

27 April 2016

ASX Code: MXC

MXC to Acquire Licensed European Medical Cannabis Company – Commencing Operations on Medical Grade Cannabis Genetics and Breeding Research

Highlights

- MGC Pharma has executed a binding Heads of Agreement (HOA) to acquire Czech-based medical cannabis company, PANAX Pharma s.r.o. (Panax).
- Under the agreement, MGC Pharma will be issued 25% equity holding in Panax upfront, and will be issued a further 55% of Panax for funding the next year's operational costs, up to a maximum of €700,000 (total 80% equity interest acquired).
- MGC Pharma holds the rights through an option to acquire the final 20% of Panax for €800,000 in MGC Pharma ordinary shares, based on a 20 day volume weighted average price immediately prior to the issue date.
- Panax holds a medical cannabis breeding license agreement, giving it access up to 1,000m² of growing space in the Vukoz Research Institute established in January 2007 by the Czech Ministry of the Environment.
- Panax holds the rights to operate in the €8 million state-of-the-art Vukoz laboratories and growing facility in the in Průhonice district, Czech Republic.
- Panax has the rights to the handling and disposal of cannabis waste product from the research and growing facility under a special license agreement.
- The Panax transaction will enable MGC Pharma to develop new strains of medicinal cannabis for its genetics database, for development of future medicinal cannabis products and for its European CBD production.
- Enhances MGC Pharma production capabilities, enabling it to grow medical grade cannabis on continuous cycles for its clinical trials and for use in its MGC Derma cosmetic products.
- The transaction is subject to completion of due diligence by both parties, following which a formal shareholder agreement will be entered into.

MGC Pharmaceuticals Ltd (ASX: MXC, "MGC Pharma" or "the Company") is pleased to announce has executed a binding HOA to acquire the Czech-based medical cannabis company, PANAX Pharma s.r.o., which is subject to completion of due diligence, on the following key commercial terms:

- i. 25% equity issued upfront to MGC Pharma,
- ii. 55% equity issued for MGC Pharma's commitment to fund the next year's operating costs, capped at €700,000, and
- iii. An option to acquire the final 20% equity at MGC Pharma's election for €800,000 of MGC Pharma ordinary shares, based on the volume weighted average price of MGC Pharma shares sold on the ASX for the 20 trading days on which MGC Pharma shares were traded prior to the date of issue.

Access Secured to State-of-the-Art Vukoz Production Facility

Through securing this equity position in Panax, MGC Pharma will immediately commence work with the Vukoz Institute on a research and development program to grow medical grade cannabis at the Czech Republic's well regarded research institute.

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The Vukoz institute was established in January 2007 by the Czech Ministry of the Environment for research of all landscape types, and environmental risks related to these, for research of biodiversity and its protection, for expert support of nature protection and landscape maintenance as well as research in ornamental gardening, including state-of-the-art laboratories and growing facility in Průhonice, Czech Republic. The medical cannabis license includes access to over 1000m² of indoor growing space at the Vukoz facility.

The Medical Cannabis Genetics and Breeding research programs in the Vukoz facility will focus on developing high CBD and high THC strains alongside Tissue Culture mediums and protocols. The outcome of the research and the new genetics will be utilised for MGC Pharma's growing operations, for use in the clinical trials and the MGC Derma cosmetic products development which will include treatments for psoriasis and acne, which are produced in Slovenia.

In addition, MGC Pharma has right through Panax's license agreements, to take and commercially utilise the waste biomass from the research facilities for the production of cannabidiol (CBD) extract, combined with a license for the import and export of medical cannabis.

Continuous Growing Cycle Advantage

The Vukoz Institute research facility has the additional benefit of being an indoor operation, enabling continuous, year round growing cycles. The Company anticipates treating over 1,400kg of medical cannabis biomass waste, which MGC Pharma estimates can be processed into 90kg of CBD extract per year.



Figure 1: Growing of cuttings in Vukoz Institute Laboratory

High Quality Research and Production Facility

The continuous growing cycles enable MGC Pharma to grow a variety of medical cannabis plants with different CBD yields, by enabling the development of high quality genetic varieties of medical cannabis that can be used for different purposes.

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Additionally, the research and development license enables the production of medical cannabis without the minimum quantity restrictions on the tetrahydrocannabinol (THC) content (the chemical that is responsible for most of cannabis' psychological effects and is often restricted under medical cannabis production licenses). This will enable MGC Pharma to produce in Europe a large variety medical grade cannabis products and materials under the license agreements held by Panax.

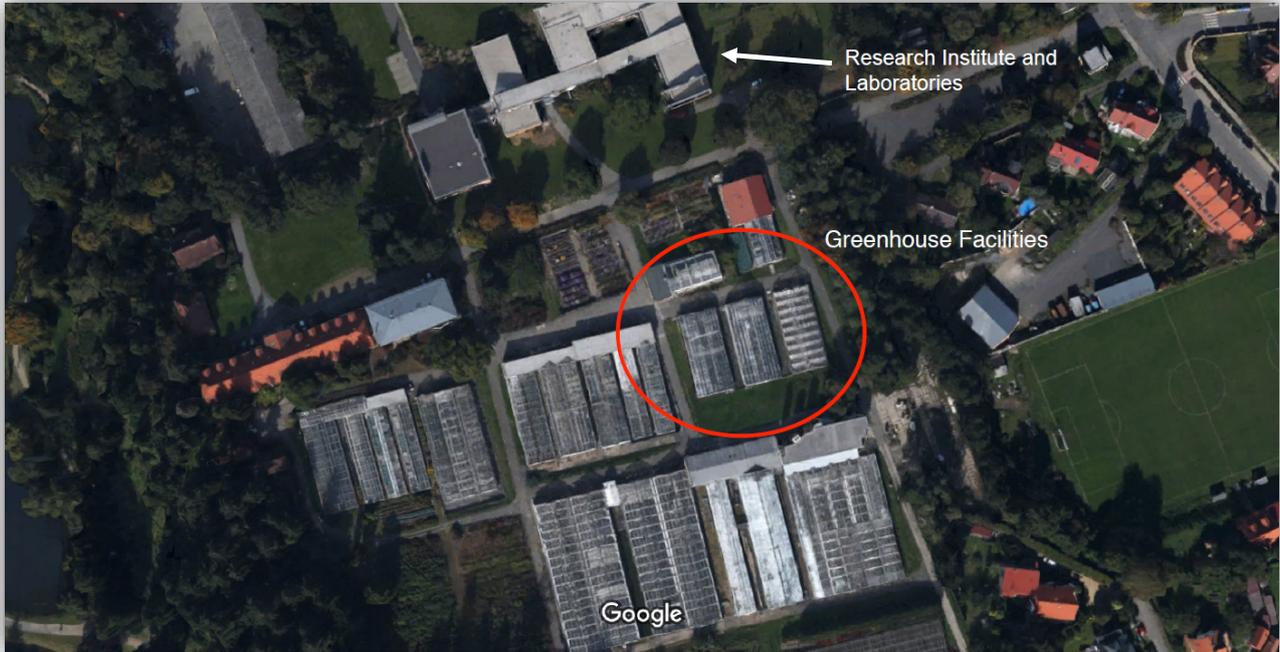


Figure 2: Vukoz Institute Facility

Key Transaction Terms and Conditions Precedent

The binding HOA entered between the parties is on the following commercial terms:

- i. 25% equity issued upfront to MGC Pharma,
- ii. 55% equity issued for MGC Pharma's commitment to fund the next year's operating costs, capped at €700,000, and
- iii. An option to acquire the final 20% equity at MGC Pharma's election for €800,000 of MGC Pharma equity, based on the volume weighted average price of MGC Pharma shares sold on the ASX for the 20 trading days on which MGC Pharma shares were traded prior to the date of issue.

The due diligence requirements that need to be satisfied for the transaction to settle, are set out below:

- a) completion of due diligence by MGC Pharma on Panax's business and operations to the sole satisfaction of MGC Pharma. A key component of MGC Pharma's due diligence will be to confirm that Panax's business has in place all necessary and required licences and regulatory approvals;
- b) the shareholders of Panax approving the Acquisition and waiving any and all pre-emptive rights they have to any Panax Shares to be issued or transferred to MGC Pharma in accordance with this HOA;
- c) the shareholders of MGC Pharma approving the issue of MGC Pharma Shares on the Stage 3 Settlement Date; and
- d) ASX granting a waiver of the ASX Listing Rules to permit the issue of MGC Pharma Shares on the Stage 3 Settlement Date outside of the period of 3 months following the date that MGC Pharma shareholder approval is received.

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It is also a term of the HOA that, upon compliance with the above conditions precedent, MGC Pharma and Panax shall enter into a license agreement under which MGC Pharma permits Panax to access MGC Pharma's genetic information and associated know how on terms satisfactory to MGC Pharma.

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

"Our acquisition of Panax significantly strengthens MGC Pharma's medical cannabis research and production capabilities. Not only does it build on our outdoor Slovenian growing facility and production capacity, it also allows the Company to produce high intensity medical grade cannabis products for our clinical trials and research programs planned for Israel, Europe and eventually in Australia."

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About MGC Pharma

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 European cosmetics and medical markets.

About Vukoz Institute

Vukoz is the Czech Republic's Governmental research institute established on 1 January 2007 by the Czech Ministry of the Environment under law nr. 341/2005. Established for research of all landscape types and environmental risks related to these, for research of biodiversity and its protection, for expert support of nature protection and landscape maintenance as well as research in ornamental gardening. The Institute, has existed since 1927 when the Ministry of Agriculture founded it on the former estate of Count Arnost Emanuel Silva Tarouca in Průhonice. Currently, it is multi-departmental, covering complex research of landscape and agriculture on all levels – ecosystem, community and population to that of individual organisms.

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