The publication of both white papers has positioned the Company as leading experts and strong advocates for the emerging medical cannabis industry in Australia.

Application for Australian MC cultivation, production and manufacturing licenses

With the recent changes to Australian legislation and the establishment of the Office of Drug Control in Australia, the Company intends to apply for a medical cannabis cultivation, production and manufacturing licences during Q4 2016. This will fast-track the roll out of MGC Pharmaceuticals' operations in Australia.

The Company intends to commence growing operations as soon as possible after receiving an Australian medical cannabis growing licence. A license is a key plank of the Company's Australian business plan and strategy to undertake clinical trials in Australia for the future development of medical grade products.

Development of Psoriasis and Acne Treatments – Microbiology Tests Successful

During the quarter, the Company reported its microbiology results for its CBD based skin care products. These tests demonstrated the safety of MGC Pharmaceuticals' CBD skin care ingredients. Following the completion of this phase of testing, the Company will commence a longer 3-month test with 90 human volunteers across the 3 products to demonstrate the efficacy of its CBD Dermatological formulations for the relief of psoriasis, acne and seborrhoea conditions. This study is due to be completed in Q1 2017.

Outlook

With the Company's first revenues received from its Californian deal, MGC Pharmaceuticals is pursuing further material distribution deals across North America and Europe. The Company is currently in advanced discussions with a number of interested parties and expects to update the market immediately upon the completion of any new distribution agreement. Furthermore, with its Derma product range expansion progressing well and full production commencing at the Dr Burstein facility in Slovenia, the Company is well positioned to facilitate further product sales.

In Europe, the completion of the Company's Slovenian cannabidiol (CBD) extraction facility and installation of extraction equipment, will enable to Company to commence CBD oil extraction and the production of its first CBD Active Pharmaceutical Ingredient (API) products by Q2 2017.

Domestically, MGC Pharmaceuticals remains committed to its industry leadership of the emerging Australian medical cannabis industry and intends to apply for a medical cannabis cultivation, production and manufacturing licences during Q4 2016. This will fast-track MGC Pharmaceuticals operations in Australia.

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

“In this quarter we have progressed our commercialisation efforts significantly, with advanced discussions with a number of potential distribution partners currently underway regarding further distribution deals. We have also strengthened our expertise in the area of epilepsy with the appointment of Professor Uri Kramer to our Advisory Board and the signing of a Collaboration Agreement with Epilepsy Action Australia. This sets the stage for future MGC Pharmaceuticals led clinical trials in the area of epilepsy and continues our leadership in the medical cannabis space.”

-Ends-

For further information, please contact:

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MGC Pharmaceuticals Ltd

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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 subject to Listing Rule 4.7B

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

Name of entity

MGC PHARMACEUTICALS LTD

ABN

30 116 800 269

Quarter ended ("current quarter")

30 SEPTEMBER 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1	1
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs		
i) cost of sales	(3)	(3)
ii) operating costs	(271)	(271)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(69)	(69)
(f) administration and corporate costs	(529)	(529)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	31	31
1.5 Interest and other costs of finance paid	(27)	(27)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(867)	(867)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(143)	(143)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	(9)	(9)
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets (exploration asset)	500	500
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	348	348
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(76)	(76)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(1,000)	(1,000)
3.7	Transaction costs related to loans and borrowings	(50)	(50)
3.8	Dividends paid	-	-
3.9	Other	-	-
3.10	Net cash from / (used in) financing activities	(1,126)	(1,126)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	7,896	7,896
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(867)	(867)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	348	348
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,126)	(1,126)
4.5	Effect of movement in exchange rates on cash held	(14)	(14)
4.6	Cash and cash equivalents at end of quarter	6,237	6,237

5.	Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1	Bank balances	6,214	7,873
5.2	Call deposits	23	23
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	6,237	7,896

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
189
-

Director and executive services fees and reimbursement of corporate administrative costs

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	NIL	NIL
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

NIL

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(36)
9.2 Product manufacturing, capex and operating costs	(1,276)
9.3 Advertising and marketing	-
9.4 Leased assets	-
9.5 Staff costs	(52)
9.6 Administration and corporate costs	(289)
9.7 Other (provide details if material)	(8)
9.8 Total estimated cash outflows	(1,661)

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

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(Executive Chairman)

Date: 27 October 2016

Print name: Brett Mitchell

Notes

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