

MMJ PhytoTech Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	MMJ PhytoTech Limited
ABN:	91 601 236 417
Reporting period:	For the half-year ended 31 December 2016
Previous period:	For the half-year ended 31 December 2015

2. Results for announcement to the market

				\$'000
Revenues from ordinary activities	down	100%	to	-
Loss from ordinary activities after tax attributable to the owners of MMJ PhytoTech Limited	up	29.4%	to	(4,508)
Loss for the half-year attributable to the owners of MMJ PhytoTech Limited	up	29.4%	to	(4,508)

Dividends

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

Comments

The loss for the consolidated entity after providing for income tax amounted to \$4,508,000 (31 December 2015: loss of \$3,483,000). The loss for the period included an inventory impairment of \$911,000 discussed at Note 5 to the financial statements.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>4.63</u>	<u>3.32</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):


The financial statements were subject to a review by the auditors and the review report is attached as part of the Half-year Financial Report.

11. Attachments

Details of attachments (if any):

The Half-year Financial Report of MMJ PhytoTech Limited for the half-year ended 31 December 2016 is attached.

12. Signed



Peter Wall
Non-Executive Chairman

Date: 28 February 2017

MMJ PhytoTech Limited

ABN 91 601 236 417

Half-year Financial Report - 31 December 2016

MMJ PhytoTech Limited
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MMJ PhytoTech Limited
Corporate directory
31 December 2016

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	Suite 5 CPC 145 Stirling Highway Nedlands WA, Australia 6009
Principal place of business	Suite 5 CPC 145 Stirling Highway Nedlands WA, Australia 6009
Share register	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	MMJ PhytoTech Limited shares are listed on the Australian Securities Exchange (ASX code: MMJ)
Website	www.mmjphytotech.com.au

MMJ PhytoTech Limited
Directors' report
31 December 2016

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 half-year ended 31 December 2016.

Directors

The following persons were directors of MMJ PhytoTech Limited during the whole of the financial half-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 half-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.

Review of operations

The Company is pleased to provide the following summary of the key operational milestones achieved by the Group, in what was a transformational period for MMJ PhytoTech Limited ("MMJ" or "the Company"). Highlights for the six-month period ended 31 December 2016 include:

- Commencement of cannabis cultivation at the Group's world-class Duncan Facility, with first cannabis harvest expected in Q1 2017;
- A superior acquisition proposal received from Harvest One Capital Inc. ("Harvest One") to acquire United Greeneries Holdings Ltd ("UG") and Satipharm AG ("Satipharm");
- Harvest One proposal includes total consideration for UG and Satipharm assets of C\$42 million in comparison to C\$40 million outlined in the prior proposal;
- Post period end, Harvest One completed a C\$25 million equity raising to finalise the acquisition of UG and Satipharm;
- Entered into a strategic option agreement to lease a 13-acre land package located directly adjacent to its existing Duncan Facility;
- Phase 2 Clinical Trial of PTL101 capsules to measure efficacy for reducing seizures in children with refractory epilepsy underway; and
- Post period end, a binding Letter of Intent entered with HL Pharma Pty Ltd ("HL Pharma") for the importation and distribution of MMJ's medicinal cannabis products in Australia.

United Greeneries Commences Cannabis Cultivation

A key operational milestone during the half year was the commencement of cannabis cultivation activities at the Company's world-class Duncan Facility in Canada, with the first cannabis harvest expected to be delivered in Q1 2017.

In November, UG received an Import Permit from Health Canada ("HC") and the Canadian Food Inspection Agency, allowing for the importation of 1kg of cannabis seeds.

MMJ's highly experienced team was able to solve an industry bottleneck in the securing of legal starter materials – which will enable MMJ to provide Canadian consumers with a broad range of cannabis varieties that have not previously been legally available.

MMJ Phytotech Limited
Directors' report
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As previously advised, UG will undertake the staged expansion of the Duncan Facility, with initial earmarked production of circa 7,500kg of cannabis by the end of 2018, following the facility's first full year of production. UG plans to then rapidly scale up the production capacity of the Duncan Facility to circa 60,000kg.

Listing of Core Cannabis Brands of TSX-V

In November 2016, MMJ executed a binding term sheet with Canadian-based Harvest One (TSXV NEX: WON.H) for the sale to Harvest One of 100% of the issued shares of UG and Satipharm for a total consideration of C\$42M, of which C\$40M is payable in equity (53.3M shares @ C\$0.75/share) and C\$2M is payable in cash.

Post period end, the Company advised that Harvest One had closed its private placement ("the Placement") to facilitate the acquisition, raising C\$25,000,500 before costs. Pursuant to the Placement, Harvest One issued 33,334,000 Subscription Receipts at a price of C\$0.75.

Subject to completion of the transaction, funds received from the Placement will be deployed towards finalising the acquisition of UG and Satipharm. Post transaction, MMJ shareholders, via their shareholding in MMJ, will have 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.

Canadian Recreational Market Opportunity

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

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

The Canadian medical cannabis market is one of the most highly regulated and favourable operating jurisdictions globally. At present, there are 38 approved companies operating under the current regulatory framework, of which 10 are publicly listed in Canada.

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

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

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

Australian Market Entry

Post period end, MMJ announced that it had entered into a binding Letter of Intent with HL Pharma for the importation and distribution of the Company's medicinal cannabis products in Australia.

Under the agreement, HL Pharma will provide the necessary framework for the importation and distribution of Satipharm's CBD capsules in the Australian market.

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

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

Duncan Facility Expansion Strategy

In August, MMJ advised that UG had executed a binding Letter of Intent with Cowichan Tribes in respect to the leasing of a 13-acre strategic land package ("Expansion Land") located immediately adjacent to the Duncan Facility.

In addition to the facility's existing production capacity, the expanded Duncan Facility will be capable of producing up to 60,000kg of cannabis per year, which would position the Company as one of the largest cannabis cultivation operations in Canada.

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

As one of only 38 companies currently licensed to produce medical cannabis in Canada, MMJ expects to be well positioned as a first mover in this emerging recreational market.

Cowichan Agreement Overview

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

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

Phase 2 Clinical Trial for Treatment of Pediatric Epilepsy

MMJ's wholly-owned, Israeli-based subsidiary PhytoTech Therapeutics Limited ("PTL"), has commenced a Phase 2 Clinical Study into the efficacy of its PTL 101 capsules in treating refractory epilepsy in children.

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

The PTL 101 capsules / beads utilise a proprietary formulation developed through the Company's CBD product technology. It is estimated that approximately 100,000 children in North America suffer from refractory epilepsy – a treatment resistant category of the disease, causing uncontrollable seizures.

Financial

The loss for the consolidated entity after providing for income tax amounted to \$4,508,000 (31 December 2015: loss of \$3,483,000). The loss for the period included an inventory impairment of \$911,000 discussed at Note 5 to the financial statements.

The net assets of the consolidated entity increased by \$2,092,000 to \$20,340,000 as at 31 December 2016 (30 June 2016: \$18,248,000). The main reason for this increase was due to the Company's capital raising which occurred in October 2016.

Significant changes in the state of affairs

Listing of Core Cannabis Brands of TSX-V

As noted above, during November 2016, MMJ announced that it had executed a binding term sheet with Canadian-based Harvest One Capital Inc for the sale to Harvest One of 100% of the issued shares of United Greeneries Holdings Ltd and Satipharm AG for a total consideration of C\$42M, of which C\$40M is payable in equity (53.3M shares @ C\$0.75/share) and C\$2M is payable in cash.

Post period end, the Company advised that Harvest One had closed its private placement (the "Placement") to facilitate the acquisition, raising C\$25,000,500 before costs. Pursuant to the Placement, Harvest One issued 33,334,000 Subscription Receipts at a price of C\$0.75.

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Directors' report
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Subject to completion of the transaction, funds received from the Placement will be deployed towards finalising the acquisition of UG and Satipharm. Post transaction, MMJ shareholders, via their shareholding in MMJ, will have 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.

Other than as outlined herein, there were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

Matters subsequent to the end of the financial half-year

Subsequent to the end of the financial year, the Company made the following announcements:

- On 9 January 2017, MMJ shareholders approved the Harvest One transaction at the general meeting of shareholders held on that date.
- On 18 January 2017, MMJ advised that Canadian-based Harvest One Capital Inc. had launched a C\$15 million private placement ("the Placement") to finalise the acquisition of the Company's cannabis subsidiaries UG and Satipharm. 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 Placement in response to strong investor demand.
- On 13 February 2017, MMJ advised that it has entered into a binding Letter of Intent with HL Pharma for the importation and distribution of the Company's medicinal cannabis products in Australia.
- 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 refractory epilepsy.
- On 28 February 2017, the Company announced that its Australian distribution partner, HL Pharma had submitted an application for a medicinal cannabis import licence to the Department of Health. Upon receipt of the import licence and import permit by HL Pharma, MMJ intends to commence the importation of its CBD capsules to HL Pharma, where the capsules will be stored in a secure warehouse facility before being distributed to approved customers within Australia.

No other matter or circumstance has arisen since 31 December 2016 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.

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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Wall
Non-Executive Chairman

28 February 2017

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

As lead auditor for the review of MMJ PhytoTech Limited for the half-year ended 31 December 2016, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2017

MMJ PhytoTech Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

	Note	31 December 2016 \$'000	31 December 2015 \$'000
Revenue			
Sales revenue		-	274
Cost of sales		-	(364)
Gross loss		-	(90)
Other Income			
Interest received		11	18
Gain/(Loss) on contingent deferred consideration shares		(102)	1,020
Expenses			
Directors and employee related expenses		(979)	(1,083)
Acquisition introduction fee expense		-	(620)
Depreciation and amortisation expense		(18)	(27)
Finance costs		(24)	(29)
Marketing and investor relations		(246)	(285)
Administration expenses		(918)	(635)
Consultancy and legal expenses		(151)	(289)
Research and development expense		(331)	(588)
Compliance and regulatory expenses		(361)	(103)
Equity based payments expense		(421)	(654)
Net foreign exchange loss		(57)	(10)
Impairment of inventory	5	(911)	-
Selling and distribution expenses		-	(108)
Loss before income tax expense		(4,508)	(3,483)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of MMJ PhytoTech Limited		(4,508)	(3,483)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		31	(534)
Other comprehensive income for the half-year, net of tax		31	(534)
Total comprehensive income for the half-year attributable to the owners of MMJ PhytoTech Limited		(4,477)	(4,017)
		Cents	Cents
Basic loss per share	18	(2.50)	(2.86)
Diluted loss per share	18	(2.50)	(2.86)

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

MMJ PhytoTech Limited
Consolidated statement of financial position
As at 31 December 2016

	Note	31 December 2016 \$'000	30 June 2016 \$'000
Assets			
Current assets			
Cash and cash equivalents		3,199	2,951
Trade and other receivables	4	592	398
Inventories	5	629	1,450
Loans to Directors	6	104	104
Total current assets		<u>4,524</u>	<u>4,903</u>
Non-current assets			
Property, plant and equipment	7	6,719	6,575
Intangibles	8	8,917	8,932
Goodwill	8	2,562	2,578
Other		36	35
Total non-current assets		<u>18,234</u>	<u>18,120</u>
Total assets		<u>22,758</u>	<u>23,023</u>
Liabilities			
Current liabilities			
Trade and other payables	9	610	614
Borrowings	10	114	92
Deferred consideration	11	-	2,083
Total current liabilities		<u>724</u>	<u>2,789</u>
Non-current liabilities			
Borrowings	10	329	398
Contingent consideration	11	1,365	1,588
Total non-current liabilities		<u>1,694</u>	<u>1,986</u>
Total liabilities		<u>2,418</u>	<u>4,775</u>
Net assets		<u>20,340</u>	<u>18,248</u>
Equity			
Issued capital	12	39,158	32,706
Reserves		5,271	5,123
Accumulated losses		(24,089)	(19,581)
Total equity		<u>20,340</u>	<u>18,248</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

MMJ PhytoTech Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2016

Consolidated	Contributed equity \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Share based payments reserve \$'000	Total equity \$'000
Balance at 1 July 2015	5,828	(4,882)	20	2,628	3,594
Loss after income tax expense for the half-year	-	(3,483)	-	-	(3,483)
Other comprehensive income for the half-year, net of tax	-	-	(535)	-	(535)
Total comprehensive income for the half-year	-	(3,483)	(535)	-	(4,018)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	22,458	-	-	-	22,458
Share-based payments	-	-	-	1,483	1,483
Balance at 31 December 2015	<u>28,286</u>	<u>(8,365)</u>	<u>(515)</u>	<u>4,111</u>	<u>23,517</u>

Consolidated	Contributed equity \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Share based payments reserve \$'000	Total equity \$'000
Balance at 1 July 2016	32,706	(19,581)	242	4,881	18,248
Loss after income tax expense for the half-year	-	(4,508)	-	-	(4,508)
Other comprehensive income for the half-year, net of tax	-	-	31	-	31
Total comprehensive income for the half-year	-	(4,508)	31	-	(4,477)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	6,452	-	-	-	6,452
Share-based payments	-	-	-	421	421
Conversion of performance rights into shares	-	-	-	(304)	(304)
Balance at 31 December 2016	<u>39,158</u>	<u>(24,089)</u>	<u>273</u>	<u>4,998</u>	<u>20,340</u>

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

MMJ PhytoTech Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2016

	Note	31 December 2016 \$'000	31 December 2015 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		-	178
Payments to suppliers (inclusive of GST)		(3,271)	(4,502)
Interest received		11	18
Interest and other finance costs paid		(24)	(29)
Net cash used in operating activities		(3,284)	(4,335)
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		(162)	(2,054)
Loan to Director		-	(80)
Cash acquired from business combination		-	31
Net cash used in investing activities		(162)	(2,103)
Cash flows from financing activities			
Proceeds from issue of shares	12	4,000	6,476
Costs in relation to share issue		(259)	-
Repayment of borrowings		(47)	(71)
Net cash from financing activities		3,694	6,405
Net increase/(decrease) in cash and cash equivalents		248	(33)
Cash and cash equivalents at the beginning of the financial half-year		2,951	1,910
Cash and cash equivalents at the end of the financial half-year		<u>3,199</u>	<u>1,877</u>

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

MMJ PhytoTech Limited
Notes to the financial statements
31 December 2016

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 half-year period ended 31 December 2016. 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 are:

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 28 February 2017. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

In the half-year ended 31 December 2016, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2016.

New and amended standards adopted by the entity

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2017 annual report as a consequence of these amendments.

Impact of standards issued but not yet applied by the entity

There were no new standards issued since 30 June 2016 that have been applied by MMJ PhytoTech Limited. The 30 June 2016 annual report disclosed that MMJ PhytoTech Limited anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2016.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2016. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business.

Note 2. Significant accounting policies (continued)

Going concern

During the half-year ended 31 December 2016, the Group incurred losses of \$4,508,000 (31 December 2015: \$3,483,000) and net cash outflows from operating activities of \$3,284,000 (31 December 2015: \$4,335,000) and at that date had net assets of \$20,340,000 (30 June 2016: \$18,248,000) with cash on hand of \$3,199,000 (30 June 2016: \$2,951,000).

The Group's ability to continue as a going concern is dependent on raising further capital, generating revenues from its operations and / or reducing costs.

These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe that there are reasonable grounds to believe that the Group will continue as a going concern, after consideration of the following factors:

- As part of the proposed acquisition of UG and Satipharm by Harvest One Capital Inc, Harvest One successfully raised C\$25 million (before costs) as announced on 23 February 2017. Of the amounts raised, C\$2 million of the total consideration of C\$42m will be paid in cash to MMJ to provide further liquidity to the parent, with the remaining consideration to be paid by the issue of Harvest One shares representing approximately 60% of the total issued capital of Harvest One upon completion of the transaction. After meeting the costs of the transaction, Harvest One intends to invest the remaining funds into the ongoing development and expansion of the businesses of UG and Satipharm for the benefit of the Group.
- In the unlikely event that the proposed transaction with Harvest One Capital Inc does not proceed, the Group expects to generate revenues from the sale of cannabis produced by UG in Canada within the next 12 months and from the sale of CBD pills throughout Europe through Satipharm AG;
- In addition, as a public company listed on the Australian Securities Exchange, the Company has the ability to issue additional shares to raise further working capital and has been successful in doing this previously, as evidenced by the recent successful raising of \$4 million (before costs) completed during the half-year ended 31 December 2016. Following the completion of the Harvest One transaction, the Group will also have access to funding via the Canadian capital markets if required.; and
- The Group also has the ability to defer significant planned capital expenditure or scale down its operations in order to curtail expenditure or otherwise divest its non-core assets, in the event capital raisings are delayed, or insufficient cash is available to meet projected expenditure.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the consolidated entity not continue as a going concern.

Note 3. Operating segments

During the period to 31 December 2016, the consolidated entity was organised into three operating segments: cultivation, processing and distribution and clinical development.

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.

Note 3. Operating segments (continued)

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 3. Operating segments (continued)

	For the period ended 31 December 2016				
	Cultivation \$'000	Processing and distribution \$'000	Clinical development \$'000	Corporate \$'000	Total \$'000
Revenue					
Sales to external customers	-		-	-	-
Total revenue	-	-	-	-	-
EBITDA	(655)	(304)	(745)	(1,703)	(3,407)
Depreciation					(18)
Interest revenue					11
Finance costs					(24)
Net loss on foreign exchange					(57)
Deferred consideration adjustment					(102)
Impairment of inventory		(911)			(911)
Loss before income tax expense					(4,508)
Income tax expense					-
Loss after income tax expense					(4,508)
As at 31 December 2016					
Total Assets	17,799	3,027	623	1,309	22,758
Total Liabilities	638	58	134	1,588	2,418
Net Assets	17,161	2,969	489	(279)	20,340

	For the period ended 31 December 2015				
	Cultivation \$'000	Processing and distribution \$'000	Clinical development \$'000	Corporate \$'000	Total \$'000
Revenue					
Sales to external customers	-	274	-	-	274
Total revenue	-	274	-	-	274
EBITDA	(666)	(323)	(767)	(1,679)	(3,435)
Depreciation					(27)
Interest revenue					18
Finance costs					(39)
Loss before income tax expense					(3,483)
Income tax expense					-
Loss after income tax expense					(3,483)
As at 30 June 2016					
Total Assets	16,806	3,982	677	1,558	23,023
Total Liabilities	618	162	115	3,880	4,775
Net Assets	16,188	3,820	562	(2,322)	18,248

Note 4. Current assets - trade and other receivables

	Consolidated	
	31 December	30 June
	2016	2016
	\$'000	\$'000
Other receivables	305	51
GST Recoverable	143	207
Prepayments	144	140
	<u>592</u>	<u>398</u>

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

Note 5. Current assets - inventories

	Consolidated	
	31 December	30 June
	2016	2016
	\$'000	\$'000
Raw materials	-	435
Finished goods inventory	629	1,015
	<u>629</u>	<u>1,450</u>

Between December 2016 and January 2017, management conducted a review of inventory assets held by Satipharm for the purposes of ensuring that 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 between June 2016 to December 2016, management have taken a decision to impair \$911,000 of inventory for the period ended 31 December 2016. The inventory relates to Satipharm AG which is based in Switzerland.

Note 6. Current assets - loan to Directors

	Consolidated	
	31 December	30 June
	2016	2016
	\$'000	\$'000
Loan to Director – Andreas Gedeon	<u>104</u>	<u>104</u>

As at 31 December 2016 the Group recorded a receivable of CAD 100,357 (AUD 104,105) for funds of CAD 94,546 (AUD 98,077) and accrued interest payable of CAD 5,810 (AUD 6,027) by Mr Andreas Gedeon, a director of the Company, under an unsecured loan agreement ("Loan"). The Loan incurs interest at a rate of 8% per annum and is repayable on or before 31 March 2017.

MMJ Phytotech Limited
Notes to the financial statements
31 December 2016

Note 7. Non-current assets - property, plant and equipment

	Consolidated	
	31 December	30 June
	2016	2016
	\$'000	\$'000
Buildings – at cost	899	889
Less: Accumulated depreciation	(78)	(77)
Difference due to foreign exchange	11	-
	<u>832</u>	<u>812</u>
Leasehold Improvements – at cost	3,150	3,135
Less: Accumulated depreciation	-	-
Difference due to foreign exchange	42	-
	<u>3,192</u>	<u>3,135</u>
Plant and equipment - at directors valuation	2,727	2,656
Less: Accumulated depreciation	(75)	(61)
Difference due to foreign exchange	13	-
	<u>2,665</u>	<u>2,595</u>
Office equipment - at cost	44	44
Less: Accumulated depreciation	(14)	(11)
	<u>30</u>	<u>33</u>
	<u><u>6,719</u></u>	<u><u>6,575</u></u>

Note 8. Non-current assets - intangibles

	Consolidated	
	31 December	30 June
	2016	2016
	\$'000	\$'000
Goodwill - at cost	2,562	2,578
Other intangible assets - at cost	8,917	8,932
	<u>11,479</u>	<u>11,510</u>

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 \$2,240,000 and \$322,000 have been included within the assets of the Processing & Distribution and Cultivation segments respectively.

Note 9. Current liabilities - trade and other payables

	Consolidated	
	31 December	30 June
	2016	2016
	\$'000	\$'000
Trade payables	209	190
Accrued expenses	215	289
Other payables	186	135
	<u>610</u>	<u>614</u>

Note 10. Current liabilities - borrowings

	Consolidated	
	31 December	30 June
	2016	2016
	\$'000	\$'000
Current Borrowings	114	92
Non-current Borrowings	329	398
	<u>443</u>	<u>490</u>

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.

Note 11. Current liabilities – contingent consideration

	Consolidated	
	31 December	30 June
	2016	2016
	\$'000	\$'000
Current	-	2,083
Non-current	1,365	1,588
	<u>1,365</u>	<u>3,671</u>

On 8 July 2016, MMJ completed the issue of 8,500,000 shares to the original vendors of MMJ Bioscience Inc upon the satisfaction of the first performance milestone under the terms of the merger between the Company and MMJ Bioscience Inc. The closing share price on 8 July 2016 was \$0.275, whereas the contingent consideration as at June 2016 was based on a share price of \$0.245. This has resulted in the recognition of \$255,000 of an expense adjustment which has been included within the loss on contingent deferred shares consideration in the statement of profit or loss.

The non-current consideration is valued using a underlying share price \$0.32 per share at the date of acquisition and applying a 70% probability of achieving based on the Directors expectation. At 31 December 2016 consideration was valued at \$1,365,000 using the closure share price of \$0.22 and applying a 70% probability of achieving the milestone based on the Directors current expectation.

MMJ Phytotech Limited
Notes to the financial statements
31 December 2016

Note 12. Equity - issued capital

	Consolidated			
	31 December 2016 Shares	30 June 2016 Shares	31 December 2016 \$'000	30 June 2016 \$'000
Ordinary shares - fully paid	<u>191,360,011</u>	<u>161,926,147</u>	<u>39,158</u>	<u>32,706</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 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
Capital raising costs	31 October 2016	-	-	(259)
Conversion of Class A performance rights	30 December 2016	83,334	-	3
Conversion of Class B performance rights	30 December 2016	<u>83,334</u>	<u>-</u>	<u>-</u>
Balance	31 December 2016	<u>191,360,011</u>		<u>39,158</u>

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.

Share buy-back

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

Note 13. Equity - dividends

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

Note 14. Related Parties

Key Management Personnel

During the half-year period, MMJ confirmed the following new appointments of key management personnel within the Group:

- a) Ms Catherine Harvey was appointed Chief Operating Officer of the Group, effective from 1 September 2016. Ms Harvey is entitled to an annual base salary of \$235,000 and on 14 October 2016, was granted 3,000,000 unlisted options exercisable at \$0.24 on or before 1 September 2020 under the Company's employee incentive option plan; and

Grant Date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Expired/ Forfeited/ other
14/10/2016	01/09/2020	\$0.24	-	3,000,000	-	-

For the options granted during the current half-year, an expense of \$99,000 has been recorded as a Share Based Payment expense. The valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate
14/10/2016	01/09/2020	\$0.245	\$0.24	95%	-	2.00%

- b) Ms Daniela Vaschi was appointed as Chief Executive Officer of United Greeneries, effective from 1 July 2016. Ms Vaschi is entitled to an annual base salary of \$100,472 per annum (C\$98,000 per annum). Upon her appointment, Ms Vaschi held 285,000 unlisted options exercisable at \$0.27 on or before 31 January 2020 which were granted in a prior reporting period.

In addition to above, during the period the Company issued a further 4,000,000 unlisted options exercisable at \$0.20 on or before 6 June 2019 as disclosed in the 30 June 2016 Annual Report, to Satipharm AG Chief Executive Officer, Mr Stanislav Sologubov, under the Company's employee incentive option plan.

Subsequent to 31 December 2016, the Board of the Company granted Managing Director, Andreas Gedeon a cash performance bonus in the amount of CAD\$50,000, subject to the successful completion of the Harvest One transaction.

In addition, an outstanding unsecured loan payable by Mr Gedeon to the Company was extended from 31 January 2017 to 31 March 2017. The details of the loan are discussed at Note 6.

Note 15. Contingent liabilities

The Group had no contingent liabilities as at 31 December 2016 other than those in note 11.

Note 16. Commitments for expenditure

There have been no material changes in expenditure commitments as at 31 December 2016 since 30 June 2016.

Note 17. Events after the reporting period

Subsequent to the end of the financial period, the Company made the following announcements:

- On 9 January 2017, MMJ shareholders approved the Harvest One transaction at the general meeting of shareholders held on that date.
- On 18 January 2017, MMJ advised that Canadian-based Harvest One Capital Inc. had launched a C\$15 million private placement ("the Placement") to finalise the acquisition of the Company's cannabis subsidiaries UG and Satipharm. 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 Placement in response to strong investor demand.
- On 13 February 2017, MMJ advised that it has entered into a binding Letter of Intent with HL Pharma for the importation and distribution of the Company's medicinal cannabis products in Australia.
- 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 refractory epilepsy.
- On 28 February 2017, the Company announced that its Australian distribution partner, HL Pharma had submitted an application for a medicinal cannabis import licence to the Department of Health. Upon receipt of the import licence and import permit by HL Pharma, MMJ intends to commence the importation of its CBD capsules to HL Pharma, where the capsules will be stored in a secure warehouse facility before being distributed to approved customers within Australia.

No matter or circumstance other than those disclosed above and elsewhere in the financial statements have arisen since 31 December 2016 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 18. Earnings per share

	Consolidated	
	31 December 2016	31 December 2015
	\$'000	\$'000
Profit/(loss) after income tax attributable to the owners of MMJ PhytoTech Limited	(4,508)	(3,483)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	180,007,497	121,733,409
Weighted average number of ordinary shares used in calculating diluted earnings per share	180,007,497	121,733,409
	Cents	Cents
Basic earnings per share	(2.50)	(2.86)
Diluted earnings per share	(2.50)	(2.86)

MMJ PhytoTech Limited
Directors' declaration
31 December 2016

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Wall
Non-Executive Chairman

28 February 2017

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of MMJ PhytoTech Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of MMJ PhytoTech Limited, which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of MMJ PhytoTech Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of MMJ PhytoTech Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of MMJ PhytoTech Limited is not in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 2 in the financial report which describes the conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink. The first part of the signature is 'BDO' in a stylized, blocky font. Below it, the name 'J Prue' is written in a cursive script.

Jarrad Prue

Director

Perth, 28 February 2017