

## 1. Company details

Name of entity:	MMJ PhytoTech Limited
ABN:	91 601 236 417
Reporting period:	For the half-year ended 31 December 2017
Previous period:	For the half-year ended 31 December 2016

## 2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	100% to	182
Loss from ordinary activities after tax attributable to the owners of MMJ PhytoTech Limited	up	135.6% to	(10,622)
Loss for the half-year attributable to the owners of MMJ PhytoTech Limited	up	135.6% to	(10,622)

### *Dividends*

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

### *Comments*

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$10,622,000 (31 December 2016: \$4,508,000). The loss for the period included share-based payments of \$7,356,000.

### **Financial Position**

The net assets of the consolidated entity increased by \$8,824,000 to \$50,699,000 as at 31 December 2017 (30 June 2017: \$41,875,000). The increase in net assets was mostly due to additional capital raisings completed during the period.

Working capital, being current assets less current liabilities, was \$35,817,000 (30 June 2017: \$22,434,000), which indicates the consolidated entity can sufficiently cover its current debts as and when they fall due.

## 3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>18.46</u>	<u>4.63</u>

## 4. Control gained over entities

Not applicable.

## 5. Loss of control over entities

Not applicable.

## 6. Dividends

### *Current period*

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

*Previous period*

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

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**7. Dividend reinvestment plans**

Not applicable.

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**8. Details of associates and joint venture entities**

Not applicable.

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**9. Foreign entities**

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

Not applicable.

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**10. Audit qualification or review**

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

The financial statements were subject to a review by auditors, BDO Audit (WA) Pty Ltd, and the review report is attached as part of the Half-Year Financial Report.

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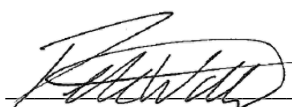
**11. Attachments**

*Details of attachments (if any):*

The Half-Year Financial Report of MMJ PhytoTech Limited for the half-year period ended 31 December 2017 is attached.

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**12. Signed**



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Peter Wall  
Non-executive Chairman

Date: 28 February 2018

# **MMJ PhytoTech Limited**

**ABN 91 601 236 417**

## **Half-Year Financial Report - 31 December 2017**

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Directors	Peter Wall (Non-Executive Chairman) Winton Willesee (Non-Executive Director) Jason Bednar (Non-Executive Director)
Chief Executive Officer	Jason Conroy
Company secretary	Erlyn Dale
Registered office	Suite 5 CPC 145 Stirling Highway Nedlands WA, Australia 6009
Principal place of business	Suite 5 CPC 145 Stirling Highway Nedlands WA, Australia 6009
Share register	Automic Registry Services Level 2 267 St Georges Terrace Perth WA, Australia 6000
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA, Australia 6008
Stock exchange listing	MMJ PhytoTech Limited securities are listed on the Australian Securities Exchange (ASX code: MMJ)  Harvest One Cannabis Inc. securities are listed on the Toronto Stock Exchange (TSXV: HVT)
Website	<a href="http://www.mmjphytotech.com.au">www.mmjphytotech.com.au</a>

**MMJ PhytoTech Limited (ASX: MMJ)** (“MMJ” or “the Company”) is pleased to provide its review of operations for the half-year period ended 31 December 2017.

### **Investment Portfolio**

During the half-year period, MMJ announced it would focus on operating as a global cannabis sector investment company. As part of this focus, MMJ invested in the following companies:

- ASX-listed life sciences company **eSense-Lab Ltd** (“eSense” or “ESE”) (ASX: ESE). MMJ acquired 2,500,000 ordinary shares in eSense at the price of A\$0.20 per share. Subject to ESE shareholders approval, MMJ will receive 1 free option for every 2 shares issued at a \$0.30 exercise price and expiry date of 3 years from date of issue;
- Canadian cannabis producer **Weed Me Inc.** (“Weed Me”). MMJ subscribed for C\$2 million in secured convertible debentures, which are convertible into shares and warrants in Weed Me, based on pre-money valuation of C\$9.2 million; and
- Canadian healthcare company **Dosecann Inc.** (“Dosecann”). Post-period end, MMJ subscribed for C\$2.5 million in secured convertible debentures, which are convertible into shares and warrants in Dosecann, based on pre-money valuation of C\$11.5 million.

In addition to the above investments, the Company maintained its two existing investments in Harvest One Cannabis Inc and PhytoTech Therapeutics Limited.

#### ***Harvest One Cannabis Inc. (TSX-V: HVT) (MMJ owns 53,333,333 shares)***

Post-period end, Harvest One closed its “bought deal” offering of C\$40,250,000 of units (“Units”) of the Company, at a price of C\$1.82 per Unit (the “Offering”), which included the exercise of the over-allotment option granted to the Underwriters (defined below) in full. Each Unit consisted of one common share (“Common Share”) and one Common Share purchase warrant (“Warrant”). Each Warrant entitles the holder thereof to purchase one Common Share (a “Warrant Share”) at an exercise price of C\$2.30 per Warrant Share at any time up to 31 January 2020. In connection with the listing of the Warrants, Harvest One changed its trading symbol to “HVT”.

Post-period end, Harvest One entered into an engagement letter with Mackie Research Capital Corporation (as the lead underwriter and sole bookrunner), on behalf of a syndicate of Underwriters, including Haywood Securities Inc., and Eight Capital, to purchase a short form prospectus offering to C\$35,000,000 of Debenture Unit (“Units”) of the Company, at a price of C\$1.82 per Unit (the “Offering Price”).

Harvest One intends to use the net proceeds of the Offering for the expansion of strategic indoor growing facilities, further development of its Satipharm Gelpell products, and for working capital and general corporate purposes. Accordingly, post-period end, Harvest One wholly owned subsidiary, United Greeneries (“UG”), announced its expansion targets of 20,000kg dried cannabis flower capacity by YE 2018 and 70,000kg dried flower capacity by YE 2019 set to be fully funded by Harvest One’s existing cash position of around C\$80m.

#### ***PhytoTech Therapeutics Limited (PhytoTech) (MMJ 100%)***

During the half-year, results from the Phase 1 Clinical Trial undertaken by PhytoTech were published. The article “Single-Dose Pharmacokinetics of Oral Cannabidiol Following Administration of PTL101: A New Formulation Based on Gelatin Matrix Pellets Technology” was published in Clinical Pharmacology in Drug Development (“CPDD”).

### **Key Management Changes**

Post-period end, Jason Conroy was appointed Chief Executive Officer of MMJ effective from 26 February 2018. Andreas Gedeon retired as Managing Director and CEO of MMJ to devote his attention to leading Harvest One.

During the period, MMJ advised that PhytoTech's Chief Executive Officer, Dr Daphna Heffetz, had resigned effective 31 December 2017. MMJ's Chief Operating Officer, Catherine Harvey, is now leading PhytoTech's research and development initiatives.

### **Investor Presentation**

An investor presentation setting out MMJ's investment strategy and portfolio was lodged with the ASX on 27 February 2018. Investors are encouraged to review that presentation.

The directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity') consisting of MMJ PhytoTech Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year period ended 31 December 2017.

### **Directors**

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

Peter Wall (Non-Executive Chairman)  
Winton Willesee (Non-Executive Director)  
Jason Bednar (Non-Executive Director)  
Andreas Gedeon (Managing Director) (retired on 26 February 2018)

### **Principal activities**

During the financial half-year ended 31 December 2017, the principal continuing activities of the consolidated entity consisted of:

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

### **Dividends**

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

### **Review of operations**

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$10,622,000 (31 December 2016: \$4,508,000).

Refer to the detailed Review of Operations preceding this Directors' Report.

### **Significant changes in the state of affairs**

On 14 November 2017, the Company agreed to invest \$500,000 in ASX listed Israeli life sciences company eSense-Lab Limited (ASX: ESE). The Company will be issued 2,500,000 ordinary shares in ESE at the price of \$0.20 (20 cents) per share, and will receive 1 free option for every 2 shares issued at a \$0.30 (30 cents) exercise price and expiry date of 3 years from date of issue (subject to ESE shareholder approval).

On 20 November 2017, the Company announced Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) (Harvest One) entered into an agreement with Mackie Research Capital Corporation (as the lead underwriter and sole bookrunner), on behalf of a syndicate of Underwriters pursuant to which the Underwriters have agreed to purchase, on a bought deal basis and sell to the public, 15,000 convertible debenture units of Harvest One at a price of C\$1,000 per Debenture Unit (the "Offering Price"), for aggregate gross proceeds of C\$15 million (the "Offering").

Harvest One also granted the Underwriters an option (the "Over-Allotment Option") exercisable in whole or in part, at any time up to 30 days after the closing of the Offering to purchase up to an additional 2,250 Debenture Units at the Offering Price. If the Over-Allotment Option is exercised in its entirety, the aggregated gross proceeds of the Offering will be C\$17.25 million.

On 21 November 2017, the Company announced Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) (Harvest One) entered into a revised engagement letter with Mackie Research Capital Corporation (as the lead underwriter and sole bookrunner), on behalf of a syndicate of Underwriters to increase the size of the previously announced bought short form prospectus offering to 17,500 convertible debenture units of Harvest One at a price of C\$1,000 per Debenture Unit (the "Offering Price"), for aggregate gross proceeds of C\$17.5 million (the "Offering").

Harvest One also granted the Underwriters an option (the "Over-Allotment Option") exercisable in whole or in part, at any time up to 30 days after the closing of the Offering to purchase up to an additional 2,625 Debenture Units at the Offering Price. If the Over-Allotment Option is exercised in its entirety, the aggregated gross proceeds of the Offering will be C\$20.13 million.

On 12 December 2017, the Company announced that it had entered into an agreement to strengthen its position in the Canadian cannabis sector via the proposed subscription of C\$2 million in secured convertible debentures in Toronto-based Weed Me Inc. (Weed Me). The Debentures are convertible into shares and warrants in Weed Me based on a pre-money valuation of C\$10 million.

On 18 December 2017, the Company announced Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) (Harvest One) entered into a binding purchase agreement for 398 acres of agricultural land in British Columbia. The closing of the acquisition of the property remains subject to the satisfaction of customary conditions, including the completion of satisfactory due diligence. The transaction is expected to close on 1 March 2018. The purchase price for the property is C\$949,000.

On 29 December 2017, the Company announced that it had finalised due diligence and signed the formal agreement to subscribe for C\$2 million in secured convertible debentures in Toronto-based Weed Me Inc.

#### *Issue of securities*

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

On 15 November 2017, the Company issued 1,500,000 fully paid ordinary shares upon the exercise of 1,000,000 Class B options and 500,000 Class E options at an exercise price of \$0.20 (20 cents) per option raising a total of \$300,000.

The Company issued 98,750 fully paid ordinary shares upon the exercise of 98,750 Class H options at an exercise price of \$0.27 (27 cents) per option raising a total of \$26,663.

On 12 December 2017, the Company issued 1,000,000 fully paid ordinary shares upon the exercise of 1,000,000 Class B options at an exercise price of \$0.20 (20 cents) per option raising a total of \$200,000.

The Company issued 56,250 fully paid ordinary shares upon the exercise of 56,250 Class H options at an exercise price of \$0.27 (27 cents) per option raising a total of \$15,188.

The Company issued 4,125,000 each of Class E, Class F and Class G performance rights to certain Directors and Officers of the Company under the Company's Performance Rights Plan, as approved by shareholders at the AGM held on 29 November 2017. These performance rights were issued for a cash consideration of \$1,239, vesting upon the earlier of the holder achieving continuous service until 31 December 2017, 30 June 2018 and 31 December 2019 for Class E, F and G respectively or the five trading day VWAP of MMJ shares traded on the ASX reaching \$0.50 (50 cents).

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

#### **Matters subsequent to the end of the financial half-year**

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

On 9 January 2018, the Company announced Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) entered into an agreement with Mackie Research Capital Corporation (as the lead underwriter and sole bookrunner) to complete a C\$25 million short form prospectus offering (the "Offering") of units of Harvest One on a bought deal basis, at a price of C\$1.82 per Unit.

Under the Offering, each Unit will consist of one common share and one common share purchase warrant. Each warrant shall entitle the holder thereof purchase one common share at an exercise price of C\$2.30 per warrant share at any time up to 24 months following the closing of the Offering.

Harvest One had also granted the Underwriters an option (the "Over-Allotment Option") exercisable in whole or in part, at any time up to 30 days after the closing of the Offering to purchase up to an additional 15% of the number of Units issued pursuant to the Offering at the Offering price. If the Over-Allotment Option is exercised in its entirety, the aggregated gross proceeds of the Offering will be C\$28.75 million.

On 9 January 2018, the Company advised that Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) (Harvest One) announced upsize of its previously announced bought short form prospectus offering of Units to C\$35 million. Harvest One had also granted the Underwriters an option (the "Over-Allotment Option") exercisable in whole or in part, at any time up to 30 days after the closing of the Offering to purchase up to an additional 15% of the number of Units issued pursuant to the Offering at the Offering price. If the Over-Allotment Option is exercised in its entirety, the aggregated gross proceeds of the Offering will be C\$40.25 million.

On 12 January 2018, the Company issued 1,036,885 fully paid ordinary shares upon the exercise of 1,036,885 Class F options at an exercise price of \$0.45 (45 cents) per option raising a total of \$466,598.

The Company issued 1,000,000 fully paid ordinary shares upon the exercise of 1,000,000 Class I options at an exercise price of \$0.24 (24 cents) per option raising a total of \$240,000.

On 30 January 2018, the Company announced that it had entered into an agreement to acquire a strategic state in private, Canadian-based healthcare company Dosecann Inc. (Dosecann), via the proposed placement of C\$2.5 million in secured convertible debenture units. The Debentures are convertible in shares and warrants in Dosecann based on a pre-money valuation of C\$11.5 million.

On 31 January 2018, the Company advised that Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) (Harvest One) had closed its previously announced "bought deal" offering of C\$40.25 million of units of Harvest One, at a price of C\$1.82 per unit, which included the exercise of the over-allotment option granted to the Underwriter in full.

On 1 February 2018, the Company issued 900,000 fully paid ordinary shares upon the exercise of 900,000 Class B options at an exercise price of \$0.20 (20 cents) per option raising a total of \$180,000.

The Company issued 250,000 fully paid ordinary shares upon the exercise of 250,000 Class F options at an exercise price of \$0.45 (45 cents) per option raising a total of \$112,500.

The Company issued 1,500,000 unlisted Class K options under the Company's employee incentive plan. These options are exercisable at \$0.35 (35 cents) per option on or before 31 October 2021 and vest quarterly over three years, subject to the holder continuing to be employed by the Company.

On 19 February 2018, the Company announced the appointment of Jason Conroy as Chief Executive Officer of MMJ effective from 26 February 2018. The Company intends to issue the following performance rights to Mr Conroy in accordance with the rules of the Performance Rights Plan approved by MMJ's shareholders in November 2017:

- 2,000,000 Performance Rights that vest immediately upon the 20 day VWAP of MMJ's Shares on the ASX being at or above \$0.60 within 48 months from the date of grant;
- 2,000,000 Performance Rights that vest immediately upon the 20 day VWAP of MMJ's Shares on the ASX being at or above \$0.80 within 48 months from the date of grant; and
- 2,000,000 Performance Rights that vest immediately upon the 20 day VWAP of MMJ's Shares on the ASX being at or above \$1.00 within 48 months from the date of grant.

Andreas Gedeon retired as Managing Director and CEO of MMJ on 26 February 2018 to devote his attention as the CEO and Managing Director of TSX-V-listed Harvest One Cannabis Inc.

The Company's ownership in Harvest One decreased to 35.83% due to additional conversions of the Convertible Debentures by unit holders (Note 13), conversion of warrants into common shares in Harvest One and the equity financing in Harvest One outline above. It is anticipated that, prior to the year ended 30 June 2018, the Company will no longer exert control over Harvest One due to the decreased ownership percentage and a differentiation of board members in Harvest One and MMJ. Once control over Harvest One is relinquished, the accounts of Harvest One will no longer be consolidated with those of the Company.

On 23 February 2018, the Company advised that Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) (Harvest One) announced it will be exercising its option to convert the remaining principal amount of Convertible Debentures outstanding into common shares of Harvest One at a price of C\$0.84 as the VWAP of the Harvest One's common shares exceeds C\$1.40 per share for 30 consecutive trading days. The Mandatory Conversion is expected to be completed on or about 28 March 2018.

Other than as disclosed within this report, no other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Rounding of amounts**

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

**Auditor's independence declaration**

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

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

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Peter Wall', written over a horizontal line.

Peter Wall  
Non-executive Chairman

28 February 2018

## 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 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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  
Location, 28 February 2018

**MMJ PhytoTech Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the half-year ended 31 December 2017**



		<b>Consolidated</b>	
		<b>31 December 2017</b>	<b>31 December 2016</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>			
Sales revenue		182	-
Cost of sales		(516)	-
Gross profit		(334)	-
Interest received		64	11
Loss on contingent deferred consideration shares	12	(674)	(102)
Gain on changes in fair value of biological assets		1,120	-
<b>Expenses</b>			
Directors and employee related expenses		(1,663)	(979)
Depreciation and amortisation expense		(522)	(18)
Finance costs		(770)	(24)
Marketing and investor relations		(419)	(246)
Administration expenses		(1,213)	(918)
Consultancy and legal expenses		(589)	(151)
Research and development expense		(182)	(331)
Compliance and regulatory expenses		(258)	(361)
Equity based payments expense	23	(7,356)	(421)
Net foreign exchange loss		(94)	(57)
Impairment of inventory	5	(214)	(911)
<b>Loss before income tax expense</b>		<b>(13,104)</b>	<b>(4,508)</b>
Income tax expense		-	-
<b>Loss after income tax expense for the half-year</b>		<b>(13,104)</b>	<b>(4,508)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		470	31
Changes in the fair value of available for sale financial asset		250	-
Other comprehensive income for the half-year, net of tax		720	31
<b>Total comprehensive income for the half-year</b>		<b>(12,384)</b>	<b>(4,477)</b>
Loss for the half-year is attributable to:			
Non-controlling interest		(2,482)	-
Owners of MMJ PhytoTech Limited		(10,622)	(4,508)
		<b>(13,104)</b>	<b>(4,508)</b>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		(2,482)	-
Owners of MMJ PhytoTech Limited		(9,902)	(4,477)
		<b>(12,384)</b>	<b>(4,477)</b>

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

**MMJ PhytoTech Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the half-year ended 31 December 2017**



	Note	Consolidated	
		31 December 2017	31 December 2016
		\$'000	\$'000
		Cents	Cents
Basic earnings per share	22	(5.06)	(2.50)
Diluted earnings per share	22	(5.06)	(2.50)

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

**MMJ PhytoTech Limited**  
**Statement of financial position**  
**As at 31 December 2017**



		<b>Consolidated</b>	
		<b>31 December</b>	
	<b>Note</b>	<b>2017 \$'000</b>	<b>30 June 2017 \$'000</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		36,106	23,801
Trade and other receivables	4	766	434
Inventories	5	2,100	1,242
Available-for-sale financial assets	6	750	-
Biological assets	7	337	81
<b>Total current assets</b>		<b>40,059</b>	<b>25,558</b>
<b>Non-current assets</b>			
Convertible debentures receivable	8	2,049	-
Property, plant and equipment	9	8,522	8,252
Intangibles	10	8,826	8,661
Goodwill	11	4,781	4,735
Other		37	37
<b>Total non-current assets</b>		<b>24,215</b>	<b>21,685</b>
<b>Total assets</b>		<b>64,274</b>	<b>47,243</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		1,576	1,132
Contingent consideration	12	2,666	1,992
<b>Total current liabilities</b>		<b>4,242</b>	<b>3,124</b>
<b>Non-current liabilities</b>			
Convertible debentures liability	13	7,089	-
Deferred tax		2,244	2,244
<b>Total non-current liabilities</b>		<b>9,333</b>	<b>2,244</b>
<b>Total liabilities</b>		<b>13,575</b>	<b>5,368</b>
<b>Net assets</b>		<b>50,699</b>	<b>41,875</b>
<b>Equity</b>			
Issued capital	14	45,796	44,954
Reserves	15	29,451	17,417
Accumulated losses		(42,928)	(32,306)
Equity attributable to the owners of MMJ PhytoTech Limited		33,519	30,065
Non-controlling interest	16	18,380	11,810
<b>Total equity</b>		<b>50,699</b>	<b>41,875</b>

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

**MMJ PhytoTech Limited**  
**Statement of changes in equity**  
**For the half-year ended 31 December 2017**



<b>Consolidated</b>	<b>Contributed equity \$'000</b>	<b>Other reserves \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2016	32,706	4,881	242	(19,581)	-	18,248
Loss after income tax expense for the half-year	-	-	-	(4,508)	-	(4,508)
Other comprehensive income for the half-year, net of tax	-	-	31	-	-	31
Total comprehensive income for the half-year	-	-	31	(4,508)	-	(4,477)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs	6,452	-	-	-	-	6,452
Share-based payments (note 23)	-	421	-	-	-	421
Conversion of performance rights into shares	-	(304)	-	-	-	(304)
Balance at 31 December 2016	<u>39,158</u>	<u>4,998</u>	<u>273</u>	<u>(24,089)</u>	<u>-</u>	<u>20,340</u>

<b>Consolidated</b>	<b>Contributed equity \$'000</b>	<b>Other reserves \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2017	44,954	16,914	503	(32,306)	11,810	41,875
Loss after income tax expense for the half-year	-	-	-	(10,622)	(2,482)	(13,104)
Other comprehensive income for the half-year, net of tax	-	250	470	-	-	720
Total comprehensive income for the half-year	-	250	470	(10,622)	(2,482)	(12,384)
<i>Transactions with owners in their capacity as owners:</i>						
Exercise of options	842	-	-	-	-	842
Harvest One option reserve	-	(321)	-	-	-	(321)
Harvest One convertible debentures	-	5,479	-	-	-	5,479
Transactions with non-controlling interest	-	(1,200)	-	-	9,052	7,852
Share-based payments	-	7,356	-	-	-	7,356
Balance at 31 December 2017	<u>45,796</u>	<u>28,478</u>	<u>973</u>	<u>(42,928)</u>	<u>18,380</u>	<u>50,699</u>

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

**MMJ PhytoTech Limited**  
**Statement of cash flows**  
**For the half-year ended 31 December 2017**



Note	<b>Consolidated</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	64	-
Payments to suppliers and employees (inclusive of GST)	(5,214)	(3,271)
Interest received	64	11
Interest and other finance costs paid	(66)	(24)
Net cash used in operating activities	(5,152)	(3,284)
<b>Cash flows from investing activities</b>		
Payments for investments	(2,549)	-
Payments for property, plant and equipment	(631)	(162)
Payments for intangibles	(10)	-
Net cash used in investing activities	(3,190)	(162)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	4,000
Costs in relation to share issue	-	(259)
Proceeds received on exercise of options	842	-
Proceeds received on exercise of warrants	675	-
Proceeds from issue of convertible debentures (net of transaction costs)	19,130	-
Repayment of borrowings	-	(47)
Net cash from financing activities	20,647	3,694
Net increase in cash and cash equivalents	12,305	248
Cash and cash equivalents at the beginning of the financial half-year	23,801	2,951
Cash and cash equivalents at the end of the financial half-year	36,106	3,199

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

## **Note 1. General information**

The financial statements cover MMJ PhytoTech Limited as a Consolidated Entity consisting of MMJ PhytoTech Limited and the entities it controlled at the end of, or during, the half-year period ended 31 December 2017. The financial statements are presented in Australian dollars, which is MMJ PhytoTech Limited's functional and presentation currency.

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

Suite 5 CPC  
145 Stirling Highway  
Nedlands WA 6009

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2018. The directors have the power to amend and reissue the financial statements.

## **Note 2. Significant accounting policies**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 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 2017 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, except for the policies stated below.

### **Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

#### *Convertible debentures receivable with embedded derivatives*

Convertible *debentures* receivable with embedded derivatives are accounted for at fair value through profit or loss. At inception this amount is recorded at the value of the proceeds and subsequently the fair value of the receivable will be calculated based on both company specific and available market data.

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

### *Impairment of convertible debentures receivable*

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

### **Compound instruments**

The component parts of compound instruments (convertible debentures) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Conversion options that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recognised as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

### **Fair value measurement**

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

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

### **New or amended Accounting Standards and Interpretations adopted**

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

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

### **Note 3. Operating segments**

During the half-year period ended 31 December 2017, the Consolidated Entity was organised into three operating segments: cultivation, processing and distribution, and clinical development.

#### *Segment Information*

Identification of reportable segments:

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

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

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

Types of reportable segments:

#### **(i) Cultivation**

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

#### **(ii) Processing and distribution**

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

#### **(iii) Clinical development**

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

#### *Basis of accounting for purposes of reporting by operating segment*

##### *Accounting policies adopted*

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

#### *Segment assets*

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

#### *Segment liabilities*

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

### Note 3. Operating segments (continued)

#### Operating segment information

	Cultivation \$'000	Processing and distribution \$'000	Clinical development \$'000	Unallocated \$'000	Total \$'000
<b>Consolidated - 31 December 2017</b>					
<b>EBITDA</b>	(170)	(352)	(560)	(9,813)	(10,895)
Depreciation and amortisation					(521)
Interest revenue					64
Finance costs					(770)
Net loss on foreign exchange					(94)
Non-controlling interest					2,482
Loss on contingent deferred consideration					(674)
Impairment of inventory					(214)
<b>Loss before income tax expense</b>					(10,622)
Income tax expense					-
<b>Loss after income tax expense</b>					(10,622)
<b>Assets</b>					
Segment assets	31,642	3,389	548	28,695	64,274
<b>Total assets</b>					64,274
<b>Liabilities</b>					
Segment liabilities	619	238	129	12,589	13,575
<b>Total liabilities</b>					13,575
<b>Consolidated - 31 December 2016</b>					
<b>EBITDA</b>	(655)	(304)	(745)	(1,703)	(3,407)
Depreciation and amortisation					(18)
Interest revenue					11
Finance costs					(24)
Net loss on foreign exchange					(57)
Loss on contingent deferred consideration					(102)
Impairment of inventory					(911)
<b>Loss before income tax expense</b>					(4,508)
Income tax expense					-
<b>Loss after income tax expense</b>					(4,508)
<b>Consolidated - 30 June 2017</b>					
<b>Assets</b>					
Segment assets	17,799	3,027	623	1,309	22,758
<b>Total assets</b>					22,758
<b>Liabilities</b>					
Segment liabilities	638	58	134	1,588	2,418
<b>Total liabilities</b>					2,418

**Note 4. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2017</b>
	<b>2017</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	162	-
Other receivables	147	72
GST Recoverable	272	175
Prepayments	185	187
	<u>766</u>	<u>434</u>

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

**Note 5. Current assets - inventories**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2017</b>
	<b>2017</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Finished goods inventory	<u>2,100</u>	<u>1,242</u>

Inventories consist of dry cannabis, Gelpell CBD capsules, and supplies and consumables for use in the production of inventories and the transformation of biological assets. As at 31 December 2017, the Company's partly owned subsidiary, Harvest One Cannabis Inc. held 324.90 kg of dry cannabis (30 June 2017: 124.79 kg).

The Company regularly reviews its cannabis inventory for quality and freshness. During the half-year period ending 31 December 2017, 69.3 kg of cannabis inventory held by UGH did not meet the quality standards for dry bud sale and therefore will be sold as extraction grade cannabis. As a result, the Company impaired \$214,000 (C\$210,000) of dry cannabis finished goods to reduce the carrying amount to its estimated net realisable value.

**Note 6. Current assets - available-for-sale financial assets**

On 14 November 2017, the Company agreed to invest \$500,000 in ASX listed Israeli life sciences company eSense-Lab Limited (ASX: ESE). The Company was issued 2,500,000 ordinary shares in eSense at the price of \$0.20 per share.

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2017</b>
	<b>2017</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Investments in eSense-Lab Limited	<u>750</u>	<u>-</u>

*Reconciliation*

Reconciliation of the fair values at the beginning and end of the current and previous financial half-year are set out below:

Opening fair value	-	-
Additions	500	-
Revaluation increments	250	-
	<u>750</u>	<u>-</u>
Closing fair value		

## **Note 7. Current assets - biological assets**

The Company's biological assets consist of seeds and medical cannabis plants. The continuity of biological assets for the period ended 31 December 2017 and 30 June 2017 are as follows:

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2017</b>
	<b>2017</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Biological asset - seeds and medical cannabis plants	337	81

### *Reconciliations*

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

<b>Consolidated</b>	<b>Total</b>
	<b>\$'000</b>
Balance at 1 July 2017	81
Change in fair value less costs to sell due to biological transformation	1,120
Transferred to inventory upon harvest	(864)
Balance at 31 December 2017	337

As at 31 December 2017, included in the carrying amount of biological assets were \$21,000 in seeds and \$316,000 in live plants (30 June 2017: \$21,000 in seeds and \$60,000 in live plants).

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

- wastage of plants based on their various stages;
- yield by strain of plant;
- percentage of costs incurred to date compare to the total costs to be incurred; and
- percentage of costs incurred for each stage of plant growth

On average, the growth cycle of a cannabis plant is 15 weeks. All of the plants are to be harvested as agricultural produce (i.e. medical cannabis) and as at 31 December 2017, on average, were 52% complete (30 June 2017: 37%).

As at 31 December 2017, it is estimated that the Company's biological assets will yield approximately 113,019 grams of dry cannabis, compared to 92,510 grams of dry cannabis at 30 June 2017. The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the fair value of the biological assets.

## **Note 8. Non-current assets - convertible debentures receivable**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2017</b>
	<b>2017</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Convertible debentures receivable	2,049	-

On 29 December 2017, the Company announced that it had finalised due diligence and signed the formal agreement to subscribe for C\$2 million in secured convertible debentures in Toronto-based Weed Me Inc. The debentures attract an interest rate of 8% per annum, having a maturity date of two years and are secured over Weed Me and its assets. The fair value on initial recognition equates to A\$2.049 million paid on settlement.

**Note 9. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2017</b>
	<b>2017</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Land - at cost	440	432
Buildings - at cost	3,914	3,842
Less: Accumulated depreciation	(252)	(192)
	<u>3,662</u>	<u>3,650</u>
Leasehold improvements - at cost	3,453	3,103
Less: Accumulated depreciation	(1,235)	(990)
	<u>2,218</u>	<u>2,113</u>
Plant and equipment - at cost	2,562	2,217
Less: Accumulated depreciation	(540)	(321)
	<u>2,022</u>	<u>1,896</u>
Office equipment - at cost	240	199
Less: Accumulated depreciation	(60)	(38)
	<u>180</u>	<u>161</u>
	<u>8,522</u>	<u>8,252</u>

**Note 10. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2017</b>
	<b>2017</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Website - at cost	43	32
Less: Accumulated amortisation	(7)	(1)
	<u>36</u>	<u>31</u>
Other intangible assets - Duncan facility license	8,790	8,630
	<u>8,826</u>	<u>8,661</u>

**Note 11. Non-current assets - Goodwill**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2017</b>
	<b>2017</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill - at cost	4,822	4,822
Exchange difference	(41)	(87)
	<u>4,781</u>	<u>4,735</u>

**Note 12. Current liabilities - contingent consideration**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2017</b>
	<b>2017</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Contingent deferred consideration	2,666	1,992

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 2017, the Milestone 2 Consideration shares were valued at \$1,992,000 using the closing share price of \$0.325 and applying a 70% probability of achieving the milestone based on the Directors current expectation. At 31 December 2017, the Milestone 2 Consideration shares were valued at \$2,666,000 using the closing share price of \$0.435 and applying a 70% probability of achieving the milestone based on the Directors current expectation.

This has resulted in the recognition of \$674,000 of an expense adjustment which has been included within the loss on contingent deferred consideration shares in the consolidated statement of profit or loss and other comprehensive income.

**Note 13. Non-current liabilities - Convertible debentures liability**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2017</b>
	<b>2017</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Convertible debentures issued by Harvest One	7,089	-

On 14 December 2017, the Company's partly owned subsidiary, Harvest One Cannabis Inc. (Harvest One), completed a bought deal financing ("the Offering") of unsecured convertible debentures units ("the Debenture Units") for the gross principal amount of C\$20,125,000. Each Debenture Unit consists of \$1,000 principal amount unsecured convertible debentures of Harvest One ("the Convertible Debenture") and 458 common share purchase warrants ("Debenture Warrants").

The Convertible Debentures bear interest at 8.0% per annum, payable semi-annually on 30 June and 31 December of each year and mature on 14 December 2022. The Convertible Debentures are convertible into common shares of Harvest One at a price of C\$0.84 per share, subject to forced conversion at the Harvest One option if the volume weighted average price ("VWAP") of Harvest One common shares equals or exceeds C\$1.40 per share for 30 consecutive trading days.

Upon a change of control of Harvest One, Harvest One may be required to repurchase the Convertible Debentures, at the option of the holder, in whole or in part, at a price equal to 104% of the principal amount of the Convertible Debentures outstanding, plus accrued interest.

Each Debenture Warrant entitles the holder to acquire one common share for an exercise price of C\$1.09 until 14 December 2020. Harvest One can accelerate the expiry date of the Debenture Warrants if the closing price of Harvest One common shares equals or exceeds C\$1.64 for ten consecutive days.

Harvest One paid the underwriters a cash commission equal to 6.0% of the aggregate principal amount of the Debenture Units issued. In addition, the Company issued the underwriters 604 Debenture Units. Transaction costs have been allocated between the liability and equity components of the Debenture Units.

The liability component of the Convertible Debentures was valued using Harvest One specific interest rates assuming no conversion features exist. The debt component is accredited to its face value over the term to maturity as a non-cash interest charge and the equity component is presented in other reserves as a separate component of equity. The Debenture Warrants were valued based on the quoted price in active markets. The residual amount after valuing the liability component of the Convertible Debentures and Debenture Warrants was allocated to the equity component of the Convertible Debentures.

**Note 13. Non-current liabilities - Convertible debentures liability (continued)**

During the financial half year ending 31 December 2017, Harvest One paid interest of C\$15,381 and issued 10,083,330 common shares on partial conversion of \$8,470,000 Convertible Debentures.

**Note 14. Equity - issued capital**

	<b>31 December 2017 Shares</b>	<b>30 June 2017 Shares</b>	<b>Consolidated 31 December 2017 \$'000</b>	<b>30 June 2017 \$'000</b>
Ordinary shares - fully paid	<u>213,087,100</u>	<u>208,932,100</u>	<u>45,796</u>	<u>44,954</u>

*Movements in ordinary share capital*

<b>Details</b>	<b>Date</b>	<b>Shares</b>	<b>Issue price</b>	<b>\$'000</b>
Balance	1 July 2017	208,932,100		44,954
Exercise of Options	11 September 2017	1,000,000	\$0.20	200
Exercise of Options	15 November 2017	1,500,000	\$0.20	300
Exercise of Options	15 November 2017	98,750	\$0.27	27
Exercise of Options	12 December 2017	1,000,000	\$0.20	200
Exercise of Options	12 December 2017	56,250	\$0.27	15
Exercise of Options	29 December 2017	<u>500,000</u>	<u>\$0.20</u>	<u>100</u>
Balance	31 December 2017	<u>213,087,100</u>		<u>45,796</u>

*Ordinary shares*

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

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

*Share buy-back*

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

**Note 15. Equity - reserves**

	<b>Consolidated 31 December 2017 \$'000</b>	<b>30 June 2017 \$'000</b>
Available-for-sale reserve	250	-
Foreign currency reserve	973	503
Options reserve	6,051	4,376
Other reserves	9,898	11,540
Performance rights reserve	6,800	998
Convertible debentures reserve	<u>5,479</u>	<u>-</u>
	<u>29,451</u>	<u>17,417</u>

#### **Note 16. Equity - non-controlling interest**

As the result of the bought deal financing at Harvest One Cannabis Inc. (refer to note 10 for further details) and subsequent conversion by unit holders, the Company's ownership of Harvest One had diluted to 53.37% as at 31 December 2017 (30 June 2017: 59.96%).

#### **Note 17. Equity - dividends**

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

#### **Note 18. Contingent liabilities**

The Company had no contingent liabilities as at 31 December 2017 other than those in note 12.

#### **Note 19. Commitments for expenditure**

There have been no material changes in expenditure commitments as at 31 December 2017 since 30 June 2017.

#### **Note 20. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary:

Name	Principal place of business / Country of incorporation	Ownership interest 31 December	
		2017 %	30 June 2017 %
PhytoTech Medical (UK) Ltd	United Kingdom	100.00%	100.00%
PhytoTech Therapeutics Ltd	Israel	100.00%	100.00%
Harvest One Cannabis Inc.	Canada	53.37%	59.96%
United Greeneries Holdings Ltd	Canada	53.37%	59.96%
United Greeneries Ltd.	Canada	53.37%	59.96%
United Greeneries Operations Ltd	Canada	53.37%	59.96%
Satipharm AG	Switzerland	53.37%	59.96%
Satipharm Australia Pty Ltd	Australia	53.37%	59.96%

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary with non-controlling interests:

Name	Principal place of business / Country of incorporation	Principal activities	Parent Ownership interest		Non-controlling interest Ownership interest	
			31 December 2017 %	30 June 2017 %	31 December 2017 %	30 June 2017 %
Harvest One Cannabis Inc.	Canada	TSX-V Listed entity with subsidiaries produce and distribute medical cannabis	53.37%	59.96%	46.63%	40.04%

#### **Note 21. Events after the reporting period**

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

On 9 January 2018, the Company announced Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) entered into an agreement with Mackie Research Capital Corporation (as the lead underwriter and sole bookrunner) to complete a C\$25 million short form prospectus offering (the "Offering") of units of Harvest One on a bought deal basis, at a price of C\$1.82 per Unit.

**Note 21. Events after the reporting period (continued)**

Under the Offering, each Unit will consist of one common share and one common share purchase warrant. Each warrant shall entitle the holder thereof to purchase one common share at an exercise price of C\$2.30 per warrant share at any time up to 24 months following the closing of the Offering.

Harvest One had also granted the Underwriters an option (the "Over-Allotment Option") exercisable in whole or in part, at any time up to 30 days after the closing of the Offering to purchase up to an additional 15% of the number of Units issued pursuant to the Offering at the Offering price. If the Over-Allotment Option is exercised in its entirety, the aggregated gross proceeds of the Offering will be C\$28.75 million.

On 9 January 2018, the Company advised that Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) (Harvest One) announced an upsized version of its previously announced bought short form prospectus offering of Units to C\$35 million. Harvest One had also granted the Underwriters an option (the "Over-Allotment Option") exercisable in whole or in part, at any time up to 30 days after the closing of the Offering to purchase up to an additional 15% of the number of Units issued pursuant to the Offering at the Offering price. If the Over-Allotment Option is exercised in its entirety, the aggregated gross proceeds of the Offering will be C\$40.25 million.

On 12 January 2018, the Company issued 1,036,885 fully paid ordinary shares upon the exercise of 1,036,885 Class F options at an exercise price of \$0.45 (45 cents) per option raising a total of \$466,598.

The Company issued 1,000,000 fully paid ordinary shares upon the exercise of 1,000,000 Class I options at an exercise price of \$0.24 (24 cents) per option raising a total of \$240,000.

On 30 January 2018, the Company announced that it had entered into an agreement to acquire a strategic state in private, Canadian-based healthcare company Dosecann Inc. (Dosecann), via the proposed placement of C\$2.5 million in secured convertible debenture units. The Debentures are convertible in shares and warrants in Dosecann based on a pre-money valuation of C\$11.5 million.

On 31 January 2018, the Company advised that Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) (Harvest One) had closed its previously announced "bought deal" offering of C\$40.25 million of units of Harvest One, at a price of C\$1.82 per unit, which included the exercise of the over-allotment option granted to the Underwriter in full.

On 1 February 2018, the Company issued 900,000 fully paid ordinary shares upon the exercise of 900,000 Class B options at an exercise price of \$0.20 (20 cents) per option raising a total of \$180,000.

The Company issued 250,000 fully paid ordinary shares upon the exercise of 250,000 Class F options at an exercise price of \$0.45 (45 cents) per option raising a total of \$112,500.

The Company issued 1,500,000 unlisted Class K options under the Company's employee incentive plan. These options are exercisable at \$0.35 (35 cents) per option on or before 31 October 2021 and vest quarterly over three years, subject to the holder continuing to be employed by the Company.

On 19 February 2018, the Company announced the appointment of Jason Conroy as Chief Executive Officer of MMJ effective from 26 February 2018. The Company intends to issue the following performance rights to Mr Conroy in accordance with the rules of the Performance Rights Plan approved by MMJ's shareholders in November 2017:

- 2,000,000 Performance Rights that vest immediately upon the 20 day VWAP of MMJ's Shares on the ASX being at or above \$0.60 within 48 months from the date of grant;
- 2,000,000 Performance Rights that vest immediately upon the 20 day VWAP of MMJ's Shares on the ASX being at or above \$0.80 within 48 months from the date of grant; and
- 2,000,000 Performance Rights that vest immediately upon the 20 day VWAP of MMJ's Shares on the ASX being at or above \$1.00 within 48 months from the date of grant.

Andreas Gedeon retired as Managing Director and CEO of MMJ on 26 February 2018 to devote his attention as the CEO and Managing Director of TSX-V-listed Harvest One Cannabis Inc.

**Note 21. Events after the reporting period (continued)**

The Company's ownership in Harvest One decreased to 35.83% due to additional conversions of the Convertible Debentures by unit holders (Note 13), conversion of warrants into common shares in Harvest One and the equity financing in Harvest One outline above. It is anticipated that, prior to the year ended 30 June 2018, the Company will no longer exert control over Harvest One due to the decreased ownership percentage and a differentiation of board members in Harvest One and MMJ. Once control over Harvest One is relinquished, the accounts of Harvest One will no longer be consolidated with those of the Company.

On 23 February 2018, the Company advised that Canadian-based Harvest One Cannabis Inc. (TSXV: HVT) (Harvest One) announced it will be exercising its option to convert the remaining principal amount of Convertible Debentures outstanding into common shares of Harvest One at a price of C\$0.84 as the VWAP of the Harvest One's common shares exceeds C\$1.40 per share for 30 consecutive trading days. The Mandatory Conversion is expected to be completed on or about 28 March 2018.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Note 22. Earnings per share**

	<b>Consolidated</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax	(13,104)	(4,508)
Non-controlling interest	2,482	-
Loss after income tax attributable to the owners of MMJ PhytoTech Limited	<u>(10,622)</u>	<u>(4,508)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	210,049,552	180,007,497
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>210,049,552</u>	<u>180,007,497</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(5.06)	(2.50)
Diluted earnings per share	(5.06)	(2.50)

**Note 23. Share-based payments**

On 12 December 2017, the Company issued 4,125,000 Class E performance rights to certain Directors and Officers of the Company under the Company's Performance Rights Plan, as approved by shareholders at the AGM held on 29 November 2017. These performance rights were issued for total cash consideration of \$413, vesting upon continuous service until 31 December 2017 or 5 trading day VWAP reaches \$0.50 (50 cents).

The Company issued 4,125,000 Class F performance rights to certain Directors and Officers of the Company under the Company's Performance Rights Plan, as approved by shareholders at the AGM held on 29 November 2017. These performance rights were issued for total cash consideration of \$413, vesting upon continuous service 30 June 2018 or 5 trading day VWAP reaches \$0.50 (50 cents).

The Company issued 4,125,000 Class G performance rights to certain Directors and Officers of the Company under the Company's Performance Rights Plan, as approved by shareholders at the AGM held on 29 November 2017. These performance rights were issued for total cash consideration of \$413, vesting upon continuous service 31 December 2019 or 5 trading day VWAP reaches \$0.50 (50 cents).

**Note 23. Share-based payments (continued)**

As at 31 December 2017, all three classes of performance rights have achieved automatic vesting conditions, being 5 trading day VWAP reaches \$0.50 (50 cents). As a result, the Company recognised \$5,801,250 share-based payments expense in the consolidated statement of profit or loss and other comprehensive income.

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

	<b>Consolidated</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
	<b>\$</b>	<b>\$</b>
Option expense	1,555	421
Performance rights expense	5,801	-
	<hr/>	<hr/>
Total share-based payments	<u>7,356</u>	<u>421</u>

Set out below are summaries of performance rights granted under the plan:

31 December 2017

Grant date	Balance at the start of the half-year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the half-year
30/11/2017	-	4,125,000	-	-	4,125,000
30/11/2017	-	4,125,000	-	-	4,125,000
30/11/2017	-	4,125,000	-	-	4,125,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	12,375,000	-	-	12,375,000

For the performance rights granted during the current financial half-year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

	Class E	Class F	Class G	Total number of performance rights issued	Fair value price on grant date	Share based payments recognised on grant date
P Wall	1,500,000	1,500,000	1,500,000	4,500,000	\$0.47	\$2,115,000
A Gedeon	1,500,000	1,500,000	1,500,000	4,500,000	\$0.47	\$2,115,000
W Willesee	500,000	500,000	500,000	1,500,000	\$0.47	\$705,000
J Bednar	500,000	500,000	500,000	1,500,000	\$0.47	\$705,000
Others	125,000	125,000	125,000	375,000	\$0.43	\$161,250
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	4,125,000	4,125,000	4,125,000	12,375,000		\$5,801,250

**Note 24. Related party transactions**

*Key Management Personnel*

The following persons were Directors of MMJ PhytoTech Limited during the half year ended 31 December 2017:

Peter Wall - Non-Executive Chairman  
Andreas Gedeon - Managing Director (retired on 26 February 2018)  
Winton Willesee - Non-Executive Director  
Jason Bednar - Non-Executive Director

During the half year period, MMJ issued performance rights to directors and other officers. The details of the performance rights are discussed at Note 23.

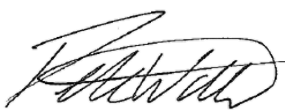
Subsequent to 31 December 2017, the Company issued 1,500,000 unlisted Class K options to Group Chief Financial Officer, Ms Lisa Dea, under the Company's employee incentive plan. These options are exercisable at \$0.35 (35 cents) per option on or before 31 October 2021 and vest quarterly over three years, subject to the holder continuing to be employed by the Company.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Peter Wall  
Non-executive Chairman

28 February 2018

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of MMJ PhytoTech Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of MMJ PhytoTech Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### 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 Group's financial position as at 31 December 2017 and its financial 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 the Group, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

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

Jarrad Prue

Director

Perth, 28 February 2018