mmj PHYTOTECH

ABN 91 601 236 417

# 2017 ANNUAL REPORT

# CORPORATE DIRECTORY

## Directors

**Peter Wall** Non-Executive Chairman
**Andreas Gedeon** Managing Director
**Winton Willesee** Non-Executive Director
**Jason Bednar** Non-Executive Director

## Company Secretary

**Erlyn Dale**

## Registered Office and Principal Place of Business

Suite 5 CPC
145 Stirling Highway
Nedlands WA 6009
Phone: +61 8 9389 3150

## Share Registry

**Automic Registry Services**
Level 2
267 St Georges Terrace
Perth WA 6000

## Auditor

**BDO Audit (WA) Pty Ltd**
38 Station Street
Subiaco WA 6008

## Stock Exchange Listing

**Australian Securities Exchange**
MMJ PhytoTech Limited shares are listed on the Australian Securities Exchange (ASX code: MMJ)

## Website

**www.mmjphytotech.com.au**

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# CHAIRMAN'S LETTER

Dear Shareholders,

It is with great pleasure that I write to you following what has been a highly active and transformational year for your company MMJ PhytoTech Limited - highlighted by the successful listing of our core cannabis brands United Greeneries Holdings Ltd ("United Greeneries") and Satipharm AG ("Satipharm") on the TSX-V via the acquisition of Harvest One Capital Inc.

I must start by saying that the decision to list our large-scale cannabis production asset, along with our Swiss-based processing and distribution division on the TSX-V was not made lightly and without considerable deliberation.

However, a pivotal factor behind the Board's decision was the compelling opportunity to solidify MMJ's position and shareholder exposure in what is considered to be the pre-eminent cannabis market globally.

Post transaction, MMJ has retained a 59% equity stake in the resulting issuer Harvest One Cannabis Inc. (TSX-V: HVST) which has since emerged as a world-class, fully-capitalised, and highly-focused business, with a clear cut strategy to supply both the rapidly growing Canadian medical cannabis market and the soon to be regulated recreational cannabis markets.

With investor appetite for cannabis stocks in Canadian and key North American markets continuing to flourish, the Board believes the Harvest One transaction will result in a noticeable value uplift for MMJ's Australian shareholders, driven largely by Harvest One establishing itself as a key strategical player in the rapidly evolving Canadian market

Furthermore, the restructuring of the business will enable additional value to be unlocked by streamlining MMJ's operational focus towards its wholly-owned Israel-based PhytoTech Therapeutics Limited ("PTL") R&D division and other medical cannabis investment opportunities.

"

MMJ is entering a very exciting period in its maturation as a global cannabis business, with a majority shareholding in Harvest One, strategically

A number of key milestones have been achieved during FY2017 at PTL, and the Board is delighted with the progress of the ongoing Phase 2 clinical trials, and we expect further positive results from these R&D efforts to be delivered to shareholders in the near-term.

It is important that our shareholders remember that these Phase 2 clinical activities currently underway in Israel have the potential to pave the way for the commercial development of PTL's medicinal cannabis products, which would undoubtedly be a significant value catalyst for the business.

Looking ahead, the Board remains very enthusiastic about the near-term prospects available to both MMJ and Harvest One respectively, with both companies maintaining robust cash positions and highly experienced management teams with the requisite experience and market knowledge to unlock considerable shareholder value over the coming 12 months.

MMJ is entering a very exciting period in its maturation as a global cannabis business, with a majority shareholding in Harvest One, strategically complemented by the flexibility to pursue additional opportunities in the cannabis sector providing a very solid foundation for near-term growth.

I would also like to take this opportunity to personally thank our valued shareholders for their support over the past 12 months. The Board appreciates your loyalty and support and we remain committed to delivering further value for all shareholders in FY2018.

Finally, I also want to thank our staff and executive team, with their unwavering efforts towards achieving our core objectives over the past 12 months – without the dedication of our employees none of the accomplishments delivered over the past year would have been achievable.

Yours Sincerely,

**Peter Wall**
Chairman

# REVIEW OF OPERATIONS

## Successful Acquisition of Harvest One Cannabis Inc. (TSX-V: HVST)

To take advantage of additional access to capital within the Canadian market, MMJ completed a strategic corporate restructuring during FY2017 with the establishment of TSX-V listed Harvest One Cannabis Inc. ("Harvest One") (TSX-V: HVST).

The transaction, was successfully completed in April 2017 - providing MMJ with approximately 60% ownership of Harvest One, with the majority of the 40% balance of Harvest One being held by investors who participated in a capital raising of approximately CAD$25 million, mainly through institutional owners.

Post transaction, Harvest One is a fully financed company with two strategic cannabis brands operating in one of the fastest growing cannabis markets globally.

The finalisation of the transaction triggered the release of the CAD$25 million capital raise completed by Harvest One in February 2017. Harvest One Cannabis Inc. officially commenced trading on the TSX-V on April 28, 2017.

The ownership of PhytoTech Therapeutics Limited ("PTL") in Israel remains wholly-owned by MMJ.

HARVEST ONE

Dried cannabis buds harvested at the Duncan Facility

> "The finalisation of the transaction triggered the release of the CAD$25 million capital raise completed by Harvest One in February 2017.

## United Greeneries – Cannabis Cultivation Update

United Greeneries is a Canadian Licensed Producer ("LP") focused on large scale horticultural operations targeting supply to the medicinal cannabis and soon to be legalised recreational cannabis markets in Canada. United Greeneries owns and operates the Company's two Canadian growing facilities, the Duncan Facility and the Lucky Lake Facility.

### Duncan Facility cultivation activities

On November 28, 2016, UG received an import permit from Health Canada and the Canadian Food Inspection Agency, allowing for the importation of 1kg cannabis seeds. This enabled the commencement of cultivation on December 22, 2016, with United Greeneries successfully completing the first cannabis harvest in April 2016.

UG's first crop of the OG Kush strain yielded approximately 60kg of dried cannabis buds.

At the end of FY2017, UG had successfully completed a total of three harvests from the Duncan Facility, which each yielded approximately 60kg of dried cannabis, with the harvests also passing strict Health Canada quality control measures.

In addition, UG announced that it had entered into a wholesale off-take agreement with another Licensed Producer for the sale of its initial 100kg of cannabis production for a fixed price of CAD$500,000 (or $5 per gram). The Wholesale Agreement includes a right of first refusal for the LP to wholesale purchase UG's further production for a period of 12 months.

Cultivation activities are continuing to be scaled up at the Duncan Facility, as UG looks to establish a first-mover advantage in the Canadian recreational market. Once legalised, that market will have an estimated value of CAD$5 billion per annum.

### Duncan Facility expansion

On August 3, 2016, UG executed a binding letter of intent with Cowichan Tribes ("Cowichan") to lease a 13-acre land package located adjacent to the existing Duncan Facility.

The lease agreement was executed on March 9, 2017, securing the strategic 13-acre land package and the potential to add an additional 20 acres of greenhouse space through a joint venture with Cowichan – bolstering potential production capacity to approximately 50,000kg per annum by 2020.

### Renewal of ACMPR license

During the June 2017 quarter, UG received a renewal of its *Access to Cannabis for Medical Purposes Regulations* ("AMPR") cultivation license.

The renewal of UG's License is valid until June 26, 2020 and Health Canada has removed the previous production restrictions, with the only limitation being storage capacity of 625kg allowed within the vault at any given time.

Simultaneously, UG applied to Health Canada to amend its ACMPR License to allow for the sale and distribution of medical cannabis. The application for the amendment followed the harvest of two independent consecutive cannabis crops and the successful completion of certain biochemical quality control standards and analytical requirements. On 14 September 2017, UG completed the required inspection for an ACMPR License to Sell. License approval is pending.

# REVIEW OF OPERATIONS CONT.

## Satipharm AG - Operational Update

Harvest One's European pharmaceutical and nutraceutical division operates under its 100% owned subsidiary, Satipharm AG, based in Cham, Switzerland. Satipharm is focused on the development of oral delivery technologies for strategic supply and entry into emerging cannabis markets globally.

### First shipment of capsules into Australia

In February 2017, MMJ entered into a binding Letter of Intent ("LOI") with HL Pharma Pty Ltd ("HL Pharma"), a Melbourne-based specialist pharmaceutical wholesaler and distributor, for the importation and distribution of the Company's medicinal cannabis products in Australia.

In May 2017, HL Pharma completed the importation of its first shipment of Gelpell-CBD™ capsules from Satipharm.

The imported products included two strengths of cannabidiol capsules, which can be used in the treatment of a variety of medical conditions as approved by prescribing physicians under Australian Federal and State legislation.

Satipharm's Gelpell-CBD™ capsules are one of the first medicinal cannabis products available to approved prescribers in Australia, further solidifying MMJ's position as a key player in the rapidly evolving Australian market.

The successful importation of Satipharm's Gelpell-CBD™ capsules into Australia followed HL Pharma's receipt of a medicinal cannabis Import Licence in March 2017.

### Satipharm sales update – European distribution

On March 13, 2017, Satipharm successfully secured Pharmaceutical Central Numbers (PZN codes) for its 10mg and 50mg Gelpell-CBD Microgel Capsules, enabling both products to be sold in all pharmacies throughout Germany.

In addition, Satipharm signed a binding Letter of Intent with a leading pharmaceutical distributor and retailer in Denmark for the marketing and distribution of Satipharm's products through Scandinavia. This partnership is expected to provide direct access to hundreds of thousands of potential new customers.

The Gelpell-CBD™ capsules successfully underwent a Phase 1 Clinical Trial for safety and bioavailability and are produced under Good Manufacturing Practices (GMP) protocols in Switzerland. The capsules' active ingredient, cannabidiol, is derived from medical cannabis grown under Good Agricultural and Collection Practices (GACP) in controlled environments.

The capsules are now available in a 10mg and a 50mg CBD capsule and contain no detectable levels of Tetrahydrocannabinol ("THC").

### Satipharm Patent Cooperation Treaty (PCT) Application update

Post-year end, the Patent Cooperation Treaty (PCT) application submitted by Satipharm in February 2017 was published.

This comprehensive patent application is directed at Satipharm's proprietary Gelpell-CBD product technology, and covers oral formulations utilising both singular and/or a combination of cannabinoids.

Once granted, the patent will be owned equally by Satipharm and its manufacturing partner Gelpell AG and will also cover, via an exclusive agreement, the cannabis-derived prescription drugs developed by subsidiary PhytoTech Therapeutics.

## PhytoTech Therapeutics Limited (MMJ 100%) – Operational Update

MMJ's wholly-owned, Israeli-based subsidiary, PhytoTech Therapeutics Ltd ("PTL"), is responsible for the Company's R&D and clinical development activities. PTL's key focus is on adopting and developing unique oral delivery technologies that have the potential to deliver safe, effective and measured doses of MC to patients.

### Phase 2 clinical trial of PTL101 capsules

The initial Phase 2 clinical trial commenced by PTL in February 2017 is continuing as planned, following the successful Phase 1 trial in 2016. The Phase 2 clinical trial is an open-label study aimed at evaluating the safety, tolerability and efficacy of orally administering PTL101 as an adjunctive treatment to refractory epileptic children.

The efficacy endpoints assess the seizure frequency and improvement in the patient's clinical condition, after they were treated using the investigational drug-product PTL101.

The PTL101 drug beads utilise proprietary formulation developed through the Company's Gelpell-CBD™ product technology, which contain organically derived, highly purified CBD (cannabidiol).

Importantly, the Gelpell® technology enables the pediatric patients to consume the drug beadlets in an unobtrusive manner, as their caregivers mix it with their food. The drug's therapeutic characteristics are not altered by this method of administration nor does it change the food taste.

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

### Phase 2 clinical trial of PTL201 capsules

During the June quarter, PTL received approvals from Helsinki (IRB of Sheba Clinical Site) and the Ministry of Health to conduct its Phase 2 clinical study into the safety and efficacy of its PTL201 capsules in treating spasticity-related symptoms of multiple sclerosis ("MS") patients.

The study will be undertaken at the MS Center, located at the Sheba Hospital, which is the largest hospital in Israel providing treatment facilities for 2000 patients. The study will be supervised by world-renowned MS researcher and medical expert Prof. Achiron as the Principle Investigator.

The Center is well known for its multi-disciplinary clinical approach, which integrates patient care and rehabilitation activities with self-developed innovative technologies that improve the assessment of MS as well as the patient's quality of life.

The Phase 2 study of PTL201 will be undertaken simultaneously with the ongoing PTL101 clinical trial.

The Multiple Sclerosis Foundation estimates that approximately 2.5 million people suffer from MS globally, with the most common symptoms including spasticity, involuntary muscle stiffness and spasms, which affect up to 84% of patients. Left untreated, spasticity can lead to serious complications, including contractures and pressure sores.

# REVIEW OF OPERATIONS CONT.

## Canadian Recreational Market Update

On 13 April 2017, the Government of Canada announced new laws legalising recreational marijuana, with the new legislation set to come into effect on July 1 2018. It makes Canada the largest federal jurisdiction in the world to legalise cannabis consumption, and the first G7 country to legalise cannabis.

According to a Haywood Securities Research Report released on June 27, 2017, the Canadian medical marijuana market growth rate under ACMPR has exceeded the rate Health Canada had initially projected so far. Initially Health Canada projected the market to reach approximately 450,000 patients and total market size of C$1.4B by 2024.

However, Deloitte Canada estimates that the market could be worth between $12.7 billion and $22.6 billion when including ancillary goods and services that support the industry.

## Corporate Activity Update

### Closure of C$25 million placement

Harvest One closed a private placement on February 23 2017, raising C$25 million through the issue of 33,334,000 Subscription Receipts at a price of C$0.75.

Funds received from the placement were used to finalise the acquisition of United Greeneries and Satipharm respectively. As a result of the transaction, MMJ now holds 59% ownership in Harvest One – a fully-financed company with two strategic cannabis brands operating in one of the world's fastest growing cannabis markets.

### A$4 million raise through over-subscribed share placement

In October 2016, MMJ raised A$4 million through the placement of 19,512,196 fully paid ordinary shares to institutional and sophisticated investors at $0.205 per share. The placement was well supported, and the Company received and accepted over-subscriptions of A$2 million.

### Board/Management changes

Richard Jarvis was appointed Chief Financial Officer ("CFO") on July 4, 2016 and resigned 14 October 2016.

On 11 August, 2016, Mr Ross McKay resigned as Non-Executive Director due to increased work commitments associated with other business interests in Canada.

On 15 August 2016, MMJ confirmed the appointment of Ms Catherine Harvey as Chief Operations Officer, effective from 1 September 2016.

In June, 2017, MMJ and Harvest One announced the appointment of Ms. Lisa Dea as Chief Financial Officer. Ms. Dea replaced Mr. Kwong Choo, who assumed a new role as Vice President Finance of Harvest One.

# DIRECTORS' REPORT

**The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of MMJ PhytoTech Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.**

## Directors

The following persons were directors of MMJ PhytoTech Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

**Peter Wall** (Non-Executive Chairman)
**Andreas Gedeon** (Managing Director)
**Winton Willesee** (Non-Executive Director)
**Jason Bednar** (Non-Executive Director)
**Ross McKay** (Non-executive Director)
(Resigned 11 August 2016)

## Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- Commencement of cannabis cultivation at the Company's MMPR licensed Duncan Facility in Canada;
- Production and distribution of cannabinoid-based food supplements throughout Europe; and
- Ongoing research and development of delivery technologies for the effective administration of cannabinoids.

## Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

## Review of operations

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to $12,725,000 (30 June 2016: $14,699,000).

A detailed review of Company's operations during the financial year is included preceding this Directors' Report.

## Significant changes in the state of affairs

### Listing of Core Cannabis Brands of TSX-V

In November 2016, MMJ executed a binding term sheet with Canadian-based Harvest One Cannabis Inc. (TSXV NEX: WON.H) for the sale to Harvest One of 100% of the issued shares of UG and Satipharm (the "Purchased Shares"). Pursuant to a share exchange agreement date 7 December 2016, as amended, the total consideration for the Purchased Shares was C$33M, of which C$31M was payable in equity (41.6M shares @ C$0.75/share) and C$2M was payable in cash. Further, 11.8 million shares were issued to MMJ as repayment of $8.8 M in intercompany debt owed by UG and Satipharm to MMJ.

Post transaction, MMJ shareholders, via their shareholding in MMJ, acquired an indirect 60% ownership interest in Harvest One - a fully-financed company with two strategic cannabis brands operating in one of the fastest growing cannabis markets globally.

On 9 January 2017, MMJ shareholders approved the Harvest One transaction at the shareholders general meeting as announced on the ASX.

On 18 January 2017, MMJ advised that Canadian-based Harvest One Capital Corp. (TSXV NEX: WON.H) ("Harvest One") had launched a C$15 million private placement ("the placement") to finalise the acquisition of the company's cannabis subsidiaries United Greeneries Holdings Ltd ("UG") and Satipharm AG ("Satipharm") respectively. The Harvest One Placement was completed on 23 February 2017, with Harvest One issuing 33,334,000 shares at C$0.75/share to raise C$25 million before costs after a decision was made to increase the private placement in response to strong investor interest.

On 13 February 2017, MMJ advised that it has entered into 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 assist with establishing an Australian dispensary framework that enables the distribution of MMJ's medicinal cannabis products to approved customers.

On 13 February 2017, MMJ announced the commencement of a Phase 2 Clinical Trial of its PTL101 capsules to measure efficacy for reducing seizures in children with intractable epilepsy.

On 27 April 2017, the sale of UG and Satipharm to Harvest One closed and Harvest One became listed on the TSX-V exchange in Canada with resumption of trading on 28 April 2017.

### Issue of securities

On 8 July 2016 the company issued 8,500,000 fully paid ordinary shares in relation to the 1st milestone deferred payment for the Acquisition of MMJ Bioscience Inc. and 255,000 fully paid ordinary shares in relation to merger inducer fees.

On 11 October 2016 the company issued 19,512,196 fully paid ordinary shares in relation to a capital raising with each share being issued at an issue price of $0.205 (20.5 cents) per share, raising $4,000,000 before costs.

The company issued 1,166,668 fully paid ordinary shares in relation to the satisfaction of performance rights vesting conditions.

The Company issued 17,572,089 fully paid ordinary shares in relation to the exercise of unlisted options raising $5,795,848.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

## Matters subsequent to the end of the financial year

On 11 September 2017, the company issued 1,000,000 fully paid ordinary shares upon the exercise of the Class B options at an exercise price of $0.20 (20 cents) per option raising a total of $200,000.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

## Environmental regulation

The operations of the Group are not subject to any particular and significant environmental regulations under a law of the Commonwealth or state. There have been no known significant breaches of any other environmental requirement.

The National Greenhouse and Energy Reporting Act (NGER) legislation was considered and not determined to be applicable to the entity at the current stage.

# DIRECTORS' REPORT CONT.

## Information on directors

| | |
|---|---|
| *Name:* | **Peter Wall** |
| *Title:* | Non-Executive Chairman (appointed 14 August 2014) |
| *Qualifications:* | LLB BComm MAppFin FFin |
| *Experience and expertise:* | Mr Wall is a corporate lawyer and has been a Partner at Steinepreis Paganin (Perth based corporate law firm) since July 2005. Mr Wall graduated from the University of Western Australia in 1998 with a Bachelor of Laws and Bachelor of Commerce (Finance). He has also completed a Masters of Applied Finance and Investment with FINSIA.<br><br>Mr Wall has a wide range of experience in all forms of commercial and corporate law, with a particular focus on resources (hard rock and oil/gas), equity capital markets and mergers and acquisitions. He also has significant experience in dealing in cross border transactions. |
| *Other current directorships:* | Non-Executive Chairman of Harvest One Cannabis Inc (TSX-V: HVST)<br>Non-Executive Chairman of Minbos Resources Ltd (ASX:MNB) (appointed 21 February 2014 to current)<br>Non-Executive Chairman of MyFiziq Ltd (ASX:MYQ) (appointed 25 May 2015 to current)<br>Non-Executive Chairman of Activistic Ltd (ASX:ACU) (appointed 15 June 2015 to current)<br>Non-Executive Chairman of Sky and Space Global Ltd (ASX:SAS) (appointed 27 October 2015 to current)<br>Non-Executive Chairman of Transcendence Technologies Limited (ASX:TTL) (appointed 6 October 2015 to current)<br>Non-Executive Director of Pursuit Minerals Limited (ASX:PUR) (appointed 13 January 2016 to current)<br>Non-Executive Director of Zyber Holdings Ltd (ASX:ZYB) (appointed 9 January 2015 to current)<br>Non-Executive Director of Ookami Limited (ASX:OOK) (appointed 27 October 2015 to current)<br>Non-Executive Chairman of Bronson Group Limited (ASX: BGR) (appointed 2 June 2017 to current) |
| *Former directorships (last 3 years):* | Non-Executive Chairman of Global Metals Exploration NL (now Zinc of Ireland NL (ASX:ZMI)) (appointed 30 April 2015, resigned 22 July 2016)<br>Non-Executive Chairman of Galicia Energy Corporation Ltd (now TV2U International Limited (ASX:TV2)) (appointed 29 February 2012, resigned 9 February 2016)<br>Non-Executive Chairman of Aziana Ltd (now Brainchip Holdings Ltd (ASX:BRN)) (appointed 30 September 2014, resigned 3 August 2015) |
| *Interests in shares:* | 4,100,000 fully paid ordinary shares |
| *Interests in options:* | Nil |
| *Interests in rights:* | Nil |

| | |
|---|---|
| *Name:* | **Andreas Gedeon** |
| *Title:* | Managing Director (appointed 27 July 2015) |
| *Qualifications:* | Dipl. Paed |
| *Experience and expertise:* | Mr. Gedeon, a former Officer in the German Navy, holds a degree in Educational Science from the University of the Federal Armed Forces Munich. He is an experienced business man with proven expertise in large-scale and HR intensive projects. His previous areas of business include media production, horticulture and commercial construction. In his role as Managing Director, Mr. Gedeon oversees the global expansion strategy of the MMJ PhytoTech group. |
| *Other current directorships:* | Managing Director of Harvest One Cannabis Inc (TSX-V: HVST) |
| *Former directorships (last 3 years):* | Over the past three years Mr Gedeon has not held directorships with any other listed public companies other than MMJ. |
| *Interests in shares:* | 6,563,914 fully paid ordinary shares |
| *Interests in options:* | Nil |
| *Interests in rights:* | Nil |

| | |
|---|---|
| *Name:* | **Winton Willesee** |
| *Title:* | Independent Non-executive Director (appointed 21 October 2014) |
| *Qualifications:* | BBus., DipEd., PGDipBus., MCom., FFin, CPA, GAICD, FGIS/FCIS |
| *Experience and expertise:* | Mr Willesee is an experienced company director. Winton brings a broad range of skills and experience in strategy, company development, corporate governance, company public listings, merger and acquisition transactions and corporate finance. Mr Willesee has considerable experience with ASX listed and other companies over a broad range of industries having been involved with many successful ventures from early stage through to large capital development projects.<br><br>Mr Willesee holds formal qualifications in economics, finance, accounting, education and governance. He is a Fellow of the Financial Services Institute of Australasia, a Graduate of the Australian Institute of Company Directors, a Member of CPA Australia and a Chartered Secretary. |
| *Other current directorships:* | Chairman of Metallum Ltd (ASX:MNE)<br>Non-Executive Chairman of Ding Sheng Xin Finance Co Limited (ASX:DXF)<br>Executive Chairman of xTV Networks Ltd (ASX:XTV) |
| *Former directorships (last 3 years):* | Non-Executive Chairman of Birimian Ltd (ASX: BGS)(resigned 22 March 2017)<br>Non-Executive Director of DroneShield Limited (ASX:DRO)(resigned 24 Jan 2017)<br>Executive Chairman Cove Resources Ltd (now BidEnergy Limited)(ASX:BID) (resigned 1 Jul 2016)<br>Non-Executive Chairman of Basper Ltd (now DirectMoney Limited ASX:DM1)) (resigned 3 Jul 2015)<br>Non-Executive Chairman of Coretrack Ltd (now LWP Technologies Limited (ASX:LWP)) (resigned 6 Mar 2015)<br>Non-Executive Director of Otis Energy Ltd (now iSignThis Limited (ASX:ISX)) (resigned 22 Dec 2014) |
| *Interests in shares:* | Nil |
| *Interests in options:* | 1,000,000 Class D options |
| *Interests in rights:* | Nil |

| | |
|---|---|
| *Name:* | **Jason Bednar** |
| *Title:* | Independent Non-executive Director (appointed 27 July 2015) |
| *Qualifications:* | BCom, CA |
| *Experience and expertise:* | Mr. Bednar is a Chartered Accountant with more than 18 years of direct professional experience in the financial and regulatory management of companies listed on the Toronto Stock Exchange, TSX Venture Exchange, American Stock Exchange and ASX. He is currently the CFO and director of Canacol Energy Ltd., a Colombian focused oil and gas exploration and production company with an enterprise value of approximately US$650 million. Mr. Bednar has been the past CFO of several international oil and gas E&P companies, most notably the founding Chief Financial Officer of Pan Orient Energy Corp, a South East Asia exploration company, who during his tenure grew organically to operate 15,000 bbl/d and a market cap of $700 million. He has previously sat on the board of directors of several internationally focused E&P companies, including being the past Chairman of Gallic Energy Ltd. |
| *Other current directorships:* | Non-Executive Director: Harvest One Cannabis Inc (TSX-V: HVST)<br>Director, Canacol Energy Ltd<br>Director, Tilting Capital Corp. |
| *Former directorships (last 3 years):* | Director, Sintana Energy Inc (resigned 13 May 2015)<br>Director, Charlotte Resources Ltd (resigned 9 February 2015)<br>Director, Solimar Energy Limited (resigned 13 December 2014) |
| *Interests in shares:* | 1,026,522 fully paid ordinary shares |
| *Interests in options:* | 1,500,000 Class D options |
| *Interests in rights:* | Nil |

| | |
|---|---|
| *Name:* | **Ross McKay** |
| *Title:* | Independent Non-executive Director (appointed 27 July 2015, resigned 11 August 2016) |
| *Qualifications:* | BSc (Pharm), CMA |
| *Experience and expertise:* | Ross McKay is a Partner and Chief Operating Officer for VetStrategy Inc. VetStrategy owns and manages veterinary clinics across Canada. It is the only 100% Canadian owned and operated organisation of its kind with a multi-provincial presence.<br><br>Mr. McKay brings extensive operational experience from his background in developing and growing both corporate and franchised business models in Canada. A Pharmacist and a Certified Management Accountant, Mr. McKay helped lead the successful growth of the pharmacy divisions for both Save-On-Foods and Wal-Mart in BC and Alberta. Most recently Mr. McKay was President of Medicine Shoppe Canada, a division of Katz Group Canada, the largest pharmacy group in Canada (Rexall, Pharmaplus, Guardian, IDA and Medicine Shoppe). During his 14 year term, Medicine Shoppe grew into the leading professional pharmacy chain in Canada with over 175 locations from coast to coast. Mr. McKay was also responsible for Medicentres, another division within Katz Group, Canada's largest and most successful chain of medical clinics. |
| *Other current directorships:* | Mr McKay has not currently held directorships with any other listed public companies other than MMJ. |
| *Former directorships (last 3 years):* | Over the past three years Mr McKay has not held directorships with any other listed public companies other than MMJ. |
| *Interests in shares:* | 99,018 fully paid ordinary shares* |
| *Interests in options:* | 333,333 Class D Options* |
| *Interests in rights:*<br>** holding as at resignation date* | Nil |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

## Information on Company Secretary

**Erlyn Dale**
Company Secretary (appointed 1 February 2015)
BCom, ACIS/ACSA

Miss Dale has a broad range of experience in company administration and corporate governance and holds positions of non-executive director and/or company secretary for a number of ASX listed public companies across a range of industries.

Miss Dale has completed a Bachelor of Commerce (Accounting and Finance) and a Graduate Diploma of Applied Corporate Governance and is an Associate Member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia.

# DIRECTORS' REPORT CONT.

## Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2017, and the number of meetings attended by each director were:

| | Full Board | | Remuneration Committee | | Audit and Risk Committee | |
|---|---|---|---|---|---|---|
| | Attended | Held | Attended | Held | Attended | Held |
| Peter Wall | 6 | 6 | 1 | 1 | 1 | 1 |
| Andreas Gedeon | 6 | 6 | - | - | - | - |
| Winton Willesee | 6 | 6 | 1 | 1 | 1 | 1 |
| Jason Bednar | 6 | 6 | 1 | 1 | 1 | 1 |
| Ross McKay | 1 | 1 | - | - | - | - |

Held: represents the number of meetings held during the time the director held office.

## Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

For the purposes of this Remuneration Report, Key Management Personnel includes the following directors and senior executives who were engaged by the Company at any time during the period ended 30 June 2017:

(i) Non-Executive Directors

| | |
|---|---|
| Peter Wall | Non-executive Chairman (appointed 14 August 2014) |
| Winton Willesee | Non-executive Director (appointed 21 October 2014) |
| Jason Bednar | Non-executive Director (appointed 27 July 2015) |
| Ross McKay | Non-executive Director (appointed 27 July 2015, resigned 11 August 2016) |
| Will Stewart | Director of Harvest One (appointed 23 May 2017) |

(ii) Executive Directors

| | |
|---|---|
| Andreas Gedeon | Managing Director of MMJ PhytoTech Limited and Harvest One Cannabis Inc (appointed 27 July 2015) |

(iii) Key Management Personnel

| | |
|---|---|
| Daphna Heffetz | CEO – PhytoTech Therapeutics Ltd (appointed 15 January 2015) |
| Stanislav Sologubov | CEO – Satipharm AG (appointed 6 June 2016) |
| Catherine Harvey | Group COO (appointed 1 Sep 2016) |
| Richard Jarvis | Group CFO (resigned in 14 Oct 2016) |
| Lisa Dea | Group CFO - Harvest One Cannabis Inc (appointed 13 June 2017) |
| Graham Whitmarsh | COO - Harvest One Cannabis Inc (appointed 3 May 2017) |
| Nick Maltchev | CTO - Harvest One Cannabis Inc (appointed 3 May 2017) |
| Daniela Vaschi | CEO – United Greeneries (appointed 1 July 2016) |

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

## *Principles used to determine the nature and amount of remuneration*

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

In determining competitive remuneration rates, the Board seeks independent advice on local and international trends among comparative companies and industry generally.

The principles underpinning the consolidated entity's remuneration policy are that:

- Reward reflects the competitive global market in which we operate;
- Rewards to executives are linked to creating value for shareholders;
- Remuneration arrangements are equitable and facilitate the development of senior management across the consolidated entity; and
- Where appropriate, senior managers may receive a component of their remuneration in appropriately structured equity securities to align their interests with those of the shareholders.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

### Non-executive directors remuneration

Shareholders approve the maximum aggregate remuneration for Non-Executive Directors. The maximum aggregate remuneration approved for Non-Executive Directors is currently $500,000.

It is recognised that Non-Executive Directors' remuneration is ideally structured to exclude equity based remuneration. However, whilst the Company remains small and the full Board, including the Non-Executive Directors, are included in the operations of the Company more closely than may be the case with larger companies the Non-Executive Directors are entitled to participate in equity based remuneration schemes subject to shareholder approval.

All Directors are entitled to have their indemnity insurance paid by the Company.

### Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The Company's remuneration policy for executive Directors and senior management is designed to promote superior performance and long term commitment to the Company. Executives receive a base remuneration which is market related, and may be entitled to performance based remuneration at the ultimate discretion of the Board.

Overall remuneration policies provide a framework and quantum scale for remuneration whilst being subject to the discretion of the Board and can be changed to reflect competitive market and business conditions where it is deemed by the Board to be in the interests of the Company and shareholders to do so.

Executive remuneration and other terms of employment are reviewed regularly by the Board having regard to performance, relevant comparative information and expert advice.

The Company's reward policy reflects its obligation to align executive's remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of the Company.

The executive remuneration and reward framework has four components:

- salary - executive Directors and senior managers receive a sum payable monthly in cash;
- bonus - executive Directors and certain senior managers are eligible to participate in a bonus or profit participation plan if deemed appropriate;
- long term incentives - Executive Directors may participate in share option/performance right schemes with the prior approval of shareholders. Other senior executives may also participate in employee share option/performance right schemes at the discretion of the Board; and
- other benefits - Executive Directors and senior managers are eligible to participate in superannuation schemes and other appropriate additional benefits.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholders value relative to the entire market and the increase compared to the consolidated entity's direct competitors. Executive Directors may participate in share option/performance right schemes with the prior approval of shareholders. Other senior executives may also participate in employee share option/performance right schemes at the discretion of the Board.

### Consolidated entity performance and link to remuneration

Remuneration for certain individuals is directly linked to the performance of the consolidated entity. A portion of cash bonus and incentive payments are dependent on defined earnings per share targets being met. The remaining portion of the cash bonus and incentive payments are at the discretion of the Nomination and Remuneration Committee. Refer to the section below for details of the earnings and total shareholders return for the last five years.

The Nomination and Remuneration Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

### Hedging of securities

In accordance with the Group's general share trading policy and employee share plan rules, participants are prohibited from engaging in hedging arrangements over unvested securities issued pursuant to any employee or director share plan, without prior approval of the Board.

### Use of remuneration consultants

The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

### Voting and comments made at the Company's 2016 Annual General Meeting ("AGM")

At the 2016 AGM, 86% of the proxy votes cast at that meeting were in favour of the adoption of the remuneration report for the year ended 30 June 2016. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

### Details of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

| | MMJ Parent | | | | | |
|---|---|---|---|---|---|---|
| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share based payments |
| 2017 | Cash salary and fees $ | Cash bonus $ | Non-monetary benefits | Super Contribution $ | Annual and Long service leave $ | Equity settled $ |
| *Non-Executive Directors:* | | | | | | |
| *Peter Wall* | *48,000* | - | - | - | - | - |
| *Jason Bednar* | *36,000* | - | - | - | - | *77,655* |
| *Winton Willesee* | *36,000* | - | - | - | - | *26,972* |
| *Ross McKay[1]* | *3,000* | - | - | - | - | - |
| *Will Stewart* | - | - | - | - | - | - |
| | | | | | | |
| *Executive Directors:* | | | | | | |
| *Andreas Gedeon[3]* | *264,565* | *48,953* | - | - | - | - |
| | | | | | | |
| *Other Key Management Personnel:* | | | | | | |
| *Catherine Harvey* | *196,150* | - | - | *18,634* | *16,380* | *248,191* |
| *Lisa Dea* | - | - | - | - | - | - |
| *Graham Whitmarsh* | - | - | - | - | - | - |
| *Daniela Vaschi* | - | - | - | - | - | *11,846* |
| *Nick Maltchev* | - | - | - | - | - | - |
| *Daphna Heffetz* | *255,329* | - | *35,519* | *45,433* | - | *99,168* |
| *Stan Sologubov* | *302,924* | - | - | - | - | *358,031* |
| *Richard Jarvis[2]* | *53,543* | - | - | - | - | - |
| | *1,195,511* | *48,953* | *35,519* | *64,067* | *16,380* | *821,863* |

[1] Ross McKay resigned on 11 August 2016, share based payment recognised in prior period ($60,033) has been reversed in the statement of profit or loss and other comprehensive income.
[2] Richard Jarvis resigned on 14 October 2016.
[3] Andreas Gedeon received $48,953 annual bonus from MMJ parent which subject to the successful completion of Harvest One transaction. He also received $115,000 sign on bonus from Harvest One.

Table continued from page 20.

| 2017 | Harvest One<br>Short-term benefits<br>Cash salary and fee<br>$ | Cash bonus<br>$ | Share based payments<br>Equity settled<br>$ | Total<br>$ |
|---|---|---|---|---|
| *Non-Executive Directors:* | | | | |
| Peter Wall | 10,094 | - | 162,671 | 220,765 |
| Jason Bednar | 6,056 | - | 116,194 | 235,905 |
| Winton Willesee | - | - | - | 62,972 |
| Ross McKay[1] | - | - | - | 3,000 |
| Will Stewart | 6,056 | - | 20,915 | 26,971 |
| | | | | |
| *Executive Directors:* | | | | |
| Andreas Gedeon[3] | 90,779 | 115,000 | 697,163 | 1,216,460 |
| | | | | |
| *Other Key Management Personnel:* | | | | |
| Catherine Harvey | - | - | - | 479,355 |
| Lisa Dea | 3,882 | - | 27,887 | 31,769 |
| Graham Whitmarsh | 29,505 | - | 34,858 | 64,363 |
| Daniela Vaschi | 105,927 | - | 116,194 | 233,967 |
| Nick Maltchev | 25,623 | - | 27,887 | 53,510 |
| Daphna Heffetz | - | - | - | 435,449 |
| Stan Sologubov | - | - | - | 660,955 |
| Richard Jarvis[2] | - | - | - | 53,543 |
| | 277,922 | 115,000 | 1,203,769 | 3,778,984 |

[1] Ross McKay resigned on 11 August 2016, share based payment recognised in prior period ($60,033) has been reversed in the statement of profit or loss and other comprehensive income.
[2] Richard Jarvis resigned on 14 October 2016.
[3] Andreas Gedeon received $48,953 annual bonus from MMJ parent which subject to the successful completion of Harvest One transaction. He also received $115,000 sign on bonus from Harvest One.

# DIRECTORS' REPORT CONT.

| | MMJ Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | | |
| | Cash salary and fees | Cash bonus | Non-monetary benefits | Super-annuation | Annual and Long service leave | Equity-settled | Termination payments | Total |
| 2016 | $ | $ | $ | $ | $ | $ | $ | $ |
| *Non-Executive Directors:* | | | | | | | | |
| Peter Wall[1] | 48,000 | - | - | - | - | 35,000 | - | 83,000 |
| Jason Bednar[2] | 33,000 | - | - | - | - | 186,285 | - | 219,285 |
| Winton Willesee[3] | 36,000 | - | - | - | - | 69,536 | - | 105,536 |
| Ross McKay[2] | 33,000 | - | - | - | - | 124,190 | - | 157,190 |
| *Executive Directors:* | | | | | | | | |
| Andreas Gedeon[2] | 315,994 | - | - | - | - | - | - | 315,994 |
| Boaz Wachtel[4] | 17,685 | - | - | - | - | - | 61,856 | 79,541 |
| Benad Goldwasser[5] | 5,322 | - | - | - | - | 190,557 | - | 195,879 |
| *Other Key Management Personnel:* | | | | | | | | |
| Daphna Heffetz[6] | 316,427 | - | - | 34,112 | 11,201 | 318,113 | - | 679,853 |
| Michael Hinam[7] | 131,455 | - | - | 2,446 | 198 | 29,230 | - | 163,329 |
| Tomas Edvinsson[8] | 66,517 | - | - | - | - | - | - | 66,517 |
| Stan Sologubov[9] | 14,135 | - | - | - | - | 33,010 | - | 47,145 |
| | 1,017,535 | - | - | 36,558 | 11,399 | 985,921 | 61,856 | 2,113,269 |

[1] Appointed 14 August 2014.
[2] Appointed 7 July 2015.
[3] Appointed 21 October 2014.
[4] Appointed 18 November 2014 and resigned 20 August 2015.
[5] Appointed 27 January 2015 and ceased being a Key Management Personnel on 20 August 2015 following resignation from the Board of parent company.
[6] Appointed 28 January 2015.
[7] Appointed 27 July 2015
[8] Appointed 10 August 2015 and ceased being a Key Management Personnel upon resignation as CEO of Satipharm AG on 6 June 2016.
[9] Became Key Management Personnel on 6 June 2016.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name | Fixed remuneration 2017 | Fixed remuneration 2016 | At risk - STI 2017 | At risk - STI 2016 | At risk - LTI 2017 | At risk - LTI 2016 |
|---|---|---|---|---|---|---|
| *Non-Executive Directors:* | | | | | | |
| Peter Wall | 26% | 58% | - | - | 74% | 42% |
| Jason Bednar | 18% | 15% | - | - | 82% | 85% |
| Winton Willesee | 57% | 34% | - | - | 43% | 66% |
| Ross McKay | 100% | 21% | - | - | - | 79% |
| Will Stewart | 22% | - | - | - | 78% | - |
| *Executive Directors:* | | | | | | |
| Andreas Gedeon | 29% | 100% | 13% | - | 58% | - |
| *Other Key Management Personnel:* | | | | | | |
| Catherine Harvey | 48% | - | - | - | 52% | - |
| Lisa Dea | 12% | - | - | - | 88% | - |
| Graham Whitmarsh | 46% | - | - | - | 54% | - |
| Daniela Vaschi | 45% | - | - | - | 55% | - |
| Nick Maltchev | 48% | - | - | - | 52% | - |
| Daphna Heffetz | 77% | 52% | - | - | 23% | 48% |
| Stan Sologubov | 46% | 30% | - | - | 54% | 70% |
| Richard Jarvis | 100% | - | - | - | - | - |

## Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

| | |
|---|---|
| *Name:* | Andreas Gedeon |
| *Title:* | Managing Director |
| *Agreement commenced:* | 27 July 2015 |
| *Term of agreement:* | 3 years effective from 27 July 2015 |
| *Details:* | • Base Salary: - MMJ PhytoTech Limited: CAD $65,000 per annum (as at 30 June 2017 equivalent to $65,163 AUD).<br>• Base Salary - Harvest One Cannabis: CAD $265,000 per annum (as at 30 June 2017 equivalent to $265,664 AUD).<br>• Performance-Based Incentives: Cash or non-cash performance-based bonus of up to 50% of base salary, at Board's discretion.<br>• Termination Benefit: 3 months |

# DIRECTORS' REPORT CONT.

| | |
|---|---|
| *Name:* | **Daphna Heffetz** |
| *Title:* | CEO PhytoTech Therapeutics |
| *Agreement commenced:* | 15 January 2015 |
| *Term of agreement:* | Effective until 5 October 2017. |
| *Details:* | • Base Salary: NIS 720,000 per annum (as at 30 June 2017 equivalent to $255,598 AUD).<br>• Performance-Based Incentives: 4,500,000 Class B Options (0.20, 6 May 2019).<br>• Termination Benefit: 3 months |

| | |
|---|---|
| *Name:* | **Daniela Vaschi** |
| *Title:* | CEO United Greeneries |
| *Agreement commenced:* | 1 July 2016 |
| *Term of agreement:* | Effective from 1 July 2016 until termination of agreement, as amended 8 May 2017 |
| *Details:* | • Base Salary: CAD 140,000 per annum, as amended 8 May 2017, (as at 30 June 2017 equivalent to $140,350 AUD).<br>• Performance-Based Incentives: 285,000 Class H Options ($0.27, 31 Jan 2020).<br>• Termination Benefit: 2 weeks |

| | |
|---|---|
| *Name:* | **Stanislav Sologubov** |
| *Title:* | CEO – Satipharm |
| *Agreement commenced:* | 6 June 2016 |
| *Term of agreement:* | Effective from 6 June 2016 until termination of the agreement |
| *Details:* | • Base Salary: EUR 180,000 per annum on achieving gross revenue from sales of EUR $1,000,000 (as at 30 June 2017 equivalent to $260,274 AUD).<br>• Performance-Based Incentives: 4,000,000 Options exercisable at $0.24 on or before 6 June 2019. As at the date of this report these options remained outstanding.<br>• Termination Benefit: 3 months |

| | |
|---|---|
| *Name:* | **Catherine Harvey** |
| *Title:* | Chief Operating Officer |
| *Agreement commenced:* | 1 September 2016 |
| *Term of agreement:* | Effective from 1 September 2016 until termination of the agreement |
| *Details:* | • Base Salary: $235,000 per annum<br>• Performance-Based Incentives: 3,000,000 Options exercisable at $0.24 on or before 1 September 2020. As at the date of this report these options remained outstanding.<br>• Termination Benefit: 3 months |

| | |
|---|---|
| *Name:* | **Graham Whitmarsh** |
| *Title:* | Chief Operating Officer |
| *Agreement commenced:* | 26 April 2017 |
| *Term of agreement:* | Effective from 26 April 2017 until termination of the agreement |
| *Details:* | • Base Salary CAD $200,000 (as at 30 June 2017 equivalent to $200,004 AUD).<br>• Performance bonus of up to 30% of the executive's annual base salary if KPI is achieved. 500,000 stock options pursuant to and in accordance with the terms and conditions of the Harvest One Cannabis Inc.<br>• Termination Benefit: 3 months |

| | |
|---|---|
| *Name:* | **Jason Bednar** |
| *Title:* | Non-Executive Director |
| *Agreement commenced:* | 27 July 2015 |
| *Term of agreement:* | Effective from 27 July 2015 until termination of the agreement |
| *Details:* | • Base Salary - MMJ PhytoTech Limited: AUD $36,000 per annum<br>• Base Salary - Harvest One Canabis: CAD $36,000 per annum for Harvest One (as at 30 June 2017 equivalent to $36,091 AUD)<br>• 1,500,000 Class D Options |

| | |
|---|---|
| *Name:* | **Winton Willesee** |
| *Title:* | Non-Executive Director |
| *Agreement commenced:* | 1 November 2015 |
| *Term of agreement:* | Effective from 27 July 2015 until termination of the agreement |
| *Details:* | • Base Salary - MMJ PhytoTech Limited: AUD $36,000 per annum<br>• 1,500,000 Class D Options |

| | |
|---|---|
| *Name:* | **Lisa Dea** |
| *Title:* | Chief Financial Officer |
| *Agreement commenced:* | 12 June 2017 |
| *Term of agreement:* | Effective from 12 June 2017 until termination of the agreement |
| *Details:* | • Base Salary CAD $200,000 (as at 30 June 2017 equivalent to $200,040 AUD).<br>• Performance bonus of up to 30% of the base salary if KPIs are achieved. 400,000 stock options pursuant to and in accordance with the terms and conditions of the Harvest One Canada Inc. |

| | |
|---|---|
| *Name:* | **Nick Maltchev** |
| *Title:* | Chief Technology Officer |
| *Agreement commenced:* | 17 April 2017 |
| *Term of agreement:* | Effective from 17 April 2017 until termination of the agreement |
| *Details:* | • Base Salary CAD $165,000 (as at 30 June 2017 equivalent to $165,033 AUD).<br>• Performance bonus of 400,000 Stock Options pursuant to and in accordance with the terms and conditions of the Harvest One Canada Inc. |

| | |
|---|---|
| *Name:* | **Peter Wall** |
| *Title:* | Non-Executive Chairman |
| *Agreement commenced:* | 1 September 2014 |
| *Term of agreement:* | Effective from 1 September 2014 |
| *Details:* | • Base Salary - MMJ PhytoTech Limited: AUD $48,000 per annum<br>• Base Salary - Harvest One Canabis: CAD $60,000 per annum for Harvest One (as at 30 June 2017 equivalent to $60,150 AUD) |

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

### Share-based compensation

*Options*

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| MMJ PhytoTech Limited | | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Option class | Grant date | Vesting conditions | Expiry date | Exercise price | Fair value per option grant date | Option balance as at 30 June 2017 |
| **Daphna Heffetz** | Class B | 15 January 2015 | Options vest over a period of 3 years of continuous employment from 15 January 2015, with one third vesting after the first 12 months, and the remaining two thirds vesting monthly thereafter. | 6 May 2019 | $0.200 | $0.139 | 3,900,000 |
| **Winton Willesee** | Class D | 29 June 2015 | The options vest quarterly over a period of 3 years of continuous employment. | 24 July 2018 | $0.400 | $0.163 | 1,000,000 |
| **Jason Bednar** | Class D | 27 July 2015 | The options vest quarterly over a period of 3 years of continuous employment. | 24 July 2018 | $0.400 | $0.193 | 1,500,000 |
| **Ross McKay** | Class D | 27 July 2015 | The options vest quarterly over a period of 3 years of continuous employment. | 24 July 2018 | $0.400 | $0.193 | 333,333* |
| **Daniela Vaschi** | Class H | 1 February 2016 | The options vest quarterly over a period of 3 years of continuous employment. | 31 January 2020 | $0.270 | $0.202 | 116,250 |

| MMJ PhytoTech Limited | | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Option class | Grant date | Vesting conditions | Expiry date | Exercise price | Fair value per option grant date | Option balance as at 30 June 2017 |
| Stan Sologubov | Class I | 14 October 2016 | Subject to vesting conditions: the options vest every 6 months over a period of 2 years of continuous service. | 6 June 2019 | $0.240 | $0.121 | 2,000,000 |
| Catherine Harvey | Class J | 14 October 2016 | Subject to vesting conditions: the options vest annually over a period of 3 years of continuous service. | 1 September 2020 | $0.240 | $0.163 | 3,000,000 |

* Ross McKay resigned on 11 August 2016. The balance represents class D options holding as at date of resignation.

| Harvest One | | | | | |
|---|---|---|---|---|---|
| Name | Grant date | Expiry date | Exercise price | Fair value per option grant date | Option balance as at 30 June 2017 |
| Peter Wall | 27 April 2017 | 29 April 2019 | $0.750 | $0.599 | 700,000 |
| Jason Bednar | 27 April 2017 | 29 April 2019 | $0.750 | $0.599 | 500,000 |
| Will Stewart | 27 April 2017 | 29 April 2019 | $0.750 | $0.599 | 300,000 |
| Andreas Gedeon | 27 April 2017 | 29 April 2019 | $0.750 | $0.599 | 3,000,000 |
| Lisa Dea | 27 April 2017 | 29 April 2019 | $0.750 | $0.599 | 400,000 |
| Graham Whitmarsh | 27 April 2017 | 29 April 2019 | $0.750 | $0.599 | 500,000 |
| Daniela Vaschi | 27 April 2017 | 29 April 2019 | $0.750 | $0.599 | 500,000 |
| Nick Maltchev | 27 April 2017 | 29 April 2019 | $0.750 | $0.599 | 400,000 |

All Harvest One options vest in three tranches on 29 April 2017, 28 April 2018 and 29 April 2019.

Options granted carry no dividend or voting rights.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2017.

*Performance rights*

There were no performance rights over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2017.

There were no performance rights over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2017.

## Additional disclosures relating to key management personnel

*Shareholding*

The number of shares in the company held during the financial year by each director and other members of

# DIRECTORS' REPORT CONT.

key management personnel of the consolidated entity, including their personally related parties, is set out below:

| MMJ PhytoTech Limited | | | | | |
|---|---|---|---|---|---|
| | Balance at the start of the year | Received on the exercise of options/ performance rights | Additions | Other changes during the period | Balance at the end of the year / date of resignation |
| *Ordinary shares* | | | | | |
| Peter Wall | 3,000,000 | 1,000,000 | 100,000 | - | 4,100,000 |
| Andreas Gedeon | 5,626,212 | - | - | 937,702** | 6,563,914 |
| Jason Bednar | 879,876 | - | - | 146,646** | 1,026,522 |
| Ross McKay* | 84,873 | - | - | 14,145** | 99,018 |
| Stan Sologubov | - | 2,000,000 | - | (2,000,000) | - |
| | 9,590,961 | 3,000,000 | 100,000 | (901,507) | 11,789,454 |

* Resigned on 11 August 2016. The balance shown represents shareholding as at date of resignation.
** Deferred consideration for the acquisition of MMJ Biosciences Inc. upon the satisfaction of the First Milestone (nil cash consideration).

| Harvest One | | | | | |
|---|---|---|---|---|---|
| | Balance at the start of the year | Received on the exercise of options/ performance rights | Additions | Other changes during the period | Balance at the end of the year |
| *Ordinary shares* | | | | | |
| Andreas Gedeon | - | - | 30,000 | - | 30,000 |

*Option holding*

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| MMJ PhytoTech Limited | | | | | |
|---|---|---|---|---|---|
| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
| *Options over ordinary shares* | | | | | |
| Winton Willesee | 1,000,000 | - | - | - | 1,000,000 |
| Jason Bednar | 1,500,000 | - | - | - | 1,500,000 |
| Ross McKay | 1,000,000 | - | - | (666,667) | 333,333* |
| Daphna Heffetz | 4,500,000 | - | (600,000) | - | 3,900,000 |
| Stan Sologubov | - | 4,000,000 | (2,000,000) | - | 2,000,000 |
| Daniela Vaschi | 285,000 | - | - | - | 285,000 |
| Catherine Harvey | - | 3,000,000 | - | - | 3,000,000 |
| | 8,285,000 | 7,000,000 | (2,600,000) | (666,667) | 12,018,333 |

* Ross McKay resigned on 11 August 2016.

| | Vested and exercisable | Unvested | Balance at the end of the year |
|---|---|---|---|
| *Options over ordinary shares* | | | |
| Winton Willesee | 750,000 | 250,000 | 1,000,000 |
| Jason Bednar | 875,000 | 625,000 | 1,500,000 |
| Daphna Heffetz | 2,775,000 | 1,125,000 | 3,900,000 |
| Stan Sologubov | - | 2,000,000 | 2,000,000 |
| Daniela Vaschi | 166,250 | 118,750 | 285,000 |
| Catherine Harvey | - | 3,000,000 | 3,000,000 |
| Ross McKay | 333,333 | - | 333,333 |
| | 4,899,583 | 6,666,667 | 12,018,333 |

| Harvest One | | | | | |
|---|---|---|---|---|---|
| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
| *Options over ordinary shares* | | | | | |
| Peter Wall | - | 700,000 | - | - | 700,000 |
| Jason Bednar | - | 500,000 | - | - | 500,000 |
| Will Stewart | - | 300,000 | - | - | 300,000 |
| Andreas Gedeon | - | 3,000,000 | - | - | 3,000,000 |
| Lisa Dea | - | 400,000 | - | - | 400,000 |
| Graham Whitmarsh | - | 500,000 | - | - | 500,000 |
| Daniela Vaschi | - | 500,000 | - | - | 500,000 |
| Nick Maltchev | - | 400,000 | - | - | 400,000 |
| | - | *6,300,000* | - | - | *6,300,000* |

| | Vested and exercisable | Unvested | Balance at the end of the year |
|---|---|---|---|
| *Options over ordinary shares* | | | |
| Peter Wall | 233,333 | 466,667 | 700,000 |
| Jason Bednar | 166,667 | 333,333 | 500,000 |
| Will Stewart | - | 300,000 | 300,000 |
| Andreas Gedeon | 1,000,000 | 2,000,000 | 3,000,000 |
| Lisa Dea | - | 400,000 | 400,000 |
| Graham Whitmarsh | - | 500,000 | 500,000 |
| Daniela Vaschi | 166,667 | 333,333 | 500,000 |
| Nick Maltchev | - | 400,000 | 400,000 |
| | 1,566,667 | 4,733,333 | 6,300,000 |

*Performance rights holding*

The number of performance rights over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| MMJ PhytoTech Limited | | | | | |
|---|---|---|---|---|---|
| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
| *Performance rights over ordinary shares* | | | | | |
| Peter Wall | 1,000,000 | - | (1,000,000) | - | - |
| | 1,000,000 | - | (1,000,000) | - | - |

*Other transactions with key management personnel and their related parties*

During the reporting period, the Company engaged the services on the following related-parties on normal commercial terms and conditions no more favourable than those available to other parties:

Steinepreis Paganin, an entity associated with Mr Peter Wall, received payments totalling $188,330 in relation to legal services provided to the Company.

Azalea Consulting Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling $66,000 in relation to front office administration and company secretarial services provided to the Company.

Valle Corporate Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling $38,640 in relation to accounting and financial reporting services provided to the Company.

During the year the loan owing from Andreas Gedeon of CAD$100,357 (AUD$104,105) which included accrued interest CAD$6,568 (AUD$6,569) was repaid by reducing the bonus entitlement (refer to remuneration table on page 20 and 21) by the loan outstanding.

There were no new loans made to directors and other key management personnel of the Group during the year.

**This concludes the remuneration report, which has been audited.**

## Shares under option

Unissued ordinary shares of MMJ PhytoTech Limited under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|---|---|---|---|
| 15 January 2015 | 6 May 2019 | $0.200 | 2,900,000 |
| 1 April 2015 | 6 May 2019 | $0.310 | 350,000 |
| 27 July 2015 | 24 July 2018 | $0.400 | 2,500,000 |
| 27 July 2015 | 24 July 2018 | $0.200 | 1,500,000 |
| 5 August 2015 | 8 September 2018 | $0.450 | 6,345,000 |
| 23 October 2015 | 8 September 2018 | $0.450 | 786,885 |
| 23 October 2015 | 8 September 2018 | $0.450 | 1,230,000 |
| 22 April 2016 | 1 March 2019 | $0.360 | 2,537,500 |

| Grant date | Expiry date | Exercise price | Number under option |
|---|---|---|---|
| 1 February 2016 | 31 January 2020 | $0.270 | 874,641 |
| 14 October 2016 | 6 June 2019 | $0.240 | 2,000,000 |
| 14 October 2016 | 1 September 2020 | $0.240 | 3,000,000 |
| | | | 24,024,026 |

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

### Shares under performance rights

Unissued ordinary shares of MMJ PhytoTech Limited under performance rights at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under rights |
|---|---|---|---|
| 28 August 2014 | 18 November 2018 | $0.080 | 6,500,000 |
| 29 June 2015 | 18 November 2018 | $0.300 | 2,500,000 |
| 28 August 2014 | 18 November 2017 | $0.080 | 6,500,000 |
| 29 June 2015 | 18 November 2017 | $0.300 | 2,500,000 |
| | | | 18,000,000 |

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the company or of any other body corporate.

### Shares issued on the exercise of options

The following ordinary shares of MMJ PhytoTech Limited were issued during the year ended 30 June 2017 and up to the date of this report on the exercise of options granted:

| Date options granted | Exercise price | Number of shares issued |
|---|---|---|
| 20 January 2015 | $0.200 | 2,500,000 |
| 15 January 2015 | $0.200 | 600,000 |
| 27 July 2015 | $0.400 | 333,333 |
| 5 August 2015 | $0.450 | 2,449,590 |
| 22 April 2016 | $0.360 | 9,379,166 |
| 1 February 2016 | $0.270 | 310,000 |
| 14 October 2016 | $0.240 | 2,000,000 |
| | | 17,572,089 |

# DIRECTORS' REPORT CONT.

### Shares issued on the exercise of performance rights

The following ordinary shares of MMJ PhytoTech Limited were issued during the year ended 30 June 2017 and up to the date of this report on the exercise of performance rights granted:

| Date performance rights granted | Exercise price | Number of shares issued |
|---|---|---|
| 29 June 2015 | $0.300 | 1,000,000 |
| 28 August 2014 | $0.080 | 166,668 |
| | | 1,166,668 |

### Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

### Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

### Non-audit services

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 28 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor (Please refer to Note 28 Remuneration of auditors for details); and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the period the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| *Tax related services* | 97,431 | 36,696 |
| Assistance with international structure of MMJ Group | - | 975 |
| Review of termination clauses in agreements | - | 1,480 |
| Total | *97,431* | *39,151* |

### Officers of the company who are former partners of BDO Audit (WA) Pty Ltd

There are no officers of the company who are former partners of BDO Audit (WA) Pty Ltd.

### Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

### Auditor

BDO Audit (WA) Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

**Peter Wall**
Non-executive Chairman

29 September 2017

# AUDITOR'S INDEPENDENCE DECLARATION

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

**DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF MMJ PHYTOTECH LIMITED**

As lead auditor of MMJ PhytoTech Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of MMJ PhytoTech Limited and the entities it controlled during the period.

JPrue

**Jarrad Prue**

Director

**BDO Audit (WA) Pty Ltd**

Perth, 29 September 2017

# CORPORATE GOVERNANCE STATEMENT

The Board recognises the importance of establishing a comprehensive system of control and accountability as the basis for the administration of corporate governance.

To the extent relevant and practical, the Company has adopted a corporate governance framework that is consistent with *The Corporate Governance Principles and Recommendations (3rd Edition)* as published by ASX Corporate Governance Council ("**Recommendations**").

The Board has adopted the following suite of corporate governance policies and procedures which are contained with the Company's **Corporate Governance Plan**, a copy of which is available on the Company's website at **www.mmjphytotech.com.au.**

- Board Charter
- Corporate Code of Conduct
- Audit and Risk Committee Charter
- Remuneration Committee Charter
- Nomination Committee Charter
- Performance Evaluation Procedures
- Continuous Disclosure Policy
- Risk Management Policy
- Remuneration Policy
- Trading Policy
- Diversity Policy
- Shareholder Communications Strategy

The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

The Company is pleased to report that its practices are largely consistent with the Recommendations of the ASX Corporate Governance Council and sets out below its compliance and departures from the Recommendations for the period ended 30 June 2017.

In light of the Company's size and nature, the Board considers that the current corporate governance regime is a fit-for-purpose, efficient, practical and cost effective method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the implementation of additional corporate governance policies and structures will be reviewed.

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Principle 1: Lay solid foundations for management and oversight** | | |
| **Recommendation 1.1**<br><br>A listed entity should have and disclose a charter which sets out the respective roles and responsibilities of the board, the chair and management; and includes a description of those matters expressly reserved to the board and those delegated to management. | YES | The Company has adopted a Board Charter which complies with the guidelines prescribed by the ASX Corporate Governance Council.<br><br>A copy of the Company's Board Charter is available on the Company's website. |
| **Recommendation 1.2**<br><br>A listed entity should:<br><br>(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and<br><br>(b) provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a director. | YES | (a) The Nomination Committee (the function of which is currently performed by the full Board) is responsible for the selection and appointment of members of the Board. The Company's Nomination Committee Charter requires the Nomination Committee to undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director.<br><br>During the 2017 financial year, the Company did not put forward any new candidates for election as director of the Company.<br><br>(b) During the financial year, the shareholders of the Company re-elected Mr Bednar as a director of the Company at the annual general meeting held on 28 November 2016. All material information relevant to the decision on whether or not to re-elect Mr Bednar, including information relating to his qualifications, experience, length of service and role within the Board, was provided to security holders via the Notice of Meeting prior to that meeting. |

# CORPORATE GOVERNANCE STATEMENT CONT.

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Recommendation 1.3**<br>A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment. | YES | Each Director and senior executive of the Company is party to a written agreement with the Company which sets out the terms and conditions of that Director's or senior executive's appointment. |
| **Recommendation 1.4**<br>The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. | YES | The Board Charter outlines the roles, responsibility and accountability of the Company Secretary. The Company Secretary is accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board. |
| **Recommendation 1.5**<br>A listed entity should:<br>(a) have a diversity policy which includes requirements for the board:<br>(i) to set measurable objectives for achieving gender diversity; and<br>(ii) to assess annually both the objectives and the entity's progress in achieving them;<br>(b) disclose that policy or a summary of it; and<br>(c) disclose as at the end of each reporting period:<br>(i) the measurable objectives for achieving gender diversity set by the board in accordance with the entity's diversity policy and its progress towards achieving them; and<br>(ii) either:<br>(A) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or<br>(B) the entity's "Gender Equality Indicators", as defined in the Workplace Gender Equality Act 2012. | PARTIALLY | (a) The Company has adopted a Diversity Policy however, given the current size of the Company, the Board has determined that the benefits of the initiatives recommended by the ASX Corporate Governance Council in this regard are disproportionate to the costs involved in the implementation of such strategies.<br>Accordingly, the Board has elected to adopt a tiered approach to the implementation of its Diversity Policy which is relative to the size of the Company and its workforce. The Company's policy provides:<br>- Where the Company employs 100 or more employees, the Board undertakes to adopt practices in line with the Recommendations of the ASX Corporate Governance Council, including compliance with the requirement for the Company to set and report against measurable objectives for achieving gender diversity.<br>- Whilst the Company's workforce remains below this threshold, the Board will continue to drive the Company's diversity strategies on an informal basis and will apply the initiatives contained in its Diversity Policy to the extent that the Board considers relevant and necessary.<br>(b) The Diversity Policy is available on the Company's website. |

| Principles and Recommendations | Comply (Yes/No) | Explanation |
| --- | --- | --- |
| | | (c)<br>i. As the Company did not employ 100 or more employees during the financial year, the Company did not establish a set of measurable gender diversity objectives.<br>ii. As at 30 June 2017, the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation are set out below. The Company defines senior executives as those employees whose direct report is to the Managing Director or the Board.<br>- 100% of the Company's board were (are) male.<br>- 56% of the Company's 9 senior executives were female.<br>- 37% the Company's entire workforce of 30 people were female. |
| **Recommendation 1.6**<br>A listed entity should:<br>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and<br>(b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | YES | (a) The Nomination Committee (the function of which is currently performed by the full Board) is responsible for evaluating the performance of the Board and individual Directors on an annual basis.<br>The process for this is set out in the Company's Performance Evaluation Procedures policy which is available on the Company's website.<br>(b) During the 2017 financial year, the Company did not undertake formal performance evaluations of the Board. However, informal evaluation was carried out on a continual basis by the Board. |
| **Recommendation 1.7**<br>A listed entity should:<br>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and<br>(b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | YES | (a) The Remuneration Committee is responsible for evaluating the performance of senior executives on an annual basis in accordance with the Company's Performance Evaluation Procedures policy.<br>(b) The Company confirms that it undertook performance evaluations of certain of its senior executives during the 2017 financial year. |

# CORPORATE GOVERNANCE STATEMENT CONT.

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Principle 2: Structure the board to add value** | | |
| **Recommendation 2.1**<br>The board of a listed entity should:<br>(a) have a nomination committee which:<br>(i) has at least three members, a majority of whom are independent directors; and<br>(ii) is chaired by an independent director,<br>and disclose:<br>(iii) the charter of the committee;<br>(iv) the members of the committee; and<br>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively. | YES | (a) The Board has determined that the function of the Nomination Committee is most efficiently carried out with full board participation and accordingly, the Company has elected not to establish a separate Nomination Committee at this stage.<br>As a result, the duties that would ordinarily be assigned to the Nomination Committee under the Nomination Committee Charter are carried out by the full board.<br>A copy of the Nomination Committee Charter is available on the Company's website.<br>(b) The Board devotes time at Board meetings on at least an annual basis to discuss Board succession issues. All members of the Board are to be involved in the Company's nomination process, to the maximum extent permitted under the Corporations Act and ASX Listing Rules. |
| **Recommendation 2.2**<br>A listed entity should have and disclose a board skill matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership. | YES | The Board is comprised of directors with a broad range of technical, commercial, financial and other skills, experience and knowledge relevant to overseeing the business of the Group.<br>The composition of the Board is reviewed on at least an annual basis with reference to the Company's Board skills matrix which is used as a tool to assess the appropriate balance of skills, experience, independence and knowledge necessary for the Board to discharge its duties and responsibilities effectively.<br>A copy of the Company's Board skills matrix for the 2017 financial year is set out with the Company's Corporate Governance Plan which is available on the Company's website. |

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Recommendation 2.3**<br>A listed entity should disclose:<br>(a) the names of the directors considered by the board to be independent directors;<br>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3rd Edition), but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and<br>(c) the length of service of each director. | YES | (a) During the 2017 financial year, the independent directors of the Company were:<br>- Mr Winton Willesee; and<br>- Mr Jason Bednar.<br>(b) The Board has determined the independence of each of the Company's Directors in line with the guidance set out by the ASX's Corporate Governance Council and have not formed an opinion contrary to those guidelines.<br>(c) The Directors who held office during the 2016 financial year have served continuously since their respective dates of appointment as follows:<br>- Mr Peter Wall was appointed on 14 August 2014;<br>- Mr Willesee was appointed on 21 October 2014;<br>- Mr Gedeon was appointed on 27 July 2015; and<br>- Mr Bednar was appointed on 27 July 2015. |
| **Recommendation 2.4**<br>A majority of the board of a listed entity should be independent directors. | NO | The Board is comprised of four board members, two of which are independent. Whilst the Board is cognisant of the benefits of a Board comprised of a majority of independent directors, it considers its current structure and composition to be appropriate in its circumstances and is satisfied that the Board is able to effectively discharge its duties and responsibilities with the existing structure in place. |
| **Recommendation 2.5**<br>The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity. | PARTIALLY | The Chairman of the Board is not an independent director. Despite this, the Board considers Mr Wall to be the most appropriate Director to act as Chairman. His position in the Company is further supported by the Company's voting shareholders who last approved his re-election as Director of the Company at the annual general meeting held on 25 November 2015.<br>The Chairman of the Board does not hold the role of CEO/Managing Director of the Company. |

# CORPORATE GOVERNANCE STATEMENT CONT.

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Recommendation 2.6**<br><br>A listed entity should have a program for inducting new directors and providing appropriate professional development opportunities for continuing directors to develop and maintain the skills and knowledge needed to perform their role as a director effectively. | YES | The Company has in place a program for the induction of new directors which is tailored to each new Director depending on their personal requirements, background skills, qualifications and experience and includes the provision of a formal letter of appointment and an induction pack containing sufficient information to allow the new Director to gain an understanding of the business of the Company and the roles, duties and responsibilities of Directors and the Executive Team.<br><br>All Directors are encouraged to undergo continual professional development and, subject to prior approval by the Chairman, all Directors have access to numerous resources and professional development training to address any skills gaps. |
| **Principle 3: Act ethically and responsibly** | | |
| **Recommendation 3.1**<br><br>A listed entity should:<br><br>(a) have a code of conduct for its directors, senior executives and employees; and<br><br>(b) disclose that code or a summary of it. | YES | (a) The Company has a Corporate Code of Conduct that applies to its Directors, employees and contractors.<br><br>(b) The Company's Corporate Code of Conduct is available on the Company's website. |

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Principle 4: Safeguard integrity in financial reporting** | | |
| **Recommendation 4.1**<br>The board of a listed entity should:<br>(a) have an audit committee which:<br>(i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and<br>(ii) is chaired by an independent director, who is not the chair of the board,<br>and disclose:<br>(iii) the charter of the committee;<br>(iv) the relevant qualifications and experience of the members of the committee; and<br>(v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner. | YES | (a) During the reporting period, the Company's Audit and Risk Committee was comprised of:<br>- Mr Jason Bednar (Independent Non-Executive Director and Committee Chairman);<br>- Mr Winton Willesee (Independent Non-Executive Director);<br>- Mr Peter Wall (Non-Executive Director)<br>The Audit and Risk Committee Charter is available on the Company's website.<br>The relevant qualifications and experience of the members of the committee are set out in the Directors Report section of its 2017 Annual Report.<br>Details of the number of times the Committee met during the reporting period and the individual attendances of each of the members is set out in the Directors Report section of this Annual Report. |
| **Recommendation 4.2**<br>The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. | YES | Prior to the execution of the financial statements of the Company, the Company's Managing Director and CFO provided the Board with written assurances that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control which is operating effectively in all material aspects in relation to the Company's financial reporting risks. |
| **Recommendation 4.3**<br>A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit. | YES | At the Company's 2016 AGM held on 28 November 2016, the Company's external auditor, Jarrad Prue of BDO attended and made himself available to answer questions from security holders relevant to the audit. |

# CORPORATE GOVERNANCE STATEMENT CONT.

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Principle 5: Make timely and balanced disclosure** | | |
| **Recommendation 5.1**<br>A listed entity should:<br>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and<br>(b) disclose that policy or a summary of it. | YES | (a) The Company has adopted a Continuous Disclosure Policy which details the processes and procedures which have been adopted by the Company to ensure that it complies with its continuous disclosure obligations as required under the ASX Listing Rules and other relevant legislation.<br>(b) The Continuous Disclosure Policy is available on the Company's website. |
| **Principle 6: Respect the rights of security holders** | | |
| **Recommendation 6.1**<br>A listed entity should provide information about itself and its governance to investors via its website. | YES | Shareholders can access information about the Company and its governance (including its Constitution and adopted governance policies) from the Company's website on the "Corporate Governance" page. |
| **Recommendation 6.2**<br>A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors. | YES | The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with investors. The Strategy outlines a range of ways in which information is communicated to shareholders.<br>A copy of the Company's Shareholder Communications Strategy policy is available on the Company's website. |

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Recommendation 6.3**<br><br>A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders. | YES | Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution, and receipt of annual and interim financial statements. Shareholders are encouraged to participate at all GMs and AGMs of the Company by written statement contained in every Notice of Meeting sent to shareholders prior to each meeting.<br><br>The Company accommodates shareholders who are unable to attend shareholder meetings in person by accepting votes by proxy.<br><br>At each meeting, shareholders are invited by the Chairman to ask questions of the Company's external auditor and the Board.<br><br>Shareholders are also given an opportunity to ask questions on each resolution before it is put to the meeting.<br><br>Any material presented to shareholders at the meeting is released to the ASX immediately prior to the commencement of the meeting for the benefit of those shareholders who are unable to attend in person. The Company also announces to the ASX the outcome of each meeting immediately following its conclusion. |
| **Recommendation 6.4**<br><br>A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically. | YES | Shareholders have the option of electing to receive all shareholder communications by e-mail and can update their communication preferences with the Company's registrar at any time. |

# CORPORATE GOVERNANCE STATEMENT CONT.

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Principle 7: Recognise and manage risk** | | |
| **Recommendation 7.1**<br>The board of a listed entity should:<br>(a) have a committee or committees to oversee risk, each of which:<br>(i) has at least three members, a majority of whom are independent directors; and<br>(ii) is chaired by an independent director,<br>and disclose:<br>(iii) the charter of the committee;<br>(iv) the members of the committee; and<br>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework. | YES | (a) During the reporting period, the Company's Audit and Risk Committee was comprised of:<br>- Mr Jason Bednar (Independent Non-Executive Director and Committee Chairman);<br>- Mr Winton Willesee (Independent Non-Executive Director);<br>- Mr Peter Wall (Non-Executive Director)<br>The Audit and Risk Committee Charter is available on the Company's website.<br>The relevant qualifications and experience of the members of the committee are set out in the Directors Report section of its 2017 Annual Report.<br>Details of the number of times the Committee met during the reporting period and the individual attendances of each of the members is set out in the Directors Report section of its 2017 Annual Report. |
| **Recommendation 7.2**<br>The board or a committee of the board should:<br>(a) review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure that they remain within the risk appetite set by the board; and<br>(b) disclose in relation to each reporting period, whether such a review has taken place. | YES | The Company's Risk Management Policy deals with the management and oversight of material business risks and provides the guiding principle for management in the identification of risks across the organisation.<br>During the 2017 financial year, the Company undertook a group wide risk review. Further the full Board reviewed risk and the application of the risk framework on an ongoing basis within its regular board meetings and in consultation with management. The Board felt that given the nature and scale of the Company that process was the most appropriate and most robust means of monitoring and managing risk for the Company. |

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Recommendation 7.3**<br>A listed entity should disclose:<br>(a) if it has an internal audit function, how the function is structured and what role it performs; or<br>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. | YES | (a) The Audit and Risk Committee is responsible for monitoring the need for a formal internal audit function.<br>(b) Due to the size and nature of the Company's operations, the Company does not consider it necessary to establish a formal internal audit committee at this stage. |
| **Recommendation 7.4**<br>A listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks. | YES | The Company's Risk Management Policy details the Company's risk management systems which assist in identifying and managing potential or apparent business, economic, environmental and social sustainability risks (where appropriate). |
| **Principle 8: Remunerate fairly and responsibly** | | |
| **Recommendation 8.1**<br>The board of a listed entity should:<br>(a) have a remuneration committee which:<br>(i) has at least three members, a majority of whom are independent directors; and<br>(ii) is chaired by an independent director,<br>and disclose:<br>(iii) the charter of the committee;<br>(iv) the members of the committee; and<br>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive. | YES | During the reporting period, the Company's Remuneration Committee was comprised of:<br>- Mr Winton Willesee (Independent Non-Executive Director and Committee Chairman);<br>- Mr Jason Bednar (Independent Non-Executive Director);<br>- Mr Peter Wall (Non-Executive Director)<br>The Remuneration Committee Charter is available on the Company's website.<br>Details of the number of times the Committee met during the reporting period and the individual attendances of each of the members is set out in the Directors Report section of its 2017 Annual Report. |

# CORPORATE GOVERNANCE STATEMENT CONT.

| Principles and Recommendations | Comply (Yes/No) | Explanation |
|---|---|---|
| **Recommendation 8.2**<br>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives and ensure that the different roles and responsibilities of non-executive directors compared to executive directors and other senior executives are reflected in the level and composition of their remuneration. | YES | The Company's Corporate Governance Plan requires the Board to disclose its policies and practices regarding the remuneration of non-executive and executive directors and other senior employees. This disclosure is set out in the Remuneration Report section of its 2017 Annual Report. |
| **Recommendation 8.3**<br>A listed entity which has an equity-based remuneration scheme should:<br>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and<br>(b) disclose that policy or a summary of it. | YES | (a) The Company's Remuneration Committee is responsible for the review and approval of any equity-based remuneration schemes offered to Directors and Employees of the Company. Further, in accordance with the Remuneration Committee Charter, the Remuneration Committee is also responsible for granting permission, on a case by case basis, for scheme participants to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Scheme.<br>(b) The Company's policy in this regard is set out in the Company's Remuneration Committee Charter, a copy of which is available on the Company's website. |

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2017

| | | Consolidated | |
|---|---|---|---|
| | Note | 2017 $'000 | 2016 $'000 |
| **Revenue** | | | |
| Sales Revenue | 7 | 76 | 255 |
| Cost of sales | | (102) | (331) |
| | | (26) | (76) |
| | | | |
| Interest received | | 46 | 37 |
| (Loss)/Gain on contingent deferred consideration shares | | (729) | 812 |
| | | | |
| **Expenses** | | | |
| Employee and director related expenses | | (2,171) | (2,070) |
| Depreciation and amortisation expense | | (1,101) | (68) |
| Finance costs | | (82) | (56) |
| Marketing and investor relations | | (639) | (429) |
| Impairment of Investment in Other Entities | | - | (209) |
| Acquisition introduction fee expense | | - | (620) |
| Administration expenses | | (2,121) | (1,326) |
| Consultancy and legal expenses | | (1,319) | (713) |
| Research and development expense | | (518) | (503) |
| Compliance and regulatory expenses | | (257) | (335) |
| Equity based payments expense | 37 | (3,143) | (1,224) |
| Net foreign exchange loss | | (545) | (19) |
| Impairment of Intangible assets | | - | (7,876) |
| Impairment of inventory | | (735) | - |
| Selling and distribution expenses | | - | (24) |
| Listing fee expenses | | (804) | - |
| **Loss before income tax expense** | | (14,144) | (14,699) |
| Income tax expense | 8 | - | - |
| **Loss after income tax expense for the year** | | (14,144) | (14,699) |
| | | | |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | | 261 | 222 |
| Other comprehensive income for the year, net of tax | | 261 | 222 |
| **Total comprehensive loss for the year** | | (13,883) | (14,477) |
| | | | |
| Loss for the year is attributable to: | | | |
| Non-controlling interest | | (1,419) | - |
| Owners of MMJ PhytoTech Limited | | (12,725) | (14,699) |
| | | (14,144) | (14,699) |
| Total comprehensive loss for the year is attributable to: | | | |
| Non-controlling interest | | (1,666) | - |
| Owners of MMJ PhytoTech Limited | | (12,217) | (14,477) |
| | | (13,883) | (14,477) |
| | | Cents | Cents |
| | | | |
| Basic earnings per share | 36 | (6.71) | (10.67) |
| Diluted earnings per share | 36 | (6.71) | (10.67) |

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

# STATEMENT OF FINANCIAL POSITION

## FOR THE YEAR ENDED 30 JUNE 2017

| | | Consolidated | |
|---|---|---|---|
| | Note | 2017 $'000 | Restated 2016 $'000 |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 23,801 | 2,951 |
| Trade and other receivables | 10 | 434 | 398 |
| Inventories | 11 | 1,242 | 1,450 |
| Biological assets | 12 | 81 | - |
| Loan to Directors | | - | 104 |
| **Total current assets** | | 25,558 | 4,903 |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 8,252 | 6,575 |
| Intangibles | 14 | 8,661 | 8,932 |
| Goodwill | 15 | 4,735 | 4,822 |
| Other | | 37 | 35 |
| Total non-current assets | | 21,685 | 20,364 |
| **Total assets** | | 47,243 | 25,267 |
| **Liabilities** | | | |
| **Current liabilities** | 16 | 1,132 | 614 |
| Trade and other payables | 17 | - | 92 |
| Borrowings | 18 | 1,992 | 2,083 |
| Deferred consideration | | 3,124 | 2,789 |
| Total current liabilities | | | |
| **Non-current liabilities** | | | |
| Borrowings | 19 | - | 398 |
| Deferred tax | 8 | 2,244 | 2,244 |
| Contingent consideration | 20 | - | 1,588 |
| Total non-current liabilities | | 2,244 | 4,230 |
| **Total liabilities** | | 5,368 | 7,019 |
| **Net assets** | | 41,875 | 18,248 |
| **Equity** | | | |
| Contributed equity | 21 | 44,954 | 32,706 |
| Reserves | 22 | 17,417 | 5,123 |
| Accumulated losses | | (32,306) | (19,581) |
| Equity attributable to the owners of MMJ PhytoTech Limited | | 30,065 | 18,248 |
| Non-controlling interest | 33 | 11,810 | - |
| **Total equity** | | 41,875 | 18,248 |

*Refer to note 5 for detailed information on Restatement of comparatives.*
*The above statement of financial position should be read in conjunction with the accompanying notes*

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2017

| Consolidated | Contributed equity $'000 | Other reserves $'000 | Foreign currency translation reserve $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2015 | 5,828 | 2,628 | 20 | (4,882) | 3,594 |
| Loss after income tax expense for the year | - | - | - | (14,699) | (14,699) |
| Other comprehensive income for the year, net of tax | - | - | 222 | - | 222 |
| Total comprehensive income for the year | - | - | 222 | (14,699) | (14,477) |
| Transactions with owners in their capacity as owners: | | | | | |
| Contributions of equity, net of transaction costs (note 21) | 26,878 | - | - | - | 26,878 |
| Share-based payments (note 37) | - | 2,253 | - | - | 2,253 |
| Balance at 30 June 2016 | 32,706 | 4,881 | 242 | (19,581) | 18,248 |

*Refer to note 5 for detailed information on Restatement of comparatives.*

| Consolidated | Contributed equity $'000 | Other reserves $'000 | Foreign currency translation reserve $'000 | Accumulated losses $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2016 | 32,706 | 4,881 | 242 | (19,581) | - | 18,248 |
| Loss after income tax expense for the year | - | - | - | (12,725) | (1,419) | (14,144) |
| Other comprehensive income for the year, net of tax | - | - | 508 | - | (247) | 261 |
| Total comprehensive income for the year | - | - | 508 | (12,725) | (1,666) | (13,883) |
| Transactions with owners in their capacity as owners: | | | | | | |
| Contributions of equity, net of transaction costs (note 21) | 11,945 | - | - | - | - | 11,945 |
| Conversion of performance rights | 303 | (303) | - | - | | - |
| Share-based payments (note 37) | - | 1,689 | - | - | - | 1,689 |
| Harvest One option reserve | - | 2,760 | - | - | - | 2,760 |
| Transaction with non-controlling interest | - | - | (247) | - | 13,476 | 13,229 |
| Net gain on Harvest One transaction | - | 7,887 | - | - | - | 7,887 |
| Balance at 30 June 2017 | 44,954 | 16,914 | 503 | (32,306) | 11,810 | 41,875 |

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2017

| | Note | Consolidated 2017 $'000 | Consolidated 2016 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 35 | 255 |
| Interest received | | 47 | 37 |
| Payments to suppliers and employees (inclusive of GST) | | (7,571) | (6,705) |
| Payments to research expenses | | - | (481) |
| Payments to patent expenses | | - | (22) |
| Interest paid | | (82) | (56) |
| Net cash used in operating activities | 35 | (7,571) | (6,972) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | 13 | (3,297) | (2,995) |
| Loan to Director | | - | (104) |
| Cash acquired from business combination | | - | 31 |
| Debenture paid/received | | - | 288 |
| Investment in Other entities | | - | (209) |
| Net cash used in investing activities | | (3,297) | (2,989) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 21 | 4,000 | 11,800 |
| Costs in relation to share issue | | (259) | (704) |
| Proceeds received on exercise of options | | 5,796 | - |
| Transactions with non-controlling interests | | 22,671 | - |
| Repayment of borrowings | | (490) | (94) |
| Net cash from financing activities | | 31,718 | 11,002 |
| Net increase in cash and cash equivalents | | 20,850 | 1,041 |
| Cash and cash equivalents at the beginning of the financial year | | 2,951 | 1,910 |
| Cash and cash equivalents at the end of the financial year | 9 | 23,801 | 2,951 |

*The above statement of cash flows should be read in conjunction with the accompanying notes*

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

**Note 1. General information**

The financial statements cover MMJ PhytoTech Limited as a consolidated entity consisting of MMJ PhytoTech Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is MMJ PhytoTech Limited's functional and presentation currency.

MMJ PhytoTech Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 5 CPC
145 Stirling Highway
Nedlands WA 6009

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 September 2017. The directors have the power to amend and reissue the financial statements.

**Note 2. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**New or amended Accounting Standards and Interpretations adopted**
The Consolidated Entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

**Basis of preparation**
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for -profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

*Historical cost convention*
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available -for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

*Critical accounting estimates*
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Parent entity information**
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

**Principles of consolidation**
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of MMJ PhytoTech Limited ('company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended. MMJ PhytoTech Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

**Note 2. Significant accounting policies (continued)**

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**Foreign currency translation**
The financial statements are presented in Australian dollars, which is MMJ PhytoTech Limited's functional and presentation currency.

*Foreign currency transactions*
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

**Current and non-current classification**
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**Note 2. Significant accounting policies (continued)**

**Impairment of non-financial assets**
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

**Finance costs**
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

**Goods and Services Tax ('GST') and other similar taxes**
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

**Rounding of amounts**
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**New Accounting Standards and Interpretations not yet mandatory or early adopted**
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

**Note 2. Significant accounting policies (continued)**

*AASB 9 Financial Instruments*
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018. The Group does not hold complex financial instruments. The classification of its financial instruments will not change under the new accounting standard. Therefore, management does not expect the adoption of this accounting standard will have a material impact on the Group's financial performance.

*AASB 15 Revenue from Contracts with Customers*
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018. The impact of this adoption is currently in the process of being assessed by the Group, however the impact has yet to be quantified.

**Note 2. Significant accounting policies (continued)**

*AASB 16 Leases*
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019. As at reporting date, the Group has non-cancellable operating lease commitments of $1.05 million (refer note 30). The impact of this adoption is currently in the process of being assessed by the Group, however the impact has yet to be quantified.

**Note 3. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Share-based payment transactions*
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

*Provision for impairment of inventories*
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

*Fair value measurement hierarchy*
The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

**Note 3. Critical accounting judgements, estimates and assumptions (continued)**

*Estimation of useful lives of assets*
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

*Goodwill and other indefinite life intangible assets*
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

To maintain the License the Group is subject to routine inspections throughout the license period whereby the Group is required to be without incident and the process and procedures are to be within Health Canada guidelines. Upon completion of this inspection and when no issues are identified the renewal becomes routine. The Group completed this renewal process on June 26, 2017 and was issued a license for a further three years. The Group intends to maintain the highest level of quality control and adherence to Health Canada regulations and therefore strongly believes that the license can be renewed for further periods without incurring significant costs. Given this the Group determines that the license has an indefinite useful life in accordance with AASB 138 Intangible Assets.

*Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*
The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions. (See further details in Note 15)

During the year, there were no impairment triggers that would suggest that the carry value of these assets exceeded its recoverable amount.

*Income tax*
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

*Biological assets*
In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

**Note 4. Acquisition of Harvest One**

In December 2016 MMJ entered into a share exchange agreement with Harvest One Capital Corp. (“Harvest One”) TSX listed entity for the sale of 100% of issued capital of MMJ subsidiaries United Greeneries Holdings Ltd (UG) and Swiss Satipharm AG Switzerland. In consideration for the transaction, Harvest One has agreed to pay C$2mil and issue 53,333,333 shares (“Consideration shares”) in the capital of Harvest One (post consolidation basis) to MMJ and PhytoTech Medical (UK) Pty Ltd (PYL UK), a wholly owned subsidiary of MMJ. The completion of the acquisition transaction was subject to completion of financing of a minimum of C$15mil. In February 2017 Harvest One closed a private placement raising of C$25,000,500 (33,334,000 at C$0.75) before costs. MMJ then beneficially owned 59.96% of Harvest One group which includes UG and SAT. At completion, the majority of Harvest One Directors and Officers are also MMJ Directors. The Board of Directors of the Harvest One consist of, amongst other, Andreas Gedeon (Managing Director), Peter Wall and Jason Bednar.

**Note 4. Acquisition of Harvest One (continued)**

For accounting purposes, the transaction was to enable MMJ to list its subsidiaries (UG and SAT) on the TSX-V and to raise capital of C$25mil. This resulted in the MMJ interests in these subsidiaries being diluted to 59.96% (refer to note 33 for further details) and MMJ incurring a share based payment expense of $893,097 (refer to note 37 for further details) for the listing of the subsidiaries by way of Harvest One.

**Note 5. Restatement of comparatives**

*Change in accounting policy*
In November 2016, the IFRS Interpretations Committee clarified, for the purpose of calculating deferred tax, how an entity should determine the expected manner of recovery of an intangible asset that has an indefinite useful life. During the financial year, the consolidated entity reassessed the estimated useful life of the Duncan facility and determined that the Duncan facility license had an indefinite useful life. As such, the Company voluntarily changed its accounting policy for its deferred tax on intangibles. It has been determined that this change in accounting policy enhances the reliability of the financial statements as it reduces the diversity between it and other entities that account for this deferred tax liability (DTL). This change in accounting policy has been applied retrospectively.

The Company's accounting policy for this is as follows:

The deferred tax on an intangible asset with an indefinite life is calculated based on how the entity expects to recover the asset, i.e. either through use or through sale. The Company has taken up this adjustment to reflect this in the 2016 financial year figures in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors and business combination accounting.

*AASB - 108 Accounting Policies, Changes in Accounting Estimates and Errors*

This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

An entity shall change an accounting policy only if the change:

(a) is required by an Australian Accounting Standard; or AASB 108-compiled 14 Standard
(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

*Statement of profit or loss and other comprehensive income*
When there is a restatement of comparatives, it is mandatory to provide a statement of profit or loss and other comprehensive income for the year ended 30 June 2016. However, as there were no adjustments made, the consolidated entity has elected not to show the statement of profit or loss and other comprehensive income.

*Statement of financial position at the beginning of the earliest comparative period*
When there is a restatement of comparatives, it is mandatory to provide a third statement of financial position at the beginning of the earliest comparative period, being 1 July 2015. However, as there were no adjustments made as at 1 July 2015, the consolidated entity has elected not to show the 1 July 2015 statement of financial position. The result of adopting this accounting policy is noted in the following statement of financial position with an adjustment for the deferred tax liability amounting to $2,244,000 being recognised and an increase in the carrying amount of goodwill of the same amount.

# NOTES TO THE FINANCIAL STATEMENTS CONT.

30 JUNE 2017

**Note 5. Restatement of comparatives (continued)**

*Statement of financial position at the end of the earliest comparative period*

| | | Consolidated | |
|---|---|---|---|
| | 2016 | | 2016 |
| | $'000 | $'000 | $'000 |
| | | | 2016 - |
| | Reported | Adjustment | Restated |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 2,951 | - | 2,951 |
| Trade and other receivables | 398 | - | 398 |
| Inventories | 1,450 | - | 1,450 |
| Loan to Directors | 104 | - | 104 |
| Total current assets | 4,903 | - | 4,903 |
| **Non-current assets** | | | |
| Property, plant and equipment | 6,575 | - | 6,575 |
| Intangibles | 8,932 | - | 8,932 |
| Goodwill | 2,578 | 2,244 | 4,822 |
| Other | 35 | - | 35 |
| Total non-current assets | 18,120 | 2,244 | 20,364 |
| **Total assets** | 23,023 | 2,244 | 25,267 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 614 | - | 614 |
| Borrowings | 92 | - | 92 |
| Deferred consideration | 2,083 | - | 2,083 |
| Total current liabilities | 2,789 | - | 2,789 |
| **Non-current liabilities** | | | |
| Borrowings | 398 | - | 398 |
| Deferred tax | - | 2,244 | 2,244 |
| Contingent consideration | 1,588 | - | 1,588 |
| Total non-current liabilities | 1,986 | 2,244 | 4,230 |
| **Total liabilities** | 4,775 | 2,244 | 7,019 |
| **Net assets** | 18,248 | - | 18,248 |
| **Equity** | | | |
| Contributed equity | 32,706 | - | 32,706 |
| Reserves | 5,123 | - | 5,123 |
| Accumulated losses | (19,581) | - | (19,581) |
| **Total equity** | 18,248 | - | 18,248 |

**Note 6. Operating segments**

During the year ending 30 June 2017, the consolidated entity was organised into three operating segments: cultivation, processing and distribution and clinical development.

**Note 6. Operating segments (continued)**

*Segment Information*

Identification of reportable segments

The Company has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

The information reported to the CODM is on a monthly basis.

Types of reportable segments:

*(i)* *Cultivation*

Segment activities include the legal cultivation and distribution of cannabis under a federally regulated MMPR license issued by Health Canada. Segment assets include cash, cannabis inventories, property, plant and equipment, infrastructure, intangible assets (licenses and permits) and other capital expenditure relating to the entity's two cannabis cultivation facilities in Canada.

*(ii)* *Processing and distribution*

Segment activities include the processing, manufacturing and distribution of cannabis-based food supplement products throughout Europe. Segment assets include cash, inventories, and key agreements with international partnerships for the production and distribution of its cannabinoid-based products.

*(iii)* *Clinical development*

Segment activities include research and clinical development of delivery systems and devices that have the potential to deliver safe, effective and measured doses of medical cannabis to patients. All research and development activities conducted in Israel are reported on in this segment. Segment assets include intellectual property, and capitalised research and development expenditure.

*Basis of accounting for purposes of reporting by operating segment*
Accounting policies adopted
Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Company.

*Segment assets*
Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location. Unless indicated otherwise in the segment assets note, deferred tax assets and intangible assets have not been allocated to operating segments.

*Segment liabilities*
Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Company as a whole and are not allocated. Segment liabilities include trade and other payables.

**Note 6. Operating segments (continued)**

*Operating segment information*

| Consolidated - 2017 | Cultivation $'000 | Processing and distribution $'000 | Clinical Development $'000 | Unallocated $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sales to external customers | - | 76 | - | - | 76 |
| Cost of sales | | (102) | - | - | (102) |
| Research expenses | - | - | (519) | - | (519) |
| Advisor and consultants | (81) | (303) | - | (284) | (668) |
| Legal fees | (89) | (19) | (64) | (479) | (651) |
| Employee costs | (526) | 12 | (668) | (989) | (2,171) |
| Equity based payments | (49) | (358) | (114) | (2,656) | (3,177) |
| Listing fee expense | - | - | - | (804) | (804) |
| Other expenses | (992) | (391) | (126) | (1,473) | (2,982) |
| **EBITDA** | (1,737) | (1,085) | (1,491) | (6,685) | (10,998) |
| Depreciation and amortisation | (1,084) | - | (4) | (13) | (1,101) |
| Interest revenue | (66) | - | - | 112 | 46 |
| Finance costs | (72) | (1) | (1) | (8) | (82) |
| Net loss on foreign exchange | - | (69) | 13 | (489) | (545) |
| Impairment of inventory | - | (735) | - | - | (735) |
| Loss on contingent deferred consideration | - | - | - | (729) | (729) |
| **Loss before income tax expense** | (2,959) | (1,890) | (1,483) | (7,812) | (14,144) |
| Income tax expense | | | | | - |
| **Loss after income tax expense** | | | | | (14,144) |
| **As at 30 June 2017** | | | | | |
| **Total assets** | **23,035** | **772** | **375** | **23,061** | **47,243** |
| **Total liabilities** | **646** | **86** | **154** | **4,482** | **5,368** |

**Note 6. Operating segments (continued)**

| Consolidated - 2016 | Cultivation $'000 | Processing and distribution $'000 | Clinical Development $'000 | Unallocated $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sales to external customers | - | 255 | - | - | 255 |
| Cost of sales | | (331) | - | - | (331) |
| Research expenses | - | - | (503) | - | (503) |
| Advisor and consultants | (63) | (101) | - | (404) | (568) |
| Legal fees | - | (28) | (38) | (80) | (146) |
| Employee costs | (751) | (71) | (639) | (609) | (2,070) |
| Equity based payments | (171) | - | (353) | (700) | (1,224) |
| Other expenses | (582) | (157) | (122) | (1,872) | (2,733) |
| **EBITDA** | (1,567) | (433) | (1,655) | (3,665) | (7,320) |
| | | | | | |
| Depreciation and amortisation | | | | | (68) |
| Interest revenue | | | | | 37 |
| Finance costs | | | | | (56) |
| Net loss on foreign exchange | | | | | (19) |
| Gain on contingent deferred consideration | | | | | 812 |
| Impairment of investment in other entities | | | | | (209) |
| Impairment of intangible assets | | | | | (7,876) |
| **Loss before income tax expense** | | | | | (14,699) |
| Income tax expense | | | | | - |
| **Loss after income tax expense** | | | | | (14,699) |
| | | | | | |
| **As at 30 June 2016** | | | | | |
| **Total assets** | **16,806** | **3,982** | **677** | **3,802** | **25,267** |
| **Total liabilities** | **618** | **162** | **115** | **6,124** | **7,019** |

*Accounting policy for operating segments*
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

**Note 7. Revenue and Other Income**

| | Consolidated 2017 $'000 | Consolidated 2016 $'000 |
|---|---|---|
| **Revenue from continuing operations** | | |
| Sales revenue - CBD Gelpell pills | 76 | 255 |

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

**Note 7. Revenue and Other Income (continued)**

*Accounting policy for sale of goods*

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

All revenue stated is net of goods and services tax ("GST").

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Interest received | 46 | 37 |

*Accounting policy for interest revenue*

Interest revenue is recognised using the effective interest method.

**Note 8. Income tax**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Loss before income tax expense | (14,144) | (14,699) |
| Tax at the statutory tax rate of 27.5% (2016: 30%) | (3,890) | (4,410) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Differences in tax rates | 243 | 914 |
| Share based payments | 76 | 200 |
| Other non-deductible | 820 | 2,253 |
| Non-assessable income | - | (162) |
| Deferred balance not recognised | 2,751 | 1,205 |
| Income tax expense | - | - |

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Revenue losses - Australia | 361 | 253 |
| Revenue losses - Overseas | 3,796 | 1,234 |
| Temporary differences - Australia | 155 | 125 |
| Total deferred tax benefits not recognised | 4,312 | 1,612 |

The potential future income tax benefit will only be obtained if:

(i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
(ii) the Company continues to comply with the conditions for deductibility imposed by law; and
(iii) no changes in tax legislation adversely affect the Company in realising the benefit.

The franking account balance at period end was nil (2016: Nil).

During the year, the Group changed its accounting policy with regards to the recognition of deferred balances on intangibles with an indefinite useful life (refer to Note 5). Consequently, the Group recognised a deferred tax liability of $2,244,000 during the year (30 June 2016: $2,244,000).

**Note 8. Income tax (continued)**

*Accounting policy for income tax*

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

**Note 9. Current assets - cash and cash equivalents**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Cash at bank | 23,758 | 2,921 |
| Cash on deposit | 43 | 30 |
| | 23,801 | 2,951 |

*Accounting policy for cash and cash equivalents*
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Note 10. Current assets - trade and other receivables**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Other receivables | 72 | 51 |
| GST recoverable | 175 | 207 |
| Prepayments | 187 | 140 |
| | 434 | 398 |

**Note 10. Current assets - trade and other receivables (continued)**

Trade and other receivables are generally due for settlement within 30 days and therefore are all classified as current.

*Accounting policy for trade and other receivables*
Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

**Note 11. Current assets - Inventories**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Raw materials | - | 435 |
| Finished goods inventory | 1,242 | 1,015 |
| | 1,242 | 1,450 |

Inventories consist of dry cannabis, Gelpell CBD capsules, and supplies and consumables for use in the production of inventories and the transformation of biological assets.

During 2017 financial year, management conducted a review of inventory assets held by Satipharm for the purpose of ensuring the amount of inventory recognised on the statement of financial position is not being carried at an amount higher than its recoverable amount. Due to issues related to Government approvals and the lack of pill sales activity, management have taken a decision to impair $735,000 of inventory for the year ended 30 June 2017. The inventory relates to Satipharm AG which is based in Switzerland.

*Accounting policy for inventories*
Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a weighted average basis. Cost comprises direct materials and delivery costs, direct labour and import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Note 12. Current assets - Biological assets**

The Company's biological assets consist of seeds and medical cannabis plants. The continuity of biological assets for the years ended 30 June 2017 and 2016 are as follows:

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Biological asset - seeds and medical cannabis plants | 81 | - |

**Note 12. Current assets - Biological assets (continued)**

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Total $'000 |
|---|---|
| Balance at 1 July 2015 | - |
| | |
| Balance at 30 June 2016 | - |
| Purchase (use) of seeds | 21 |
| Changes in fair value less costs to sell due to biological transformation | 642 |
| Transferred to inventory upon harvest | (582) |
| | |
| Balance at 30 June 2017 | 81 |

As at 30 June 2017, included in the carrying amount of biological assets was $21,000 in seeds and $60,000 in live plants ($Nil in seeds and $Nil in live plants at 30 June 2016).

The significant assumptions used in determining the fair value of medical cannabis plants are as follows:

- wastage of plants based on their various stages;
- yield by strain of plant;
- percentage of costs incurred to date compared to the total costs to be incurred are used to estimate the fair value of an in-process plant; and
- percentage of costs incurred for each stage of plant growth was estimated.

On average, the growth cycle is 15 weeks. All of the plants are to be harvested as agricultural produce (i.e. medical cannabis) and as at 30 June 2017, on average, were 37% complete (2016 - Nil%)

The Company estimates the harvest yield for the plants at various stages of growth. As at 30 June 2017, it is expected that the Company's biological assets will yield approximately 92,510 Kg compared to Nil kg at 30 June 2016. The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on biological assets.

*Accounting policy for biological assets*
In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

**Note 13. Non-current assets - property, plant and equipment**

| | Consolidated 2017 $'000 | Consolidated 2016 $'000 |
|---|---|---|
| Land – at cost | 432 | - |
| | | |
| Buildings - at cost | 3,842 | 889 |
| Less: Accumulated depreciation | (192) | (77) |
| | 3,650 | 812 |
| | | |
| Leasehold improvements - at cost | 3,103 | 3,135 |
| Less: Accumulated depreciation | (990) | - |
| | 2,113 | 3,135 |
| | | |
| Plant and equipment - at cost | 2,217 | 2,656 |
| Less: Accumulated depreciation | (321) | (61) |
| | 1,896 | 2,595 |
| | | |
| Office equipment - at cost | 199 | 44 |
| Less: Accumulated depreciation | (38) | (11) |
| | 161 | 33 |
| | | |
| | 8,252 | 6,575 |

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| **Consolidated** | Land $'000 | Buildings $'000 | Leasehold improvement $'000 | Plant and equipment $'000 | Office equipment $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2015 | - | - | - | 10 | 2 | 12 |
| Additions | - | - | 1,104 | 1,957 | 17 | 3,078 |
| Additions through business combinations | - | 823 | 1,970 | 633 | 19 | 3,445 |
| Exchange differences | - | 24 | 61 | 22 | - | 107 |
| Depreciation expense | - | (35) | - | (27) | (5) | (67) |
| | | | | | | |
| Balance at 30 June 2016 | - | 812 | 3,135 | 2,595 | 33 | 6,575 |
| Additions | 432 | 2,636 | 74 | - | 155 | 3,297 |
| Disposals | - | - | - | (277) | - | (277) |
| Exchange differences | - | (28) | (53) | (162) | - | (243) |
| Transfers in/(out) | - | 345 | (345) | - | - | - |
| Depreciation expense | - | (115) | (698) | (260) | (27) | (1,100) |
| | | | | | | |
| Balance at 30 June 2017 | 432 | 3,650 | 2,113 | 1,896 | 161 | 8,252 |

On 18 May 2017, the Company purchased the land and building it previously leased in which its current cannabis growing operations reside for AUD$3,068,000, split between the land and the building as AUD$432,000 and AUD$2,636,000 respectively. As part of the transaction, the Company also repaid the lessor in full for an outstanding borrowing and any accrued interest (note 17 and 19).

Refer to note 26 for further information on fair value measurement.

**Note 13. Non-current assets - property, plant and equipment (continued)**

*Accounting policy for property, plant and equipment*
Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

The depreciable amount of all fixed assets is depreciated on a declining balance basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

| | |
|---|---|
| Plant and equipment | 20% |
| Office Equipment | 20% |
| Buildings | 4% |
| Leasehold improvements | Straight line over lease term |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**Note 14. Non-current assets - intangibles**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Website - at cost | 32 | - |
| Less: Accumulated amortisation | (1) | - |
| | 31 | - |
| Other intangible assets - Duncan facility license | 8,630 | 8,932 |
| | 8,661 | 8,932 |

**Note 14. Non-current assets - intangibles (continued)**

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | License $'000 | Website $'000 | Total $'000 |
|---|---|---|---|
| Balance at 1 July 2015 | - | - | - |
| Additions through business combinations | 8,672 | - | 8,672 |
| Exchange differences | 260 | - | 260 |
| Balance at 30 June 2016 | 8,932 | - | 8,932 |
| Additions | - | 32 | 32 |
| Exchange differences | (302) | - | (302) |
| Amortisation expense | - | (1) | (1) |
| Balance at 30 June 2017 | 8,630 | 31 | 8,661 |

The other intangible relates to the Duncan Facility License in respect of United Greeneries Holdings Ltd and had been included within the assets of the cultivation segment. Goodwill of $2,174,000 and $2,561,000 have been included within the assets of the Processing & Distribution and Cultivation segments respectively.

*Accounting policy for intangible assets*
Other intangible assets that are acquired by the Group and have finite useful lives are measured at costs less accumulated amortisation and accumulated impairment losses.

Other intangible assets are amortised on a straight-line basis to the profit or loss over their estimated useful lives, from the date that they are available for use. As the other intangible asset is a License and albeit that the License may need to be renewed periodically, it is expected that the License will effectively have an indefinite life.

*Website*
Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

**Note 15. Non-current assets - Goodwill**

| | **Consolidated** | |
|---|---|---|
| | **2017 $'000** | **2016 $'000** |
| Goodwill - at cost | 4,822 | 12,689 |
| Exchange Difference | (87) | 9 |
| Less: Impairment | - | (7,876) |
| | 4,735 | 4,822 |

**Note 15. Non-current assets - Goodwill (continued)**

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| **Consolidated** | United Greeneries Holdings Ltd $'000 | Satipharm AG $'000 | Total $'000 |
|---|---|---|---|
| Balance at 1 July 2015 | - | - | - |
| Additions through business combinations | 313 | 10,132 | 10,445 |
| Deferred tax liability adjustment (note 5) | 2,244 | - | 2,244 |
| Exchange differences | 9 | - | 9 |
| Impairment of assets | - | (7,876) | (7,876) |
| Balance at 30 June 2016 | 2,566 | 2,256 | 4,822 |
| Exchange differences | (5) | (76) | (87) |
| Balance at 30 June 2017 | 2,561 | 2,174 | 4,735 |

In accordance with the Company's adopted accounting policies, the carrying amounts of intangible assets held by the Group at 30 June 2017 and 2016 were tested for impairment and independent valuations were undertaken in respect of the United Greeneries and Satipharm divisions.

The carrying amount of Satipharm AG was supported by an independent valuation of that business for 30 June 2017 and as such, no impairment was recognized in respect of these assets.

As at 30 June 2016, due to a reduction in Satipharm's pill sales forecasts as a result of the lower than anticipated revenues generated by that business to date, the Group recorded an impairment to goodwill recognised in respect of Satipharm of $7,876,371.

The carrying amount of the Duncan Facility license and the goodwill recognised in respect of United Greeneries was supported by an independent valuation of that business and as such, no impairment was recognised in respect of these assets as at 30 June 2017 and 2016.

The recoverable amount of each cash-generating unit is based on its value in use using a discounted cash flow method and calculated using an estimated growth rate. The cash flows are discounted using a pre-tax weighted average cost of capital, calculated for each segment.

The calculations use cashflow projections of projected EBITDA based on financial budgets approved by management covering a five-year period, and extrapolated beyond five years using the growth rates stated below. The longer term growth rates are based on future growth rate of the economy including inflation.

The following key assumptions were used in the calculation:

| | Growth Terminal Rate | Total Kg produced per Harvest Kg | Discount Rate | Price/gram (dried) $ | Price/gram (extract) $ |
|---|---|---|---|---|---|
| United Greeneries - cultivation | 2.00% | 50.49 | 24.90% | 5.00 | 14.00 |

**Note 15. Non-current assets - Goodwill (continued)**

The Board has not identified any reasonable possible changes in the key assumptions that could cause the carrying amount of the CGUs, to exceed its recoverable amount, other than total production per harvest.

Sensitivity analysis on total kilograms produced per harvest has indicated that if a 12.5% decrease to production is applied to all harvests this would result in a material impairment of $843,407.

| | Short Term Average Growth Rate | Discount Rate | EBITDA | Per Unit (Gelpell) $ |
|---|---|---|---|---|
| Satipharm – processing and distribution | 29.46% | 35.07% | 21.40% | 44.85 – 186.86 |

The Board has not identified any reasonable possible changes in the key assumptions that could cause the carrying amount of the CGU, Satipharm, to exceed its recoverable amount, other than the per unit sales price of Gelpell sales and EBITDA.

Sensitivity analysis on Gelpell per unit has indicated that a 15% decrease in sales prices would result in a material impairment of $1,004,341 and a 5% decrease in EBITDA would result in a material impairment of $914,836.

*Accounting policy for goodwill*

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

i) the consideration transferred;
ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
iii) the acquisition date fair value of any previously held equity interest;
over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value remeasurements in any pre-existing equity holdings are recognised in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interest is recognised in the consolidated financial statements.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored and not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

**Note 16. Current liabilities - trade and other payables**

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Trade payables | 586 | 190 |
| Accrued expenses | 305 | 289 |
| Payroll liabilities | 241 | 135 |
| | 1,132 | 614 |

Refer to note 25 for further information on financial instruments.

*Accounting policy for trade and other payables*
Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

**Note 17. Current liabilities - borrowings**

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Interest bearing loan | - | 92 |

Refer to note 25 for further information on financial instruments.

Borrowings relate to a promissory note payable by wholly owned subsidiary, United Greeneries Operations Ltd ("UGO") 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 bares an interest rate of 5% per annum with monthly repayments. The borrowing and the interest payable has been repaid in full amount during financial year ended 30 June 2017.

**Note 18. Current liabilities - Deferred consideration**

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Current | 1,992 | 2,083 |

Pursuant to the terms and conditions of the Amalgamation Agreement between the Company and MMJ Bioscience Inc. dated 19 May 2015 for the acquisition of 100% of the issued capital of MMJ Bioscience Inc. which was completed during the period, the Company has recognised a liability in respect of the potential future issue of up to 17,000,000 shares to the vendors MMJ Bioscience Inc. upon the satisfaction of the following performance milestones:

(a) up to a total of 8,500,000 Company Shares in the event that a facility controlled by MMJ Bioscience Inc. or one of its subsidiaries is granted a cultivation licence under the Marihuana for Medical Purposes Regulations in Canada (MMPR) within 12 months of Settlement ("Milestone 1 Consideration Shares"); and

(b) up to a total of 8,500,000 Company Shares in the event that MMJ Bioscience Inc. and its subsidiaries (MMJ Group) generate in aggregate at least CAD$5,000,000 in revenue from operating activities within 36 months of Settlement ("Milestone 2 Consideration Shares").

**Note 18. Current liabilities - Deferred consideration (continued)**

The Milestone 1 Consideration Shares (8,500,000 shares) were valued at the acquisition date at $2,448,000 using an underlying share price of $0.32 per share and applying a 90% probability of achieving the milestone. At 30 June 2016 the Milestone 1 Consideration Shares were revalued at $2,082,500 using the closing share price of $0.245 and applying a 100% probability of achieving the milestone, given that the performance milestone attaching to Milestone 1 Consideration Shares was satisfied upon the successful grant of an MMPR cultivation license for the Group's Duncan Facility in Canada on 28 June 2016.

The Milestone 2 Consideration Shares (8,500,000 shares) were valued at acquisition date at $1,904,000 using an underlying share price of $0.32 per share and applying a 70% probability of achieving the milestone based on the Directors expectation. At 30 June 2016 the Milestone 2 Consideration Shares were valued at $1,457,750 using the closing share price of $0.245 and applying a 70% probability of achieving the milestone based on the Directors current expectation. At 30 June 2017 the Milestone 2 Consideration shares were valued at $1,933,750 using the closing share price of $0.325 and applying a 70% probability of achieving the milestone based on the Directors current expectation.

In addition to the above, the Company also recognised an additional liability for Deferred Introducer Shares which are payable to parties who facilitated the introduction of MMJ Bioscience Inc. and the merger transaction to the Company upon the satisfaction of Milestone 1 (255,000 shares) and Milestone 2 (255,000 shares). The valuations of the Deferred Introducer Shares have been determined on the same basis as the Contingent Consideration Shares.

On 8 July 2016, Milestone One was achieved upon the successful grant of an MMPR cultivation license for the Group's Duncan Facility and 8,500,000 fully paid ordinary shares were issued. The Company was previously granted an ASX waiver in relation to the issue of deferred consideration shares in relation to the delayed timing of the issue of shares from shareholder approval. As at the date of this report, only 8,500,000 shares have been issued with 8,755,000 shares yet to be issued.

**Note 19. Non-current liabilities - borrowings**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Non-current Borrowings | - | 398 |

Refer to note 25 for further information on financial instruments.

Borrowings relate to a promissory note payable by wholly owned subsidiary, United Greeneries Operations Ltd ("UGO") 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 bares an interest rate of 5% per annum with monthly repayments. The borrowing and the interest payable has been repaid in full amount during financial year ended 30 June 2017.

*Accounting policy for borrowings*
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

**Note 20. Non-current liabilities - Contingent consideration**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Other non-current liabilities | - | 1,588 |

### Note 20. Non-current liabilities - Contingent consideration (continued)

Pursuant to the terms and conditions of the Amalgamation Agreement between the Company and MMJ Bioscience Inc. dated 19 May 2015 for the acquisition of 100% of the issued capital of MMJ Bioscience Inc. which was completed during the period, the Company has recognised a liability in respect of the potential future issue of up to 17,000,000 shares to the vendors MMJ Bioscience Inc. upon the satisfaction of the following performance milestones:

(a) up to a total of 8,500,000 Company Shares in the event that a facility controlled by MMJ Bioscience Inc. or one of its subsidiaries is granted a cultivation licence under the Marihuana for Medical Purposes Regulations in Canada (MMPR) within 12 months of Settlement ("Milestone 1 Consideration Shares"); and

(b) up to a total of 8,500,000 Company Shares in the event that MMJ Bioscience Inc. and its subsidiaries (MMJ Group) generate in aggregate at least AUD$5,003,500 (CAD$5,000,000 in revenue from operating activities within 36 months of Settlement ("Milestone 2 Consideration Shares").

### Note 21. Equity - contributed equity

| | Consolidated | | | |
|---|---|---|---|---|
| | **2017 Shares** | **2016 Shares** | **2017 $'000** | **2016 $'000** |
| Ordinary shares - fully paid | 208,932,100 | 161,926,147 | 44,954 | 32,706 |

*Movements in ordinary share capital*

| **Details** | **Date** | **Shares** | **Issue price** | **$'000** |
|---|---|---|---|---|
| Balance | 1 July 2015 | 44,662,050 | | 5,828 |
| Acquisition consideration shares | 27 Jul 2015 | 51,000,000 | $0.320 | 16,320 |
| Acquisition introducers fee shares | 27 Jul 2015 | 1,530,000 | $0.320 | 490 |
| Conversion of performance rights | 27 Jul 2015 | 12,083,332 | - | 510 |
| Placement | 5 Aug 2015 | 16,000,000 | $0.300 | 4,800 |
| Capital Raising Fee | 5 Aug 2015 | 313,333 | $0.300 | 94 |
| Conversion of performance rights | 21 Aug 2015 | 3,750,000 | - | 71 |
| Conversion of performance rights | 9 Sep 2015 | 5,000,000 | - | 95 |
| Placement | 23 Oct 2015 | 6,557,377 | $0.305 | 2,000 |
| Capital Raising Fees | 23 Oct 2015 | 196,722 | $0.305 | 60 |
| Placement | 1 Mar 2016 | 16,150,000 | $0.240 | 3,876 |
| Placement | 4 Mar 2016 | 4,683,333 | $0.240 | 1,124 |
| Share issue expenses (cash) | | - | - | (704) |
| Share issue expenses (non-cash) | | - | - | (1,858) |
| Balance | 30 June 2016 | 161,926,147 | | 32,706 |

**Note 21. Equity - contributed equity (continued)**

*Movements in ordinary share capital*

| | | | | |
|---|---|---|---|---|
| Balance | 30 June 2016 | 161,926,147 | | 32,706 |
| Issue of 1st milestone deferred payment for the acquisition of MMJ Bioscience Inc. | 8 July 2016 | 8,500,000 | $0.275 | 2,338 |
| Merger introducer fee shares | 8 July 2016 | 255,000 | $0.275 | 70 |
| Conversion of Class D performance rights | 8 July 2016 | 1,000,000 | $0.300 | 300 |
| Placement | 11 October 2016 | 19,512,196 | $0.205 | 4,000 |
| Conversion of Class A performance rights | 30 December 2016 | 83,334 | - | 3 |
| Conversion of Class B performance rights | 30 December 2016 | 83,334 | - | - |
| Exercise of Options | 15 March 2017 | 2,250,000 | $0.360 | 810 |
| Exercise of Options | 15 March 2017 | 112,500 | $0.270 | 30 |
| Exercise of Options | 15 March 2017 | 500,000 | $0.240 | 120 |
| Exercise of Options | 22 March 2017 | 724,590 | $0.450 | 326 |
| Exercise of Options | 22 March 2017 | 1,700,000 | $0.360 | 612 |
| Exercise of Options | 29 March 2017 | 550,000 | $0.360 | 198 |
| Exercise of Options | 29 March 2017 | 2,500,000 | $0.200 | 500 |
| Exercise of Options | 29 March 2017 | 150,000 | $0.400 | 60 |
| Exercise of Options | 29 March 2017 | 1,070,000 | $0.450 | 482 |
| Exercise of Options | 5 April 2017 | 183,333 | $0.400 | 73 |
| Exercise of Options | 5 April 2017 | 655,000 | $0.450 | 295 |
| Exercise of Options | 5 April 2017 | 2,537,500 | $0.360 | 914 |
| Exercise of Options | 5 April 2017 | 500,000 | $0.240 | 120 |
| Exercise of Options | 3 May 2017 | 2,341,666 | $0.360 | 843 |
| Exercise of Options | 3 May 2017 | 197,500 | $0.270 | 53 |
| Exercise of Options | 09-Jun-17 | 600,000 | $0.200 | 120 |
| Exercise of Options | 09-Jun-17 | 1,000,000 | $0.240 | 240 |
| Capital raising costs | 14 October 2016 | - | - | (259) |
| Balance | 30 June 2017 | 208,932,100 | | 44,954 |

*Ordinary shares*
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Preference shares*
Preference shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held, with priority over ordinary shareholders.

Preference shares do not have any voting rights.

*Share buy-back*
There is no current on-market share buy-back.

*Capital risk management*
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

**Note 21. Equity - contributed equity (continued)**

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 2016 Annual Report.

*Accounting policy for contributed equity*
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Note 22. Equity - reserves**

| | **Consolidated** | |
|---|---|---|
| | **2017 $'000** | **2016 $'000** |
| Foreign currency reserve | 503 | 243 |
| Options reserve | 4,376 | 3,579 |
| Other reserves – share based payment reserve, Harvest One option reserve, net gain on Harvest One transaction | 11,540 | - |
| Performance rights reserve | 998 | 1,301 |
| | 17,417 | 5,123 |

*Foreign currency reserve*
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

*Options reserve*
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

**Note 22. Equity - reserves (continued)**

*Movements in reserves*
Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Foreign currency reserve $'000 | Other reserves $'000 | Options reserve $'000 | Performance rights reserve $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2015 | 20 | - | 686 | 1,942 | 2,648 |
| Foreign currency translation | 222 | - | - | - | 222 |
| Share based payments | - | - | 2,894 | - | 2,894 |
| Conversion of Performance rights | - | - | - | (676) | (676) |
| Revaluation of performance rights | - | - | - | 35 | 35 |
| Balance at 30 June 2016 | 242 | - | 3,580 | 1,301 | 5,123 |
| Foreign currency translation | 261 | - | - | - | 261 |
| Revaluation of performance rights | - | - | - | (303) | (303) |
| Shared based payments | - | 893 | 795 | - | 1,689 |
| Harvest One option reserve | - | 2,760 | - | - | 2,760 |
| Net gain on Harvest One transaction | - | 7,887 | - | - | 7,887 |
| Balance at 30 June 2017 | 503 | 11,540 | 4,376 | 998 | 17,417 |

**Note 23. Equity - non-controlling interest**

In December 2016 MMJ entered into a share exchange agreement with Harvest One Capital Corp. (“Harvest One") TSX listed entity for the sale of 100% of issued capital of MMJ subsidiaries United Greeneries Holdings Ltd (UG) and Swiss Satipharm AG Switzerland. In consideration for the transaction, Harvest One agreed to pay C$2mil and issue 53,333,333 shares (“Consideration shares”) in the capital of Harvest One (post consolidation basis) to MMJ and PhytoTech Medical (UK) Pty Ltd (PYL UK), a wholly owned subsidiary of MMJ. The completion of the acquisition transaction was subject to completion of financing of a minimum of C$15mil. In February 2017 Harvest One closed a private placement raising of C$25,000,500 (33,334,000 at C$0.75) before costs. MMJ then beneficially owned 59.96% of Harvest One group which includes UG and SAT. At completion, the majority of Harvest One Directors and Officers are also MMJ Directors. The Board of Directors of the Harvest One consist of, amongst other, Andreas Gedeon (Managing Director), Peter Wall and Jason Bednar.

For accounting purposes, the transaction was to enable MMJ to list its subsidiaries (UG and SAT) on the TSX-V and to raise capital of C$25mil. This resulted in the MMJ interests in these subsidiaries being diluted to 59.96% (refer to note 33 for further details) and MMJ incurring a share based payment expense of $893,097 (refer to note 37 for further details) for the listing of the subsidiaries by way of Harvest One.

| **Non-controlling interest on transaction date** | $ |
|---|---|
| Harvest One Cannabis Inc [(1)] | 33,651 |
| Non-controlling interest (40.04%) | 13,476 |

[(1)] *Net assets of United Greeneries Holdings Ltd, Satipharm AG Switzerland and Harvest One (including capital raise)*

| **Gain on recognition of NCI** | |
|---|---|
| Consideration received (net of costs) | 13,064 |
| Value of assets partially diluted | (5,177) |
| | 7,887 |

**Note 24. Equity - dividends**

There were no dividends paid, recommended or declared during the current or previous financial year.

**Note 25. Financial instruments**

***Financial risk management objectives***
The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Financial Assets** | | |
| Cash and Cash equivalents | 23,801 | 2,951 |
| Trade and other receivables | 434 | 398 |
| Other non-current assets | 37 | 35 |
| Total financial assets | 24,272 | 3,384 |
| | | |
| **Financial Liabilities** | | |
| Trade and other payables | 1,132 | 614 |
| Borrowings | - | 490 |
| Contingent Consideration | 1,992 | 3,671 |
| Total financial liabilities | 3,124 | 4,775 |

***Market risk***

*Foreign currency risk*
The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's subsidiaries are based in Israel, Canada and Switzerland and their sustainability is dependent on the provision of cash from the parent entity. Cash funds in Israel are held in US dollars (USD) and New Israel Shekel (NIS). Funds in Canada are held in Canadian dollars (CAD), and funds in Switzerland are held in Swiss Francs (CHF) and Euros (EUR), thus the Group is exposed to diminution of cash balances through currency exchange risk.

The Group manages its currency risks by closely monitoring exchange rate fluctuations. The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations. The foreign currency risk in the books of the parent entity is considered immaterial and is therefore not shown.

**Note 25. Financial instruments (continued)**

*Sensitivity analysis*

The following table illustrates sensitivities to the Group's exposures to changes in exchange rates. The table indicates the impact of how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

The following table illustrates sensitivities to the Group's exposures to changes in exchange rates. The table indicates the impact of how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

| | AUD strengthened | | | AUD weakened | | |
|---|---|---|---|---|---|---|
| **Consolidated - 2017** | **% change** | **Effect on profit before tax $'000** | **Effect on equity $'000** | **% change** | **Effect on profit before tax $'000** | **Effect on equity $'000** |
| AUD / USD | (10%) | (25) | (25) | 10% | 25 | 25 |
| AUD / CAD | (10%) | (1,410) | (1,410) | 10% | 1,410 | 1,410 |
| AUD / NIS | (10%) | (7) | (7) | 10% | 7 | 7 |
| AUD / CHF | (10%) | (2) | (2) | 10% | 2 | 2 |
| AUD / EUR | (10%) | (16) | (16) | 10% | 16 | 16 |
| | | (1,460) | (1,460) | | 1,460 | 1,460 |

| | AUD strengthened | | | AUD weakened | | |
|---|---|---|---|---|---|---|
| **Consolidated - 2016** | **% change** | **Effect on profit before tax $'000** | **Effect on equity $'000** | **% change** | **Effect on profit before tax $'000** | **Effect on equity $'000** |
| AUD / USD | (10%) | (25) | (25) | 10% | 25 | 25 |
| AUD / CAD | (10%) | (84) | (84) | 10% | 84 | 84 |
| AUD / NIS | (10%) | (32) | (32) | 10% | 32 | 32 |
| AUD / CHF | (10%) | (12) | (12) | 10% | 12 | 12 |
| AUD / EUR | (10%) | (1) | (1) | 10% | 1 | 1 |
| | | (154) | (154) | | 154 | 154 |

*Price risk*
The consolidated entity is not exposed to any significant price risk.

*Interest rate risk*
As the Group's major assets are cash deposits held in fixed and variable interest rate deposits, the Group's income and operating cash flows are materially exposed to changes in market interest rates. The Group manages this risk by only investing in A+ rated institutions and maintaining an appropriate mix between different terms.

The Group's borrowings are on fixed interest rates. Interest rate risk is managed by ensuring that total interest rate cover is well in excess of minimum bank covenant requirements, to ensure the Group retains a high level of flexibility to absorb any adverse movements in interest rates.

**Note 25. Financial instruments (continued)**

At reporting date, the Group had the following exposure to variable interest rate risk.

| Consolidated | 2017 Balance $'000 | 2016 Balance $'000 |
|---|---|---|
| Financial assets | | |
| Cash and cash equivalents | | |
| Australia | 9,265 | 1,507 |
| Israel | 320 | 531 |
| Canada | 14,036 | 776 |
| Switzerland | 180 | 137 |
| Net exposure to cash flow interest rate risk | 23,801 | 2,951 |

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact of how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

These sensitivities assume that the movement in a particular variable is independent of other variables.

| | Interest rate | Interest rate increase | | Interest rate decrease | | Interest rate decrease |
|---|---|---|---|---|---|---|
| Consolidated - 2017 | % | Effect on profit before tax $'000 | Effect on equity $'000 | % | Effect on profit before tax $'000 | Effect on equity $'000 |
| interest rates | 1 | 79 | 79 | (1) | (79) | (79) |

| | Interest rate | Interest rate increase | | Interest rate decrease | | |
|---|---|---|---|---|---|---|
| Consolidated - 2016 | % | Effect on profit before tax $'000 | Effect on equity $'000 | % | Effect on profit before tax $'000 | Effect on equity $'000 |
| interest rates | 1 | 30 | 30 | (1) | (30) | (30) |

***Credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity.

Credit risk is managed through the maintenance of procedures (such as the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 14 to 30 days from the invoice date.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

**Note 25. Financial instruments (continued)**

Trade receivables are recorded at the invoiced amount. The Group does not have any off-balance-sheet credit exposure related to the customers. The credit risk of the Group arises from cash and cash equivalents, deposits with banks and financial institutions, available-for-sale financial assets, as well as credit exposure to customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum Standard & Poor's credit rating of A (or equivalent) are accepted. The Group assesses credit risk and allowance for doubtful accounts on a customer specific basis. The Group has adopted the policy of only dealing with credit worthy counterparties. As of 30 June 2017, the Group does not have an allowance for doubtful debt accounts.

The maximum credit risk exposure of the Group at 30 June 2017 is $434,000 (2016: $398,000). There are no impaired receivables at 30 June 2017.

The Group's maximum exposures to credit risk at the reporting date in relation to each class of recognised financial asset is the carrying amount, net of any provision for doubtful debts, of those assets as indicated in the statement of financial position.

***Liquidity risk***
Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. Prudent liquidity risk management is managed through:
- maintaining sufficient cash;
- prudent oversight of future funding requirements;
- maintaining ongoing contact to facilitators of further funding; and
- only investing surplus cash with major financial institutions.

It is the Group's policy to review the Group's liquidity position including cash flow forecasts, actual cash flows and variation reports regularly to determine the forecast liquidity position and maintain appropriate liquidity levels.

The Group funds its activities through capital raising in order to limit its liquidity risk. The Group does not have any unused credit facilities.

*Remaining contractual maturities*
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| **Consolidated - 2017** | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade and other payables | - | 1,132 | - | - | - | 1,132 |
| Total non-derivatives | | 1,132 | - | - | - | 1,132 |

**Note 25. Financial instruments (continued)**

| Consolidated - 2016 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade and other payables | - | 614 | - | - | - | 614 |
| Borrowings | 5.00% | 92 | - | 398 | - | 490 |
| Total non-derivatives | | 706 | - | 398 | - | 1,104 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

**Note 26. Fair value measurement**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

*Level 3 assets and liabilities*
Fair value measurements using significant unobservable inputs (Level 3)

Contingent consideration arising from acquisition of MMJ Bioscience Inc. (see Note 18)
The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

| Description | Unobservable inputs | Range (weighted average) | Sensitivity |
|---|---|---|---|
| Contingent Consideration | Probability of achieving Milestones 2 | 70% | Increase probability increases Fair Value |
| | | Share Price | Decrease share price decreases Fair Value |

*Accounting policy for fair value measurement*
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

**Note 27. Key management personnel disclosures**

*Directors*
The following persons were directors of MMJ PhytoTech Limited during the financial year:

| | |
|---|---|
| Peter Wall | Non-executive Chairman (appointed 14 August 2014) |
| Andreas Gedeon | Managing Director (appointed 27 July 2015) |
| Winton Willesee | Non-executive Director (appointed 21 October 2014) |
| Jason Bednar | Non-executive Director (appointed 27 July 2015) |
| Ross McKay | Non-executive Director (appointed 27 July 2015, resigned 11 August 2016) |

*Other key management personnel*
The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

| | |
|---|---|
| Daphna Heffetz | CEO – PhytoTech Therapeutics Ltd (appointed 15 January 2015) |
| Stanislav Sologubov | CEO – Satipharm AG (appointed 6 June 2016) |
| Catherine Harvey | COO of the Group (appointed 1 September 2016) |
| Richard Jarvis | CFO (resigned 14 October 2016) |
| Lisa Dea | CFO - Harvest One Cannabis Inc (appointed 13 June 2017) |
| Graham Whitmarsh | COO - Harvest One Cannabis Inc (appointed 3 May 2017) |
| Nick Maltchev | CTO - Harvest One Cannabis Inc (appointed 3 May 2017) |
| Daniela Vaschi | CEO – United Greeneries (appointed 1 July 2016) |
| Will Stewart | Director of Harvest One (appointed 23 May 2017) |

*Compensation*
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Short-term employee benefits | 1,672,905 | 1,017,535 |
| Long-term benefits | 80,447 | 47,957 |
| Termination benefits | - | 61,856 |
| Share-based payments | 2,025,632 | 985,921 |
| | 3,778,984 | 2,113,269 |

### Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by BDO Audit (WA) Pty Ltd, the auditor of the company, and its network firms:

| | Consolidated 2017 $ | Consolidated 2016 $ |
|---|---|---|
| *Audit services - BDO Audit (WA) Pty Ltd* | | |
| Audit or review of the financial statements | 173,675 | 52,703 |
| *Other services - BDO Corporate Tax Pty Ltd* | | |
| Tax compliance and advice | 60,522 | 28,526 |
| | 234,197 | 81,229 |
| *Audit services - network firms* | | |
| Audit or review of the financial statements | 214,363 | 107,821 |
| *Other services - network firms* | | |
| Preparation of the tax return | 11,098 | 16,992 |
| Tax advice | 25,811 | - |
| | 36,909 | 16,992 |
| | 251,272 | 124,813 |

### Note 29. Contingent assets and liabilities

The Group had no contingent assets and liabilities as at 30 June 2017 (2016: Nil).

### Note 30. Commitments

| | Consolidated 2017 $'000 | Consolidated 2016 $'000 |
|---|---|---|
| *Lease commitments - operating** | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 214 | 34 |
| One to five years | 686 | 11 |
| More than five years | 147 | - |
| | 1,047 | 45 |
| *Lease commitments - finance* | | |
| Committed at the reporting date and recognised as liabilities, payable: | | |
| Within one year | - | 252 |
| One to five years | - | 994 |
| Total commitment | - | 1,246 |
| Less: Future finance charges | - | (63) |
| Net commitment recognised as liabilities | - | 1,183 |

**Note 30. Commitments (continued)**

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| *Research and Development Commitments*** | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 302 | 340 |
| One to five years | - | 14 |
| | 302 | 354 |
| *Operating commitments - other**** | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 564 | - |
| One to five years | 2,971 | - |
| | 3,535 | - |

*The operating leases are for:

- Cordova office accommodation (expiring in November 2017, total commitments as at 30 June 2017 is AUD$17,540);
- Oceanic Plaza office accommodation (expiring in January 2022, total commitments as at 30 June 2017 is AUD$731,771);
- Cowichan: on 8 March 2017, United Greeneries signed a ten year lease commencing 1 March 2017 renewable for a further term of ten years for the expansion land totalling 13 acres executed by the Cowichan Tribes. The rental payment is AUD$27,273 (CAD$27,300) per year for the first five years and AUD$31,364 (CAD$31,395) per year for the subsequent five years. The total commitments as at 30 June 2017 is AUD $293,182 (CAD$293,475).
- Car lease payments (expiring in June 2018, total commitments as at 30 June 2017 is AUD$12,084).

**Research and development commitments as at 30 June 2017 related to obligations for clinical trials to be undertaken.

The commitments are with:

- SoluBest: the main sub-contractor that will carry out the import of pills from Switzerland, and the analysis and stability testing of the pills before release to the clinical studies. The commitment on the epilepsy study as at 30 June 2017 is immaterial. The MS project has not been initiated as at year end.
- AI Labs: Clinical supply including the purchase of THC purified extracts that are needed for the Gelpell capsule production for MS Phase 2 planned studies. Commitment as of 30 June 2017 is AUD$8,000 (US$ 10,400); and
- Yissum Research Development Company of the Hebrew University of Jerusalem: Research study to be carried out under the license agreement AUD $23,076 (US$30K) postponed payment from 2015.

- Clinical studies: Epilepsy clinical study has been ongoing since June 2017. The commitment to July 2018 is AUD$100,312 (US$130,411).

***On 31 May 2017, the Company entered into an agreement with Gelpell AG for the exclusive marketing, distribution and sale of the Gelpell capsules worldwide.

As part of this agreement, the Company has yearly minimum purchase commitments.

The Group has no other commitments for expenditure at 30 June 2017.

**Note 31. Related party transactions**

*(a) Key Management Personnel*

The following persons were Directors of MMJ PhytoTech Limited during the period ended 30 June 2017:

Peter Wall - Non-executive Chairman (appointed 14 August 2014)
Andreas Gedeon - Managing Director (appointed 27 July 2015)
Winton Willesee - Non-executive Director (appointed 21 October 2014)
Jason Bednar - Non-executive Director (appointed 27 July 2015)
Ross McKay - Non-executive Director (resigned 11 August 2016)

Interests in subsidiaries are set out in note 34.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 27 and the remuneration report included in the directors' report.

*(b) Transactions with related parties*
The Board policy in determining the nature and amount of compensation and discussion of the relationship between the Board's policy and the entity's performance are provided in the remuneration report section of the Directors' report.

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Director fees paid | | |
| Director fees paid to Peregrine Consulting Ltd, an entity related to Andreas Gedeon | 345,196 | 315,994 |
| Director fees paid to Azalea Consulting Pty Ltd, an entity related to Mr Winton Willesee | 36,000 | 36,000 |
| Director fees paid to Jason Bednar | 42,056 | 33,000 |
| Director fees paid to Ross McKay | 3,000 | 33,000 |
| Director fees paid to International Water and Energy Savers, an entity related to Mr Boaz Wachtel | - | 79,540 |
| Director and executive consulting fees paid to Goldmed Ltd, an entity related to Mr Benad Goldwasser | - | 5,322 |
| Director fees paid to Pheakes Pty Ltd, an entity related to Mr Peter Wall | 58,094 | 48,000 |
| Director fees paid to Greenline Holdings Pty Ltd, an entity related to Andreas Gedeon | 11,000 | - |

*(c) Other transactions with Key Management Personnel*

Other transactions with key management personnel and their related parties
During the reporting period, the Company engaged the services on the following related-parties on normal commercial terms and conditions no more favourable than those available to other parties:

Steinepreis Paganin, an entity associated with Mr Peter Wall, received payments totalling $188,330 in relation to legal services provided to the Company.

Azalea Consulting Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling $54,000 in relation to front office administration and company secretarial services provided to the Company.

Valle Corporate Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling $38,640 in relation to accounting and financial reporting services provided to the Company.

During the year the loan owing from Andreas Gedeon of CAD$100,357 (AUD$104,105) which included accrued interest CAD$6,568 (AUD$6,569) was repaid by reducing the bonus entitlement (refer to remuneration table on page 11) by the loan outstanding.

There were no new loans made to directors and other key management personnel of the Group during the year.

**Note 31. Related party transactions (continued)**

(d) The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Current Payables: | | |
| Amount owing to Pheakes Pty Ltd, an entity related to Mr Peter Wall | 4,400 | 4,400 |
| Amount owing to Steinepreis Paganin, an entity associated with Mr Peter Wall | 9,303 | 6,175 |
| Amount owing to Azalea Consulting Pty Ltd, an entity related to Mr Winton Willesee | 9,580 | 9,748 |
| Amount owing to Valle Corporate Pty Ltd, an entity related to Mr Winton Willesee | - | 11,000 |
| Amount owing to Jason Bednar | 3,000 | 3,000 |
| Amount owing to Ross McKay | - | 3,000 |

All amounts are inclusive of GST

**Note 32. Parent entity information**

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

| | Parent | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Loss after income tax | (2,054) | (3,153) |
| Total comprehensive loss | (2,054) | (3,153) |

*Statement of financial position*

| | Parent | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Total current assets | 9,329 | 1,557 |
| Total assets | 40,088 | 30,399 |
| Total current liabilities | 210 | 210 |
| Total liabilities | 210 | 210 |
| Equity | | |
| Contributed equity | 44,954 | 32,706 |
| Options reserve | 4,375 | 3,579 |
| Performance rights reserve | - | 1,301 |
| Accumulated losses | (9,451) | (7,397) |
| Total equity | 39,878 | 30,189 |

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2016 and 30 June 2017.

*Contingent liabilities*
The parent entity had no contingent liabilities as at 30 June 2016 and 30 June 2017.

**Note 32. Parent entity information (continued)**

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2016 and 30 June 2017.

*Significant accounting policies*
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

**Note 33. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name | Principal place of business / Country of incorporation | Ownership interest 2017 % | Ownership interest 2016 % |
|---|---|---|---|
| PhytoTech Medical (UK) Ltd | United Kingdom | 100.00% | 100.00% |
| PhytoTech Therapeutics Ltd | Israel | 100.00% | 100.00% |
| Harvest One | Canada | 60.00% | - |
| United Greeneries Holdings Ltd | Canada | 60.00% | 100.00% |
| United Greeneries Ltd. | Canada | 60.00% | 100.00% |
| United Greeneries Operations Ltd | Canada | 60.00% | 100.00% |
| United Greeneries Saskatchewan Ltd | Canada | - | 100.00% |
| Duncan Bioscence International Inc | Canada | - | 100.00% |
| Satipharm Canada Limited | Canada | - | 100.00% |
| Satipharm AG | Switzerland | 60.00% | 100.00% |
| Satipharm Australia Pty Ltd | Australia | 60.00% | 100.00% |

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary with non-controlling interests in accordance with the accounting policy described in note 2:

| | | | Parent | | Non-controlling interest | |
|---|---|---|---|---|---|---|
| Name | Principal place of business / Country of incorporation | Principal activities | Ownership interest 2017 % | Ownership interest 2016 % | Ownership interest 2017 % | Ownership interest 2016 % |
| Harvest One | Canada | TSX-V Listed entity with subsidiaries produce and distribute medical cannabis | 59.96% | - | 40.04% | - |

**Note 33. Interests in subsidiaries (continued)**

*Summarised financial information*
Summarised financial information of the subsidiary with non-controlling interests that are material to the consolidated entity are set out below and are before inter-company eliminations:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| *Summarised statement of financial position* | | |
| Current assets | 15,897 | - |
| Non-current assets | 8,092 | - |
| Total assets | 23,989 | - |
| Current liabilities | 883 | - |
| Total liabilities | 883 | - |
| Net assets | 23,106 | - |
| *Summarised statement of profit or loss and other comprehensive income* | | |
| Revenue | 76 | - |
| Expenses | (8,060) | - |
| Loss before income tax expense | (7,984) | - |
| Income tax expense | - | - |
| Loss after income tax expense | (7,984) | - |
| Other comprehensive income | - | - |
| Total comprehensive loss | (7,984) | - |
| *Statement of cash flows* | | |
| Net cash used in operating activities | (4,029) | - |
| Net cash used in investing activities | (3,225) | - |
| Net cash from financing activities | 20,644 | - |
| Net increase in cash and cash equivalents | 13,390 | - |
| *Other financial information* | | |
| Profit attributable to non-controlling interests | 1,419 | - |
| Accumulated non-controlling interests at the end of reporting period | 11,810 | - |

**Note 34. Events after the reporting period**

On 11 September 2017, the company issued 1,000,000 fully paid ordinary shares upon the exercise of the Class B options at an exercise price of $0.20 (20 cents) per option raising a total of $200,000.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Note 35. Reconciliation of loss after income tax to net cash used in operating activities**

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Loss after income tax expense for the year | (14,144) | (14,699) |
| | | |
| Adjustments for: | | |
| Depreciation and amortisation | 1,101 | 68 |
| Impairment of investments | - | 209 |
| Impairment of goodwill | - | 7,876 |
| Share-based payments | 3,143 | 1,224 |
| Foreign exchange differences | (546) | (19) |
| Listing expense | 804 | - |
| Impairment of inventory | 735 | - |
| | | |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade and other receivable | (36) | (137) |
| (Increase)/decrease in inventories | 208 | (1,450) |
| (Increase)/decrease in Biological assets | (81) | - |
| (Increase)/decrease in other assets | (2) | 57 |
| Increase in trade and other payables | 518 | 91 |
| Acquisition introduction fee | - | 563 |
| Deferred acquisition introduction fee | - | 57 |
| (Gain) on deferred shares liability | 729 | (812) |
| | | |
| Net cash used in operating activities | (7,571) | (6,972) |

**Note 36. Earnings per share**

| | Consolidated | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Loss after income tax | (14,144) | (14,699) |
| Non-controlling interest | 1,419 | - |
| | | |
| Loss after income tax attributable to the owners of MMJ PhytoTech Limited | (12,725) | (14,699) |

| | Number | Number |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 189,668,913 | 137,783,002 |
| | | |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 189,668,913 | 137,783,002 |

| | Cents | Cents |
|---|---|---|
| Basic earnings per share | (6.71) | (10.67) |
| Diluted earnings per share | (6.71) | (10.67) |

*Accounting policy for earnings per share*

*Basic earnings per share*
Basic earnings per share is calculated by dividing the profit attributable to the owners of MMJ PhytoTech Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

**Note 36. Earnings per share (continued)**

*Diluted earnings per share*
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**Note 37. Share-based payments**

The Group provided the following in the form of share-based payment transactions:

| | Consolidated | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| (a) New options issued to Directors | 248,191 | 185,888 |
| (b) Vesting of options issued in prior periods | 547,913 | 737,381 |
| (c) Revaluation of performance rights | - | 35,000 |
| (d) New options issued by Harvest One | 1,454,281 | - |
| (e) Share based payment on Harvest One acquisition (note 4) | 893,097 | - |
| New options issued under ESOP | - | 265,952 |
| Total share-based payments | 3,143,482 | 1,224,221 |

**(a) New options issued to Directors**

During the year, $248,191 was recognised as share based payments made in respect of 3,000,000 class J options issued to Catherine Harvey. The class J options vest and become exercisable over a period of three years from the date of Catherine Harvey's appointment (1 September 2016). There were no other options issued to directors and other key management personnel during year ended 30 June 2017.

The fair value of the options as determined using the Black-Scholes option valuation methodology and applying the following inputs:

| | |
|---|---|
| Exercise price | $0.24 |
| Expiry date | 1 September 2020 |
| Issue date | 14 October 2016 |
| Risk free rate | 2% |
| Volatility | 95% |
| Total options issued | 3,000,000 |
| Total value of options | $490,853 |
| Amount expensed in current period | $248,191 |
| Amount to be expensed in future years | $242,662 |

As vesting conditions apply to the class J options, the cost is recognised over the period in which the service conditions are fulfilled, ending on the date on which the relevant employee become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired, and the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised for the period. No cumulative expense is recognised for awards that ultimately do not vest (in respect of non-market vesting conditions).

**Note 37. Share-based payments (continued)**

**(b) Vesting of options**

During the year, $547,913 was recognised as share based payments made in respect of options vested in prior years. The fair value of the options was determined using the Black-Scholes option valuation methodology and applying the inputs below.

| | Class B Options [1] | Class C Options [2] | Class D Options [3] | Class D Options [3] | Class H Options [4] | Class I Options [4] |
|---|---|---|---|---|---|---|
| Grant date | 15/01/2015 | 01/04/2015 | 29/06/2015 | 27/07/2015 | 01/02/2016 | 06/06/2016 |
| Exercise price | $0.20 | $0.40 | $0.40 | $0.40 | $0.27 | $0.24 |
| Expire date | 6 May 2019 | 27 July 2018 | 27 July 2018 | 27July 2018 | 31 January 2020 | 6 June 2019 |
| Risk free rate | 2.54% | 2.01% | 2.8% | 2.00% | 2.00% | 2.00% |
| Volatility | 95% | 95% | 93% | 95% | 95% | 95% |
| Value per option | $0.139 | $0.214 | $0.163 | $0.193 | $0.202 | $0.121 |
| Total options issued | 4,500,000 | 350,000 | 1,000,000 | 1,500,000 | 1,779,641 | 4,000,000 |
| Total option on issue at 30 June 2017 | 3,900,000 | 350,000 | 1,000,000 | 1,500,000 | 874,641 | 2,000,000 |
| Options vesting current period | 1,500,000 | 116,667 | 333,334 | 833,333 | 508,630 | 1,000,000 |
| Options vested prior periods | 1,875,000 | 116,666 | 416,666 | 625,000 | 484,914 | 2,000,000 |
| Less options exercised | (600,000) | - | - | - | - | (2,000,000) |
| Less options expired / forfeited | - | - | - | (416,667) | (377,503) | - |
| Total options vested at 30 June 2017 | 2,775,000 | 233,333 | 750,000 | 875,000 | 616,041 | 1,000,000 |
| Amount expensed in current period | $99,168 | $15,052 | $26,972 | $17,622 | $31,068 | $358,031 |

(1) Options granted to Daphna Heffetz on 15 January 2015 in conjunction with the employee service agreement
(2) Options granted to Hagit Sacks on 1 April 2015 in conjunction with the employee service agreement
(3) Options granted to Ross Mckay (1,000,000) and Jason Bednar (1,500,000) on 29 June 2015 as approved at the General Meeting of shareholders held on 29 June 2015
(4) Options granted to employees under the Company's Employee Share Option Plan which was approved at the General Meeting of Shareholders held on 29 June 2015.

**Options issued to corporate advisors**

In 2016 financial year, the Company made the following issues of options to the Company's corporate advisors (or their nominees) in lieu of cash consideration for services provided in connection with capital raisings undertaken during the period:

- On 5 August 2015, 7,000,000 Options became issuable to nominees of Merchant Corporate Pty Ltd and APP Securities Pty Ltd for services provided to the Company in connection with the $4.8 million placement to sophisticated and institutional investors that was completed on that day.
- On 23 October 2015, 2,500,000 Options became issuable to nominees of Merchant Corporate Pty Ltd for services provided to the Company in connection with the $2 million placement to a sophisticated investor that was completed on that day.
- On 27 April 2016, a further 1,500,000 Options became issuable to nominees of Merchant Corporate Pty Ltd for services provided to the Company in connection with the $5 million placement to a sophisticated investor that was completed on that day.

The fair value of the options as determined using the Black-Scholes option valuation methodology and applying the inputs below. The corresponding expense represents a cost of raising capital and has been recognised as a reduction of issued capital.

**Note 37. Share-based payments (continued)**

The fair value of the options as determined using the Black-Scholes option valuation methodology and applying the inputs below. The corresponding expense represents a cost of raising capital and has been recognised as a reduction of issued capital.

| | Class F Options Issued on 5/08/2015 | Class F Options Issued on 23/10/2015 | Class G Options Issued on 27/04/2016 |
|---|---|---|---|
| Exercise Price | $0.45 | $0.45 | $0.36 |
| Expiry Date | 8 September 2018 | 8 September 2018 | 1 March 2019 |
| Issue Date | 5 August 2015 | 23 October 2015 | 27 April 2016 |
| Risk Free Rate | 2% | 2% | 2% |
| Volatility | 95% | 95% | 95% |
| Value per Option | $0.161 | $0.155 | $0.124 |
| Total Options Issued | 7,000,000 | 2,500,000 | 1,500,000 |
| Total Value of Options | $1,130,062 | $387,961 | $186,065 |
| Amount Expensed in Current Period | $1,130,062 | $387,961 | $186,065 |
| Amount to be Expensed in Future Years | - | - | - |

The value of services received were unable to be measured reliably and therefore the value of services received was measured using fair value of market prices.

**(c) Performance rights**

There were no performance rights issued during the 2017 financial year.

**(d) New options issued by Harvest One**

During the year, $1,454,281 was recognised as share based payments made in respect of 8,050,000 options issued by Harvest One, a Canadian listed public company, to its directors and employees. The options vest and become exercisable over a period of 2 years. The fair value of the options as determined using the Black-Scholes option valuation methodology and applying the following inputs:

| | |
|---|---|
| Exercise price | CAD$0.7 (AUD$0.75) |
| Expiry date | 29 April 2019 |
| Issue date | 27 April 2017 |
| Risk free rate | 0.8% |
| Volatility | 142% |
| Total options issued | 8,050,000 |
| Total value of options | CAD$4,488,830 (AUD$4,489,728) |
| Amount expensed in current period | CAD$1,453,991 (AUD$1,454,281) |
| Amount to be expensed in future years | CAD$3,034,839 (AUD$3,035,447) |

As vesting conditions apply to Harvest One options, the cost is recognised over the period in which the service conditions are fulfilled, ending on the date on which the relevant employee become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired, and the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised for the period. No cumulative expense is recognised for awards that ultimately do not vest (in respect of non-market vesting conditions).

**Note 37. Share-based payments (continued)**

**Brokers' warrants**

In connection with the private placement, Harvest One issued 2,000,040 warrants to the Brokers ("Brokers' Warrants") with an exercise price of AUD$0.75 per warrant and which expire 36 months from the date of issue. Upon exercise of the Brokers Warrants, Harvest One will issue one common share and one-half common share purchase warrant ("Secondary Warrant"). Each whole Secondary Warrant will be exercisable into one common share of Harvest One with an exercise price of $1.00 warrant and expire 36 months from the issuance of the Secondary Warrant, The following table discloses the number of warrants at 30 June 2017:

| Exercise price | Number of Brokers' warrants outstanding | Weighted average exercise price | Expiry date |
|---|---|---|---|
| $ | # | $ | |
| 0.75 | 2,000,040 | 0.75 | 27 April 2020 |

Harvest One valued the warrants at AUD$1,306,266 for the year ended 30 June 2017 (for the year ended 30 June 2016 - $Nil) using the Black-Scholes option pricing model to establish the fair value of the Brokers' warrants granted by applying the following assumptions:

| | 30 June 2017 |
|---|---|
| Risk-free interest rate | 0.80% |
| Expected life of warrant (years) | 3.00 |
| Expected annualised volatility | 129% |
| Expected dividend yield | Nil |

Volatility was estimated by using the historical volatility of other companies that Harvest One considers comparable, that have trading and volatility history prior to Harvest One becoming public. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the zero-coupon Canada government bonds with a remaining term equal to the expected life of the warrant.

**(e) Share based payment on Harvest One Acquisition**

MMJ incurred a share based payment expense of $893,097 during the year pertaining to the listing of United Greeneries Holdings Ltd, Satipharm AG Switzerland via Harvest One Cannabis Inc. The fair value of the share based payment was calculated based on the percentage of net assets held by previous shareholders of Harvest One Capital Corp subsequent the transaction (2.57%).

**Note 37. Share-based payments (continued)**

**(f) Reconciliation of options on issue**

**MMJ PhytoTech Limited**

| Date | Details | Number of Options |
|---|---|---|
| **1 July 2015** | **Opening Balance** | **7,350,000** |
| 27 July 2015 | Issue options to directors – Class D exercisable at $0.40 each expiring 24 July 2018 | 1,000,000 |
| 27 July 2015 | Issue options to directors – Class E exercisable at $0.20 each expiring 24 July 2018 | 1,500,000 |
| 27 July 2015 | Issue options to directors – Class D exercisable at $0.40 each expiring 24 July 2018 | 2,500,000 |
| 5 August 2015 | Issue options for payment of capital raising fees – Class F exercisable at $0.45 each expiring 8 September 2018 | 7,000,000 |
| 23 October 2015 | Issue options for pursuant to capital raising – Class F exercisable at $0.45 each expiring 8 September 2018 | 1,311,475 |
| 9 December 2015 | Issue options for payment of capital raising fees – Class F exercisable at $0.45 each expiring 8 September 2018 | 2,500,000 |
| 4 Mar 2016 | Issue options to employees under ESOP – Class H exercisable at $0.27, each expiring 31 January 2020 | 1,779,641 |
| 27 Apr 2016 | Issue options pursuant to capital raising – Class G exercisable at $0.36 each expiring 1 March 2019 | 10,416,666 |
| 27 Apr 2016 | Issue options for payment of capital raising fees – Class G exercisable at $0.36 each expiring 1 March 2019 | 1,500,000 |
| **30 June 2016** | **Closing Balance** | **36,857,782** |
| | | |
| **1 July 2016** | **Opening Balance** | **36,857,782** |
| 11 July 2016 | Lapse of vested employee options | (213,750) |
| 11 August 2016 | Lapse of unvested options issued to directors | (666,667) |
| 14 September 2016 | Lapse of unvested options issued to key management personnel | (150,000) |
| 1 October 2016 | Lapse of vested employee options | (85,000) |
| 14 October 2016 | Issue options to directors – Class I exercisable at $0.24 each expiring 6 June 2019 | 4,000,000 |
| 14 October 2016 | Issue options to key management personnel – Class J exercisable at $0.24 each expiring 1 September 2020 | 3,000,000 |
| 11 January 2017 | Lapse of vented employee options | (71,250) |
| 15 March 2017 | Exercise of Options | (2,250,000) |
| 15 March 2017 | Exercise of Options | (112,500) |
| 15 March 2017 | Exercise of Options | (500,000) |
| 15 March 2017 | Lapse of vested employee options | (75,000) |
| 22 March 2017 | Exercise of Options | (724,590) |
| 22 March 2017 | Exercise of Options | (1,700,000) |
| 29 March 2017 | Exercise of Options | (550,000) |
| 29 March 2017 | Exercise of Options | (2,500,000) |
| 29 March 2017 | Exercise of Options | (150,000) |
| 29 March 2017 | Exercise of Options | (1,070,000) |
| 5 April 2017 | Exercise of Options | (183,333) |
| 5 April 2017 | Exercise of Options | (655,000) |
| 5 April 2017 | Exercise of Options | (2,537,500) |
| 5 April 2017 | Exercise of Options | (500,000) |
| 3 May 2017 | Exercise of Options | (2,341,666) |
| 3 May 2017 | Exercise of Options | (197,500) |
| 9 June 2017 | Exercise of Options | (600,000) |
| 9 June 2017 | Exercise of Options | (1,000,000) |
| **30 June 2017** | **Closing Balance** | **25,024,026** |

**Note 37. Share-based payments (continued)**

Terms and conditions of options on issue

| Option class | Key Terms | Number of Options 2017 | Number of Options 2016 |
|---|---|---|---|
| Class A | Expiry 8/1/2018 @ $0.20 Unlisted | - | 2,500,000 |
| Class B | Expiry 6/5/2019 @ $0.20 Unlisted | 3,900,000 | 4,500,000 |
| Class C | Expiry 6/5/2019 @ $0.31 Unlisted | 350,000 | 350,000 |
| Class D | Expiry 24/7/2018 @ $0.40 Unlisted | 2,500,000 | 3,500,000 |
| Class E | Expiry 24/7/2018 @ $0.20 Unlisted | 1,500,000 | 1,500,000 |
| Class F | Expiry 8/9/2018 @ $0.45 Unlisted | 8,361,885 | 10,811,475 |
| Class G | Expiry 1/3/2019 @ $0.36 Unlisted | 2,537,500 | 11,916,666 |
| Class H | Expiry 31/1/2020 @ $0.27 Unlisted | 874,641 | 1,779,641 |
| Class I | Expiry 6/6/2019 @ $0.24 Unlisted | 2,000,000 | - |
| Class J | Expiry 1/9/2020 @$0.24 Unlisted | 3,000,000 | - |
| | | **25,024,026** | **36,857,782** |

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **No. of Options** | **Weighted average exercise price ($)** | **No. of Options** | **Weighted average exercise price ($)** |
| Balance at beginning of period | 36,857,782 | $0.310 | 9,850,000 | $0.22 |
| Granted during the period | 7,000,000 | $0.067 | 27,432,782 | $0.349 |
| Exercised during the period | (17,572,089) | $0.232 | - | - |
| Expired during the period | (1,261,667) | $0.017 | (425,000) | $0.27 |
| Balance at the end of the period | **25,024,026** | **$0.182** | **36,857,782** | **$0.31** |

**Harvest One**

| Date | Details | Number of Options |
|---|---|---|
| **1 July 2016** | **Opening Balance** | **-** |
| 27 April 2017 | Issue options to directors and employees, exercisable at AUD$0.75 each expiring 29 April 2019 | 8,050,000 |
| **30 June 2017** | **Closing Balance** | **8,050,000** |

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **No. of Options** | **Weighted average exercise price** | **No. of Options** | **Weighted average exercise price** |
| Balance at beginning of period | - | | - | - |
| Granted during the period | 8,050,000 | $0.75 | - | - |
| Exercised during the period | - | - | - | - |
| Expired during the period | - | - | - | - |
| Balance at the end of the period | **8,050,000** | **$0.75** | **-** | **-** |
| Exercisable at the end of the period | 1,830,000 | $0.75 | - | - |

**Note 37. Share-based payments (continued)**

*Accounting policy for share-based payments*
Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

**Note 38. Changes to unaudited Preliminary Financial Report**

On 31 August 2017 the Group released its unaudited preliminary financial report for the year ended 30 June 2017. Upon finalisation of the audit, due to changes in the carrying value of inventory (increase in impairment of $0.6 million) and the accounting of share based payments (increase in expense of $1.2 million) Net Assets decreased by $0.6 million (from $42.5 million to $41.9 million) and the Loss attributable to the Group for the year increased by $1.8 million (from $12.3 million to $14.4 million).

# DIRECTORS' DECLARATION

## 30 JUNE 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Peter Wall
Non-executive Chairman

29 September 2017

# INDEPENDENT AUDITOR'S REPORT

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**INDEPENDENT AUDITOR'S REPORT**

To the members of MMJ PhytoTech Limited

## Report on the Audit of the Financial Report

**Opinion**

We have audited the financial report of MMJ PhytoTech Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

**Basis for opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT CONT.

BDO

### Carrying Value of Intangibles & Goodwill

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| As disclosed in Note 14 and Note 15 of the Financial Report, Other Intangible Assets and Goodwill amounted to $8,661,000 and $4,735,000 respectively as at 30 June 2017.<br><br>This was determined to be a key audit matter as the determination of the 'value in use' of each cash generating unit (CGU) and whether or not an impairment charge is necessary, involved judgements and estimates made by management as disclosed in Note 3. | Our procedures included, but were not limited to:<br>• Obtaining the external valuation report prepared by management's independent expert and evaluating the methodologies including the underlying key assumptions used in the value in use model;<br>• Assessing the competency and objectivity of management's expert;<br>• Challenging the key inputs used in the value in use model including the following:<br>  ○ comparing the discount rate utilised by management to an independently calculated discount rate;<br>  ○ Assessing the reasonableness of management's forecast for each CGU as set out in the valuation report;<br>  ○ Performing sensitivity analysis on the revenue, growth rates, production per harvest, discount rates and product prices; and<br>• Assessing the adequacy of relevant disclosures in Note 3, Note 14 and Note 15 to the Financial Report. |

### Material Transaction- Harvest One Cannabis Inc

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| As disclosed in Note 4 of the Financial Report, the Group acquired 59.96% Harvest One Cannabis Inc. (Harvest One) to enable the Group to list its subsidiaries United Greeneries Holdings Ltd and Satipharm AG Switzerland on the TSX Venture Exchange.<br><br>The accounting for the acquisition of Harvest One is a key audit matter due to the material nature and complexity of the transaction. Please refer to Note 4, Note 23 and Note 33 for further details. | Our procedures included, but were not limited to:<br>• Obtaining and reviewing management's assessment of the Harvest One transaction under the Australian Accounting Standards as well as the treatment of the exchange of subsidiaries at the Group level;<br>• Assessing management's determination of total purchase consideration by agreeing the key items to underlying data including the Share Exchange Agreement;<br>• Reviewing management's calculation of the listing fee expense, as well as the allocation of the Non-Controlling Interest and foreign currency components within the Statement of Changes in Equity in the Group consolidation; and<br>• Assessing the adequacy of relevant disclosures in Note 4, Note 23 and Note 33 of the Financial Report. |

# INDEPENDENT AUDITOR'S REPORT CONT.

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

# INDEPENDENT AUDITOR'S REPORT CONT.

### Report on the Remuneration Report

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 13 to 23 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of MMJ PhytoTech Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

**Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

BDO

JPrue

**Jarrad Prue**

Director

Perth, 29 September 2017

# SHAREHOLDER INFORMATION
30 JUNE 2017

The shareholder information set out below was applicable as at 18 September 2017.

**1. Quotation**

Listed securities in MMJ PhytoTech Limited are quoted on the Australian Securities Exchange under ASX code MMJ (Fully Paid Ordinary Shares).

**2. Voting rights**

The voting rights attached to the Fully Paid Ordinary Shares of the Company are:
(a) at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
(b) on a show of hands every person presents who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

There are no voting rights attached to any Options or Performance Rights on issue.

**3. Distribution of Shareholders**

**i) Fully Paid Ordinary Shares**

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | 1,157 | 883,810 | 0.42 |
| 1,001 to 5,000 | 6,600 | 18,265,070 | 8.70 |
| 5,001 to 10,000 | 2,692 | 21,398,605 | 10.19 |
| 10,001 to 100,000 | 3,222 | 93,398,335 | 44.49 |
| 100,001 and over | 207 | 75,986,280 | 36.20 |
| | **13,878** | **209,932,100** | **100.00%** |

On 18 September 2017, there were 2,395 holders of unmarketable parcels of less than 1,515 ordinary shares (holding a total of 2,541,064 ordinary shares) (based on the closing share price of $0.33).

**ii) Class Performance Rights expiring on or before 21 January 2018**

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | 1 | 83,334 | 0.93 |
| 100,001 and over | 6 | 8,916,666* | 99.07 |
| | **7** | **9,000,000** | **100.00%** |

*Holders who hold more than 20% of securities are:
International Water & Energy Savers Ltd – 2,500,000 performance rights
Ross Henry Smith <The Mohaka Capital A/C> - 2,5000,000 performance rights
Red Apple Superannuation Pty Ltd <Red Apple Super Fund A/C> - 1,875,000 performance rights

# SHAREHOLDER INFORMATION CONT.

## 30 JUNE 2017

**iii) Class D Performance Rights expiring on or before 21 January 2018**

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | 1 | 83,334 | 0.93 |
| 100,001 and over | 6 | 8,916,666* | 99.07 |
| | **7** | **9,000,000** | **100.00%** |

*Holders who hold more than 20% of securities are:
International Water & Energy Savers Ltd – 2,500,000 performance rights
Ross Henry Smith <The Mohaka Capital A/C> - 2,5000,000 performance rights
Red Apple Superannuation Pty Ltd <Red Apple Super Fund A/C> - 1,875,000 performance rights

**iv) Class B Options exercisable at $0.20 on or before 6 May 2019**

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | - | - | - |
| 100,001 and over | 1 | 2,900,000* | 100.00 |
| | **1** | **2,900,000** | **100.00%** |

*Holders who hold more than 20% of securities are:
ESOP Management & Trust Services Ltd – 2,900,000 options

**v) Class C Options exercisable at $0.31 on or before 6 May 2019**

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | - | - | - |
| 100,001 and over | 1 | 350,000* | 100.00 |
| | **1** | **350,000** | **100.00%** |

*Holders who hold more than 20% of securities are:
ESOP Management & Trust Services Ltd – 350,000 options

# SHAREHOLDER INFORMATION CONT.

30 JUNE 2017

**vi) Class D Options exercisable at $0.40 on or before 24 July 2018**

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | - | - | - |
| 100,001 and over | 1 | 2,500,000* | 100.00 |
| | **1** | **2,500,000** | **100.00%** |

*Holders who hold more than 20% of securities are:
Jason Bednar – 1,500,000 options
Azalea Family Holdings Pty Ltd <No 2 A/C> - 1,000,000 options

**vii) Class E Options exercisable at $0.20 on or before 24 July 2018**

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | - | - | - |
| 100,001 and over | 1 | 1,500,000* | 100.00 |
| | **1** | **1,500,000** | **100.00%** |

*Holders who hold more than 20% of securities are:
ESOP Management & Trust Services Ltd – 1,500,000 options

**viii) Class F Options exercisable at $0.45 on or before 8 September 2018**

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | 2 | 200,000 | 2.39 |
| 100,001 and over | 5 | 8,161,885* | 97.61 |
| | **7** | **8,361,885** | **100.00%** |

*Holders who hold more than 20% of securities are:
Gurney Capital Nominees Pty Ltd – 3,300,000 options

# SHAREHOLDER INFORMATION CONT.

## 30 JUNE 2017

### ix) Class G Options exercisable at $0.36 on or before 1 March 2019

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | - | - | - |
| 100,001 and over | 2 | 2,537,500* | 100.00 |
| | **2** | **2,537,500** | **100.00%** |

*Holders who hold more than 20% of securities are:
Cazadores Investments Pty Ltd – 1,268,750 options
Three Bridge Capital Pty Ltd – 1,268,750 options

### x) Class H Options exercisable at $0.27 on or before 31 January 2020

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | 1 | 54,641 | 6.25 |
| 100,001 and over | 4 | 820,000* | 93.75 |
| | **5** | **874,641** | **100.00%** |

*Holders who hold more than 20% of securities are:
Daniela Vaschi – 285,000 options
Mikael Alexander Rykes – 225,000 options
David Cowern – 197,500 options

### xi) Class I Options exercisable at $0.24 on or before 6 June 2019

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | - | - | - |
| 100,001 and over | 1 | 2,000,000* | 100.00 |
| | **1** | **2,000,000** | **100.00%** |

*Holders who hold more than 20% of securities are:
Stanislav Sologubov – 2,000,000 options

# SHAREHOLDER INFORMATION CONT.

## 30 JUNE 2017

**xii) Class J Options exercisable at $0.24 on or before 1 September 2020**

| | Number of holders of ordinary shares | Number of ordinary shares | % |
|---|---|---|---|
| 1 to 1,000 | - | - | - |
| 1,001 to 5,000 | - | - | - |
| 5,001 to 10,000 | - | - | - |
| 10,001 to 100,000 | - | - | - |
| 100,001 and over | 1 | 3,000,000* | 100.00 |
| | **1** | **3,000,000** | **100.00%** |

*Holders who hold more than 20% of securities are:
Catherine Harvey – 3,000,000 options

**4. Substantial Shareholders**

There are no substantial shareholders listed on the Company's register as at 18 September 2017.

**5. Restricted Securities**

There are no restricted securities listed on the Company's register as at 18 September 2017.

**6. On market buy-back**

There is currently no on market buy back in place.

**7. Twenty Largest Shareholders**

The twenty largest shareholders of the Company's quoted securities as at 18 September 2017 are as follows:

| | Ordinary shares | |
|---|---|---|
| | **Number held** | **% of total shares issued** |
| Geenline Holdings | 6,563,914 | 3.13 |
| International Water & Energy Savers Ltd | 6,000,000 | 2.86 |
| Citicorp Nominees Pty Limited | 4,992,136 | 2.38 |
| Pheakes Pty Ltd (Senate A/C) | 4,000,000 | 1.91 |
| United Trolley Collections P/L | 2,700,400 | 1.29 |
| Guido Wiesmann | 1,939,402 | 0.92 |
| HSBC Custody Nominees (Australia) Limited | 1,796,735 | 0.86 |
| Bond Street Custodians Limited (SHBC1-V13134 A/C) | 1,600,000 | 0.76 |
| Jason Bednar | 1,026,522 | 0.49 |
| Mr Won Jun Chung | 1,000,000 | 0.48 |
| Mr Jeffrey Richard Davis | 1,000,000 | 0.48 |
| BNP Paribas Nominees Pty Ltd (IB AU Noms Retailclient DRP) | 897,074 | 0.43 |
| Maurus Reisenthel | 764,117 | 0.36 |
| Henrik Schreiber | 764,117 | 0.36 |
| Merrill Lynch (Australia) Nominees Pty Limited | 724,078 | 0.34 |
| Elysium Pacific Solutions Inc | 705,326 | 0.34 |
| Est Prof John Victor Malcolm Coppleson | 675,000 | 0.32 |
| Invesco Nominee Pty Ltd | 624,224 | 0.30 |
| Mr Warwick Grant Mackie | 605,000 | 0.29 |
| Suzanne O'Donoghue | 603,761 | 0.29 |
| | 38,981,806 | 18.67 |


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