

31 January 2017

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

MMJ PhytoTech Limited (ASX: MMJ) (“MMJ” or “the Company”) is pleased to provide its quarterly activities report for the period ended 31 December 2016.

Highlights:

- **Cannabis cultivation commenced at Duncan Facility following securing of all required starter materials - first cannabis harvest expected Q1 2017**
- **MMJ received superior proposal from Harvest One Capital Corp. to acquire United Greeneries Holdings Ltd and Satipharm AG**
- **Harvest One proposal includes total consideration for UG assets of C\$42 million in comparison to C\$40 million outlined in prior proposal**
- **Harvest One launches C\$15 million equity raising, later increased to C\$25 million, to finalise the acquisition of United Greeneries and Satipharm**

United Greeneries Commences Cannabis Cultivation

During the quarter, MMJ’s Canadian-based subsidiary United Greeneries Ltd (“UG”), received an Import Permit from Health Canada (“HC”) and the Canadian Food Inspection Agency (“CFIA”), allowing for the importation of 1kg of cannabis seeds.

MMJ’s highly experienced team was able to solve an industry bottleneck in securing legal starter materials – allowing the Company to provide Canadian consumers with a broad range of cannabis varieties.

The receipt of the Import Permit was a major catalyst for MMJ, as it enabled the commencement of growing activities at the Duncan Facility shortly after in December.

As a result, the first cannabis from the Duncan Facility is expected to be harvested in April 2017.

As previously advised, UG is planning a staged expansion of the Duncan Facility, targeting initial production capacity of circa 7,500kg of cannabis by the end of 2017. UG plans to then scale up the production capacity of the Duncan Facility targeting circa 50,000kg by YE 2020.

Update on Listing of Core Cannabis Brands of TSX-V

On 3 November, MMJ advised that it had executed a binding Term Sheet (“Term Sheet”) with Canadian-based Harvest One Capital Corp. (“Harvest One”) (TSXV NEX: WON.H) for the sale

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to Harvest One of 100% of the issued shares of United Greeneries Holdings Ltd ("UG") and Satipharm AG ("Satipharm") respectively.

The Harvest One transaction supersedes the binding Term Sheet signed with TSX-V listed company Top Strike Resources Limited (TSX-V: TSR) ("Top Strike").

Harvest One Proposal Key Terms:

- Harvest One will complete a 1.79:1 share consolidation resulting in it having 2,286,659 shares and 223,464 options on issue;
- Harvest One will acquire UG and Satipharm for total consideration of \$42M;
 - \$40M equity (53.3M shares @ \$0.75/share) and \$2M cash;
 - Pro Forma ownership of TSX listed entity based on the initial capital raising terms was 71% versus 69% in TSR deal;
 - All other terms are materially consistent with previously outlined TSR deal.

In December, a definitive agreement was signed with Harvest One for the sale of UG and Satipharm. This binding agreement represented another key milestone for MMJ shareholders, who will, based on the recently announced increased scale of the capital raising in Harvest One, gain exposure to a 60% owned publicly listed entity that will have the required flexibility to rapidly expand the UG and Satipharm assets respectively.

Australian Cannabis Market Update

As of November 1 2016, medicinal cannabis has been legalised as a controlled prescription drug following changes to the Australian Commonwealth legislation.

With MMJ being the only ASX listed entity with a medicinal cannabis product that has demonstrated safety under a clinical trial program, the Company is fully supportive of recent amendments to Australian Commonwealth legislation, legalising cannabis-based products for medicinal or research purposes as controlled drugs.

MMJ will initially look to provide the Australian market with its proprietary Gelpell Microgel Capsules, developed and produced by the Company's wholly owned subsidiary, Satipharm AG, in Switzerland.

Canadian Recreational Market Opportunity

In December, the Canadian Federal Government released its Final Report into cannabis legalisation and regulation, based on the findings and recommendations submitted by the Health Canada instigated Task Force.

The Report highlighted the need for a safe and responsible production system, with the development of regulatory framework to support commercial production by the private sector a key focus. The Report also noted that the current federal system of cannabis for medical purposes, could be used as an entry point for a new national system for legalised and regulated cannabis production.

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At present, the Canadian medical cannabis market is one of the most highly regulated and favourable operating jurisdictions globally. At present, there are 34 approved companies operating under the current regulatory framework, of which 10 are publicly listed in Canada.

The medical cannabis market in Canada is expected to grow to C\$3 billion in annual sales by 2024, with new patient enrolments in 2016 increasing by an average of 5,000 new patients per month – a total of 75,000 patients are enrolled at present.

A significant value catalyst for Licensed Producers will be the anticipated regulation of the Canadian recreational market, which has a conservative estimated value of circa C\$5 billion per annum.

The Canadian government has committed to the introduction of the new recreational regulatory system by in the second half of calendar 2017. It is expected that existing LP's under the current regulatory framework will have a strategic first-mover advantage as early stage suppliers to this recreational market.

Corporate Overview

In October, MMJ raised A\$4 million (before costs) through the placement of 19,512,196 fully paid ordinary shares ("Placement") to institutional and sophisticated investors at \$0.205 per share. The Placement was well supported by a number of well-regarded institutional investors with the Company accepting over-subscriptions of A\$2 million, which is a strong endorsement of MMJ's near-term development strategy and underlying value.

In addition, MMJ also advised that it had appointed Canadian-based Mackie Research Capital Corporation ("Mackie Research") as lead manager for the Canadian equity financing component of the proposed TSX-V listing.

MMJ's Managing Director, Andreas Gedeon, commented: "The Company is very pleased with the progress made during the December quarter, in what was another highly productive period for the Company.

The commencement of cannabis cultivation at our state-of-the-art Duncan Facility in December marked a critical milestone for the business, as we build towards becoming a leading low-cost, large-scale producer in the Canadian market.

The Company also continued to make significant inroads towards securing a TSX-V listing for our core cannabis subsidiaries, after receiving a robust offer from Harvest One. The Harvest One deal offers our shareholders a number of compelling advantages, including a materially higher valuation for the United Greeneries and Satipharm assets.

I would like to thank our shareholders for their ongoing support, as we enter this exciting phase of the Company's development and the Board looks forward to providing further updates on the TSX-V listing and further key operational milestones in the near-term."

– ENDS –

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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

MMJ PHYTOTECH LIMITED

ABN

91 601 236 417

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) research and development	(309)	(331)
(b) product manufacturing and operating costs	(113)	(158)
(c) advertising and marketing	(101)	(246)
(d) leased assets	(46)	(72)
(e) staff costs	(348)	(979)
(f) administration and corporate costs	(835)	(1,429)
1.3 Dividends received (see note 3)		
1.4 Interest received	9	11
1.5 Interest and other costs of finance paid	(19)	(24)
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	(1,762)	(3,228)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(114)	(160)
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(d) intellectual property	-	(6)
	(e) other non-current assets		
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		
2.3	Cash flows from loans to other entities	-	4
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(114)	(162)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	4,000	4,000
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	(259)	(259)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(32)	(47)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	3,709	3,694

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	1,388	2,951
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,762)	(3,228)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(114)	(162)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,709	3,694

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(23)	(57)
4.6	Cash and cash equivalents at end of quarter	3,198	3,198

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	3,168	1,358
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Term deposit)	30	30
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,198	1,388

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**

213

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Item 6.1 relates to Director's fees paid to directors as well as legal, company secretarial, accounting and office administration fees paid to Director Related entities.

Item 6.2 for the year to date amount relates to a cash repayment received from Mr Andreas Gedeon, a director of the Company, in respect of an unsecured director loan totalling CAD 100,349 (AUD 103,768) as at 31 December 2016. The Loan incurs interest at a rate of 8% per annum and is repayable on or before 31 January 2017 and has been granted on arm's length, commercial terms.

7. Payments to related entities of the entity and their associates

- 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

**Current quarter
\$A'000**

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		
8.2 Credit standby arrangements		
8.3 Other (please specify)	443	443
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.		

A promissory note is payable by wholly owned subsidiary, United Greeneries Operations Ltd to Elk Valley Properties Ltd ("Lessor") in connection with leasehold improvements and renovations undertaken at the Duncan Facility pre-acquisition which were originally funded by the Landlord to make the site fit for the permitted business purpose as a cannabis cultivation facility. The promissory note is unsecured and bears an interest rate of 5% per annum with monthly repayments

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	324
9.2 Product manufacturing and operating costs	370
9.3 Advertising and marketing	106
9.4 Leased assets	46
9.5 Staff costs	490
9.6 Administration and corporate costs	770
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	2,106

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:

(Director)

Winton Willesee

Date: 31 January 2017

Print name:

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.