

31 October 2016

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2016

MMJ PhytoTech Limited (ASX: MMJ) (“MMJ” or “the Company”) is pleased to provide its quarterly activities report for the period ended 30 September 2016.

Highlights:

- **Proposed spin-out of Canadian subsidiary United Greeneries and Swiss subsidiary Satipharm by way of reverse takeover of TSX-V listed entity Top Strike Resources (TSX-V; TSR)**
- **MMJ enters strategic option agreement to lease 13-acre land package located directly adjacent to existing Duncan Facility**
- **Phase 2 Clinical Trial of PTL101 capsules to measure efficacy for reducing seizures in children with intractable epilepsy set to commence**
- **Appointment of experienced pharmaceutical executive Catherine Harvey as Chief Operations Officer**

Duncan Facility Expansion Strategy

During the September quarter, MMJ advised that its wholly-owned subsidiary United Greeneries Holdings Ltd (“UG”) had executed a binding letter of intent (“LOI”) with Cowichan Tribes (“Cowichan”) in respect to the leasing of a 13-acre strategic land package (“Expansion Land”) located immediately adjacent to the Duncan Facility.

MMJ estimates that the Expansion Land could support up to 10 acres of greenhouse production space, potentially yielding approximately 25,000kg/year of cannabis, which is more than 25 times the current production capacity of the Duncan Facility. Together with the existing production capacity, the expanded Duncan Facility could produce up to 26,000kg of cannabis per year, which would position it as one of the largest cannabis cultivation operations in Canada.

Expanded production capacity would further strengthen the Company’s supply chain and will play a key role in supplying the soon to be legalised Canadian recreational market, with conservative estimates forecasting annual sales of approximately C\$5 billion.

As one of only 29 companies currently licensed to produce medical cannabis in Canada, MMJ expects to be well positioned as a first mover in this emerging recreational market.

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Cowichan Agreement Overview

The LOI grants MMJ an option to lease 13 acres of the 40-acre strategic land package directly adjacent to the existing Duncan Facility until June 1, 2017. Additionally, the agreement provides MMJ with the capacity to increase the acreage beyond 13 acres if needed upon exercise of the option.

In consideration for the option to lease, the Company has agreed to pay Cowichan Tribes C\$1,000 per month until the earlier of the expiry of the option on June 1, 2017, or the entry into a lease agreement.

Phase 2 Clinical Trial for Treatment of Pediatric Epilepsy

In August, MMJ advised that its wholly-owned, Israeli-based subsidiary PhytoTech Therapeutics Limited (“PTL”), was finalising preparations to commence a Phase 2 Clinical Study into the efficacy of its PTL 101 capsules in treating intractable epilepsy in children.

The PTL capsules contain organically derived, highly purified CBD (cannabidoil) and are utilising proprietary formulations developed through the Company’s Gelpell product technology.

The Phase 2 study is expected to commence in Q4 2016 at a leading Israeli healthcare facility, and follows the successful Phase 1 Clinical Study which highlighted the safety and high performance of the Gelpell-CBD capsules.

If successful, the Phase 2 clinical trial results will be a key catalyst towards the commercial development of the PTL101 prescription drug for the treatment of intractable epilepsy in children.

MMJ is also in the final stages of preparing for the commencement of a Phase 2 Clinical Study into the ability of its PTL201 capsules to treat spasticity related symptoms associated with multiple sclerosis patients.

Proposed Listing of Core Cannabis Brands of TSX-V

On 28 September, MMJ advised that it had signed a binding Term Sheet with TSX-V listed company Top Strike Resources Limited (TSX-V: TSR) (“Top Strike”), for Top Strike to acquire 100% of the issued shares of United Greeneries and Satipharm AG (“Satipharm”) respectively.

The proposed transaction, which remains subject to a number of conditions, including shareholder approval, is intended to provide MMJ shareholders with direct exposure to the rapidly growing recreational and medical cannabis markets in Canada.

Post spin out, MMJ shareholders will, through their shareholdings in MMJ, have an indirect ownership in a fully-financed, growth-focused cannabis company with two key operating brands in UG and Satipharm.

The aggregate sale price of UG and Satipharm (C\$40 million) represents approximately 97% of MMJ’s current market capitalisation (undiluted and based on a share price of A\$0.24).

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TSX-V Listing Highlights / Key Benefits:

- Post transaction, MMJ shareholders will have significant exposure to two of the largest commercial opportunities in the global cannabis sector;
- TSX-V listing to fast-track growth of both UG and Satipharm cannabis brands respectively, with robust growth pipelines and near-term revenue generating opportunities to be realised;
- Direct exposure to Canadian capital markets to be a significant value catalyst;
 - **Since 1 March 2016 over \$200M has been raised by MMJ's Peers¹**
- Top Strike to become a pure play TSX-V cannabis company with world-class brands providing penetration into evolving recreational and medical cannabis markets globally; and
- Combination of UG and Satipharm brands in the resulting issuer for capturing the entire spectrum of the Canadian recreational and medical cannabis market is expected to create a competitive advantage over single brand competition and to leverage Satipharm's oral delivery assets into the recreational market.

Canadian Recreational Market Opportunity

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 ("LP's") 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

During the quarter, the Company advised that Mr Ross McKay resigned as a Non-Executive Director due to increased workloads associated with other business interests in Canada. The Board thanks Mr McKay for his commitment and contribution towards the growth of MMJ over the past 12 months.

In August, MMJ appointed Catherine Harvey as Chief Operations Officer. In the role, Catherine will play a significant role in overseeing the daily operations of MMJ's key business divisions, with a focus on the execution of key international growth objectives.

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Post quarter end, the Company announced that it had 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.

Management Commentary

MMJ's Managing Director, Andreas Gedeon, commented: "The September quarter was a highly productive period for MMJ, highlighted by the Company's proposal to list its core cannabis brands – United Greeneries and Satipharm AG - on the TSX-V via a reverse takeover transaction.

The Company strongly believes listing on the TSX-V will be a significant near-term value catalyst for existing MMJ shareholders, as it provides direct exposure to the rapidly expanding Canadian cannabis market which has an estimated value of approx. C\$5 billion.

As the framework around the Canadian medical and recreational cannabis markets continues to evolve, a key focus for management has been on ensuring MMJ has the capacity to rapidly scale-up production. As a result, the Company has entered into a strategic expansion land package to acquire an additional 13 acres located directly adjacent to our Duncan Facility, effectively enabling Duncan to produce circa 26,000kg/year of cannabis.

MMJ's Israeli-based subsidiary, PhytoTech Therapeutics has also continued to make significant progress during the quarter, as it prepares to commence a Phase 2 Clinical Trial to test the efficacy of our PTL 101 capsules in treating intractable epilepsy in children.

I would like to thank our shareholders for their ongoing support, and the Board looks forward to providing further updates on the TSX-V listing and other 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")

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	-	-
1.2 Payments for		
(a) research and development	(22)	(22)
(b) product manufacturing and operating costs	(45)	(45)
(c) advertising and marketing	(145)	(145)
(d) leased assets	(26)	(26)
(e) staff costs	(631)	(631)
(f) administration and corporate costs	(594)	(594)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	(5)	(5)
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	(1,466)	(1,466)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(46)	(46)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	(6)	(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	4
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(48)	(48)

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	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(15)	(15)
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	(15)	(15)

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	2,951	2,951
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,466)	(1,466)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(48)	(48)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(15)	(15)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(34)	(34)
4.6	Cash and cash equivalents at end of quarter	1,388	1,388

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	1,358	2,921
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (term deposits)	30	30
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,388	2,951

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**

251

4

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 relates to a cash repayment received from Mr Andreas Gedeon, a director of the Company, in respect of an unsecured director loan totalling CAD 98,352 (AUD 98,035) as at 30 September 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 (Promissory Note)	449	449
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	215
9.2 Product manufacturing and operating costs	353
9.3 Advertising and marketing	80
9.4 Leased assets	35
9.5 Staff costs	527
9.6 Administration and corporate costs	712
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	1,921*

* Subsequent to the end of the September 2016 quarter, the Company completed a placement to sophisticated and institutional investors to raise \$4 million (before costs), which, together with the Company's cash balance at 30 September 2016 of approximately \$1.388 million, will be used to fund the working capital requirements of the Company.

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: 31 October 2016
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.