

3 January 2018

Elizabeth Harris  
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Via email: [Elizabeth.Harris@asx.com.au](mailto:Elizabeth.Harris@asx.com.au) and [tradinghaltsp Perth@asx.com.au](mailto:tradinghaltsp Perth@asx.com.au)

Dear Ms Harris

I refer to ASX's letter to MGC Pharmaceuticals Ltd (Company) dated 29 December 2017. In respect to your query the Company's position is as set out below:

1. *Has MGC Derma or the Company received at any time on or before the date of this letter the \$1m deposit referred to in the Binding Sales Agreement Announcement and the Purchase Order Announcement that was due to be received in November?*

**No.**

2. *If the answer to question 1 is "No" please advise*

2.1. *the reasons for the delay in the receipt of the \$1m deposit;*

**The delay in the receipt of the \$1m deposit has been caused by a combination of operational and logistics factors, including damage in transit to some of the bulk sample containers transported from MGC Derma's manufacturing facility to the customer Varm Cosmo. In addition, and as detailed in the Operational Update released on 18 December 2017, the customer Varm Cosmo also requested additional bulk samples, including a new formulation, from MGC Derma prior to completing its first commercial order and paying the initial \$1m deposit. Most of these new bulk samples were dispatched from the Company's manufacturing facility in Slovenia before Christmas, with the final bulk sample to be shipped in early January.**

2.2. *when the Company or MGC Derma expect to receive the \$1m deposit referred to in the Binding Sales Agreement Announcement and the Purchase Order Announcement.*

**When all the bulk samples have been received and tested by the customer Varm Cosmo, and they subsequently confirm their commercial order for their final product lines and volumes. This is now expected to occur over the coming weeks, following the end of the Christmas holiday period. The Company will update the market immediately once the \$1m deposit is received.**

3. *Has MGC Derma or the Company received at any time on or before the date of this letter the "First material revenues" referred to in the Purchase Order Announcement?*

**No. The "first material revenues" is the \$1m deposit referred to above.**

4. *If the answer to question 3 is "No" please advise the reasons for the delay in the receipt of the "First material revenues" and advise when the Company or MGC Derma expect to receive the "First material revenues" referred to in the Purchase Order Announcement.*

**See above. This is answered in 2.1 and 2.2.**

5. *Please advise the current status of the following (including details of the revenue received to date and the date or dates upon which it was received):*

5.1. *The Binding Sales Agreement*

**Is a fully binding commercial and legal agreement that remains fully active – no deposit, therefore revenues, have yet been received by the Company under the Binding Agreement, per answers to questions 1 and 2.**

5.2. *The Formal Purchase Order*

**Was received as announced on 14 November 2017 by the Company, pursuant to the Binding Sales Agreement. The customer has requested further bulk samples to test prior to completing its formal purchase order as detailed in the Company announcement of 18 December 2017, and question 2.**

6. *What is the current status of the "2 additional binding Varm Cosmo contracts" referred to in the Binding Sales Agreement Announcement?*

**These are part of the ongoing discussions and negotiations with Varm Cosmo, and will be completed after the execution of the first commercial delivery as outlined in previous Company announcements in November and December.**

7. *Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.*

The Company can confirm that it is currently in compliance with the Listing Rules, and, in particular, Listing Rule 3.1.

**Confirmed.**

8. *Please confirm that the Company's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of the Company with delegated authority from the board to respond to ASX on disclosure matters.*

**Confirmed.**

Yours sincerely,



Brett Mitchell  
Executive Chairman



29 December 2017

Ms Rachel Kerr  
Company Secretary  
MGC Pharmaceuticals Ltd  
PO Box 7209  
CLOISTERS SQUARE WA 6805

By email: [rachelk@ver.com.au](mailto:rachelk@ver.com.au)

Dear Ms Kerr

**MGC PHARAMCEUTICALS LTD (“COMPANY”) – ASX QUERY LETTER**

ASX Limited (“ASX”) refers to the following.

- A. The Company’s announcement titled “\$40 Million White-Label CBD Cosmetics Agreement Executed with Korean Cosmetics Manufacturer” released to the market on 20 October 2017 regarding execution by the Company of a terms and conditions supply agreement with Varm Cosmo Inc (“Varm Cosmo”) which provides, amongst other things a commitment of a minimum purchase quantity of 15,000 kg per month of cannabidiol cosmetic products from the Company’s MGC Derma division (“T&C Agreement”), and which includes, among other things, the following statements.
- *“The MGC Derma division is a 51:49 joint venture with well-credentialed cosmetic manufacturer, Dr. M. Burstein Ltd, of which MGC Pharmaceuticals owns 51% and holds management control.”*
  - *“This expected transformational deal will deliver an immediate revenue stream with a strong gross profit margin to the Company. An initial \$3.3m in revenue will be received shortly after the receipt of the first quarterly purchase order from Varm Cosmo, which is expected by the end of October 2017.”*
  - *“This watershed milestone supply agreement is transformational for our MGC Derma division and for MGC Pharmaceuticals as a company, and importantly for all our shareholders. It marks the culmination of much work in building our operations and our brand within this emerging market over the past 12 months, as well as development work for our proprietary formulations by our MGC Pharmaceuticals research team in Europe.”*
- B. The Company’s announcement titled “First Binding Sale Agreement with Varm Cosmo Signed for \$8m, Additional Contracts to Follow” and released to the market on 30 October 2017 (“Binding Sales Agreement Announcement”) regarding the execution of the first binding sales agreement with Varm Cosmo (“Binding Sales Agreement”), and which includes, among other things, the following statements.
- *“This binding sales contract is only the first to be executed and based on minimum volume, with 2 additional binding Varm Cosmo contracts expected to be closed in coming weeks.”*



- *“The additional 2 binding sales agreements currently being finalised are structured to deliver the full \$40,000,000 Terms and Conditions Supply Agreement signed on 20 October 2017.”*
- *“Following execution of the first binding sales agreements, MGC Derma division now expects to receive the first purchase order from Varm Cosmo and the first deposit payment of \$1m on the binding minimum \$8m supply agreement, during November 2017.”*
- *“Under this first binding sales agreement with Varm Cosmo, MGC Derma will supply 7,500kg per quarter of bulk materials for its CBD cosmetic products, valuing the deal at approximately \$8M in annual revenue to MGC Derma, which is the first supply component of the total deal announced on 20 October 2017. MGC Pharmaceuticals’ Pharma division will supply approximately 30kg of pure CBD per annum to MGC Derma at wholesale price of \$30,000/kg, as part of the bulk materials to be provided to Varm Cosmo under this first \$8m binding sales agreement alone.”*
- *“We are delighted to be moving swiftly forward with this transformation deal for our MGC Derma division, and for the Company as a whole. Having signed the first exclusive sale agreement and soon issuing the invoice for the first \$1m payment for our CBD cosmetic products, MGC Pharmaceuticals set to become Australia’s first listed Medical Cannabis Company to generate significant revenues through this deal which on execution of all 3 binding contracts is valued at a minimum \$40m in total annual revenue to MGC Derma.”*

C. The Company’s announcement titled “First Varm Cosmo Binding Purchase Order Received” and released to the market on 14 November 2017 (“Purchase Order Announcement”) which confirmed, amongst other things the receipt of the Company’s first formal purchase order from Varm Cosmo (“Formal Purchase Order”), and which includes, amongst other things, the following statements.

- *“First material revenues to be received by MGC Derma within days, with the full \$1m deposit under the \$8m binding agreement on track to be received in November.”*
- *“The initial purchase order now triggers first material revenues for MGC Derma within days, and forms part of the \$1m deposit which remains on track to be received in November under the binding \$8m supply agreement between Varm Cosmo and MGC Derma executed on 30 October 2017. This first payment is to be paid to MGC Derma within 5 business days of the purchase order under the terms of the binding agreement.”*
- *“The receipt of the first purchase order signals a milestone for our Company under what is a transformational deal that will not only deliver significant revenues but also provides a platform for MGC Derma to rapidly expand its presence in the global cosmetics market which presents a very large opportunity for our Company. Furthermore this milestone will generate additional revenue stream from our CBD extractions produced by our Pharma division.”*

D. The Company’s announcement titled “MXC Operational Update” and released to the market on 18 December 2017 (“Operational Update”) which includes, amongst other things, the following statements.

- *“MGC Derma’s first binding agreement with Varm Cosmo signed in late October remains on track, with additional bulk product samples being delivered in December to the Varm Cosmo operations facility. The new bulk samples include a new formulation to be used in products being developed*



*specifically for skin type of the major Asian cosmetics markets. The Company is focused on first completing the operational and production requirements of the first binding contract, and secondly advancing negotiations for additional binding contracts contemplated for key Asian markets.”*

### **Listing Rules and Guidance**

E. Listing rule 18.7, which states as follows.

*An entity must give ASX any information, document or explanation that ASX asks for to enable it to be satisfied that the entity is, and has been, complying with the Listing Rules. The entity must do so within the time specified by ASX. ASX may submit, or require the entity to submit, any information given to ASX to the scrutiny of an expert selected by ASX. The entity must pay for the expert.*

Having regard to the above, and pursuant to listing rule 18.7, ASX requires the Company to respond separately to each of the following questions and requests for information in a format suitable for release to the market.

### **ASX Queries**

1. Has MGC Derma or the Company received at any time on or before the date of this letter the \$1m deposit referred to in the Binding Sales Agreement Announcement and the Purchase Order Announcement that was due to be received in November?
2. If the answer to question 1 is “No” please advise
  - 2.1. the reasons for the delay in the receipt of the \$1m deposit;
  - 2.2. when the Company or MGC Derma expect to receive the \$1m deposit referred to in the Binding Sales Agreement Announcement and the Purchase Order Announcement.
3. Has MGC Derma or the Company received at any time on or before the date of this letter the “First material revenues” referred to in the Purchase Order Announcement?
4. If the answer to question 3 is “No” please advise the reasons for the delay in the receipt of the “First material revenues” and advise when the Company or MGC Derma expect to receive the “First material revenues” referred to in the Purchase Order Announcement.
5. Please advise the current status of the following (including details of the revenue received to date and the date or dates upon which it was received):
  - 5.1. The Binding Sales Agreement
  - 5.2. The Formal Purchase Order
6. What is the current status of the “2 additional binding Varm Cosmo contracts” referred to in the Binding Sales Agreement Announcement?



### Compliance with the Listing Rules

7. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.
8. Please confirm that the Company's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of the Company with delegated authority from the board to respond to ASX on disclosure matters.

### When and Where to Send Your Response

This request is made under, and in accordance with, Listing rule 18.7. Your response is required as soon as reasonably possible and, in any event, **by not later than 6:00am AWST on Wednesday, 3 January 2018**.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under listing rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail to [Elizabeth.Harris@asx.com.au](mailto:Elizabeth.Harris@asx.com.au) and to [tradinghaltspert@asx.com.au](mailto:tradinghaltspert@asx.com.au). It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

### Listing Rules 3.1 and 3.1A

You should note that if the information requested by this letter is information required to be given to ASX under listing rule 3.1 and it does not fall within the exceptions mentioned in listing rule 3.1A, the Company's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

In responding to this letter, you should have regard to the Company's obligations under listing rules 3.1 and 3.1A and also to Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B.

It should be noted that the Company's obligation to disclose information under listing rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Please contact me if you have any queries about this letter.

Yours sincerely

*[sent electronically without signature]*

Elizabeth Harris  
**Principal Adviser, ASX Listings Compliance (Perth)**