



Suite 518, Level 5
165-167 Phillip Street
Sydney NSW Australia 2000
PO Box H100
Australia Square NSW Australia 1215
T +61 2 8098 0819
F +61 2 8080 8315
www.mmjphytotech.com.au
info@mmjphytotech.com.au
ABN 91 601 236 417

ASX RELEASE

30 August 2018

APPENDIX 4E

MMJ PhytoTech Limited (ASX: MMJ) ("MMJ") is pleased to confirm the lodgement of the MMJ Appendix 4E for the financial year ended 30 June 2018 (as attached to this announcement).

The 2018 MMJ Annual Report including audited financial statements will be lodged during September 2018.

The Appendix 4E is also available on MMJ's website: mmjphytotech.com.au

Investor Enquiries

Jim Hallam
Chief Financial Officer and Company Secretary
info@mmjphytotech.com.au

About MMJ

MMJ is a global cannabis investment company. MMJ owns a portfolio of minority investments and aims to invest across the full range of emerging cannabis-related sectors including healthcare, technology, infrastructure, logistics, processing, cultivation, equipment and retail. For MMJ's latest investor presentation and news, please visit: <https://www.mmjphytotech.com.au/investors/>

1. Company details

Name of entity:	MMJ PhytoTech Limited
ABN:	91 601 236 417
Reporting period:	For the year ended 30 June 2018
Previous period:	For the year ended 30 June 2017

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	40034% to	48,963
Profit from ordinary activities after tax attributable to the owners of MMJ PhytoTech Limited	up	368.1% to	34,119
Profit for the year attributable to the owners of MMJ PhytoTech Limited	up	368.1% to	34,119

Dividends

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

Comments

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$34,119,000 (30 June 2017: loss of \$12,725,000).

On 10 October 2017, MMJ first announced its intention to begin shifting its operational focus toward that of a global cannabis investment company, targeting the full range of emerging cannabis-related sectors including healthcare products, technology, infrastructure, logistics, processing, cultivation, equipment, research & development, hemp food products and retail.

a) Acquisitions

During the year MMJ acquired the following investments:

- i. Weed Me Inc.: (MMJ acquired a CAD\$2 million secured note convertible into 3.46 million shares at CAD\$0.577/share and 3.46 million warrants at CAD\$0.866/share) – Canadian cannabis cultivation company;
- ii. Esense - the Company agreed to invest \$0.5m in ASX listed Israeli life sciences – this investment was later sold in May 2018;
- iii. Fire & Flower Inc.: (MMJ acquired a ~1.6% shareholding plus 1.25 million warrants at an exercise price of CAD\$1.05 per share) – Canadian corporate retail cannabis store chain;
- iv. Cannabis Access: (MMJ acquired 16.7% shareholding) – the leading online portal for medical cannabis access in Australia;
- v. Martha Jane Medical Limited: (MMJ acquired 12.5% shareholding) – holder of an Australian medical cannabis licence and progressing applications for other classes of Australian cannabis licences;
- vi. Bien Ventures Ltd: (MMJ acquired 12.7% shareholding plus 2.8 million warrants at an exercise price of CAD\$0.35) - an intellectual property, branding and licensing company;
- vii. BevCanna Enterprises Inc.: (MMJ acquired 3.6% shareholding) - intends to become a fully vertically-integrated premium-based cannabis infused beverage manufacturer; and
- viii. MediPharm Labs Inc.: (MMJ acquired ~ 6.9% shareholding plus 463,908 warrants at an exercise price of CAD\$15.216 per share) – owns medical cannabis oil production facilities in Canada and Australia.

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b) Harvest One Cannabis Inc. (TSX-V: HVT)

Harvest One owns 53.33 million shares representing approximately 30.2% shareholding before the issuance of shares to MMJ proposed as part of the Disposal of PTL.

During the year Harvest One raised capital to fund its operations:

- i. In December 2017 Harvest One closed a bought deal debenture of C\$20.12m
- ii. In January 2018 Harvest One completed a C\$40.25m public financing
- iii. In April 2018 Harvest One converted all outstanding debentures to ordinary shares

In May 2018 Harvest One completed the acquisition of Dreamwater Global for C\$34.5m with cash and Harvest One shares.

Harvest One intends to use the net proceeds of the Offering for the expansion of strategic indoor growing facilities, further development of its Satipharm Gelpell products, and for working capital and general corporate purposes.

In July 2018 Harvest One announced that it had cash of C\$58m and no debt.

c) Divestment of investments

i. PhytoTech Therapeutics Limited (PhytoTech) (MMJ 100%)

On 25 June 2018 MMJ announced it had entered into a binding share sale agreement (SSA) pursuant to which it has conditionally agreed to sell its wholly-owned subsidiary PhytoTech Therapeutics Ltd (PTL) to Harvest One Cannabis Inc. (TSXV: HVT) (HVT) for a total consideration of CAD\$8 million (Disposal). The Disposal will be conditional upon (amongst other things) MMJ seeking all necessary shareholder and regulatory approvals required to undertake the Disposal.

PTL is a company focused on developing and commercialising cannabis-based therapeutics products (using unique oral delivery technologies under licences that have the potential to deliver safe, effective and measured doses of cannabis derived ingredients to patients) and in conducting research & development and clinical development activities;

At 30 June 2018 the investment is held as financial asset - held for trading until conditions precedent to sale is completed post year end. The investment was deconsolidated, as a result of MMJ being classified as an Investment Entity for financial reporting purposes.

ASX has advised that it considers that the Disposal will result in MMJ and the business which remains becoming an Investment Entity (defined below) and will therefore amount to a significant change in the nature of the Company's current activities. As such, MMJ will be required to obtain approval from its shareholders and to re-comply with Chapters 1 and 2 of the ASX Listing Rules.

In the event the Company does not obtain shareholder approval for the Disposal and the re-compliance conditions in Chapters 1 and 2 of the ASX Listing Rules are not met, the Disposal will not proceed and the Company will be deemed to own, control and operate PTL along with managing its existing investments.

The Disposal is consistent with MMJ's strategic intent to operate as a global cannabis investment company with a portfolio of minority investments, rather than having control over its investments. Funds raised from the Disposal will provide MMJ with flexibility to pursue investment opportunities in the cannabis sector.

- ii. Dosecann Inc – Dosecann (Dosecann was taken over by Cannabis Wheaton Income Corp (TSX-V: CBW) in May 2018. The Company received 3.12 million common shares and 1.56 million warrants to purchase CBW shares at CAD\$0.962 per share. The Company sold its CBW shares and warrants for net proceeds of A\$5,832,677 in May 2018.
- iii. e-Sense Lab – the Company received net proceeds of A\$193,891 in May 2018. The Company also received A\$199,000 from e-Sense Lab as consideration for not receiving e-Sense Lab options which was a condition of the original acquisition of e-Sense Lab shares in November 2017.

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d) Key Management Changes

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

Other key management changes during the period which reflected the change in focus to investment entity were:

- a) PhytoTech's Chief Executive Officer, Dr Daphna Heffetz resigned effective 31 December 2017.
- b) Doug Halley was appointed a non-executive director on 13 March 2018
- c) Jason Bednar resigned as non-executive director of MMJ on 16 March 2018
- d) Jim Hallam was appointed Chief Financial Officer on 3 April 2018
- e) MMJ's Chief Operating Officer's position held by Catherine Harvey was made redundant with effect on 13 August.

Significant changes in the state of affairs

Subsequent to 31 December 2017 Harvest One issued additional ordinary shares through conversion of convertible securities and issue of new shares resulting in MMJ's shareholding being diluted to approximately 36% of Harvest One's total outstanding shares in February 2018. Subsequently on the 26th February 2018, Andreas Gedeon resigned as managing Director of MMJ but retained his directorship of Harvest One. Management concluded these two events resulted in the loss of control of Harvest One as MMJ no longer has majority ownership or majority representation on the Board of Harvest One. Management have adopted 28 February 2018 as the loss of control date of Harvest One.

MMJ's interest in Harvest One from 28 February 2018, has been equity accounted up to 1 April 2018 at which point MMJ was classified as an Investment Entity for financial reporting purposes. Therefore, from 1 April 2018, MMJ's interest in Harvest One has been accounted for as a financial asset held for trading.

Management have further assessed that the loss of control of Harvest One is not a discontinued operation on the basis that the Company continues to hold cannabis sector investments, including Harvest One, and is actively investing in the cannabis sector. MMJ still retain its interest in PTL at 30 June 2018 until all conditions precedent to sale is completed. MMJ's investment in PTL is carried as a financial asset – held for trading after deconsolidation as a result of MMJ being classified as an Investment Entity.

As at July 2018 MMJ's shareholding was diluted to approximately 30.2% of Harvest One's total outstanding shares.

Investment Entity

As of 1 April 2018, for financial reporting purposes, MMJ's focus and strategies were transformed to that of an investment company with a focus on a diversified portfolio of cannabis sector investments for returns from capital appreciation, investment income, or both. The Company measures and evaluates the performance of substantially all of its investments on fair value basis.

As at 30 June 2018, the fair value of MMJ's investment portfolio is \$63.09 million.

Financial Position

The net assets of the consolidated entity increased during the financial year following the deconsolidation of Harvest One and PTL. As a result, the net assets have increased by \$19.37 million mainly due to gain on deconsolidation of these entities.

Cash holdings for the consolidated entity have decreased by \$22.45 million to \$1.35 million (2017: \$23.80 million) primarily utilised for the acquisition of minority investments.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>27.47</u>	<u>15.98</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Name of entities (or group of entities)	Harvest One Cannabis Inc and its consolidated entities
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Date control lost	28 February 2018
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\$'000

Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	(7,965)
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Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous period (where material)	(7,754)
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The consolidated statement of profit or loss and other comprehensive income for 12 months ended 30 June 2018 consolidates the following:

- Eight months results of the Harvest One Cannabis group of companies as MMJ was deemed to have lost control of Harvest One due to dilution of MMJ's percentage shareholding and loss of control of the Harvest One Cannabis board of directors as at 26 February 2018.

- Nine months results of PTL. From 1 April 2018, at which time MMJ was classified as an Investment Entity, MMJ has fair value accounted for this investment as a financial asset held for trading (refer note 2 for accounting policy of investments as an Investment Entity)

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

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

10. Audit qualification or review

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

The preliminary financial report and accompanying notes for MMJ PhytoTech Limited have not been audited.

The audited financial report is scheduled for release in September 2018.

11. Attachments

Details of attachments (if any):

The Preliminary financial report of MMJ PhytoTech Limited for the year ended 30 June 2018 is attached.

12. Signed



Signed _____

Date: 30 August 2018

Doug Halley
Director

MMJ PhytoTech Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

		Consolidated	
	Note	2018 \$'000	2017 \$'000
Revenue			
Interest received		225	46
Gain on deconsolidation of Harvest One Cannabis Inc.	4	48,328	-
Gain on deconsolidation of PhytoTech Therapeutics Ltd	4	7,779	-
Gain on changes in fair value of biological assets		1,118	-
Net loss on revaluation of financial assets held for trading	5	(8,763)	-
Share of Harvest One profit		65	-
Sales revenue		211	76
Total revenue		48,963	122
Expenses			
Cost of sales		(724)	(102)
Gain/(Loss) on contingent deferred consideration shares		1,992	(729)
Employee and director related expenses		(2,795)	(2,171)
Depreciation and amortisation expense		(709)	(1,101)
Finance costs		(1,494)	(82)
Marketing and investor relations		(509)	(639)
Administration expenses		(1,884)	(2,121)
Consultancy and legal expenses		(939)	(1,319)
Research and development expense		(232)	(518)
Compliance and regulatory expenses		(339)	(257)
Equity based payments expense	9	(8,962)	(3,143)
Net foreign exchange loss		(80)	(545)
Impairment of inventory		(213)	(735)
Listing fee expenses		-	(804)
Loss on disposal of investment		(105)	-
Profit/(Loss) before income tax expense		31,970	(14,144)
Income tax (expense)		(2,964)	-
Profit/(Loss) after income tax expense for the year		29,006	(14,144)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(503)	261
Other comprehensive income for the year, net of tax		(503)	261
Total comprehensive income for the year		28,503	(13,883)
Profit/(Loss) for the year is attributable to:			
Non-controlling interest		(5,113)	(1,419)
Owners of MMJ PhytoTech Limited		34,119	(12,725)
		29,006	(14,144)

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

MMJ PhytoTech Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	Consolidated 2018 \$'000	2017 \$'000
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(5,113)	(1,666)
Owners of MMJ PhytoTech Limited		<u>33,616</u>	<u>(12,217)</u>
		<u>28,503</u>	<u>(13,883)</u>
		Cents	Cents
Basic earnings per share		15.90	(6.71)
Diluted earnings per share		15.90	(6.71)

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

MMJ PhytoTech Limited
Statement of financial position
As at 30 June 2018

	Note	Consolidated 2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents		1,347	23,801
Trade and other receivables		110	434
Financial assets – held for trading	5	63,091	-
Inventories		-	1,242
Biological assets		-	81
Total current assets		<u>64,548</u>	<u>25,558</u>
Non-current assets			
Property, plant and equipment		55	8,252
Intangibles		-	8,661
Goodwill		-	4,735
Deferred tax assets		433	-
Other		-	37
Total non-current assets		<u>488</u>	<u>21,685</u>
Total assets		<u>65,036</u>	<u>47,243</u>
Liabilities			
Current liabilities			
Trade and other payables		390	1,132
Deferred consideration		-	1,992
Total current liabilities		<u>390</u>	<u>3,124</u>
Non-current liabilities			
Deferred tax		<u>3,397</u>	<u>2,244</u>
Total non-current liabilities		<u>3,397</u>	<u>2,244</u>
Total liabilities		<u>3,787</u>	<u>5,368</u>
Net assets		<u>61,249</u>	<u>41,875</u>
Equity			
Contributed equity	6	49,064	44,954
Reserves	7	9,563	17,417
Retained earnings / (Accumulated losses)		<u>2,622</u>	<u>(32,306)</u>
Equity attributable to the owners of MMJ PhytoTech Limited		<u>61,249</u>	<u>30,065</u>
Non-controlling interest		-	11,810
Total equity		<u>61,249</u>	<u>41,875</u>

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

MMJ PhytoTech Limited
Statement of changes in equity
For the year ended 30 June 2018

Consolidated	Contributed equity \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total \$'000
Balance at 1 July 2016	32,706	4,881	242	(19,581)	-	18,248
Loss after income tax expense for the year	-	-	-	(12,725)	(1,419)	(14,144)
Other comprehensive income for the year, net of tax	-	-	508	-	(247)	261
Total comprehensive income for the year	-	-	508	(12,725)	(1,666)	(13,883)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs	11,945	-	-	-	-	11,945
Share-based payments	-	1,689	-	-	-	1,689
Conversion of performance rights	303	(303)	-	-	-	-
Harvest One option reserve	-	2,760	-	-	-	2,760
Transaction with non-controlling interest	-	-	(247)	-	13,476	13,229
Net gain on Harvest One transaction	-	7,887	-	-	-	7,887
Balance at 30 June 2017	44,954	16,914	503	(32,306)	11,810	41,875
Consolidated	Contributed equity \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	(Accumulated losses) / Retained Earnings \$'000	Non controlling interest \$'000	Total \$'000
Balance at 1 July 2017	44,954	16,914	503	(32,306)	11,810	41,875
Profit after income tax expense for the year	-	-	-	34,119	(5,113)	29,006
Other comprehensive income for the year, net of tax	-	-	(503)	-	-	(503)
Total comprehensive income for the year	-	-	(503)	34,119	(5,113)	28,503
<i>Transactions with owners in their capacity as owners:</i>						
Exercise of options	1,941	-	-	-	-	1,941
Conversion of performance rights	2,169	(2,169)	-	-	-	-
Cancellation of performance rights	-	(815)	-	815	-	-
Movement due to deconsolidation of Harvest One and PTL	-	(13,329)	-	(6)	-	(13,335)
Transaction with non-controlling interest	-	-	-	-	(6,697)	(6,697)
Share-based payments	-	8,962	-	-	-	8,962
Balance at 30 June 2018	49,064	9,563	-	2,622	-	61,249

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

MMJ PhytoTech Limited
Statement of cash flows
For the year ended 30 June 2018

		Consolidated	
	Note	2018	2017
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		65	35
Interest received		162	47
Payments to suppliers and employees (inclusive of GST)		(8,340)	(7,571)
Interest paid		(154)	(82)
		<u> </u>	<u> </u>
Net cash used in operating activities		(8,267)	(7,571)
Cash flows from investing activities			
Payments for property, plant and equipment		(1,764)	(3,297)
Payments for financial assets held for trading		(14,016)	-
Payments for intangible assets		(10)	-
Proceeds from disposal of investments		6,073	-
Decrease in cash holding due to loss of control in Harvest One and PTL		(81,774)	-
Other		334	-
		<u> </u>	<u> </u>
Net cash used in investing activities		(91,157)	(3,297)
Cash flows from financing activities			
Proceeds from issue of shares	6	-	4,000
Costs in relation to share issue		-	(259)
Proceeds from Harvest One units offering		37,869	-
Proceeds received on exercise of options		2,180	5,796
Proceeds from exercise of warrants		18,362	-
Proceeds from issue of convertible notes		19,130	-
Transactions with non-controlling interests		-	22,671
Repayment of borrowings		32	(490)
		<u> </u>	<u> </u>
Net cash from financing activities		77,573	31,718
Net (decrease)/increase in cash and cash equivalents			
		(21,851)	20,850
Cash and cash equivalents at the beginning of the financial year		23,801	2,951
Effects of exchange rate changes on cash and cash equivalents		(603)	-
		<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial year		<u>1,347</u>	<u>23,801</u>

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

Note 1. General information

The preliminary financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, International Financial Reporting Standards as issued by the International Accounting Standards Board and Corporations Act 2001. The preliminary financial report covers MMJ PhytoTech Limited as a consolidated entity consisting of MMJ PhytoTech Limited and the entities it controlled at the end of, or during the financial year. The financial statements are presented in Australian dollars, which is MMJ PhytoTech Limited's functional and presentation currency.

This financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2018, the 2018 Annual Financial Statements and any public announcements made by MMJ PhytoTech Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

Suite 518, Level 5,
165-167 Phillip Street,
Sydney NSW 2000

The preliminary financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2018. The directors have the power to amend and reissue the preliminary financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Investments

As of 1 April 2018, the Company has been classified as an Investment Entity (in accordance with AASB 10 Consolidated Financial Statements) being a business whose purpose is to invest funds solely for returns via capital appreciation and/or investment returns. As the Company has been classified as an Investment Entity and recognises its investments as 'held for trading', the portfolio investments have been accounted for at fair value through Profit or Loss and shown as Financial Assets in the Statement of Financial Position.

Investments held at fair value through Profit or Loss are initially recognised at fair value. Transaction costs related to acquisitions are expensed to Profit or Loss immediately. Subsequent to initial recognition, all financial instruments held at fair value are accounted for at fair value, with changes to such values recognised in the Profit or Loss.

Investments are recognised on a settlement date basis.

The entity is exempt from consolidating underlying investees it controls in accordance with AASB 10 Consolidated Financial Statements and is exempt from accounting for associates in accordance with AASB 128 Investments in Associates and Joint Ventures.

Rounding of amounts

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

Note 3. Critical accounting judgements, estimates 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 Binomial or 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.

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that may require significant adjustments based on unobservable inputs.

Loss of control - Harvest One

Harvest One completed a capital raising on 31 January 2018, resulting in MMJ's shareholding being diluted to approximately 36% of Harvest One's total outstanding shares. Subsequently on the 26th February 2018, Andreas Gedeon resigned from the MMJ Board. Management concluded these two events resulted in the loss of control of Harvest One as MMJ no longer has majority ownership or majority board representation over the operations of Harvest One. Management have adopted 28 February 2018 as the loss of control date of Harvest One.

MMJ's interest in Harvest One was accounted for as follows:

- until 28 February 2018 as a consolidated business;
- from 28 February 2018 up to 1 April 2018 as an equity accounted entity; and
- from 1 April 2018, at which time MMJ was classified as an Investment Entity, as a financial asset held for trading (refer note 2 for accounting policy of investments as an Investment Entity).

Management have further assessed that the loss of control of Harvest One does not result in a discontinued operations on the basis that the Company continues to hold cannabis sector investments, including Harvest One, and is actively investing in the cannabis sector.

Investment Entity

As of 1 April 2018, for financial reporting purposes MMJ's focus and strategies were transformed to that of an Investment Company with a focus on a diversified portfolio of cannabis sector investments for returns from capital appreciation, investment income, or both. The Company measures and evaluates the performance of substantially all of its investments on fair value basis.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

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.

Employee benefits provision

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 4. Gain on deconsolidation of Harvest One and PTL

Harvest One

Subsequent to 31 December 2017 Harvest One issued additional ordinary shares through conversion of convertible securities and issue of new shares resulting in MMJ's shareholding diluting to approximately 36% of Harvest One's total outstanding shares in February 2018. Subsequently on the 26th February 2018, Andreas Gedeon resigned as managing Director of MMJ but retained his directorship of Harvest One. Management concluded these two events resulted in the loss of control of Harvest One as MMJ no longer has majority ownership or majority representation on Board of Harvest One. Management have adopted 28 February 2018 as the loss of control date of Harvest One. Management have adopted 28 February 2018 as the loss of control date of Harvest One.

Reconciliation of gain on deconsolidation of Harvest One

	\$'000
Net assets of Harvest One on deconsolidation date	89,844
Less non-controlling interest	<u>(61,776)</u>
MMJ share of Harvest One net assets	28,068
Fair value of Harvest One shares on deconsolidation date	<u>56,190</u>
Gain on Harvest One net assets	28,122
Add reserves and foreign exchange movement on deconsolidation	<u>20,206</u>
Gain on deconsolidation of Harvest One	<u><u>48,328</u></u>

PTL

On 25 June 2018 MMJ executed a share sale contract to sell 100% of PhytoTech Therapeutic Limited (PTL) to Harvest One. From 1 April 2018 PTL was fair valued according to the sale price as per contract.

Reconciliation of gain on deconsolidation of PTL

	\$'000
Fair value of PTL on deconsolidation date	8,033
Less net assets of PTL on deconsolidation date	<u>(254)</u>
Gain on deconsolidation of PTL	<u><u>7,779</u></u>

Note 5. Current assets - financial assets – held for trading

	Consolidated	
	2018	2017
	\$'000	\$'000
Financial assets – held for trading	<u>63,091</u>	<u>-</u>
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	-	-
Additions		
- investment in Harvest One on the date of deconsolidation	56,190	-
- other investments	15,664	-
Loss on revaluation of financial assets - HVT	(13,934)	
Gain on revaluation of financial assets - PTL	254	
Gain on revaluation of financial assets – other investments	4,917	
Closing fair value	<u>63,091</u>	<u>-</u>

Accounting policy - Valuation principles

MMJ's general approach to valuations includes valuing assets in accordance with accounting standards and best practice principles, which currently is to value assets at net market value.

Securities comprise listed securities, unlisted securities and derivative securities. Securities are recorded at fair value through the profit or loss upon initial recognition as the investments are classified as held for trading (i.e. held for trading for 12-24 months, to comply with AASB139 FVTPL). Costs incidental to the acquisition, conversion or disposal of securities and subsidiaries are recognised in the Profit or Loss when incurred.

After initial recognition, securities are measured at fair value as they are managed and their performance evaluated on a fair value basis in accordance with MMJ's Investment Strategy.

Unrealised gains or losses on securities are recognised through Profit or Loss and represent:

- i. Movements in the fair value of securities which are held as at the end of the reporting period.
- ii. Unrealised gains or losses on securities which are held as at the end of the reporting period are calculated as the difference between the fair value at the end of current reporting period and the fair value at the end of previous reporting period or the date the securities are acquired.
- iii. Reversal of any life-to-date unrealised gains or losses as at the previous reporting period in connection with any securities that have been sold, restructured, settled or terminated in the current reporting period.
- iv. Realised gains and losses on securities are recognised through Profit or Loss upon the sale, restructure, settlement or termination of securities and are calculated as the difference between the settlement amount and the fair value upon initial recognition.

Purchases and sales of securities that require delivery of securities within the time frame generally established by regulation or convention in the market place are recognised on the trade date, i.e. the date that MMJ commits to purchase or sell the securities.

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Note 6. Equity - contributed equity

		2018	Consolidated	2018	2017
		Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid		<u>221,398,985</u>	<u>208,932,100</u>	<u>49,064</u>	<u>44,954</u>
<i>Movements in ordinary share capital</i>					
Details	Date	Shares	Issue price	\$'000	
Balance	1 July 2016	161,926,147		32,706	
Issue of 1st milestone deferred payment for the acquisition of MMJ Bioscience Inc.	8 July 2016	8,500,000	\$0.275	2,338	
Merger introducer fee shares	8 July 2016	255,000	\$0.275	70	
Conversion of Class D performance rights	8 July 2016	1,000,000	\$0.300	300	
Placement	11 October 2016	19,512,196	\$0.205	4,000	
Conversion of Class A performance rights	30 December 2016	83,334	-	3	
Conversion of Class B performance rights	30 December 2016	83,334	-	-	
Exercise of Options	15 March 2017	2,250,000	\$0.360	810	
Exercise of Options	15 March 2017	112,500	\$0.270	30	
Exercise of Options	15 March 2017	500,000	\$0.240	120	
Exercise of Options	22 March 2017	724,590	\$0.450	326	
Exercise of Options	22 March 2017	1,700,000	\$0.360	612	
Exercise of Options	29 March 2017	550,000	\$0.360	198	
Exercise of Options	29 March 2017	2,500,000	\$0.200	500	
Exercise of Options	29 March 2017	150,000	\$0.400	60	
Exercise of Options	29 March 2017	1,070,000	\$0.450	482	
Exercise of Options	5 April 2017	183,333	\$0.400	73	
Exercise of Options	5 April 2017	655,000	\$0.450	295	
Exercise of Options	5 April 2017	2,537,500	\$0.360	914	
Exercise of Options	5 April 2017	500,000	\$0.240	120	
Exercise of Options	3 May 2017	2,341,666	\$0.360	843	
Exercise of Options	3 May 2017	197,500	\$0.270	53	
Exercise of Options	09-Jun-17	600,000	\$0.200	120	
Exercise of Options	09-Jun-17	1,000,000	\$0.240	240	
Capital raising costs	14 October 2016	-	-	(259)	
Balance	30 June 2017	208,932,100		44,954	
Exercise of Options	11 September 2017	1,000,000	\$0.200	200	
Exercise of Options	15 November 2017	1,500,000	\$0.200	300	
Exercise of Options	15 November 2017	98,750	\$0.270	26	
Exercise of Options	12 December 2017	1,000,000	\$0.200	200	
Exercise of Options	12 December 2017	56,250	\$0.270	15	
Exercise of Options	29 December 2017	500,000	\$0.200	100	
Exercise of Options	12 January 2018	786,885	\$0.450	354	
Exercise of Options	12 January 2018	250,000	\$0.450	113	
Exercise of Options	12 January 2018	1,000,000	\$0.240	240	
Exercise of Options	1 February 2018	900,000	\$0.200	180	
Exercise of Options	1 February 2018	250,000	\$0.450	113	
Conversion of Class E, F, G performance rights	2 March 2018	4,500,000	-	2,115	
Conversion of Class E performance rights	2 March 2018	125,000	-	54	
Exercise of Options	12 April 2018	500,000	\$0.200	100	
Balance	30 June 2018	<u>221,398,985</u>		<u>49,064</u>	

Ordinary shares

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

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Note 6. Equity - contributed equity (continued)

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

Share buy-back

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

Note 7. Equity - reserves

	Consolidated	
	2018	2017
	\$'000	\$'000
Foreign currency reserve	-	503
Options reserve	5,342	4,376
Other reserves - share based payment reserve, Harvest One option reserve, net gain on Harvest One transaction	-	11,540
Performance rights reserve	4,221	998
	<u>9,563</u>	<u>17,417</u>

Note 8. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018	2017
		%	%
PhytoTech Medical (UK) Ltd	United Kingdom	100.00%	100.00%
PhytoTech Therapeutics Ltd*	Israel	-	100.00%
Harvest One Cannabis Inc.**	Canada	-	60.00%
United Greeneries Holdings Ltd**	Canada	-	60.00%
United Greeneries Ltd.**	Canada	-	60.00%
United Greeneries Operations Ltd**	Canada	-	60.00%
Satipharm AG**	Switzerland	-	60.00%
Satipharm Australia Pty Ltd	Australia	-	60.00%

*On 25 June 2018 MMJ executed a share sale contract to sell 100% of PhytoTech Therapeutic Limited (PTL) to Harvest One. From 1 April 2018 PTL was fair valued according to the sale price as per contract. As at 30 June 2018, the fair value of investment in PTL was \$8.03 million.

** Subsequent to 31 December 2017 Harvest One issued additional ordinary shares through conversion of convertible securities and issue of new shares resulting in MMJ's shareholding diluting to approximately 36% of Harvest One's total outstanding shares in February 2018. Subsequently on the 26th February 2018, Andreas Gedeon resigned as managing Director of MMJ but retained his directorship of Harvest One. Management concluded these two events resulted in the loss of control of Harvest One as MMJ no longer has majority ownership or majority representation on Board of Harvest One. Management have adopted 28 February 2018 as the loss of control date of Harvest One. Management have adopted 28 February 2018 as the loss of control date of Harvest One. As at 30 June 2018, MMJ holds 53,333,333 shares in Harvest One with a fair value of \$42.26 million.

Note 9. Share-based payments

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

	Consolidated	
	2018	2017
	\$'000	\$'000
New options issued to MMJ Directors and key management personnel	640	248
Vesting of MMJ options issued in prior periods	327	548
New performance rights issued by MMJ	6,205	-
Share based payment from Harvest One	1,790	1,454
Share based payment on Harvest One acquisition	-	893
Total share-based payments	8,962	3,143

Note 10. Events after the reporting period

On 16 July 2018, the consolidated entity announced that it has invested CAD\$0.15 million for a 2.5% shareholding in privately-held Embark Health Inc as part of their CAD\$1 million seed funding round.

On 15 August 2018, the consolidated entity invested an additional CAD\$0.25 million in privately-held BevCanna as part of their CAD\$4 million funding round.

On 29 August 2018 the Company issued a notice of meeting to hold a meeting of shareholders to approve:

- a) The sale of PTL to Harvest One Cannabis
- b) The relisting of the Company as an investment entity as defined in the ASX Listing Rules (Investment Entity) and this constitutes a change in the nature of the Company's activities pursuant to ASX Listing Rule 11.1 whereby an "Investment Entity" is one whose principal activities relate to investing in listed or unlisted securities and whose objectives do not include exercising control over or managing any entity, or the business of any entity, in which it invests.
- c) The change of the name of the Company to "MMJ Group Holdings Limited."
- d) The Company issuing 1,000,000 Options to Douglas Halley who is a director of the Company

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.