

**MMJ PhytoTech Limited**  
**Appendix 4D**  
**Preliminary Final Report**

**1. Company details**

Name of entity: MMJ PhytoTech Limited  
ABN: 91 601 236 417  
Reporting period: For the half year ended 31 December 2015  
Previous period: For the period 14 August 2014 to 31 December 2014

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**2. Results for announcement to the market**

				<b>\$'000</b>
Revenues from ordinary activities	up	100%	to	274
Loss from ordinary activities after tax attributable to the owners of MMJ PhytoTech Limited	up	355%	to	(3,483)
Loss for the period attributable to the owners of MMJ PhytoTech Limited	up	355%	to	(3,483)

*Dividends*

No dividends were declared or paid during the period.

*Comments*

The loss for the consolidated entity after providing for income tax amounted to \$3,482,992.

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**3. Net tangible assets**

	<b>Reporting period Cents</b>
Net tangible assets per ordinary security	<u><u>7.79</u></u>

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**4. Control gained over entities**

On 2 July 2015, the Company gained control over the following entities after it completed its acquisition of MMJ Bioscience Inc which was completed on 27 July 2015:

<b>Company Name</b>	<b>Company Number</b>	<b>Country of Incorporation</b>
United Greeneries Holdings Ltd (formerly MMJ Bioscience Inc)	BC1044683	Canada
United Greeneries Ltd.	BC0993871	Canada
United Greeneries Operations Ltd.	BC0966792	Canada
Duncan Bioscience International Inc.	BC0962340	Canada
Satipharm Canada Limited	935869-2	Canada
Satipharm AG	CHE-461.320.648	Switzerland

All foreign companies acquired during the period prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

In addition to the above, on 8 December 2015 Satipharm Australia Pty Ltd ACN 609 723 417 was incorporated, with the sole shareholder being Satipharm AG, and ultimate holding company being MMJ PhytoTech Limited.

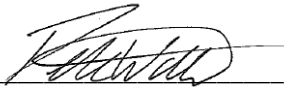
**5. Audit qualification or review**

The consolidated financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

Additional Appendix 4D disclosure requirements can be found in the directors' report and the 31 December 2015 financial statements and accompanying notes.

This report is based on the consolidated financial statements which have been reviewed by BDO Audit (WA) Pty Ltd.

Signed



Date: 29 February 2016

Peter Wall  
Chairman

# **MMJ PHYTOTECH LIMITED**

**ACN 601 236 417**

*(Formerly PhytoTech Medical Limited)*

## **Interim Report**

**For the half year period to 31 December 2015**

# **MMJ PhytoTech Limited** and its controlled entities

## **CORPORATE DIRECTORY**

### **Directors**

Peter Wall

*Non-executive Chairman*

Andreas Gedeon

*Managing Director*

Winton Willesee

*Non-executive Director*

Jason Bednar

*Non-executive Director*

Ross McKay

*Non-executive Director*

### **Company Secretary**

Erlyn Dale

### **Auditor**

BDO Audit (WA) Pty Ltd

38 Station Street

Subiaco WA 6008

### **Solicitor**

Steinepreis Paganin

Level 4, 16 Milligan Street

Perth WA 6000

### **Bankers**

National Australia Bank

1232 Hay St

West Perth WA 6005

### **Share Registry**

Automic Registry Services

Suite 1a, Level 1

7 Ventnor Avenue

West Perth WA 6005

### **Securities Exchange Listing**

Australian Securities Exchange

ASX Codes: MMJ, Ordinary fully paid shares

### **Principal registered office in Australia**

Suite 25

145 Stirling Highway

Nedlands WA 6009

### **Website**

[www.mmjphytotech.com.au](http://www.mmjphytotech.com.au)

# MMJ PhytoTech Limited and its controlled entities

## DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the “consolidated entity” or the “Group”) consisting of MMJ PhytoTech Limited (“MMJ PhytoTech” or the “Company”) (formerly PhytoTech Medical Ltd) and the entities it controlled at the end of, or during, the half-year period ended 31 December 2015.

### Directors

The following persons were Directors of MMJ PhytoTech Limited for the period and up to the date of this report, unless otherwise stated:

Peter Wall	Non-executive Chairman
Andreas Gedeon	Managing Director ( <i>appointed 27 July 2015</i> )
Winton Willesee	Non-executive Director
Jason Bednar	Non-executive Director ( <i>appointed 27 July 2015</i> )
Ross McKay	Non-executive Director ( <i>appointed 27 July 2015</i> )
Boaz Wachtel	Executive Director ( <i>resigned 20 August 2015</i> )
Benad Goldwasser	Executive Director ( <i>resigned 20 August 2015</i> )

### Principal activities during the period

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

- Progression of license applications under Canada’s Marihuana for Medical Purposes Regulations (“MMPR”) in respect of the Group’s medical cannabis cultivation facilities in Canada;
- Production and distribution of cannabinoid-based food supplements throughout Europe; and
- Pharmaceutical research and development of delivery technologies for the effective administration of cannabinoids.

### Significant changes in the state of affairs

Following the completion of the Company’s acquisition of MMJ Bioscience Inc on 27 July 2015, the Company now controls operations across the entire Medical Cannabis value chain through the following core business units:

- **United Greeneries** – the Group’s Canadian-based cultivation division which owns and operates the Group’s two growing facilities, the Duncan Facility and the Lucky Lake Facility, both of which have pending applications to become Licensed Producers under the MMPR.
- **Satipharm** – the Group’s European cannabis-based, pharmaceutical, nutraceutical and cosmetics processing and distribution division which holds a number of key international partnerships for the production and distribution of cannabinoid-based pharmaceutical, nutraceutical and wellness products.
- **PhytoTech Therapeutics** – the Group’s Israeli-based research and development division which is primarily focused on the development and commercialisation of new and existing delivery systems and devices that have the potential to deliver safe, effective and measured doses of medical cannabis to patients.

# MMJ PhytoTech Limited and its controlled entities

## DIRECTORS' REPORT

### Review of operations

The Company made a strong start to the financial half-year with the completion of the acquisition of MMJ Bioscience Inc ("MMJ Bioscience") on 27 July 2015 and concurrent change of name to MMJ PhytoTech Limited (ASX:MMJ).

Following the acquisition of MMJ Bioscience, the Company achieved the following key milestones during the period and positioned itself well for a successful 2016:

- Successful post acquisition integration of three business units, representing and positioning of MMJ's "Farm to Pharma" strategy to be a vertically integrated medicinal cannabis company;
- Completion of \$6.8m (before costs) in combined capital raisings to drive growth across the merged entities;
- Board and management changes to structure the board to drive enhanced value;
- Commencement of Australian market entry strategy including appointment of Australian-based legal firm Piper Alderman as strategic advisor;
- Final security installations and other upgrades on the Duncan facility in preparation for pre-licensing inspection by Health Canada;
- Commencement of Satipharm CBD Gelpell Gastro-resistant Microgel Capsules, refinement of related sales and market strategies and arrangement of reliable long-term transaction processing services; and
- Regulatory approval and commencement of MMJ's first clinical trial on the safety and performance of three sophisticated delivery technologies exclusive to MMJ.

In summary the Board views the Company's performance in the second half of calendar 2015 in a positive light, with a sound base established for growth into 2016 and beyond. The achievements accomplished during the period position MMJ as one of the few publically listed, vertically integrated medicinal cannabis companies globally. The Board welcomes the positive start to 2016 and looks forward to continued growth.

### *Acquisition of MMJ Bioscience Inc*

On 27 July 2015 the Company completed the acquisition of Canadian-based company, MMJ Bioscience Inc. The Company now controls operations across the entire Medical Cannabis ("MC") value chain through the following core business units:

- **Cultivation Division** – the Group's Canadian-based cultivation division is operated by its wholly owned subsidiary, United Greeneries, which owns and operates the Group's two cannabis growing facilities, the Duncan Facility and the Lucky Lake Facility, both of which have pending applications to become Licensed Producers under the Marihuana for Medical Purposes Regulations in Canada ("MMPR").
- **Processing & Distribution Division** – wholly owned subsidiary, Satipharm AG ("Satipharm"), operates the Group's European cannabis-based, pharmaceutical, nutraceutical and cosmetics processing and distribution division. Satipharm holds a number of key international partnerships for the production and distribution of cannabinoid-based pharmaceutical, nutraceutical and wellness products.
- **Clinical Development** – PhytoTech Therapeutics is the Group's Israel-based research and development division which is primarily focused on the development and commercialisation of delivery systems and devices that have the potential to deliver safe, effective and measured doses of MC to patients.

The transaction documents provided for the issue of up to 68,000,000 fully paid ordinary shares in consideration for 100% ownership interest in MMJ Bioscience and its underlying subsidiaries, representing an implied total deemed value of up to \$20.74 million (based on the Company's pre-deal share price of \$0.305 per share), with the consideration issued as follows:

- (a) 51,000,000 Shares issued upfront upon settlement;
- (b) up to a total of 8,500,000 Shares to be issued in the event that a facility controlled by MMJ Bioscience or one of its subsidiaries is granted a cultivation licence under the MMPR within 12 months of settlement; and
- (c) up to a total of 8,500,000 Shares to be issued in the event that MMJ Bioscience Inc and its subsidiaries generate in aggregate at least CAD\$5,000,000 in revenue from operating activities within 36 months of settlement.

Upon settlement of the transaction on 27 July 2015, the Company completed the issue of 51,000,000 Shares to the vendors of MMJ Bioscience, with those shares being subject to voluntary escrow restrictions of 3 months, 9 months and 15 months from the date of settlement (in equal thirds).

As at the date of this report, neither of the milestones at points b) or c) above had been satisfied.

# MMJ PhytoTech Limited and its controlled entities

## DIRECTORS' REPORT

### *Board and Management Changes*

Upon the completion of the acquisition, Messrs Andreas Gedeon, Jason Bednar and Ross McKay joined the Board of the Company. Subsequently, on 20 August 2015, Mr Boaz Wachtel and Mr Benad Goldwasser resigned from the Board of the Company, with Mr Goldwasser continuing to support the Company through his ongoing role as Chairman of PhytoTech Therapeutics Ltd, the Company's Israeli subsidiary.

As a result of the above changes, the Board of Directors of MMJ PhytoTech is now comprised of:

- Mr Peter Wall, Chairman
- Mr Andreas Gedeon, Managing Director
- Mr Winton Willesee, Non-Executive Director
- Mr Jason Bednar, Non-Executive Director
- Mr Ross McKay, Non-Executive Director

Andreas Gedeon assumed the role of Managing Director of the merged group and the subsidiaries are headed as follows:

- Michael Hinam as CEO United Greeneries;
- Tomas Edvinsson as CEO of Satipharm in Switzerland; and
- Dr. Daphna Heffetz remains as CEO of PhytoTech Therapeutics Limited

### *Cultivation Division*

The Company's cultivation division is operated under the Company's wholly owned subsidiaries, United Greeneries Holdings Ltd, United Greeneries Ltd and United Greeneries Operations Ltd (collectively referred to as "United Greeneries" or "UG").

UG operates MMJ's flagship MC cultivation facility located in Duncan, BC, Canada. Duncan is currently awaiting licensing under the MMPR after having completed Health Canada's ("HC") Pre-Licensing Inspection subsequent to the end of the period. UG also owns the Lucky Lake facility, a modern agricultural facility located in Saskatchewan that is very suitable for MC cultivation. Lucky Lake's MMPR application was submitted during the period and is progressing as expected.

The Duncan and Lucky Lake Facilities have a combined area of 78,000 ft<sup>2</sup> and potential production capacity of 11,700 kg of dried cannabis per year. Additionally, United Greeneries owns 18 acres of land at the Lucky Lake Facility site which is available for organic expansion that could support up to an additional 800,000 ft<sup>2</sup> of cultivation area in custom two storey structures.

During the period, significant progress was made at the Company's Duncan Facility, with extensive security upgrades carried out under the direction of one of the top MMPR security consultants to ensure compliance with HC's evolving security requirements and various facility optimisation and training work being undertaken in preparation for HC's pre-licensing inspection.

Subsequent to the end of the period, HC conducted a Pre-License Inspection at the Company's Duncan Facility which was carried out over a three-day period commencing 1 February 2016.

As part of the inspection, HC inspectors attended the Duncan Facility and verified information submitted by UG as part of its application to become a Licensed Producer under the MMPR and assessed compliance with the applicable sections of the MMPR prior to license approval. Pre-License Inspection is the final stage prior to receiving a Cultivation License from HC under the MMPR.

MMJ is now awaiting a response from HC on the outcome of the Pre-Licence Inspection.

The completion of the Pre-Licence Inspection represents the single most important milestone passed by UG to date as, to the knowledge of MMJ, every facility that has received Notice of Pre-License Inspection has subsequently been issued an MMPR license. Very few groups have made it this far in the MMPR application process and MMJ is positioned well to become one of 25 companies to be granted an MMPR license to become a Licenced Producer Canada-wide.

### *Processing & Distribution Division*

The Company's European, cannabis-based, pharmaceutical, nutraceutical and cosmetics division operates under its 100% owned subsidiary, Satipharm.

# MMJ PhytoTech Limited and its controlled entities

## DIRECTORS' REPORT

Satipharm holds a number of key international partnerships for the production and distribution of cannabinoid-based pharmaceutical, nutraceutical and wellness products, which includes its Swiss partners Ai Fame GmbH, an integrated cannabis-focused pharmaceutical compound manufacturer and Gelpell AG, a premium contract manufacturer of supplements and phyto-pharmaceuticals with a proprietary technology relevant to the CBD capsules.

It is through these partnerships with Ai Fame and Gelpell that Satipharm has developed its Good Manufacturing Practice (GMP) produced, proprietary CBD food supplement, the Satipharm CBD Gelpell Gastro-resistant Microgel Capsules ("Capsules").

During the period, the Company commenced sales of the Capsules throughout the European Union. The capsules were initially marketed to consumers via the direct sales platform [www.Satipharm.com](http://www.Satipharm.com) and to potential wholesale clients by a small, specialised sales team. Management was encouraged by the initial high level of interest in the website and capsules, with orders in the first week exceeding management's expectations, however, after a brief period, Satipharm was informed that its transaction processor Paypal had suspended its accounts, reversed all transactions and would no longer provide Satipharm with transaction processing services citing an internal policy related to the unclear legal status of CBD products in the US. Capsule sales are legal in the European Union and Satipharm does not sell Capsules in the US. Despite this, Satipharm continued to generate modest revenues from online buyers transacting using bank transfers and has since put in place a solution to the issue via its collaboration with a leading online UK supplement distributor, Prima Sport ("Prima").

Results from the Company's wholesale efforts during the period were positive with the Company entering into a wholesale agreement with Prima who purchased an initial order of Capsules and established a dedicated online store at [www.premiumcbd.co.uk](http://www.premiumcbd.co.uk) for the exclusive sale of Satipharm's products.

The two companies are now exploring opportunities to enhance Capsule sales by leveraging Prima's expertise and key relationships in the European supplement sector. Satipharm anticipates continued growth throughout 2016 as it expands its sales efforts through Europe with an aggressive sales and marketing plan commencing in the April-June 2016 Quarter.

Subsequent to the end of the half-year period, Satipharm commenced development of several new cosmetic and dietary products that it intends to market to EU-based customers in 2016. Products currently under development include a facial lotion, a joint balm and a haemorrhoid suppository.

### *Clinical Development Division*

The research and development activities of the Group are undertaken through the Company's Israeli based subsidiary, PhytoTech Therapeutics Ltd and are primarily focussed on the development and commercialisation of new and existing delivery systems and devices that have the potential to deliver safe, effective and measured doses of medical cannabis to patients.

Drug delivery technologies modify drug release profile, absorption, distribution and elimination for the benefit of improving product efficacy and safety, as well as patient convenience and compliance. Most common routes of administration include the preferred non-invasive peroral (through the mouth), topical (skin), transmucosal (nasal, buccal/sublingual, vaginal, ocular and rectal) and inhalation routes.

The Group's existing therapeutic product portfolio is focussed on the research and development of exclusive technologies licensed to the Company by various partners. Through its exclusive research licensing agreement with prestigious research, development and technology transfer company, Yisum, and its exclusive agreement for the use of Gelpell® Microgel technology with Gelpell AG the Company is undertaking research and development into prescription oral drugs for various clinical indications.

The first product in development is an oral capsule for relief of pain and spasticity in Multiple Sclerosis (MS) patients.

During the period, PhytoTech Therapeutics commenced the Group's first Phase 1 clinical study in late October. The Trial was focused on the study of two THC:CBD Pro-Nano-Lipospheres (PNL) oral capsule formulations licensed exclusively from Yisum. The trial was a single-centre, multi-arm, randomised, crossover study to assess the safety, tolerability and pharmacokinetics (cannabinoid dose and profile in the blood) undertaken at the Sourasky Medical Clinical Research Center, a highly regarded clinical site in Israel.

The trial involved administering dosages of MC to 15 healthy volunteers of two oral THC:CBD formulations in comparison to Sativex, the leading oromucosal MC spray of GW Pharmaceuticals.



# MMJ PhytoTech Limited and its controlled entities

## DIRECTORS' REPORT

The study was designed to fulfil all the regulatory requirements needed for the New Drug Application (NDA) to the Food and Drug Administration (FDA).

Subsequent to the end of the half-year period, the Company announced positive results from the Phase 1 Clinical Trial with the capsules showing superiority over Sativex, including:

- Demonstrable safety and tolerability profile with no significant side effects;
- Higher bioavailability of active compounds in comparison to GW Pharmaceuticals oromucosal spray, Sativex;
- Very rapid onset; and
- 8 hours exposure time in the blood.

The trial results demonstrated the ability of MMJ's proprietary oral formulation to overcome the conventional challenges of delivery of compounds through an oral delivery system and indicated that MMJ's formulations perform at the same or even higher level when compared to GW Pharmaceutical's product.

Following the successful completion of the Phase 1 Trial, MMJ now plans to undertake a Phase 2 Trial commencing in the second half of 2016. The Phase 2 Trial will assess the efficacy of the oral capsules for treating pain and spasticity in patients who suffer from multiple sclerosis, with results expected in the first half of 2017.

### *Entry into the Australian Medicinal Cannabis Market*

In October 2015, following the indicated regulatory reform by the Australian Federal Government to legalise the use of cannabis for medical purposes and establish a licensed growing program to provide a safe and local source, the Company took steps to accelerate its strategic entry into the Australian medicinal cannabis market, including the employment of a Manager of Australian Operations and the appointment of Piper Alderman as legal counsel and strategic advisor.

Subsequent to the end of the year, the Australian Government passed legislation legalising cannabis for Medicinal Purposes with MMJ well positioned at the forefront of the emerging Australian cannabis market.

### *Capital Raisings:*

During the half-year, the Company raised a total of \$6.8 million before costs to fund the Group's global operations as follows:

- a) On 5 August 2015, the Company issued 16 million Shares under an oversubscribed placement to sophisticated investors which raised \$4.8 million (before costs).
- b) On 20 October 2015, the Company issued 6,557,377 Shares, together with 1,311,475 Class F Options to a sophisticated investor to raise a total of \$2 million (before costs).

### *Conversion of Performance Rights:*

During the half-year period, the Company issued a total of 19,833,332 Shares to certain Class A & B Performance Rights holders upon the vesting of those performance rights.

A further 1,000,000 Shares were issued to an entity associated with Chairman, Peter Wall, upon the vesting of Class C Performance Rights.

### *Incentive Options:*

During the half-year period, the Company issued a total of 5 million Options to certain directors and key management personnel as follows:

- (a) 3,500,000 Class D Options in total were issued to current directors, Mr Willesee, Mr Bednar and Mr McKay as approved by shareholders at the General Meeting held on 29 June 2015.
- (b) 1,500,000 Class E Options issued to the Chairman of the Company's Israeli subsidiary, PhytoTech Therapeutics Ltd, Mr Goldwasser as approved by shareholders at the General Meeting held on 29 June 2015.

Subsequent to the end of the period, on 1 February 2016 the Company made offers to certain employees and key consultants for the issue of up to 2,204,641 unlisted Class H options under the Company's Incentive Option Plan ("Offers"). As at the date of this report, all employees and key consultants to which the offers were made had accepted those offers, however the options have yet to be issued.

The options to be issued will be exercisable at \$0.27 each on or before 31 Jan 2020 and, like those issued to the existing directors, are subject to vesting conditions related to ongoing and continuous employment with the Company.

# MMJ PhytoTech Limited and its controlled entities

## DIRECTORS' REPORT

### Subsequent Events

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

#### *(a) Completion of MMPR Pre-Licence Inspection at Duncan Facility*

On 5 February 2016 the Company announced that HC had completed an MMPR Pre-Licence Inspection of UG's Duncan Facility. Pre-Licence Inspection is the final stage prior to receiving a Cultivation License from HC under the MMPR.

MMJ is now awaiting a response from HC on the outcome of the Pre-licence inspection.

#### *(b) Release of Phase 1 Clinical Trial Results*

On 11 February 2016, the Company announced successful results from the Phase 1 clinical trials conducted by its Israeli subsidiary, PhytoTech Therapeutics Ltd.

#### *(c) Legalisation of MC in Australia*

On 24 February 2016 the Australian Government passed legislation to provide for the legalisation of cannabis for medical purposes within Australia.

This news has provided an opportunity to significantly accelerate MMJ's strategic entry into the Australian market as it has defined a legal pathway for the domestic cultivation, refinement and manufacturing of medical cannabis products for the first time.

#### *(d) Allard et al Decision & Canadian Government indication of legalisation for recreational use*

On 24 February 2016, a Federal Canadian Court released its decision in the Allard et al. v. Canada case ruling in favour of Allard et al. In summary, Judge Michael Phelan ruled that the Marijuana for Medical Purposes Regulations ("MMPR") were an infringement on Canadian Charter of Rights ("Charter") due to the scope of the restrictions to access for entitled patients. The court gave the government six months to amend or replace the MMPR to reduce those restrictions.

At the heart of the Allard case was the right of Canadian patients to be able to grow their own Medical Cannabis ("MC"). A key feature of the MMPR in its current form is to commercialise the production of MC while prohibiting individual patients from growing their own supply, which was the main source of supply of MC under the MMAR (the predecessor of the MMPR). The plaintiffs in the Allard case challenged that the MMPR violates their Charter rights because it limits access of MC by revoking the right of patients to grow their own MC and forcing them to purchase MC from an MMPR Licensed Producer ("LP") at a significantly higher price.

The court highlighted that the ruling was not an attack on the overall substance or spirit of the MMPR but was based on the fact in its current form, the MMPR does not provide sufficient access to medical marijuana to those who need it.

In its ruling the court acknowledged the benefits of MC as a safe and affordable medicine for Canadian patients. Further, the very basis of the ruling is to enhance Canadian patient's access to MC in Canada.

MMJ views the court ruling as a very positive endorsement of MC in Canada and believes that it will ultimately result in a stronger, safer and more widely utilized Canadian MC system. With regards to market volume, MMJ expects home growing to have little impact on the commercial production of medical cannabis, similar to the impact that home brewing of alcohol has to the beer industry.

#### *(e) Capital Raising Activities*

On 29 February 2015, the Company agreed terms to issue 20,833,333 Shares, together with 10,416,666 Class G Options under a placement to institutional investors to raise a total of \$5 million (before costs). The Class G Options are unlisted options to acquire fully paid ordinary shares in the capital of the Company and are exercisable at \$0.36 on or before 1 March 2019.

# **MMJ PhytoTech Limited and its controlled entities**

## **DIRECTORS' REPORT**

### **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 on the following page.

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



Peter Wall  
Non-executive Chairman

Perth, Western Australia  
29 February 2016

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 2015, 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, 29 February 2016

# **MMJ PhytoTech Limited and its controlled entities**

## **INTERIM FINANCIAL REPORT**

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#### **General information**

This financial report covers the Consolidated Entity consisting of MMJ PhytoTech Limited and its controlled entities during the half year period to 31 December 2015.

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:

MMJ PhytoTech Limited  
Suite 25, 145 Stirling Highway  
Nedlands, WA, Australia 6009

A description of the nature of the Consolidated Entity's operations and its principal activities is included in the Directors' Report, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 29 February 2016.

# MMJ PhytoTech Limited and its controlled entities

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the half-year ended 31 December 2015

	Notes	31 December 2015 \$'000	For the period of 14 August 2014 to 31 December 2014 \$'000
<b>Revenue from continuing operations</b>			
Sales revenue		274	-
Cost of sales		(364)	-
Gross loss		(90)	-
<b>Other income</b>		18	1
Interest income			
Gain on contingent deferred shares consideration	10	1,020	-
<b>Expenses</b>			
Administration expenses		(635)	(157)
Acquisition introduction fee expense		(620)	-
Compliance and regulatory expenses		(103)	(37)
Consultancy and legal expenses		(289)	(286)
Depreciation and amortisation expense		(27)	-
Director and employee related expenses	16	(1,083)	(64)
Equity based payments expense	12	(654)	-
Finance costs		(29)	(1)
Marketing and investor relations		(285)	(39)
Research and development expense		(588)	(181)
Selling and distribution expenses		(108)	-
Net foreign exchange loss		(10)	-
<b>Loss before income tax</b>		<b>(3,483)</b>	<b>(765)</b>
Income tax benefit/(expense)		-	-
<b>Loss after income tax</b>		<b>(3,483)</b>	<b>(765)</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(534)	-
<b>Other comprehensive loss for the period</b>		<b>(534)</b>	<b>-</b>
<b>Total comprehensive loss for the period (net of tax)</b>		<b>(4,017)</b>	<b>(765)</b>
		<b>Cents</b>	<b>Cents</b>
Loss per share attributable to members of MMJ PhytoTech Limited:			
Basic and diluted loss per share (cents)		(2.88)	(5.10)

*The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes*

# MMJ PhytoTech Limited and its controlled entities

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2015

	Notes	31 Dec 2015 \$'000	30 June 2015 \$'000
<b>Current assets</b>			
Cash and cash equivalents		1,877	1,910
Trade and other receivables	3	855	147
Inventories	4	939	-
Total current assets		3,671	2,057
<b>Non-current assets</b>			
Property, plant and equipment	5	5,629	12
Intangible assets	6	8,506	-
Goodwill	6	10,328	-
Loans to other entities	7	80	1,711
Other non-current assets		35	35
Total non-current assets		24,578	1,758
<b>Total assets</b>		<b>28,249</b>	<b>3,815</b>
<b>Current liabilities</b>			
Trade and other payables	8	762	221
Borrowings	9	109	-
Deferred consideration	10	1,874	-
Total current liabilities		2,745	221
<b>Non-current liabilities</b>			
Borrowings	9	399	-
Deferred consideration	10	1,588	-
Total non-current liabilities		1,987	-
<b>Total liabilities</b>		<b>4,732</b>	<b>221</b>
<b>Net assets</b>		<b>23,517</b>	<b>3,594</b>
<b>Equity</b>			
Contributed equity	11	28,286	5,828
Reserves		3,596	2,648
Accumulated losses		(8,365)	(4,882)
<b>Capital &amp; reserves attributable to the owners of MMJ PhytoTech Limited</b>		<b>23,517</b>	<b>3,594</b>

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.*

# MMJ PhytoTech Limited and its controlled entities

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the half-year ended 31 December 2015

	Note	Contributed equity \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Share- based payments reserve \$'000	Total \$'000
<b>Consolidated Group</b>						
<b>Balance at 14 August 2014</b>		-	-	-	-	-
Loss for the period		-	(764)	-	-	(764)
Other comprehensive income		-	-	-	-	-
Total comprehensive loss for the period		-	(764)	-	-	(764)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs		585	-	-	-	585
<b>Balance at 31 December 2014</b>		<b>585</b>	<b>(764)</b>	<b>-</b>	<b>-</b>	<b>(179)</b>

	Note	Contributed equity \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Share- based payments reserve \$'000	Total \$'000
<b>Consolidated Group</b>						
<b>Balance at 1 July 2015</b>		5,828	(4,882)	20	2,628	3,594
Loss for the period		-	(3,483)	-	-	(3,483)
Other comprehensive income		-	-	(534)	-	(535)
Total comprehensive loss for the period		-	(3,483)	(534)	-	(4,018)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs	11	22,458	-	-	-	22,458
Share based payments		-	-	-	1,483	1,483
<b>Balance at 31 December 2015</b>		<b>28,286</b>	<b>(8,365)</b>	<b>(514)</b>	<b>4,111</b>	<b>23,517</b>

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*



# MMJ PhytoTech Limited and its controlled entities

## CONSOLIDATED STATEMENT OF CASH FLOWS for the half-year ended 31 December 2015

	Notes	31 December 2015	For the period of 14 August 2014 to 31 December 2014
		\$'000	\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		178	-
Interest received		18	1
Payments to employees and suppliers		(4,502)	(559)
Interest paid		(29)	(1)
<b>Net cash (outflow) from operating activities</b>		<b>(4,335)</b>	<b>(559)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(2,054)	-
Loans to Directors		(80)	-
Cash acquired from business acquisition		31	-
<b>Net cash (outflow) from investing activities</b>		<b>(2,103)</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	11	6,476	585
Repayment of borrowings		(71)	-
Loans to related entities		-	-
<b>Net cash inflow from financing activities</b>		<b>6,405</b>	<b>585</b>
<b>Net increase/(decrease) in cash held</b>		<b>(33)</b>	<b>26</b>
Cash at the beginning of the period		1,910	-
<b>Cash at the end of the period</b>		<b>1,877</b>	<b>26</b>

*The above Consolidated Statement of Cashflows should be read in conjunction with the accompanying notes.*

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies

#### (a) Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2015 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 2015 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.

#### (b) New accounting standards and interpretations

In the half-year ended 31 December 2015, 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 2015.

##### *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 2016 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 2015 that have been applied by MMJ Phytotech Limited. The 30 June 2015 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 2015.

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 2015. 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.

#### (c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 31 December 2015 and the results of all controlled entities for the financial period then ended. The Company and its controlled entities together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the parent entity has control if it is exposed, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Intercompany transactions, balances and unrealised income and expenses on transactions between group companies are eliminated in preparing the consolidated financial statements. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (d) **Going concern**

During the half-year ended 31 December 2015, the Group incurred losses of \$3,482,992 and net cash outflows from operating activities of \$4,335,145, with cash on hand of \$1,877,242.

This half-year financial report has been prepared on the basis that the Group will continue to meet their commitments and can therefore continue normal business activities and realise assets and settle liabilities in the ordinary course of business.

The Directors believe that there are reasonable grounds to believe that the Company and consolidated entity will continue as going concerns, after consideration of the following factors:

- At the date of this report, the Company received firm commitments from institutional investors to subscribe for a placement to raise \$5 million (before costs). This funding represents a substantial portion of the Company's planned expenditure for 2016.
- In addition to the above, the Company has the ability to issue additional shares under the Corporations Act 2001 to raise further working capital and has been successful in doing this previously, as evidenced by the successful capital raisings completed during the half year period to 31 December 2015.
- The consolidated entity has the capacity to generate revenues from the sale of CBD pills throughout Europe through Satipharm AG, and pending the grant of an MMPR license by Health Canada, the consolidated entity expects to access additional cash flows from the sale of cannabis produced by United Greeneries in Canada within the next 12 months.
- The consolidated entity also has the ability to scale down its operations in order to curtail expenditure or otherwise divest of non-core assets, in the event capital raisings are delayed, or insufficient cash is available to meet projected expenditure.

The consolidated entity's ability to continue as a going concern is dependent on raising further capital, generating substantial revenues from its operations and / or reducing costs. Should the Group not raise the necessary funding through debt or equity or sale of non-core assets, generate cash from its operations or otherwise reduce expenditure, there would be material uncertainty that cast significant doubt as to whether the consolidated entity would be able to meet its debts as and when they fall due, and thus continue as a going concern. These factors indicate significant uncertainty as to whether the Company and consolidated entity will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the Company and consolidated entity do not continue as going concerns.

### (e) **Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised. Instead, Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of Goodwill relating to the entity sold.

The Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash generating units that are expected to benefit from the synergies of combination.

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

An impairment loss is recognised if the carrying amount of the asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any Goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of Goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment testing is performed annually for Goodwill and intangible assets with indefinite lives.

### (f) 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 the profit and loss over their estimated useful lives, from the date that they are available for use. The estimated useful life of the intangible asset is 10 years.

### (g) 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.

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 2. Operating Segments

During the period to 31 December 2015, the consolidated entity is 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.

The Company is managed primarily on the basis of its research and development and its corporate activities. Operating segments are therefore determined on the same basis.

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

Types of reportable segments:

#### (i) Cultivation

Segment activities include the progression of applications for cultivation and distribution licenses under the MMPR by Health Canada, with the ultimate goal being to grow and sell medicinal cannabis to the Canadian MC market. Segment assets include property, plant and equipment, infrastructure and expenditure relating to the Group's two cannabis cultivation facilities in Canada.

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(ii) *Processing and distribution*

Segment activities include the processing, manufacturing and distribution of cannabis-based, pharmaceutical, nutraceutical and cosmetics product throughout the European market. Segment assets include cash, inventories, and key agreements with international partnerships for the production and distribution of cannabinoid-based pharmaceutical, nutraceutical and wellness products.

(iii) *Clinical development*

Segment activities include research and clinical development of new and existing delivery systems and devices that have the potential to deliver safe, effective and measured doses of medical cannabis to patients. Segment assets, including consultants and all expenses related to research and development in Israel are reported on in this segment.

### Basis of accounting for purposes of reporting by operating segments

*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.

### Period ended 31 December 2014

	Cultivation	Processing & distribution	Clinical development	Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>					
Sales to external customers	-	-	-	-	-
Total revenue	-	-	-	-	-
<b>EBITDA</b>	-	-	-	(765)	(765)
Depreciation and amortisation					-
Interest revenue					1
Finance costs					(1)
Profit before income tax expense					(765)
Income tax expense					-
Loss after income tax expense					(765)
<b>As at 30 June 2015</b>					
<b>Total Assets</b>	-	-	-	3,815	3,815
<b>Total Liabilities</b>	-	-	-	221	221

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Period ended 31 December 2015

	Cultivation	Processing and distribution	Clinical development	Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>					
Sales to external customers	-	274	-	-	274
Total revenue	-	274	-	-	274
<b>EBITDA</b>	(666)	(323)	(767)	(1,679)	(3,435)
Depreciation and amortisation					(27)
Interest revenue					18
Finance costs					(39)
Profit before income tax expense					(3,483)
Income tax expense					-
Profit after income tax expense					(3,483)

### As at 31 December 2015

<b>Total Assets</b>	14,732	11,668	531	1,318	28,249
<b>Total Liabilities</b>	902	149	96	3,585	4,732

### Note 3. Trade and other receivables

	31 Dec 2015 \$'000	30 June 2015 \$'000
Trade receivable (i)	96	-
GST receivable	313	53
Prepayments (ii)	401	76
Accrued interest	-	15
Other receivables	45	3
	<b>855</b>	<b>147</b>

- (i) Trade and other receivables are generally due for settlement within 30 days and therefore are all classified as current.
- (ii) \$309,765 of prepayments relate to payments made in advance for the purchase of CBD extract by Satipharm AG for use in the manufacture of its CBD Gelpell pills. As at 31 December 2015, the extract was yet to be delivered to Satipharm AG by the supplier.

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Inventories

	31 Dec 2015 \$'000	30 June 2015 \$'000
Finished goods inventory – CBD Gelpell pills	939	-
	<b>939</b>	<b>-</b>

### Note 5. Property, plant and equipment

	31 Dec 2015 \$'000	30 June 2015 \$'000
<b>Property, plant and equipment</b>		
Carrying amount at 1 July 2015	11	-
Additions	5,688	11
Less depreciation	(99)	-
Carrying amount at 31 December 2015	<b>5,600</b>	<b>11</b>
<b>Office equipment</b>		
Carrying amount at 1 July 2015	1	-
Additions	36	1
Less depreciation	(8)	-
Carrying amount at 31 December 2015	<b>29</b>	<b>1</b>
	<b>5,629</b>	<b>12</b>

### Note 6. Intangible Assets

	Note	Goodwill \$'000	Identifiable Intangible Asset - License \$'000	Total \$'000
<b>Balance at 1 July 2015</b>		-	-	-
Acquisition of business	15	10,445	8,672	19,117
Exchange differences		(117)	(166)	(283)
<b>Balance at 31 December 2015</b>		<b>10,328</b>	<b>8,506</b>	<b>18,834</b>

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 7. Loans to other entities

	31 Dec 2015 \$'000	30 June 2015 \$'000
(i) Loan to Director – Andreas Gedeon	80	-
(ii) Loan to MMJ Bioscience Inc	-	1,423
(iii) MMJ Debenture	-	288
	<b>80</b>	<b>1,711</b>

(i) Loan to Director – Andreas Gedeon

During the half-year period, the Company advanced funds totalling CA\$80,898 to 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 January 2017.

(ii) Loan to MMJ

Prior to the completion of the acquisition of MMJ Bioscience Inc, the Company advanced funds totalling CA\$1,350,000 to MMJ Bioscience under a secured loan agreement (“Loan”) to fund the working capital requirements of MMJ prior to the settlement of the acquisition transaction. The Loan incurs interest at a rate of 6% per annum which is capitalised for the first 12 months.

The loan was not repaid prior to the completion of the acquisition transaction and accordingly, has been eliminated on consolidation.

(iii) MMJ Debenture

Prior to the completion of the acquisition transaction with MMJ Bioscience Inc the Company subscribed for secured debenture securities issued by MMJ Bioscience Inc with a face value of CA\$275,000. The debenture is secured over property owned by MMJ Bioscience Inc. and incurred interest at a rate of 6% per annum.

Prior to the completion of the acquisition, the debenture was sold to an unrelated third party for a consideration of CA\$280,000, being equivalent to the face value and accrued interest at the date of sale.

### Note 8. Trade Payables

	31 Dec 2015 \$'000	30 June 2015 \$'000
Trade payables	476	71
Accrued payables	191	126
Payroll liabilities	95	24
	<b>762</b>	<b>221</b>



# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 9. Borrowings

	31 Dec 2015 \$'000	30 June 2015 \$'000
Current Borrowings	109	-
Non-current Borrowings	399	-
	<u>508</u>	<u>-</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 at the Duncan Facility funded by the Landlord in the amount of CAD\$650,000 to make the site fit for the permitted business purpose as a cannabis cultivation facility. The promissory note is unsecured, bears and interest rate of 5% per annum with monthly repayments.

### Note 10. Recognised Fair Value Measurements

#### (i) Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed are categorised according to the fair value hierarchy as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - Inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The specific inputs are closing share prices at the date of acquisition and at the reporting date, and management’s assessment of the likely probability of the liability arising. As this final input cannot be observed it is considered to be at Level 3 in the fair value hierarchy.

#### At 30 June 2015

There were no assets or liabilities that required fair value measurement at 30 June 2015

#### At 31 December 2015

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial Liabilities</b>				
Current Deferred Consideration Liability	-	-	1,874	1,874
Non-current Deferred Consideration Liability	-	-	1,588	1,588
Total Financial Liabilities	<u>-</u>	<u>-</u>	<u>3,462</u>	<u>3,462</u>

See Note 15. On 2 July 2015 the Company announced that all conditions precedent to the Amalgamation Agreement between the Company and MMJ Bioscience Inc dated 19 May 2015 (“**Amalgamation Agreement**”) had been satisfied or waived.

Vendors of MMJ Bioscience Inc are entitled to receive:

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- up to a further 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 license under the Marihuana for Medical Purposes Regulations in Canada (MMPR) within 12 months of Settlement (“**Milestone 1 Consideration Shares**”); and
- 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**”).

The Consideration Shares were valued using an underlying share price of \$0.32 per share at the date of acquisition and applying a:

- 90% probability of achieving Milestone 1; and
- 70% probability of achieving Milestone 2

based on the Directors current expectation.

At 31 December 2015 the liability is revalued taking into account closing share price and management's assessment of the likelihood of the consideration share milestones being met (the probability is deemed to be consistent to that at acquisition date). The closing share price was \$0.245c and the resulting gain of \$1,020,000 has been included in the Statement of Profit or Loss and Other Comprehensive Income for the period.

### Note 11. Issued Capital

#### a) Ordinary Shares

	31 Dec 2015		31 Dec 2014	
	\$'000		\$'000	
Ordinary fully paid shares	28,286		586	

	2015		2014	
	Number	\$'000	Number	\$'000
<i>Movements in ordinary share capital</i>				
<b>Shares on issue at 1 July</b>	<b>44,662,050</b>	<b>6,893</b>	-	-
Shares issued – founder shares (@ 0.0001 each)	-	-	3,000,000	-
Shares issued – seed capital	-	-	12,000,000	960
Shares issued – acquisition	51,000,000	16,320	-	-
Shares issued – transaction introduction fee	1,530,000	490	-	-
Shares issued – placement	16,000,000	4,800	-	-
Shares issued – capital raising fees	313,333	94	-	-
Shares issued – placement	6,557,377	2,000	-	-
Shares issued – capital raising fees	196,722	60	-	-
Conversion of performance rights	20,833,332	690	-	-
Issue costs		(3,061)	-	(374)
<b>Closing balance at 31 December</b>	<b>141,092,814</b>	<b>28,286</b>	<b>15,000,000</b>	<b>586</b>

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### b) Performance Rights Reserve

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Performance rights	1,253	-

	2015		2014	
	Number	\$'000	Number	\$'000
<b>Movements in performance rights reserve</b>				
<b>Balance at 1 July</b>	<b>30,000,000</b>	<b>1,943</b>	-	-
Conversion of Class A Performance Rights	(9,916,666)	(367)		
Issue of Class B Performance Rights	9,916,666	-		
Conversion of Class B Performance Rights	(9,916,666)	(10)		
Conversion of Class C Performance Rights	(1,000,000)	(313)		
<b>Closing balance at 31 December</b>	<b>19,083,334</b>	<b>1,253</b>	-	-

During the half-year period to 31 December 2015;

- The Company issued a total of 9,916,666 fully paid ordinary shares and 9,916,666 Class B Performance Rights upon the conversion of 9,916,666 Class A Performance Rights. The performance milestone attaching to the Class A Performance Rights was satisfied during the last financial year upon the 5 day volume weighted average price of the Company's shares traded on the ASX first exceeding \$0.40. As at the date of this report, there are 83,334 Class A Performance Rights outstanding that may vest any time until 21 January 2017 upon the election of the performance right holder.
- The Company issued a total of 9,916,666 fully paid ordinary shares upon the conversion of 9,916,666 Class B Performance Rights. The performance milestones attaching to Class B Performance Rights was satisfied during the last financial year upon the 5 day volume weighted average price of the Company's shares traded on the ASX first exceeding \$0.60. As at the date of this report, there were no Class B Performance Rights on issue, however up to a further 83,334 Class B Performance Rights may be issued in subsequent periods upon the conversion of the remaining Class A Performance Rights.
- The Company issued a total of 1,000,000 fully paid ordinary shares upon the conversion of 1,000,000 Class C Performance Rights held by an entity related to Chairman, Peter Wall, following the completion of the acquisition of 100% of the issued capital of MMJ Bioscience Inc. The performance milestones attaching to the remaining 9,000,000 Class C Performance Rights have not been satisfied as at the date of this report.
- The performance milestones attaching to Class D Performance Rights have not been satisfied as at the date of this report.

### a) Options Reserve

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Options reserve	2,858	-

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2015		2014	
	Number	\$'000	Number	\$'000
<i>Movements in option reserve</i>				
<b>Balance at 1 July</b>	<b>9,850,000</b>	<b>686</b>	-	-
Issue of Class D Incentive Options to Directors	2,500,000	186		
Issue of Class F Options in lieu of capital raising fees	9,500,000	1,518		
Issue of Class F Options as free attaching options under a capital raising	1,311,475	-		
Vesting of Options issued in prior periods	-	468		
<b>Closing balance at 31 December</b>	<b>23,161,475</b>	<b>2,858</b>	-	-

### *New Options Issued*

The Options issued during the period to 31 December 2015 were as follows:

- On 27 July 2015, 1,500,000 and 1,000,000 Class D were issued to directors, Jason Bednar and Ross McKay, respectively. The Class D Options vest and become exercisable over a period of three years from the date of Messrs Bednar and McKay's appointments, such that one twelfth of the Options shall vest on the end of each three month period following their appointment on 27 July 2015.
- 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, a further 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.

The fair value is determined using a Black-Scholes simulation as set out in Note 12 below.

Of the total value of \$482,504 value attributable to the Class D Options issued during the period, an amount of \$185,889 has been recognised as equity based payment expenses in the current period, with the remaining value of \$296,616 being allocated across future vesting period and expensed in subsequent reporting periods.

As no vesting conditions apply to the Class F Options, the total value of the Class F options was fully recognised as a capital raising expense during the period to 31 December 2015.

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 12. Equity-based payments

During the period ended 31 December 2015, the Group provided the following in the form of share-based payment transactions:

	Share Based Payment Expense	Capital Raising Fees
	\$'000	\$'000
a) Ordinary shares issued to corporate advisors	-	154
b) New options issued to corporate advisors	-	1,518
c) New options issued to Directors	186	-
d) Vesting of options issued in prior periods	468	-
Total equity-based payments as at <b>31 December</b>	<b>654</b>	<b>1,672</b>

No equity-based payments were issued during the period 14 August 2014 to 31 December 2014.

#### a) Ordinary shares issued to corporate advisors

On 5 August 2015 the Company issued 313,333 fully paid ordinary shares to nominees of Merchant Corporate Pty Ltd in lieu of cash fees of \$94,000 payable in connection with the \$4.8M capital raising completed on the same day.

On 22 October 2015, a further 196,722 shares were issued to nominees of Merchant Corporate Pty Ltd in lieu of cash fees of \$60,000 payable in connection with the \$2M capital raising completed on the same day.

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### b) New options issued to corporate advisors

During the period, 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, a further 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.

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.

	<b>Class F Options Issued on 5/08/2015</b>	<b>Class F Options Issued on 23/10/2015</b>
Exercise Price	\$0.45	\$0.45
Expiry Date	8 September 2018	8 September 2018
Issue Date	5 August 2015	23 October 2015
Risk Free Rate	2%	2%
Volatility	95%	95%
Value per Option	\$0.161	\$0.155
Total Options Issued	7,000,000	2,500,000
Total Value of Options	\$1,130,062	\$387,961
Amount Expensed in Current Period	\$1,130,062	\$387,961
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) New options issued to Directors

During the half year, \$185,588 was recognised as share based payments made in respect of 1,500,000 and 1,000,000 Class D Options issued to directors, Jason Bednar and Ross McKay, respectively. The Class D Options vest and become exercisable over a period of three years from the date of Messrs Bednar and McKay's appointments, such that one twelfth of the Options shall vest on the end of each three month period following their appointment on 27 July 2015.

The issue of options to the Directors was approved at the General Meeting of Shareholders held on 29 June 2015 and was subject to the appointment. The fair value of the options as determined using the Black-Scholes option valuation methodology and applying the following inputs:

	<b>Class D Options</b>
Exercise Price	\$0.40
Expiry Date	24 July 2018
Issue Date	27 July 2015
Risk Free Rate	2%
Volatility	95%
Value per Option	\$0.193
Total Options Issued	2,500,000
Total Value of Options	\$482,504

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Amount Expensed in Current Period	\$185,888
Amount to be Expensed in Future Years	\$296,616

As vesting conditions apply to the Class D Options, the cost is recognised over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees 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).

No other share based payment transactions were entered into during the period.

### Note 13. Contingent liabilities

The Group has no contingent liabilities as at 31 December 2015.

### Note 14. Commitments for expenditure

	31 Dec 2015 \$'000	30 June 2015 \$'000
<i>Lease Commitments</i>		
within one year	277	9
later than one year but not later than five years	999	-
later than five years	84	-
	<b>1,360</b>	<b>9</b>
	31 Dec 2015 \$'000	30 June 2015 \$'000
<i>Research and development commitments</i>		
within one year	241	384
later than one year but not later than five years	25	-
later than five years	-	-
	<b>266</b>	<b>384</b>

As at 31 December 2015 the Group had the following commitments:

- Duncan facility lease commitments
- Denmark office lease commitments
- R&D commitments

Research and development commitments as at 30 June 2015 related to obligations outstanding to Canigma under the binding Heads of Agreement dated 2 March 2015 for the development of a capsule based vaporiser to administer medical cannabis (Canigma Project) which require the Company to fund the first stage of development (being the

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

granting process of a patent for the device, the proof of concept and the development of the prototype) by way of an interest free convertible loan with a face value of US\$255,000. As at 31 December 2015 the Company has met its total commitments under this contract.

### Note 15. Business combination

#### Summary of acquisition

On 2 July 2015 the Company announced that all conditions precedent to the Amalgamation Agreement between the Company and MMJ Bioscience Inc dated 19 May 2015 (“**Amalgamation Agreement**”) had been satisfied or waived.

The acquisition of 100% of the issued capital of MMJ Bioscience Inc was subsequently settled on 27 July 2015 upon the issue of 51,000,000 fully paid ordinary shares in the capital of the Company to the vendors of MMJ Bioscience.

In addition to the above, vendors of MMJ Bioscience Inc are entitled to receive up to a further 17,000,000 shares upon the satisfaction of the following performance milestones (“**Contingent Consideration**”):

- 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
- 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**”).

The Group has provisionally recognised the fair values of the identifiable assets and liabilities as at 2 July 2015, based upon the best information available as of the reporting date. Provisional business combination accounting is as follows:

	\$
Purchase consideration:	
Cash paid	-
Ordinary shares issued – 51 million shares issued at a deemed issue price of \$0.32 per share	16,320
Contingent share consideration -17 million shares	4,352
Total purchase consideration	<u>20,672</u>
Fair value attributable to assets acquired	<u>20,672</u>

The assets and liabilities recognised as a result of the acquisition are as follows:

	Book value \$'000	Fair value \$'000
Cash and cash equivalents	31	31
Inventory	496	496
Other assets	129	129
Property, plant & equipment	3,445	3,445
Goodwill	-	10,445
Identifiable Intangible Asset	-	8,672
Accounts and other payables	(303)	(303)
Borrowings	(2,242)	(2,242)
	<u>1,555</u>	<u>20,672</u>

### Significant Judgement

The Milestone 1 Consideration Shares have been valued using an underlying share price of \$0.32 per share and applying a 90% probability of achieving the milestone based on the Directors current expectation.

The Milestone 2 Consideration Shares have been valued using an underlying share price of \$0.32 per share and



# **MMJ PhytoTech Limited and its controlled entities**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

applying a 70% probability of achieving the milestone based on the Directors current expectation.

a.       Acquired receivables

There were no trade receivables acquired. Other receivables of \$42,615 were acquired.

b.       Revenue and profit contribution

The acquired business contributed revenues of \$273,670 and net loss of \$1,062,496 to the group for the period from 2 July 2015 to 31 December 2015.

c.       Acquisition related costs

Acquisition-related costs of \$656,850 that were not directly attributable to the issue of shares are included in the consolidated statement of profit or loss and other comprehensive income and in operating cash flows in the statement of cash flows. Acquisition-related costs of \$135,626 have been recognised in the previous period.

d.       Goodwill

The goodwill is attributable to the growth potential of new products Satipharm was poised to commence selling at the acquisition date, the value attributed to the strong management of United Greeneries and the market position of the existing business activities and expected cash flows to arise after the Company's acquisition of the new subsidiary. The goodwill will not be deductible for tax purposes.

e.       Identifiable Intangible Asset

The License at the Duncan Facility constitutes one of the key assets of the business and has been recognised as an identifiable intangible asset. An independent valuation of the License has been undertaken and while the License had not been granted at the acquisition date, correspondence with regulatory authorities, additional spending on facility infrastructure and preparation of comprehensive operating procedures in advance of pre licensing inspections was in the view of the independent valuer supporting the potential granting of a License and collectively constituting an identifiable intangible asset supporting the License.

The independent valuation of the fair value of the License has been determined from the present value of the future cash flow to be derived from the License over the estimated life of the asset. All future cash flows of the United Greeneries CGU will be derived from the existence of the asset. In addition, albeit that the License may need to be renewed periodically, it is expected that the License will effectively have and indefinite life.

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 16. Director and employee related expenses

Director and employee related expenses includes directors' fees, salaries and wages, mandatory statutory employee entitlements and other employee benefits paid by the Company.

A summary of contracts entered into with key management personnel during the period are set out in the table below:

Name	Base Salary	Performance-Based Incentives	Term	Notice period
Andrea Gedeon <i>Managing Director</i>	CAD \$330,000 per annum.*  *as at 31 December 2015 equivalent to AUD\$346,748	Cash or non-cash performance-based bonus of up to 50% of base salary, at the discretion of the Board	3 years effective from 27 July 2015	3 months
Benad Goldwasser <i>Chairman PhytoTech Therapeutics Ltd (Israel)</i>	AUD\$6,000 per month	-	Effective from 20 August 2015 until termination of the agreement.	None
Mike Hinam <i>CEO United Greeneries (Canada)</i>	CAD\$10,000 per month for the months 14 July 2015 to 14 September 2015 and after that CAD\$10,833 per month to 14 September 2016  *as at 31 December 2015 equivalent to \$10,687 AUD per month	Entitled to participate in the Company's ESOP. Entitled to receive employee benefits.	14 July 2015 to 14 September 2016	None
Tomas Edvinson <i>CEO Satipharm AG (Switzerland)</i>	CHF 5,000 per month from  *as at 31 December 2015 equivalent to \$6,925 AUD per month	Nil	Effective from April 2015	1 month
Gaelan Bloomfield <i>Manager Satipharm Australia</i>	AUD\$120,000 per annum	Nil	Effective from 1 October 2015 until termination of the agreement.	1 month (without cause)

The appointments of Messrs Bednar and McKay as non-executive directors are subject to the terms and conditions set out in their respective letters of appointment which came into effect from 27 July 2015. Messrs Bednar and McKay are entitled to receive a total of \$36,000 per annum in respect of directors' fees. None of the non-executive directors are entitled to termination payments.

### Note 17. Related Party Transactions

During the reporting period, in addition to ordinary remuneration outlined in Note 18 above, the Company engaged the services of the following related-parties on normal commercial terms and conditions no more favourable than those available to other parties:

- Steinpreis Paganin, an entity associated with Mr Peter Wall, received payments totalling \$63,274 in relation to legal services provided to the Company.
- Azalea Consulting Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling \$77,868 in relation to front office administration and company secretarial services provided to the Company.

# MMJ PhytoTech Limited and its controlled entities

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Valle Corporate Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling \$24,200 in relation to accounting and financial reporting services provided to the Company.
- Gelpell AG, an entity associated with Mr Tomas Edvinson, received payments totalling \$201,795 in relation to processing and manufacturing services provided to Satipharm AG in the production of the Company's CBD pills.

In addition to the above, as at 31 December 2015 the Group recorded a receivable of CAD\$80,898 for funds and accrued interest payable 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 January 2017 and has been granted on arm's length, commercial terms.

### Note 18. Events occurring after reporting date

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

#### *(a) Completion of MMPR Pre-Licence Inspection at Duncan Facility*

On 5 February 2016 the Company announced that Health Canada had completed an MMPR Pre-Licence Inspection of UG's Duncan Facility. Pre-Licence Inspection is the final stage prior to receiving a Cultivation License from HC under the MMPR.

MMJ is now awaiting a response from HC on the outcome of the Pre-licence inspection.

#### *(b) Release of Phase 1 Clinical Trial Results*

On 11 February 2016, the Company announced successful results from the Phase 1 clinical trials (Trial) conducted by its Israeli subsidiary, PhytoTech Therapeutics Ltd.

#### *(c) Legalisation of MC in Australia*

On 24 February 2016 the Australian Government passed legislation to provide for the legalisation of cannabis for medical purposes within Australia.

This news has provided an opportunity to significantly accelerate MMJ's strategic entry into the Australian market as it has defined a legal pathway for the domestic cultivation, refinement and manufacturing of medical cannabis products for the first time.

#### *(d) Allard et al Decision & Canadian Government indication of legalisation for recreational use*

On 24 February 2016, a Federal Canadian Court released its decision in the Allard et al. v. Canada case ruling in favour of Allard et al. In summary, Judge Michael Phelan ruled that the Marijuana for Medical Purposes Regulations ("MMPR") were an infringement on Canadian Charter of Rights ("Charter") due to the scope of the restrictions to access for entitled patients. The court gave the government six months to amend or replace the MMPR to reduce those restrictions.

At the heart of the Allard case was the right of Canadian patients to be able to grow their own Medical Cannabis ("MC"). A key feature of the MMPR in its current form is to commercialise the production of MC while prohibiting individual patients from growing their own supply, which was the main source of supply of MC under the MMAR (the predecessor of the MMPR). The plaintiffs in the Allard case challenged that the MMPR violates their Charter rights because it limits access of MC by revoking the right of patients to grow their own MC and forcing them to purchase MC from an MMPR Licensed Producer ("LP") at a significantly higher price.

The court highlighted that the ruling was not an attack on the overall substance or spirit of the MMPR but was based on the fact in its current form, the MMPR does not provide sufficient access to medical marijuana to those who need it.

In its ruling the court acknowledged the benefits of MC as a safe and affordable medicine for Canadian patients. Further, the very basis of the ruling is to enhance Canadian patient's access to MC in Canada.

# **MMJ PhytoTech Limited and its controlled entities**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

MMJ views the court ruling as a very positive endorsement of MC in Canada and believes that it will ultimately result in a stronger, safer and more widely utilized Canadian MC system. With regards to market volume, MMJ expects home growing to have little impact on the commercial production of medical cannabis, similar to the impact that home brewing of alcohol has to the beer industry.

### *(e) Capital Raising Activities*

On 29 February 2015, the Company agreed terms to issue 20,833,333 Shares, together with 10,416,666 Class G Options under a placement to raise a total of \$5 million (before costs). The Class G Options are unlisted options to acquire fully paid ordinary shares in the capital of the Company and are exercisable at \$0.36 on or before 1 March 2019.

As at the date of this report, all employees and key consultants to which the offers were made had accepted those offers, however the options had yet to be issued.

Aside from the matters noted above, no other matter or circumstance has arisen since 31 December 2015 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

# MMJ PhytoTech Limited and its controlled entities

## DIRECTORS DECLARATION

In the Directors' opinion:

- (a) The financial statements and notes are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements; and
  - (iii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of the performance, as represented by the results of their operations, changes in equity and the cash flows, for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295 (4) of the Corporations Act 2001.



Peter Wall  
Non-executive Chairman

Perth, Western Australia  
29 February 2016

## 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 consolidated statement of financial position as at 31 December 2015, 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 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 2015 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 2015 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

Without modifying our conclusion, we draw attention to Note 1(d) in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, substantial increase in sales and/or reducing costs. These conditions, along with other matters as set out in Note 1(d), indicate 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.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'J Prue', is written over a faint, light blue BDO logo.

Jarrad Prue

Director

Perth, 29 February 2016