

2016 ANNUAL REPORT



mmj
PHYTOTECH

For the Period of 1 July 2015 to 30 June 2016

MMJ PHYTOTECH LIMITED
ACN 601 236 417
(Formerly PhytoTech Medical Limited)

CORPORATE DIRECTORY

Directors

Peter Wall

Non-Executive Chairman

Andreas Gedeon

Managing Director

Winton Willesee

Non-Executive Director

Jason Bednar

Non-Executive Director

Company Secretary

Erlyn Dale

Auditor

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Solicitor

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Securities Exchange Listing

Australian Securities Exchange

ASX Codes: MMJ, Ordinary fully paid shares

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CHAIRMAN'S ADDRESS

Dear Shareholders,

I am pleased to be writing you this address following a highly successful year, our first as the merged ASX-listed MMJ PhytoTech Limited ("MMJ" or the "Company").

As you will be aware, a merger between PhytoTech Medical Limited and MMJ Bioscience Inc. was successfully completed in July 2015, paving the way for the establishment of MMJ as Australia's first vertically integrated medical cannabis company. One of the standout attractions of MMJ Bioscience Inc. when assessing the proposed merger was the Company's focus on combining core operations spanning the entire medical cannabis value chain, from cultivation, development and product distribution.

This has enabled the combined entity to leverage key synergistic alliances in order to deliver a number of operational milestones, including the securing of a Marihuana for Medical Purposes Regulations ("MMPR") license for our world-class Duncan Facility in Canada.

The securing of the MMPR licence for our Duncan Facility was identified by the Board as a key pillar in our strategy to establish a robust foothold in what is evolving to become one of the largest medical and potential recreational cannabis markets in the world. As one of only 34 Licensed Producers in Canada, the significance of establishing a first-mover advantage in this market, which has an estimated yearly value of approximately \$5 billion, should not be underestimated.

The Board is also very encouraged by the positive recent actions taken by the Canadian federal regulatory authority, Health Canada, towards regulating the recreational cannabis market. This includes the creation of a specialist Task Force charged with designing the new legislative regulatory framework to support the recreational market. These developments further reaffirm our belief that we are operating in one of the most favourable and dynamic jurisdictions in the world.

Post financial year end, MMJ announced a significant transaction which has the potential to further fast-track the growth and expansion opportunities for the business. In late September 2016, the Company entered into a binding Term Sheet with TSX-V listed company, Top Strike Resources Limited ("Top Strike"), for Top Strike to acquire 100% of the issued shares of our Canadian cultivation subsidiary, United Greeneries, and our European processing and distribution subsidiary, Satipharm A.G.



CHAIRMAN'S ADDRESS

It is the Board's view that the strategic spin out of our core cannabis brands on the TSX-V will provide MMJ shareholders with significant exposure to two of the largest commercial opportunities in the global cannabis sector, and we look forward to the successful execution of this transaction in the near-term.

In addition to our cultivation division in Canada, I am very pleased to report that a number of milestones were also achieved in our pharmaceutical processing and clinical processing divisions.

In March, MMJ's Israel-based subsidiary, PhytoTech Therapeutics, completed a Phase 1 Clinical Trial which highlighted the safety and performance of our Gelpell-CBD capsules in delivering CBD compounds to trial subjects. Following this success, PhytoTech Therapeutics is now focused on the commencement of the Phase 2 Clinical Trial scheduled for Q4 2016, which will test the efficacy of our PTL101 capsules in treating children with intractable epilepsy.

MMJ's Switzerland-based subsidiary, Satipharm has also had a very productive 12-month period following the merger. A key focus for our management team has been on leveraging a number of strong existing relationships within key regulated markets throughout Europe. To drive this process, highly experienced pharmaceutical sales and marketing executive, Stanislav Sologubov, was appointed as CEO of Satipharm in June 2016. Satipharm has also established key relationships outside of Europe, including agreements with two organisations to facilitate the Company's entry into the evolving Australian market.

This is a very exciting time for the entire company and our shareholders, as we embark on the next phase of our growth.

I would like to take this opportunity to thank our loyal shareholders, as the Board is very appreciative of your ongoing support over the last 12 months and we look forward to delivering further positive outcomes for you this year. I would also like to thank our entire staff who have made the achievements over the past year possible with their unwavering commitment and tireless efforts.



Peter Wall
Chairman

MANAGING DIRECTOR'S REPORT

Dear Shareholders,

I am pleased to be sharing with you this report on the significant milestones achieved during FY2016, in what was a transformational year for MMJ PhytoTech Limited and our shareholders. I will also provide an insight into the Company's vision for the upcoming financial year, as we continue to position MMJ as a leading cannabis production and distribution company.

The Company's most notable achievement in FY2016 was the securing of a cultivation license under the Marihuana for Medical Purposes Regulations ('MMPR') for our flagship Duncan Facility in Canada.

To put this into perspective, MMJ is now the only Australian-based company to have successfully secured a Canadian medical cannabis cultivation licence, and one of very few global operators with the capacity to legally produce commercial quantities of THC-containing cannabis in a federally regulated market.

Importantly, operating within a highly regulated, federal system also allows for the importing and exporting of narcotics across national borders, which will enable MMJ to penetrate new regulated markets as they emerge.

In line with the Board's strategy to position MMJ as a leader in the rapidly evolving medical and recreational cannabis markets in Canada, the Company announced post year end that it would be pursuing the listing of United Greeneries and Satipharm on the TSX-V.

A key driver behind the transaction is to provide shareholders with the opportunity to benefit from the significant value currently being realised by TSX-V listed cannabis producers such as Aphria, Canopy and Aurora. The Board believes the reverse takeover of Top Strike Resources Limited is a timely and compelling opportunity and we look forward to delivering considerable increased value to our shareholders.

Canadian Recreational Cannabis Market – A First Mover Opportunity

MMJ views the Canadian recreational cannabis market as a significant near-term growth catalyst for the Company, and it is critical that our shareholders understand the significance of establishing a first-mover advantage in this market.

The Canadian recreational cannabis market has a conservative estimated value of CAD\$5 billion per annum, and it is widely expected that existing licensed producers under the current MMPR will have a significant first-mover advantage as early stage suppliers to this market, with only the distribution separating the regulatory regime of medical and recreational cannabis.

The commercial magnitude of recreational cannabis use becoming legalised is comparable to the end of the prohibition on alcohol in North America. With wide consensus in the population, Canadians expect to have full recreational liberation of cannabis implemented within FY 2017. I am very proud that our group of companies has provided our shareholders with the ground level investment opportunity that comes with the first mover options in this new and unprecedented market, which will likely spread over the civilized world within the next couple of years.

Significant Advances in Clinical Trials

Having successfully completed a Phase 1 Clinical Trial of the Company's proprietary oral delivery Gelpell-CBD capsules in March 2016, our Israel-based subsidiary, PhytoTech Therapeutics, is now focused on the commencement of its Phase 2 Clinical Trial, aimed at measuring the efficacy of the capsules for reducing seizures in children with intractable epilepsy.

MANAGING DIRECTOR'S REPORT

The team was extremely buoyed by the positive outcomes of the Phase 1 Clinical Study, which not only highlighted the safety and tolerability of our oral delivery formulations, but also demonstrated a superior performance in comparison to market leader GW Pharmaceuticals' Sativex product.

Looking ahead, the Company is eagerly awaiting the outcomes of the Phase 2 Clinical Study as we firmly believe it has the potential to be a significant growth catalyst for our shareholders in the future.

Strengthened Management Team

MMJ also took the necessary steps to strengthen its senior management team and advisory personnel, with two key appointments.

In June, the Company appointed Mr Stanislav Sologubov as Chief Executive Officer of Satipharm AG in Switzerland. Mr Sologubov is an international sales and marketing expert with more than 15 years' experience working with global healthcare companies including Johnson & Johnson and Bausch + Lomb. Mr Sologubov brings with him a wealth of pharmaceutical industry knowledge and will be a key component in driving increased sales for MMJ throughout key markets in Europe.

Post year end, the Company appointed Catherine Harvey as Chief Operations Officer. Based in Sydney, Catherine brings senior corporate experience in the pharmaceutical industry to the team and will play a significant role in the Group's international expansion strategy.

Conclusion and FY2017 Outlook

Taking into account the developments post year end, FY2017 is set to be another highly productive year for MMJ, with a number of key catalysts set to be executed over the next 12 months. The Board views the soon to be legalised Canadian recreational market as a game-changing opportunity for MMJ, and our vision to provide shareholders with a direct exposure to this market via a strategic TSX-V listing as one of only 34 Licensed Producers in Canada will further amplify this opportunity.

I wish to take this opportunity to thank our staff and contractors who have played such a significant role in delivering our key milestones during the year, as the commitment and expertise of our staff is the driving force behind the business. I would also like to thank our valued shareholders for their ongoing support to date, and I look forward to reporting further success this year as MMJ continues towards becoming a global leader in the emerging international medical and recreational cannabis sectors.



Andreas Gedeon
Managing Director

State of the Art Duncan Facility Cultivation Area



DIRECTORS' REPORT

Your Directors present their report on the Consolidated Entity ("Group") consisting of MMJ PhytoTech Limited ("MMJ" or the "Company") (formerly PhytoTech Medical Ltd) and the entities it controlled at the end of, or during, the year ended 30 June 2016.

Directors

The following persons were Directors of MMJ PhytoTech Limited for the year ended 30 June 2016 and up to the date of this report, unless otherwise stated:

| | |
|------------------|---|
| Peter Wall | Non-executive Chairman |
| Andreas Gedeon | Managing Director and CEO (<i>appointed 27 July 2015</i>) |
| Winton Willesee | Non-executive Director |
| Jason Bednar | Non-executive Director (<i>appointed 27 July 2015</i>) |
| Ross McKay | Non-executive Director (<i>appointed 27 July 2015</i>) (<i>resigned 11 August 2016</i>) |
| Boaz Wachtel | Executive Director (<i>resigned 20 August 2015</i>) |
| Benad Goldwasser | Executive Director (<i>resigned 20 August 2015</i>) |

Principal activities during the period

The principal activities of the Group during the 2016 financial year consisted of:

- Completion of the acquisition of Canadian based company, MMJ Bioscience Inc;
- Progression of MMPR license 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.

Further details on the activities of the Group during the reporting period are set out in the **Review of Operations** section below.

Significant changes in the state of affairs

During the 2016 financial year, the Company completed the acquisition of Canadian based company MMJ Bioscience Inc and subsequently changed its name to MMJ PhytoTech Limited. As a result of the acquisition, the Group now controls operations across the entire Medical Cannabis value chain through the following core business units:

- **United Greeneries** – the Group's Canadian-based cultivation division which owns and operates the Group's federally licensed Duncan Facility. The Company also owns a second growing facility in Lucky Lake, Saskatchewan which is in the early stages of the MMPR license application process.

- **Satipharm** – the Group's European cannabis-based, pharmaceutical, nutraceutical and cosmetics processing and distribution division which holds a number of key international partnerships for the production and distribution of cannabinoid-based pharmaceutical, nutraceutical and wellness products.
- **PhytoTech Therapeutics** – the Group's Israel-based research and development division which is primarily focused on the development and commercialisation of new and existing delivery systems and devices that have the potential to deliver safe, effective and measured doses of medical cannabis to patients.

Subsequent to the end of the reporting period, MMJ advised that it had signed a binding Term Sheet with TSX-V listed company Top Strike Resources Limited (TSX-V: TSR) ("Top Strike"), for Top Strike to acquire 100% of the issued shares of United Greeneries and Satipharm respectively. The aggregate sale price of United Greeneries and Satipharm (C\$40 million) represents approximately 97% of MMJ's market capitalisation (undiluted and based on a share price of A\$0.24).

The transaction remains subject to a number of conditions, including shareholder approval. Post spin out, MMJ shareholders will, through their shareholdings in MMJ, have an indirect ownership in a fully-financed, growth-focused cannabis company with two key operating brands in United Greeneries and Satipharm.

DIRECTORS' REPORT

Financial Overview

Financial Performance

A summary of consolidated revenues and results is set out below:

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Revenue | 292 | 48 |
| Loss before income tax expense | (14,699) | (4,882) |
| Income tax benefit/(expense) | - | - |
| Loss attributable to members of MMJ PhytoTech Limited | (14,699) | (4,882) |

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. No such impairment was recognised against the Group's cultivation division, United Greeneries.

Financial Position

At the end of the period the Group had a net cash balance of \$2,951,193 (2015: \$1,909,808) and net assets of \$18,247,224 (2015: \$3,593,879).

Total liabilities (being trade and other creditors and provisions) amounted to \$4,775,621 (2015: \$220,692).

The Group has a total contributed equity of \$32,706,359 (2015: \$5,827,617) at the end of the reporting period.

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the Board have regard to the following indices in respect of the current period:

| | 2016 | 2015 |
|---|--------|--------|
| EPS (cents) | (10.7) | (16.3) |
| Dividends (cents per share) | - | - |
| Closing share price (cents) | 24.5 | 32.0 |
| Change in share price during the period (cents) | (7.5) | 12.0 |

DIRECTORS' REPORT

Group Overview

MMJ PhytoTech Limited (ASX: MMJ) is a vertically-integrated bioscience company focused on developing and commercialising medical cannabis ("MC") and MC based therapeutics. The Company was formed from the July 2015 merger of MMJ Bioscience and PhytoTech Medical and is traded on the ASX under the symbol 'MMJ'.

MMJ's strategy integrates the entire MC supply chain combining MC cultivation, with pharmaceutical processing / advanced delivery technologies and R&D / clinical developments.

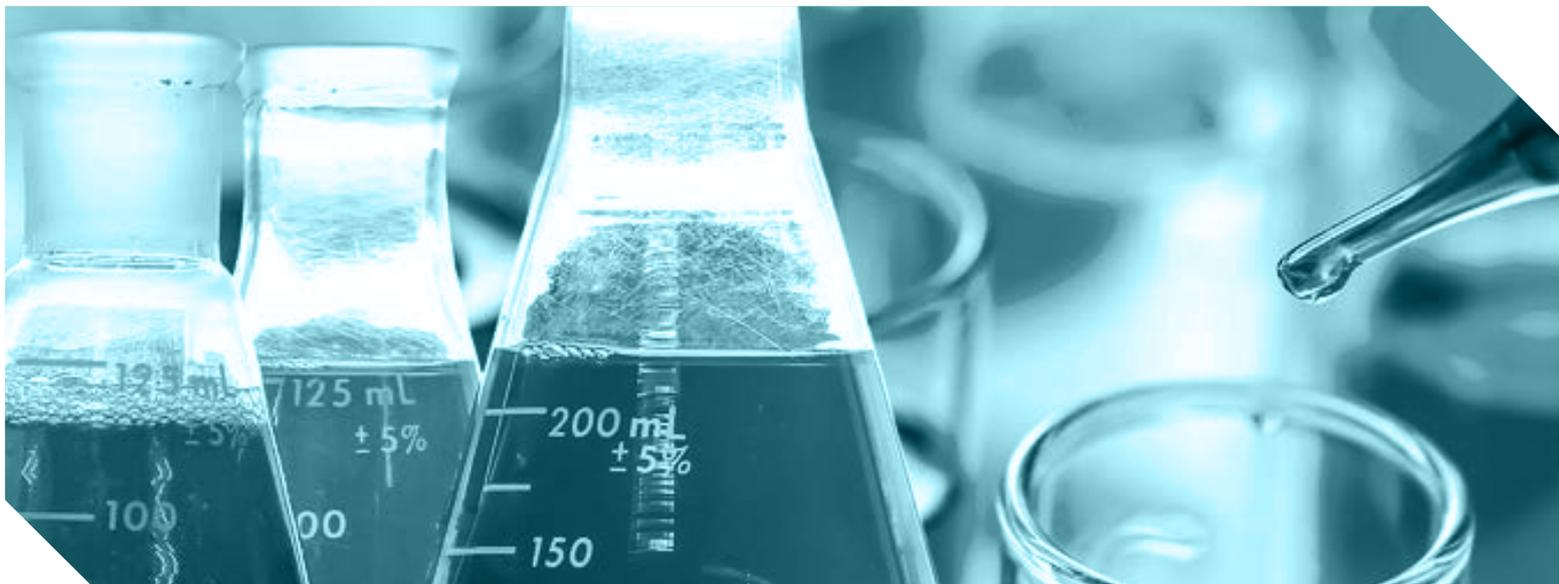
The Company controls operations across the entire MC value chain through three business units, strategically located in favourable jurisdictions with supportive regulatory frameworks in place.



| Business Unit | 1 Cultivation | 2 Pharmaceutical Processing | 3 Clinical Development |
|-----------------------------|---|---|---|
| Domicile/ Brand | | | |
| Activity / Products | ACMPR ⁽¹⁾ Licensed Producer | Pharma-Grade Bulk & Packaged Compounds, Non-Synthetic API | R&D of Pharmaceuticals & Delivery Technologies |
| Value Driver/Differentiator | Scarce, Only 30 ⁽²⁾ Companies Licensed under ACMPR | GMP Partner, Highly-Specialised Techniques; Integrated, Stable Raw Input Source | Low Cost, Fast to Market R&D; Integrated, Stable Raw Input Source |
| Customers | 2024E Medical Market: \$3Bn ⁽³⁾ 2024E Recreational Market: \$5-6Bn ⁽³⁾ | Research, Pharma, Nutra, Cosmetic, F&B, MMPR, Retail | Pharmaceutical Companies, Patients |
| Strategic Value | Secure Pharma Supply Chain 1 st Mover in Canadian Rec Market | 1 st Mover in Huge Growth Sector Picks & Shovels Model | Self-Financed, In-House R&D of Promising, Rare Compounds |

Vertically-Integrated, Producer of High-Demand, High-Growth, Pharma-Grade Cannabis-Based Products

Notes: (1) 'Access to Cannabis for Medical Purposes Regulations'. Formerly known as MMPR ('Marihuana for Medical Purposes Regulations') Federal Canadian regulations overseen by Health Canada governing quality, security, supply and access to medical marijuana in Canada. (2) Total of 35 licenses controlled by 30 companies. Canopy controls four licenses (Tweed Inc, Tweed Farms Inc, Bedrocan Canada, Bedrocan Canada 2nd Facility) and Mettrum Inc. controls three licenses (Mettrum, Mettrum Bennett North, Agripharm) (3) Sources: Canadian equity research, MMJ estimates.



DIRECTORS' REPORT

United Greeneries – Cultivation of Medical Cannabis

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

United Greeneries owns and operates the Group's two growing facilities, the Duncan Facility and the Lucky Lake Facility.

Duncan Facility

On 30 June 2016, MMJ advised that Health Canada ("HC") had officially approved United Greeneries as an authorised Licensed Producer ("LP") at the Company's flagship Duncan Facility under the Marihuana for Medical Purposes Regulations ("MMPR").

Significantly, this transforms MMJ into the first Australian-based company to receive a Canadian MC cultivation licence, and one of only a few companies globally with the capacity to commercially cultivate medicinal grade cannabis in a federally regulated environment.

MMJ's Duncan Facility is a state of the art MC operation with approximately 10,000 ft² of cultivation area. To date, MMJ has spent approximately CAD\$8 million on the construction and establishment of the Duncan Facility, which includes high compliance items such as a Level 8 Narcotics Vault and a full service in-house biochemical and analytical laboratory.

With highly scalable cultivation capacity of between 700-1,000 kg/year, Duncan has significant excess processing capacity that can be potentially utilised later by United Greenies to process internal or third party materials. The Duncan Facility is currently leased to MMJ with an initial term expiring on 31 April 2021, with two options to extend the lease for a further 5 years (total extension of 10 years).

Post year end, United Greeneries had executed a binding letter of intent ("LOI") with Cowichan Tribes in respect to the leasing of a 13-acre strategic land package ("Expansion Land") located immediately adjacent to the Company's existing Duncan Facility. The Company estimates that the Expansion Land could support up to 10 acres of greenhouse production space potentially yielding approx. 25,000kg/year additional cannabis, more than 25 times the current production capacity.

Lucky Lake Facility

The Lucky Lake Facility in Lucky Lake, Saskatchewan is a 62,000 ft² modern, concrete agricultural facility sitting on over 18 acres of land which is 100% owned by the Company. The facility includes a potential residential property for future employees and has a vast supply of water and electricity.

The Lucky Lake Facility's MMPR application was submitted in March 2015 and is currently in the security clearance stage of review.

Potential integration into United Greeneries' Duncan quality control and distribution system, may allow for expansion of up to 11,700kg of MC product per annum.

DIRECTORS' REPORT

Satipharm AG – Sophisticated Delivery Technologies

The Company's European pharmaceutical, nutraceutical and cosmeceutical division operates under its 100% owned subsidiary, Satipharm AG ("Satipharm"), based in Lucerne, Switzerland.

Satipharm is specialised in development and production of dietary supplements and cosmetics with a focus on legally accessible cannabidiol (CBD). From this development originated CBD Gelpell Microgel Capsules, a CBD product with a unique, controlled delivery system with enhanced oral bioavailability. Satipharm's vision is to become a global leading company in this segment through the development and commercialisation of cannabidiol based products.

Satipharm Gelpell ® Microgel Capsules

MMJ began production of its Gelpell ® Microgel Capsules in May 2015, and is committed to boosting the sales of its flagship product throughout regulated markets globally. The capsules utilise GACP/GMP produced Cannabis extract from MMJ's partner AI FAME GMBH / Ai LAB SWISS AG, which fulfills all criteria of the European Pharmacopeia and contains 92% purified CBD, with no THC or other cannabinoids present. The extract is then processed under an exclusive technology use agreement by Gelpell AG into proprietary micro-gelatine spheres and packaged under GMP protocols into a 10mg, 50mg and a 100mg presentation.



Satipharm International Partnerships

Satipharm has in place key international partnerships for the production and distribution of cannabinoid-based pharmaceutical, nutraceutical and wellness products, which includes its Swiss partners Ai Fame GmbH / AiLAB SWISS AG, an integrated cannabis-focused pharmaceutical compound manufacturer and Gelpell AG, a premium contract manufacturer of supplements and Phyto-pharmaceuticals.

In July 2015, Satipharm executed an agreement with Ai Fame for the exclusive right to market and distribute all Ai Fame MC products globally, significantly expanding the Company's MC product portfolio. However, the agreement was mutually terminated in May 2016. Both parties are now negotiating an enhanced agreement that includes additional products and services. The Company will provide an update on negotiations in due course.

In March 2016, Satipharm signed an exclusive License Agreement with Gelpell AG to develop and sell prescription MC drugs using Gelpell's proprietary technology. The agreement is the result of higher than expected safety and performance results in the Phase 1 Clinical Trial carried out on two doses of Gelpell CBD oral capsules.

This exclusive License Agreement is an extension to the existing agreement between Satipharm and Gelpell AG, which has enabled the Company to market and sell its oral CBD capsules throughout Europe.

The Company will develop and sell new MC prescription drugs using the Gelpell technology, and own all the intellectual property and rights in relation to the licensed products. Gelpell will be granted the exclusive manufacturing rights for the licensed products.

DIRECTORS' REPORT

PhytoTech Therapeutics – Clinical Development of Oral Cannabinoid Products

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

Drug delivery technologies modify drug release profile, absorption, distribution and elimination for the benefit of improving product efficacy and safety, as well as patient convenience and compliance.

PhytoTech Therapeutics has implemented two exclusively licensed oral technologies in the development of its cannabis based prescription products, including:

1. PNL Technology: Pro-Nano Lipospheres for delivery of water insoluble substances with high bioavailability. The high bioavailability is obtained because the PNL based formulations spontaneously form miniature (diameter < 60 nm) drug-encapsulated micro-emulsion in the GI track. The formulation also enables dispersing the cannabinoid in water. The PNL technology was exclusively licensed from Yisum Research Development Company of the Hebrew University of Jerusalem Ltd in Israel, to develop cannabinoid based products for a variety of highly potential clinical indications on November 2014. The technology is backed by issued and pending patent.
2. Gelpell® Microgel pellets: Seamless gelatin pellets under 2mm packed in hard gastro-resistance capsule. The cannabinoids are bound and protected by three-dimensional natural gelatin matrix. This in-situ micro emulsion ensures accurate and consistent dosages and substantially enhance the bioavailability of the cannabinoids. The technology was licensed from Gelpell AG and is being utilised in PTL101 and PTL201 capsules, our two prescription drugs about to enter phase 2 clinical studies.



DIRECTORS' REPORT

Review of Operations

Successful merger between PhytoTech Medical Limited and MMJ Bioscience Inc.

In July 2015, PhytoTech Medical Limited announced the successful completion of its merger with MMJ Bioscience Inc., creating Australia's first vertically integrated medical cannabis company. The entity was subsequently rebranded as MMJ PhytoTech Limited, with a consolidated composition of executive Board and Management personnel from both companies.

Importantly, the merger strategically combined operations spanning the entire MC value chain, from cultivation, development and distribution of pharmaceutical and nutraceutical products.

MMJ Bioscience Inc. was a highly suitable merger proposition, as it possessed a complimentary asset base, a strong management team and the shared vision of realising value through vertical integration and control of the entire MC supply chain.

MMJ Bioscience Inc. also had a comparable vertical integration strategy in place, having developed R&D operations in Canada and Europe and created a European subsidiary, Satipharm, which had designed a CBD supplement. In addition, MMJ Bioscience Inc. had forged key relationships with suppliers, universities and other related players globally that would add considerable value to the Company's future pharmaceutical initiatives. The combined entity now has the capacity to establish a highly scalable footprint within favourable regulatory markets worldwide.

The Company received all regulatory approvals for the completion of the transaction in July 2015. The acquisition was purely scrip based, with PhytoTech issuing an initial 51,000,000 ordinary shares, with up to a further 17,000,000 deferred shares issued in two tranches based on the achievement of key milestones; the first of which was achieved in on 28 June 2016 following the successful grant of an MMPR license at the Group's Duncan Facility in Canada, resulting in the issue of tranche one of the deferred shares (being 8,500,000 shares) in July 2016.

Post-Merger Board and Management Structure

Following the completion of the merger, the Board of Directors of MMJ PhytoTech was comprised of:

- Mr Peter Wall, Chairman
- Mr Andreas Gedeon, Managing Director
- Mr Boaz Wachtel, Non-Executive Director (resigned 20 August 2015)
- Mr Benad Goldwasser, Non-Executive Director (resigned 20 August 2015)
- Mr Winton Willesee, Non-Executive Director
- Mr Jason Bednar, Non-Executive Director
- Mr Ross McKay, Non-Executive Director (resigned 11 August 2016)

Shortly after, Mr Boaz Wachtel and Mr Benad Goldwasser resigned from the Board of the Company, with Mr Goldwasser continuing to support the Company through his ongoing role as Chairman of PhytoTech Therapeutics until his resignation from that role in April 2016.

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

- Mr Michael Hinam as CEO of United Greeneries, the Canadian horticultural operations;
- Mr Stanislav Sologubov as CEO of Satipharm AG in Switzerland; and
- Dr. Daphna Heffetz remains as CEO of PhytoTech Therapeutics Limited, the Group's research and development subsidiary based in Israeli.

Effective from 1 July 2016, Daniela Vaschi has replaced Michael Hinam as CEO of United Greeneries.

Cultivation Division

A number of key operational milestones were achieved in the Company's cultivation division during FY2016, with the most significant being the successful granting of the MMPR for the Company's flagship Duncan Production Facility on 28 June 2016.

As outlined above, the granting of the MMPR licence by Health Canada is a significant value catalyst for MMJ and its shareholders, as it positions MMJ as one of a select number of Licensed Producers globally with the capacity to cultivate MC on a commercial scale.

DIRECTORS' REPORT

Importantly, production from the Duncan Facility will provide MMJ with a secure and legal source of pharmaceutical grade MC, and will enable near-term revenues to be generated from the sale of MC within Canada, and potentially via exports to other regulated MC markets, including Australia.

The significance of the Canadian regulatory system is highlighted by the fact that it falls under federal Canadian law, which enables imports and exports across national borders. The Canadian system also enables wide and easy consumer access to MC products and provides the required framework for the large scale commercial production of MC and related extracts.

Duncan Facility - Low Cost Expansion Strategy

On 3 August 2016, MMJ reported that United Greeneries had executed a binding letter of intent with Cowichan Tribes in respect to the leasing of a 13-acre strategic land package located immediately adjacent to the Company's existing Duncan Facility. MMJ estimates that the additional land could support up to 10 acres of greenhouse production space potentially yielding approx. 25,000 kg/year of cannabis, an increase of 25 times the current production capacity.

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

In consideration for the option to lease, the Company has agreed to pay Cowichan Tribes C\$1,000 per month until the earlier of the expiry of the option agreement on 1 June 2017, or the entry into a lease agreement. Additionally, MMJ has committed to work with a Cowichan Tribes employment liaison on an ongoing basis to identify any employment opportunities at its current or expanded United Greeneries operations for Cowichan band community members.

Pharmaceutical Processing

Gelpell European Sales

During FY2016, MMJ continued to grow its pharmaceutical processing division, with a particular focus on boosting the sales of Satipharm products throughout regulated markets throughout Europe, with the Company's first revenues generated through the sale of its CBD Capsules.

The Company recorded revenue of A\$255,340 for the year ending 30 June 2016 which were lower than originally forecast due to transaction processor, Paypal, suspending all Satipharm accounts. The Company overcame this challenge by partnering with UK supplement distributor, Prima Sport, who are now selling 10 mg and 100 mg Satipharm CBD Gelpell Gastro resistant Microgel Capsules via a dedicated online store at www.premiumcbd.co.uk in order to test a direct internet sales model.

Satipharm is also in the process of developing several new cosmetic and dietary products that it intends to market to EU-based customers in the near-term.

In June 2016, MMJ strengthened its senior management team with the appointment of Mr Stanislav Sologubov as Chief Executive Officer of Satipharm Switzerland. Mr Sologubov will focus on accelerating sales of Satipharm's medical cannabis consumer health products in Europe. With the mid-term goal of establishing a robust, multi-product cash flow stream to fund MMJ's clinical development and pharmaceutical processing initiatives.

Based on the market insights collected within first 12 months of sales and the latest commercial and regulatory trends in the European market, the Company has re-branded its Satipharm portfolio of products and is working towards establishing its own CBD distribution platform that includes an online e-commerce platform as well as distribution relationships with major pharmaceutical retailers and wholesalers. The Company will provide an update in due course.

Satipharm Entry into Australian Market

In April 2016, MMJ advised that it had entered into binding Letters of Intent ("LOI") with two strategic partners to facilitate the Company's entry into the Australian market.

Fresh Therapeutics Compounding Pharmacy ("Fresh Therapeutics"), based in New South Wales, has agreed to partner with MMJ to import and develop a dispensary model for Satipharm's existing MC products under the current legal framework in Australia.

DIRECTORS' REPORT

The partnership will initially focus on the distribution of Satipharm's exclusive Gelpell gastro-resistant Microgel capsules, while it also provides significant scope for the joint development of a dispensary network for all future products by MMJ, as the legal environment in Australia continues to progress and evolve.

In addition, an LOI was also signed with Epilepsy Action Australia to advance the availability, access and acceptance of MC in Australia through research, advocacy and education. This cooperative agreement will aim to drive the education process within the Australian market, and will incorporate clinical research into cannabis-based treatment options for epilepsy.

Epilepsy Action Australia is a leading advocacy group for epileptic patients and their families in Australia with a membership of over 100,000. This partnership will play a key role in allowing MMJ to leverage its position as an industry leader in the Australian MC field and to participate in discussions around the development of regulatory framework where appropriate.

Clinical Development

MMJ's Israel-based subsidiary, PhytoTech Therapeutics is implementing two oral licensed technologies - the PNL and Gelpell ® - to develop its cannabis based prescription drugs.

The first clinical indications are:

1. Treatment of intractable epilepsy in children using CBD containing PTL101 capsules; and
2. Treatment of spasticity related symptoms associated with multiple sclerosis patients using its PTL201 capsules.

Phase 1 Clinical Trial

Phase 1 Clinical Study was commenced at the end of 2015. The multi-arm, randomised, 5-crossover study addressed the safety and performance of 5 different treatments on 15 healthy volunteers / 14 completers:

- Two dose THC:CBD PNL capsules;
- Two dose CBD Gelpell capsules; and
- Sativex as the reference drug.

The results for the Phase 1 Clinical Study were received in March 2016 and demonstrated a sound safety profile for oral delivery of THC and CBD at the tested doses. None of the adverse events ("AEs") typical of Sativex® (i.e., mouth ulcerations, pain and soreness of the oral mucosa) were reported in this study. Our two formulations were well tolerated and all reported AEs were mild-moderate and self-resolving.

Moreover, the PNL and Gelpell technologies both enhanced the absorption and bioavailability of THC and CBD, in comparison to Sativex®.

Absorption when delivered via the PNL-based platforms was characterised by an immediate rise in plasma THC and CBD levels, which remained detectable for at least 8 hours post administration.

The Gelpell-CBD pellets were administered in gastro-resistant hard capsules and therefore were associated with delayed onset. In spite of the delay, the delivery duration of CBD10 hard capsule was similar to that of Sativex® and in the case of CBD100, significant amounts of CBD were observed even after 24 hours (Figure 2). Dose proportionality was observed between CBD10 and CBD100 capsules.

Taken together, the heightened bioavailability of the tested orally delivered formulations and their impressive safety profiles, provide a feasible means of safely and effectively delivering both THC and CBD in a user-friendly manner. Moreover, the oral dosage form ensures highly consistent exposure, which comes arm-in-arm with higher therapeutic predictability and improved compliance. The tested oral capsules have long shelf life and can be stored at room temperature, further simplifying handling and overall convenience of use.

Characterisation of the Gelpell ® - CBD micro-gelatine pellets

Satipharm's flagship, Gelpell ® technology, is based on seamless natural gelatin pellets under 2mm that bind and protect the active compound. The natural pellets do not contain filling and or any emulsifiers which help to avoid irritation of gastric mucosa. The gelatin matrix pellets dispense over the gastrointestinal (GI) system to achieve a constant GI-transit time. Maximised surface to volume ratio also contributes to enhanced bioavailability. The pellets are packed in hard gastro-resistant capsules or can be mixed directly with foods such as yogurts if required.

The technology has the potential to be a significant value catalyst for MMJ as its delivery mechanism provides a solution for the known issues with the absorption variance associated with oral delivery of cannabinoids.

DIRECTORS' REPORT

PK & Bioavailability Results of Gelpell® - CBD Capsules in Comparison to Sativex

Figure 1 illustrates a comparison of plasma concentration over time (PK) of CBD 10 mg versus GW Pharmaceutical's Sativex, Figure 2 shows the PK of the 100 mg CBD versus 10mg CBD. Figure 3 demonstrated the relative bioavailability of Gelpell-CBD 10 mg versus Sativex:

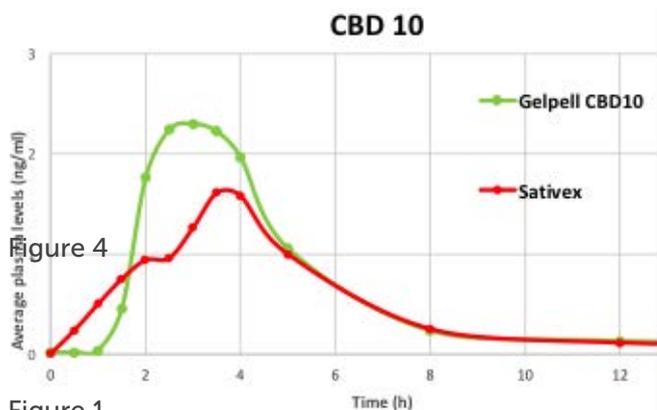


Figure 1

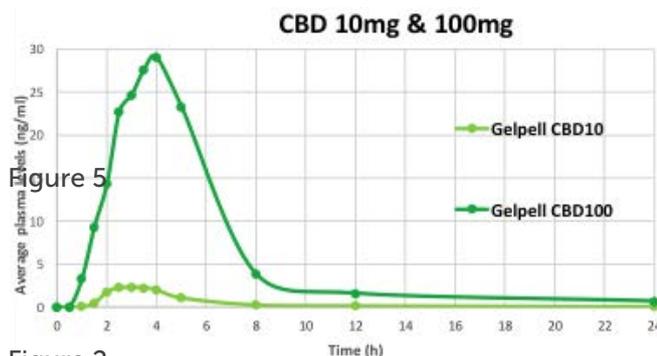


Figure 2

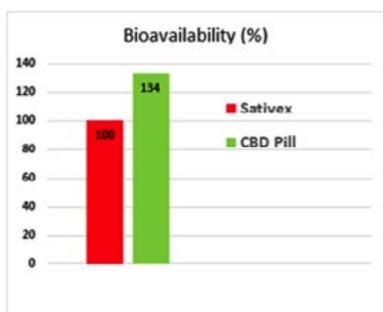


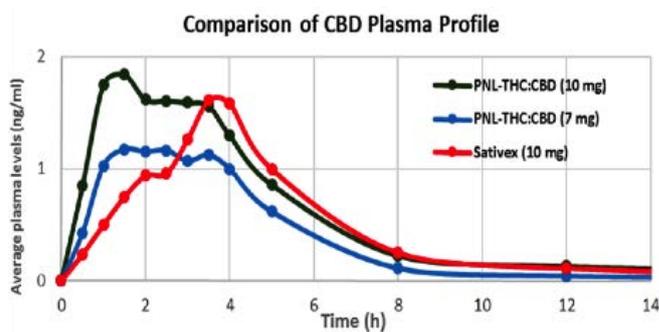
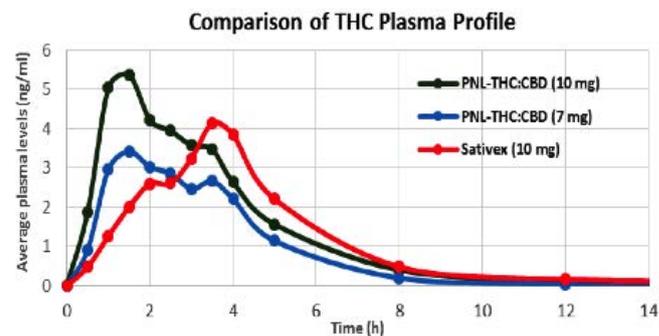
Figure 3

Results summary:

- Safety and tolerable profile with no significant side effects;
- Higher bioavailability of the Gelpell CBD 10 in comparison to Sativex;
- Dose proportionality between Gelpell CBD 10 mg to CBD 100 mg; and
- 24 hours exposure time in the plasma for the CBD 100 mg.

PK results of PNL-THC: CBD capsules in Comparison to Sativex

The below graphs illustrate a comparison of plasma concentration over time (PK) of THC 7.0 mg & 10 mg, versus GW Pharmaceutical's Sativex (Figure 4), and CBD 7.0 mg & 10 mg versus Sativex (Figure 5).



Results summary:

- Safe and tolerable profile with no significant side effects;
- Consistent results;
- 1.2-1.3-fold higher bioavailability in comparison to Sativex;
- Very rapid onset; and
- 8 hours' exposure time in the blood.

DIRECTORS' REPORT

Phase 2 Clinical Trial Update

Following the end of FY2016, MMJ advised that PTL had scheduled the commencement of a Phase 2 Clinical Study into the efficacy of its PTL101 capsules in treating intractable epilepsy in children.

The PTL101 capsules contain organically derived, highly purified CBD (cannabidiol) and are utilising proprietary formulation developed through the Company's Gelpell ® product technology. The Phase 2 Study is scheduled to commence in Q4 2016 and will be undertaken at a leading healthcare facility in Israel. It is estimated that approximately 100,000

children in North America suffer from intractable epilepsy – a treatment resistant category of the disease, causing uncontrollable seizures.

If successful, the Phase 2 Clinical Trial results will be a key catalyst towards the commercial development of the PTL101 prescription drug for the treatment of intractable epilepsy in children.

MMJ would also like to advise that it is in the final stages of preparing for the commencement of a Phase 2 Clinical Study into the ability of its PTL201 capsules to treat spasticity related symptoms associated with multiple sclerosis patients.

Subsequent Events

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

- On 8 July 2016, MMJ completed the issue of 8,500,000 shares to the original vendors of MMJ Bioscience Inc upon the satisfaction of the first performance milestone under the terms of the merger between the Company and MMJ Bioscience Inc, being the grant of a cultivation license under the Marihuana for Medical Purposes Regulations ("MMPR") by Health Canada in respect of the Group's Duncan Facility in Canada which was achieved on 28 June 2016 ("Milestone 1 Consideration Shares"). In addition, the Company issued a further 255,000 shares to parties who introduced MMJ Bioscience Inc to the Company for the purposes of facilitating the merger transaction between the two companies ("Introducer Shares") and 1,000,000 shares upon the conversion of Class D Performance Rights held by an entity associated with Chairman, Peter Wall.
- On 3 August 2016, MMJ reported that its wholly owned subsidiary, United Greeneries, had executed a binding letter of intent with Cowichan Tribes in respect to the leasing of a 13-acre strategic land package located immediately adjacent to the Company's existing Duncan Facility.
- On 11 August 2016, Mr Ross McKay resigned as a Non-Executive Director of the Company due to increased work commitments associated with his other business interests in Canada.
- On 15 August 2016, MMJ confirmed the appointment of Ms Catherine Harvey as Chief Operations Officer, effective from 1 September 2016. Details of the Ms Harvey's remuneration is set out in the remuneration report below.
- On 15 August 2016, MMJ advised that PhytoTech Therapeutics would be commencing a Phase 2 Clinical Trial into the efficacy of its PTL101 capsules in treating intractable epilepsy in children.
- On 28 September 2016, MMJ advised that it had signed a binding Term Sheet with TSX-V listed company, Top Strike Resources Limited (TSX-V: TSR) ("Top Strike"), for Top Strike to acquire 100% of the issued shares of UG and Satipharm respectively.

The transaction, which remains subject to a number of conditions, including shareholder approval, provides MMJ shareholders with exposure to the rapidly growing recreational and medical cannabis markets in Canada.

Post spin out, MMJ shareholders will, through their shareholdings in MMJ, have an indirect ownership in a fully-financed, growth-focused cannabis company with two key operating brands in UG and Satipharm.

The aggregate sale price of UG and Satipharm (C\$40 million) represents approximately 97% of MMJ's current market capitalisation (undiluted and based on a share price of A\$0.24).

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

- the consolidated entity's operations in future financial years, or
- the results of those operations in future financial years, or
- the consolidated entity's state of affairs in future financial years.

DIRECTORS' REPORT

Information on directors

PETER WALL

Independent Non-executive Chairman (appointed 14 August 2014)

LLB BComm MAppFin FFin

Mr Wall is a corporate lawyer and has been a Partner at Steinepreis Paganin (a Perth based corporate law firm) since July 2005. Mr Wall graduated from the University of Western Australia in 1998 with a Bachelor of Law and Bachelor of Commerce (Finance). He has also completed a Masters of Applied Finance and Investment with FINSIA.

Mr Wall has a wide range of experience in all forms of commercial and corporate law, with a particular focus on equity capital markets and mergers and acquisitions. He also has significant experience in dealing in cross border transactions.

Over the past three years Mr Wall has held directorships with the following listed public companies:

- Non-Executive Chairman of Minbos Resources Ltd (ASX:MNB) (current)
- Non-Executive Chairman of MyFiziq Ltd (ASX:MYQ) (current)
- Non-Executive Chairman of Activistic Ltd (ASX:ACU) (current)
- Non-Executive Chairman of Sky and Space Global Ltd (ASX:SAS) (current)
- Non-Executive Chairman of Transcendence Technologies Limited (ASX:TTL) (current)
- Non-Executive Director of Burrabulla Corporation Limited (ASX:BUA) (current)
- Non-Executive Director of Zyber Holdings Ltd (ASX:ZYB) (current)
- Non-Executive Director of Ookami Limited (ASX:OOK) (current)
- Non-Executive Chairman of Global Metals Exploration NL (now Zinc of Ireland NL (ASX:ZMI)) (resigned 22 July 2016)
- Non-Executive Chairman of Galicia Energy Corporation Ltd (now TV2U International Limited (ASX:TV2)) (resigned 9 February 2016)
- Non-Executive Chairman of Aziana Ltd (now Brainchip Holdings Ltd (ASX:BRN)) (resigned 3 August 2015)
- Non-Executive Chairman of Discovery Resources Ltd (now Aquis Entertainment Limited (ASX:AQS)) (resigned 8 November 2013)

ANDREAS GEDEON

Managing Director (appointed 27 July 2015)

Dipl. Paed

Mr. Gedeon, a former Officer in the German Navy, holds a degree in Educational Science from the University of the Federal Armed Forces Munich. He is an experienced business man with proven expertise in large-scale and HR intensive projects. His previous areas of business include media production, horticulture and commercial construction. In his role as Managing Director, Mr. Gedeon oversees the global expansion strategy of the MMJ PhytoTech group.

Over the past three years Mr Gedeon has not held directorships with any other listed public companies other than MMJ.

DIRECTORS' REPORT

WINTON WILLESEE

Independent Non-executive Director (appointed 21 October 2014)
BBus., DipEd., PGDipBus., MCom., FFin, CPA, MAICD, ACIS/ACSA

Mr Willesee is an experienced company director. Winton brings a broad range of skills and experience in strategy, company development, corporate governance, company public listings, merger and acquisition transactions and corporate finance. Mr Willesee has considerable experience with ASX listed and other companies over a broad range of industries having been involved with many successful ventures from early stage through to large capital development projects.

Mr Willesee holds formal qualifications in economics, finance, accounting, education and governance. He is a Fellow of the Financial Services Institute of Australasia, a Member of the Australian Institute of Company Directors, a Member of CPA Australia and a Chartered Secretary.

Over the past three years Mr Willesee has held directorships with the following listed public companies:

- Non-Executive Chairman of Birimian Ltd (ASX: BGS) (current)
- Chairman of Metallum Ltd (ASX:MNE) (current)
- Non-Executive Director of DroneShield Limited (ASX:DRO) (current)
- Executive Director of Ding Sheng Xin Finance Co Limited (ASX:DXF) (current)
- Executive Chairman of xTV Networks Ltd (ASX:XTV) (current)
- Executive Chairman Cove Resources Ltd (now BidEnergy Limited)(ASX:PID) (resigned 1 Jul 2016)
- Non-Executive Chairman of Basper Ltd (now DirectMoney Limited ASX:DM1)) (resigned 3 Jul 2015)
- Non-Executive Chairman of Coretrack Ltd (now LWP Technologies Limited (ASX:LWP)) (resigned 6 Mar 2015)
- Non-Executive Director of Otis Energy Ltd (now iSignThis Limited (ASX:ISX)) (resigned 22 Dec 2014)
- Non-Executive Director of Newera Resources Ltd (now Consolidated Zinc Limited (ASX:CZL)) (resigned 31 Ju 2014)
- Non-Executive Director of Torrens Energy Ltd (resigned 2 May 2014) (now High Peak Royalties Limited)
- Non-Executive Director of Base Resources (resigned 26 Nov 2013)
- Non-Executive Chairman of Bioprospect Ltd (resigned 15 Sep 2013) (now Medibio Limited)

JASON BEDNAR

Independent Non-executive Director (appointed 27 July 2015)
BCom, CA

Mr. Bednar is a Chartered Accountant with more than 18 years of direct professional experience in the financial and regulatory management of companies listed on the Toronto Stock Exchange, TSX Venture Exchange, American Stock Exchange and ASX. He is currently the CFO and director of Canacol Energy Ltd., a Colombian focused oil and gas exploration and production company with an enterprise value of approximately US\$650 million. Mr. Bednar has been the past CFO of several international oil and gas E&P companies, most notably the founding Chief Financial Officer of Pan Orient Energy Corp, a South East Asia exploration company, who during his tenure grew organically to operate 15,000 bbl/d and a market cap of \$700 million. He has previously sat on the board of directors of several internationally focused E&P companies, including being the past Chairman of Gallic Energy Ltd.

DIRECTORS' REPORT

Over the past three years Mr Bednar has held directorships with the following listed public companies:

- Director, Canacol Energy Ltd (current)
- Director, Tilting Capital Corp. (current)
- Director, Sintana Energy Inc (resigned 13 May 2015)
- Director, Charlotte Resources Ltd (resigned 9 February 2015)
- Director, Solimar Energy Limited (resigned 13 December 2014)
- Director, MENA Hydrocarbons Inc (resigned 3 February 2014)

ROSS MCKAY

Independent Non-executive Director (appointed 27 July 2015, resigned 11 August 2016)
BSc (Pharm), CMA

Ross McKay is a Partner and Chief Operating Officer for VetStrategy Inc. VetStrategy owns and manages veterinary clinics across Canada. It is the only 100% Canadian owned and operated organisation of its kind with a multi-provincial presence.

Mr. McKay brings extensive operational experience from his background in developing and growing both corporate and franchised business models in Canada. A Pharmacist and a Certified Management Accountant, Mr. McKay helped lead the successful growth of the pharmacy divisions for both Save-On-Foods and Wal-Mart in BC and Alberta. Most recently Mr. McKay was President of Medicine Shoppe Canada, a division of Katz Group Canada, the largest pharmacy group in Canada (Rexall, Pharmaplus, Guardian, IDA and Medicine Shoppe). During his 14 year term, Medicine Shoppe grew into the leading professional pharmacy chain in Canada with over 175 locations from coast to coast. Mr. McKay was also responsible for Medicentres, another division within Katz Group, Canada's largest and most successful chain of medical clinics.

Over the past three years Mr McKay has not held directorships with any other listed public companies other than MMJ.

BOAZ WACHTEL

Executive Director (appointed 18 November 2014, resigned 20 August 2015)

Mr Wachtel has over 25 years' experience in the medical cannabis industry. He is a founding member of 'Israeli foundation for drug law reform' (1994) and initiator of Medical Cannabis efforts in Israel (1995). Mr. Wachtel is a certified Manager of Clinical trials and earned MA degree from University of Maryland, USA. Formally he served as the Assistant Army Attaché at the Israeli Embassy in Washington D.C.

Mr Wachtel was also the founding member of the Medical Cannabis distribution center in Abarbanel Hospital (2009) and founder and former Chairman – The Green Leaf Party: Civil Rights, Ecology, Harm reduction and Legalisation of Cannabis. Since 2006, he has been a Member of the Board of the Israeli AIDS committee – the leading anti-AIDS NGO in Israel. Additionally, Mr Wachtel is a Lecturer on drug policy, Medical cannabis and Ibogaine.

Over the past three years Mr Wachtel has not held directorships with any other listed public companies other than MMJ.

DIRECTORS' REPORT

BENAD GOLDWASSER

Executive Director (appointed 27 January 2015, resigned 20 August 2015)

MD MBA

Dr. Benad Goldwasser is a well-known MD and serial entrepreneur in Israel. He has founded or co-founded at least nine companies which were later acquired by strategic companies or became public companies on the NASDAQ. He received his medical degree from Tel-Aviv University in 1975. After service in the Israeli Defense Forces, he began his residency in Urology in 1978 and finished it at the Chaim Sheba Medical Center, Tel Hashomer in 1984.

Between 1984-1986, he spent a year at Duke University Medical Center, Durham North Carolina as a post-graduate fellow and an additional year at the Mayo Clinic, Rochester, Minnesota, again as a post-graduate fellow. On returning to Israel, he was appointed Chairman of Urology at the Chaim Sheba Medical Center and Professor of Surgery at Tel Aviv University. In 1997, he received an MBA degree from Tel-Aviv University.

During his medical and academic career, Dr Goldwasser was the author or co-author of over 120 original articles published in peer-reviewed journals and 19 book chapters in books published in the field of Urology, and was co-editor of two books published in the field of reconstructive urology. During the period from 1993 through 1996 Benad founded or co-founded a number of companies, including Vidamed Inc., (acquired by Medtronic after going public on NASDAQ), Medinol Ltd., (partnered with Boston Scientific for marketing and sales of its coronary stents). RITA Medical (public on NASDAQ) and Optonol (acquired by Alcon), He was a seed investor in Medcon Ltd. (acquired by McKesson Corp after going public on the Tel Aviv Stock Exchange) a company in medical IT that went public on the Israel Stock Exchange and was later acquired by McKesson Corp.

In 1997, Dr Benad Goldwasser retired from the practice of medicine and became Managing Director of Biomedical Investments Ltd., an Israeli Venture Capital company. In 2003, Benad co-founded GI View Ltd., and served as its CEO until April 2008 and in 2013, Benad became an independent director at BioCancell Ltd., a publicly trading company on TASE. And 2014, Benad became active chairman of the board of directors of Leadexx Ltd. a start-up company in the field of cardiology.

Over the past three years Mr Goldwasser has held directorships with the following public listed companies:

- Director of Biocancell Ltd (appointed 26 November 2013 to current)
- Director of BiondVax Pharmaceuticals Ltd (appointed and resigned in 2014)

Information on Company Secretary

ERLYN DALE

Company Secretary (appointed 1 February 2015)

BCom, AGIA

Miss Dale has a broad range of experience in company administration and corporate governance having been involved with several ASX-listed and unlisted public and other companies. Miss Dale holds a Bachelor of Commerce (Accounting and Finance) and a Graduate Diploma in Applied Corporate Governance with the Governance Institute of Australia.

DIRECTORS' REPORT

Meetings of directors

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the period were:

| | Board Meetings | | Audit & Risk Committee | | Remuneration Committee | |
|------------------|----------------|--------------------|------------------------|--------------------|------------------------|--------------------|
| | Attended | Eligible to attend | Attended | Eligible to attend | Attended | Eligible to attend |
| Peter Wall | 11 | 11 | 1 | 1 | 1 | 1 |
| Andreas Gedeon | 10 | 10 | - | - | - | - |
| Winton Willesee | 11 | 11 | 1 | 1 | 1 | 1 |
| Jason Bednar | 10 | 10 | 1 | 1 | 1 | 1 |
| Ross McKay | 10 | 10 | 1 | 1 | 1 | 1 |
| Boaz Wachtel | 1 | 1 | - | - | - | - |
| Benad Goldwasser | 1 | 1 | - | - | - | - |

Directors' interests in shares and options

As at the date of this report the interests of the Directors in the shares and options of the Company were:

| | Ordinary Shares | | Options | | Performance Rights | |
|-------------------------------|-----------------|-----------|-----------|-----------|--------------------|-----------|
| | Direct | Indirect | Direct | Indirect | Direct | Indirect |
| Peter Wall ¹ | - | 4,000,000 | - | - | - | - |
| Andreas Gedeon ² | - | 6,563,914 | - | - | - | - |
| Winton Willesee ³ | - | - | - | 1,000,000 | - | - |
| Jason Bednar | 1,026,522 | - | 1,500,000 | - | - | - |
| Ross McKay ⁴ | 99,018 | - | 333,333 | - | - | - |
| Boaz Wachtel ⁵ | - | 6,500,000 | - | - | - | 5,000,000 |
| Benad Goldwasser ⁶ | - | - | - | 1,500,000 | - | - |

1 – Securities are held by Pheakes Pty Ltd <Senate A/C>, an entity associated with Mr Wall.

2 – Securities are held by Greenline Holdings Pty Ltd, an entity associated with Mr Gedeon.

3 – Options are held by Azalea Family Holdings Pty Ltd <No 2 A/C>, an entity associated with Mr Willesee.

4 – Securities held by Mr Ross McKay as at the date of resignation on 11 August 2016.

5 – Securities held as at the date of resignation on 20 August 2015 were held by International Water and Energy Savers Ltd, an entity associated with Mr Wachtel.

6 – Securities held as at the date of resignation on 20 August 2015 were held by ESOP Management & Trust Services Ltd, an entity associated with Mr Goldwasser.

DIRECTORS' REPORT

Directors' Remuneration

Please refer to the Remuneration Report for information relating to the Directors' remuneration for the period.

Shares and options on issue

During the period, the Company issued the following securities:

- 51,000,000 Shares were issued to the vendors of MMJ Bioscience Inc in connection with the merger of the two companies, subject to various escrow conditions.
- 1,530,000 Shares were issued as an Introducers Fee to parties who facilitated the introduction of MMJ Bioscience and the merger transaction to the Company, subject to various escrow conditions.
- 12,083,332 Shares issued to certain Class A, B and C Performance Rights holders upon the vesting of those performance rights.
- 3,500,000 Class D Options issued to directors, Messrs Willesee, Bednar and McKay as approved by shareholders at the General Meeting held on 29 June 2015. Following Mr McKay's resignation on 11 August 2016, 666,667 unvested Class D Options lapsed, leaving 2,833,333 Class D Options on issue as at the date of this report.
- 1,500,000 Class E Options issued to the former executive director, Mr Goldwasser as approved by shareholders at the General Meeting held on 29 June 2015.
- 16,000,000 Shares issued under a placement to sophisticated investors to raise \$4.8 million before costs ("**August Placement**").
- 313,333 Shares and 7,000,000 Class F Options issued as partial consideration for capital raising services provided to the Company in connection with the August Placement.
- 8,750,000 Shares to certain Class A & B Performance Rights holders upon the vesting of those performance rights.
- 6,557,377 Shares and 1,311,475 Class F Options issued under a placement to sophisticated investors to raise \$2 million ("**October Placement**").
- 196,722 Shares and 2,500,000 Class F Options issued as partial consideration for capital raising services provided to the Company in connection with the October Placement.
- 20,833,333 Shares and 10,416,666 Class G Options issued under a placement to sophisticated investors to raise \$5 million before costs ("**March Placement**").
- 1,500,000 Class G Options issued as consideration for capital raising services provided to the Company in connection with the March Placement.
- 2,204,641 Class H Options issued under the Employee Share Option Plan (ESOP). 638,750 Class H Options have since lapsed following the cessation of employment of certain employees, with only 1,565,891 Class H Options remaining on issue as at the date of this report.

Subsequent to the end of the 2016 financial year, the Company completed the issue of 8,500,000 Milestone 1 Consideration Shares to the original vendors of MMJ Bioscience Inc upon the satisfaction of the first performance milestone under the terms of the merger between the Company and MMJ Bioscience Inc, being the grant of a cultivation license under the MMPR by Health Canada in respect of the Group's Duncan Facility in Canada which was achieved on 28 June 2016. In addition, the Company issued a further 255,000 Introducer Shares to parties who introduced MMJ Bioscience Inc to the Company for the purposes of facilitating the merger transaction between the two companies and 1,000,000 shares upon the conversion of Class D Performance Rights held by an entity associated with Chairman, Peter Wall.

DIRECTORS' REPORT

As a result of these issues, as at the date of this report, the issued capital of the Company was as follows:

| Security | Exercise Price | Exercise Expiry | Escrow Expiry | Vesting Conditions | Number on Issue |
|----------------------------|----------------|-----------------|---------------|---|-----------------|
| | | | - | - | 129,337,815 |
| Fully Paid Ordinary Shares | | | 27-Oct-16 | - | 17,510,000 |
| | | | 21-Jan-17 | - | 24,833,332 |
| Class A Performance Rights | Nil | 21-Jan-20 | 21-Jan-17 | Milestones attaching to Class A Performance Rights have been satisfied and can vest at any time upon the election of holder. Refer to Note 18. | 83,334 |
| Class B Performance Rights | Nil | 21-Jan-20 | 21-Jan-17 | Milestones attaching to Class B Performance Rights have been satisfied and may be converted into 1 fully paid ordinary share any time at the election of the holder. Refer to Note 18. | 0* |
| Class C Performance Rights | Nil | 21-Jan-20 | 21-Jan-17 | Various. Refer to Note 18. | 9,000,000 |
| Class D Performance Rights | Nil | 21-Jan-20 | 21-Jan-17 | Various. Refer to Note 18. | 9,000,000 |
| Class A Options | \$0.20 | 8-Jan-18 | 21-Jan-17 | Nil. | 2,500,000 |
| Class B Options | \$0.20 | 6-May-19 | - | Options vest over a period of 3 years of continuous employment from 15 Jan 2015, with one third vesting after the first 12 months, and the remaining two thirds vesting monthly thereafter. | 4,500,000 |
| Class C Options | \$0.31 | 6-May-19 | - | Options vest annually over a period of 3 years of continuous employment from 1 Apr 2015. | 350,000 |
| Class D Options | \$0.40 | 27-Jul-18 | - | The Options vest quarterly over a period of 3 years of continuous employment (various dates). | 2,833,333 |
| Class E Options | \$0.20 | 27-Jul-18 | - | Nil | 1,500,000 |
| Class F Options | \$0.45 | 8-Sep-18 | | Nil | 10,811,475 |
| Class G Options | \$0.36 | 1-Mar-19 | | Nil | 11,916,666 |
| Class H Options | \$0.27 | 31-Jan-20 | | The Options vest quarterly over a period of 3 years of continuous employment (various dates). | 1,565,891 |

* Each Class A Performance Right converts into 1 fully paid ordinary share and 1 Class B Performance Right. As the Performance Milestone attaching to Class A Performance Rights have been satisfied, 83,334 Class B Performance will be issued upon the election of the holder of the remaining Class A Performance Rights.

DIRECTORS' REPORT

In addition, the Company has also committed to issue the following further Options to certain Key Management Personnel of the Company, however, as at the date of this report these Options were yet to be issued:

| Recipient | Exercise Price | Exercise Expiry | Escrow Expiry | Vesting Conditions | Number to be Issued |
|--------------|----------------|-----------------|---------------|---|---------------------|
| S. Sologubov | \$0.24 | 6-Jun-19 | - | The Options vest every 6 months over a period of 2 years of continuous service. | 4,000,000 |
| C. Harvey | \$0.24 | 1-Sep-20 | - | The Options vest annually over a period of 3 years of continuous service. | 3,000,000 |

Detailed terms and conditions attaching to Options and Performance Rights are set out in Note 18.

Performance Rights granted during the period

No Performance Rights were granted during the year ended 30 June 2016.

During the year ended 30 June 2015, the following Performance Rights were granted:

| Class | Number issued | Grant date | Vesting date | Expiry date | Fair value per performance right (\$) | Total value at grant date (\$) | Probability of vesting | | Underlying security spot price (\$) |
|-------|---------------|------------|--|-------------|---------------------------------------|--------------------------------|------------------------|------|-------------------------------------|
| | | | | | | | 2015 | 2016 | |
| A & B | 10,000,000 | 28-Aug-14 | Subject to vesting conditions ¹ | 18-Nov-16 | 0.038 | 379,999 | - | - | 0.08 |
| C | 10,000,000 | 28-Aug-14 | Subject to vesting conditions ¹ | 18-Nov-18 | 0.037 | 92,500 | 35% | 35% | 0.08 |
| | | 29-Jun-15 | | | 0.285 | 285,000 | 95% | 100% | 0.30 |
| D | 10,000,000 | 28-Aug-14 | Subject to vesting conditions ¹ | 18-Nov-17 | 0.037 | 753,000 | 15% | 15% | 0.08 |
| | | 29-Jun-15 | | | 0.240 | 240,000 | 80% | 100% | 0.30 |
| | | 29-Jun-15 | | | 0.030 | 112,500 | 10% | 20% | 0.30 |

¹ Details on the vesting conditions attaching to the Performance Rights are set out in Note 18.

The milestones attaching to the Class A & B Performance Rights were satisfied and on 29 June 2015 shareholder approval was received to remove the two-year restriction on the conversion of all performance rights into equity of the Company.

As at 30 June 2016, in accordance with AASB 2 Share Based Payments, the Company re-assessed the probability of the relevant market conditions being met in respect of each of the existing Performance Rights on issue and as a result, an amount of \$35,000 was expensed during the year, being the revaluation of Class C and D performance rights beneficially held by Mr Peter Wall.

Proceedings on behalf of the Company

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

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

The remuneration report details the Key Management Personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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

For the purposes of this Remuneration Report, Key Management Personnel includes the following directors and senior executives who were engaged by the Company at any time during the period ended 30 June 2016:

(i) Non-Executive Directors

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

(ii) Executive Directors

| | |
|------------------|--|
| Andreas Gedeon | Managing Director (<i>appointed 27 July 2015</i>) |
| Boaz Wachtel | Managing Director (<i>appointed 18 November 2014, resigned 20 August 2015</i>) |
| Benad Goldwasser | Executive Director (<i>appointed 27 January 2015, resigned 20 August 2015</i>) |

(iii) Key Management Personnel

| | |
|---------------------|--|
| Daphna Heffetz | CEO – PhytoTech Therapeutics Ltd (<i>appointed 15 January 2015</i>) |
| Michael Hinam | CEO – United Greeneries Ltd (<i>appointed 14 July 2015</i>) |
| Tomas Edvinsson | CEO – Satipharm AG (<i>appointed 10 August 2015, resigned 6 June 2016</i>) |
| Stanislav Sologubov | CEO – Satipharm AG (<i>appointed 6 June 2016</i>) |

The Remuneration Report covers the following matters:

- (a) Principles used to determine the nature and amount of remuneration;
- (b) Executive service agreements;
- (c) Details of remuneration;
- (d) Share-based remuneration;
- (e) Other transactions with Key Management Personnel;
- (f) Loans with Key Management Personnel; and
- (g) Other information.

(a) Principles used to determine the nature and amount of remuneration

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

Independent advice was obtained during the 2016 financial year to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian, Canadian, Swiss and Israeli executive reward practices. Refer to note (g) below for further details.

DIRECTORS' REPORT

Executive Remuneration

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

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

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

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

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

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

The total remuneration of executives and other senior managers consists of the following:

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

Non-Executive Remuneration

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

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

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

DIRECTORS' REPORT

(b) Executive service agreements

| Name | Base Salary | Performance-Based Incentives | Term | Termination Benefit |
|---|--|--|--|---------------------|
| Andrea Gedeon <i>Managing Director</i> | CAD \$330,000 per annum*. <i>*as at 30 June 2016 equivalent to \$342,324 AUD</i> | Cash or non-cash performance-based bonus of up to 50% of base salary, at Board's discretion. | 3 years effective from 27 July 2015 | 3 months |
| Daphna Heffetz <i>CEO PhytoTech Therapeutics</i> | NIS 720,000 per annum*. <i>*as at 30 June 2016 equivalent to \$251,248 AUD</i> | 4,500,000 Class B Options (0.20, 6 May 2019) | Effective from 15 January 2015 until termination of the agreement. | 6 months |
| Daniela Vaschi <i>CEO United Greeneries</i> | CAD \$98,000 per annum*. <i>*as at 30 June 2016 equivalent to \$101,660 AUD</i> | 285,000 Class H Options (\$0.27, 31 Jan 2020) | Effective from 1 July 2016 until termination of agreement | 2 weeks |
| Michael Hinam <i>CEO United Greeneries</i> | CAD \$10,000 per month July and August 2015, then CAD \$130,000* for the remaining 12 months of the term. <i>*as at 30 June 2016 equivalent to \$134,855 AUD</i> | 225,000 Class H Options (\$0.27, 31 Jan 2020) | Effective from 14 July 2015 to 30 June 2016. ¹ | 1 month |
| Tomas Edvinsson <i>CEO – Satipharm</i> | CHF 36,000 per annum <i>*as at 30 June 2016 equivalent to \$49,457 AUD</i> | - | Effective from 10 August 2015 to 6 June 2016. ² | 2 months |
| Stanislav Sologubov <i>CEO – Satipharm</i> | EUR 140,000* per annum increasing to EUR 180,000* on achieving gross revenue from sales of EUR 1,000,000 <i>*as at 30 June 2016 equivalent to \$208,924 AUD increasing to \$268,617</i> | 4,000,000 Options exercisable at \$0.24 on or before 6 June 2019. As at the date of this report these options remained outstanding. | Effective from 6 June 2016 until termination of the agreement | 3 months |
| Richard Jarvis <i>Chief Financial Officer</i> | \$170,000 per annum | - | Effective from 4 July 2016 until 14 October 2016. | Nil |
| Catherine Harvey <i>Chief Operating Officer</i> | \$235,000 per annum | 3,000,000 Options exercisable at \$0.24 on or before 1 September 2020. As at the date of this report these options remained outstanding. | Effective from 1 September 2016 until termination of the agreement | 3 months |

DIRECTORS' REPORT

| Name | Base Salary | Performance-Based Incentives | Term | Termination Benefit |
|--|--|---|--|---------------------|
| Boaz Wachtel <i>Executive Director</i> | US\$180,000 per annum* <i>*as at 30 June 2016 equivalent to \$241,903 AUD</i> | 2,500,000 of each of Class A, B, C and D Performance Rights | Effective from the date of the Company's admission to the official list of the ASX to 20 August 2015 | 3 months |
| Benad Goldwasser <i>PhytoTech Therapeutics Ltd (Israel)</i> | AUD\$72,000 per annum | - | Effective from 20 August 2015 until termination of the agreement on 29 April 2016. | None |

- 1 Mr Hinam continues to hold a non-management role with United Greeneries from 1 July 2016 to 14 September 2016.
- 2 Mr Edvinsson continues to hold a non-management role with Satipharm post 6 June 2016.

The appointments of Mr Wall as Chairman and Messrs Willesee, Bednar and McKay as non-executive directors are subject to the terms and conditions set out in their respective letters of appointment. Mr Wall receives a cash fee of \$48,000 per annum for his role as Chairman, with each of the non-executive directors receiving \$36,000 per annum. None of the non-executive directors are entitled to termination payments.

DIRECTORS' REPORT

(c) Details of remuneration

Director and other KMP Remuneration

Details of the nature and amount of each element of the remuneration of each KMP of MMJ PhytoTech Limited are shown in the table below:

| Name | Year | Short term benefits, cash salary and fees (\$) | Super-annuation (post-employment benefit) (\$) | Termination payments | Other benefits (\$) | | Share-based payments (Options and performance rights) (\$) | Total (\$) | % of Performance-based Remuneration |
|---------------------------|-------------|--|--|----------------------|---------------------|--------------------|--|------------------|-------------------------------------|
| | | | | | Annual Leave | Long Service Leave | | | |
| Directors | | | | | | | | | |
| P Wall ¹ | 2016 | 48,000 | - | - | - | - | 35,000 | 83,000 | 42.2% |
| P Wall ¹ | 2015 | 36,000 | - | - | - | - | 603,532 | 639,532 | 94.4% |
| A Gedeon ² | 2016 | 315,994 | - | - | - | - | - | 315,994 | - |
| A Gedeon ² | 2015 | - | - | - | - | - | - | - | - |
| W Willesee ³ | 2016 | 36,000 | - | - | - | - | 69,536 | 105,536 | 65.9% |
| W Willesee ³ | 2015 | 24,000 | - | - | - | - | 61,827 | 85,827 | 72.0% |
| J Bednar ² | 2016 | 33,000 | - | - | - | - | 186,285 | 219,285 | 85.0% |
| J Bednar ² | 2015 | - | - | - | - | - | - | - | - |
| R McKay ² | 2016 | 33,000 | - | - | - | - | 124,190 | 157,190 | 79.0% |
| R McKay ² | 2015 | - | - | - | - | - | - | - | - |
| B Wachtel ⁴ | 2016 | 17,685 | - | 61,856 | - | - | - | 79,541 | - |
| B Wachtel ⁴ | 2015 | 115,769 | - | - | - | - | 832,031 | 947,800 | 87.8% |
| B Goldwasser ⁵ | 2016 | 5,322 | - | - | - | - | 190,557 | 195,879 | 97.3% |
| B Goldwasser ⁵ | 2015 | 50,974 | - | - | - | - | 116,539 | 167,513 | 69.6% |
| R Smith ⁶ | 2016 | - | - | - | - | - | - | - | - |
| R Smith ⁶ | 2015 | 198,396 | - | 126,326 | - | - | 196,330 | 521,052 | 37.7% |
| Executives | | | | | | | | | |
| D Heffetz | 2016 | 316,427 | 34,112 | - | 11,201 | - | 318,113 | 679,852 | 46.8% |
| D Heffetz ⁷ | 2015 | 119,363 | 13,343 | - | - | - | 191,300 | 324,006 | 59.0% |
| S Sologubov ⁸ | 2016 | 14,135 | - | - | - | - | 33,010 | 47,145 | 70.0% |
| S Sologubov ⁸ | 2015 | - | - | - | - | - | - | - | - |
| H Sacks ⁹ | 2016 | - | - | - | - | - | - | - | - |
| H Sacks | 2015 | 30,555 | - | - | - | - | 20,916 | 51,471 | 40.6% |
| M Hinam ¹⁰ | 2016 | 131,455 | 2,446 | - | 198 | - | 29,230 | 163,330 | 17.9% |
| M Hinam ¹⁰ | 2015 | - | - | - | - | - | - | - | - |
| T Edvinsson ¹¹ | 2016 | 66,517 | - | - | - | - | - | 66,517 | 0% |
| T Edvinsson ¹¹ | 2015 | - | - | - | - | - | - | - | - |
| Total | 2016 | 1,017,535 | 36,558 | 61,856 | 11,399 | - | 985,921 | 2,113,269 | |
| Total | 2015 | 575,057 | 13,343 | 126,326 | - | - | 2,022,475 | 2,737,201 | |

1 Appointed 14 August 2014.

2 Appointed 27 July 2015.

3 Appointed 21 October 2014.

4 Appointed 18 November 2014 and resigned 20 August 2015.

5 Appointed 27 January 2015 and ceased being a Key Management Personnel on 20 August 2015 following resignation from the Board of the parent company.

6 Appointed 14 August 2014 and resigned on 2 February 2016.

7 Appointed 28 January 2015.

8 S Sologubov became Key Management Personnel on 6 June 2016.

9 As a result of the completion of the merger transaction and the resulting addition of new layers of management, Hagit Sacks is no longer classified as Key Management Personnel for the year commencing 1 July 2016.

10 Appointed 27 July 2015.

11 Appointed 10 August 2015 and ceased being a Key Management Personnel upon resignation as CEO of Satipharm AG on 6 June 2016.

DIRECTORS' REPORT

(d) Share-based remuneration

Details of share-based payments in the Company held during the period by each Key Management Personnel, including their personally related parties, are set out below.

(i) Issue of shares

No shares were issued to directors or Key Management Personnel as part of compensation during the period ended 30 June 2016.

(ii) Issue of Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other Key Management Personnel in this period or future reporting years are as follows:

| 2016 | Number granted | Vesting terms | Value each at grant date (\$) | Exercise price (\$) | Total Value (\$) | Expiry Date |
|---------|----------------|---------------|----------------------------------|------------------------|---------------------|--------------|
| Class D | 2,500,000 | See below | \$0.193 | \$0.40 | 482,504 | 27 July 2018 |
| Class H | 225,000 | See below | \$0.202 | \$0.27 | 45,544 | 31 Jan 2020 |
| Class I | 4,000,000 | See below | \$0.121 | \$0.24 | \$482,288 | 6 June 2019 |

| 2015 | Number granted | Vesting terms | Value each at grant date (\$) | Exercise price (\$) | Total Value (\$) | Expiry Date |
|---------|----------------|---------------|----------------------------------|------------------------|---------------------|--------------|
| Class B | 4,500,000 | See below | \$0.139 | \$0.20 | 623,931 | 6 May 2019 |
| Class C | 350,000 | See below | \$0.214 | \$0.31 | 74,984 | 6 May 2019 |
| Class D | 1,000,000 | See below | \$0.163 | \$0.40 | 162,920 | 27 July 2018 |
| Class E | 1,500,000 | See below | \$0.205 | \$0.20 | 307,097 | 27 July 2018 |

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other Key Management Personnel as part of compensation during the period ended 30 June 2016 are set out below:

| 2016 | Class | Number granted | Grant date | Number vested | Number lapsed/ cancelled | Exercise price (\$) | Fair Value per Option (\$) | Expiry date |
|----------------------------------|-------|----------------|------------|---------------|-----------------------------|------------------------|-------------------------------|--------------|
| Winton Willesee | D | - | - | 333,333 | - | \$0.40 | 0.163 | 27 July 2018 |
| Jason Bednar | D | 1,500,000 | 27/07/2015 | 375,000 | - | \$0.40 | 0.193 | 27 July 2018 |
| Ross McKay | D | 1,000,000 | 27/07/2015 | 250,000 | - | \$0.40 | 0.193 | 27 July 2018 |
| Daphna Heffetz | B | - | - | 2,125,000 | - | \$0.20 | 0.139 | 6 May 2019 |
| Benad Goldwasser ¹ | E | - | - | 1,375,000 | - | \$0.20 | 0.205 | 27 July 2018 |
| Michael Hinam | H | 225,000 | 1/02/2016 | 56,250 | - | \$0.27 | 0.202 | 31 Jan 2020 |
| Stanislav Sologubov ² | I | 4,000,000 | 6/6/2016 | - | - | \$0.24 | 0.121 | 6 June 2019 |

DIRECTORS' REPORT

| 2015 | Class | Number granted | Grant date | Number vested | Number lapsed/ cancelled | Exercise price (\$) | Fair Value per Option (\$) | Expiry date |
|--------------------------|-------|----------------|------------|---------------|-----------------------------|------------------------|----------------------------------|--------------|
| Winton Willesee | D | 1,000,000 | 29/06/2015 | 166,667 | - | \$0.40 | 0.163 | 27 July 2018 |
| Daphna Heffetz | B | 4,500,000 | 15/01/2015 | - | - | \$0.20 | 0.139 | 6 May 2019 |
| Benad Goldwasser | E | 1,500,000 | 29/06/2015 | 125,000 | - | \$0.20 | 0.205 | 27 July 2018 |
| Hagit Sacks ³ | C | 350,000 | 1/04/2015 | - | - | \$0.31 | 0.214 | 6 May 2019 |

- 1 Upon Mr Goldwasser's resignation from the Board of the parent company on 20 August 2016, 100% of options beneficially held by him vested.
- 2 As at 30 June 2016, the Company had committed to issue 4,000,000 Class I Options to Mr Sologubov however these options had not been issued as at the date of this report.
- 3 Following the completion of the merger transaction with MMJ Bioscience Inc and the resulting additional layers of management, Hagit Sacks is no longer classified as Key Management Personnel for the year ending 30 June 2016.

Vesting Conditions:

Class B options beneficially held by Daphna Heffetz are subject to the following vesting conditions:

- 1,500,000 Options will vest after twelve months of continuous employment with the Group; and
- Thereafter, the balance of the Options shall vest monthly for each month of continuous employment.

During the current period \$318,113 (2015: \$191,300) was expensed.

Class C options beneficially held by Hagit Sacks vest and become exercisable annually in equal portions over a period of three years of continuous employment. During the current period, following the addition of new layers of management following the completion of the merger transaction with MMJ Bioscience Inc., Hagit Sacks was not considered Key Management Personnel for the period commencing 1 July 2016 and accordingly, vested options held by Hagit Sacks are not disclosed in this Remuneration Report for that period. During 2015 an amount of \$20,916 was expensed in respect of Class C Options held by Hagit Sacks.

Class D options beneficially held by Winton Willesee, Jason Bednar and Ross McKay vest and become exercisable over a period of three years from the date of their respective appointments as directors of the Company, such that one twelfth of the Options shall vest on the end of each three-month period following appointment. During the current period \$380,011 (2015: \$61,827) was expensed.

Class E options beneficially held by Benad Goldwasser vest and become exercisable over a period of three years from the date of his appointment such that one twelfth of the Options shall vest on the end of each three-month period following appointment. All remaining options vested on his resignation as a director of the Company on 20 August 2015. During the current period \$190,557 (2015: \$116,539) was expensed.

Class H options beneficially held by Michael Hinam vest and become exercisable over a period of three years from 27 July 2015 such that one twelfth of the Options shall vest on the end of each three-month period following 27 July 2015. During the current period \$29,230 (2015: \$0) was expensed.

During the period, the Company committed to issue a further 4,000,000 new Class I Options to Stanislav Sologubov under the Company's Employee Share Option Plan, however as at the date of this Report, these Options had not yet been issued. These Options are to have an exercise price of \$0.24 and an expiry date of 6 June 2019. These Options vest and become exercisable over a period of two years from 6 June 2016 such that one quarter of the Options shall vest at the end of each six-month period following 6 June 2016. During the current period \$33,010 (2015: \$0) was expensed in respect of these unissued Options.

DIRECTORS' REPORT

(iii) Performance Rights issued as remuneration to Key Management Personnel

During the year to 30 June 2016, there were no Performance Rights issued.

Performance Rights issued during the year ended 30 June 2015 were as follows:

| 2015 | Class | Number granted | Grant date | Fair Value per Performance Right (\$) | Consideration paid (\$) | Number vested | Number lapsed or cancelled |
|------------|--------------------------|--------------------------|---------------------------|---------------------------------------|-------------------------|---------------|----------------------------|
| Peter Wall | Class A ¹ & B | 1,000,000 | 28 August 2014 | 0.038 | 0.0001 | 1,000,000 | - |
| | Class C | 1,000,000 | 28 August 2014 | 0.037 | 0.0001 | - | - |
| | | | 29 June 2015 ² | 0.285 | | | |
| | Class D | 1,000,000 | 28 August 2014 | 0.037 | 0.0001 | - | - |
| | | | 29 June 2015 ² | 0.240 | | | |
| | Boaz Wachtel | Class A ¹ & B | 2,500,000 | 28 August 2014 | 0.038 | 0.0001 | 2,500,000 |
| Class C | | 2,500,000 | 28 August 2014 | 0.037 | 0.0001 | - | - |
| | | | 29 June 2015 ² | 0.225 | | | |
| Class D | | 2,500,000 | 28 August 2014 | 0.037 | 0.0001 | - | - |
| | | | 29 June 2015 ² | 0.030 | | | |
| Ross Smith | | Class A ¹ & B | 2,500,000 | 28 August 2014 | 0.038 | 0.0001 | 2,500,000 |
| | Class C | 2,500,000 | 28 August 2014 | 0.037 | 0.0001 | - | - |
| | Class D | 2,500,000 | 28 August 2014 | 0.037 | 0.0001 | - | - |

1 Each Class A Performance Right vests into 1 Class B Performance Right and 1 fully paid ordinary share upon satisfaction of the attaching conversion restriction.

2 Following shareholder approval on 29 June 2015 the performance milestones attaching to Mr Wall and Mr Wachtel's Class C and D Performance Rights were amended. Refer summary of key terms and conditions for further information.

Summary of Key Terms and Conditions attaching to Performance Rights

- **Consideration:** The Performance Rights were issued for \$0.0001 each. No consideration is payable upon the vesting of the Performance Rights.
- **Conversion:** Upon satisfaction of the relevant Performance Rights vesting, each Performance Right will, at the election of the holder, vest and convert as follows:
 - Class A Performance Right: into one Share and one Class B Performance Right; and
 - Class B, C and D Performance Rights: into one Share.
- **Expiry:** If the Milestone attaching to a Performance Right has not been satisfied in the time periods set out below, it will automatically lapse:
 - Class A Performance Rights: 2 years from the date the Company is admitted to the Official List of the ASX, being 20 January 2015 (Admission Date);
 - Class B Performance Rights: 3 years from the Admission Date;

DIRECTORS' REPORT

- (iii) Class C Performance Rights: 3 years from the Admission Date; and
- (iv) Class D Performance Rights: 4 years from the Admission Date.

Otherwise, any Performance Right that has not been converted into a Share within 5 years of the Admission Date will automatically lapse.

- **Performance Milestones:**

- (i) Class A Performance Rights: if the 5-day volume weighted average price of Shares on the ASX is \$0.40 or higher;
- (ii) Class B Performance Rights: if the 5-day volume weighted average price of Shares on the ASX is \$0.60 or higher;
- (iii) Class C Performance Rights; following shareholder approval on 29 June 2015 to amend the performance milestones attaching to Mr Wall and Mr Wachtel's Class C Performance Rights which were previously the same as *any other holder* disclosed below, the performance milestones within the Class C Performance Rights are now as follows:
 - *In the case of Performance Rights beneficially held by Mr Peter Wall:* if the Company completes a transaction to acquire 100% of the issued capital of MMJ Bioscience Inc;
 - *In the case of Performance Rights beneficially held by Mr Boaz Wachtel:* if the Company Group (either directly, or through an affiliate, subcontractor or joint venture partner) produces and exports 500 kg of MC; or upon the Company Group receiving revenue (including commissions) in excess of US\$5,000,000 from the sale of cannabidiol (and/or other cannabinoids) products to or through a party or parties introduced by Mr Wachtel;
 - *In the case of Performance Rights held by any other holder:* if the Company obtains a granted patent in any jurisdiction in relation to the patent applications which the Company has an interest at the date the Company lodged its IPO Prospectus with the ASIC.
- (iv) Class D Performance Rights: following shareholder approval on 29 June 2015 to amend the performance milestones attaching to Mr Wall and Mr Wachtel's Class D Performance Rights which were previously the same as *any other holder* disclosed below, the performance milestones within the Class D Performance Rights are now as follows:
 - *In the case of Performance Rights beneficially held by Mr Peter Wall:* if the Company or any of its subsidiaries ("Group") is granted a license to produce under the Marihuana for Medical Purposes Regulations in Canada;
 - *In the case of Performance Rights beneficially held by Mr Boaz Wachtel:* if the Group or a collaborating partner/s, setting up a MC growing facility or production facility of MC and/or cannabinoid products in a jurisdiction (including Uruguay) which laws do not currently, but in the future, permit the growth of MC or the production of medical cannabinoid products and achieving first commercial sales of MC from such facility.
 - *In the case of Performance Rights held by any other holder:* if the Company enters into a licensing agreement (or similar arrangement) to commercialise or develop the intellectual property relating to any patent applications in which the Company had an interest at the date the Company lodged its IPO Prospectus with the ASIC.

DIRECTORS' REPORT

Equity instrument disclosures relating to Key Management Personnel

Share holdings

The numbers of shares in the Company held during the period by each Director of MMJ PhytoTech Limited and other KMP of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

| 2016 | Balance at the start of the period | Received during the period on the exercise of options or performance rights | Other changes during the period | Balance at the end of the period or resignation date |
|---------------------------|------------------------------------|---|---------------------------------|--|
| Directors | | | | |
| P Wall | - | 3,000,000 | - | 3,000,000 |
| A Gedeon ¹ | - | - | 5,626,212 | 5,626,212 |
| W Willesee | - | - | - | - |
| J Bednar ¹ | - | - | 879,876 | 879,876 |
| R McKay ¹ | - | - | 84,873 | 84,873 |
| B Wachtel ² | 1,500,000 | 5,000,000 | - | 6,500,000 |
| B Goldwasser ³ | - | - | - | - |
| Executives | | | | |
| D Heffetz | - | - | - | - |
| S Sologubov ⁴ | - | - | - | - |
| M Hinam ⁵ | - | - | 848,718 | 848,718 |
| T Edvinsson ⁶ | - | - | 1,018,461 | 1,018,461 |

1 Appointed 27 July 2015.

2 Shares held at resignation on 20 August 2016.

3 Ceased being Key Management Personnel on 20 August 2016 following resignation from the Board of parent company.

4 S Sologubov became Key Management Personnel on 6 June 2016.

5 Appointed 27 July 2015.

6 Appointed 10 August 2015 and ceased being a Key Management Personnel on 6 June 2016 upon resignation as CEO of Satipharm AG on 6 June 2016.

7 The shares held by Hagit Sacks have not been included in the above table as following the completion of the merger transaction with MMJ Bioscience Inc and the resulting additional layers of management, Hagit Sacks is no longer classified as Key Management Personnel for the year ending 30 June 2016.

DIRECTORS' REPORT

Options

The numbers of options over ordinary shares in the Company held during the period by each director of MMJ PhytoTech Limited and other KMP of the Group, including their personally related parties, are set out below.

| 2016 | Balance at the start of the period | Granted as remuneration | Exercise of options | Bought & (Sold)/ (Cancelled) | Balance at the end of the period | Total number vested and exercisable at 30 June 2016 |
|---------------------------|------------------------------------|-------------------------|---------------------|------------------------------|----------------------------------|---|
| Directors | | | | | | |
| P Wall | - | - | - | - | - | - |
| A Gedeon ¹ | - | - | - | - | - | - |
| W Willesee | 1,000,000 | - | - | - | 1,000,000 | 500,000 |
| J Bednar ¹ | - | 1,500,000 | - | - | 1,500,000 | 375,000 |
| R McKay ¹ | - | 1,000,000 | - | - | 1,000,000 | 250,000 |
| B Wachtel | - | - | - | - | - | - |
| B Goldwasser ² | 1,500,000 | - | - | - | 1,500,000 | 1,500,000 |
| Executives | | | | | | |
| D Heffetz | 4,500,000 | - | - | - | 4,500,000 | 2,125,000 |
| S Sologubov ³ | - | 4,000,000 | - | - | 4,000,000 | - |
| M Hinam ¹ | - | 225,000 | - | - | 225,000 | 56,250 |
| T Edvinsson ⁴ | - | - | - | - | - | - |

1 Appointed 27 July 2015.

2 Ceased being Key Management Personnel on 20 August 2016 following resignation from the Board of parent company.

3 Appointed CEO of Satipharm AG on 6 June 2016. As at 30 June 2016, the Company had committed to issue 4,000,000 Options to Mr Sologubov however these options had not been issued as at the date of this report.

4 Appointed 10 August 2015. Ceased being a Key Management Personnel on 6 June 2016 upon resignation as CEO of Satipharm AG.

5 The Option holdings of Hagit Sacks have not been included in the above table as following the completion of the merger transaction with MMJ Bioscience Inc and the resulting additional layers of management, Hagit Sacks is no longer classified as Key Management Personnel for the year ending 30 June 2016.

DIRECTORS' REPORT

Performance Rights

The numbers of performance rights in the Company held during the period by each director of MMJ PhytoTech Limited and other KMP of the Group, including their personally related parties, are set out below.

| 2016 | Balance at the start of the period | Issued | | | Disposed | | | Balance at the end of the period | Total number vested and exercisable at 30 June 2016 |
|----------------------------|------------------------------------|-----------------|--------------------------|--------|----------|-------------|------|----------------------------------|---|
| | | As remuneration | On exercise ¹ | Bought | Lapsed | On exercise | Sold | | |
| Directors | | | | | | | | | |
| P Wall | 3,000,000 | - | 1,000,000 | - | - | (2,000,000) | - | 1,000,000 | 1,000,000 |
| A Gedeon ² | - | - | - | - | - | - | - | - | - |
| W Willesee | - | - | - | - | - | - | - | - | - |
| J Bednar ² | - | - | - | - | - | - | - | - | - |
| R McKay ² | - | - | - | - | - | - | - | - | - |
| B Wachtel | 7,500,000 | - | 2,500,000 | - | - | (5,000,000) | - | 5,000,000 | 5,000,000 |
| B Goldwasser ³ | - | - | - | - | - | - | - | - | - |
| Executives | | | | | | | | | |
| D Heffetz | - | - | - | - | - | - | - | - | - |
| S Sologubov ⁴ | - | - | - | - | - | - | - | - | - |
| M Hinam | - | - | - | - | - | - | - | - | - |
| T Edvinsson ^{4,5} | - | - | - | - | - | - | - | - | - |

1 Each Class A Performance Right converts into 1 fully paid ordinary share and 1 Class B Performance Right.

2 Appointed 27 July 2015.

3 Ceased being Key Management Personnel on 20 August 2016 following resignation from the Board of parent company.

4 Appointed CEO of Satipharm AG on 6 June 2016.

5 Appointed 10 August 2015 and ceased being a Key Management Personnel on 6 June 2016 upon resignation as CEO of Satipharm AG on 6 June 2016.

6 The Performance Rights holdings of Ross Smith have not been included in the above table as he ceased being a key management personnel upon his resignation on 2 February 2015.

(e) Other transactions with Key Management Personnel

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

- Steinepreis Paganin, an entity associated with Mr Peter Wall, received payments totalling \$77,401 in relation to legal services provided to the Company.
- Azalea Consulting Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling \$84,700 in relation to front office administration and company secretarial services provided to the Company.
- Valle Corporate Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling \$85,800 in relation to accounting and financial reporting services provided to the Company.
- Gelpell AG, an entity associated with Mr Tomas Edvinsson, received payments totalling \$252,178 in relation to processing and manufacturing services provided to Satipharm AG in the production of the Company's CBD pills.

DIRECTORS' REPORT

| | 2016 | 2015 |
|---|--------|--------|
| | \$ | \$ |
| Amount owing to Pheakes Pty Ltd, an entity related to Mr Peter Wall | 4,400 | - |
| Amount owing to Steinpreis Paganin, an entity associated with Mr Peter Wall | 6,175 | - |
| Amount owing to Azalea Consulting Pty Ltd, an entity related to Mr Winton Willesee | 9,748 | 25,500 |
| Amount owing to Valle Corporate Pty Ltd, an entity related to Mr Winton Willesee | 11,000 | - |
| Amount owing to Jason Bednar | 3,000 | - |
| Amount owing to Ross McKay | 3,000 | - |
| Amount owing to International Water and Energy Savers, an entity related to Mr Boaz Wachtel | - | 20,240 |
| Amount owing to Goldmed Ltd, an entity related to Mr Benad Goldwasser | - | 8,127 |

All amounts are inclusive of GST

(f) Loans with Key Management Personnel

As at 30 June 2016 the Group recorded a loan receivable of CAD 100,357 (AUD 104,105) for funds of CAD 94,547 (AUD 98,077) and accrued interest payable of CAD 5,810 (AUD 6,207) by Mr Andreas Gedeon, a director of the Company, under an unsecured loan agreement ("Loan"). The Loan incurs interest at a rate of 8% per annum and is repayable on or before 31 January 2017 and has been granted on arm's length, commercial terms.

(g) Other information

Hedging of securities

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

Reliance on external remuneration consultants

During the year the Company engaged Sherwood Love & Associates to provide remuneration recommendations for key management and other personnel across the Company. The engagement of Sherwood Love & Associates and their provision of remuneration recommendations was fully compliant with the independence requirements of the Corporations Act 2001. They have declared that their advice was provided free from undue influence by members of the Key Management Personnel of the Company. Sherwood Love & Associates was paid \$15,000 for these service and they provided no other services to the Company.

Voting and comments made at the Company's 2015 Annual General Meeting ("AGM")

At the 2015 AGM, 79% of the proxy votes cast at that meeting were in favour of the adoption of the remuneration report for the year ended 30 June 2015. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

END OF REMUNERATION REPORT (AUDITED)

DIRECTORS' REPORT

Environmental regulations

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

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

Indemnities given and insurance premiums paid to officers and auditors

During the period, MMJ paid premiums to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors.

Details of the amount of the premium paid in respect of the insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the period, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (BDO Audit (WA) Pty Ltd) for audit and non-audit services provided during the period are set out below.

The board of directors have considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

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

| | 2016 | 2015 |
|--|---------------|---------------|
| | \$ | \$ |
| Tax related services | 36,696 | 27,601 |
| Assistance with international structure of MMJ Group | 975 | - |
| Review of termination clauses in agreements | 1,480 | - |
| Independent Accountant's report | - | 10,200 |
| Assistance with incorporation of UK subsidiary | - | 2,132 |
| Total | 39,151 | 39,933 |

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 41.

The amounts contained in the financials report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 2016/191

This report is made in accordance with a resolution of the Directors.



Peter Wall
Non-executive Chairman

Perth, Western Australia
30 September 2016



AUDITOR'S INDEPENDENCE DECLARATION



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Subiaco, WA 6008
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Australia

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

As lead auditor of MMJ PhytoTech Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in blue ink that reads 'J Prue'.

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 30 September 2016

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

CORPORATE GOVERNANCE

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

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

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

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

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

The Company is pleased to report that its practices are largely consistent with the Recommendations of the ASX Corporate Governance Council and sets out below its compliance and departures from the Recommendations for the period ended 30 June 2016.

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

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|---|-----------------|--|
| Principle 1: Lay solid foundations for management and oversight | | |
| Recommendation 1.1 A listed entity should have and disclose a charter which sets out the respective roles and responsibilities of the board, the chair and management; and includes a description of those matters expressly reserved to the board and those delegated to management. | YES | The Company has adopted a Board Charter which complies with the guidelines prescribed by the ASX Corporate Governance Council. A copy of the Company's Board Charter is available on the Company's website. |

CORPORATE GOVERNANCE

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|--|-----------------|---|
| <p>Recommendation 1.2 A listed entity should:</p> <p>(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and</p> <p>(b) provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a director.</p> | YES | <p>(a) The Nomination Committee (the function of which is currently performed by the full Board) is responsible for the selection and appointment of members of the Board. The Company's Nomination Committee Charter requires the Nomination Committee to undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director.</p> <p>During the financial year the Company undertook appropriate checks prior to putting forward Mr Andreas Gedeon, Mr Jason Bednar and Mr Ross McKay as candidates for election as Directors of the Company.</p> <p>(b) All material information relevant to the decision on whether or not to elect or re-elect the above directors was provided to security holders via the Notice of Meeting prior to any general meeting at which a resolution to elect or re-elect a Director will be voted on.</p> |
| <p>Recommendation 1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.</p> | NO | The Company is in the process of formalising the terms and conditions of the appointments of its senior executives into formal written agreements. |
| <p>Recommendation 1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.</p> | YES | The Board Charter outlines the roles, responsibility and accountability of the Company Secretary. The Company Secretary is accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board. |

CORPORATE GOVERNANCE

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|---|-----------------|--|
| <p>Recommendation 1.5 A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board:</p> <p style="padding-left: 20px;">(i) to set measurable objectives for achieving gender diversity; and</p> <p style="padding-left: 20px;">(ii) to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period:</p> <p style="padding-left: 20px;">(i) the measurable objectives for achieving gender diversity set by the board in accordance with the entity's diversity policy and its progress towards achieving them; and</p> <p style="padding-left: 20px;">(ii) either:</p> <p style="padding-left: 40px;">(A) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</p> <p style="padding-left: 40px;">(B) the entity's "Gender Equality Indicators", as defined in the Workplace Gender Equality Act 2012.</p> | PARTIALLY | <p>(a) The Company has adopted a Diversity Policy however, given the current size of the Company, the Board has determined that the benefits of the initiatives recommended by the ASX Corporate Governance Council in this regard are disproportionate to the costs involved in the implementation of such strategies.</p> <p>Accordingly, the Board has elected to adopt a tiered approach to the implementation of its Diversity Policy which is relative to the size of the Company and its workforce. The Company's policy provides:</p> <ul style="list-style-type: none"> • Where the Company employs 20 or more employees, the Board undertakes to adopt practices in line with the Recommendations of the ASX Corporate Governance Council, including compliance with the requirement for the Company to set and report against measurable objectives for achieving gender diversity. • Whilst the Company's workforce remains below this threshold, the Board will continue to drive the Company's diversity strategies on an informal basis and will apply the initiatives contained in its Diversity Policy to the extent that the Board considers relevant and necessary. <p>(b) The Diversity Policy is available on the Company's website.</p> <p>(c)</p> <p style="padding-left: 20px;">(i) As the Company did not employ 20 or more employees during the financial year, the Company did not establish a set of measurable gender diversity objectives.</p> <p style="padding-left: 20px;">(ii) As at 30 June 2016, the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation are set out below. The Company defines senior executives as those employees whose direct report is to the Managing Director or the Board.</p> <ul style="list-style-type: none"> • 100% of the Company's board were (are) male; • 75% of the Company's 4 senior executives were female. • 28% the Company's entire workforce of 18 people were female. |

CORPORATE GOVERNANCE

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|---|-----------------|---|
| <p>Recommendation 1.6 A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p> | YES | <p>(a) The Nomination Committee (the function of which is currently performed by the full Board) is responsible for evaluating the performance of the Board and individual Directors on an annual basis.</p> <p>The process for this is set out in the Company's Performance Evaluation Procedures policy which is available on the Company's website.</p> <p>(b) During the period and following the completion of the merger with MMJ Bioscience Inc the Board undertook a review of the composition of the post-merger board and determined that its function could be most efficiently carried out with 5 members (instead of 7) and as a result, it was agreed that Mr Boaz Wachtel and Mr Benad Goldwasser would step down from their roles on the Board. Given the relatively short tenure of the remaining directors of the board, the Company did not undertake performance evaluations of the remaining directors during FY2015/16 but intends to do so in FY2016/17.</p> |
| <p>Recommendation 1.7 A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p> | YES | <p>(a) The Remuneration Committee is responsible for evaluating the performance of senior executives on an annual basis in accordance with the Company's Performance Evaluation Procedures policy.</p> <p>(b) Annual performance evaluations of the Company's senior executives were not undertaken during FY2015/16 given that many of the Company's employees had not been employed for a period of over 12 months. The Remuneration Committee intends to undertake performance evaluations of senior executives during FY2016/17 in line with its Performance Evaluations Procedures policy.</p> |

CORPORATE GOVERNANCE

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|--|-----------------|---|
| Principle 2: Structure the board to add value | | |
| <p>Recommendation 2.1 The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director,</p> <p>and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.</p> | YES | <p>(a) The Board has determined that the function of the Nomination Committee is most efficiently carried out with full board participation and accordingly, the Company has elected not to establish a separate Nomination Committee at this stage.</p> <p>As a result, the duties that would ordinarily be assigned to the Nomination Committee under the Nomination Committee Charter are carried out by the full board.</p> <p>A copy of the Nomination Committee Charter is available on the Company's website.</p> <p>(b) The Board devotes time at Board meetings on at least an annual basis to discuss Board succession issues. All members of the Board are to be involved in the Company's nomination process, to the maximum extent permitted under the Corporations Act and ASX Listing Rules.</p> |
| <p>Recommendation 2.2 A listed entity should have and disclose a board skill matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p> | YES | <p>The Board is comprised of directors with a broad range of technical, commercial, financial and other skills, experience and knowledge relevant to overseeing the business of the Group.</p> <p>The composition of the Board is reviewed on at least an annual basis with reference to the Company's Board skills matrix which is used as a tool to assess the appropriate balance of skills, experience, independence and knowledge necessary for the Board to discharge its duties and responsibilities effectively.</p> <p>A copy of the Company's Board skills matrix for the 2015/16 financial year is available on the Company's website.</p> |

CORPORATE GOVERNANCE

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|--|-----------------|---|
| <p>Recommendation 2.3 A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3rd Edition), but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director</p> | YES | <p>(a) During the 2015/16 financial year, the independent directors of the Company were Messrs Wall, Willesee, Bednar and McKay. Subsequent to the end of the financial year, Mr McKay resigned as a director of the Company leaving Messrs Wall, Willesee and Bednar as the independent directors of the Company.</p> <p>(b) Mr Gedeon is not considered to be independent as a result of his executive role as Managing Director of the Company and his material interest as a substantial shareholder of the Company and as a party to the Heads of Agreement between the Company and vendors of MMJ Bioscience Inc (Merger Agreement).</p> <p>Whilst Mr Bednar and former director, Mr McKay, also have interests in the Merger Agreement, their holdings are not of a material quantity that would compromise their independence.</p> <p>The Board has determined the independence of each of the Company's Directors in line with the guidance set out by the ASX's Corporate Governance Council and have not formed an opinion contrary to those guidelines.</p> <p>(c) The length of service of each Director is as follows:</p> <ul style="list-style-type: none"> • Mr Peter Wall was appointed on 14 August 2014 and has served as a director for approximately 26 months. • Mr Willesee was appointed on 21 October 2014 and has served as a director for approximately 23 months; and • Messrs Gedeon, Bednar and McKay were appointed on 27 July 2015. Messrs Gedeon and Bednar have served as directors of the Company for approximately 14 months. Upon Mr McKay's resignation in August 2016 he had served as a director for approximately 13 months. |
| <p>Recommendation 2.4 A majority of the board of a listed entity should be independent directors.</p> | YES | <p>The Board Charter requires that where practical the majority of the Board will be independent.</p> <p>During the reporting period, the Board was comprised of 80% independent directors (being Mr Wall, Mr Willesee, Mr Bednar and Mr McKay) and 20% executive directors (being Mr Gedeon).</p> <p>Following the resignation of Mr McKay after the end of the reporting period, the Board is now structured such that 3 of the 4 directors of the Company (or 75%) are independent directors.</p> |

CORPORATE GOVERNANCE

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|---|-----------------|---|
| <p>Recommendation 2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.</p> | YES | The Chairman of the Board is an independent non-executive director and does not hold the role of CEO/Managing Director of the Company. |
| <p>Recommendation 2.6 A listed entity should have a program for inducting new directors and providing appropriate professional development opportunities for continuing directors to develop and maintain the skills and knowledge needed to perform their role as a director effectively.</p> | YES | <p>The Company has in place a program for the induction of new directors which is tailored to each new Director depending on their personal requirements, background skills, qualifications and experience and includes the provision of a formal letter of appointment and an induction pack containing sufficient information to allow the new Director to gain an understanding of the business of the Company and the roles, duties and responsibilities of Directors and the Executive Team.</p> <p>All Directors are encouraged to undergo continual professional development and, subject to prior approval by the Chairman, all Directors have access to numerous resources and professional development training to address any skills gaps.</p> |
| Principle 3: Act ethically and responsibly | | |
| <p>Recommendation 3.1 A listed entity should:</p> <p>(a) have a code of conduct for its directors, senior executives and employees; and</p> <p>(b) disclose that code or a summary of it.</p> | YES | <p>(a) The Company has a Corporate Code of Conduct that applies to its Directors, employees and contractors.</p> <p>(b) The Company's Corporate Code of Conduct is available on the Company's website.</p> |

CORPORATE GOVERNANCE

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|---|-----------------|---|
| Principle 4: Safeguard integrity in financial reporting | | |
| <p>Recommendation 4.1 The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <p>(i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director, who is not the chair of the board, and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the relevant qualifications and experience of the members of the committee; and</p> <p>(v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p> | YES | <p>(a) During the reporting period, the Company's Audit and Risk Committee was comprised of:</p> <ul style="list-style-type: none"> • Mr Jason Bednar (Independent Chairman); • Mr Winton Willesee (Independent Non-Executive Director); • Mr Ross McKay (Independent, Non-Executive Director); • Mr Peter Wall (Independent, Non-Executive Director) <p>Following Mr McKay's resignation as a director of the Company on 11 August 2016, the Audit and Risk Committee is now comprised of the 3 remaining directors.</p> <p>The Audit and Risk Committee Charter is available on the Company's website.</p> <p>The relevant qualifications and experience of the members of the committee are set out in the Directors Report section of this Annual Report.</p> <p>Details of the number of times the Committee met during the reporting period and the individual attendances of each of the members is set out in the Directors Report section of this Annual Report.</p> |
| <p>Recommendation 4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p> | YES | <p>Prior to the execution of the financial statements of the Company, the Company's Managing Director and CFO provided the Board with written assurances that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control which is operating effectively in all material aspects in relation to the Company's financial reporting risks.</p> |

CORPORATE GOVERNANCE

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|---|-----------------|--|
| <p>Recommendation 4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p> | YES | At the Company's first AGM held on 24 November 2015, the Company's external auditor, Jarrad Prue of BDO attended and made himself available to answer questions from security holders relevant to the audit. |
| Principle 5: Make timely and balanced disclosure | | |
| <p>Recommendation 5.1 A listed entity should:</p> <p>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</p> <p>(b) disclose that policy or a summary of it.</p> | YES | <p>(a) The Company has adopted a Continuous Disclosure Policy which details the processes and procedures which have been adopted by the Company to ensure that it complies with its continuous disclosure obligations as required under the ASX Listing Rules and other relevant legislation.</p> <p>(b) The Continuous Disclosure Policy is available on the Company's website.</p> |
| Principle 6: Respect the rights of security holders | | |
| <p>Recommendation 6.1 A listed entity should provide information about itself and its governance to investors via its website.</p> | YES | Shareholders can access information about the Company and its governance (including its Constitution and adopted governance policies) from the Company's website on the "Corporate Governance" page. |
| <p>Recommendation 6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.</p> | YES | <p>The Company has adopted a Shareholder Communications Strategy which aims to promote and facilitate effective two-way communication with investors. The Strategy outlines a range of ways in which information is communicated to shareholders.</p> <p>A copy of the Company's Shareholder Communications Strategy policy is available on the Company's website.</p> |

CORPORATE GOVERNANCE

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

CORPORATE GOVERNANCE

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|---|-----------------|---|
| Principle 7: Recognise and manage risk | | |
| <p>Recommendation 7.1 The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director,</p> <p>and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the process it employs for overseeing the entity's risk management framework.</p> | YES | <p>(a) During the reporting period, the Company's Audit and Risk Committee was comprised of:</p> <ul style="list-style-type: none"> • Mr Jason Bednar (Independent Chairman); • Mr Winton Willesee (Independent Non-Executive Director); • Mr Ross McKay (Independent, Non-Executive Director); • Mr Peter Wall (Independent, Non-Executive Director) <p>Following Mr McKay's resignation as a director of the Company on 11 August 2016, the Audit & Risk Committee is now comprised of the 3 remaining directors.</p> <p>The Audit and Risk Committee Charter is available on the Company's website.</p> <p>The relevant qualifications and experience of the members of the committee are set out in the Directors Report section of this Annual Report.</p> <p>Details of the number of times the Committee met during the reporting period and the individual attendances of each of the members is set out in the Directors Report section of this Annual Report.</p> |
| <p>Recommendation 7.2 The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework with management at least annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure that they remain within the risk appetite set by the board; and</p> <p>(b) disclose in relation to each reporting period, whether such a review has taken place.</p> | YES | <p>The Company's Risk Management Policy deals with the management and oversight of material business risks and provides the guiding principle for management in the identification of risks across the organisation.</p> <p>Throughout the current year the full Board reviewed risk and the application of the risk framework on an ongoing basis within its regularly formal board meetings and in consultation with management. The Board felt that given the nature and scale of the Company that process was the most appropriate and most robust means of monitoring and managing risk for the Company.</p> |

CORPORATE GOVERNANCE

| PRINCIPLES AND RECOMMENDATIONS | COMPLY (YES/NO) | EXPLANATION |
|---|-----------------|--|
| <p>Recommendation 7.3 A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p> | YES | <p>(a) The Audit and Risk Committee is responsible for monitoring the need for a formal internal audit function.</p> <p>(b) Due to the size and nature of the Company's operations, the Company does not consider it necessary to establish a formal internal audit committee at this stage.</p> |
| <p>Recommendation 7.4 A listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p> | YES | <p>During the reporting period, the Board determined that it did not have any material exposure to economic, environmental and social sustainability risks, however, as the Company enters into production at its Duncan Facility in Canada, and looks to expand its other global operations, it will reassess its risk exposures in this regard and address any material risks as part of the Company's broader risk management regime.</p> |
| <p>Principle 8: Remunerate fairly and responsibly</p> | | |
| <p>Recommendation 8.1 The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director,</p> <p>and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p> | YES | <p>During the reporting period, the Company's Remuneration Committee was comprised of:</p> <ul style="list-style-type: none"> • Mr Winton Willesee (Independent Chairman); • Mr Jason Bednar (Independent Non-Executive Director); • Mr Ross McKay (Independent, Non-Executive Director); • Mr Peter Wall (Independent, Non-Executive Director) <p>Following Mr McKay's resignation as a director of the Company on 11 August 2016, the Remuneration Committee is now comprised of the 3 remaining directors.</p> <p>The Remuneration Committee Charter is available on the Company's website.</p> <p>Details of the number of times the Committee met during the reporting period and the individual attendances of each of the members is set out in the Directors Report section of this Annual Report.</p> |

CORPORATE GOVERNANCE

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

FINANCIAL REPORT

30 JUNE 2016

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This financial report covers the Consolidated Entity consisting of MMJ PhytoTech Limited and its controlled entities during the period 1 July 2015 to 30 June 2016.

This financial report is presented in Australian dollars.

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

MMJ PhytoTech Limited
Suite 5, 145 Stirling Highway
Nedlands, WA, Australia 6009

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

The financial report was authorised for issue by the Directors on 30 September 2016. The Company has the power to amend and reissue the financial report.

FINANCIAL REPORT

30 JUNE 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the period 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 | 4 | 255 | - |
| Cost of sales | | (331) | - |
| Gross loss | | (76) | - |
| Other income | | | |
| Interest income | 4 | 37 | 48 |
| Fair value gain on contingent deferred shares consideration | 4 | 812 | - |
| Expenses | | | |
| Administration expenses | | (1,326) | (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 | 25 | (1,224) | (2,331) |
| Finance costs | | (56) | (5) |
| 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 | 12 | (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) | 27 | (10.7) | (16.3) |

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

FINANCIAL REPORT

30 JUNE 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

| | Notes | 2016 \$'000 | 2015 \$'000 |
|--------------------------------------|-------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 7 | 2,951 | 1,910 |
| Trade and other receivables | 8 | 398 | 147 |
| Inventories | 9 | 1,450 | - |
| Loans to Directors | 10 | 104 | - |
| Total current assets | | 4,903 | 2,057 |
| Non-current assets | | | |
| Plant and equipment | 11 | 6,575 | 12 |
| Intangible Assets | 12 | 8,932 | - |
| Goodwill | 12 | 2,578 | - |
| Loans to other entities | 13 | - | 1,711 |
| Other non-current assets | 14 | 35 | 35 |
| Total non-current assets | | 18,120 | 1,758 |
| Total assets | | 23,023 | 3,815 |
| Current liabilities | | | |
| Trade and other payables | 15 | 614 | 221 |
| Borrowings | 16 | 92 | - |
| Contingent consideration | 17 | 2,083 | - |
| Total current liabilities | | 2,789 | 221 |
| Non-current liabilities | | | |
| Borrowings | 16 | 398 | - |
| Contingent consideration | 17 | 1,588 | - |
| Total non-current liabilities | | 1,986 | - |
| Total liabilities | | 4,775 | 221 |
| Net assets | | 18,248 | 3,594 |
| Equity | | | |
| Contributed equity | 18 | 32,706 | 5,828 |
| Reserves | 19(a) | 5,123 | 2,648 |
| Accumulated losses | 19(b) | (19,581) | (4,882) |
| Total equity | | 18,248 | 3,594 |

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

FINANCIAL REPORT

30 JUNE 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 30 June 2016

| | Note | 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 | 18(a) | 5,828 | - | - | - | 5,828 |
| Share based payments | 19(a) | - | - | - | 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 | 18(a) | 26,878 | - | - | - | 26,878 |
| Share based payments | 19(a) | - | - | - | 2,253 | 2,253 |
| Balance at 30 June 2016 | | 32,706 | (19,581) | 242 | 4,881 | 18,248 |

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

FINANCIAL REPORT

30 JUNE 2016

CONSOLIDATED STATEMENT OF CASH FLOWS

for the financial 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 | 26 | (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 | 31 | - |
| Loan to MMJ Bioscience (pre-acquisition) | | - | (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 Consolidated Statement of Cashflows should be read in conjunction with the accompanying notes

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

(a) General Information

MMJ PhytoTech Limited ("MMJ PhytoTech" or the "Company") is a limited company incorporated in Australia. The address of its registered office is Suite 5, 145 Stirling Highway, Nedlands, Western Australia.

(b) Statement of Compliance

MMJ PhytoTech Limited is a for-profit entity. These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

These financial statements comprise the consolidated financial statements of MMJ PhytoTech and its controlled entities ("the Group").

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(c) Basis of preparation of the financial report

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(d) Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 30.

(e) Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the Company and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 24.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(f) Going concern

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

During the year ended 30 June 2016, the Group incurred losses of \$14,699,351 and net cash outflows from operating activities of \$6,971,578, with cash on hand of \$2,951,193.

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

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

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

- the Company has the ability to issue additional shares under the Corporations Act 2001 to raise further working capital and has been successful in doing this previously, as evidenced by the successful capital raisings completed during financial year ended 30 June 2016;
- As part of the proposed reverse takeover transaction with Top Strike Resources Corp which is expected to be finalised by December 2016, C\$2.5m of the total consideration of C\$40m, will be in the form of cash, which will provide further liquidity to MMJ (Refer to Note 32);
- In the event that the proposed reverse takeover transaction with Top Strike Resources Corp does not proceed, the Group then expects to generate revenues from the sale of CBD pills throughout Europe through Satipharm AG, and the sale of cannabis produced by United Greeneries in Canada within the next 12 months; and
- the Group also has the ability to scale down its operations in order to curtail expenditure or otherwise divest its non-core assets, in the event capital raisings are delayed, or insufficient cash is available to meet projected expenditure.

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

(g) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is obtained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(h) Goodwill

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

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

over the acquisition date fair value of net identifiable assets acquired.

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

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

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

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

Refer to Note 12 for further information on the goodwill policy adopted by the Group for acquisitions and Note 2 for critical accounting estimates and judgements.

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

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

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

(i) Intangibles Other than Goodwill

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

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

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(j) Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

(k) Operating segments

Operating segments are components of the Group that engage in business activities from which they may earn revenues and incur expenses. They are reported in a manner consistent with the internal reporting to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Board of Directors ("Board").

(l) Revenue Recognition

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

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

Interest revenue is recognised using the effective interest method.

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

(m) Income tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(m) Income tax (cont'd)

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (i) a legally enforceable right of set-off exists; and (ii) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(n) Imputation Credits

Pursuant to AASB 1054, Imputation Credits that will arise from the payment of the amount of the provision for income tax or the receipt of dividends are recognised as receivables at the reporting date. The disclosure of Imputation Credits shall be made separately in respect of any Australian imputation credits. To date, the Imputation Credits for the financial period ended 30 June 2016 is nil.

(o) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are reported within borrowings in current liabilities on the statement of financial position

(p) Trade receivables

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

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(r) for further discussion on the determination of impairment losses.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(q) Inventories

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

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

(r) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the entity commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint ventures as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iii) *Financial liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

Impairment

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified into profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(s) Trade and other payables

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

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(u) Earnings per share

(1) *Basic earnings per share*

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

(2) *Diluted earnings per share*

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

(v) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the Statement of Financial Position.

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

(w) Foreign currency translation

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

Group companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

(x) Impairment of assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

(y) Property, plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(r) for details of impairment).

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

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

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

Depreciation

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

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|-----------------------------|--------------------------|
| Plant and equipment | 20% |
| Office Equipment | 20% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

(z) Provisions for employee benefits

Short-term employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

Retirement benefit obligations

Defined contribution superannuation benefits

All employees of the Group other than those that receive defined benefit entitlements receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution (currently 9.5% of the employee's average ordinary salary) to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's statement of financial position.

Termination benefits

When applicable, the Group recognises a liability and expense for termination benefits at the earlier of:

- (i) the date when the Group can no longer withdraw the offer for termination benefits; and
- (ii) when the Group recognises costs for restructuring pursuant to AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the costs include termination benefits.

In either case, unless the number of employees affected is known, the obligation for termination benefits is measured on the basis of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before 12 months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits.

Equity-settled compensation

The Group operates an employee share and option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

(aa) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(bb) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset – but not the legal ownership – are transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

(cc) Research and development expenditure

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

(dd) Share-based payment transactions

Equity settled transactions:

The Group provides benefits to employees (including directors and senior executives) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

During the reporting period, performance rights and options were issued to directors and consultants. The value of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the grant date. The fair value is determined using a Black-Scholes simulation over 100,000 iterations to calculate the average number of performance rights and options passing the performance condition. This model also takes into account the probability at the grant date the fair value as required for market based conditions per AASB 2. Refer to Note 25 for further details.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of MMJ PhytoTech Limited (market conditions), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired and
- (ii) the Group's best estimate of the number of equity instruments that will ultimately vest.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(dd) Share-based payment transactions (cont'd)

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of profit or loss and other comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(ee) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to fund investment opportunities in the medical cannabis industry.

Consistent with others in the industry, the Group monitors capital on the basis of working capital requirements.

| | 2016 | 2015 |
|-----------------------------|------------------|------------------|
| | \$ | \$ |
| Cash and cash equivalents | 2,951,193 | 1,909,808 |
| Trade and other receivables | 398,324 | 147,388 |
| Trade and other payables | (614,685) | (220,692) |
| Borrowings | (490,125) | - |
| Working capital position | 2,244,707 | 1,836,504 |

(ff) Accounting standards issued not yet effective

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(ff) Accounting standards issued not yet effective (cont'd)

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(ff) Accounting standards issued not yet effective (cont'd)

- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 2014-3: Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations (applicable to annual reporting periods beginning on or after 1 January 2016).

This Standard amends AASB 11: Joint Arrangements to require the acquirer of an interest (both initial and additional) in a joint operation in which the activity constitutes a business, as defined in AASB 3: Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

The application of AASB 2014-3 will result in a change in accounting policies for the above described transactions, which were previously accounted for as acquisitions of assets rather than applying the acquisition method per AASB 3.

The transitional provisions require that the Standard should be applied prospectively to acquisitions of interests in joint operations occurring on or after 1 January 2016. As at 30 June 2016, management is not aware of the existence of any such arrangements that would impact the financial statements of the entity going forward and as such is not capable of providing a reasonable estimate at this stage of the impact on initial application of AASB 2014-3.

AASB 2014-10: Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-10: Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128).

This Standard amends AASB 10: Consolidated Financial Statements with regards to a parent losing control over a subsidiary that is not a "business" as defined in AASB 3 to an associate or joint venture, and requires that:

- a gain or loss (including any amounts in other comprehensive income (OCI)) be recognised only to the extent of the unrelated investor's interest in that associate or joint venture;
- the remaining gain or loss be eliminated against the carrying amount of the investment in that associate or joint venture; and
- any gain or loss from remeasuring the remaining investment in the former subsidiary at fair value also be recognised only to the extent of the unrelated investor's interest in the associate or joint venture. The remaining gain or loss should be eliminated against the carrying amount of the remaining investment.

The application of AASB 2014-10 will result in a change in accounting policies for transactions of loss of control over subsidiaries (involving an associate or joint venture) that are businesses per AASB 3 for which gains or losses were previously recognised only to the extent of the unrelated investor's interest.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (cont'd)

(ff) Accounting standards issued not yet effective (cont'd)

The transitional provisions require that the Standard should be applied prospectively to sales or contributions of subsidiaries to associates or joint ventures occurring on or after 1 January 2018. Although the directors anticipate that the adoption of AASB 2014-10 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the period ended 30 June 2016. As a result of this review, the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

(gg) Comparatives

Comparative balances for the Company are for the financial period from 14 August 2014 (incorporation) to 30 June 2015.

(hh) Rounding of amounts

The parent entity has applied the relief available to it under ASIC Class Order 2016/191. Accordingly, amounts in the financial statements have been rounded off to the nearest \$1,000.

Note 2. Critical accounting estimates and judgments and assumptions

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

Share-based payment transactions

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

Estimation of useful lives of assets

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

Estimated Impairment of Goodwill and Intangible Assets

The Group tests at least twice a year whether Goodwill and Intangible Assets has suffered impairment in accordance with the accounting policy stated in Note 1 (x). The recoverable amount of the cash generating units have been determined based on fair values less costs to sell calculation. Refer to Note 12 for details of the assumptions used in these calculations.

Notes to the Consolidated Financial Statements

Note 2. Critical accounting estimates and judgments and assumptions (cont'd)

Sensitivity to possible changes in key assumptions

Management have made judgments and estimates in respect of impairment testing of goodwill which management deem to be best estimates. Should the judgements and estimates not occur, the resulting goodwill may vary in carrying amount. The key assumptions are as follows:

- Growth rate
- Discount rate
- (United Greeneries) Price per gram (dried)
- (United Greeneries) Price per gram (extract)
- (Satipharm) Gelpell per unit

For a detailed assessment on the sensitivity on the key assumptions used above refer to Note 12.

Contingent Consideration

Management have applied significant judgements in determining the amount of Contingent Consideration payable on the Business Acquisition. Refer to Notes 29 and 31 for details of the assumptions and valuation inputs in this calculation.

Income tax

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

Business combination

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.

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 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.

Identifying the acquirer in business combination

During the year the company acquired 100% of MMJ Bioscience Inc (refer note 31). The company has determined that MMJ PhytoTech Limited (formerly PhytoTech Medical Limited) was the acquirer.

Notes to the Consolidated Financial Statements

Note 3. Operating Segments

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

- (i) Cultivation (Canada);
- (ii) Processing and distribution (Switzerland);
- (iii) Clinical research (Israel); and
- (iv) Other (Australia)

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.

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.

Notes to the Consolidated Financial Statements

Note 3. Operating Segments (cont'd)

| | 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) | (700) | (1,224) |
| Other expenditures | (582) | (157) | (122) | (1,872) | (2,733) |
| 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) | | | (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 |

Notes to the Consolidated Financial Statements

Note 3. Operating Segments (cont'd)

| | 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 |

Note 4. Revenue and Other Income

| | For the year ended 30 June 2016 \$'000 | For the period of 14 August 2014 to 30 June 2015 \$'000 |
|---|---|--|
| Revenue from continuing operations | | |
| Sales revenue – CBD Gelpell pills | 255 | - |
| <i>Other income</i> | | |
| Interest received | 37 | 48 |
| Fair value gain on contingent deferred shares consideration | 812 | - |

Note 5. Loss for the year

Loss before income tax from continuing operations includes the following:

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 | 1,224 | 2,331 |
| Net foreign exchange loss | 19 | 19 |
| Impairment of Intangible Assets | 7,876 | - |

Notes to the Consolidated Financial Statements

Note 6. Income tax

| | For the year ended 30 June 2016 \$'000 | For the period of 14 August 2014 to 30 June 2015 \$'000 |
|---|---|--|
| (a) Income tax expense | | |
| Current tax benefit/(expense) | - | - |
| Deferred tax | - | - |
| | - | - |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Loss from continuing operations before income tax expense | (14,699) | (4,882) |
| Tax at the Australian tax rate of 30% | (4,410) | (1,465) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Difference in tax rates | 914 | 14 |
| Legal fees | - | 81 |
| Share based payments | 200 | 699 |
| Other non-deductible | 2,253 | 419 |
| Non-assessable income | (162) | |
| Deferred balance not recognised | 1,205 | 252 |
| Income tax expense/(benefit) | - | - |
| (c) The estimated potential deferred tax benefits not brought to account | | |
| Revenue losses - Australia | 253 | 153 |
| Revenue losses - Overseas | 1,234 | 105 |
| Temporary differences - Australia | 125 | 85 |
| Temporary differences - Overseas | - | - |
| | - | - |

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

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

The franking account balance at period end was nil.

Notes to the Consolidated Financial Statements

Note 7. Current Assets – Cash and cash equivalents

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Cash at bank and on hand | 2,921 | 1,880 |
| Short term deposits and deposits on call | 30 | 30 |
| | 2,951 | 1,910 |

The Group's exposure to interest rate and credit risk is disclosed in Note 29.

Note 8. Current assets – Trade and other receivables

| | | |
|-------------------|------------|------------|
| GST receivable | 207 | 53 |
| Prepayments | 140 | 76 |
| Accrued interest | - | 15 |
| Other receivables | 51 | 3 |
| | 398 | 147 |

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

Note 9. Current assets – Inventories

| | | |
|--|--------------|----------|
| Raw materials - CBD | 435 | - |
| Finished goods inventory – CBD Gelpell pills | 1,015 | - |
| | 1,450 | - |

Note 10. Current assets - Loans to Directors

| | | | |
|-----------------------------------|-----|------------|---|
| Loan to Director – Andreas Gedeon | (i) | 104 | - |
|-----------------------------------|-----|------------|---|

(i) Loan to Director – Andreas Gedeon

As at 30 June 2016 the Group recorded a receivable of CAD 100,357 (AUD 104,105) for funds of CAD 94,546 (AUD 98,077) and accrued interest payable of CAD 5,810 (AUD 6,027) by Mr Andreas Gedeon, a director of the Company, under an unsecured loan agreement ("Loan"). The Loan incurs interest at a rate of 8% per annum and is repayable on or before 31 January 2017 and has been granted on arm's length, commercial terms.

Notes to the Consolidated Financial Statements

Note 11. Plant and Equipment

| | 2016 \$'000 | 2015 \$'000 |
|----------------------------------|----------------|----------------|
| Buildings | | |
| At cost | 889 | - |
| Accumulated depreciation | (77) | - |
| | 812 | - |
| Leasehold Improvements | | |
| At cost | 3,135 | - |
| Accumulated depreciation | - | - |
| | 3,135 | - |
| Plant and Equipment | | |
| At cost | 2,656 | 10 |
| Accumulated depreciation | (61) | - |
| | 2,595 | 10 |
| Office equipment | | |
| At cost | 44 | 2 |
| Accumulated depreciation | (11) | - |
| | 33 | 2 |
| Total plant and equipment | 6,575 | 12 |

Movement in Carrying Amounts

| | Buildings \$'000 | Leasehold Improvements \$'000 | Plant and Equipment \$'000 | Office Equipment \$'000 |
|--|---------------------|-------------------------------------|----------------------------------|-------------------------------|
| Balance at 14 August 2014 | - | - | - | - |
| Additions | - | - | 10 | 2 |
| Depreciation expense | - | - | - | - |
| Balance at 30 June 2015 | - | - | 10 | 2 |
| Additions | - | 1,104 | 1,957 | 17 |
| Acquisitions through business combinations | 823 | 1,970 | 633 | 19 |
| Depreciation expense | (35) | - | (27) | (5) |
| Difference due to foreign exchange | 24 | 61 | 22 | - |
| Total at 30 June 2016 | 812 | 3,135 | 2,595 | 33 |

Notes to the Consolidated Financial Statements

Note 12. Intangible Assets

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Goodwill | | |
| At cost | 10,445 | - |
| Accumulated impairment losses | (7,876) | - |
| Exchange differences | 9 | - |
| Net carrying amount | 2,578 | - |
| Identifiable Intangible Asset - License | | |
| At cost | 8,672 | - |
| Accumulated impairment losses | - | - |
| Exchange differences | 260 | - |
| | 8,932 | - |
| Total intangibles | 11,510 | - |

| | Goodwill \$'000 | Identifiable Intangible Asset – License \$'000 |
|--------------------------------------|--------------------|---|
| Year ended 30 June 2015 | | |
| Balance at 14 August 2014 | - | - |
| Additions | - | - |
| Accumulated impairment losses | - | - |
| Exchange differences | - | - |
| | - | - |
| Year ended 30 June 2016 | | |
| Additions | 10,445 | 8,672 |
| Accumulated impairment losses | (7,876) | - |
| Exchange differences | 9 | 260 |
| Closing value at 30 June 2016 | 2,578 | 8,932 |

- (i) Intangible assets were recognised upon the acquisition of MMJ Bioscience Inc as set out in Note 31 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.

Notes to the Consolidated Financial Statements

Note 12. Intangible Assets (cont'd)

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

| | United Greeneries Holdings Ltd | Satipharm AG | Total |
|---|-----------------------------------|--------------|--------------|
| | \$'000 | \$'000 | \$'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.

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.

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

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

The following key assumptions were used in the calculations:

| | Growth Rate | Discount Rate | Price/gram (dried) \$ | Price/gram (extract) \$ |
|---------------------------------|-------------|---------------|-----------------------------|-------------------------------|
| United Greeneries – cultivation | 2% | 21.30% | 5.19 | 9.34 |

The Board has not identified any reasonable possible changes in key assumptions that could cause the carrying amount of the CGU, United Greeneries, to exceed its recoverable amount.

Notes to the Consolidated Financial Statements

Note 12. Intangible Assets (cont'd)

| | Growth Rate | Discount Rate | Per Unit (Gelpell) \$ |
|---|-------------|---------------|-----------------------------|
| Satipharm - processing and distribution | 2% | 32.60% | 74.19 - 276.14 |

The Board has not identified any reasonable possible changes in the key assumptions for the growth and discount rate that could cause the impairment expense currently recognised within the CGU, Satipharm, to materially change. An adverse movement in the price per unit of Gelpell of 5% would lead to an additional impairment of \$591,286 to goodwill.

Note 13. Loans to other entities

| | Notes | 2016 \$'000 | 2015 \$'000 |
|----------------------------|-------|----------------|----------------|
| Loan to MMJ Bioscience Inc | (a) | - | 1,423 |
| MMJ Debenture | (b) | - | 288 |
| | | - | 1,711 |

(a) Loan to MMJ

During the previous reporting period, the Company advanced funds totalling CAD\$1,350,000 to MMJ Bioscience under a secured loan agreement ("Loan") to fund the working capital requirements of MMJ prior to the settlement of the acquisition. The Loan incurs interest at a rate of 6% per annum which is capitalised for the first 12 months.

(b) MMJ Debenture

During the reporting period the Company subscribed for secured debenture securities issued by MMJ Bioscience Inc with a face value of CAD\$275,000. The debenture is secured over property owned by MMJ Bioscience Inc. and incurs interest at a rate of 6% per annum.

Subsequent to the end of the prior reporting period and prior to the merger with MMJ Bioscience Inc, the debenture securities were sold to an unrelated third party for a consideration of CAD\$280,000, being equivalent to the face value and accrued interest at the date of sale. Prior to settlement of the merger transaction, all of the debenture securities in MMJ Bioscience Inc were converted into equity or otherwise redeemed.

Note 14. Other Non-Current Assets

| | | |
|------------------|-----------|-----------|
| Security deposit | 35 | 35 |
|------------------|-----------|-----------|

Note 15. Current liabilities - Trade and other payables

| | | |
|---------------------|------------|------------|
| Trade payables | 190 | 71 |
| Accrued payables | 289 | 126 |
| Payroll liabilities | 135 | 24 |
| | 614 | 221 |

The Group's exposure to liquidity and foreign exchange risk related to trade and other payable is disclosed in Note 29. The carrying amount approximates fair value due to short-term nature.

Notes to the Consolidated Financial Statements

Note 16. Borrowings

| | 2016 \$'000 | 2015 \$'000 |
|------------------------|----------------|----------------|
| Current Borrowings | 92 | - |
| Non-current Borrowings | 398 | - |
| | 490 | - |

Borrowings relate to a promissory note payable by wholly owned subsidiary, United Greeneries Operations Ltd ("UGO") to Elk Valley Properties Ltd ("Lessor") in connection with leasehold improvements and renovations undertaken at the Duncan Facility pre-acquisition which were originally funded by the Landlord to make the site fit for the permitted business purpose as a cannabis cultivation facility. The promissory note is unsecured and bears an interest rate of 5% per annum with monthly repayments.

Note 17. Contingent Consideration

| | | |
|-------------|--------------|----------|
| Current | 2,083 | - |
| Non-current | 1,588 | - |
| | 3,671 | - |

| | \$'000 | |
|--|--------------|----------|
| Opening balance | - | - |
| Acquisition – Contingent Consideration Liability (Note 31) | 4,352 | - |
| Acquisition - Deferred Introduction Fee Liability | 131 | - |
| Fair value gain recognised in profit or loss | (812) | - |
| Total at 30 June 2016 | 3,671 | - |

As set out in Note 31 above, pursuant to the terms and conditions of the Amalgamation Agreement between the Company and MMJ Bioscience Inc dated 19 May 2015 for the acquisition of 100% of the issued capital of MMJ Bioscience Inc which was completed during the period, the Company has recognised a liability in respect of the potential future issue of up to 17,000,000 shares to the vendors MMJ Bioscience Inc upon the satisfaction of the following performance milestones:

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

Notes to the Consolidated Financial Statements

Note 17. Contingent Consideration (cont'd)

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

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

Note 18. 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 |

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) | | | |
| | (Note 25) | - | | (1,858) |
| 30 June 2016 | Closing Balance | 161,926,147 | | 32,706 |

* Deemed issue price

Notes to the Consolidated Financial Statements

Note 18. Contributed equity (cont'd)

(b) Performance rights

| | 2016 | | 2015 | |
|--------------------|------------|--------|------------|--------|
| | Number | \$'000 | Number | \$'000 |
| Performance Rights | 19,083,334 | 1,301 | 30,000,000 | 1,942 |

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 | 1,628 |
| 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 | 1,942 |
| 1 July 2015 | Opening Balance | | 30,000,000 | 1,942 |
| 27 Jul 2015 | Conversion of Class A performance rights | | (5,541,666) | (204) |
| 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.

Performance rights were issued to certain directors and consultants involved in the listing of the Company on the ASX and as part of their overall remuneration package.

During the period ended 30 June 2015, the Company issued 3,000,000 performance rights to Mr Peter Wall, 7,500,000 performance rights to Mr Boaz Wachtel, 7,500,000 performance rights to director Ross Smith who resigned on 2 February 2015 and 12,000,000 performance rights to Cicero Corporate.

The milestones attaching to the Class A & B Performance Rights were satisfied and on 29 June 2015 shareholder approval was received to remove the two year restriction on the conversion of all performance rights into equity of the Company.

Notes to the Consolidated Financial Statements

Note 18. Contributed equity (cont'd)

(b) Performance Rights (cont'd)

Further, at the shareholders meeting held on 29 June 2015, in addition to the amendment to the conversion restriction shareholders also approved the amendment to Class C and Class D performance rights held by Mr Peter Wall and Mr Boaz Wachtel, as summarised below.

Terms and conditions of performance rights as share-based payments issued during the period ended 30 June 2015 are set out below:

| | Class A ¹ and B @ \$0.038 per right | Class C @ \$0.028 per right | Class D @ \$0.012 per right |
|-----------------------------|---|--------------------------------|--------------------------------|
| No. of performance rights | 10,000,000 | 10,000,000 | 10,000,000 |
| Total value | \$379,999 | \$1,127,500 | \$472,500 |
| Total Vested | 10,000,000 | 10,000,000 | 10,000,000 |
| Total Exercised | 9,916,666 | 1,000,000 | - |
| Total on issue | 83,334 | 9,000,000 | 10,000,000 |
| Total value at 30 June 2016 | \$3,167 | \$814,500 | \$483,000 |

1 Each Class A Performance Right vests into 1 Class B Performance Right and 1 fully paid ordinary share upon satisfaction of the attaching conversion restriction.

Consideration: The Performance Rights were issued for \$0.0001 each. No consideration is payable upon the vesting of the Performance Rights.

Conversion: Upon satisfaction of the relevant Performance Rights vesting, each Performance Right will, at the election of the holder, vest and convert as follows:

- (i) Class A Performance Right: into one Share and one Class B Performance Right; and
- (ii) Class B, C and D Performance Rights: into one Share.

Expiry: If the Milestone attaching to a Performance Right has not been satisfied in the time periods set out below, it will automatically lapse:

- (i) Class A Performance Rights: 2 years from the date the Company is admitted to the Official List of the ASX (Admission Date);
- (ii) Class B Performance Rights: 3 years from the Admission Date;
- (iii) Class C Performance Rights: 3 years from the Admission Date; and
- (iv) Class D Performance Rights: 4 years from the Admission Date.

Otherwise, any Performance Right that has not been converted into a Share within 5 years of the Admission Date will automatically lapse.

Notes to the Consolidated Financial Statements

Note 18. Contributed equity (cont'd)

(b) Performance Rights (cont'd)

Performance Milestones:

- (i) **Class A Performance Rights:** if the 5 day volume weighted average price of Shares on the ASX is \$0.40 or higher;
- (ii) **Class B Performance Rights:** if the 5 day volume weighted average price of Shares on the ASX is \$0.60 or higher;
- (iii) **Class C Performance Rights:** following shareholder approval on 29 June 2015 to amend the performance milestones attaching to Mr Wall and Mr Wachtel's Class C Performance Rights, the performance milestones within the Class C Performance Rights are now as follows:
 - *In the case of Performance Rights beneficially held by Mr Peter Wall:* if the Company completes a transaction to acquire 100% of the issued capital of MMJ Bioscience Inc;
 - *In the case of Performance Rights beneficially held by Mr Boaz Wachtel:* if the Company Group (either directly, or through an affiliate, subcontractor or joint venture partner) produces and exports 500 kg of MC; or upon the Company Group receiving revenue (including commissions) in excess of US\$5,000,000 from the sale of cannabidiol (and/or other cannabinoids) products to or through a party or parties introduced by Mr Wachtel;
 - *In the case of Performance Rights held by any other holder:* if the Company obtains a granted patent in any jurisdiction in relation to the patent applications which the Company has an interest at the date the Company lodged its IPO Prospectus with the ASIC.
- (iv) **Class D Performance Rights:** following shareholder approval on 29 June 2015 to amend the performance milestones attaching to Mr Wall and Mr Wachtel's Class D Performance Rights, the performance milestones within the Class D Performance Rights are now as follows:
 - *In the case of Performance Rights beneficially held by Mr Peter Wall:* if the Company or any of its subsidiaries ("Group") is granted a license to produce under the Marihuana for Medical Purposes Regulations in Canada;
 - *In the case of Performance Rights beneficially held by Mr Boaz Wachtel:* if the Group or a collaborating partner/s, setting up a MC growing facility or production facility of MC and/or cannabinoid products in a jurisdiction (including Uruguay) which laws do not currently, but in the future, permit the growth of MC or the production of medical cannabinoid products and achieving first commercial sales of MC from such facility;
 - *In the case of Performance Rights held by any other holder:* if the Company enters into a licensing agreement (or similar arrangement) to commercialise or develop the intellectual property relating to any patent applications in which the Company had an interest at the date the Company lodged its IPO Prospectus with the ASIC.

A total value of \$35,000 (2015: \$1,942,500) was expensed during the year, being the revaluation of the performance rights. The value of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the grant date using the market value at that date, the probability of the relevant market conditions being met and the expected length of the vesting period.

(c) Options

| | 2016 | | 2015 | |
|---------|------------|--------|-----------|--------|
| | Number | \$'000 | Number | \$'000 |
| Options | 36,857,782 | 3,580 | 7,350,000 | 686 |

Notes to the Consolidated Financial Statements

Note 18. Contributed equity (cont'd)

(c) Options (cont'd)

Movement in options on issue

| Date | Details | Number of Options | \$'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 | 311 |
| 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 |
| 6 June 2016 | Issue options to employees under ESOP - Class I exercisable at \$0.24 each expiring 6 June 2019 | - ³ | 33 |
| 30 June 2016 | Vesting of options issued in prior year | - | 613 |
| 30 June 2016 | Closing Balance | 36,857,782 | 3,580 |

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.

3 4,000,000 Class 1 Options were granted on 6 June 2016 as part of remuneration but had not been issued as at 30 June 2016.

Notes to the Consolidated Financial Statements

Note 18. Contributed equity (cont'd)

(c) Options (cont'd)

Terms and conditions of options on issue

| Option Class | Key Terms | Number of Options | |
|--------------|------------------------------------|------------------------|------------------|
| | | 2016 | 2015 |
| Class A | Expiry 8/1/2018 @ \$0.20 Unlisted | 2,500,000 | 2,500,000 |
| Class B | Expiry 6/5/2019 @ \$0.20 Unlisted | 4,500,000 | 4,500,000 |
| Class C | Expiry 6/5/2019 @ \$0.31 Unlisted | 350,000 | 350,000 |
| Class D | Expiry 24/7/2018 @ \$0.40 Unlisted | 3,500,000 | 1,000,000 |
| Class E | Expiry 24/7/2018 @ \$0.20 Unlisted | 1,500,000 | 1,500,000 |
| Class F | Expiry 8/9/2018 @ \$0.45 Unlisted | 10,811,475 | - |
| Class G | Expiry 1/3/2019 @ \$0.36 Unlisted | 11,916,666 | - |
| Class H | Expiry 31/1/2020 @ \$0.27 Unlisted | 1,779,641 | - |
| Class I | Expiry 6/6/2019 @ \$0.24 Unlisted | 4,000,000 ¹ | - |
| | | 40,857,782 | 9,850,000 |

1 As at 30 June 2016, the Company had committed to issue 4,000,000 Class I Options to Satipharm CEO, Mr Sologubov, under the Company's ESOP however these options had not been issued as at the date of this report.

| | 2016 | | 2015 | |
|---------------------------------------|-------------------|--------------------------------------|------------------|--------------------------------------|
| | No. of Options | Weighted average exercise price (\$) | No. of Options | Weighted average exercise price (\$) |
| Balance at beginning of period | 9,850,000 | \$0.22 | - | - |
| Granted during the period | 31,432,782 | \$0.349 | 9,850,000 | \$0.22 |
| Forfeited/cancelled during the period | (425,000) | \$0.27 | - | - |
| Exercised during the period | - | - | - | - |
| Expired during the period | - | - | - | - |
| Balance at the end of the period | 40,857,782 | \$0.31 | 9,850,000 | \$0.22 |
| Exercisable at the end of the period | 29,395,134 | \$0.37 | - | - |

Notes to the Consolidated Financial Statements

Note 19. Reserves and Accumulated Losses

(a) Movement in reserves

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Share-based payments reserve | 4,881 | 2,628 |
| Foreign currency translation reserve | 242 | 20 |
| Total reserves at the end of the period | <u>5,123</u> | <u>2,648</u> |
| Share-based payments reserve | | |
| Performance rights reserve | 1,301 | 1,942 |
| Options reserve | 3,580 | 686 |
| Total share based payments reserve | <u>4,881</u> | <u>2,628</u> |
| Foreign currency translation reserve | | |
| Balance at beginning of period | 20 | - |
| Exchange differences on translation of foreign operation | 222 | 20 |
| Balance at the end of the period | <u>242</u> | <u>20</u> |

Nature and purpose of reserve

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity benefits provided to directors as remuneration or to suppliers as payment for products and services. The details of share-based payments are disclosed in Note 25.

(ii) Foreign currency translation reserve

Exchange differences arising from translation of the foreign controlled entities are taken to the foreign currency translation reserve, as prescribed in Note 1(w). The reserve is recognised in the profit or loss when the net investment is disposed of.

(b) Accumulated Losses

| | 2016 \$'000 | 2015 \$'000 |
|---|-----------------|----------------|
| Accumulated losses at the beginning of the period | (4,882) | - |
| Net loss attributable to members of the Company | (14,699) | (4,882) |
| Accumulated losses at the end of the period | <u>(19,581)</u> | <u>(4,882)</u> |

Notes to the Consolidated Financial Statements

Note 20. Related Parties

(a) Key Management Personnel

The following persons were Directors of MMJ PhytoTech Limited during the period ended 30 June 2016:

| | |
|---------------------|---|
| Peter Wall | Non-executive Chairman (<i>appointed 14 August 2014</i>) |
| Andreas Gedeon | Managing Director (<i>appointed 27 July 2015</i>) |
| Winton Willesee | Non-executive Director (<i>appointed 21 October 2014</i>) |
| Jason Bednar | Non-executive Director (<i>appointed 27 July 2015</i>) |
| Ross McKay | Non-executive Director (<i>appointed 27 July 2015, resigned 11 August 2016</i>) |
| Boaz Wachtel | Executive Director (<i>appointed 18 November 2014, resigned 20 August 2015</i>) |
| Benad Goldwasser | Executive Director (<i>appointed 27 January 2015, resigned 20 August 2015</i>) |
| Daphna Heffetz | CEO – PhytoTech Therapeutics Ltd (<i>appointed 15 January 2015</i>) |
| Michael Hinam | CEO – United Greeneries Ltd (<i>appointed 14 July 2015</i>) |
| Tomas Edvinsson | CEO – Satipharm AG (<i>appointed 10 August 2015, resigned 6 June 2016</i>) |
| Stanislav Sologubov | CEO – Satipharm AG (<i>appointed 6 June 2016</i>) |

(b) Key Management Personnel compensation

Details of remuneration paid to Key Management Personnel have been disclosed in the Directors' Report. No bonuses pertaining to the period ended 30 June 2016 had been recommended or paid at the date of this report.

Aggregate of remuneration paid to Key Management Personnel during the period as follows:

| | For the year ended 30 June 2016 | For the period of 14 August 2014 to 30 June 2015 |
|---|---------------------------------------|---|
| | \$ | \$ |
| Short-term employee benefits - Cash salaries and fees | 1,017,535 | 575,057 |
| Early termination payments | 61,856 | 126,326 |
| Short term benefits – Annual leave | 11,399 | - |
| Long-term benefits – Superannuation | 36,558 | 13,343 |
| Share-based payments – Options and performance rights | 985,921 | 2,022,475 |
| | 2,113,269 | 2,737,201 |

(c) Key Management Personnel compensation disclosure

The Board policy in determining the nature and amount of compensation and discussion of the relationship between the Board's policy and the entity's performance are provided in the remuneration report section of the Directors' report.

| | | |
|--|---------|---------|
| Director fees paid to Pheakes Pty Ltd, an entity related to Mr Peter Wall | 48,000 | 36,000 |
| Director fees paid to Peregrine Consulting Ltd, an entity related to Andreas Gedeon | 315,994 | - |
| Director fees paid to Azalea Consulting Pty Ltd, an entity related to Mr Winton Willesee | 36,000 | 24,000 |
| Director fees paid to Jason Bednar | 33,000 | - |
| Director fees paid to Ross McKay | 33,000 | - |
| Director fees paid to International Water and Energy Savers, an entity related to Mr Boaz Wachtel | 79,540 | 115,769 |
| Director and executive consulting fees paid to Goldmed Ltd, an entity related to Mr Benad Goldwasser | 5,322 | 50,974 |

Notes to the Consolidated Financial Statements

Note 20. Related Parties (cont'd)

(d) Other transactions with Key Management Personnel

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

- Steinepreis Paganin, an entity associated with Mr Peter Wall, received payments totalling \$77,401 in relation to legal services provided to the Company.
- Azalea Consulting Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling \$84,700 in relation to front office administration and company secretarial services provided to the Company.
- Valle Corporate Pty Ltd, an entity associated with Mr Winton Willesee, received payments totalling \$85,800 in relation to accounting and financial reporting services provided to the Company.
- Gelpell AG, an entity associated with Mr Tomas Edvinsson, received payments totalling \$252,178 in relation to processing and manufacturing services provided to Satipharm AG in the production of the Company's CBD pills.

| | 2016 \$ | 2015 \$ |
|---|------------|------------|
| Amount owing to Pheakes Pty Ltd, an entity related to Mr Peter Wall | 4,400 | - |
| Amount owing to Steinepreis Paganin, an entity associated with Mr Peter Wall | 6,175 | - |
| Amount owing to Azalea Consulting Pty Ltd, an entity related to Mr Winton Willesee | 9,748 | 25,500 |
| Amount owing to Valle Corporate Pty Ltd, an entity related to Mr Winton Willesee | 11,000 | - |
| Amount owing to Jason Bednar | 3,000 | - |
| Amount owing to Ross McKay | 3,000 | - |
| Amount owing to International Water and Energy Savers, an entity related to Mr Boaz Wachtel | - | 20,240 |
| Amount owing to Goldmed Ltd, an entity related to Mr Benad Goldwasser | - | 8,127 |

All amounts are inclusive of GST

(e) Loans to Key Management Personnel

In addition to the above, as at 30 June 2016 the Group recorded a loan receivable of CAD 100,357 (AUD 104,105) for funds of CAD 94,546 (AUD 98,077) and accrued interest payable of CAD 5,810 (AUD 6,027) by Mr Andreas Gedeon, a director of the Company, under an unsecured loan agreement ("Loan"). The Loan incurs interest at a rate of 8% per annum and is repayable on or before 31 January 2017 and has been granted on arm's length, commercial terms.

Notes to the Consolidated Financial Statements

Note 21. Remuneration of auditors

During the period the following services were paid or payable to the auditors of the Group, its related entities and non-related audit firms:

| | 2016 \$ | 2015 \$ |
|--|----------------|---------------|
| Remuneration of the auditors for: | | |
| auditing and reviewing the financial reports | | |
| • Australia | 52,703 | 22,000 |
| • Canada | 90,659 | - |
| • Israel | 17,162 | - |
| taxation services | | |
| • Australia | 28,526 | 27,601 |
| • Canada | 16,992 | - |
| other corporate advice | - | 12,332 |
| | 206,042 | 61,933 |

Note 22. Contingent liabilities

The Group has no contingent liabilities as at 30 June 2016.

Note 23. Commitments for expenditure

Finance Lease Commitments

| | | |
|---|--------------|---|
| Payable – minimum lease payments | | |
| within one year | 252 | - |
| later than one year but not later than five years | 994 | - |
| later than five years | - | - |
| Minimum lease payments | 1,246 | - |
| less future finance charges | (63) | - |
| Present value of minimum lease payments | 1,183 | - |

The finance lease is between wholly owned subsidiary, United Greeneries Operations Ltd ("UGO") and Elk Valley Properties Ltd ("Lessor") in connection with the lease of and leasehold improvements and renovations at the Duncan Facility funded by the Landlord to make the site fit for the permitted business purpose as a cannabis cultivation facility. The promissory note is unsecured, bears and interest rate of 5% per annum with monthly repayments. The initial term of the lease is 7 years through to April 2021, with options to extend for a further 5 years on the same terms and conditions.

Operating Lease Commitments

| | | |
|---|-----------|----------|
| within one year | 34 | 9 |
| later than one year but not later than five years | 11 | - |
| later than five years | - | - |
| | 45 | 9 |

The operating leases are for:

- Office accommodation (expiring in October 2016, and will not be renewed);
- Car lease payments (expiring in June 2018); and
- A 12 month option to enter into a lease agreement for 13 acres of land adjacent to the existing Duncan Facility

Notes to the Consolidated Financial Statements

Note 23. Commitments for expenditure (cont'd)

| | 2016 \$ | 2015 \$ |
|---|------------|------------|
| Research and Development Commitments | | |
| within one year | 340 | 384 |
| later than one year but not later than five years | 14 | - |
| later than five years | - | - |
| | 354 | 384 |

Research and development commitments as at 30 June 2016 related to obligations for Clinical Stage 2 trials to be undertaken. The commitments are with:

- SoluBest: the main sub-contractor that will carry out the import of pills from Switzerland, and the analysis and stability testing of the pills before release to the clinical studies. Commitments at 30 June 2016 are US\$ 101,924. The agreement can be terminated at any time and need to pay only for the work that was already carried out prior to the termination date;
- AI Labs: Clinical supply including the purchase of CBD & THC purified extracts that are needed for the Gelpell capsule production for the Phase 2 planned studies. Commitment as of 30 June 2016 sums to US\$ 75,923; and
- Yissum Research Development Company of the Hebrew University of Jerusalem: Research study to be carried out under the license agreement (US\$90K postponed payment from 2015).

The Group has no other commitments for expenditure at 30 June 2016.

Note 24. Investments in controlled entities

| Name of entity | Principal Place of business | Date of Incorporation/ Acquisition | Class of Shares | Percentage Equity Holding | |
|-------------------------------------|-----------------------------|------------------------------------|-----------------|---------------------------|------|
| | | | | 2016 | 2015 |
| PhytoTech Medical (UK) Ltd | United Kingdom | 19 November 2014 | Ordinary | 100% | 100% |
| PhytoTech Therapeutics Ltd | Israel | 18 December 2014 | Ordinary | 100% | 100% |
| United Greeneries Holdings Ltd | Canada | 2 July 2015 | Ordinary | 100% | - |
| United Greeneries Ltd. | Canada | 2 July 2015 | Ordinary | 100% | - |
| United Greeneries Operations Ltd | Canada | 2 July 2015 | Ordinary | 100% | - |
| United Greeneries Saskatchewan Ltd | Canada | 2 July 2015 | Ordinary | 100% | - |
| Duncan Bioscience International Inc | Canada | 2 July 2015 | Ordinary | 100% | - |
| Satipharm Canada Limited | Canada | 2 July 2015 | Ordinary | 100% | - |
| Satipharm AG | Switzerland | 2 July 2015 | Ordinary | 100% | - |
| Satipharm Australia Pty Ltd | Australia | 8 December 2015 | Ordinary | 100% | - |

Notes to the Consolidated Financial Statements

Note 25. Share-based payments

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

| | Share Based Payment Expense | Capital Raising Fees |
|--|-----------------------------------|-------------------------|
| | 2016 | 2016 |
| | \$ | \$ |
| (a) Ordinary shares issued to corporate advisors | - | 154,000 |
| (b) New options issued to corporate advisors | - | 1,704,089 |
| (c) New options issued to Directors | 185,888 | - |
| (d) New options issued under ESOP | 265,952 | - |
| (e) Vesting of options issued in prior periods | 737,381 | - |
| (f) Revaluation of Performance Rights | 35,000 | - |
| Total equity-based payments as at 30 June 2016 | <u>1,224,221</u> | <u>1,858,089</u> |

| | Share Based Payment Expense | Capital Raising Fees |
|--|-----------------------------------|-------------------------|
| | 2015 | 2015 |
| | \$'000 | \$'000 |
| (a) Ordinary shares issued to corporate advisors | - | - |
| (b) New options issued to corporate advisors | - | 295,349 |
| (c) New options issued to Directors | 178,366 | - |
| (d) New options issued under ESOP | 212,216 | - |
| (e) Vesting of options issued in prior periods | - | - |
| (f) Performance rights issued | 1,942,500 | - |
| Total equity-based payments as at 30 June 2015 | <u>2,333,082</u> | <u>295,349</u> |

(a) Ordinary shares issued to corporate advisors

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

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

During the year to 30 June 2015, there were no ordinary shares issued to corporate advisors.

Notes to the Consolidated Financial Statements

Note 25. Share-based payments (cont'd)

(b) New options issued to corporate advisors

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

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

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

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

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

During the period ended 30 June 2015, the Company issued 2,500,000 to the Company's corporate advisors (or their nominees) in lieu of cash consideration for services provided in connection with capital raisings undertaken during the period.

Notes to the Consolidated Financial Statements

Note 25. Share-based payments (cont'd)

(c) New options issued to Directors

During the year, \$185,888 was recognised as share based payments made in respect of 1,500,000 and 1,000,000 Class D Options issued to directors, Jason Bednar and Ross McKay, respectively. The Class D Options vest and become exercisable over a period of three years from the date of Messrs Bednar and McKay's appointments, such that one twelfth of the Options shall vest on the end of each three month period following their appointment on 27 July 2015.

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

| | Class D Options |
|---------------------------------------|-----------------|
| Exercise Price | \$0.40 |
| Expiry Date | 27 July 2018 |
| Issue Date | 27 July 2015 |
| Risk Free Rate | 2% |
| Volatility | 95% |
| Value per Option | \$0.193 |
| Total Options Issued | 2,500,000 |
| Total Value of Options | \$482,504 |
| Amount Expensed in Current Period | \$185,888 |
| Amount to be Expensed in Future Years | \$296,616 |

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

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

During the year ended 30 June 2015 the Company issued Class D options beneficially held by Winton Willesee which vest and become exercisable over a period of three years from the date of his appointment such that one twelfth of the Options shall vest on the end of each three month period following appointment.

The Company also issued Class E options beneficially held by Benad Goldwasser which vest and become exercisable over a period of three years from the date of his appointment such that one twelfth of the Options shall vest on the end of each three month period following appointment.

(d) New options issued under Employee Share Option Plan (ESOP)

During the year, \$265,952 was recognised as share based payments made in respect of 1,779,641 Class H Options issued and 4,000,000 Class I Options issued.

The Class H Options vest and become exercisable over a period of three years from the later of the date of employment or 27 July 2015, such that one twelfth of the Options shall vest after each three month period following their appointment or 27 July 2015 (whichever is later).

The Class I Options vest and become exercisable over a period of two years from the commencement of employment, such that one quarter of the Options shall vest after each six-month period following their appointment on 6 June 2016.

Notes to the Consolidated Financial Statements

Note 25. Share-based payments (cont'd)

(d) New options issued under Employee Share Option Plan (ESOP) (cont'd)

The options were issued under the Company's Employee Share Options Plan which was approved at the General Meeting of Shareholders held on 29 June 2015. The fair value of the options as determined using the Black-Scholes option valuation methodology and applying the following inputs:

| | Class H Options | Class I Options |
|---------------------------------------|-----------------|-----------------|
| Exercise Price | \$0.27 | \$0.24 |
| Expiry Date | 31 January 2020 | 6 June 2019 |
| Issue Date | 1 February 2016 | 6 June 2019 |
| Risk Free Rate | 2% | 2% |
| Volatility | 95% | 95% |
| Value per Option | \$0.202 | \$0.121 |
| Total Options Issued | 1,779,641 | 4,000,000 |
| Total Value of Options | \$360,233 | \$482,288 |
| Amount Expensed in Current Period | \$232,942 | \$33,010 |
| Amount to be Expensed in Future Years | \$127,291 | \$449,278 |

As vesting conditions apply to the Class H Options, the cost is recognised over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

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

During the year to 30 June 2015 \$212,216 was recognised as share-based payments for Class B and Class C options issued as part of the ESOP.

(e) Vesting of options

During the year, \$737,381 was recognised as share based payments made in respect of options vesting in the year. The fair value of the options was determined using the Black-Scholes option valuation methodology and applying the inputs below.

| | Class B Options Issued on 15/01/2015 | Class C Options Issued on 1/04/2015 | Class D Options Issued on 29/06/2015 | Class D Options Issued on 27/07/2015 | Class E Options Issued on 29/06/2015 |
|--------------------------------------|---|--|---|---|---|
| Exercise Price | \$0.20 | \$0.40 | \$0.40 | \$0.40 | \$0.20 |
| Expiry Date | 6 May 2019 | 27 July 2018 | 27 July 2018 | 27 July 2018 | 27 July 2018 |
| Risk Free Rate | 2.54% | 2.01% | 2.80% | 2.00% | 2.80% |
| Volatility | 95% | 95% | 93% | 95% | 93% |
| Value per Option | \$0.139 | \$0.214 | \$0.163 | \$0.193 | \$0.205 |
| Total Options Issued | 4,500,000 | 350,000 | 1,000,000 | 2,500,000 | 1,500,000 |
| Options vesting current period | 1,875,000 | 116,666 | 333,333 | 625,000 | 1,375,000 |
| Options vested prior periods | - | - | 83,333 | - | 125,000 |
| Total options vested at 30 June 2016 | 1,875,000 | 116,666 | 416,666 | 625,000 | 1,500,000 |
| Amount Expensed in Current Period | \$318,113 | \$34,587 | \$69,536 | \$124,588 | \$190,557 |

Notes to the Consolidated Financial Statements

Note 25. Share-based payments (cont'd)

(e) Vesting of options (cont'd)

Vesting Conditions:

Class B options beneficially held by Daphna Heffetz are subject to the following vesting conditions:

- (i) 1,500,000 Options will vest after twelve months of continuous employment with the Group; and
- (ii) Thereafter, the balance of the Options shall vest monthly on a pro-rata basis for each month of continuous employment with the Group up to thirty-six months. (i.e. 125,000 Options will vest after each month between thirteen and thirty-six months of continuous employment).

Class C options beneficially held by Hagit Sacks are subject to the following vesting conditions:

- (i) 116,666 Options will vest after twelve months of employment;
- (ii) 116,667 Options will vest after twenty four months of employment; and
- (iii) 116,667 Options will vest after thirty six months of employment.

Class D options beneficially held by Winton Willesee vest and become exercisable over a period of three years from the date of his appointment such that one twelfth of the Options shall vest on the end of each three-month period following appointment.

The Class D Options beneficially held by Jason Bednar and Ross McKay vest and become exercisable over a period of three years from the date of Messrs Bednar and McKay's appointments, such that one twelfth of the Options shall vest on the end of each three month period following their appointment on 27 July 2015.

Class E options beneficially held by Benad Goldwasser vest and become exercisable over a period of three years from the date of his appointment such that one twelfth of the Options shall vest on the end of each three-month period following appointment. All options vested on the resignation on 20 August 2015.

(f) Performance Rights

During year to 30 June 2016, there were no Performance Rights issued, and \$35,000 was recognised as an expense on revaluation of the existing performance rights.

During the year to 30 June 2015 a total value of \$1,942,500 has been expensed. The value of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the grant date using the market value at that date, the probability of the relevant market conditions being met and the expected length of the vesting period.

Notes to the Consolidated Financial Statements

Note 26. Reconciliation of loss from ordinary activities after income tax to net cash outflow used in operating activities

| | 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 | <u>2,951</u> | <u>1,910</u> |
| (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 | 1,224 | 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 goodwill | 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 | 91 | 220 |
| Increase/(decrease) in other assets | 57 | 37 |
| Net cash (used in) operating activities | <u><u>(6,972)</u></u> | <u><u>(2,491)</u></u> |
| (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 31 Business Combination.

Notes to the Consolidated Financial Statements

Note 27. Loss per share

| | 2016 cents | 2015 cents |
|---|----------------|----------------|
| (a) Basic loss per share | (10.7) | (16.3) |
| | | |
| | 2016 Number | 2015 Number |
| Weighted average number of shares used as the denominator | | |
| • Weighted average number of ordinary shares used as the denominator in calculating basic loss per share. | 137,783,002 | 29,923,719 |
| • Options that were not included in the calculation of diluted earnings per share because they are antidilutive | 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.

Note 28. Dividend

The Board does not recommend the payment of a dividend for the period ended 30 June 2016. No dividends were paid during the period.

Note 29. Financial risk management

Financial Instruments

| | 2016 \$'000 | 2015 \$'000 |
|------------------------------------|----------------|----------------|
| Financial Assets | | |
| Cash and Cash equivalents | 2,951 | 1,910 |
| Trade and other receivables | 398 | 38 |
| Loans to related entities | - | 1,711 |
| Other non-current assets | 35 | 35 |
| Total Financial Assets | 3,384 | 3,694 |
| | | |
| Financial Liabilities | | |
| Trade and other payables | 614 | 71 |
| Borrowings | 490 | - |
| Contingent Consideration | 3,671 | - |
| Total Financial Liabilities | 4,775 | 71 |

The Group's activities expose it to a variety of financial risks: liquidity risk, market risk (including fair value interest rate risk, currency risk and price risk) and credit risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Notes to the Consolidated Financial Statements

Note 29. Financial risk management (cont'd)

Risk management is carried out by the full Board of Directors. The Board identifies and evaluates financial risks in close co-operation with management and provides written principles for overall risk management.

The Board meets regularly to analyse and monitor the financial risks associated to the business operations.

(i) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. Prudent liquidity risk management is managed through:

- maintaining sufficient cash;
- prudent oversight of future funding requirements;
- maintaining ongoing contact to facilitators of further funding; and
- only investing surplus cash with major financial institutions.

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

| Contractual maturities of financial liabilities | Less than 6 months | 6 months to 1 year | 1 to 5 years | Carrying amount of liabilities at 30 June 2016 |
|---|--------------------|--------------------|--------------|--|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Non-derivatives | | | | |
| Trade and other payables | 614 | - | - | 614 |
| Borrowings | 45 | 47 | 398 | 490 |

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

(ii) Market risk

Fair value interest rate risk

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

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

| | 2016 | 2015 |
|---------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Financial assets | | |
| Cash and cash equivalents | | |
| • Australia | 1,507 | 1,449 |
| • United Kingdom | - | - |
| • Israel | 531 | 461 |
| • Canada | 776 | - |
| • Switzerland | 137 | - |
| Non-current assets | | |
| MMJ Debenture interest | - | 15 |
| | <u>2,951</u> | <u>1,925</u> |

Notes to the Consolidated Financial Statements

Note 29. Financial risk management (cont'd)

(iii) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

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

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

| 2016 | Net Financial Assets/Liabilities (000) | | | | | | |
|--|--|-----|-------|-----|-----|-----|-----------|
| | AUD | USD | NIS | CAD | CHF | EUR | Total AUD |
| Functional currency of entity: | | | | | | | |
| Australian dollar | n/a | - | - | - | - | - | - |
| US dollar | - | n/a | 831 | - | - | - | 290 |
| Canadian dollar | - | - | - | n/a | - | - | - |
| Swiss Franc | - | - | - | - | n/a | 3 | 5 |
| Statement of financial position exposure | - | - | 831 | - | - | 3 | 295 |
| 2015 | Net Financial Assets/Liabilities (000) | | | | | | |
| | AUD | USD | NIS | CAD | CHF | EUR | Total AUD |
| Functional currency of entity: | | | | | | | |
| Australian dollar | n/a | - | - | - | - | - | - |
| US dollar | - | n/a | 1,334 | - | - | - | 354 |
| Canadian dollar | - | - | - | n/a | - | - | - |
| Swiss Franc | - | - | - | - | n/a | - | - |
| Statement of financial position exposure | - | - | 1,334 | - | - | - | 354 |

Sensitivity analysis

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

Notes to the Consolidated Financial Statements

Note 29. Financial risk management (cont'd)

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

| | Profit \$'000 | Equity \$'000 |
|--------------------------------|------------------|------------------|
| Year ended 30 June 2016 | | |
| +/- 1% in interest rates | +/- 30 | +/- 30 |
| +/- 10% in AUD / USD | +/- 25 | +/- 25 |
| +/- 10% in AUD / CAD | +/- 84 | +/- 84 |
| +/- 10% in AUD / NIS | +/- 32 | +/- 32 |
| +/- 10% in AUD / CHF | +/- 12 | +/- 12 |
| +/- 10% in AUD / EUR | +/- 1 | +/- 1 |

| | Profit \$'000 | Equity \$'000 |
|--------------------------------|------------------|------------------|
| Year ended 30 June 2015 | | |
| +/- 1% in interest rates | +/- 19 | +/- 19 |
| +/- 10% in AUD / USD | +/- 36 | +/- 36 |
| +/- 10% in AUD / CAD | +/- 142 | +/- 142 |
| +/- 10% in AUD / NIS | +/- 35 | +/- 35 |

(iv) Credit Risk

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

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

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

Trade receivables are recorded at the invoiced amount. The Group does not have any off-balance-sheet credit exposure related to the customers. The credit risk of the Group arises from cash and cash equivalents, deposits with banks and financial institutions, available-for-sale financial assets, as well as credit exposure to customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum Standard & Poor's credit rating of A (or equivalent) are accepted. The Group assesses credit risk and allowance for doubtful accounts on a customer specific basis. The Group has adopted the policy of only dealing with credit worthy counterparties. As of 30 June 2016, the Group does not have an allowance for doubtful debt accounts.

The maximum credit risk exposure of the Group at 30 June 2016 is (\$1,424,167) (2015: \$3,621,016). There are no impaired receivables at 30 June 2016.

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

Notes to the Consolidated Financial Statements

Note 29. Financial risk management (cont'd)

(v) Price Risk

The Group is not exposed to equity securities price risk as it holds no investments in securities classified on the statement of financial position either as available-for-sale or at fair value through profit or loss. The Group is not exposed directly to commodity price risk.

Fair Values

Fair value measurements

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

AASB 13 *Fair Value Measurements* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

All financial assets and liabilities have been recognised at the reporting date at their net fair values.

The carrying amount of cash and cash equivalents, trade receivable and payables are assumed to approximate their fair values due to their short-term maturity.

- Receivables and payables: The carrying amount approximates fair value.

Fair value measurements using significant unobservable inputs (Level 3)

Contingent consideration arising from acquisition of MMJ Bioscience Inc (see Note 31)

Valuation Inputs and relationship to Fair Value:

| Description | 2016 \$'000 | 2015 \$'000 | Unobservable Inputs | Range of Inputs | Relationship |
|-----------------------------|----------------|----------------|--|--------------------|--|
| Contingent Consideration | 3,671 | - | Probability of achieving Milestones 1 and 2 | 70% -100% | Increase probability increases Fair Value |
| | | | | Share Price | Decrease share price decreases Fair Value |

Notes to the Consolidated Financial Statements

Note 30. Parent entity information

The following information relates to the parent entity, MMJ PhytoTech Limited, as at 30 June 2016. The information presented hereto has been prepared using accounting policies consistent with those presented in Note 1.

| | 2016 | 2015 |
|---|-----------------|----------------|
| | \$'000 | \$'000 |
| Current assets | 1,557 | 1,524 |
| Non-current assets | 16,901 | 2,192 |
| Total assets | 18,458 | 3,716 |
| Current liabilities | 210 | 122 |
| Total liabilities | 210 | 122 |
| Contributed equity | 32,706 | 5,828 |
| Reserves | 4,881 | 2,628 |
| Accumulated losses | (19,339) | (4,862) |
| Net Assets | 18,248 | 3,594 |
| Loss for the period | (15,095) | (4,862) |
| Other comprehensive income/(loss) | - | - |
| Total comprehensive loss for the period | (15,095) | (4,862) |

The parent entity has no contingent liabilities or capital commitment as at 30 June 2016.

Note 31. 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**").

Notes to the Consolidated Financial Statements

Note 31. Business combination (cont'd)

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><u>1,555</u></u> | <u><u>20,672</u></u> |

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 revalued 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 were revalued 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.

Notes to the Consolidated Financial Statements

Note 31. Business combination (cont'd)

(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.

Note 32. Events occurring after reporting date

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

- On 8 July 2016, MMJ completed the issue of 8,500,000 shares to the original vendors of MMJ Bioscience Inc upon the satisfaction of the first performance milestone under the terms of the merger between the Company and MMJ Bioscience Inc, being the grant of a cultivation license under the Marihuana for Medical Purposes Regulations ("MMPR") by Health Canada in respect of the Group's Duncan Facility in Canada which was achieved on 28 June 2016 ("Milestone 1 Consideration Shares"). In addition, the Company issued a further 255,000 shares to parties who introduced MMJ Bioscience Inc to the Company for the purposes of facilitating the merger transaction between the two companies ("Introducer Shares") and 1,000,000 shares upon the conversion of Class D Performance Rights held by an entity associated with Chairman, Peter Wall.
- On 3 August 2016, MMJ reported that its wholly owned subsidiary, United Greeneries had executed a binding letter of intent with Cowichan Tribes in respect to the leasing of a 13-acre strategic land package located immediately adjacent to the Company's existing Duncan Facility.
- On 11 August 2016, Mr Ross McKay resigned as a Non-Executive Director of the Company due to increased work commitments associated with his other business interests in Canada.
- On 15 August 2016, MMJ confirmed the appointment of Ms Catherine Harvey as Chief Operations Officer, effective from 1 September 2016. Details of the Ms Harvey's remuneration is set out in the remuneration report.
- On 15 August 2016, MMJ advised that PhytoTech Therapeutics would be commencing a Phase 2 Clinical Trial into the efficacy of its PTL101 capsules in treating intractable epilepsy in Children.
- On 28 September 2016, MMJ advised that it had signed a binding Term Sheet with TSX-V listed company Top Strike Resources Limited (TSX-V: TSR) ("Top Strike"), for Top Strike to acquire 100% of the issued shares of UG and Satipharm respectively.

Notes to the Consolidated Financial Statements

The transaction, which remains subject to a number of conditions, including shareholder approval, provides MMJ shareholders with exposure to the rapidly growing recreational and medical cannabis markets in Canada.

Post spin out, MMJ shareholders will, through their shareholdings in MMJ, have an indirect ownership in a fully-financed, growth-focused cannabis company with two key operating brands in UG and Satipharm.

- The aggregate sale price of UG and Satipharm (C\$40 million) represents approximately 97% of MMJ's current market capitalisation (undiluted and based on a share price of A\$0.24).

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

- the consolidated entity's operations in future financial years, or
- the results of those operations in future financial years, or
- the consolidated entity's state of affairs in future financial years.

DIRECTOR'S DECLARATION

In the Directors' opinion:

- (a) The financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements; and
 - (iii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of the performance, as represented by the results of their operations, changes in equity and the cash flows, for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

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



Peter Wall
Non-executive Chairman

Perth, Western Australia
30 September 2016

INDEPENDENT AUDITOR'S REPORT



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Independent Auditor's Report

To the members of MMJ PhytoTech Limited

Report on the Financial Report

We have audited the accompanying financial report of MMJ PhytoTech Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

INDEPENDENT AUDITOR'S REPORT



Opinion

In our opinion:

- (a) the financial report of MMJ PhytoTech Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(f) in the financial report which describes the conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 32 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of MMJ PhytoTech Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink that reads 'BDO' on the top line and 'J Prue' on the bottom line.

Jarrad Prue

Director

30 September 2016

ADDITIONAL SHAREHOLDER INFORMATION

This additional information has been included in accordance with the Listing Rules of the Australian Securities Exchange Limited. The information is current as at 27 September 2016.

1. Quotation

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

2. Voting Rights

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

- (a) at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
- (b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

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

3. Distribution of Share and Option Holders

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

(i) Fully Paid Ordinary Shares

| Shares Range | Holders | Units | % |
|-------------------|--------------|--------------------|----------------|
| 1 – 1,000 | 339 | 221,802 | 0.18% |
| 1,001 – 5,000 | 2,840 | 8,246,006 | 6.84% |
| 5,001 – 10,000 | 1,348 | 10,986,952 | 9.11% |
| 10,001 – 100,000 | 1,803 | 53,713,557 | 44.55% |
| 100,001 and above | 145 | 47,414,498 | 39.32% |
| Total | 6,475 | 120,582,815 | 100.00% |

On 27 September 2016, there were 1,390 holders of unmarketable parcels comprising a total of 2,053,121 ordinary shares (based on the closing share price of \$0.23). There is no on-market buy back currently in place.

(ii) Fully Paid Ordinary Shares (Escrow Exp 21/01/17)

| Shares Range | Holders | Units | % |
|-------------------|----------|-------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | - | - | - |
| 100,001 and above | 7 | 24,833,332 | 100.00% |
| Total | 7 | 24,833,332 | 100.00% |

- 1 Holders who hold more than 20% of securities are:
 International Water & Energy Savers Ltd – 6,500,000 shares
 Ross Henry Smith <The Mohaka Capital A/C> – 6,500,000 shares

(iii) Fully Paid Ordinary Shares (Escrow Exp 27/10/16)

| Shares Range | Holders | Units | % |
|-------------------|------------|-------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | 9 | 28,147 | 0.16% |
| 5,001 – 10,000 | 7 | 53,725 | 0.31% |
| 10,001 – 100,000 | 59 | 2,678,095 | 15.29% |
| 100,001 and above | 45 | 14,750,033 | 84.24% |
| Total | 120 | 17,510,000 | 100.00% |

ADDITIONAL SHAREHOLDER INFORMATION

(iv) Fully Paid Ordinary Shares (Escrow Exp 28/09/16)

| Shares Range | Holders | Units | % |
|-------------------|------------|------------------|----------------|
| 1 – 1,000 | 2 | 1,492 | 0.02% |
| 1,001 – 5,000 | 14 | 39,438 | 0.45% |
| 5,001 – 10,000 | 11 | 81,891 | 0.94% |
| 10,001 – 100,000 | 68 | 2,720,622 | 31.08% |
| 100,001 and above | 25 | 5,911,557 | 67.52% |
| Total | 120 | 8,755,000 | 100.00% |

(v) Class A Performance Rights (Escrow Exp 21/01/17)

| Shares Range | Holders | Units | % |
|-------------------|----------|---------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | 1 | 83,334 ¹ | 100.00% |
| 100,001 and above | - | - | - |
| Total | 1 | 83,334 | 100.00% |

1 Holders who hold more than 20% of securities are:

Mr Brett Mitchell & Mrs Michelle Mitchell <Lefthanders Super Fund A/C> – 83,334 performance rights

(vi) Class C Performance Rights (Escrow Exp 21/01/17)

| Shares Range | Holders | Units | % |
|-------------------|----------|------------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | 1 | 83,334 | 0.93% |
| 100,001 and above | 6 | 8,916,666 ¹ | 99.07% |
| Total | 7 | 9,000,000 | 100.00% |

1 Holders who hold more than 20% of securities are:

International Water & Energy Savers Ltd – 2,500,000 performance rights

Ross Henry Smith <The Mohaka Capital A/C> – 2,500,000 performance rights

Red Apple Superannuation Pty Ltd <Red Apple Super Fund A/C> – 1,875,000 performance rights

(vii) Class D Performance Rights (Escrow Exp 21/01/17)

| Shares Range | Holders | Units | % |
|-------------------|----------|------------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | 1 | 83,334 | 0.93% |
| 100,001 and above | 6 | 8,916,666 ¹ | 99.07% |
| Total | 7 | 9,000,000 | 100.00% |

1 Holders who hold more than 20% of securities are:

International Water & Energy Savers Ltd – 2,500,000 performance rights

Ross Henry Smith <The Mohaka Capital A/C> – 2,500,000 performance rights

Red Apple Superannuation Pty Ltd <Red Apple Super Fund A/C> – 1,875,000 performance rights

ADDITIONAL SHAREHOLDER INFORMATION

(viii) Unlisted Class A Options exercisable at \$0.20 on or before 8 January 2018 (Escrow Exp 21/01/17)

| Shares Range | Holders | Units | % |
|-------------------|----------|------------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | - | - | - |
| 100,001 and above | 1 | 2,500,000 ¹ | 100.00% |
| Total | 1 | 2,500,000 | 100.00% |

1 Holders who hold more than 20% of securities are:
BBY Nominees Pty Ltd – 2,500,000 options

(ix) Unlisted Class B Options exercisable at \$0.20 on or before 6 May 2019

| Shares Range | Holders | Units | % |
|-------------------|----------|------------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | - | - | - |
| 100,001 and above | 1 | 4,500,000 ¹ | 100.00% |
| Total | 1 | 4,500,000 | 100.00% |

1 Holders who hold more than 20% of securities are:
ESOP Management & Trust Services Ltd – 4,500,000 options

(x) Unlisted Class C Options exercisable at \$0.31 on or before 6 May 2019

| Shares Range | Holders | Units | % |
|-------------------|----------|----------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | - | - | - |
| 100,001 and above | 1 | 350,000 ¹ | 100.00% |
| Total | 1 | 350,000 | 100.00% |

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

(xi) Unlisted Class D Options exercisable at \$0.40 on or before 24 July 2018

| Shares Range | Holders | Units | % |
|-------------------|----------|------------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | - | - | - |
| 100,001 and above | 3 | 2,833,333 ¹ | 100.00% |
| Total | 3 | 2,833,333 | 100.00% |

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

ADDITIONAL SHAREHOLDER INFORMATION

(xii) Unlisted Class E Options exercisable at \$0.20 on or before 24 July 2018

| Shares Range | Holders | Units | % |
|-------------------|----------|------------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | - | - | - |
| 100,001 and above | 1 | 1,500,000 ¹ | 100.00% |
| Total | 1 | 1,500,000 | 100.00% |

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

(xiii) Unlisted Class F Options exercisable at \$0.45 on or before 8 September 2018

| Shares Range | Holders | Units | % |
|-------------------|----------|-------------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | 2 | 200,000 | 1.85% |
| 100,001 and above | 7 | 10,611,475 ¹ | 98.15% |
| Total | 9 | 10,811,475 | 100.00% |

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

(xiv) Unlisted Class G Options exercisable at \$0.36 on or before 1 March 2019

| Shares Range | Holders | Units | % |
|-------------------|----------|-------------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | - | - | - |
| 100,001 and above | 5 | 11,916,666 ¹ | 100.00% |
| Total | 5 | 11,916,666 | 100.00% |

1 Holders who hold more than 20% of securities are:
Cazadores Investments Pty Ltd – 4,037,500 options
Scarborough Ltd – 4,037,500 options

(xv) Unlisted Class H Options exercisable at \$0.27 on or before 31 January 2020

| Shares Range | Holders | Units | % |
|-------------------|----------|------------------------|----------------|
| 1 – 1,000 | - | - | - |
| 1,001 – 5,000 | - | - | - |
| 5,001 – 10,000 | - | - | - |
| 10,001 – 100,000 | 3 | 139,641 | 7.85% |
| 100,001 and above | 6 | 1,640,000 ¹ | 92.15% |
| Total | 9 | 1,779,641 | 100.00% |

1 Holders who hold more than 20% of securities are:
David Cowern – 395,000 options

ADDITIONAL SHAREHOLDER INFORMATION

4. Substantial Shareholders

There are no substantial shareholders listed on the Company's register as at 27 September 2016.

5. On Market Buy Back

The Company is not currently undertaking an on-market buyback

6. Use of Funds

The Company has used its cash assets in a way consistent with its business objectives.

7. Twenty Largest Shareholders

The twenty largest shareholders at 27 September 2016.

| | Name | Number of Shares | % |
|----|---|-------------------|---------------|
| 1 | GREENLINE HOLDINGS | 6,563,914 | 3.82% |
| 2 | INTERNATIONAL WATER AND ENERGY SAVERS LTD | 6,500,000 | 3.79% |
| 2 | ROSS HENRY SMITH <THE MOHAKA CAPITAL A/C> | 6,500,000 | 3.79% |
| 3 | PHEAKES PTY LTD <SENATE A/C> | 4,000,000 | 2.33% |
| 4 | RED APPLE SUPERANNUATION PTY LTD <RED APPLE SUPER FUND A/C> | 3,750,000 | 2.18% |
| 5 | BOND STREET CUSTODIANS LIMITED <BRJK1 - V13134 A/C> | 2,500,000 | 1.46% |
| 6 | UNITED TROLLEY COLLECTIONS P/L | 2,434,046 | 1.42% |
| 7 | THE TWENTIETH CENTURY MOTOR COMPANY PTY LTD <TWENTIETH CENTURY MC SF A/C> | 2,250,000 | 1.31% |
| 8 | GUIDO WIESMANN | 1,939,402 | 1.13% |
| 9 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 1,908,531 | 1.11% |
| 10 | CITICORP NOMINEES PTY LIMITED | 1,720,561 | 1.00% |
| 11 | MR GUIDO MARTIN WIESMANN | 1,625,870 | 0.95% |
| 12 | STATION NOMINEES PTY LTD <STATION SUPER FUND A/C> | 1,500,000 | 0.87% |
| 13 | NATIONAL NOMINEES LIMITED | 1,492,062 | 0.87% |
| 14 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 1,274,656 | 0.74% |
| 15 | MR ROBERT STEWART SKLIWA | 1,195,000 | 0.70% |
| 16 | TOMAS EDVINSSON | 1,188,205 | 0.69% |
| 17 | ELYSIUM PACIFIC SOLUTIONS INC | 1,057,989 | 0.62% |
| 18 | JASON BEDNAR | 1,026,522 | 0.60% |
| 19 | DAVID SLANG | 973,118 | 0.57% |
| 20 | 1661070 ALBERTA LTD | 902,663 | 0.53% |
| | Total | 52,302,539 | 30.47% |

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