

MMJ PhytoTech Limited
Appendix 4E
Preliminary Final Report

Company details

Name of entity:	MMJ PhytoTech Limited
ABN:	91 601 236 417
Reporting period:	For the year ended 30 June 2016
Previous period:	For the period 14 August 2014 to 30 June 2015

Results for Announcement to the Market

Key Information	2016 \$'000	2015 \$'000	% Change
Revenue from ordinary activities	292	48	508%
Loss after tax from ordinary activities attributable to members	(14,699)	(4,882)	(201)%
Net loss attributable to members	(14,699)	(4,882)	(201)%
	2016	2015	
Net Tangible Assets per Share	cents/share	cents/share	
Net tangible assets per share	4.14	8.05	

Dividends Paid and Proposed

There were no dividends declared or paid during the financial year. There was no also dividend reinvestment plan in operation during the financial year.

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income with Notes to the Statement

Refer to page 3 of the attached Preliminary Final Report and accompanying notes for MMJ PhytoTech Limited.

Unaudited Consolidated Statement of Financial Position with Notes to the Statement

Refer to page 4 of the attached Preliminary Final Report and accompanying notes for MMJ PhytoTech Limited.

Unaudited Consolidated Statement of Cash Flows with Notes to the Statement

Refer to pages 6 of the attached Preliminary Final Report and accompanying notes for MMJ PhytoTech Limited.

Control Gained or Lost over Entities in the Year

On 2 July 2015, the Company gained control over the following entities ahead of the completion of its acquisition of MMJ Bioscience Inc on 27 July 2015:

Company Name	Company Number	Country of Incorporation
United Greeneries Holdings Ltd (formerly MMJ Bioscience Inc)	BC1044683	Canada
United Greeneries Ltd.	BC0993871	Canada
United Greeneries Operations Ltd.	BC0966792	Canada
United Greeneries Saskatchewan Ltd	101280071	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.

Commentary on the Results for the Year

During the financial year, the Company completed the acquisition of Canadian based company MMJ Bioscience Inc and subsequently changed its name to MMJ PhytoTech Limited (ASX:MMJ). The Company was deemed to have gained control over MMJ Bioscience Inc on 2 July 2015 and accordingly the financial results set out in the attached Preliminary Final Report reflect those of the consolidated group from that date.

As a result of the acquisition, the principal activities of the Group during the 2016 financial year 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.

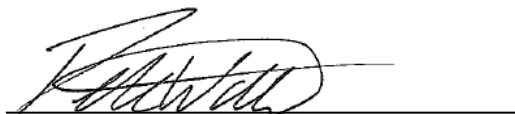
The Group reported a net loss after tax from ordinary activities of \$14,699,351 in FY16 (FY15: net loss of \$4,882,396). Losses at 30 June 2016 include an impairment of a portion of goodwill recognised on the acquisition of MMJ Bioscience Inc in the amount of \$7,876,371 which is attributable to lower than anticipated revenues being generated by the Group's pill production and distribution division, Satipharm AG. No such impairment was recognised against the Group's cultivation division, United Greeneries Holdings Ltd.

Accounting policies, estimation methods and measurement bases used in this Appendix 4E are the same as those used in the Company's last annual and half-year financial reports.

Status of Audit

The preliminary financial statements and accompanying notes for MMJ PhytoTech Limited have not been audited. Audited financial statements are scheduled for release in September 2016.

Signed



Peter Wall
Chairman

Date: 31 August 2016

MMJ PHYTOTECH LIMITED

ACN 601 236 417

(Formerly PhytoTech Medical Limited)

Preliminary Final Report

For the year ended 30 June 2016

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MMJ PhytoTech Limited and its controlled entities

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2016

	Notes	For the year ended 30 June 2016 \$'000	For the period 14 August 2014 to 30 June 2015 \$'000
Revenue from continuing operations			
Sales revenue	1	255	-
Cost of sales		(331)	-
Gross loss		(76)	-
Other income			
Interest income	1	37	48
Expenses			
Administration expenses		(1,359)	(409)
Acquisition introduction fee expense		(620)	-
Compliance and regulatory expenses		(335)	(85)
Consultancy and legal expenses		(713)	(947)
Depreciation expense		(68)	-
Director and employee related expenses		(2,070)	(622)
Equity based payments expense		(1,191)	(2,331)
Finance costs		(56)	(5)
Fair value gain on contingent deferred shares consideration		812	-
Marketing and investor relations		(429)	(138)
Research expense		(503)	(374)
Selling and distribution expenses		(24)	-
Net foreign exchange loss		(19)	(19)
Impairment of Investment in Other entities		(209)	-
Impairment of Intangible Assets	6	(7,876)	-
Loss before income tax		(14,699)	(4,882)
Income tax benefit/(expense)		-	-
Loss after income tax		(14,699)	(4,882)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		222	20
Other comprehensive income for the period		222	20
Total comprehensive loss for the period (net of tax)		(14,477)	(4,862)
Loss per share attributable to members of MMJ PhytoTech Limited:			
Basic and diluted loss per share (cents)	2	(10.7)	(16.3)

The above Unaudited 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

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Current assets			
Cash and cash equivalents	3	2,951	1,910
Trade and other receivables		398	147
Inventories	4	1,450	-
Total current assets		4,799	2,057
Non-current assets			
Plant and equipment	5	6,575	12
Intangible Assets	6	8,932	-
Goodwill	6	2,578	-
Loans to other entities		-	1,711
Loans to Directors		104	-
Other non-current assets		35	35
Total non-current assets		18,224	1,758
Total assets		23,023	3,815
Current liabilities			
Trade and other payables		647	221
Borrowings		92	-
Deferred consideration	7	2,083	-
Total current liabilities		2,822	221
Non-current liabilities			
Borrowings		398	-
Deferred consideration	7	1,588	-
Total non-current liabilities		1,986	-
Total liabilities		4,808	221
Net assets		18,215	3,594
Equity			
Contributed equity	8	32,706	5,828
Reserves		5,090	2,648
Accumulated losses		(19,581)	(4,882)
Total equity		18,215	3,594

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

MMJ PhytoTech Limited and its controlled entities

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 30 June 2016

	Contributed equity \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Share- based payments reserve \$'000	Total \$'000
Consolidated Group					
Balance at 14 August 2014	-	-	-	-	-
Loss for the period	-	(4,882)	-	-	(4,882)
Other comprehensive income	-	-	20	-	20
Total comprehensive loss for the period	-	(4,882)	20	-	(4,862)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	5,828	-	-	-	5,828
Share based payments	-	-	-	2,628	2,628
Balance at 30 June 2015	5,828	(4,882)	20	2,628	3,594
Loss for the period	-	(14,699)	-	-	(14,699)
Other comprehensive income	-	-	222	-	222
Total comprehensive loss for the period	-	(14,699)	222	-	(14,477)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	26,878	-	-	-	26,878
Share based payments	-	-	-	2,220	2,220
Balance at 30 June 2016	32,706	(19,581)	242	4,848	18,215

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

MMJ PhytoTech Limited and its controlled entities

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 30 June 2016

	Notes	For the year ended 30 June 2016 \$'000	For the period 14 August 2014 to 30 June 2015 \$'000
Cash flows from operating activities			
Receipts from customers		255	-
Interest received		37	33
Payments to employees and suppliers		(6,705)	(2,145)
Payments for research expense		(481)	(312)
Payments for patent expenses		(22)	(62)
Interest paid		(56)	(5)
Net cash (outflow) from operating activities	9	(6,972)	(2,491)
Cash flows from investing activities			
Payments for property, plant and equipment		(2,995)	(12)
Loans to Directors		(104)	-
Cash acquired from business acquisition		31	-
Loan to MMJ Bioscience		-	(1,423)
Debenture paid/received		288	(288)
Investment in Other entities		(209)	-
Net cash (outflow) from investing activities		(2,989)	(1,723)
Cash flows from financing activities			
Proceeds from issue of shares		11,800	6,893
Repayment of borrowings		(94)	-
Consideration received for performance rights		-	1
Share issue costs		(704)	(770)
Net cash inflow from financing activities		11,002	6,124
Net increase in cash held		1,041	1,910
Cash at the beginning of the period		1,910	-
Cash at the end of the period		2,951	1,910

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

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

1. Revenue and Expenses

	For the year ended 30 June 2016 \$'000	For the period of 14 August 2014 to 30 June 2015 \$'000
(a) Revenue from continuing operations		
Sales revenue – CBD Gelpell pills	255	-
<i>Other revenue</i>		
Interest received	37	48
	292	48
(b) Expenses		
Research expense	481	312
Patent costs	22	62
Advisors and consultants	567	622
Employee benefits expense		
Salary and wages	2,070	622
Share-based payment expense	1,191	2,331
Net foreign exchange loss	19	19
Fair value (gain) on contingent deferred shares consideration	(812)	-

2. Loss per share

	2016 cents	2015 cents
(a) Basic loss per share	(10.7)	(16.3)
Weighted average number of shares used as the denominator	2016 Number	2015 Number
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share.	137,783,002	29,923,719
Adjustments for calculation of diluted earnings per share:		
Options	22,655,449	2,076,250
Losses used in calculating losses per share		
Net loss	(14,699,351)	(4,882,396)
(b) Diluted Loss Per share		

As the Company has made a loss for the year ended 30 June 2016, the options on issue have no dilutive effect therefore diluted earnings per share is equal to basic earnings per share.

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

	For the year ended 30 June 2016 \$'000	For the period of 14 August 2014 to 30 June 2015 \$'000
3. Cash and cash equivalents		
Cash at bank and on hand	2,921	1,880
Short term deposits and deposits on call	30	30
	2,951	1,910
4. Inventories		
Raw materials - CBD	435	-
Finished goods inventory – CBD Gelpell pills	1,015	-
	1,450	-
5. Plant and Equipment		
Plant and equipment		
Carrying amount at 1 July	10	-
Additions	6,594	10
Less depreciation	(62)	-
Carrying amount at 30 June	6,542	10
Office equipment		
Carrying amount at 1 July	2	-
Additions	37	2
Less depreciation	(6)	-
Carrying amount at 30 June	33	2
	6,575	12
6. Intangible assets		
Goodwill (i)		
Additions	10,445	-
Impairment charge	(7,876)	-
Exchange differences	9	-
Net carrying amount	2,578	-
Identifiable Intangible Asset - License (i)		
Additions	8,672	-
Impairment charge	-	-
Exchange differences	260	-
Net carrying amount	8,932	-
Total at 30 June	11,510	-

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

6. Intangible assets (Continued)

- (i) Intangible assets were recognised upon the acquisition of MMJ Bioscience Inc as set out in Note 7 Business Combination below and are attributable to the two core businesses the Company acquired as part of that transaction, being:
- United Greeneries – the Group’s medical cannabis cultivation division which owns and operates the MMPR licensed Duncan Facility in Canada together with the early stage Lucky Lake facility which is also based in Canada.
 - Satipharm – the Group’s cannabinoid-based food supplements processing division which manufactures and sells the Group’s CBD Gelpell capsules.

A breakdown of the acquired goodwill and identifiable intangible assets across the above two reporting segments are as follows:

	United Greeneries Holdings Ltd \$'000	Satipharm AG \$'000	Total \$'000
Identifiable intangible assets			
Duncan Facility License	8,672	-	8,672
Impairment charge	-	-	-
Exchange difference	260	-	260
Total Identifiable intangible assets at 30 June 2016	8,932	-	8,932
Goodwill			
Goodwill at acquisition	313	10,132	10,445
Impairment charge	-	(7,876)	(7,876)
Exchange differences	9	-	9
Total Goodwill at 30 June 2016	322	2,256	2,578

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

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

The following key assumptions were used in the calculations:

	Growth Rate	Discount Rate
United Greeneries – cultivation	2%	18.09%
Satipharm - processing and distribution	2%	29.36%

Due to a reduction in Satipharm’s pill sales forecasts as a result of the lower than anticipated revenues generated by that business to date, the Group recorded an impairment to goodwill recognised in respect of Satipharm of \$7,876,371.

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

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

7. 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:

	\$'000
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><u>20,672</u></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	494	494
Other assets	129	129
Property, plant & equipment	3,446	3,446
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>

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

7. Business combination (Continued)

Significant Judgement

The Milestone 1 Consideration Shares (8,500,000 shares) were valued at the acquisition date at \$2,448,000 using an underlying share price of \$0.32 per share and applying a 90% probability of achieving the milestone. At 30 June 2016 the Milestone 1 Consideration Shares are valued at \$2,082,500 using the closing share price of \$0.245 and applying a 100% probability of achieving the milestone as a cultivation license was granted on 28 June 2016.

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

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 \$255,340 and net loss of \$2,156,170 to the group for the period from 2 July 2015 to 30 June 2016.

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, which was granted on 28 June 2016, has been undertaken.

The independent valuation of the fair value of the License has been determined based on the present value of the estimated future cash flows to be derived from the License over the estimated life of the asset. All estimated 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 an indefinite life.

8. Contributed equity

(a) Share capital

	2016		2015	
	Number	\$'000	Number	\$'000
Ordinary fully paid shares	161,926,147	32,706	44,662,050	5,828

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

8. Contributed equity (Continued)

Movements in ordinary share capital

Date	Details	Number of Shares	Issue price \$	\$'000
14 Aug 2014	Opening Balance	-		-
14 Aug 2014	Seed capital	12,000,000	0.08	960
14 Aug 2014	Promoter shares issued	3,000,000	-	1
20 Jan 2015	IPO issue	29,662,050	0.20	5,932
	Share issue expenses (cash)	-		(770)
	Share issue expenses (non-cash)	-		(295)
30 Jun 2015	Closing Balance	44,662,050		5,828
1 Jul 2015	Opening Balance	44,662,050		5,828
27 Jul 2015	Acquisition consideration shares	51,000,000	0.32*	16,320
27 Jul 2015	Acquisition introducers fee shares	1,530,000	0.32*	490
27 Jul 2015	Conversion of performance rights	12,083,332	-	510
5 Aug 2015	Placement	16,000,000	0.30	4,800
5 Aug 2015	Capital Raising Fee	313,333	0.30*	94
21 Aug 2015	Conversion of performance rights	3,750,000	-	71
9 Sep 2015	Conversion of performance rights	5,000,000	-	95
23 Oct 2015	Placement	6,557,377	0.305	2,000
23 Oct 2015	Capital Raising Fees	196,722	0.305*	60
1 Mar 2016	Placement	16,150,000	0.24	3,876
4 Mar 2016	Placement	4,683,333	0.24	1,124
	Share issue expenses (cash)	-		(704)
	Share issue expenses (non-cash)	-		(1,858)
30 June 2016	Closing Balance	161,926,147		32,706

* Deemed issue price

(b) Performance rights

	2016		2015	
	Number	\$'000	Number	\$'000
Performance Rights	19,083,334	1,301	30,000,000	1,943

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NOTES TO THE PRELIMINARY FINAL REPORT

8. Contributed equity (Continued)

Movement in performance rights

Date	Details	Notes	Number of Performance Rights	\$'000
14 Aug 2014	Opening Balance		-	-
28 Aug 2014	Issue of performance rights to directors		18,000,000	1,629
28 Aug 2014	Issue of performance rights to Cicero Advisory Services Pty Ltd		12,000,000	312
30 June 2015	Consideration paid by directors @ \$0.0001 per Performance Right		-	2
30 June 2015	Balance		30,000,000	1,943
1 July 2015	Opening Balance		30,000,000	1,943
27 Jul 2015	Conversion of Class A performance rights		(5,541,666)	(205)
27 Jul 2015	Issue of Class B performance rights upon conversion of Class A performance rights	(i)	5,541,666	-
27 Jul 2015	Conversion of Class B performance rights		(5,541,666)	(6)
27 Jul 2015	Conversion of Class C performance rights		(1,000,000)	(300)
21 Aug 2015	Conversion of Class A performance rights		(1,875,000)	(69)
21 Aug 2015	Issue of Class B performance rights upon conversion of Class A performance rights	(i)	1,875,000	-
21 Aug 2015	Conversion of Class B performance rights		(1,875,000)	(2)
9 Sep 2015	Conversion of Class A performance rights		(2,500,000)	(92)
9 Sep 2015	Issue of Class B performance rights upon conversion of Class A performance rights	(i)	2,500,000	-
9 Sep 2015	Conversion of Class B performance rights		(2,500,000)	(3)
30 June 2016	Revaluation of Class C and Class D performance rights		-	35
30 June 2016	Closing Balance		19,083,334	1,301

- (i) During the 2016 financial year, the Company issued a total of 9,916,666 Class B Performance Rights upon the conversion of 9,916,666 Class A Performance Rights in accordance with the terms and conditions attaching to the Class A Performance Rights.

(c) Options

	2016		2015	
	Number	\$'000	Number	\$'000
Options	36,857,782	3,546	7,350,000	686

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

8. Contributed equity (Continued)

Movement in options on issue

Date	Details	Number of Performance Rights	\$'000
14 Aug 2014	Opening Balance		
20 Jan 2015	Issue options – Class A exercisable at \$0.20 each expiring 8 January 2018	2,500,000	295
7 May 2015	Issue options to directors – Class B exercisable at \$0.20 each expiring 6 May 2019	4,500,000	191
7 May 2015	Issue options to directors – Class C exercisable at \$0.31 each expiring 6 May 2019	350,000	21
29 June 2015	Issue options to directors – Class D exercisable at \$0.40 each expiring 24 July 2018	- ¹	62
29 June 2015	Issue options to directors – Class E exercisable at \$0.20 each expiring 24 July 2018	- ²	117
30 June 2015	Balance	7,350,000	686
1 July 2015	Opening Balance	7,350,000	686
27 July 2015	Issue options to directors – Class D exercisable at \$0.40 each expiring 24 July 2018	1,000,000	- ¹
27 July 2015	Issue options to directors – Class E exercisable at \$0.20 each expiring 24 July 2018	1,500,000	- ²
27 July 2015	Issue options to directors – Class D exercisable at \$0.40 each expiring 24 July 2018	2,500,000	186
5 Aug 2015	Issue options for payment of capital raising fees - Class F exercisable at \$0.45 each expiring 8 September 2018	7,000,000	1,130
23 Oct 2015	Issue options for pursuant to capital raising - Class F exercisable at \$0.45 each expiring 8 September 2018	1,311,475	-
9 Dec 2015	Issue options for payment of capital raising fees - Class F exercisable at \$0.45 each expiring 8 September 2018	2,500,000	388
4 Mar 2016	Issue options to employees under ESOP - Class H exercisable at \$0.27, each expiring 31 January 2020	1,779,641	233
27 Apr 2016	Issue options pursuant to capital raising - Class G exercisable at \$0.36 each expiring 1 March 2019	10,416,666	-
27 Apr 2016	Issue options for payment of capital raising fees - Class G exercisable at \$0.36 each expiring 1 March 2019	1,500,000	186
30 June 2016	Vesting of options issued in prior year	-	737
30 June 2016	Closing Balance	36,857,782	3,546

¹ – 1,000,000 Class D Options were approved by shareholders at 29 June 2015, however were not issued until 27 July 2015.

² – 1,500,000 Class E Options were approved by shareholders at 29 June 2015, however were not issued until 27 July 2015.

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

9. Reconciliation to the Statement of Cash Flows

	For the year ended 30 June 2016 \$'000	For the period of 14 August 2014 to 30 June 2015 \$'000
(i) Reconciliation of cash and cash equivalents:		
Cash at bank	2,951	1,910
(ii) Reconciliation of cash flows from operating activities with loss after income tax		
Operating loss after income tax	(14,699)	(4,882)
<i>Non-cash items</i>		
Depreciation	68	-
Equity based payments	1,191	2,331
Acquisition introduction fee	563	-
Deferred acquisition introduction fee	57	-
(Gain) on deferred shares liability	(812)	-
Impairment of investment in other entities	209	-
Impairment of intangible asset	7,876	-
Net foreign exchange (gains)/loss	(19)	(20)
<i>Change in operating assets and liabilities</i>		
(Increase)/decrease in receivables	(137)	(177)
(Increase)/decrease in inventories	(1,450)	-
Increase/(decrease) in payables	124	220
Increase/(decrease) in other assets	57	37
Net cash used in operating activities	(6,972)	(2,491)

(iii) Non-cash financing and investing activities

Non-cash financing or investing activities were undertaken as part of the acquisition of MMJ Bioscience Inc. These activities are outlined in Note 7 Business Combination.

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

10. Segment information

During the period to 30 June 2016, the consolidated entity is organised into four operating segments:

- Cultivation;
- Processing and distribution;
- Clinical research; and
- Other

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.

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.

(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 research

Segment activities include clinical research 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.

(iv) Other

Other includes treasury, corporate and regulatory expenses arising from operating an ASX listed entity. Segment assets, including cash and cash equivalents, and investments in financial assets are reported 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 last annual and half-year 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.

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

10. Segment information (Continued)

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.

Operating Segments

For the Period 14 August 2014 to 30 June 2015

	Cultivation \$'000	Processing and distribution \$'000	Clinical research \$'000	Other \$'000	Total \$'000
Revenue					
Sales to external customers	-	-	-	-	-
Total revenue	-	-	-	-	-
Research expenses	-	-	(312)	-	(312)
Advisors and consultants	-	-	-	(622)	(622)
Legal fees	-	-	-	(324)	(324)
Employee costs	-	-	-	(2,641)	(2,641)
Other expenditures	-	-	(62)	(968)	(1,030)
EBITDA	-	-	(374)	(4,555)	(4,929)
Depreciation and amortisation					-
Interest revenue					48
Finance costs					(1)
Profit before income tax expense					(4,882)
Income tax expense					-
Loss after income tax expense					(4,882)
As at 30 June 2015					
Total Assets	-	-	-	3,815	3,815
Total Liabilities	-	-	-	221	221

MMJ PhytoTech Limited and its controlled entities

NOTES TO THE PRELIMINARY FINAL REPORT

10. Segment information (Continued)

For the year ended 30 June 2016

	Cultivation \$'000	Processing and distribution \$'000	Clinical research \$'000	Other \$'000	Total \$'000
Revenue					
Sales to external customers	-	255	-	-	255
Total revenue	-	255	-	-	255
Cost of sales	-	(331)	-	-	(331)
Research expenses	-	-	(503)	-	(503)
Advisors and consultants	(63)	(101)	-	(404)	(568)
Legal fees	-	(28)	(38)	(80)	(146)
Employee costs	(751)	(71)	(639)	(609)	(2,070)
Equity based payments	(171)	-	(353)	(667)	(1,191)
Other expenditures	(582)	(157)	(122)	(1,905)	(2,766)
EBITDA	(1,567)	(433)	(1,655)	(3,665)	(7,320)
Depreciation					(68)
Interest revenue					37
Finance costs					(56)
Net loss on foreign exchange					(19)
Gain on contingent deferred shares consideration					812
Impairment of investment in other entities					(209)
Impairment of Intangible Assets					(7,876)
Profit before income tax expense					(14,699)
Income tax expense					-
Profit after income tax expense					(14,699)
As at 30 June 2016					
Total Assets	16,806	3,982	677	1,558	23,023
Total Liabilities	618	162	115	3,913	4,808