

28 April 2017

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2017

MMJ PhytoTech Limited (ASX: MMJ) (“MMJ” or “the Company”) is pleased to provide its quarterly activities report for the period ended 31 March 2017.

Highlights:

- Harvest Once completes C\$25 million equity raising to finalise RTO transaction of United Greeneries Holdings Ltd and Satipharm AG on the TSX-V
- Post quarter end, Harvest One receives listing approval on the TSX-V as Tier 1 Life Science Issuer
- Cannabis cultivation underway at Duncan Facility with first crop of OG Kush strain successfully harvested yielding approx. 60kg of dried cannabis buds
- Land Lease agreement signed with Cowichan Tribes to secure additional 13 acre land package located directly adjacent to existing Duncan Facility in Canada
- \$9M from equity raise allocated to massive expansion of Duncan facility on leased land, targeting production capacity of 8,500kg p.a. by YE 2017
- Phase 2 Clinical Trial of PTL101 drug-beads underway aimed at measuring safety and efficacy for treating refractory epilepsy in children
- Swiss-subsiary Satipharm AG expands European sales network with Gelpell CBD capsules now available throughout all pharmaceutical outlets in Germany
- Partnership with HL Pharma for the importation and distribution of Satipharm’s Gelpell CBD capsules into Australia – Import Licence received in March
- MMJ remains in a strong financial position with circa A\$8.3M cash

United Greeneries Cannabis Cultivation Update

Following the commencement of production in December 2016, MMJ’s Canadian-based subsidiary United Greeneries Ltd (“UG”), successfully completed its first cannabis harvest at the Duncan Facility during the quarter.

UG’s first crop of the OG Kush strain yielded approximately 60kg of dried cannabis buds, with the harvest passing strict internal quality control measures. The Company expects the cannabis buds to be ready for shipment by early May.

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Cultivation activities are continuing to be scaled up at the Duncan Facility, as UG looks to establish a first-mover advantage in the soon to be legalised Canadian recreational market, which will have an estimated retail value of CAD\$8.7 billion per annum (according to a 2016 Insights and Opportunities Report on Recreational Marijuana by Deloitte).

Cowichan Land Lease Agreement Expands Production Capacity

In March, United Greeneries executed an agreement with Cowichan Tribes (“Cowichan”) in respect to the leasing of a 13-acre land package (“Expansion Land”) located adjacent to the Company’s existing Duncan Facility.

The Expansion Land will underpin UG’s Phase 1 Expansion Strategy, initially supporting up to three acres of additional greenhouse production space, increasing production capacity to approximately 8,500kg of dried cannabis buds by the end of calendar year 2017.

The agreement also provides scope for a potential Joint Venture (“JV”) with Cowichan to further expand UG’s landholding with an additional 20 acres of greenhouse production space. This would drive production capacity at the Duncan Facility to approximately 50,000kg p.a. by 2020, potentially establishing UG as one of the largest cannabis producers in Canada.

Strategic Partnership Strengthens Australian Distribution Network and Obtains Importation Permit for Satipharm Products

In February, MMJ strengthened its Australian distribution network, entering a binding Letter of Intent (“LOI”) with HL Pharma Pty Ltd. (“HL Pharma”) for the importation and distribution of the Company’s medicinal cannabis products in Australia.

Under the agreement, HL Pharma will provide the requisite framework for the importation of MMJ’s Swiss-based subsidiary, Satipharm AG’s (“Satipharm”), Gelpell CBD capsules to approved prescribers in Australia.

In March, HL Pharma received approval for a medicinal cannabis importation licence from the Department of Health, with the final Import Permit expected to be received shortly – enabling the importation process to commence.

Importantly, Satipharm’s Gelpell CBD capsules are expected to be one of the first medicinal cannabis products available to approved prescribers in Australia, solidifying the MMJ’s position as a first mover in this evolving market.

Satipharm has the necessary inventory to immediately commence the importation of its Gelpell CBD capsules into Australia, where the capsules will be stored by HL Pharma in a secure warehouse facility.

HL Pharma is a Melbourne-based specialist pharmaceutical wholesaler and distributor. The Company has more than 20 years of experience, supplying pharmaceuticals to hospitals, pharmacies, doctors, veterinarians and pharmaceutical wholesalers worldwide. HL Pharma is registered with The Victorian Department of Health and works under the code of Good Distribution Practice (“GDP”) to supply pharmaceuticals.

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Satipharm Expands European Sales Footprint

Satipharm continued its strong growth trajectory during the quarter, highlighted by the expansion of its sales and distribution network in Europe.

Significantly, Pharmaceutical Central Numbers (PZN codes) have been secured for its 10mg and 50mg Gelpell CBD Capsules, enabling both products to be sold in all pharmacies throughout Germany and through leading E-commerce platform Amazon.

Satipharm's online distribution partner, German Bodfeld Pharmacy, has now commenced the shipping of Satipharm's cannabidiol ("CBD") extract products to regulated markets globally, further enhancing the Company's capacity to rapidly scale up product sales. Importantly, German Bodfeld Pharmacy accepts all major payment methods, which solves a key payment gateway issue imposed on CBD producers globally due to the federal U.S. ban of cannabinoids.

A binding LOI was also executed with a leading pharmaceutical distributor and retailer in Denmark for the marketing and distribution of Satipharm's products throughout Scandinavia. Satipharm expects this partnership to provide direct access to hundreds of thousands of potential new customers in the near-term.

Phase 2 Clinical Trial for Treatment of Pediatric Epilepsy Underway

During the quarter, the Company's wholly-owned, Israeli-based subsidiary PhytoTech Therapeutics Limited ("PTL"), commenced a Phase 2 clinical study into the safety and efficacy of its PTL101 capsules in treating refractory epilepsy in children.

The Phase 2 clinical study follows the highly successful Phase 1 study (announced 3 March 2016), which highlighted the safety and high performance of the Gelpell CBD capsules. The capsules successfully demonstrated the effective delivery profile of CBD compound to trial subjects.

The PTL101 capsules / beads are utilising proprietary formulation developed through the Company's Gelpell CBD product technology.

It is estimated that approximately 100,000 children in North America suffer from refractory epilepsy – a treatment resistant category of the disease, causing uncontrollable seizures.

To date, drug therapy remains ineffective in the treatment of epileptic seizures for approximately 30% of refractory epilepsy patients in North America alone, due to the drug failing to control the frequency of seizures or patients not being able to tolerate the related side effects. A number of currently available epilepsy drugs have been found to have significant side effects including the impairment of a patient's motor skills and cognitive abilities.

For further details on the Phase 2 Clinical Trial, please refer to ASX release dated 13 February 2017.

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Canadian Recreational Market Update

The Canadian Federal Government recently confirmed it will move to legalise the recreational cannabis market by 1 July 2018. The Federal Government's initial plans and proposed legislative framework were tabled in a Bill to the House of Commons on 13 April 2017.

Key points from initial framework include:

- Canadian Federal Government ("Government") has decided to continue with the existing Licensed Producer ("LP") framework in place for supply to the medicinal cannabis, and will utilise this model for governing supply to the recreational market.
- Government will maintain the pre-existing medical mail order delivery system for recreational cannabis market.
- Legislation confirms that sales in a retail environment must happen from a "licensed" distributor – with further details to be provided.
- Government has advised there will be "restrictions" not a "ban" on promotional activities.
- Initially, the Government will legalise oils and dried cannabis which is the same as the current regime on the medical side.

The latest development follows the release of the Federal Government's Final Report into Cannabis Legalisation and Regulation (the "Report") in December 2016. The Report incorporated the findings and recommendations submitted by the Health Canada instigated Task Force, and outlined 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 priority.

At present, there are 41 approved companies operating under the current regulatory framework, of which 10 are publicly listed in Canada. It is expected that existing Licensed Producers under the current regulatory framework will have a strategic first-mover advantage as early stage suppliers to the recreational market.

Corporate Activity Overview

Post quarter end, Harvest One Capital Inc. (NEX: WON.H) ("Harvest One") received approval from the TSX Venture Exchange ("TSX-V") for the acquisition of MMJ's wholly-owned subsidiaries United Greeneries and Satipharm.

The resulting issuer, Harvest One Cannabis Inc. ("Harvest One Cannabis") (TSX-V: HVST), was approved as a Tier 1 Life Science Issuer, with trading of HVST Common Shares commencing on 28 April 2017.

The Company also advised that an Amended Filing Statement dated as of April 19, 2017 filed in connection with the Acquisition has been posted on SEDAR and may be viewed under the Harvest One profile at www.sedar.com in accordance with Section 12.4 (i) of Exchange Policy 2.4.

Importantly, TSX-V listing approval satisfies the final escrow requirement for the release of the CAD\$25 million secured under the recent Harvest One capital raising (see ASX release dated

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23 February 2017). Upon listing, Andreas Gedeon assumed the role of Managing Director and CEO of Harvest One Cannabis.

In February, Harvest One closed the previously reported (January 27, 2017) private placement ("the Placement"), raising C\$25,000,500 before costs. Pursuant to the Placement, Harvest One issued 33,334,000 Subscription Receipts at a price of C\$0.75.

The Subscription Receipts were sold on a private placement basis through a syndicate of agents led by Mackie Research Capital Corporation (the "Lead Agent") and including Canaccord Genuity Corp., Eight Capital and GMP Securities L.P. (the "Agents"). The Agents exercised in full their option to purchase an additional 4,000,000 Subscription Receipts for additional gross proceeds of \$3,000,000.

Post transaction, MMJ remains in a strong financial position with circa A\$8.3 million cash. These funds are intended to be applied towards the ongoing clinical trial programs in Israel, working capital and pursuit of new opportunities in the medical cannabis sector.

MMJ shareholders will have a 60% ownership in Harvest One Cannabis - a fully-financed company with two strategic cannabis brands operating in one of the fastest growing cannabis markets globally. MMJ also retains 100% ownership of its Israel-based subsidiary, PhytoTech Therapeutics Ltd, which is responsible for the Company's R&D and clinical development activities.

Management Commentary

MMJ PhytoTech's Managing Director, Andreas Gedeon, commented:

"The March quarter was a transformational period, with the delivery of a number of key milestones driving us closer towards becoming one of Canada's leading large-scale cannabis production businesses.

Looking ahead, the Canadian cannabis sector is approaching a watershed moment, with Justin Trudeau's Liberal Government recently tabling legislation to end Canada's prohibition on cannabis that has stood for close to a century.

This latest development erases any previous doubts around the commitment of the Canadian Federal Government to legalise the recreational cannabis market. Importantly, companies currently operating in the sector have been provided with increased clarity in regards to proposed legislative framework and expected timelines.

We are also very proud that our strategy of creating international jurisdictional synergies has resulted in the fact that our Swiss Satipharm Gelpell capsules will be one of the first, if not the first, medical cannabis products available to Australian patients.

I would like to thank our shareholders for their ongoing support and the Company looks forward to providing shareholders with additional corporate and operational updates in the near-term."

– ENDS –



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About MMJ PhytoTech Limited

MMJ PhytoTech Limited (ASX. MMJ) is focused on becoming a large-scale cannabis producer, targeting direct supply to the growing Canadian medical and recreational markets which will have an estimated combined value of C\$8-9 billion by 2024. The Company controls operations across the entire medicinal cannabis value chain through its ~60% interest in TSX-V listed **Harvest One Cannabis Inc** (TSXV NEX: WON.H) and its 100% interest in Israeli research and development subsidiary, **PhytoTech Therapeutics Ltd**, both of which are strategically located in favourable jurisdictions with supportive regulatory frameworks in place.

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 March 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	10	10
1.2 Payments for		
(a) research and development	(110)	(441)
(b) product manufacturing and operating costs	(239)	(397)
(c) advertising and marketing	(105)	(351)
(d) leased assets	(29)	(101)
(e) staff costs	(601)	(1,580)
(f) administration and corporate costs	(1,001)	(2,430)
1.3 Dividends received (see note 3)		
1.4 Interest received	5	16
1.5 Interest and other costs of finance paid	(13)	(37)
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	(2,083)	(5,311)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(20)	(180)
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 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	(24)	(186)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	4,000
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options	3,138	3,138
3.4 Transaction costs related to issues of shares, convertible notes or options	-	(259)
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings	(37)	(84)
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other – Subscription funds held on trust pending exercise of share options in April 2017.	1,033	1,033
3.10 Net cash from / (used in) financing activities	4,134	7,828

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	3,198	2,951
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,083)	(5,311)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(24)	(186)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	4,134	7,828

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	33	(24)
4.6	Cash and cash equivalents at end of quarter	5,258	5,258

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	4,195	3,168
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other: Term deposit	30	30
	Other: Subscription funds held on trust pending exercise of share options in April 2017 (section 3.9)	1,033	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,258	3,198

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
200
-

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.

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)	406	406
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	297
9.2 Product manufacturing and operating costs	114
9.3 Advertising and marketing	166
9.4 Leased assets	66
9.5 Staff costs	611
9.6 Administration and corporate costs	1,363
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	2,617

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:  Date: 28 April 2017
Company Secretary

Print name: Erlyn Dale

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.